2023

Annual Report

of the Farm Credit Administration

Regulator of the Farm Credit System

The Farm Credit Administration is the independent federal regulator of the Farm Credit System, the largest source of farm business loans in the United States. FCA ensures safe, sound, and affordable credit for U.S. agriculture and rural communities.

The following are eligible, subject to certain requirements, for Farm Credit System loans:

- Farmers and ranchers
- Farm-related businesses
- Aquatic producers and harvesters
- Farmer-owned agricultural co-ops
- Rural utilities
- Rural homebuyers
- Certain agricultural importers and exporters

FCA also regulates the Federal Agricultural Mortgage Corporation (Farmer Mac), which is by law an institution of the Farm Credit System. Its mission, however, is unique in that it serves as a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans.

Contents

Accessibility:

This annual report is illustrated with photos of American farmers and ranchers, agricultural commodities, and other photos that reflect the types of loans the Farm Credit System provides. The photos include a diversity of demographics and agricultural operations. We've tagged most photos as artifacts, but essential graphics are described in readable body text or, when necessary, in alternate text.

About this report

This is the Farm Credit Administration's annual report to Congress. Section 5.17(a)(3) of the Farm Credit Act of 1971, as amended, requires this report to include the following:

- An annual report to Congress on the condition of the Farm Credit System (FCS or System) and its institutions and on the manner and extent to which the objectives of the Farm Credit Act are being carried out
- A summary and analysis of the annual reports submitted to us by the FCS banks regarding programs for serving young, beginning, and small farmers and ranchers

The report also includes information about our agency and the work we do to ensure that the System continues to meet its mission and to operate safely and soundly.

The Farm Credit System regulates and supervises the Farm Credit System and the Federal Agricultural Mortgage Corporation (Farmer Mac).

About FCA and the Farm Credit System

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).[1]

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.

Farmer Mac is a federally chartered corporation that provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans.

FCA's mission is to ensure that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. We have two primary functions: examination and regulation.

Examination

We conduct onsite examinations at every System institution on a regular basis to

- evaluate its financial condition;
- evaluate its compliance with laws and regulations;
- identify any risks that may affect the institution or the System as a whole; and
- ensure it is fulfilling its public mission to serve the credit and related needs of farmers and ranchers, including those who are young, beginning, or small.

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.

1 Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other institutions 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 page 53.

Regulation

We issue policies and regulations governing how System institutions conduct their business and interact with borrowers. 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 authorities and governance

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 does not receive a federal appropriation. Instead, 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. FCA's access to the revolving fund, however, is regulated through congressional appropriations legislation.

FCA is governed 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. Not more than two members of the board may be from the same political party.

The president designates one member as chairman of the board, who serves in that capacity until the end of his or her term. The chairman also serves as our chief executive officer. For information about our current board, see page 61.

The Farm Credit System Insurance Corporation

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), which was established by the Agricultural Credit Act of 1987 in the wake of the agricultural credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on obligations issued by FCS banks.

It fulfills this purpose by maintaining the Farm Credit Insurance Fund, a reserve that represents the corporation's equity. FCSIC reports the balance of the Insurance Fund in its quarterly financial statements, which are posted on its website at **www.fcsic.gov**.


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Safety and soundness is impossible without good governance.

Message from the board

On behalf of the Farm Credit Administration board, we present FCA's 2023 annual report. We are pleased to report that the Farm Credit System, including the Federal Agricultural Mortgage Corporation (Farmer Mac), remains safe and sound. The System continues to be well-positioned to meet the credit needs of farmers, ranchers, and rural communities.

Although the balance of this report focuses on results from 2023, the message from the board provides a brief summary of *current* conditions (as of late summer 2024) in the System's banks and associations, Farmer Mac, and in the general and farm economies. It also includes an overview of our priorities and the recent progress we've made toward achieving them.

Our priorities and progress

FCA will celebrate its centennial in 2033, and the four priorities that we implemented in 2024 will provide a solid, forward-looking strategy to prepare FCA for success in its next 100 years. All four priorities are interconnected and mutually supporting. The following paragraphs describe those priorities and our strategies for achieving them.

Ensuring safety and soundness

Ensuring the safety and soundness of the Farm Credit System is our public mission. We dedicate significant resources toward ensuring safety and soundness, and we do so in several ways.

One key way we safeguard the System is through examinations. As required by the Farm Credit Act, we examine each institution at least once every 18 months, and we continually monitor institutions between these statutory examinations. We customize our activities to each institution's specific risks, and we maximize efficiency by assigning highest priority to institutions that present the greatest risk.

In addition, we develop a national oversight plan each year to outline the areas that we believe require particular focus to ensure safety and soundness and address key risk areas the System faces. This plan guides our examination and oversight for the next 12 months. (Find highlights of our FY 2024 national oversight plan on page 36.)

Often, the focus areas in our national oversight plan contain at least one item relating to the governance of System institutions. This is because proper governance is critical to the safety and soundness of the System. It ensures responsibility and accountability, transparency, and compliance with laws and regulations. Through effective board direction and control, good governance can prevent mismanagement, fraud, waste, abuse, and the civil and criminal liability of the institution.

In addition to ensuring safety and soundness through our examination activities, we also protect the System by establishing regulations. In 2023, we implemented revised, principles-based standards of conduct regulations and issued a final rule on cyber security management. Later, in February 2024, we issued a final rule to define and establish risk weights for high-volatility commercial real estate exposures.

To further support safety and soundness, we regularly issue guidance in the form of informational memorandums and bookletters. Just recently, for example, we issued two bookletters: one with revised guidance on investment asset management and another on capital treatment for rural water and wastewater facility exposures. We also issued several informational memorandums, including one in September 2023 with extensive guidance on stress testing expectations.

Through all these means — examination, rulemaking, and guidance — we help safeguard the System. We also closely monitor conditions in the farm economy and the financial sector for changing conditions and potential new risks.

Understanding and promoting responsible innovation

One important source of new risk *and* opportunity is innovation in the financial services industry. That's why we've also adopted the key priority of understanding and promoting responsible innovation.

Driven by automation and new technologies like artificial intelligence (AI), fintech innovations have transformed traditional banking and financial services, improving the customer experience, streamlining operations, and expanding banking services to individuals in underserved areas. As the System's regulator, we must continue to monitor the dynamic fintech landscape and encourage institutions to innovate responsibly, without jeopardizing their safety and soundness.

In reviewing their use of emerging technologies, including AI, we will expect System institutions to take a thoughtful and measured approach to new products. They must assess and manage the risks as they would with any other new tool or solution, with a targeted focus on cyber risks. New technologies create unique data privacy and model risks, for example, and these must be carefully considered.

We plan to survey System institutions to better understand their automation technologies; how they use new technologies, including AI; and, more importantly, how they are managing and governing the associated risks.

To guide our efforts on the innovation front, we have established a working group of agency experts whose purpose is to use the power of advanced technologies to strengthen our abilities as a regulator. Its first task was to develop draft guidance for the agency's innovation-related activities. We, the FCA board, adopted this guidance and issued it as an **innovation philosophy policy statement (PDF)** in January 2024. This statement outlines our framework for responsible innovation, which includes establishing open dialogue with the System, creating opportunities for education about emerging fintech trends, and collaborating with other financial regulators.

We've already made good progress on our goal of having an open dialogue with the System. For example, we have been talking with the System's Business Process Committee to learn about innovation in the System, and Chairman Logan has visited with several banks and associations for discussions on this topic.

We are particularly excited about our plans to host an innovation symposium for System leaders in September 2024. The event will focus on trends in technology, banking, finance, and the Farm Credit System. It will bring together experts and System leaders to discuss innovation across the System, how to manage risk in emerging financial technology, and how to leverage innovation and technology to expand credit access.

The many innovations across the financial, labor, and agricultural industries also have implications for our agency's workforce — both current and future. Chairman Logan has been encouraging agency senior leaders to envision a "Workforce 2033" so that we can anticipate what the System and the broader industry will look like in 2033 when FCA turns 100. The goal, of course, is to ensure that the agency is best equipped and prepared to regulate an increasingly complex System. In a world of technological advancements, regulatory developments, and changing borrower needs, continued investment in our talent, organization, and training is imperative.

To help us strengthen and further develop the necessary skills in our workforce, the agency will launch FCALabs later this year. FCALabs will be a dedicated hub where experts across the agency can learn from each other; collaborate; and explore new tools, technologies, and approaches in service to our mission.

Our efforts in connection with the innovation priority help us to not only safeguard the System, they also reveal ways for the System to better serve its mission — which leads us to our next priority.

Ensuring service to ALL eligible, creditworthy borrowers

Our mission as the System's regulator goes beyond ensuring the System's safety and soundness; we are also charged with ensuring that the System can fulfill its mission to serve all eligible, creditworthy borrowers. That includes individuals who have been traditionally underserved by our nation's institutions.

We made significant progress on this priority this past year through our efforts to enhance service to young, beginning, and small (YBS) farmers and ranchers. In October 2023, we issued a final rule that strengthened our YBS-related regulations. In addition to reinforcing the congressional mandate that requires System institutions to have active and robust YBS programs, the rule expands outreach and activities to a diverse population of borrowers.

We are especially pleased to announce that this is the first annual report to include YBS data collected using a new methodology that emerged from a data modernization project we began in 2019. The project streamlined and enhanced the process we use for collecting the System's YBS lending data. By collaborating with System workgroups to automate the data collection process, we are now able to receive comprehensive, transparent information in a more timely manner. The data enhancements also give us a clearer picture of who is being served and where there may be opportunities for outreach and service. (For more details about our YBS efforts, see pages 43 to 50.)

We continue to place significant emphasis on service to YBS borrowers because the special assistance that System institutions provide through their YBS programs allows them to serve producers who might not be able to obtain financing anywhere else. It allows them to reach a broader diversity of producers — diverse in terms of their years of farming experience, the size of the operations they run, their agricultural products, and the demographic groups to which they belong.

Bolstering YBS efforts is one way we've been working to ensure that the System fulfills its mission to serve all eligible, creditworthy borrowers, but it's certainly not the only way. We have also been emphasizing service to traditionally underserved communities.

Last fall, for example, we issued two memorandums to encourage System institutions to strengthen service to Native American communities and to our nation's military veterans. Both memorandums identified steps institutions can take to increase outreach to these groups for lending and hiring purposes. Chairman Logan and senior leaders from our Office of Equal Employment Opportunity and Inclusion and Office of Regulatory Policy have also been meeting with tribal groups to better understand the financing needs of their communities and members.

Focusing on diversity and encouraging outreach to underserved communities is key to achieving the priority of ensuring service to all eligible, creditworthy borrowers. It's also key to achieving our fourth board priority.

Maintaining FCA as a best place to work

To advance any of these priorities, we must be able to recruit and retain a stellar and diverse workforce. In doing so, we assure System institutions, borrowers, and investors; members of Congress; and the public at large that our employees have the skills they need to do the job right and that our organization is healthy, modern, and efficient. That's why maintaining the agency as a "best place to work" is one of our key priorities.

Our consistently high ranking on the list of Best Places to Work in the Federal Government is a reflection of our commitment to this priority. In 2023, we placed fifth among the 30 agencies in the small agency category. Also, for the second year in a row, FCA was no. 1 among small agencies for its commitment "to create a workplace that promotes diversity through recruitment, promotion, and development opportunities." We offer employee-run special emphasis programs that support a wide range of diverse communities with activities and outreach, and we add programs as employees request them.

One of the primary ways we maintain FCA as a best place to work is by recruiting and hiring talented employees from diverse backgrounds and fostering an inclusive work culture where employees have the resources and training they need to excel. Our Office of Equal Employment Opportunity and Inclusion ensures that at least 25% of our outreach efforts focus on universities or organizations serving groups that are underrepresented in our workforce. We are also refining our ambassador program to increase the diversity of our applicant pool and to spread the word that FCA offers a compelling career path for individuals of all backgrounds and ethnicities.

Improved decision making and efficiency, enhanced creativity, collaboration, and innovation, and increased meaningful engagement and retention are just some of the results of these efforts.

Now that we have reviewed our priorities, we will briefly describe the current condition of the institutions we regulate and the economic environment in which they are operating.

Current conditions in the Farm Credit System

The System's banks and associations

The banks and associations of the Farm Credit System reported solid financial results through the first half of 2024, including strong earnings growth, favorable portfolio credit quality, and increased capital levels.

For the six months through June 30, the System net income increased 11.9% to $3.9 billion, up from $3.5 billion for the same period a year ago. The increase in net income was largely due to higher net interest income, resulting from an increase in earning assets, and lower provisions for credit loans, partially offset by higher noninterest expenses.

The System's loan portfolio continued to perform well through the first part of 2024 despite the more difficult operating environment facing agricultural producers. While nonperforming assets increased to 0.64% of outstanding loans and other property owned, compared with 0.45% as of December 31, the overall level remained low. Nonaccrual loans, which represent the largest share of nonperforming assets, increased to $2.1 billion as of June 30 compared with $1.6 billion as of December 31. Credit classifications within the portfolio continued to indicate favorable loan quality, with the percentage of loans classified as less than acceptable equaling 4.7% compared with 4.1% as of December 31.

A strong capital base ensures that System institutions have the risk-bearing capacity to support U.S. farmers and ranchers during uncertain times. Overall, strong earnings in the first six months of 2024 continued to support System capital growth. As of June 30, System capital totaled $76.8 billion compared with $73.3 billion as of December 31. Capital as a percentage of total assets was 14.9% as of June 30, up from 14.4% at year-end. Regulatory capital ratios for all System banks and associations remained sound and continued to be well above minimum capital requirements.

The System's liquidity portfolio, which is required by regulation to provide at least 90 days of coverage for maturing debt, provided 179 days of coverage as of June 30 compared with 183 days at year-end. Overall, we expect the System to continue to have ready access to the capital markets that supply the funds System institutions lend to farmers, ranchers, and other eligible borrowers.

Farmer Mac

Farmer Mac, also part of the Farm Credit System, remains safe and sound. For the first half of 2024, its outstanding business volume grew from $28.5 billion to $28.8 billion, or 1%. The Rural Infrastructure Finance portfolio, which includes Rural Utilities and Renewable Energy, was the primary contributor to this growth, increasing by $0.5 billion (5.9%) over the six-month period. Agricultural Finance volume, which includes Farm & Ranch and Corporate AgFinance volume, decreased by $0.2 billion (0.9%).

Farmer Mac's core capital was $1.5 billion as of June 30, 2024, up 4.0% for the six-month period, which is $626.4 million above the minimum requirement. Farmer Mac's direct credit risk exposure increased slightly for the six-month period but remained manageable. Loans classified as 90 days past due increased from 0.31% to 0.54%

of the Agricultural Finance mortgage loan portfolio. As a percentage of total outstanding Agricultural Finance mortgage volume, special-mention and substandard volume increased from 4.8% at year-end 2023 to 6.55% six months later.

Current conditions in the economy

Because conditions in both the general and the farm economy have a powerful effect on the performance and condition of the institutions we regulate, our chief risk officer, economists, and policy analysts look closely at economic indicators.

The general economy

Inflation remained a core issue in the general economy in 2023. It finally began declining after repeated interest rate hikes during 2022 and early 2023 cooled the economy and the labor market. Consumer spending remained resilient, and national supply chain constraints normalized. Rising interest rates began to have a negative impact on many finance-heavy sectors, including commercial real estate, banking, and farming. High mortgage rates pushed down residential housing starts, which in turn slowed demand in housing-related sectors like forestry, turf, and nursery.

As of August 2024, most inflation measures indicate continued progress toward the Federal Reserve's baseline inflation rate of 2%, thanks in part to a cooling job market and slowing wage growth. Still, current economic conditions have delayed the expected decline in interest rates.

As 2024 continues to unfold, the U.S. economy faces several challenges. With the persistence of relatively high interest rates and stubborn inflation, U.S. consumers are becoming more selective, pulling back on the goods purchases and discretionary spending that characterized the past several years. Further weakening of consumer spending and declining debt repayment performance could dampen or reverse economic growth. Finally, the dollar's continued strength reduces the cost of imported goods but negatively affects export-dependent sectors like agriculture.

The farm economy

There are also numerous challenges specific to the farm economy. For much of 2023, profit margins narrowed for many farmers despite a decline from the previous year in the cost of inputs.

Grain prices moderated following a rebound in global production, and many nonfeed expenses remained high. Fertilizer costs fell with declines in energy prices, but producers still saw persistent growth in costs for labor, rent, and interest expense. While livestock returns were negative for dairy and hog producers, they were strong for cattle producers who had adequate forage. Overall, farm income remained above historic averages, but margin compression hampered profitability.

In 2024, major crop producers are seeing another year of falling cash receipts and elevated expenses. Many cash grain producers are facing losses because of high breakeven prices. Producers and their lenders will need to be ready for financial pressures ahead.

As for livestock, cattle producer margins in 2023 were favorable because of strong demand and limited production, both of which supported higher prices. In contrast, weak prices in the dairy, hog, and poultry sectors pushed margins into the red in 2023, putting financial pressure on many producers.

So far in 2024, livestock, poultry, and dairy margins have generally improved because the costs of feedstuffs are well below what they were a year earlier. However, the emergence of highly pathogenic avian influenza in livestock has added some risk and extra costs for producers.

Farmland values appear to be up about 1% in inflation-adjusted terms in the first half of 2024. Relatively high farmland prices, combined with current interest rates and declining farm income, could increase collateral risk going forward.

Government payments to farmers have bolstered farm income in recent years, with significant support from ad hoc and pandemic-related assistance under programs that are no longer available. Although many crop prices are down year over year, traditional farm program payments for crops harvested in 2024 will likely not be activated without additional market declines. Provisions in the next Farm Bill will likely affect future government assistance.

Regardless of the course of the farm economy, the Farm Credit System will continue its vital role of providing financing at competitive rates to the agriculture industry.

In conclusion

We, too, will continue to perform our critical role as regulator, and we recognize that our employees are key to our success. Above, we noted that we are using the concept of Workforce 2033 to envision the changing skills and expertise that our staff will need as financial technologies continue to evolve. We are also thinking about our workforce more broadly — recognizing that many of our current employees are likely to retire in the next few years. We are considering *how* our employees will do their work. We're investing in new technologies, modernizing or automating legacy processes or technological platforms, increasing collaboration, and conducting succession planning.

FCA will prioritize its workforce and the System by doubling down on what is working and adopting the necessary skills and innovations to critically support the Farm Credit System.

In closing, we want to express appreciation to our hard-working staff for making the accomplishments of this past year possible. We are honored to be members of this talented group of public servants, and we look forward to working with them to ensure that the Farm Credit System will be there to meet the credit needs of future generations of U.S. farmers, ranchers, and rural communities.

Vincent G. Logan
FCA Board Chairman and CEO

Jeffery S. Hall
FCA Board Member

Glen R. Smith
FCA Board Member

Congress created the Farm Credit System to improve “the income and well-being of American farmers and ranchers.”

FCS banks and associations

The banks and associations of the Farm Credit System form 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 nation's oldest government-sponsored enterprise.

As federally chartered cooperatives, the banks and associations of the Farm Credit System are limited-purpose lenders. Congress created them to improve "the income and well-being of American farmers and ranchers" by providing credit and related services for them, their cooperatives, and "selected farm-related businesses necessary for efficient farm operations." Congress also gave the Farm Credit System the authority to support rural economic development by financing rural residences and rural utilities.

Congress formed the banks and associations of the FCS as a system of member-owned cooperatives to ensure that farmers, ranchers, and agricultural cooperatives can 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 broad public needs by providing 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.

The System obtains the money it lends by selling debt obligations in national and international money markets through 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 FCS banks to raise funds. The System's debt issuances are subject to FCA approval. The U.S. government does not guarantee the obligations that the System issues.

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 on all non-defaulting banks to satisfy the liability.

The structure of the System's cooperative network

The System's cooperative network includes the following four banks:

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

As of July 1, 2024, these banks provide loans to 56 associations, which in turn make loans to farmers, ranchers, and other eligible borrowers. (See figure 1.) Three of these banks are structured as farm credit banks; the other, CoBank, is structured as an agricultural credit bank with a farm credit bank subsidiary.

All but one of the System's 56 associations are structured as agricultural credit associations (ACAs) with two subsidiaries — a production credit association (PCA) and a federal land credit association (FLCA). The PCA primarily makes agricultural production and intermediate-term loans, and the FLCA primarily makes real estate loans. FLCAs are federal land bank associations that have direct-lending authority. The ACA's parent-subsidiary structure allows the association to preserve the tax-exempt status of the FLCA and to build and use capital more efficiently.

The remaining association (Plains Land Bank) is a stand-alone FLCA.

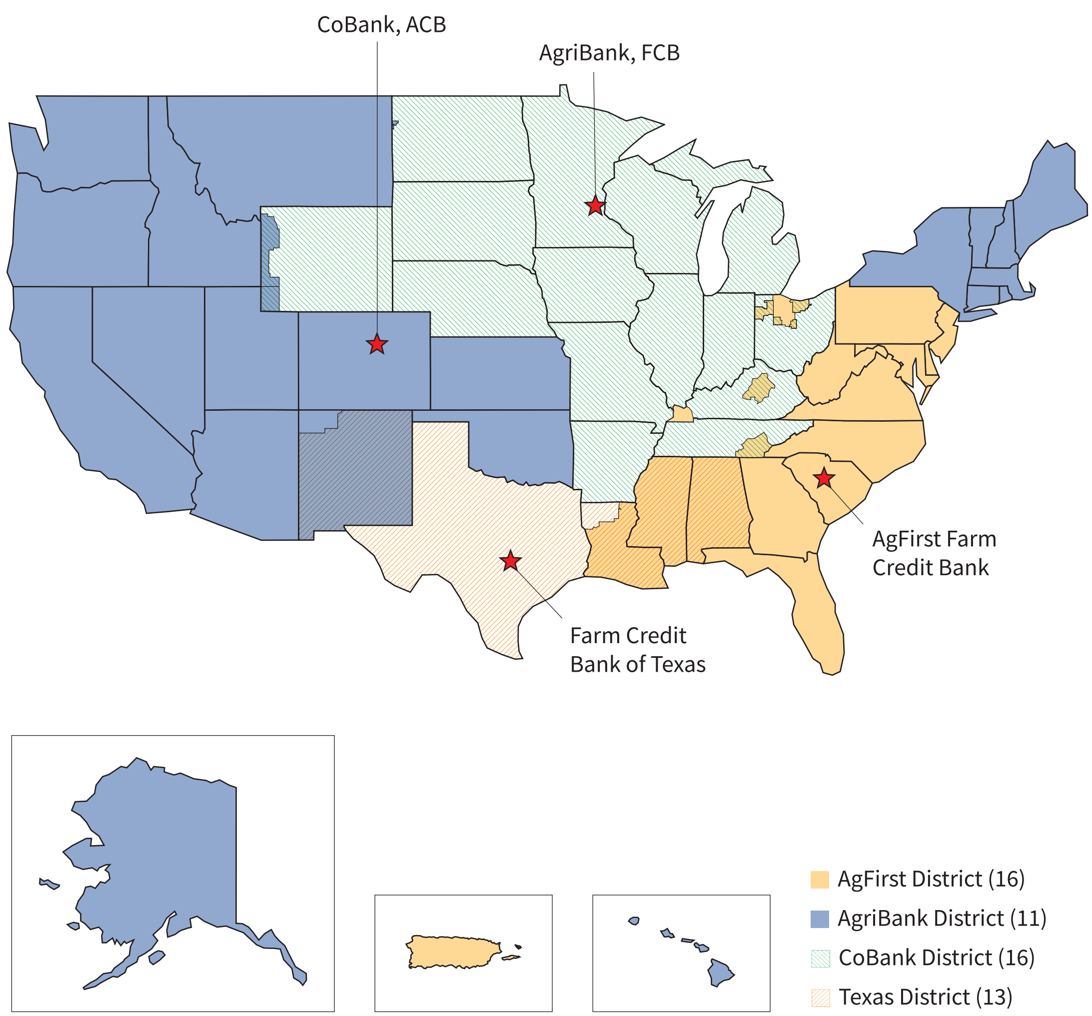
In addition to funding 16 ACAs through its farm credit bank, CoBank has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons or organizations that have transactions with, or are owned by, the cooperatives. CoBank finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives.

FIGURE 1

As of July 1, 2024

Note: CoBank funds 16 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 13 associations; AgriBank, FCB, funds 11 associations; and AgFirst Farm Credit Bank funds 16 associations. The Farm Credit System contains a total of 63 banks and associations.

Chartered territories of FCS banks



Borrowers served

Under the Farm Credit Act of 1971, as amended, the System has the authority, subject to certain conditions, to make the following types of loans:

- Agricultural real estate loans
- Agricultural production and intermediate-term loans (e.g., for farm equipment)
- 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
- Rural home mortgages
- Loans that finance agricultural exports and imports
- Loans to rural utilities
- Loans to farmers and ranchers for other credit needs

Also, under its similar-entity authority, the System may participate with other lenders to make loans to those who are not eligible to borrow directly from the System but whose activities are functionally similar to those of eligible borrowers. Through these participations, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had approximately 1,055,000 loans and 644,000 stockholders at year-end 2023. Approximately 88% of the stockholders were farmers or cooperatives with voting stock. The remaining percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System.

Nationwide, the System had $398.2 billion in gross loans outstanding as of December 31, 2023. Loans for agricultural production and agricultural real estate purposes represented by far the largest type of lending, with $251 billion, or 63%, of the total dollar amount of loans outstanding. (See figure 2.)

Farm Credit System lending by type

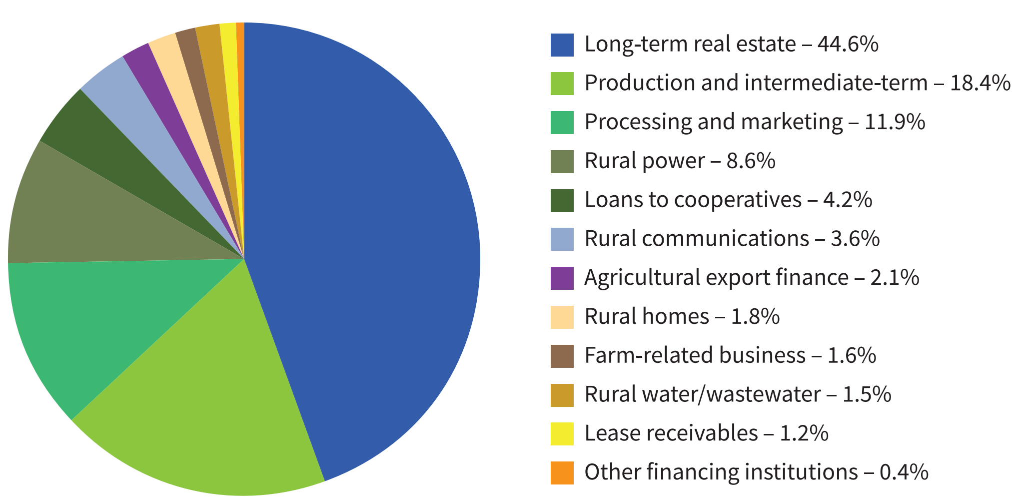


FIGURE 2

As of Dec. 31, 2023

Source: 2023 Annual Information Statement of the Federal Farm Credit Banks Funding Corporation.

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). These 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

The System served 17 OFIs at year-end 2023, unchanged from the previous year. Outstanding loan volume to OFIs increased to approximately $1.4 billion at year-end 2023.

Syndications and loan participations with non-FCS lenders

In addition to the authority to provide services to OFIs, the Farm Credit Act gives FCS banks and associations the authority to partner with financial institutions outside the System in making loans to agriculture and rural America. Generally, System institutions partner with these financial institutions through loan syndications and participations to increase diversification and earnings (when they purchase volume) or to reduce credit risk and comply with lending limits (when they sell volume).

A loan syndication (or "syndicated bank facility") is a large loan for which a group of financial institutions work together to provide funds. 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. The System's gross loan syndication volume decreased slightly by $17 million over the past year to $32.2 billion at year-end 2023.

Loan participations are loans in which two or more lenders share in providing loan funds to a borrower. At year-end 2023, the System had $8.9 billion in net eligible-borrower loan participations with non-System lenders.

As noted above, FCS institutions also have the authority to lend to "similar-entity" borrowers (that is, those who are not eligible to borrow directly from the System but whose operations are functionally similar to those of eligible borrowers). This authority allows FCS institutions to participate with other lenders in loans to similar-entity borrowers. The System had $26.3 billion in net similar-entity loan participations with non-System lenders as of December 31, 2023, up from $23.1 billion the prior year. (See figure 3.)

Farm debt and market shares

The U.S. Department of Agriculture's estimate of total farm business debt for the year ended December 31, 2022, was $496 billion, up 4.6% from its $474 billion estimate for year-end 2021. The System's market share of total farm business debt rose from 45.3% at the end of 2021 to 45.9% at the end of 2022. (See figure 4. Also, please note that 2023 data was not available at the time of publication of this report.)

The FCS has held the largest market share of farm business debt secured by real estate for more than two decades. At year-end 2022, the System held 49.1% of this $335 billion of debt; by comparison, commercial banks held 31.9%. Commercial banks have historically dominated non-real estate farm lending. At year-end 2022, commercial banks held 42.0% of this $161 billion of debt, and the System held 39.1%.

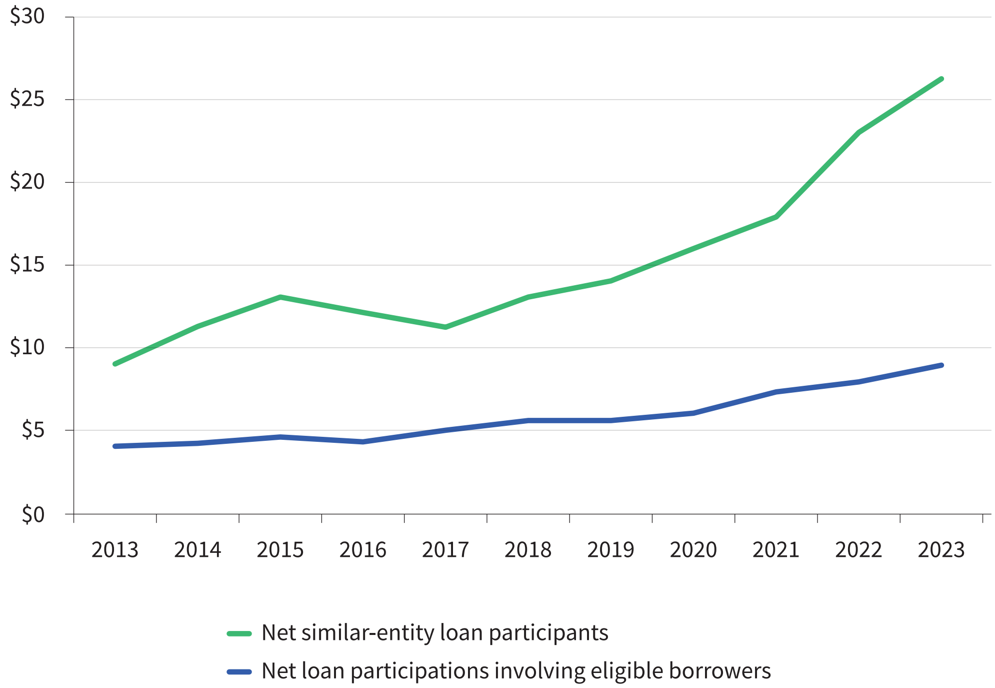
Loan participation transactions with non-System lenders, 2013 – 2023

FIGURE 3

As of Dec. 31

Dollars in billions

Source: Farm Credit System Call Reports.

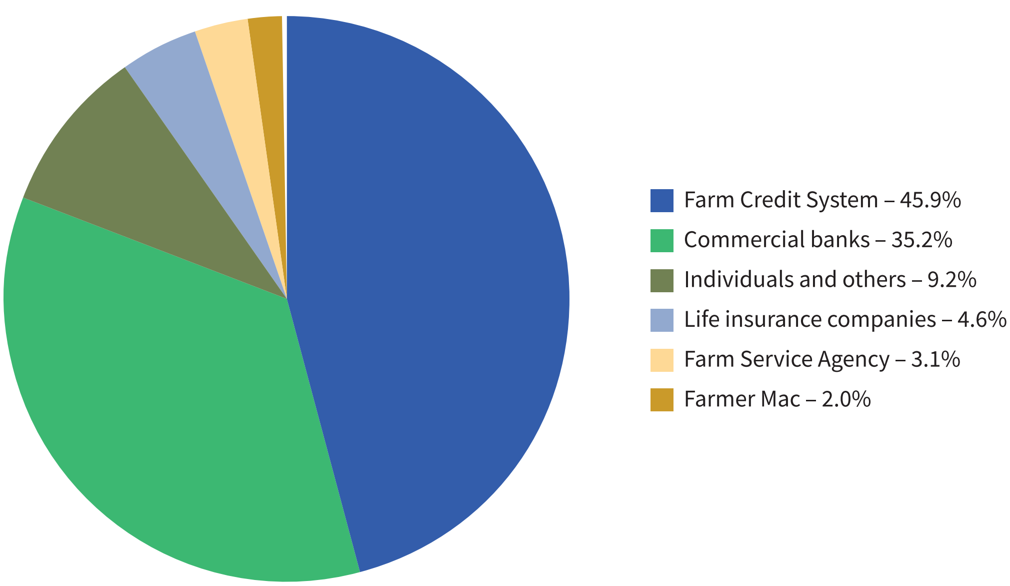


Estimated market shares of U.S. farm business debt

FIGURE 4

As of Dec. 31, 2022

Source: FCA's Office of Data Analytics and Economics, based on Feb. 7, 2024, data from USDA's Economic Research Service.



Financial condition

The System reported solid 2023 financial results, including moderately strong loan growth and increased earnings. The loan portfolio continued to perform well, and credit risk remained low. Capital and liquidity levels were sound and remained well above regulatory minimums.

Tables 1 and 2 provide a summary of the System's major financial indicators. For more information on the condition and performance of the System, see the 2023 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation.

While the System is financially sound, a small number of individual FCS institutions displayed some material weaknesses in 2023. As the System's regulator, we addressed these weaknesses by increasing our oversight and supervision of these institutions. For more information on our supervisory and enforcement approach, see pages 35 to 41.

The U.S. economy was resilient in 2023 despite high inflation and rising interest rates. Although down, inflation remained a core economic issue throughout the year. The Federal Reserve continued to raise rates in the first half of the year on concerns about robust consumer spending and persistent strength in the labor markets. While inflation continued to edge lower in the second half of 2023, albeit slowly, it remained above the Federal Reserve's target level at year-end.

Agricultural producers faced a more difficult operating environment in 2023 than in 2022. Declining commodity prices and elevated nonfeed production costs, such as interest and labor, hurt margins and lowered profits for many farmers. From a record high in 2022, net farm income in 2023 declined $29.7 billion, or 16%. Still, net farm income remained above its 20-year average.

Grain prices weakened in 2023 following a rebound in global production and a decline in U.S. agricultural exports. With lower prices, margins and profits for grain producers were well below 2022.

Market conditions were mixed for the livestock sector. While select markets saw strong or improving prices and margins, stress increased in other sectors, including hog and dairy, as these industries were challenged to balance production levels while facing lower prices and uncertain demand.

TABLE 1

Farm Credit System major financial indicators, by annual comparison

Dec. 31, 2023

Dollars in millions

Item	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
Total assets	$507,836	$477,063	$435,957	$400,693	$365,359
Gross loan volume	$398,176	$373,266	$343,929	$315,490	$286,964
Bonds and notes	$421,821	$395,576	$356,446	$325,214	$295,499
Nonperforming assets[1]	$1,798	$1,755	$1,578	$1,897	$2,347
Net income, full year	$7,445	$7,268	$6,796	$6,002	$5,446
Nonperforming assets/Gross loans and other property owned	0.45%	0.47%	0.46%	0.60%	0.82%
Total Capital /Assets[2]	14.44%	14.38%	15.94%	16.36%	16.90%
Retained earnings/Assets	11.35%	12.01%	12.59%	12.92%	13.41%
Return on average assets	1.53%	1.59%	1.66%	1.57%	1.54%
Return on average capital	10.41%	10.45%	9.94%	9.26%	8.91%
Net interest margin[3]	2.43%	2.39%	2.46%	2.46%	2.42%
Efficiency ratio[4]	34.9%	35.1%	35.3%	35.9%	36.2%
Operating expenses/Average loans[5]	1.15%	1.12%	1.14%	1.18%	1.18%

Sources: FCA's Consolidated Reporting System as of December 31 and the Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

1 Nonperforming assets are defined as nonaccrual loans, accrual loans 90 or more days past due, and other property owned. Prior to adoption of the current expected credit losses accounting standard (CECL) on January 1, 2023, accruing restructured loans were included in nonperforming assets.

2 Total capital excludes mandatorily redeemable preferred stock and protected borrower capital and includes the Farm Credit Insurance Fund, which is under the direct control of the Farm Credit System Insurance Corporation.

3 Net interest margin ratio measures net income produced by interest-earning assets, including the effect of loanable funds. This ratio is a key indicator of the effectiveness of loan pricing.

4 The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by the sum of net interest income and noninterest income for the preceding 12 months.

5 Operating expenses divided by average gross loans.

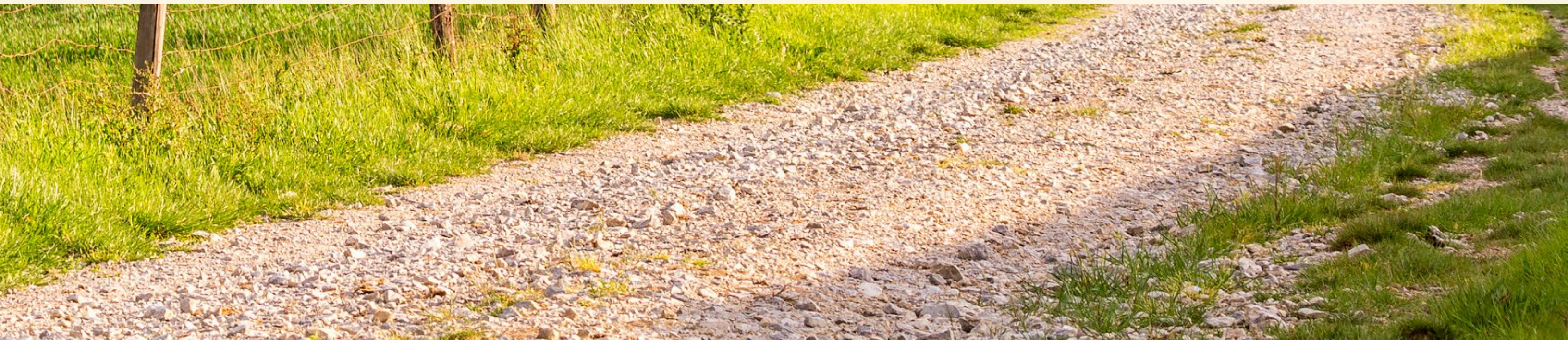


TABLE 2

Farm Credit System major financial indicators, by district

Dec. 31, 2023

Dollars in millions

Institution Name	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Credit Losses - Loans	Cash and Investments	Capital Stock[1]	Total Capital	Net Income
FCS banks								
AgFirst	$44,986	$34,326	$44	($39)	$10,142	$562	$1,683	$265
AgriBank	$176,423	$148,725	$70	($32)	$25,455	$5,846	$8,583	$873
CoBank	$194,359	$148,015	$117	($730)	$43,972	$4,076	$11,193	$1,507
Texas	$37,283	$29,726	$43	($38)	$7,000	$578	$1,687	$200
Total[2]	$452,578	$360,468	$275	($839)	$86,569	$10,733	$22,830	$2,669
FCS associations								
AgFirst	$30,932	$29,616	$132	($111)	$108	$178	$5,768	$568
AgriBank	$156,799	$143,088	$609	($303)	$4,539	$159	$27,385	$2,596
CoBank	$90,383	$83,612	$503	($280)	$2,160	$54	$15,569	$1,530
Texas	$30,292	$28,979	$102	($84)	$193	$72	$4,394	$621
Total[3]	$308,466	$285,278	$1,346	($778)	$7,014	$486	$53,154	$5,718
Total FCS[2,3]	$507,836	$398,176	$1,606	($1,617)	$93,487	$2,141	$73,329	$7,445

Sources: FCA's Consolidated Reporting System as of December 31, 2023, and the Farm Credit System 2023 Annual Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

1 Includes capital stock and participation certificates, excludes mandatorily redeemable preferred stock and protected borrower capital.

2 Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors. Also, the total FCS numbers exclude mandatorily redeemable preferred stock and protected borrower capital, but they do include restricted capital from the Farm Credit Insurance Fund.

3 Total capital at a consolidated level includes the Farm Credit Insurance Fund.

Earnings

System net income continued to trend higher in 2023. For the year, System consolidated net income totaled $7.4 billion, up $177 million, or 2.4%, from 2022. (See figure 5.) Growth in net income was largely the result of an $891 million increase in net interest income and a $240 million increase in noninterest income, partially offset by $574 million in higher loan provisions and $366 million in higher noninterest expenses.

The increase in net interest income was primarily driven by higher average earning assets resulting from strong growth in the System's loan portfolio. In 2023, average earning assets grew by $29.8 billion, or 6.7%, to $470.7 billion. Net interest spread continued to trend lower in 2023, declining 23 basis points to 1.93%. The decrease in net interest spread was largely because of higher funding costs and the impact of market competition on loan spreads. Net interest margin increased 4 basis points to 2.43% for 2023. A 27 basis point increase in the rate on earning assets funded by noninterest sources (principally capital) more than offset the decrease in net interest spread. The System's return on average assets was 1.53%, down from 1.59% in 2022. The return on average capital decreased to 10.41% from 10.45%.

As cooperative institutions, FCS banks and associations typically pass on a portion of their earnings as patronage distributions to their borrower-owners. For 2023, System institutions declared a total of $3.0 billion in patronage distributions — $2.9 billion in cash and $103 million to capital stock and participation certificates. This represents 40.6% of the System's net income for 2023, down from 44.2% in 2022. The System also distributed $156 million in cash from allocated retained earnings from patronage distributions declared in previous years.

FCS net income, 2014 – 2023

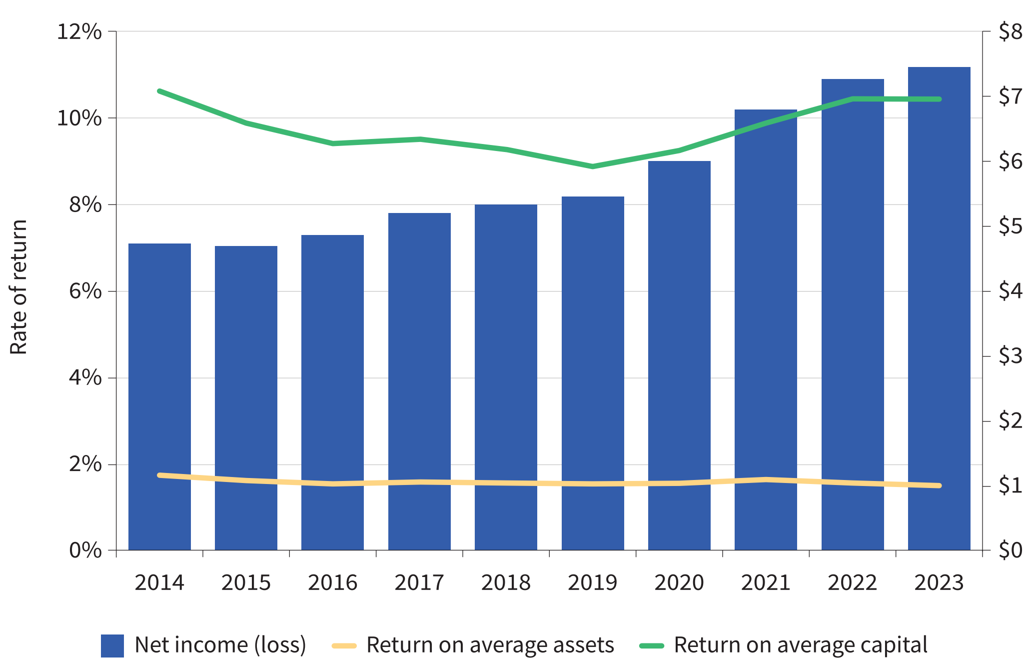


FIGURE 5

As of Dec. 31

Dollars in billions

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

System growth

System growth slowed to a more moderate pace in 2023 when compared with annual growth rates for the past several years. For the year, total assets were up 6.5%, or $30.8 billion, to $507.8 billion. Loan portfolio balances increased 6.7%, or $24.9 billion, to $398.2 billion. (See figure 6 and table 3.)

For 2023, portfolio gains were the result of growth across a number of loan categories including rural infrastructure, production and intermediate-term, and agricultural real estate mortgages.

Real estate mortgages, the largest segment of the loan portfolio at just under 45%, increased by $4.8 billion, or 2.8%, from a year ago. Demand for real estate mortgage loans slowed markedly in 2023 in reaction to significantly higher interest rates and tighter margins, especially in the grain sector. Production and intermediate-term lending increased by $7.0 billion, or 10.5%. This was largely related to greater seasonal use of operating lines of credit as the cost of production escalated. Rural infrastructure volume grew by $10.2 billion, or 23.2%, mainly in the power and communications sectors.

With respect to portfolio commodity concentrations, loan volume increased across most major commodity categories in 2023. At year-end, the cash grains and cattle sectors were the System's two largest agricultural production categories, equaling almost 24% of the total loan portfolio. For the year, loan volume for these sectors increased 2.6% and 9.2%, respectively.

FIGURE 6

As of Dec. 31

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

Annual growth rate of FCS loans outstanding, 2012 – 2023

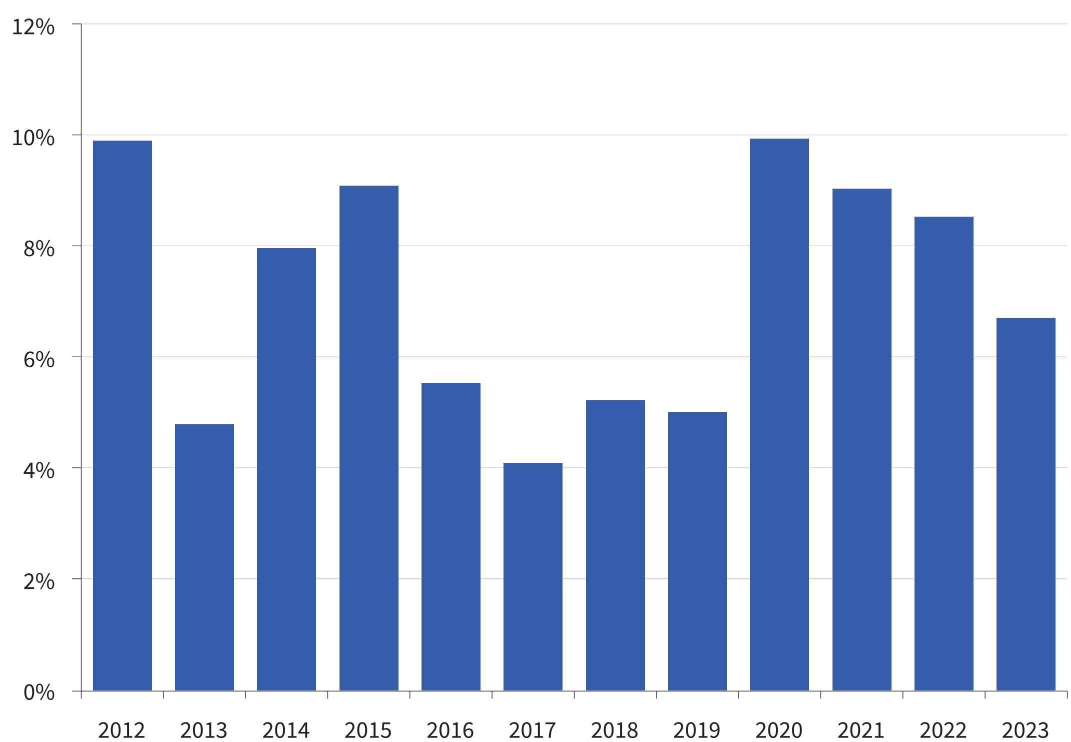


TABLE 3

FCS gross loans outstanding, 2019 – 2023

As of Dec. 31

Dollars in millions

Loan Type	2023	2022	2021	2020	2019	Percent Change from 2019	Percent Change from 2022
Agricultural real estate mortgage loans	$177,622	$172,806	$164,535	$147,623	$132,215	34.34%	2.79%
Agricultural production and intermediate-term loans	$73,385	$66,427	$62,620	$57,973	$56,095	30.82%	10.47%
Agribusiness loans to the following:							
Processing and marketing operations	$47,556	$41,973	$34,308	$31,939	$28,205	68.61%	13.30%
Cooperatives	$16,905	$19,525	$21,286	$20,020	$17,776	(4.90%)	(13.42%)
Farm-related businesses	$6,499	$5,998	$5,053	$4,453	$4,068	59.76%	8.35%
Rural infrastructure loans by type of utility:							
Power	$34,238	$27,880	$23,621	$22,066	$19,432	76.19%	22.80%
Communication	$14,230	$12,453	$10,272	$9,708	$7,847	81.34%	14.27%
Water/wastewater	$5,989	$3,882	$3,122	$2,703	$2,390	150.59%	54.28%
Rural residential real estate	$7,227	$7,043	$6,883	$6,928	$7,405	(2.40%)	2.61%
Agricultural export finance	$8,418	$10,071	$7,079	$6,873	$6,712	25.42%	(16.41%)
Lease receivables	$4,705	$4,146	$4,165	$4,345	$3,902	20.58%	13.48%
Loans to other financing institutions	$1,402	$1,062	$985	$859	$917	52.89%	32.02%
Total	$398,176	$373,266	$343,929	$315,490	$286,964	38.75%	6.67%

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

Asset quality

System loans performed well in 2023, and portfolio credit risk remained low despite generally declining commodity prices and tighter margins for many farmers.

As of December 31, 2023, nonperforming loans totaled $1.74 billion, or 0.44% of gross loans outstanding. This compares to $1.73 billion, or 0.46%, at year-end 2022. (See figure 7.) Loan delinquencies (accruing loans that are 30 days or more past due) were slightly higher at 0.34% of total accruing loans compared with 0.29% at year-end 2022. In total, 95.9% of System loans were classified as acceptable, down from 96.8% at year-end 2022.

Provisions for credit losses were $614 million in 2023 compared with $40 million in 2022. This increase in provisions was associated with higher specific reserves related to credit quality deterioration for a limited number of borrowers and higher general reserves associated with the agribusiness and rural infrastructure sectors. The allowance for credit losses on loans increased to $1.62 billion, or 0.41% of loans outstanding, compared with $1.58 billion, or 0.42% of loans outstanding, at year-end 2022. Although net loan charge-offs increased to $319 million in 2023 from $38 million in 2022, the overall level remained low.

Capital

The System's capital position remained sound in 2023. At December 31, total capital equaled $73.3 billion, compared with $68.6 billion a year ago. (Please note that these numbers include the Farm Credit Insurance Fund, which totaled $7.5 billion at December 31, 2023.) At year-end, the total capital-to-assets ratio was 14.4%, unchanged from a year ago.

As shown in figure 8, retained earnings are the most significant component of capital, equaling 78.6% of total capital at year-end 2023, down from 83.5% a year ago. FCA regulations establish the minimum capital levels that each FCS bank and association must achieve and maintain. As of December 31, 2023, capital levels at all System banks and associations were well above the regulatory minimum capital requirements.

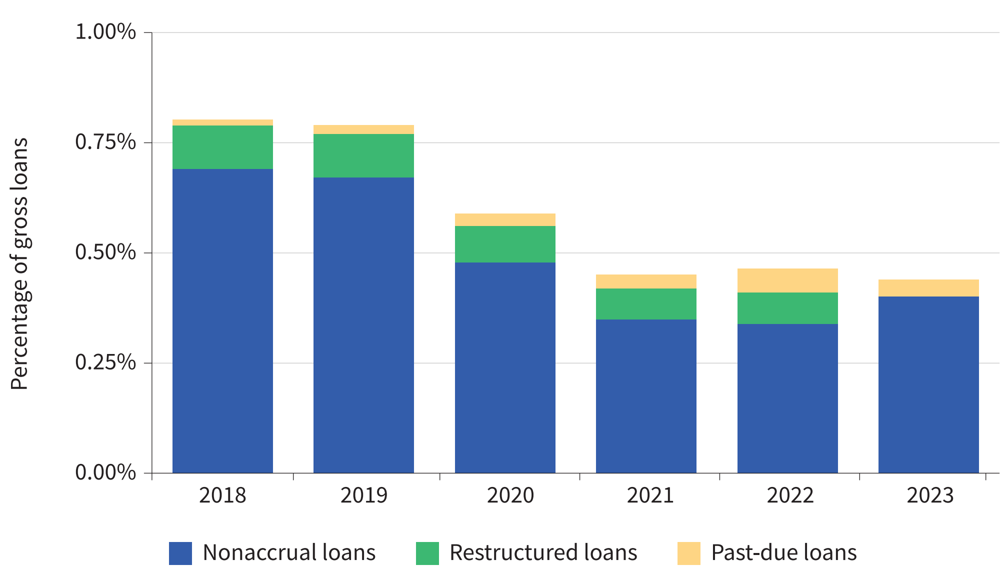
FIGURE 7

As of Dec. 31

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

Note: Beginning January 1, 2023, reporting on accruing restructured loans was not required under Generally Accepted Accounting Principles (GAAP).

FCS nonperforming loans, 2018 – 2023



FCS capital, 2016 – 2023

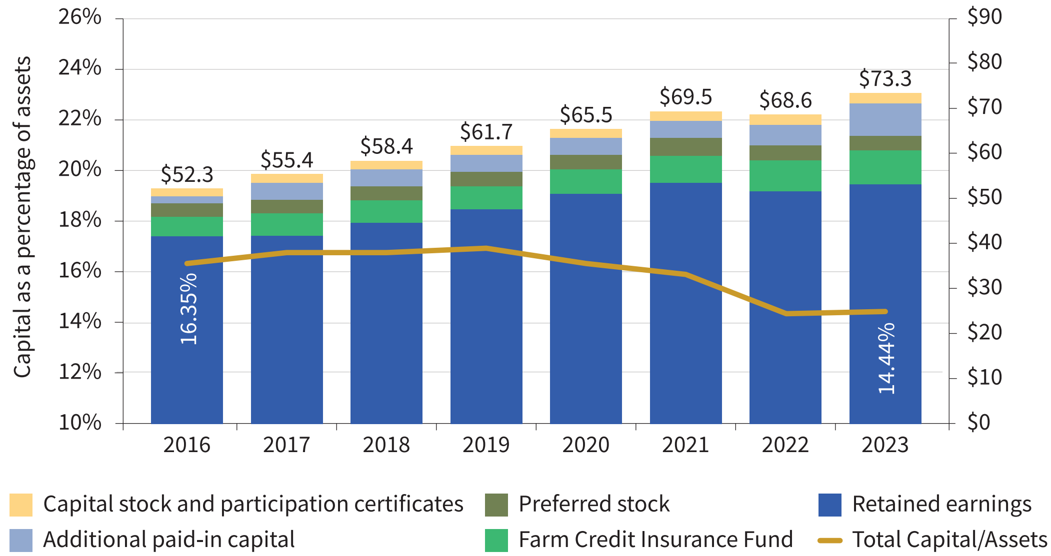


FIGURE 8

As of Dec. 31

Dollars in billions

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

Note: Total capital includes the Farm Credit Insurance Fund, which is under the direct control of the Farm Credit System Insurance Corporation. Retained earnings include accumulated other comprehensive income or loss.

Funding and liquidity

The System funds loans and investments primarily with consolidated Systemwide debt, along with a substantial amount of equity capital. The Funding Corporation, the fiscal agent for System banks, sells debt securities every business day, such as discount notes, bonds, and designated bonds, on behalf of the System. This process allows funds to flow efficiently from worldwide capital market investors to agriculture and rural America, thereby providing rural communities with ready access to global capital.

During 2023, global capital markets were affected by continued efforts to counter persistently high levels of inflation. To quell this high inflation, the Federal Reserve, along with most other central banks, took further action to tighten monetary policy.

As a result of these measures, global interest rates continued their upward trajectory through most of 2023 until they abated somewhat toward year-end. Despite this volatile environment, the System was able to maintain reliable access to the debt capital markets. However, interest rates on its debt securities moved higher, and the issuance of some types of debt instruments continued to require substantial premiums to promote investor interest. Investors continued to highly favor the System's debt offerings for a variety of reasons:

- The System is a government-sponsored enterprise (GSE), and certain regulatory requirements promote investment in GSE debt.
- The System's financial performance continued to be strong.
- The System accounted for 21.2% of GSE debt outstanding at year-end 2023.
- The System accounted for 13.5% of GSE term debt issuance during 2023.

Risk premiums for pricing on System debt securities were favorable during most of 2023, particularly for maturities under five years. However, risk premiums for longer-term and callable System debt securities were significantly larger, although still favorable compared to most other financial entities.

Persistent market volatility caused risk premiums demanded by investors to widen significantly at times, particularly for callable and longer-term debt securities. The primary causes of this widening were the continuing inflation concerns and the aggressive actions by the Federal Reserve and other central banks to curtail inflation by increasing interest rates and reducing the assets held on their balance sheets.

At year-end 2023, Systemwide debt outstanding was $416.1 billion, representing a 6.4% increase from the preceding year-end. Several factors contributed to the $25.0 billion increase in Systemwide debt outstanding. Gross loans increased $24.9 billion in 2023, while the System's combined investments, federal funds, and cash balances increased by $3.6 billion.

The amount of outstanding debt on which the System exercised its call options was severely muted again in 2023 as the Federal Reserve increased short-term interest rates throughout much of the year. The target federal funds range increased from 4.25% to 4.50% at the start of 2023 to 5.25% to 5.50% by year-end. The Federal Reserve also lessened other accommodative monetary policy actions that had helped reduce longer-term interest rates The System exercised calls on $13.5 billion in 2023, compared with $2.3 billion in 2022, $35.6 billion during 2021, and a record $115.2 billion in 2020 when the onset of the COVID-19 pandemic sent interest rates plummeting.

In 2023, a callable floating rate bond security was introduced, which accounted for $9.6 billion of the $13.5 billion System total debt called. This new callable floating rate security was structured to promote money market investment fund manager interest.

Favorable investor sentiment continued to provide the System with access to a wide range of debt maturities in 2023 but at increased interest costs due in large part to the Federal Reserve actions described above. The weighted average of remaining maturities decreased slightly to 3.0 years at the end of 2023 from 3.1 years at the end of 2022. Meanwhile, the weighted-average interest rates for insured debt increased substantially, from 2.78% as of December 31, 2022, to 3.88% as of December 31, 2023.

The System had $3.327 billion in outstanding preferred stock at the end of 2023, a decrease of $89 million from the previous year-end. As of the end of 2023, outstanding subordinated debt stood at $398 million, unchanged from year-end 2022. All preferred stock and subordinated debt issuances are the sole obligations of their respective issuing institutions.

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, such as limited life (term) preferred stock and subordinated debt.

Furthermore, our regulations require each FCS bank to maintain a tier 1 leverage ratio (primarily unallocated retained earnings, certain common cooperative equities, and noncumulative perpetual preferred stock, divided by total assets) of not less than 4%. FCA regulations also provide for a tier 1 leverage ratio buffer of an additional 1%. Certain restrictions apply if the buffer does not exceed 1%. Throughout 2023, all System banks maintained their tier 1 leverage ratios and their leverage buffer ratios above the

required minimums, with 5.24% being the lowest for any individual bank as of December 31, 2023.

All System banks have kept their days of liquidity, which measures secondary sources of funding, well above the required minimum levels. The lowest liquidity levels at any individual bank as of December 31, 2023, were as follows:

- 24 days (15 days regulatory minimum) of level 1 assets
- 70 days (30 days regulatory minimum) of level 1 and 2 assets
- 129 days (90 days regulatory minimum) of level 1, 2, and 3 assets
- 161 days overall (including the supplemental liquidity buffer)

In addition to the protections provided by the joint and several liability provisions, 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. For all of 2023, all Farm Credit System banks maintained financial metrics above the thresholds in the Market Access Agreement.
- 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 FCS bank's district. For all of 2023, all Farm Credit System banks maintained scores above the benchmarks in the Contractual Interbank Performance Agreement.

Ratings

FCA uses the Financial Institution Rating System (FIRS) to assess the safety and soundness of each FCS institution. Similar to the systems used by other federal banking regulators, FIRS is a framework of component and composite ratings to help FCA examiners evaluate significant financial, asset quality, and management factors. FIRS ratings range from 1 for a sound institution to 5 for an institution that is likely to fail.

As figure 9 shows, the financial condition and performance of the FCS remains 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. As of January 1, 2024, 58 FCS institutions were rated 1 or 2 (97% of all institutions) two institutions were rated 3 or worse (3%). The institutions rated 3 or worse represented less than 1.0% of the System's total assets.

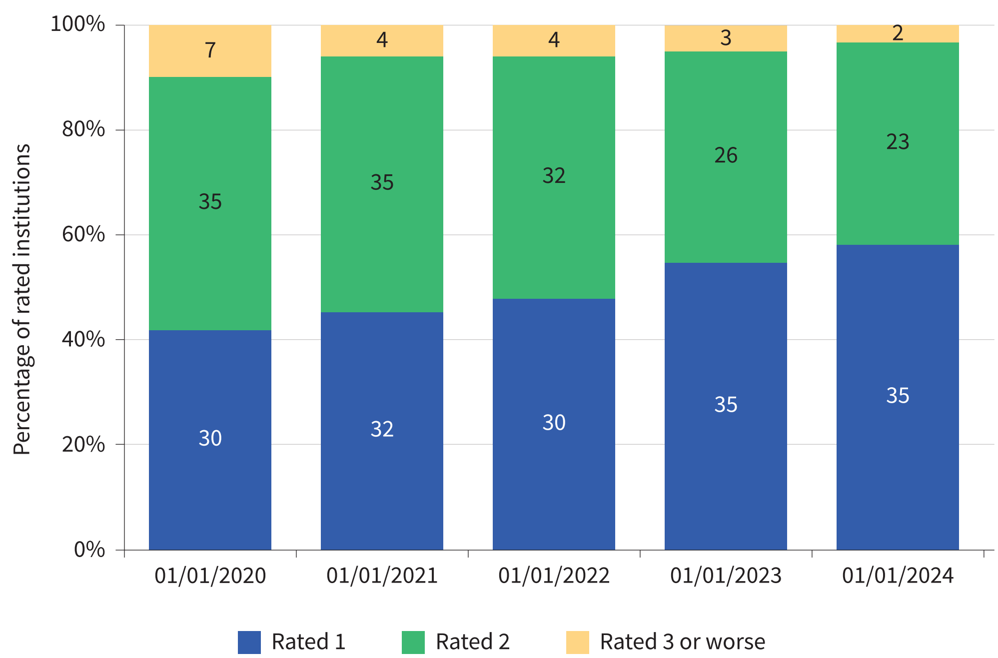
FIGURE 9

As of Jan. 1

Source: FCA's FIRS ratings database.

Note: Figure 9 reflects ratings for only actively reporting Farm Credit System banks and associations. 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.

Financial Institution Rating System (FIRS) composite ratings for the FCS, 2020 – 2024



Farm Credit Administration examiners evaluate whether each institution is fulfilling its chartered mission to provide credit and financially related services to eligible, creditworthy customers.

Examining and regulating the banks and associations

Examination

Managing risk is a challenge for all lenders but especially for those lending to a single sector of the economy — in this case, agriculture. To manage this risk, Farm Credit System institutions must have both sufficient capital and effective risk management processes. As the independent regulator of the Farm Credit System, the Farm Credit Administration examines and supervises System institutions. Our examiners determine how issues affecting agriculture and the economy create risk for System institutions.

Our examiners also evaluate whether each institution is fulfilling its chartered mission to provide credit and financially related services to eligible, creditworthy customers. They do so in a couple of ways. They determine whether each institution is complying with mission-related laws and regulations. This includes evaluating the System's efforts to implement programs for serving the credit needs of eligible agricultural producers and cooperatives, including young, beginning, and small (YBS) farmers and ranchers.

Our examiners review System institutions' annual reports and business plans and encourage institutions to include a discussion of how they are meeting their mission. Ongoing oversight and examination efforts continue to address diversity and inclusion, as well as YBS data integrity and compliance with YBS regulations.

As required by the Farm Credit Act, FCA examines each institution at least once every 18 months. In between these statutory examinations, we also monitor and examine institutions on an ongoing basis. We customize our examination activities to each institution's specific risks. To monitor and address FCS risk as effectively and efficiently as possible, we assign highest priority to institutions, or the parts of an institution's operations, that present the greatest risk.

We require institutions to develop and maintain programs, policies, procedures, and controls to identify and manage risk. For example, our regulations require FCS institutions to have effective loan underwriting and loan administration processes. We also have regulations requiring FCS institutions to maintain strong asset-liability management capabilities.

National oversight program

In addition to monitoring risks that are unique to a single institution, we also monitor risks that affect the System as a whole. Each year we develop a national oversight plan that takes certain systemic risks into account. In fiscal year 2024, we have the following focus areas:

Cybersecurity threats and a changing operational environment

Risk in the cybersecurity landscape remains elevated for the financial sector, including System institutions. Key industry trends that continue to threaten the financial sector include escalating cyberattacks, data leaks, and website takeovers related to geopolitical conflicts; ransomware attacks; compromise of business emails; and supply chain threats. The System is not immune to these threats, and operational risk remains elevated. Cyberthreats and attacks have become more complex. Moreover, System institutions are looking to further leverage technology to improve business processes and lower operational costs.

Also, several System institutions and key service providers are transitioning from legacy financial systems and moving more of their critical applications to the cloud. If not managed properly, these cloud-based solutions pose their own set of unique risks. Executing these large-scale development projects successfully is paramount to accomplishing strategic initiatives, meeting customer demands, and maintaining safe and sound operations.

In view of these risks, our FY 2024 examination program continues to explore how System institutions are managing risk arising from the rapidly changing IT operational landscape. To that end, we are evaluating vulnerability management programs across all System institutions. We are also evaluating potential risks as System institutions execute large-scale software development and upgrade projects around critical financial systems.

Capital markets loan growth, increased risk in large, shared assets, and commodity risk

System institutions experienced significant growth in capital markets lending over the past two years. Given the projected slowdown in farm real estate lending, System institutions may rely even more on capital markets growth, including purchased participations and syndications to help offset operating expense increases and maintain patronage levels. Higher interest rates will also prove challenging to some borrowers, making it difficult for them to meet repayment projections and industry-accepted leverage standards.

Also, we expect large, shared assets (loans exceeding $100 million and shared by at least two System institutions) to experience credit deterioration in FY 2024. These large agribusiness loans and similar-entity participations are more susceptible to recessionary conditions because of the markets served, higher leverage, and generally weaker loan structures.

Our examination strategies focus on the internal control framework and credit expertise of System institutions with high growth or high concentrations of capital markets loan volume. We want to ensure these institutions have the processes and personnel in place to effectively identify, monitor, and manage the risks in these larger, more complex credits. We are increasing our coverage of large, shared assets to ensure timely reporting of credit deterioration and appropriate analysis of leveraged lending transactions according to interagency guidance.

In addition to large, shared assets, certain agricultural commodity segments were also undergoing stress. Hog and dairy producers were experiencing below break-even prices. While credit deterioration was not yet materially evident in the dairy sector, the credit quality of System hog loans had declined significantly. The tree fruits, nuts, and grapes industries were also showing significant stress. Other agricultural sectors were seeing adverse commodity price trends, including the cash grain sector. We are including loans in stressed industries during loan examinations in order to evaluate timely identification of risk and appropriate loan servicing.

Long-term financial stewardship

While overall System financial performance and condition remain sound, System institutions have been challenged in recent years to capitalize robust asset growth through retained earnings. As a result, System regulatory capital levels have trended down, and leverage has increased. An institution's ability to capitalize asset growth through earnings depends largely on overall earnings performance, earnings retention, and financial leverage.

We examine recent trends in these areas and evaluate the trajectory of System institutions' financial performance and condition relative to defined long-term goals and objectives. We also evaluate near-term strategies, including patronage practices, consistency with goals and objectives, and the ability to capitalize growth through earnings.

Stress analysis in a period of heightened volatility and uncertainty

We expect the operating environment to remain uncertain. Against this backdrop, we assess System institutions' resilience to various stressors, including credit stress and significant shifts in interest rates, to ensure sound risk management. On September 8, 2023, FCA published an informational memorandum discussing sound principles for stress testing at System institutions. We emphasized the importance of value-added stress testing activities focused on identifying and measuring the potential impacts of stressors relevant to institution operations. Our ongoing examinations include consideration of stress analyses, and board and management's use of stress test results in managing the risks.

Standards of conduct

We conducted a horizontal examination activity at selected System institutions in early 2023 to evaluate the implementation of the new, principles-based standards of conduct (SOC) regulations, which became effective January 1, 2023. We shared conclusions and findings from this examination activity with System institutions in a memo dated September 15, 2023. In 2024, we continue to focus examinations on the SOC policies and procedures needed to implement the revised SOC regulations. To help us evaluate the application and effectiveness of those policies and procedures, we also examine SOC training, disclosures, and the SOC official's review of disclosures.

Three tiers of supervision

In examining and overseeing System institutions, we use a three-tiered 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 can 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 a time frame for correcting the problems.

If informal supervisory approaches have not been or are not likely to be successful, we use our formal enforcement authorities to ensure that System institutions are safe and sound and that they comply with laws and regulations. We may take an enforcement action for several 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 conditions of the enforcement document and report back to us on progress in addressing the issues identified. The document may require the institution to take corrective actions, such as reducing risk exposures, increasing capital, enhancing earnings, and strengthening risk management. Our examiners closely monitor the institution's performance to ensure compliance with the enforcement action.

As of January 1, 2024, no FCS institutions were under an enforcement action.

Borrower rights

We also examine institutions to make sure they are complying with the borrower rights provisions of the Farm Credit Act. These provisions provide certain System borrowers and loan applicants with the following rights:

- To know the current effective rates of interest on their loans by the dates the loans close
- To be informed that they are required to purchase at-risk stock in their FCS institutions
- To receive copies of all the documents they have signed by the time their loans close
- To be informed promptly as to whether their loan applications have been accepted, reduced, or denied
- To be informed of their right to request restructuring for their loans if they cannot make timely payments and their loans become distressed
- To obtain credit committee reviews of denials or reductions of loan requests and denials of restructuring requests
- To have the right of first refusal when their FCS institutions decide to sell agricultural properties their institutions have acquired from them
- To receive cooperation from their FCS institutions if they seek mediation

We also receive and review complaints from borrowers and loan applicants who believe their rights have been denied. If we find violations of law or regulations, we have several options to bring about corrective action. The number of borrower complaints increased from 19 in calendar year 2022 to 23 in calendar year 2023. In June 2021, we added an online complaint form to our website to provide an additional means by which borrowers and loan applicants may submit complaints regarding System institutions.

Regulation

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 an 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 ensure that the System continues to be a dependable source of credit and related services for agriculture and rural America while also 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 2023

The following describe some of FCA's regulatory efforts in 2023, along with several projects that will remain active in 2024. More information on these topics is available on our website. From the Laws & regulations tab at **www.fca.gov**, you can read our board policy statements, bookletters, informational memorandums, proposed rules, and any final rules whose effective dates are pending.

High-volatility commercial real estate (HVCRE) — In February 2024, the FCA board approved a final rule on risk-weighting HVCRE exposures. The rule will be effective on January 1, 2025.

Informational memorandum on capital requests — In November 2023, the Office of Regulatory Policy issued an informational memorandum that provides guidelines for submitting capital-related requests under Parts 615 and 628 of FCA regulations.

Regulatory capital treatment for certain water and wastewater exposures — In July 2024, the FCA board revised and reissued a bookletter that was originally issued in November 2018. The revised bookletter clarified treatment of certain exposures under the guidance and removed the sunset provision included in the original version of the bookletter.

Investment asset management — In July 2024, the FCA board revised and reissued a bookletter originally issued in December 2010 on FCA's expectations for System institutions' investment management. Since 2010, FCA has revised and updated investment regulations and other related guidance, which warranted a material update to the bookletter.

Conservators and receivers — In November 2023, the FCA board approved a final rule governing FCA's appointment of the Farm Credit System Insurance Corporation as the conservator or receiver to make our regulations consistent with section 5412 of the Agricultural Improvement Act of 2018.

Young, beginning, and small farmers and ranchers — In October 2023, the FCA board approved a final rule to increase the service of the System's direct-lender associations to young, beginning, and small farmers and ranchers and to reinforce the supervisory responsibilities of the funding banks.

Cyber risk management — In September 2023, the FCA board approved a final rule that rescinds and revises FCA regulations in 12 CFR Part 609 governing electronic commerce. Included were new sections to reflect developments in cyber risk and continuously evolving business practices by requiring a well-developed cyber risk management program and information technology plan

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.

Certificates of good standing, authenticity, and merger or consolidation — In August 2023, the Office of Regulatory Policy issued an informational memorandum that provides guidelines for requesting certificates of good standing, authenticity, and merger or consolidation.

Corporate activity in 2023

In 2023 and early 2024, we analyzed and approved applications for the following mergers and other corporate activities. We publish information about corporate applications on our website at **www.fca.gov**.

Several mergers occurred between January 1, 2023, and January 1, 2024. Table 7 shows the date of each merger and the district in which the merged institutions are located. In every instance, an agricultural credit association (ACA) in a given bank district merged with another ACA in the same bank district. The production credit association (PCA) and federal land credit association (FLCA) subsidiaries of the merging ACAs also merged.

On December 31, 2023, Delta Agricultural Credit Association (together with its PCA and FLCA subsidiaries) completed its voluntary liquidation. Delta was affiliated with AgriBank.

Funding activity in 2023

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 Systemwide debt.

Because we make it a high priority to respond efficiently to the System's requests for debt issuance approvals, we have a long-standing program, which we monitor on an ongoing basis, that allows the System to issue discount notes. The System may issue these short-term debt securities at any time, but the outstanding balance may not exceed $100 billion. Discount Note issuance in 2023 totaled $112.3 billion.

In addition, we approve most longer-term debt issuances through a monthly "shelf" approval program. For 2023, we approved $165.0 billion in longer-term debt issuances through this program. For more information about the System's funding and liquidity, see pages 29 through 31.

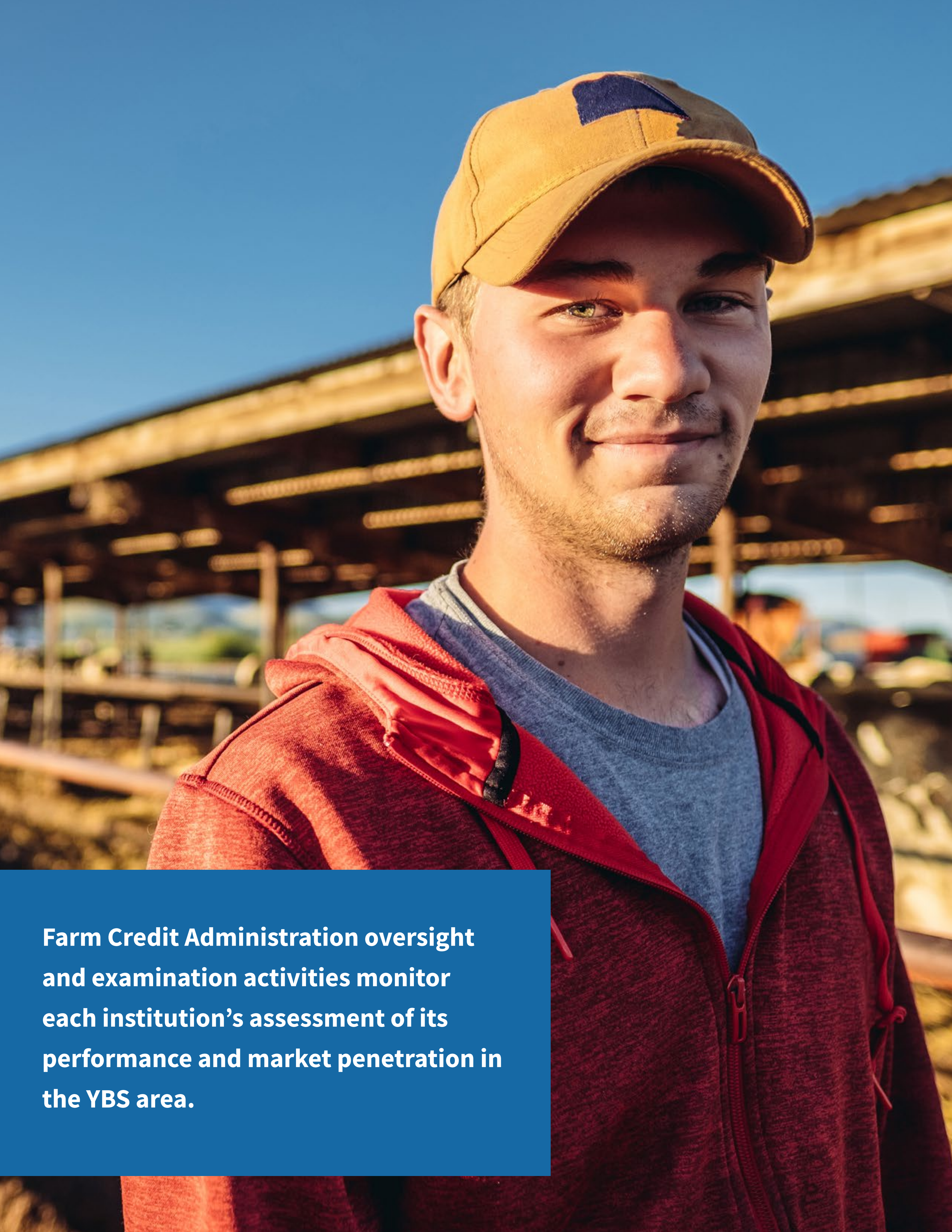
TABLE 7

Association mergers, January 1, 2023 – January 1, 2024

Date of merger	Bank district in which the merger occurred	Institutions merging	Resulting institution
January 1, 2023	CoBank	Northwest Farm Credit Services Farm Credit West	AgWest Farm Credit
January 1, 2023	AgFirst	AgCarolina Farm Credit Cape Fear Farm Credit	AgCarolina Farm Credit
April 1, 2023	AgFirst	AgSouth Farm Credit Carolina Farm Credit	AgSouth Farm Credit
April 1, 2023	AgriBank	Farm Credit Mid-America Farm Credit Midsouth	Farm Credit Mid-America
October 1, 2023	CoBank	American AgCredit Farm Credit of New Mexico	American AgCredit
December 1, 2023	Texas	Lone Star Ag New Mexico, Farm Credit Services	AgTrust Farm Credit

The total number of associations as of July 1, 2024, was 56 (55 ACAs and 1 FLCA).

We require institutions to develop and maintain programs, policies, procedures, and controls to identify and manage risk.



Farm Credit Administration oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area.

Serving young, beginning, and small farmers and ranchers

FCA supports the Farm Credit System's mission to serve young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products. We define young farmers as those who are 35 years old or younger and beginning farmers as those who have been farming for 10 years or less.

For 2023 reporting, small farmers are defined as those with less than $250,000 in annual sales. On December 29, 2023, FCA issued a revised bookletter 40, which increased the threshold for small farmers to those with less than $350,000 in annual gross cash farm income. This change will be reflected in our 2024 FCA annual report for new lending that occurred during the calendar year.

All agricultural producers face significant challenges, but for many YBS farmers these challenges can be greater due to their lack of agricultural production history, inexperience in production agriculture, low capital position, and limited credit history. The System's YBS mission is crucial to enabling YBS farmers to begin, grow, or remain in agricultural production and for facilitating the transfer of agricultural operations from one generation to the next.

The System's YBS mission is outlined in the Farm Credit Act. The focus on young farmers began with the goals and recommendations set forth by the Commission on Agricultural Credit, an initiative created at the request of the Farm Credit Administration governor in 1969. The commission's landmark report, *The Farm Credit System in the 70's*, resulted in the 1980 congressional mandate for YBS programs under the Farm Credit Act. Since many YBS producers lack the collateral or credit history to qualify for financing under normal circumstances, Congress decided to require System associations to develop programs tailored to the needs of YBS producers — and to require FCA to report back to Congress about those programs.

We have adopted regulations to implement the YBS provisions of the Act. The Farm Credit Act and FCA regulations stipulate that each FCS bank must have written policies that direct each of the associations it supervises to have the following:

- A program for furnishing sound and constructive credit and financially related services to YBS farmers
- A mission statement describing the program's objectives and specific means to achieve the objectives
- Annual quantitative targets for credit to YBS farmers
- Outreach efforts and annual qualitative goals for offering credit and related services that meet the needs of YBS farmers

Oversight and reporting are key parts of every YBS program. Annually, the YBS program of each association must be reviewed and approved by its supervisory bank, and each bank must provide to FCA an annual report summarizing the YBS program operations and achievements of its district associations. Each association also must establish an internal controls program to ensure that it provides credit in a safe and sound manner.

In addition, FCA regulations require association business plans to include a marketing plan and strategies with special emphasis on diversity and inclusion within each market segment. Associations must consider marketing to all segments of the YBS farm population. Associations should identify underserved communities and groups so they aren't overlooked or excluded from marketing, education, and outreach efforts.

Operational and strategic business plans must include the goals and targets for the association's YBS lending. System associations must also coordinate with other government and private sources of credit in implementing their YBS programs. FCA's oversight and examination activities monitor each institution's assessment of its YBS program performance and market penetration in the YBS area.

We continue to work with stakeholders to further improve financing opportunities for YBS farmers and ranchers.

Results

Starting in 2019, FCA committed to a multiyear effort to improve both the quality and depth of information we collect. We developed new processes to gather information on institutions' lending and nonlending activities to YBS farmers and ranchers. These new processes improve the accuracy and utility of the data we collect, both for FCA and the FCS, by providing more insight into nonlending activities and more precise views of YBS lending activities through the use of more granular data collection.

We are excited that this year's annual report is the first time we have reported the data following this new process. This new data provides a significant step forward in reporting for YBS programs.

These results observe YBS programs through two lenses. The first is to observe a range of services, education, and outreach activities made by institutions to serve YBS borrowers. The second focuses on service to YBS borrowers through lending. Taken together, our goal is to provide a more comprehensive and detailed understanding of YBS mission servicing. Going forward, the System will have better information to improve its understanding and delivery of credit to YBS producers.

Nonlending results

FCS institutions provide an array of services and outreach that complement or expand lending to YBS farmers and ranchers. We look at the services institutions provide across the following dimensions:

Nonlending capital commitments — includes investments made under the authority of 12 CFR 615.5140(e) and leases.

Related services — includes services such as loan guarantee fee payments, financial document preparation fees, appraisal fees, and tax preparation.

Scholarships — includes scholarships institutions provide to students at traditional universities and colleges, historically Black colleges and universities, Hispanic-serving institutions, tribal colleges and universities, other minority serving institutions, and vocational schools. The institutions also provide financial support for students to attend educational events at industry, commodity-group, and other relevant conferences.

Grants — includes grants used for attendance at traditional universities and colleges, historically Black colleges and universities, Hispanic-serving institutions, tribal colleges and universities, and other minority serving institutions. These grants may also support youth organizations and state or county grant programs.

Education — includes educational services institutions provide to support YBS farmers and ranchers, including business planning, financial management, risk management, commodity marketing, leadership training, estate planning, and industry or commodity-focused programs.

Marketing and outreach — includes funds used to reach new YBS farmers and ranchers through marketing and outreach activities. These activities include advertising and promotion, research-firm contracting, in-house market research, public and community service events, natural disaster relief assistance, fees for speaker to attend local events, new education curricula, and career fairs.

The total value of these services provided to and for YBS farmers and ranchers in 2023 was $358 million. This total is composed of the following:

- Approximately 89%, or $319 million, was for investments and leases.
- Approximately $3 million was reported for loan guarantee fee payments, financial document preparation fees, appraisal fees, and tax preparation services for YBS farmers and ranchers.
- Across other components of their YBS programs, institutions reported $36 million in spending for 2023.

Additional characteristics of 2023 YBS programs reported to FCA include the following:

- 43% of all institutions had a YBS advisory committee.
- 52% of all institutions had a board member who is a YBS borrower.
- 70% of institutions had dedicated staff members for administering, organizing, and coordinating the YBS program.
- 87% of institutions reported formal or informal staff training on the YBS program.
- 54% of institutions provided interest rate concessions to YBS borrowers.

Lending data collection process

System institutions utilize the new YBS reporting structure to satisfy regulatory requirements that banks provide FCA with an annual report summarizing YBS program operations and achievements within their district. The new YBS collection framework leverages the existing FCS data systems and data definitions. The collection and reporting framework is designed to allow for automation and to ease the regulatory reporting burden for FCS over the long term. Ultimately, the new process is streamlined to create a seamless flow of YBS data from the FCS to FCA.

FCA began the new YBS-lending data collection process using calendar year-end 2023 information. We provided the proposed framework to the System data workgroup in January 2023. Their cooperation was valuable, and we incorporated their feedback.

FCA provided each district bank with reporting templates that standardized the data fields. Institutions then reported count (number of loans) and volume data for the seven mutually exclusive YBS categories and one non-YBS category. The eight categories collected were:

- Young only
- Beginning only
- Small only
- Young & beginning
- Young & small
- Beginning & small
- YBS
- Non-YBS

In our 2023 reporting instructions to the FCS, we defined the YBS reporting universe of eligible loan types and record types that were to be included in an institution's lending activity submission. Eligible loan types[1] to be reported for the eight mutually exclusive YBS and non-YBS categories were real estate mortgages, production and intermediate term, and process and marketing.

Loan volume is defined as current commitment in this report, which is the dollar amount of disbursed funds plus the undisbursed commitment that is eligible to be drawn. For participated or pooled loans, institutions are credited for the volume they hold.

FCA defined loan count as the total outstanding and paid off loans at year-end. Only loans originated by the institution or sourced from outside the System should be counted. For those loans participated 100% to another System institution, the loan count should be reflected on the report of the institution holding the loan. The overarching goal of the count methodology is to ensure that when loans are aggregated at a System level, each loan is counted only once.

Reporting loan counts and loan volume in this manner allows us to determine the distribution of loans in each of the mutually exclusive YBS and non-YBS categories.

Because this was the first year of the new YBS reporting framework, to facilitate a smooth transition, we extended the due date for FCS data submissions from the beginning of the first quarter of calendar 2024 to the latter part of the second quarter.

Lending results

The following tables summarize the lending information that FCS institutions provided for their YBS programs (tables 4 and 6). In 2023, the System made 252,865 loans totaling $121.8 billion. The total number of outstanding loans at year-end 2023 was 1,054,939, amounting to $382.0 billion.

Tables 5 and 7 summarize the distribution of loan counts and loan volume to each of the seven mutually exclusive YBS categories. In 2023, System lending to the seven YBS categories totaled 132,890 loans for $27.8 billion. The number of loans and loan volume outstanding to the seven YBS categories was 608,422 loans for $112.9 billion, at year-end.

Table 4 shows the activity for the number of loans (loan counts) and volume of loans to YBS and non-YBS farmers made by the FCS in 2023. The table also shows the percentage of total loan counts and volume for each YBS and non-YBS category.

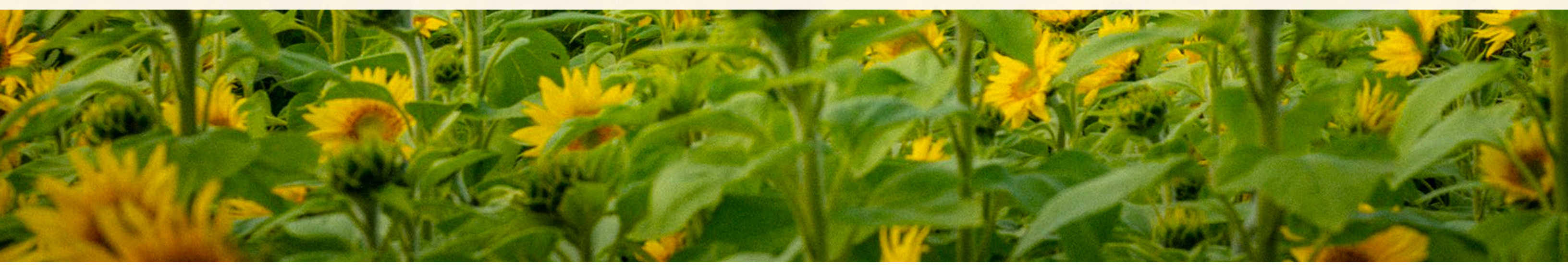
1 Certain record types were excluded from the eligible YBS reporting universe.

TABLE 4

Loan count and current commitment volume activity during 2023

Category	Loan Counts	Volume in Millions	Percent of Total Loan Counts	Percent of Total Volume
Young only	8,129	$3,271	3.2%	2.7%
Young & beginning	13,760	$5,453	5.4%	4.5%
Young & small	4,419	$393	1.7%	0.3%
Beginning only	9,030	$5,303	3.6%	4.4%
Beginning & small	22,245	$4,673	8.8%	3.8%
Small only	54,409	$6,070	21.5%	5.0%
Young, beginning, & small (YBS)*	20,898	$2,625	8.3%	2.2%
Non-YBS	119,975	$93,967	47.4%	77.2%
System total	252,865	$121,756	100%	100%

*The YBS category includes loans made to farmers that meet the criteria for all three categories: young, beginning, and small.



As the table above shows, 2023 lending results varied considerably by category. Looking at loan counts in 2023, 53% of all loans were made to some combination of young, beginning, and small farmers and ranchers (e.g., young only, beginning only, young & small, etc.). At 22%, the small only category held the largest percentage of total loans and the young & small category held the smallest percentage.

From a loan volume perspective, the System lent more dollars to non-YBS farming and ranching operations. Table 4 shows that approximately 23% of total dollars lent in 2023 went to a YBS category.

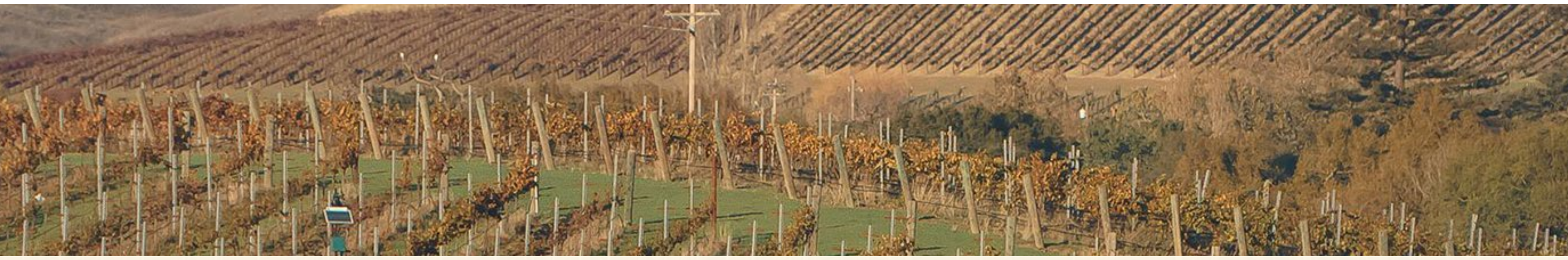


TABLE 5

Distribution of YBS activity by YBS category during 2023

YBS Category	Percent of YBS Loan Counts	Percent of YBS Volume
Young only	6.1%	11.8%
Young & beginning	10.4%	19.6%
Young & small	3.3%	1.4%
Beginning only	6.8%	19.1%
Beginning & small	16.7%	16.8%
Small only	40.9%	21.8%
YBS	15.7%	9.4%
Total for YBS category	100.0%	100.0%

Table 5 above explains the distribution of loans made in 2023 across the seven mutually exclusive YBS categories by counts and volume. The total number of loans was 132,890, and they totaled $27.8 billion in loan volume. The largest percentage of loans made and dollars lent were to the small only category, with 41% of loan counts and 22% of loan volume. By contrast, the fewest number of loans made and dollars lent were to the young & small category at 3% of loan counts and 1% of volume. Finally, the beginning & small category accounts for approximately 17% of loans made and dollars lent in 2023.

TABLE 6

Loan counts and current commitment volume outstanding

As of Dec. 31, 2023

Category	Loan Counts	Volume in Millions	Percent of Total Loan Counts	Percent of Total Volume
Young only	30,557	$9,512	2.9%	2.5%
Young & beginning	48,108	$16,018	4.6%	4.2%
Young & small	21,582	$2,104	2.1%	0.6%
Beginning only	31,477	$16,254	3.0%	4.3%
Beginning & small	145,371	$28,325	13.8%	7.4%
Small only	224,970	$27,076	21.3%	7.1%
YBS	106,357	$13,609	10.1%	3.6%
Non-YBS	446,517	$269,135	42.3%	70.5%
System total	1,054,939	$382,032	100%	100%

As illustrated in table 6 above, the number of loans outstanding to all YBS categories was approximately 58% of all System loans. The largest percentage of outstanding loans made in a YBS category was to the small only category at 21%, followed by the beginning & small category at 14%, with 10% percent of all outstanding loans falling under the YBS category. The small only and beginning & small categories each accounted for about 7% of outstanding loan volume. Similar to new loan volume results for 2023, over 70% of outstanding loan volume was non-YBS borrowers.

TABLE 7

Distribution of YBS activity by YBS category outstanding

As of Dec. 31, 2023

YBS Category	Percent of YBS Loan Counts	Percent of YBS Volume
Young only	5.0%	8.4%
Young & beginning	7.9%	14.2%
Young & small	3.5%	1.9%
Beginning only	5.2%	14.4%
Beginning & small	23.9%	25.1%
Small only	37.0%	24.0%
YBS	17.5%	12.1%
Total for YBS category	100.0%	100.0%

Table 7 above shows the distribution of loans outstanding to the seven mutually exclusive YBS categories by counts and volume as of December 31, 2023. The total number of loans outstanding to YBS categories was 608,422, totaling $112.9 billion in loan volume. While the small only category had the highest percentage of loans outstanding (37%), the beginning & small category had the largest percentage of loan volume outstanding, at 25%. As with loans made in 2023 (table 5), the young & small category lags the other YBS categories at approximately 4% of loan counts and 2% of loan volume.

Again, we are pleased to report YBS lending in these new, mutually exclusive categories. Because the new data collection process results in new disaggregated categories of data reporting, comparing this year's lending results to prior FCS submissions or previous YBS sections in our annual report will not provide an accurate comparison. We look forward to reviewing System YBS activities in the coming years through this more detailed lens.

Farmer Mac provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans.

Farmer Mac

Created in 1988, the Federal Agricultural Mortgage Corporation (Farmer Mac) provides a secondary market for agricultural real estate loans, government-guaranteed portions of certain loans, rural housing mortgage loans, and eligible rural utility cooperative loans. It offers greater liquidity and lending capacity to agricultural and rural lenders, including insurance companies, credit unions, commercial banks, other FCS institutions, and investors.

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 other FCS institutions. Any investor may own nonvoting stock.

Farmer Mac is 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 has two major lines of business:

- Agricultural Finance, which includes mortgage loans secured by first liens on agricultural real estate, including part-time farms and rural housing, as well as agricultural and rural development loans guaranteed by USDA.
- Rural Infrastructure Finance, which includes loans by lenders organized as cooperatives to finance electrification and telecommunications systems, as well as renewable energy providers and projects, in rural areas.

Through these lines of business, it performs the following activities:

- Purchases eligible loans directly from lenders.
- Provides advances against eligible loans by purchasing obligations secured by those loans or by assets that qualify as eligible agricultural real estate collateral.
- Securitizes assets and often guarantees the resulting securities. (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.)
- Issues purchase commitments for eligible loans.

Examining and regulating Farmer Mac

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 examine Farmer Mac at least annually for capital adequacy, asset quality, management performance, earnings, liquidity, and interest rate sensitivity. We oversee and evaluate Farmer Mac's safety and soundness and its mission achievement. We also supervise and issue regulations governing Farmer Mac's operations.

Financial condition of Farmer Mac

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 8 summarizes Farmer Mac's condensed balance sheets at the end of each calendar year from 2018 to 2023. From 2022 to 2023, its total assets grew by 8.0%, its total liabilities by 7.9%, and its net worth by 11.0%.

Capital

As of December 31, 2023, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $1,411.9 million, compared with $1,272.0 million a year earlier. Its net worth was 4.8% of its on-balance-sheet assets as of December 31, 2023, compared with 4.7% a year earlier. Net worth, in terms of dollars, went up primarily because of an increase in retained earnings.

When Farmer Mac's off-balance-sheet program assets (essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 4.1% as of December 31, 2023, unchanged from 2022. Farmer Mac continued to comply with all capital requirements.

At year-end 2023, 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. It totaled $1,452.0 million, exceeding the statutory minimum capital requirement of $862.6 million by $589.4 million or 68.3%.

Risk exposure on USDA guaranteed loans is very low due to USDA backing. Table 9 offers a historical perspective on capital and capital requirements for 2018 through 2023.

TABLE 8

Farmer Mac condensed balance sheets

As of Dec. 31

Dollars in millions

Item	2023	2022	2021	2020	2019	2018
Total assets	$29,524.4	$27,333.1	$25,145.5	$24,355.5	$21,709.4	$18,694.3
Total liabilities	$28,112.5	$26,061.2	$23,941.1	$23,363.0	$20,910.1	$17,941.8
Net worth or equity capital	$1,411.9	$1,272.0	$1,204.4	$992.5	$799.3	$752.6

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

TABLE 9

Farmer Mac capital positions

As of Dec. 31

Dollars in millions

Item	2023	2022	2021	2020	2019	2018
GAAP equity	$1,411.9	$1,272.0	$1,204.4	$992.5	$799.3	$752.6
Core capital	$1,452.0	$1,322.8	$1,200.6	$1,006.4	$815.4	$727.6
Regulatory capital	$1,470.3	$1,340.0	$1,217.0	$1,024.0	$828.1	$736.8
Statutory requirement	$862.6	$805.9	$713.8	$680.9	$618.8	$545.0
Regulatory requirement	$186.4	$204.2	$218.7	$197.4	$122.1	$119.0
Surplus core capital over statutory requirement*	$589.4	$516.9	$486.8	$325.5	$196.7	$182.6
Capital margin excess over the minimum	68.3%	64.1%	68.2%	47.8%	31.8%	33.5%

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.

Program activity

Farmer Mac's total program activity increased to $28.5 billion by year-end 2023, up from $25.9 billion a year earlier. (See figure 11.) Farmer Mac experienced steady growth in its Rural Infrastructure Finance loan purchases, as well as in the purchase or guarantee of AgVantage securities. These bonds are general obligations of the issuing financial institution that are purchased or guaranteed by Farmer Mac. 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.

Off-balance-sheet program activity consists of purchase commitments, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2023, 16.5% of program activity consisted of off-balance-sheet obligations, as compared with 15.2% a year earlier.

Farmer Mac's purchase commitments include arrangements to purchase new volume in lenders' revolving line of credit products and their long-term standby purchase commitments (standbys). The standby product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays a fee in return for Farmer Mac's commitment to stand ready (that is, "stand by") to purchase loans at face value even under adverse conditions. As shown in figure 12, purchase commitments represented 12.8% of Farmer Mac's total program activity in 2023.

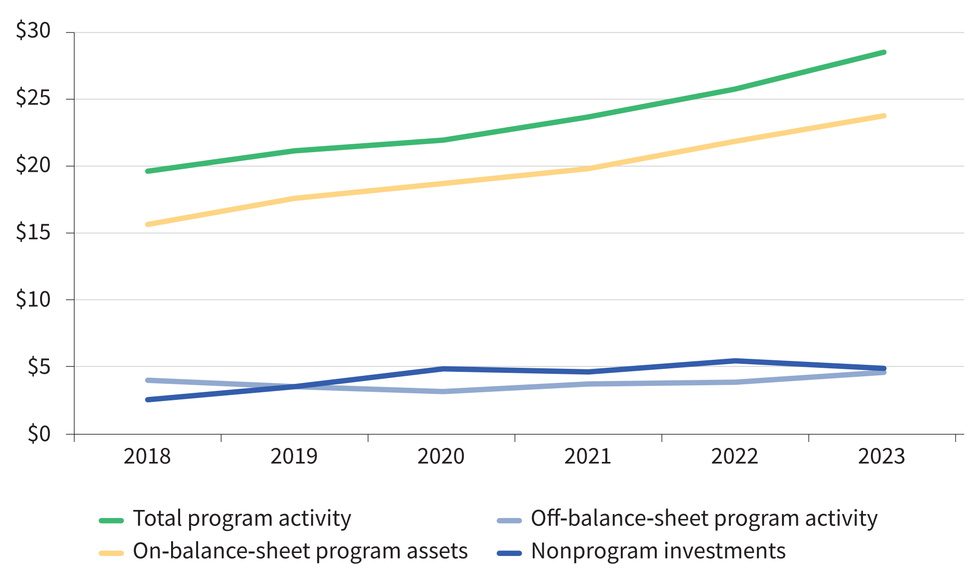
Asset quality

Figure 13 shows Farmer Mac's allowance for credit losses, its levels of substandard Agricultural Finance (formerly Farm & Ranch) assets, and its 90-day delinquencies relative to outstanding program volume, excluding AgVantage loan volume.

As of December 31, 2023, Farmer Mac's allowance for credit losses totaled $18.3 million, compared with $17.2 million the year before. Of its Agricultural Finance mortgage portfolio, $186.0 million was substandard, representing 1.7% of the principal balance

FIGURE 11
As of Dec. 31
Dollars in billions
Sources: Farmer Mac's Annual Reports on Securities and Exchange Commission Form 10-K.

Farmer Mac program activity and nonprogram investment trends



Farmer Mac total program activity

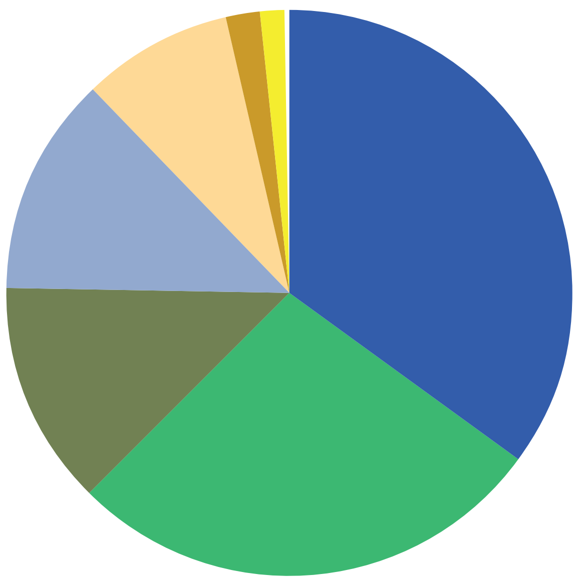


FIGURE 12

As of Dec. 31

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

AMBS = agricultural mortgage-backed securities

Note: Farmer Mac began servicing loans owned by other lenders in 2021 ($22.3 million). In 2023, Farmer Mac acquired servicing rights and closed the year with $577.3 million in loans owned by other lenders. This loan servicing activity earns fee income and comprises a portion of both total program activity (off-balance-sheet loans owned by others) and total assets (on-balance-sheet receivables owned by Farmer Mac).

of Agricultural Finance loans purchased, guaranteed, or committed to be purchased. This compares with $209.4 million on December 31, 2022. 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, 2023, Farmer Mac's 90-day delinquencies decreased in volume to $34.7 million, or 0.31% of Agricultural Finance mortgage loans, from $43.5 million, or 0.42%, as of December 31, 2022.

Farmer Mac held $1.6 million in real estate owned at the end of 2023, compared with $1.0 million at the end of 2022. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

Earnings

Farmer Mac reported net income available to common stockholders of $172.8 million (in accordance with GAAP) for the year ended December 31, 2023, up 14.4% from $151.0 million reported at year-end 2022. Total revenue increased by 26.8%, and total expenses increased by 41.8%. Core earnings for 2023 were $171.2 million, up 37.7% from $124.3 million in 2022. Net interest income, which excludes guarantee fee income, was reported at $327.5 million in 2023, up from $270.9 million in 2022. Before taxes, guarantee fee income was $16.7 million in 2023, compared with $13.0 million in 2022. Table 10 shows a six-year trend for the basic components of income.

FIGURE 13

As of Dec. 31

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

Note: Before 2021, Farmer Mac referred to its Agricultural Finance line of business as Farm & Ranch.

Asset quality, allowance, and delinquency trends 2018 – 2023

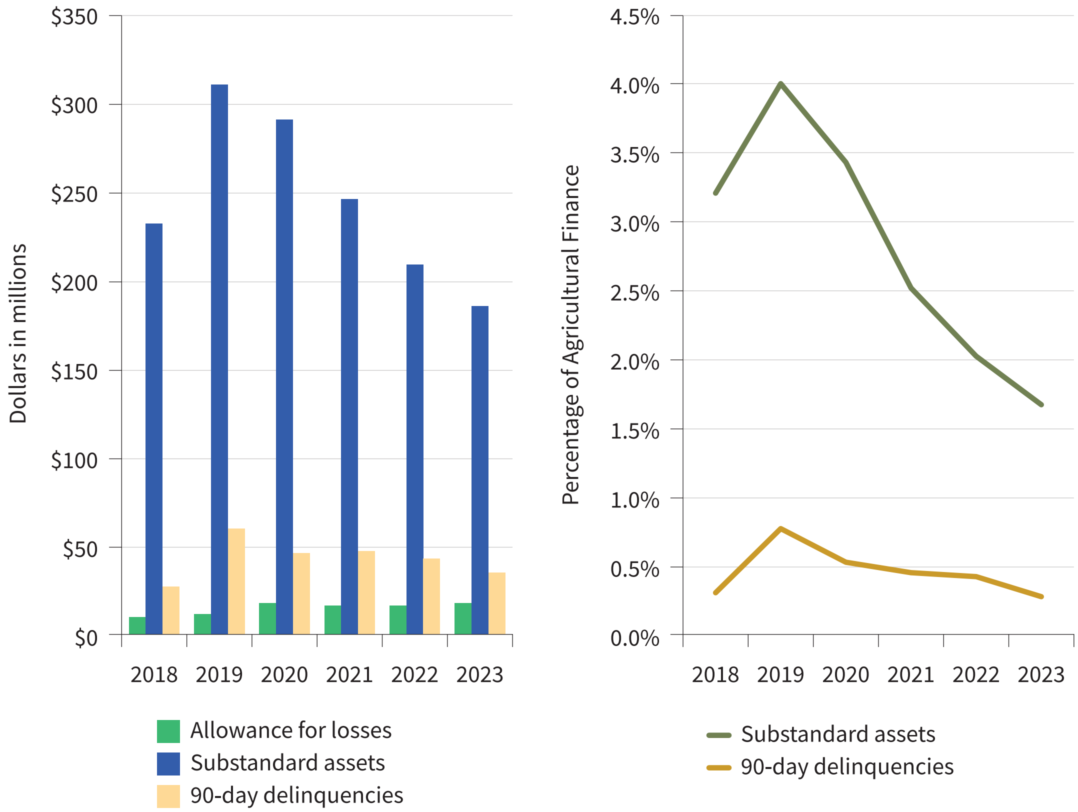


TABLE 10

Farmer Mac condensed statements of operations

As of Dec. 31

Dollars in millions

Item	2023	2022	2021	2020	2019	2018
Total revenues	$349.2	$275.4	$240.2	$206.7	$194.1	$186.1
Total expenses	$176.4	$124.4	$132.6	$117.5	$100.4	$91.2
Net income available to common stockholders	$172.8	$151.0	$107.6	$89.2	$93.7	$94.9
Core earnings	$171.2	$124.3	$113.6	$100.6	$93.7	$84.0

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


Strawberry
Plants
$6.99

FIRGURE 14

FCA organizational chart

As of Sept. 2024

For an accessible version of this chart, visit **www.fca.gov/about/fca-organizational-chart**.

FCA Board

Vincent G. Logan
Chairman

Jeffery S. Hall
Member

Glen R. Smith
Member

- **Office of the Board Chairman and Chief Executive Officer**
  Vincent G. Logan
  - **Office of the Chief of Staff**
    Maribel Duran
    - **Chief Risk Officer**
      S. Robert Coleman
    - **Office of Agency Services**
      Vonda Bell
    - **Office of the Chief Financial Officer**
      Doug Gandy (Acting)
    - **Office of Congressional and Public Affairs**
      Trevor Reuschel
    - **Office of Data Analytics and Economics**
      Jeremy D'Antoni
    - **Office of Examination**
      Michael J. Duffy
    - **Office of Information Technology**
      Jerry Versace (Acting)
    - **Office of Regulatory Policy**
      Kevin Kramp
  - **Office of Equal Employment Opportunity and Inclusion**
    Thais Burlew
  - **Office of General Counsel**
    David Grahn*
  - **Office of Secondary Market Oversight**†
    Thomas R. Fay
  - **Designated Agency Ethics Official**
    Jane Virga
  - **Secretary to the Board**
    Ashley Waldron
- **Office of Inspector General**
  Wendy R. Laguarda

* Maintains a confidential advisory relationship with each of the board members.

† Reports to the board for policy and to the CEO for administration.

FCA's organization and leadership

Organization of FCA

FCA's headquarters is in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. As of July 1, 2024, we had 348 employees.

FCA's leadership

FCA has three board members: Board Chairman and CEO Vincent G. Logan, Board Member Jeffery S. Hall, and Board Member Glen R. Smith.

Vincent G. Logan, FCA Board Chairman and CEO

Vincent G. Logan was appointed to the FCA board by President Joseph Biden on October 3, 2022. He was designated board chairman and CEO on October 21. The agency's first openly LGBT person and Native American board member, he is serving a term that expires on May 21, 2026.

Chairman Logan is also a member of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

Prior to joining FCA, Chairman Logan was chief financial officer and chief investment officer for the Native American Agriculture Fund, which is the largest philanthropic organization dedicated solely to serving the Native American farming and ranching community.

Nominated by President Barack Obama and confirmed by the U.S. Senate in 2014, Chairman Logan served as the Special Trustee for American Indians at the U.S. Department of the Interior. During his tenure, he was appointed to the Department of the Treasury's Financial Literacy Education Commission, which seeks to develop a national strategy on financial education.

Chairman Logan has worked in New York both as a lawyer, practicing in aircraft, shipping, and equipment finance, and as an investment advisor, focusing on institutional asset management and permanent fund development.

Chairman Logan previously served as a director to the Federal Reserve Bank of St. Louis, Little Rock Branch, and as an Oklahoma State University Foundation governor. He was educated at Oklahoma State University; the University of Oklahoma College of Law; Queen's College, Oxford University; and the School of International and Public Affairs at Columbia University.

Jeffery S. Hall, FCA Board Member

Jeffery S. Hall was appointed to the FCA board by President Barack Obama on March 17, 2015. Mr. Hall is serving a term that expired on October 13, 2018. He will continue to serve until his successor has been named.

Mr. Hall also serves as chairman of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

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 statewide 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 over 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a Bachelor of Science from Purdue University.

Glen R. Smith, FCA Board Member

Glen R. Smith was designated FCA board chairman and CEO of the Farm Credit Administration by President Donald Trump on July 17, 2019. He served in this position until October 21, 2022. Mr. Smith has been a member of the FCA board since December 2017. Although his board term expired on May 21, 2022, he will continue to serve on the board until his successor has been named.

He also serves as a member of the board of directors of the Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

Mr. Smith is a native of Atlantic, Iowa, where he was raised on a diversified crop and livestock farm. His farm experience started at a very early age, after his father was involved in a disabling farm accident. He graduated from Iowa State University in 1979 with a Bachelor of Science in agricultural business and accepted a position with Doane Agricultural Services as state manager of the company's farm real estate division.

In 1982, Mr. Smith and his wife, Fauzan, moved back to his hometown and started farming and developing his ag service business. Today, their family farm, Smith Generation Farms Inc., has grown to encompass about 2,000 acres devoted to corn, soybeans, hay, and a small beef cow herd.

Mr. Smith is founder and co-owner of Smith Land Service Co., an ag service company that specializes in farm management, land appraisal, and farmland brokerage, serving about 30 Iowa counties. From 2001 to 2016, he was also co-owner and manager of S&K Land Co., an entity involved in the acquisition, improvement, and exchange of Iowa farmland. Mr. Smith has served on numerous community, church, and professional boards. He was elected to the Atlantic Community School Board of Education on which he served for nine years.

In 1990, he earned the title of Accredited Rural Appraiser from the American Society of Farm Managers and Rural Appraisers. In 2000, he served as president of the Iowa chapter of that organization. He is a lifelong member of the Farm Bureau, Iowa Corn Growers Association, Iowa Soybean Association, and Iowa Cattlemen's Association.

The Smiths have four grown children and six grandchildren. Three of their children are directly involved in production agriculture. Their son Peter has assumed managerial responsibilities for both the family farm and business.

Appendix

Glossary

Agricultural credit association — An ACA results from the merger of a federal land bank association (or a federal land credit association) and a production credit association (PCA) and has the combined authority of the two institutions. An ACA borrows funds from a farm credit bank or an agricultural credit bank 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.

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.

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 System 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 merged to become FCBs or part of 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 before they received their affiliated banks' direct-lending authority to make long-term mortgage loans to farmers, ranchers, and rural residents for housing. As lending agents, the associations did not own loan assets but made loans only on behalf of the FCBs with which they were affiliated. As of October 1, 2000, all active federal land bank associations had received direct-lending authority and did not serve as lending agents for FCBs.

Federal land credit association — An FLCA is the regulatory term FCA uses for 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 those 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.

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. The FCS is the oldest financial GSE.

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.

Service corporation — Sections 4.25 and 4.28 of the Farm Credit Act authorize FCS banks and associations to organize service corporations for performing functions and services that banks and associations are authorized to perform under the Farm Credit Act, except that the corporations may not provide credit or insurance services to borrowers.

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.

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 2022 Annual Report on the Farm Credit System is available on FCA's website at **www.fca.gov**. For questions about this publication, contact FCA:

> **Office of Congressional and Public Affairs**
> Farm Credit Administration
> 1501 Farm Credit Drive
> McLean, VA 22102-5090
> Telephone: **703-883-4056**
> Fax: **703-790-3260**
> Email: **info-line@fca.gov**

The Federal Agricultural Mortgage Corporation's Annual Report on Form 10-K, as filed with the Securities Exchange Commission, is available from Farmer Mac's website or by contacting Farmer Mac's Secretary at Farmer Mac's Corporate Headquarters.
www.farmermac.com/investors/financial-information/

> **Federal Agricultural Mortgage Corporation**
> 2100 Pennsylvania Avenue, NW
> Washington, DC 20037
> Telephone: **202-872-7700**

With support from the Farm Credit 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**.

The Farm Credit System Insurance Corporation's annual report is available on its website at **www.fcsic.gov**.

FCA
FARM CREDIT ADMINISTRATION

Copies available from:

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Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102

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