2017 Annual Report

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

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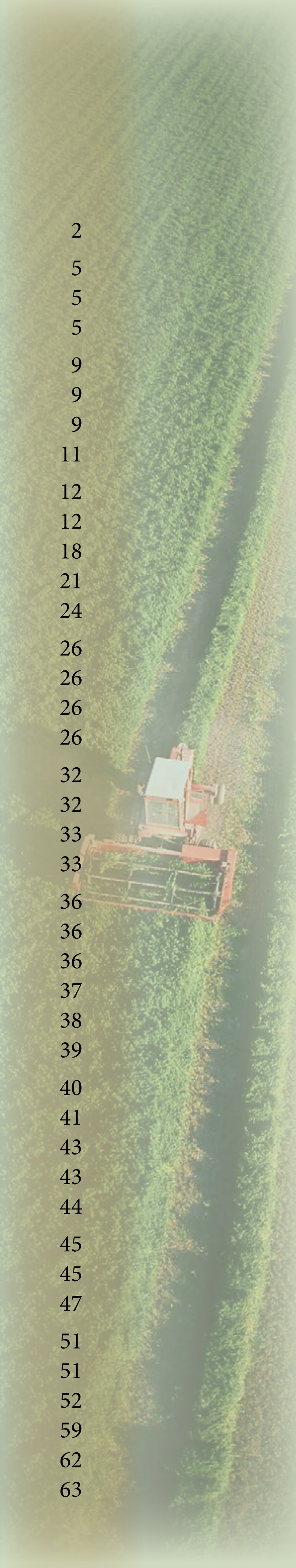


Statement of the Board Chairman and CEO

October 2018

Dear Reader,

On behalf of the board and the staff of the Farm Credit Administration, I present the 2017 Annual Report on the Farm Credit System. I am pleased to report that the System's overall condition and performance remain sound. Its net income was $5.19 billion as of Dec. 31, 2017, up from $4.85 billion the previous year, and its capital position is strong. At the end of 2017, the System's total capital had increased to $55.4 billion, up from $52.3 billion a year earlier.

The condition of the System is inextricably linked to the condition of the agriculture economy, so as the regulator of the System, we monitor the ag economy closely. In 2017, after three consecutive down years, farm sector profits rebounded slightly. According to estimates by the U.S. Department of Agriculture's Economic Research Service, 2017 net farm income will have increased to $63.8 billion, up from $61.5 billion in 2016.

Despite the challenges in the farm economy, the overall quality of System loans was very good in 2017. The System's nonperforming gross outstanding loans were 0.76 percent as of year-end 2017, compared with 0.79 percent the year before. The Farm Credit Insurance Fund further strengthens the financial position of the System by protecting investors in Systemwide debt, thus strengthening investor confidence in the System. At year-end 2017, the fund held $4.8 billion.

The System obtains its loan funds from the securities it sells to the capital debt markets. In 2017, Systemwide debt decreased significantly from year-end 2016, dropping from $334 billion to $278 billion a year later. The System issued less debt in 2017 primarily because domestic and global economic growth pushed interest yields persistently higher during the year, which all but eliminated any economic opportunity for the System to exercise call options on its outstanding debt.

We regularly examine System institutions for their safety and soundness and their compliance with laws and regulations, providing heightened oversight of institutions with higher risk. In addition to the areas normally considered, our examiners are currently emphasizing portfolio risk and internal controls over financial reporting.

Portfolio risk. Credit stress is expected to intensify in 2018 because of profit declines in certain ag sectors. To help producers withstand the stress, the System will need to be proactive by counseling customers, restructuring debt, and establishing stronger credit controls. In the more severe cases, System institutions will need to set up special credit departments. Institutions must maintain the financial capacity and risk-bearing ability to help borrowers experiencing stress. And as always, they must ensure they are fully complying with all borrower rights requirements.

Internal controls over financial reporting. All System institutions, regardless of size or scope of operations, must have strong internal controls over financial reporting. These controls rely on logical delegated authorities, clear segregation of duties, appropriate access controls to loan and accounting systems, and detective and corrective controls — including an effective internal audit program.

System leaders and the System's Internal Controls Over Financial Reporting Workgroup have focused on improving these controls in recent years. The System must continue to dedicate staff and audit resources to maintaining strong internal controls in 2018 and beyond to ensure the integrity of institution and Systemwide financial statements and FCA call reports.

This report also contains our annual report on the System's service to young, beginning, and small (YBS) farmers and ranchers. While the dollar volume of loans outstanding to YBS farmers increased this year, the number of loans outstanding declined.

In early 2019, we plan to review the agency's YBS regulation, which was last updated 20 years ago. Through the publication of an advance notice of proposed rulemaking, we plan to explore ways to improve services to YBS farmers and ranchers and to update System reporting requirements. By improving our ability to collect and analyze data about System loans to YBS farmers, we can provide better guidance to institutions on how to improve their service to these borrowers.

This document also includes a report on the Federal Agricultural Mortgage Corporation, or Farmer Mac. On Dec. 31, 2017, Farmer Mac's net worth was $708.1 million, compared with $643.6 million a year earlier. Net worth went up primarily because of increases in after-tax net interest income and gains from the sale of real estate-owned properties. The gains were partially offset by normal increases in noninterest expenses, as well as by changes in the measurement of net deferred tax assets after the federal corporate income tax rate was revised.

I'll conclude with a note about the cover of our report this year. It features FCA employee Jessica Potter (seated on the tractor) and her family. They own and operate a cattle ranch in Colorado. Like Jessica, many of our employees are, or once were, involved in agriculture. Their experience and knowledge about agriculture strengthen the agency's ability to understand the needs of farmers and ranchers.

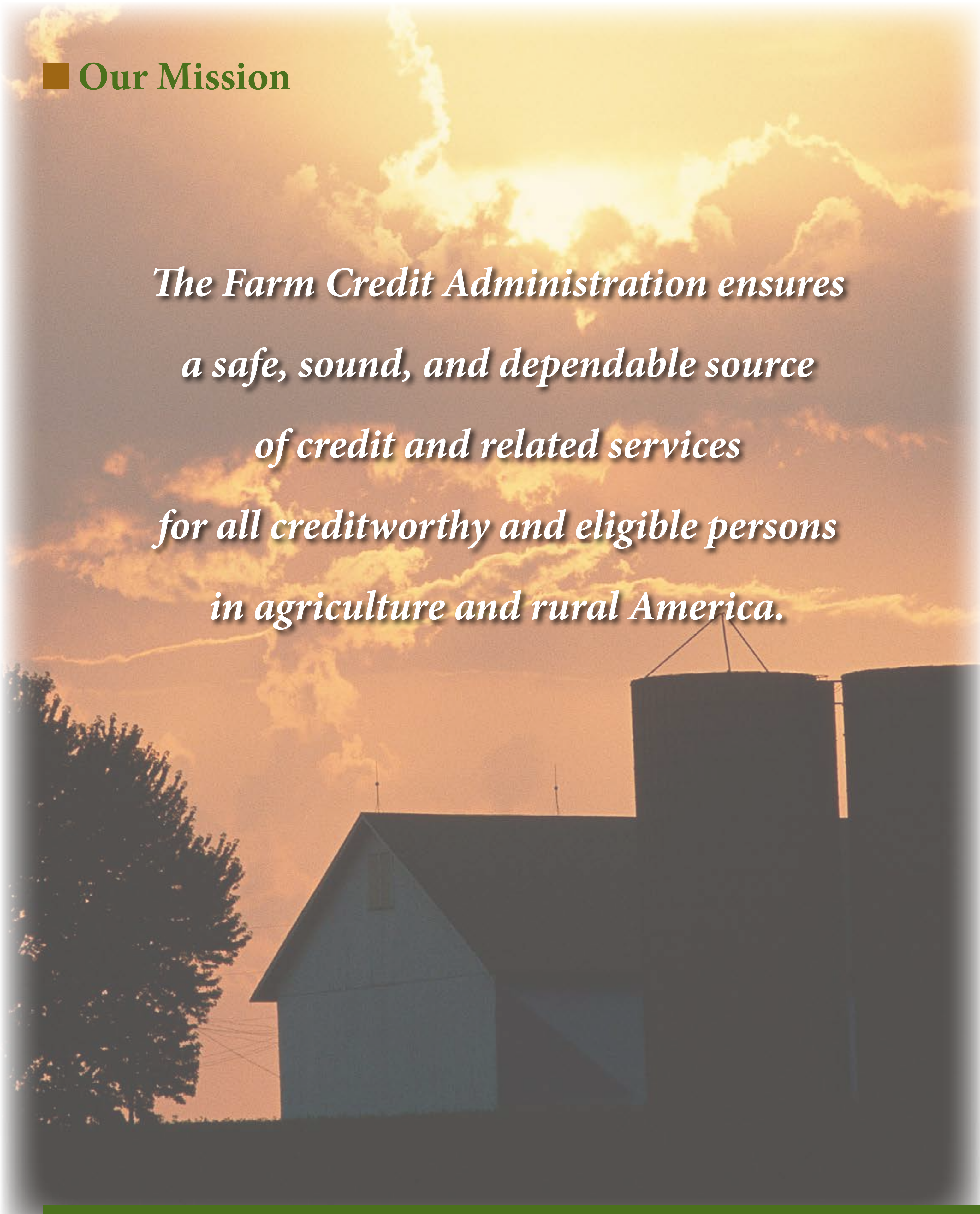
I am honored to work alongside all of FCA's employees. We are proud to do our part to help ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

Sincerely,

Dallas P. Tonsager

Dallas P. Tonsager

Our Mission



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

Farm Credit Administration

Overview and mission

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

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

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

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

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

- We issue policies and regulations governing how System institutions conduct their business and interact with 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 headquarters and one field office are in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

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

The board

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

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation.

Dallas P. Tonsager
Board Chairman and CEO

Dallas P. Tonsager is the board chairman and CEO of the Farm Credit Administration. He was appointed to the FCA board by President Barack Obama on March 13, 2015, for a term that expires May 21, 2020. He was designated chairman and CEO by President Obama on Nov. 22, 2016.

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. Tonsager brings to his position on the FCA board extensive experience as an agriculture leader and producer, and a commitment to promoting and implementing innovative development strategies to benefit rural residents and their communities.

Mr. Tonsager served as under secretary for rural development at the U.S. Department of Agriculture (USDA) from 2009 to 2013. In this position, he expanded broadband communication in rural America and implemented other key elements of the Recovery Act for rural America. He dramatically expanded USDA's water and wastewater programs, expanded funding for first- and second-generation biofuels, and funded hospitals and other public facilities in rural America.

In addition, Mr. Tonsager worked with the Farm Credit System and others to set up new venture capital investment funds. From 2010 to 2013, he was a member of the Commodity Credit Corporation board of directors. From 2004 to 2009, Mr. Tonsager served as a member of the FCA board, as well as a member of the FCSIC board of directors.

From 2002 to 2004, he was the executive director of the South Dakota Value-Added Agriculture Development Center. In this position, he coordinated initiatives to better serve producers interested in developing value-added agricultural projects. Services provided by the center include project facilitation, feasibility studies, business planning, market assessment, technical assistance, and education.

In 1993, he was selected by President William J. Clinton to serve as USDA's state director for rural development in South Dakota. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota. His term ended in February 2001.

A long-time member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization from 1988 to 1993. During that same period, he was a board member of Green Thumb Inc., a nationwide job training program for senior citizens. In addition, he served on the board of National Farmers Union Insurance from 1989 to 1993, and he was a member of the advisory board of the Commodity Futures Trading Commission from 1990 to 1993.

Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. For many years, he and his older brother owned Plainview Farm in Oldham, a family farm on which they raised corn, soybeans, wheat, and hay. Mr. Tonsager is a graduate of South Dakota State University where he earned a Bachelor of Science in agriculture in 1976.

Jeffery S. Hall
Board Member

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

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 nearly 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
Board Member

Glen R. Smith was appointed to the FCA board by President Donald Trump on Dec. 8, 2017. Mr. Smith will serve a term that expires May 21, 2022.

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 co-owner and founder 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; during most of this time, he served as either president or vice president.

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 three grandchildren. Three of their children are involved in production agriculture. Their son Peter has assumed managerial responsibilities for both the family farm and business.

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

FCS role

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

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 like those of eligible borrowers. Through these participations, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

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

According to the Farm Credit Act, Congress established the System to improve the income and well-being of American farmers and ranchers.

The System is to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, farmer-owned cooperatives, and farm-related businesses in rural America.

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

The System helps to meet 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.

FCS structure

The lending institutions

The System is composed of the following four banks:

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

These banks provide loans to 69 associations that in turn make loans to farmers, ranchers, and other eligible borrowers. All but one of these associations are structured as agricultural credit associations (ACAs) with subsidiaries. One association is a stand-alone federal land bank association with direct long-term real estate lending authority. We refer to these as federal land credit associations (FLCAs).

CoBank, one of the four Farm Credit System banks, is an agricultural credit bank (ACB), which has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons or organizations that have transactions with, or are owned by, these cooperatives. The ACB finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, the ACB provides loan funds to 22 ACAs.

An ACA can make agricultural production and intermediate-term loans as well as real estate mortgage loans, while an FLCA primarily makes real estate mortgage loans. The FLCA is exempt from state and federal income taxes.

Generally, each ACA contains two subsidiaries, a production credit association (PCA), which primarily makes agricultural production and intermediate-term loans, and an FLCA. The ACA's parent-subsidiary structure enables the ACA to preserve the tax-exempt status of the FLCA. This structure offers several other benefits as well. It allows the ACA to build and use capital more efficiently, and it enables members to hold stock in only the ACA but to borrow either from the ACA or from one or both of its subsidiaries. This gives the ACA and its subsidiaries greater flexibility in serving their borrowers, and it allows credit and related services to be delivered to borrowers more efficiently.

Further, the structure allows an association to provide a broader range of specialized services to its member-borrowers. It enables one-stop borrowing, allowing borrowers to obtain agricultural production and intermediate-term loans and real estate mortgage loans from the same institution.

The ACA and its two subsidiaries operate with a common board of directors and staff, and each of the three entities is responsible for the debts of the others. For most regulatory and examination purposes, FCA treats the ACA and its subsidiaries as a single entity; however, when appropriate, we may choose to treat the parent and subsidiaries as separate entities.

Special-purpose entity and service corporations

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

The System also contains the following five service corporations. These corporations exist under the authority of section 4.25 of the Farm Credit Act[1]:

- AgVantis, Inc., provides technology-related and other support services to the associations affiliated with CoBank, ACB. AgVantis is owned by the bank and 12 of its affiliated associations.

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

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

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

- Farm Credit Foundations provides human resource services to its employer-owners. These services include payroll processing, benefits administration, centralized vendor management, workforce management and operations, corporate tax and financial reporting services, and retirement workshops. Employer-owners consist of 35 FCS associations, 1 service corporation (AgVantis), and 1 FCS bank (AgriBank).

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

Farmer Mac

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.

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

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

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

Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other 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 "Condition of Farmer Mac" on page 40.

The safety and soundness of the FCS

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

The Farm Credit System Insurance Corporation (FCSIC) also helps protect the safety and soundness of the Farm Credit System. It 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 equity of FCSIC. The balance in the Insurance Fund at Dec. 31, 2017, was $4.8 billion. For more information about FCSIC, go to www.fcsic.gov. Also see FCSIC's 2017 annual report.

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

FCS Banks and Associations

Financial condition

The overall condition and performance of the FCS was strong in 2017, and the System continues to be safe and sound. For the year, the System reported increased earnings, strong capital levels, favorable portfolio credit quality, and reliable access to debt capital markets. Tables 1 and 2 provide a summary of the System's major financial indicators.

While the System is financially sound, a small number of individual FCS institutions displayed some weaknesses in 2017. As the System's regulator, we addressed these weaknesses by increasing our oversight and supervision of these institutions. For more information on FCA's risk-based supervisory and enforcement approach, see "Maintaining a dependable source of credit for farmers and ranchers" on page 36 to 39 of this report. For more information on the condition and performance of the System, see the 2017 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation.

After three consecutive down years, farm sector profits rebounded slightly in 2017. According to estimates by the U.S. Department of Agriculture's Economic Research Service, 2017 net farm income will increase to \$63.8 billion, up from \$61.5 billion in 2016. Since its 2013 high of \$135.6 billion, net farm income has now fallen to near its historical average.

Crop producers continued to experience financial challenges in 2017. Significant global production and ample ending stocks kept grain prices low during the year. For many producers, profits remained elusive, with prices remaining at or below the cost of production. With little relief expected in 2018, financial stress is likely to intensify for this sector. For producers, low prices and high production levels will continue to present a real challenge. Low margins reduce cash flows, working capital, and repayment capacity, and they increase the importance of managing risks and controlling the costs of production.

Cropland markets appeared to stabilize in 2017, despite continued low crop returns and higher interest rates. With the run-up of cash grain prices beginning in 2009, cropland values soared to record levels by 2014. Since then, with farm income declining, land prices have softened, particularly in the Midwest. Commodity prices, cash rental rates, input costs, and interest rates will continue to be key influences on cropland prices.

Strong pricing because of higher-than-expected domestic and export demand, in combination with favorable feed costs, helped boost profits for most animal protein sectors in 2017. The 2018 outlook for most livestock sectors remains generally favorable although margins are expected to narrow. For dairy producers, while returns were modestly positive for most of 2017, margins are likely to be negative for much of 2018. For both the livestock and dairy sectors, demand, particularly export demand, will be critical in 2018 because production levels are projected to rise.

For a detailed discussion of potential risks facing the System in 2018 and beyond, see "Challenges Facing the Agricultural Economy and the Farm Credit System" on pages 45 to 50.

Table 1

Farmer Credit System major financial indicators, annual comparison

As of Dec. 31, Dollars in thousands

At and for the 12 months ended	2017	2016	2015	2014	2013
Farm Credit System Banks[1]					
Total assets	289,079,600	281,973,917	267,587,575	249,370,568	230,427,442
Gross loan volume	228,084,765	220,160,768	208,766,996	192,083,080	179,260,572
Nonaccrual loans	324,571	292,938	231,520	227,872	275,228
Cash and marketable investments	59,146,365	60,131,933	57,123,019	55,472,944	49,241,806
Net income	2,191,414	2,016,110	1,945,693	2,042,527	2,057,199
Nonperforming loans/total loans[2]	0.15%	0.16%	0.13%	0.15%	0.18%
Capital/assets[3]	6.44%	6.35%	6.28%	6.41%	6.58%
Unallocated retained earnings/assets	0.00%	3.48%	3.45%	3.42%	3.39%
Return on assets	0.77%	0.73%	0.74%	0.84%	0.91%
Return on equity	11.62%	11.13%	11.47%	12.76%	13.31%
Net interest margin[4]	0.96%	0.98%	0.98%	1.05%	1.15%
Operating expense ratio[5]	0.33%	0.34%	0.33%	0.33%	0.32%
Efficiency ratio[6]	25.55%	25.37%	25.30%	24.20%	22.20%
Payout ratio[7]	71.36%	64.84%	59.44%	58.19%	54.61%
Associations					
Total assets	195,818,251	189,932,933	180,005,335	167,312,405	157,085,461
Gross loan volume	184,638,381	179,322,967	169,995,422	157,543,635	146,873,767
Nonaccrual loans	1,342,879	1,303,673	1,095,206	1,146,358	1,465,651
Net income	3,673,321	3,383,152	3,126,729	3,383,894	3,304,680
Nonperforming loans/gross loans[2]	0.88%	0.90%	0.80%	0.92%	1.17%
Capital/assets[3]	19.31%	18.84%	18.68%	18.78%	18.48%
Unallocated retained earnings/assets	0.00%	17.50%	17.33%	17.40%	17.24%
Return on assets	2.06%	1.81%	1.84%	2.07%	2.14%
Return on equity	10.44%	9.36%	9.57%	10.69%	11.34%
Net interest margin[4]	2.71%	2.66%	2.68%	2.75%	2.80%
Operating expense ratio[5]	1.41%	1.47%	1.50%	1.51%	1.48%
Efficiency ratio[6]	32.66%	40.47%	41.38%	39.52%	37.14%
Payout ratio[7]	34.56%	31.28%	28.31%	25.22%	25.45%
Total Farm Credit System[8]					
Total assets	329,518,000	319,915,000	303,503,000	282,733,000	260,662,000
Gross loan volume	258,777,000	248,768,000	235,890,000	217,054,000	201,060,000
Bonds and notes	267,119,000	260,213,000	246,214,000	229,064,000	210,704,000
Nonperforming loans	1,967,000	1,962,000	1,629,000	1,737,000	2,040,000
Nonaccrual loans	1,660,000	1,591,000	1,324,000	1,375,000	1,736,000
Net income	5,189,000	4,848,000	4,688,000	4,724,000	4,640,000
Nonperforming loans/gross loans[2]	0.76%	0.79%	0.69%	0.80%	1.01%
Capital/assets[3]	16.81%	16.35%	16.09%	16.17%	16.34%
Surplus/assets	13.24%	13.50%	13.33%	13.36%	13.45%
Return on assets	1.62%	1.56%	1.64%	1.77%	1.86%
Return on equity	9.49%	9.44%	9.87%	10.62%	11.43%
Net interest margin[4]	2.48%	2.49%	2.55%	2.64%	2.78%

Sources: FCA call reports as of Dec. 31, 2017, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

Note: Changes to previous periods occasionally occur for accounting reasons.

1 Includes Farm Credit Banks and the Agricultural Credit Bank.
2 Nonperforming loans are defined as nonaccrual loans, accruing restructured loans, and accrual loans 90 or more days past due.
3 Capital includes restricted capital (amount in Farm Credit Insurance Fund) and excludes mandatorily redeemable preferred stock and protected borrower capital.
4 Net interest margin ratio measures net income produced by interest-earning assets, including the effect of loanable funds, and is a key indicator of loan pricing effectiveness.
5 Operating expenses divided by average gross loans.
6 The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income for the preceding 12 months.
7 The percentage of earnings paid out in patronage dividends to borrower-owners and in dividends to holders of preferred stock. (Patronage dividends constitute the majority of earnings paid out.) This ratio is only valid at year-end (Dec. 31).
8 Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors.

Table 2

Farm Credit System major financial indicators, by district

Dec. 31, 2017
Dollars in thousands

Category	Total Assets	Gross Loan Volume	Nonaccrual Loans	Allowance for Loan Losses	Cash and Marketable Investments[1]	Capital Stock[2]	Total Capital[3]	Net Income[4]	Net Income, Year-to-Date	Operating Expense Ratio[5]
Banks										
AgFirst	32,487,457	23,359,160	21,303	14,381	8,847,108	313,752	2,242,815	97,379	344,749	0.53%
AgriBank	104,544,725	88,374,923	53,038	26,047	15,550,757	2,345,655	5,641,882	125,577	525,358	0.15%
CoBank	129,210,813	99,265,505	246,837	576,927	29,292,192	3,240,445	9,060,077	391,121	1,125,321	0.40%
Texas	22,836,605	17,085,177	3,393	7,639	5,456,308	301,239	1,667,884	50,794	195,986	0.60%
Total	**289,079,600**	**228,084,765**	**324,571**	**624,994**	**59,146,365**	**6,201,091**	**18,612,658**	**664,871**	**2,191,414**	**0.33%**
Associations										
AgFirst	21,913,375	20,970,756	217,553	178,685	122,900	143,568	4,538,692	314,207	596,949	1.55%
AgriBank	100,646,824	94,124,666	692,646	410,013	2,266,662	264,976	19,236,044	600,958	1,670,460	1.35%
CoBank	56,161,426	53,017,166	307,046	307,102	337,434	69,407	11,350,338	273,225	1,078,942	1.42%
Texas	17,096,626	16,525,793	125,634	68,375	29,939	58,616	2,693,118	82,488	326,970	1.46%
Total	**195,818,251**	**184,638,381**	**1,342,879**	**964,175**	**2,756,935**	**536,567**	**37,818,192**	**1,270,878**	**3,673,321**	**1.41%**
Total Farm Credit System[6]	**329,518,000**	**258,777,000**	**1,660,000**	**1,596,000**	**61,784,000**	**1,879,000**	**55,382,000**	**1,473,000**	**5,189,000**	

Sources: Farm Credit System Call Report as of Dec. 31, 2017, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

1 Includes accrued interest receivable on marketable investments.
2 Includes capital stock and participation certificates, excludes mandatorily redeemable preferred stock and protected borrower capital.
3 Includes capital stock, participation certificates, perpetual preferred stock, surplus, and accumulated other comprehensive income. For the total Farm Credit System amount, total capital also includes $4.453 billion of restricted capital, which is the amount in the Farm Credit Insurance Fund. Excludes mandatorily redeemable preferred stock and protected borrower capital.
4 Net income for the quarter.
5 Operating expense per $100 of gross loans.
6 Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors.

Figure 1
FCS net income, 2009 – 2017
As of Dec. 31
Dollars in billions

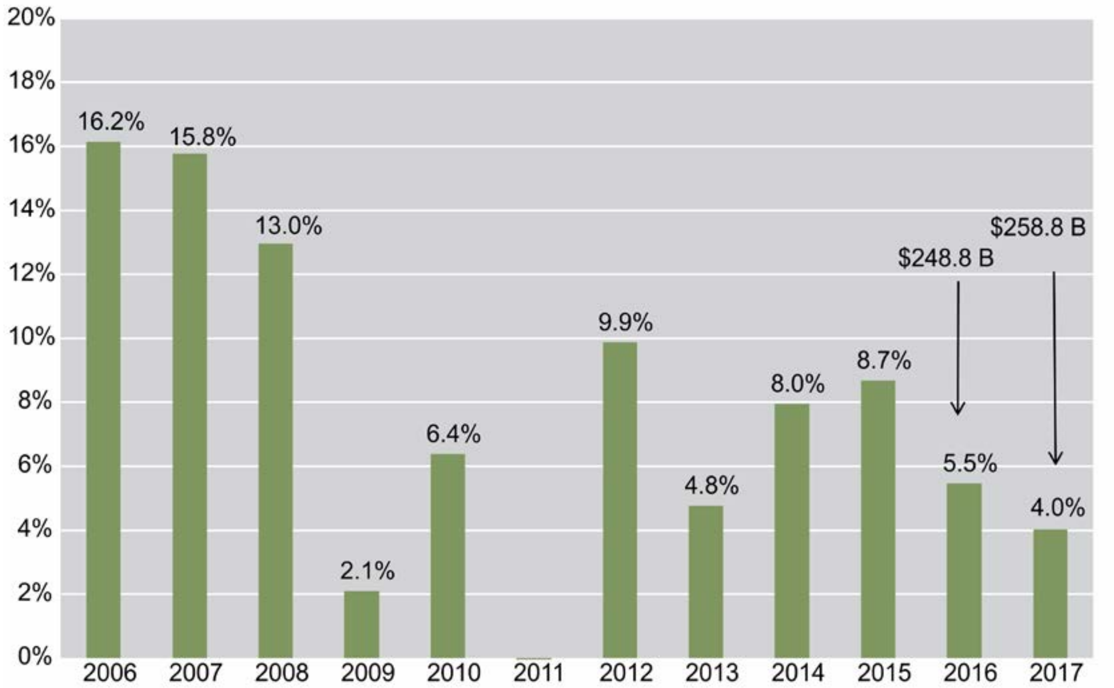
Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

Earnings

The System reported strong earnings in 2017. For the year, System net income equaled $5.2 billion, up $341 million or 7.0 percent from 2016 (See figure 1). The change was largely due to three factors: an increase in net interest income, lower provisions for loan losses, and a decrease in the provision for income taxes as a result of 2017 federal tax legislation, which provided $162 million in tax adjustments. The increases resulting from these factors were partially offset by higher noninterest expenses.

Net interest income increased $265 million to $7.7 billion in 2017. This increase was primarily due to the higher level of average earning assets, partially offset by a decline in net interest spread. Driven largely by growth in loan volume, average earning assets increased $11.4 billion, or 3.8 percent, to $311.0 billion. The System's net interest spread continued to compress in 2017, decreasing 6 basis points to 2.25 percent. Net interest margin decreased 1 basis point to 2.48 percent in 2017. A 5-basis-point increase in income earned on earnings assets funded by noninterest-bearing sources (principally capital) helped offset the decline in net interest spread. Return on average assets increased to 1.62 percent in 2017 from 1.56 percent in 2016, and the return on average capital improved to 9.49 percent from 9.44 percent.

Figure 2
Annual growth rate of FCS loans outstanding, 2006 – 2017



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

As cooperative institutions, FCS banks and associations typically pass on a portion of their earnings as patronage distributions to their farmer and rancher borrower-owners. For 2017, System institutions declared a total of $2.0 billion in patronage distributions — $1.51 billion in cash, $399 million in allocated retained earnings, and $88 million in stock. This represents 38.5 percent of the System's net income for 2017 as compared with 35.6 percent in 2016. Also in 2017, the System distributed $233 million in cash from allocated retained earnings related to patronage distributions from previous years.

System growth

The System continued to grow at a measured pace in 2017. Total assets increased to $329.5 billion, up $9.6 billion or 3.0 percent from 2016. Gross loan balances were $258.8 billion at year-end, up $10.0 billion or 4.0 percent in 2017, compared with 5.5 percent in 2016. (See figure 2.)

The growth in System loan balances was largely due to increases in real estate mortgages, production and intermediate-term lending, and loans to cooperatives. Real estate mortgage lending was up $5.0 billion, or 4.4 percent. Real estate mortgage loans represent the largest component of the System's loan portfolio at 46.2 percent. Production and intermediate-term loans increased $1.4 billion, or 2.9 percent, and represents the second largest loan category at 20.0 percent. Loans to cooperatives, accounting for 6.7 percent of the loan portfolio, was up $2.0 billion, or 13.3 percent, in 2017.

Loan volume grew in all commodity categories except forestry (down less than 1 percent) and horticulture (down 3 percent). The cash grains and cattle sectors represent the System's two largest commodity categories, equaling almost 26 percent of the total loan portfolio. Lending to the cash grains sector was up 1 percent in 2017. Lending to the cattle sector grew by 5 percent, reflecting the modest profits producers enjoyed during 2017.

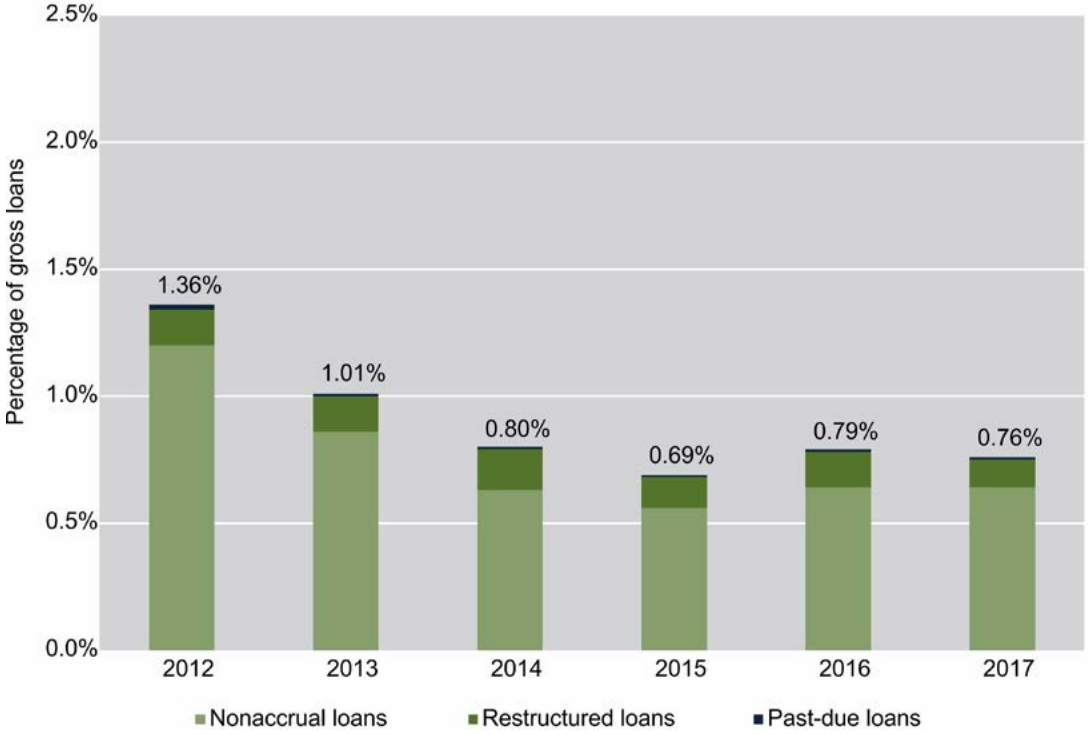
Asset quality

Loan quality in the System's portfolio remained relatively strong in 2017 although credit risk intensified for certain crop and livestock sectors during the year. For these sectors,

Figure 3

Performance of FCS nonperforming loans to gross loans, 2012 – 2017

As of Dec. 31



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

weak pricing caused by supply and demand imbalances and relatively high input costs reduced producer profits. Over time, low to negative profit margins will diminish available liquidity and repayment capacity. In 2018, strong global competition, rising interest rates, low prices for cash grains, and uncertain ag trade policies will continue to challenge System borrowers in certain sectors. Although asset quality is expected to decline in 2018 from the relatively strong levels in 2017, the level of credit stress in the loan portfolio will remain well within the System's risk-bearing capacity.

As of Dec. 31, 2017, nonperforming loans totaled $2.0 billion, or 0.76 percent of gross loans outstanding, unchanged from $2.0 billion, or 0.79 percent, at year-end 2016. (See figure 3.) Loan delinquencies (accruing loans that are 30 days or more past due) decreased slightly to 0.25 percent of total accruing loans from 0.26 percent at year-end 2016. Overall, 93.9 percent of System loans were classified as acceptable, down from 94.5 percent at year-end 2016.

The allowance for loan losses was $1.6 billion, or 0.62 percent of loans outstanding, at year-end 2017. This compares with an allowance for loan losses of $1.5 billion, or 0.61 percent of loans outstanding, at year-end 2016. The System recognized provisions for loan losses of $197 million in 2017 as compared with $266 million in 2016 and $106 million in 2015. Net loan charge-offs were somewhat higher but remained low at $80 million in 2017 as compared with $45 million in 2016.

Funding

Throughout 2017, the System had reliable access to the global debt capital markets to support its mission, and investor demand for all System debt products remained favorable across all products. Securities due within a year decreased by 0.9 percent while securities with maturities greater than one year increased by 5.4 percent. In total, Systemwide debt increased by 2.9 percent.

The System's funding composition remained relatively stable in 2017. Securities due within a year accounted for 38.8 percent of total Systemwide debt compared with 40.3 percent a year ago. (See "Funding activity in 2017" on page 33 for further discussion of the System's funding environment.)

Liquidity

Each System bank maintains a liquidity reserve to ensure it has enough liquidity to meet its business and financial needs, especially during unforeseen disruptions in the capital markets. As of Dec. 31, 2017, each System bank was in compliance with the regulatory minimum levels required for its liquidity reserve. Liquidity position is measured by the number of days that a bank may operate with no access to funds from the capital markets. By regulation, banks must maintain a minimum of 90 days of liquidity. As of year-end 2017, the liquidity positions of the four System banks ranged from 151 days to 227 days. The System's overall liquidity position on a consolidated basis was 175 days, as compared with 180 days as of Dec. 31, 2016.

The System's mission-related investments are excluded from the eligible investment limitation and the bank's liquidity calculations. Mission-related and other investments available for sale (based on fair value) decreased 13.4 percent to $298 million, with a weighted average yield of 2.94 percent. Mission-related and other investments held to maturity increased 3.5 percent to $2.7 billion, with a weighted average yield of 3.39 percent.

As permitted under FCA regulations, each System bank may hold federal funds and available-for-sale securities in an amount not to exceed 35 percent of its average loans outstanding for the quarter. Investments available for sale (based on fair value) decreased 1.6 percent to $53.8 billion in 2017, with a weighted average yield of 1.87 percent.

Criteria for eligible investments are defined by FCA regulations. If an investment no longer meets the eligibility criteria, it becomes ineligible for regulatory liquidity calculation purposes, but the bank may continue to hold the investment provided certain requirements are met.

Capital

Strong earnings helped the System continue to build capital levels in 2017. Total capital equaled $55.4 billion at Dec. 31, 2017, compared with $52.3 billion at year-end 2016. At year-end 2017, the System's capital-to-assets ratio was 16.8 percent, compared with 16.4 percent in 2016.

As illustrated in figure 4, surplus accounts for most System capital. FCA regulations establish minimum capital levels that each System bank and association must achieve and maintain. Effective Jan. 1, 2017, new regulatory capital requirements for System banks and associations were adopted. As of Dec. 31, 2017, all System banks and associations were above the following regulatory minimum capital requirements:

- A common equity tier 1 capital (CET1) ratio of 4.5 percent of risk-adjusted assets
- A tier 1 capital ratio of 6.0 percent of risk-adjusted assets
- A total capital ratio of 8.0 percent of risk-adjusted assets
- A tier 1 leverage ratio of 4.0 percent of total assets, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents
- A permanent capital ratio of at least 7.0 percent of risk-adjusted assets

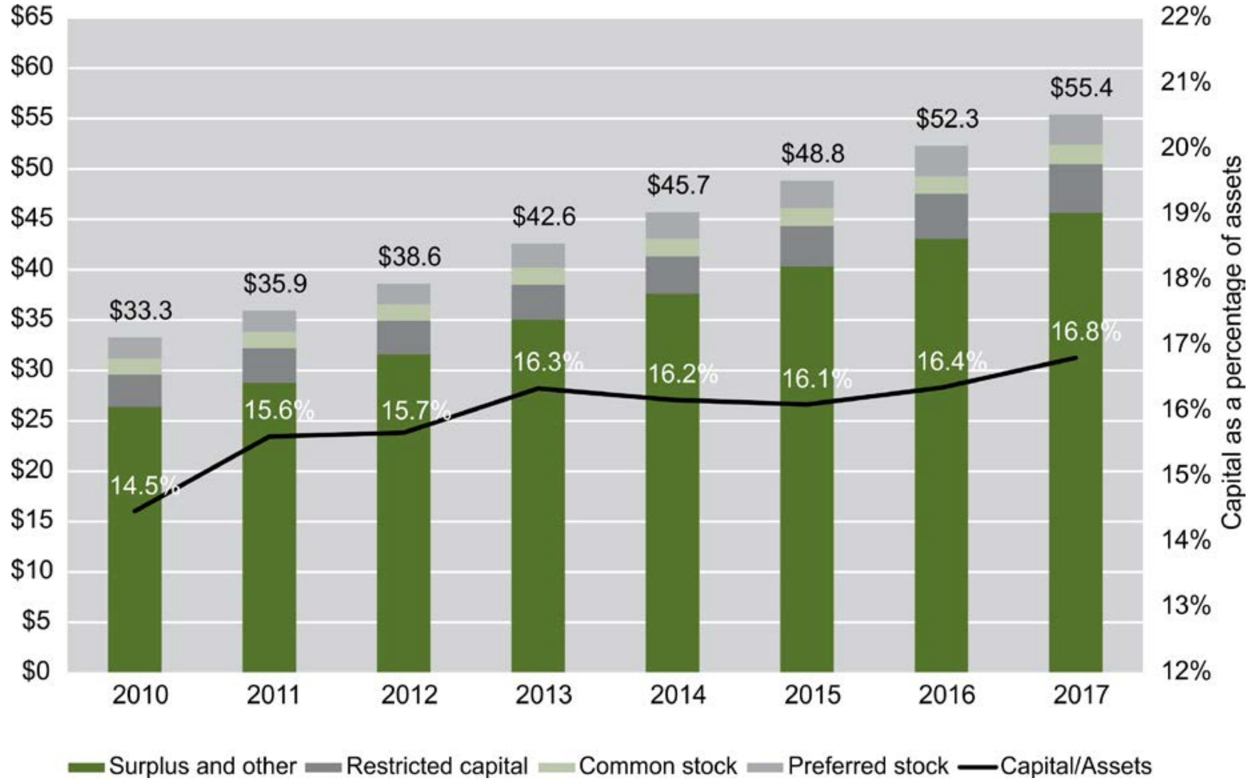
In addition, as of Dec. 31, 2017, the FCS had $4.8 billion of restricted capital in the Farm Credit Insurance Fund.

Borrowers served

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

- Agricultural real estate loans
- Agricultural production and intermediate-term loans

Figure 4
FCS capital, 2010 – 2017
As of Dec. 31
Dollars in billions



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

- 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 like those of eligible borrowers. Through these participations, the System diversifies its portfolio, reducing the risks associated with serving a single industry.

Table 3
FCS gross loans outstanding, 2013 – 2017
As of Dec. 31
Dollars in millions

	2013	2014	2015	2016	2017	Percent change from 2013	Percent change from 2016
Long-term real estate loans	$95,209	$100,811	$107,813	$114,446	$119,450	25.5%	4.4%
Production and intermediate-term loans	44,309	46,305	49,204	50,282	51,724	16.7%	2.9%
Agribusiness loans to the following:							
Processing and marketing operations	13,164	16,974	19,949	21,166	21,582	63.9%	2.0%
Cooperatives	10,885	12,553	13,113	15,300	17,335	59.3%	13.3%
Farm-related businesses	2,999	3,408	3,533	3,162	3,293	9.8%	4.1%
Rural utility loans by type of utility:							
Energy	14,304	15,036	17,925	19,577	19,689	37.6%	0.6%
Communication	4,159	5,044	6,196	6,023	6,311	51.7%	4.8%
Water and wastewater	1,325	1,488	1,677	1,840	1,965	48.3%	6.8%
Rural home loans	6,511	6,754	7,117	7,148	7,261	11.5%	1.6%
Agricultural export loans	4,743	4,837	5,075	5,531	5,645	19.0%	2.1%
Lease receivables	2,706	2,976	3,373	3,480	3,665	35.4%	5.3%
Loans to other financing institutions	746	868	915	813	857	14.9%	5.4%
Total	$201,060	$217,054	$235,890	$248,768	$258,777	28.7%	4.0%

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

Nationwide, the System had $259 billion in gross loans outstanding as of Dec. 31, 2017. Agricultural producers represented by far the largest borrower group, with $171 billion, or 66 percent, of the total dollar amount of loans outstanding. See table 3 and figure 5 for a breakdown of lending by type.

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had over a million loans and leases and over 500,000 stockholders in 2017. Approximately 87 percent 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.

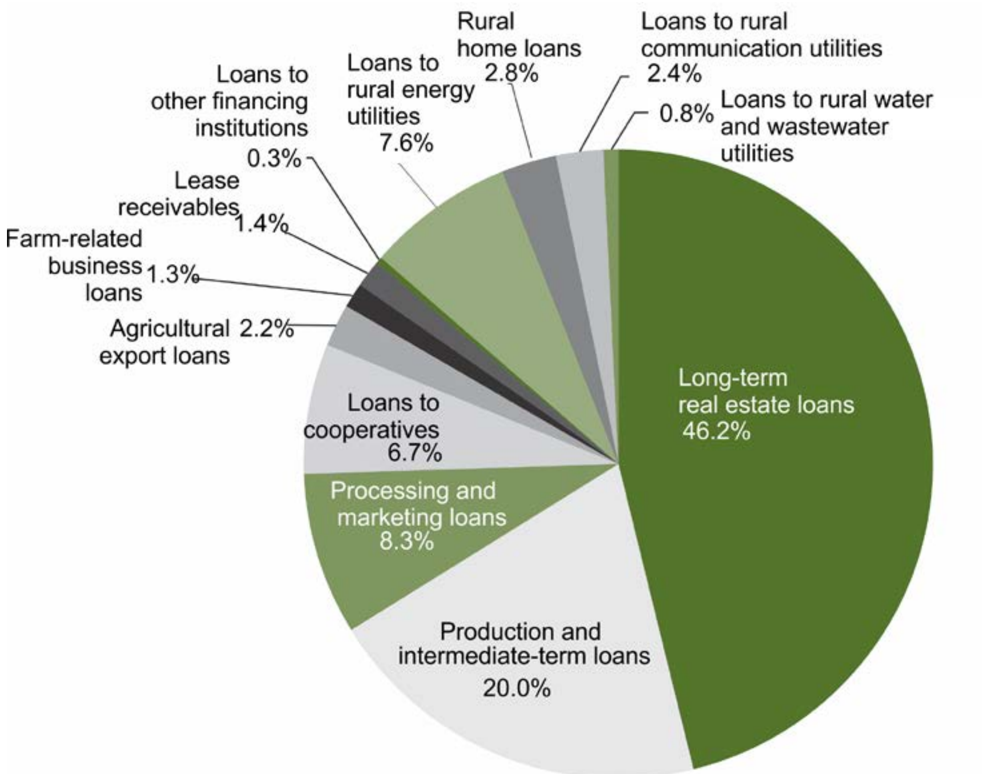
Total loans outstanding at FCS banks and associations (net of intra-System lending) increased by $10 billion, or 4 percent, during the year that ended Dec. 31, 2017. This compares with increases of 5.5 percent in 2016 and 8.7 percent in 2015. Since year-end 2013, total System loans outstanding have increased by $57.7 billion, or 28.7 percent.

The $10 billion increase in 2017 was driven by increases in real estate mortgages and loans to cooperatives. With the continued demand for cropland and financing for permanent plantings, real estate mortgage loans increased $5 billion, or 4.4 percent. Loans to cooperatives increased $2 billion or 13.3 percent because of greater seasonal financing at grain and supply cooperatives.

Production and intermediate-term loans also increased, going up $1.4 billion, or 2.9 percent. This increase was driven by advance purchases of production inputs (such as fertilizer, seed, and fuel) for 2018.

All the other lending authorities experienced at least modest increases in 2017. At just 0.6 percent, growth in loans to power utilities was the slowest. In 2016, lending volume to power utilities had grown 9.3 percent.

Figure 5
Farm Credit System lending by type
As of Dec. 31, 2017



Source: 2017 Federal Farm Credit Banks Funding Corporation Annual Information Statement.

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

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

Outstanding loan volume to OFIs was $857 million at year-end, up $44 million from 2016. OFI loan volume continues to be less than half of one percent of the System's loan portfolio. About 70 percent of the System's OFI lending activity occurs in the AgriBank district.

Syndications and loan participations with non-FCS lenders

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

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

Loan participations are loans in which two or more lenders share in providing loan funds to a borrower. 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.

Financial institutions primarily use loan syndications and participations to reduce credit risk and to comply with lending limits. For example, a financial institution with a high concentration of production loans for a single commodity could use participations or syndications to diversify its loan portfolio, or it could use them to sell loans that are beyond its lending limit. Institutions also use syndications and participations to manage and optimize capital, earnings, and liquidity. Syndications and participations allow the System to more fully meet its mission by serving agricultural and rural borrowers who might not otherwise receive funding.

The System's gross loan syndication volume has grown by more than $2 billion over the past three years to $15.8 billion at year-end 2017. This figure includes volume from syndications that System institutions have with other System institutions as well as with non-FCS institutions.

At year-end 2017, the System had $5.0 billion in net eligible-borrower loan participations with non-System lenders. Net eligible-borrower loan participations peaked in 2010 at $5.4 billion when sales of these participations were at a low point. The volume of eligible-borrower loan participations purchased from non-System lenders has grown from $6.5 billion at Dec. 31, 2012, to $8.2 billion at year-end 2017, and the volume of eligible-borrower loan participations sold to non-System lenders was $3.2 billion at year-end 2017, unchanged from the prior year and up from $2.8 billion in 2012.

In addition to participating in loans to eligible borrowers, FCS institutions have the authority to work with non-System lenders that originate "similar-entity" loans. A similar entity borrower is not eligible to borrow directly from an FCS institution, but because the borrower's operation is functionally similar to that of an eligible borrower's operation, the System has authority to participate in the borrower's loans (the participation interest must be less than 50 percent). Similar-entity loans contain other limitations as specified in sections 3.1(11)(B) and 4.18A of the Farm Credit Act.

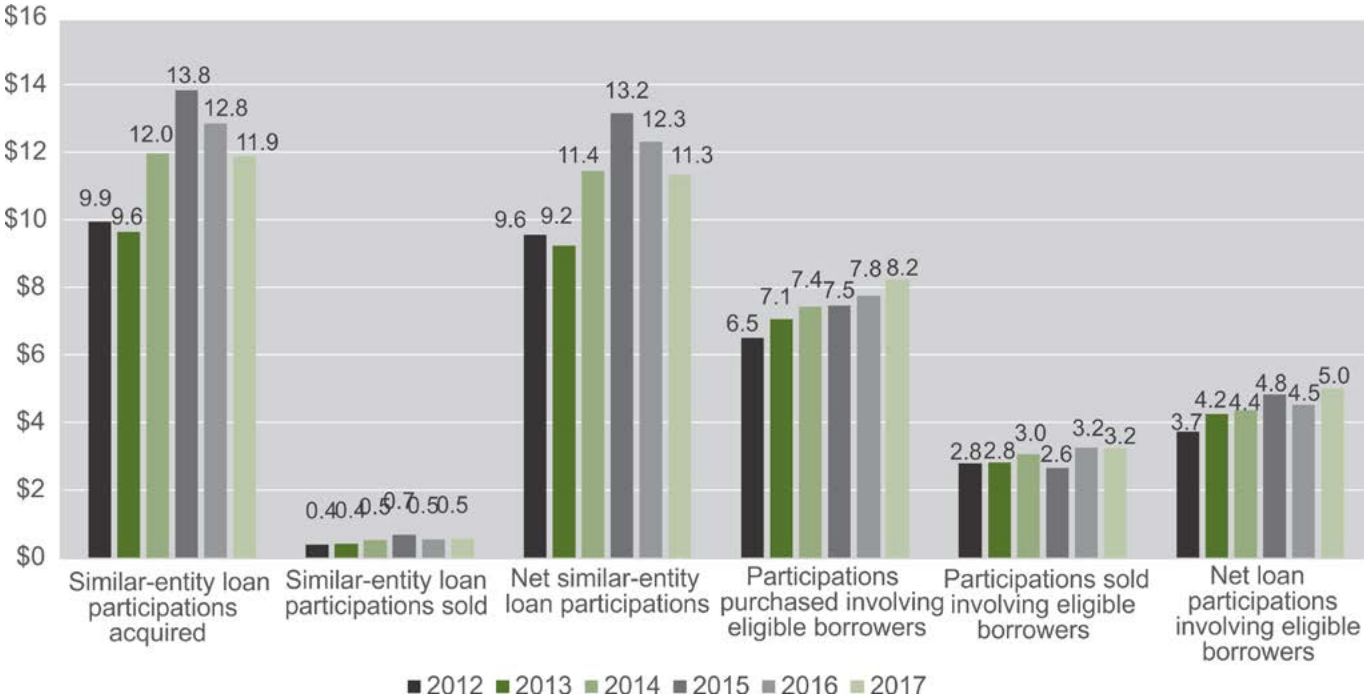
The System had $11.9 billion in acquired similar-entity loan participations as of Dec. 31, 2017, down from $12.8 billion the prior year. As figure 6 indicates, the volume of similar-entity participations that System institutions sell to non-System institutions is relatively small, amounting to $700 million or less each year over the past six years.

AgDirect, LLP

AgDirect is a point-of-sale agricultural equipment financing program developed by Farm Credit Services of America, ACA, which is affiliated with AgriBank, FCB. AgDirect allows System institutions to participate in retail installment loans or leasing contracts originated by equipment dealerships. The program expands financing options for borrowers and institutions, and provides an additional revenue stream to AgDirect owners and AgriBank.

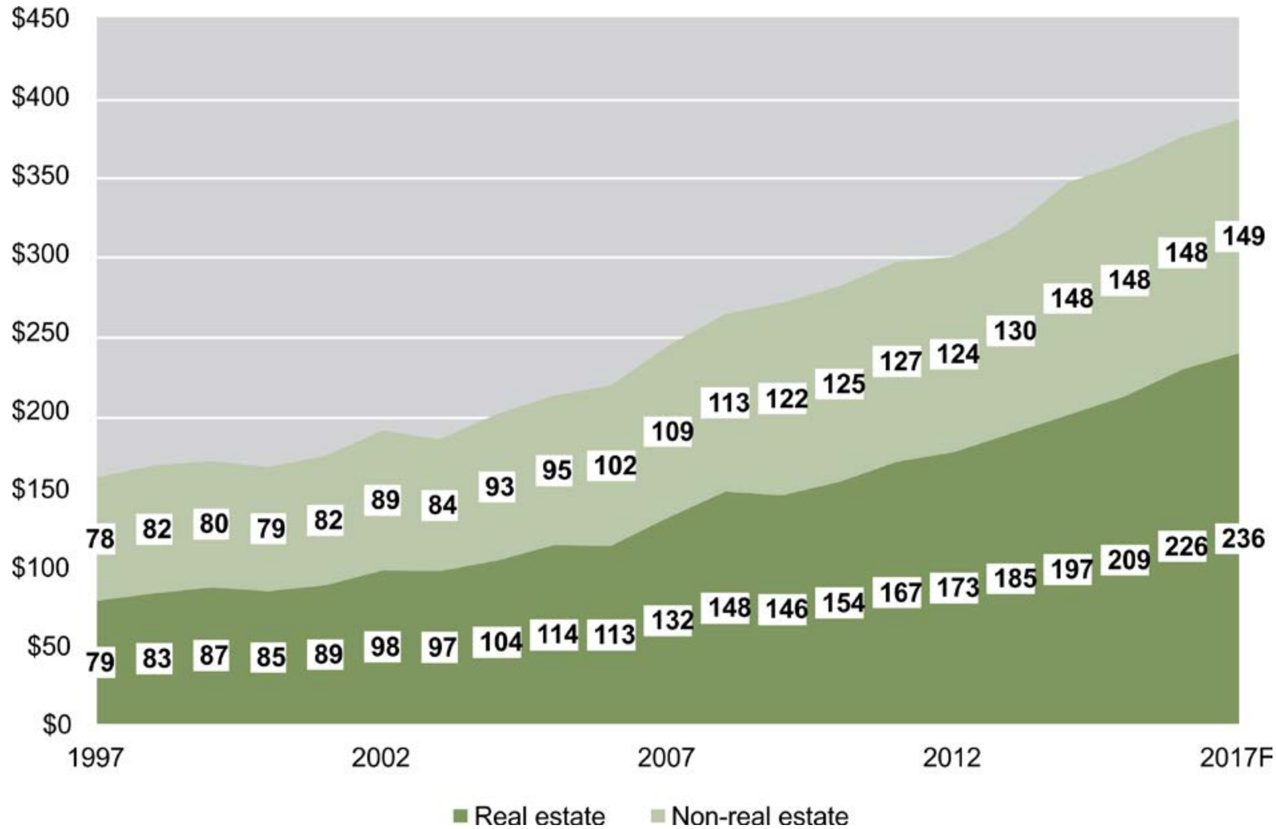
AgDirect financing is available in many states, with 14 System institutions participating through AgDirect. As of Dec. 31, 2017, the total outstanding participation interests in loans purchased was $3.4 billion.

Figure 6
Loan participation transactions with non-System lenders, 2012 – 2017
As of Dec. 31
Dollars in billions



Sources: Farm Credit System Call Reports.

Figure 7
U.S. farm business debt, 1997 – 2017
Dollars in billions



Source: FCA's Office of Regulatory Policy, based on data from USDA, Economic Research Service.

Farm debt and market shares

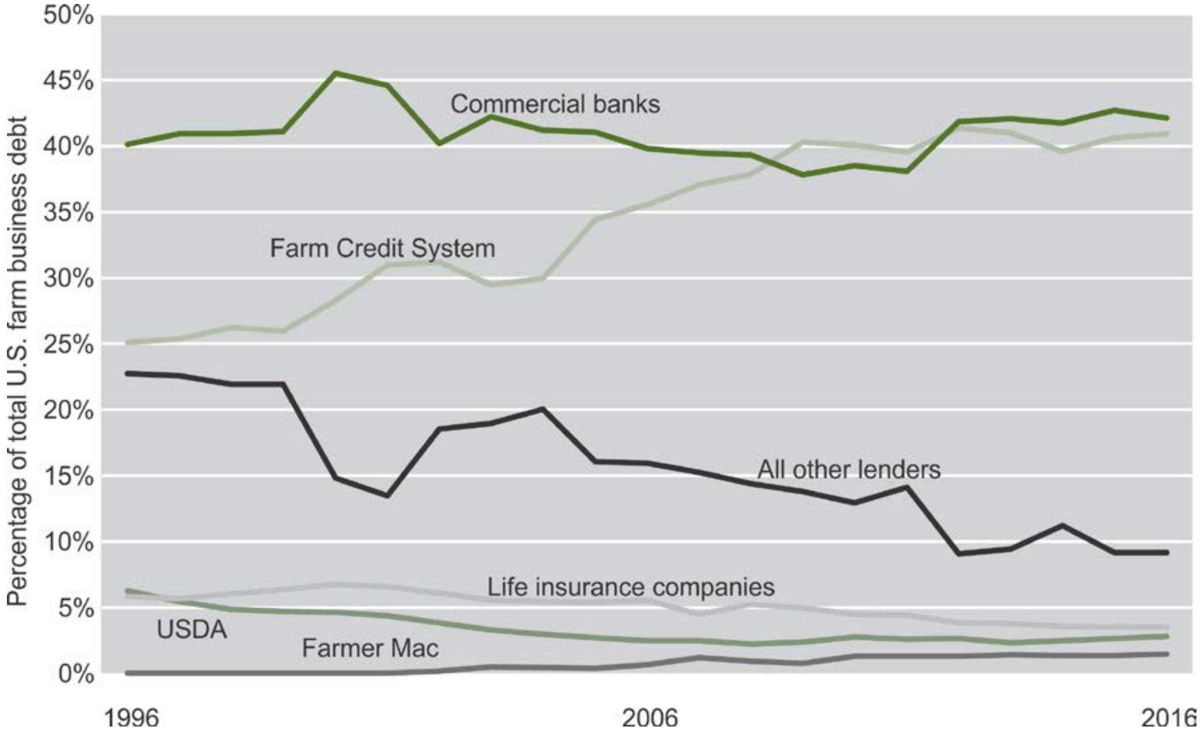
The U.S. Department of Agriculture's estimate of total farm business debt for the year ended Dec. 31, 2017, was $385 billion, up 2.9 percent from its $374 billion estimate for year-end 2016.

USDA estimates that, from 2007 to 2017, total farm business debt rose by more than $144 billion, or 60 percent. (See figure 7.) During this period, farmers invested heavily in new capital items, and they took on debt to cover rising farm production costs.

Farm real estate debt grew 4.5 percent in 2017, down from the 8.2 percent rise in 2016. Non-real estate debt grew by just 0.6 percent in 2017. Non-real estate debt outstanding was flat in 2016. Weak profit margins for some crop and livestock enterprises in 2017 reduced the rate by which producers paid down their debt and led some producers to borrow more. Higher farm interest rates could weaken demand for credit in 2018, particularly when used for new purchases. On the supply side, creditors had sufficient funds to lend going into 2018.

The most current market share information from USDA is for year-end 2016. USDA's estimate of debt by lender shows that the System held 40.9 percent of total farm business

Figure 8
Estimated market shares of U.S. farm business debt, 1996 – 2017



Source: USDA, Economic Research Service.

Note: Year-end estimates shown.

debt, while commercial banks held 42.1 percent. (See figure 8).

The System's market share of total farm business debt has been relatively stable in recent years. Except for brief periods, the FCS has typically had the largest market share of farm business debt secured by real estate. At year-end 2016, the System held 45.9 percent of this debt; by comparison, commercial banks held 37.4 percent.

Commercial banks have historically dominated non-real estate farm lending. At year-end 2016, commercial banks held 49.4 percent of this debt, and the System held 33.3 percent.

Serving Young, Beginning, and Small Farmers and Ranchers

Here at FCA, we support the Farm Credit System's mission to serve young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products. We support this mission by implementing the Farm Credit Act and adopting regulations governing the System's service to these borrowers.

The Farm Credit Act requires System banks and associations to have programs and services to provide financially sound and constructive credit and related services to YBS farmers. System institutions must also coordinate with other government and private sources of credit in implementing their YBS programs. In addition, each institution must annually report to FCA on the operations and achievements of its YBS program.

Characteristics of YBS farmers

Young farmers are defined as those who are 35 years of age or younger; beginning farmers as those who have 10 years or less of farming, ranching, or aquatic experience; and small farmers as those who generate less than $250,000 in annual sales of agricultural or aquatic products.

The 2012 Census of Agriculture reports that the average age of the American farmer is 58. The Census also provides some insights into the YBS market. About 6 percent of all principal farm operators were under 35 years of age in 2012. This percentage held relatively constant from 2002 to 2012, while the average age rose from 55.3 years to 58.3 years. Approximately 18 percent of farmers reported being on their farms for less than 10 years. This is a significant drop compared with 28 percent reported in 2002.

U.S. farms have been consolidating for generations as new technologies have increased productivity. From 2002 to 2012, the share of total farms considered to be small farms — those with $250,000 or less in farm sales — declined from 93 percent to 88 percent. This segment includes a variety of operations, including those operated by full-time and part-time farmers, those that are expanding, and those that produce high-value agricultural products for local markets, often on a seasonal basis.

Fulfilling the YBS mission

FCA supports the YBS mission outlined in the Farm Credit Act by adopting regulations governing the System's service to these borrowers, by collecting and reporting data, by setting disclosure requirements, and by examining institutions for safety and soundness. The Farm Credit Act and FCA regulations stipulate that each System bank must have written policies that direct each association 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

FCA regulation requires that association business plans also include a marketing plan and strategies, with specific outreach toward diversity and inclusion within each market segment. The association's board oversight and reporting are integral parts of each YBS program. Operational and strategic business plans must include the goals and targets for the association's YBS lending.

Each association must also establish an internal control program to ensure that it provides credit in a safe and sound manner. FCA's oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area.

Quantitative results

According to section 5.17(a)(3) of the Farm Credit Act, FCA must provide Congress with an annual report that summarizes and analyzes the YBS reports that System banks submit to FCA under section 4.19(b). The following information summarizes the quantitative information that System institutions provided for their YBS programs.

In 2017, a total of 327,493 new loans were made by the System, totaling $76.8 billion. The total number of outstanding loans at year-end 2017 was 1,006,067, amounting to $260.2 billion.

Young: The System reported making 56,705 new loans to young farmers in 2017, and the volume of these loans amounted to $9.1 billion. The new loans made to young farmers in 2017 represented 17.3 percent of all loans the System made during the year and 11.8 percent of the dollar volume of loans made. At the end of 2017, the System reported 187,156 loans outstanding to young farmers, totaling $29.1 billion.

Beginning: The System reported making 73,752 new loans to beginning farmers in 2017, and the volume of these loans amounted to $12.4 billion in 2017. The new loans made to beginning farmers in 2017 represented 22.5 percent of all System loans made during the year and 16.2 percent of the dollar volume of loans made. At the end of 2017, the System reported 279,027 loans outstanding to beginning farmers, totaling $45.1 billion.

Small: System institutions reported making 136,910 new loans to small farmers in 2017, totaling $11.7 billion. The new loans made to small farmers in 2017 represented 41.8 percent of all System loans made during the year and 15.2 percent of the dollar volume of loans made. At the end of 2017, the System reported 489,694 loans outstanding to small farmers, totaling $48.7 billion.

Please note: Because the YBS mission is focused on each borrower group separately, data are reported separately for each of the three YBS categories. Since some loans fit more than one category, adding the loans across categories does not produce an accurate measure of the System's YBS lending involvement.

Table 4A

YBS loans made during 2017

As of Dec. 31

YBS Category	Number of loans	Percentage of total number of System loans	Dollar volume of loans in millions	Percentage of total volume of System loans	Average loan size
Young	56,705	17.3	$9,072	11.8	$159,994
Beginning	73,752	22.5	$12,445	16.2	$168,738
Small	136,910	41.8	$11,688	15.2	$85,367

Table 4B

YBS loans outstanding

As of Dec. 31, 2017

YBS Category	Number of loans	Percentage of total number of System loans	Dollar volume of loans in millions	Percentage of total volume of System loans	Average loan size
Young	187,156	18.6	$29,105	11.2	$155,513
Beginning	279,027	27.7	$45,073	17.3	$161,535
Small	489,694	48.7	$48,668	18.7	$99,385

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

Note: A "young" farmer/rancher is defined as 35 years old or younger when the loan is made; a "beginning" farmer/rancher has been operating a farm for not more than 10 years; and a "small" farmer/rancher generates less than $250,000 in annual sales of agricultural or aquatic products. Since the totals are not mutually exclusive, one cannot add across young, beginning, and small categories to count total YBS lending. Also, the totals listed in tables 4A and 4B include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers, and exclude rural home loans made under 613.3030, loans to cooperatives, and activities of the Farm Credit Leasing Services Corporation.

New loans made in 2017 by dollar volume

From Dec. 31, 2016, to Dec. 31, 2017, the System's overall new loan dollar volume declined by 0.9 percent.[2] New loan dollar volume to young farmers declined by 1.5 percent, to beginning farmers by 1.8 percent, and to small farmers by 4.2 percent. (See table 5A.)

The ratio of new YBS loan dollar volume to total new System loan volume also declined from 2016 to 2017. For young farmers, it declined from 11.9 percent to 11.8 percent; for beginning farmers, it declined from 16.3 percent to 16.2 percent; and for small farmers, the ratio declined from 15.7 percent in 2016 to 15.2 percent in 2017.

New loans in 2017 by number of loans

The number of loans made during the year also fell for both total System lending and for all YBS categories. The number of total System loans made during the year dropped by 9.8 percent. The number of loans to young and small farmers dropped by 8.5 percent, and the number of loans to beginning farmers dropped by 6.8 percent.

On the other hand, the ratio of the number of new YBS loans to the number of total new System loans increased in 2017 over 2016. For young farmers, the ratio increased from 17.1 percent to 17.3 percent; for beginning farmers, it increased from 21.8 percent to 22.5 percent; and for small farmers, the ratio increased from 41.2 percent to 41.8 percent. (See figures 9A, 9B, and 9C.)

Outstanding loans by dollar volume

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding grew in 2017. Total System loan dollar volume outstanding grew by 3.1 percent, and loan dollar volume outstanding to young farmers grew by 4.8 percent, to beginning farmers by 5.3 percent, and to small farmers by 2.0 percent. (See table 5B.)

Outstanding loans by number of loans

The number of System loans outstanding declined by 3.2 percent. The number of loans outstanding to young farmers declined by 1.9 percent but remained the same for beginning farmers, and the number of loans outstanding to small farmers declined by 2.3 percent.

Table 5A
Change in new YBS lending from 2016 to 2017

YBS Category	Dollar Volume	Loan Numbers
Young	−1.5%	−8.5%
Beginning	−1.8%	−6.8%
Small	−4.2%	−8.5%

Table 5B
Change in outstanding YBS lending from 2016 to 2017

YBS Category	Dollar Volume	Loan Numbers
Young	4.8%	−1.9%
Beginning	5.3%	0.1%
Small	2.0%	−2.3%

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

2 The volume and loan numbers reported for 2016 in last year's annual report were revised slightly for the 2017 annual report because of corrections submitted by System institutions.

Qualitative results

This section summarizes the qualitative information that System institutions included in their 2017 YBS reports.

During 2017, institutions updated previous studies or conducted new studies and research to understand the demographic diversity and financial needs of current and potential YBS farmers in their service territories. The following are examples of information sources used for these studies:

- USDA Ag Census data
- Supervisory funding bank data
- Farm Credit Council reports
- Feedback from System YBS conferences
- Focus groups
- Survey questionnaires
- Feedback from educational and outreach events
- University studies

Institutions also identified new market segments and worked to reach out to underserved segments. They tailored their educational programs and market outreach to the needs of new and existing markets. Some examples of these targeted market segments include military veterans, women, next generation farmers, minority farmers, organic farmers, and local food hubs. Institutions also participated in community service, provided scholarships, and sponsored events.

System institutions employed a variety of advertising methods to reach potential YBS farmers in 2017. They increased their social media activity; issued press releases; advertised through magazines, radio, and television; published blogs and websites; and networked person to person. Institutions created micro loan programs, developed new leadership programs and educational workshops, and developed mobile loan programs where they go to the customer rather than waiting for the customer to come to them.

Outreach programs were used to connect with YBS farmers, both current and potential. In 2017, some institutions updated their websites and started new and potential borrower relation campaigns. Some attended and sponsored tradeshows, educational seminars, county fairs, and commodity group events. Some gave scholarships and grants to those looking to continue their education or acquire trade skills. Some institutions worked with ethnic organizations, chambers of commerce, and local and regional food banks.

Of the institutions that provided educational opportunities for YBS borrowers, some offered one-time classes or webinars, and others have multiyear programs with in-depth curriculums, covering such topics as ag leadership, business planning, personal finance, commodity marketing, crop insurance, risk management, and succession and retirement planning. Some institutions also hold economic outlook meetings and next generation conferences.

Institutions are required to establish goals for offering credit and related services to YBS farmers — either directly or in coordination with other System institutions and government and private sources. Most institutions use federal or state loan guarantees as part of their YBS programs to help them make these loans. They also use concessionary interest rates and YBS-specific underwriting standards in determining creditworthiness.

System institutions are required by FCA regulation to coordinate with third parties to provide credit and related services. Institutions reported networking and partnering with USDA, the Natural Resources Conservation Service, USDA Rural Development and Extension Service staff, local schools, colleges, land grant universities, integrators, commodity groups, nonprofits, civic groups, district funding banks, other Farm Credit System institutions, and commercial banks.

Institutions used a variety of methods to receive input on ways to better serve the needs of YBS farmers in their territories. One method is to use advisory committees; we saw an increase in the number of institutions using these committees in 2017. Advisory committees are composed of a variety of stakeholders, both internal and external. They provide input to institution board members at least annually. In 2017, advisory committees recommended increasing mentorship, adopting new marketing strategies and loan programs, and offering more educational opportunities.

Figure 9A, 9B, and 9C
Number of loans made to, and number of loans outstanding to, YBS farmers and ranchers, 2008 – 2017

Figure 9A
Young farmers and ranchers

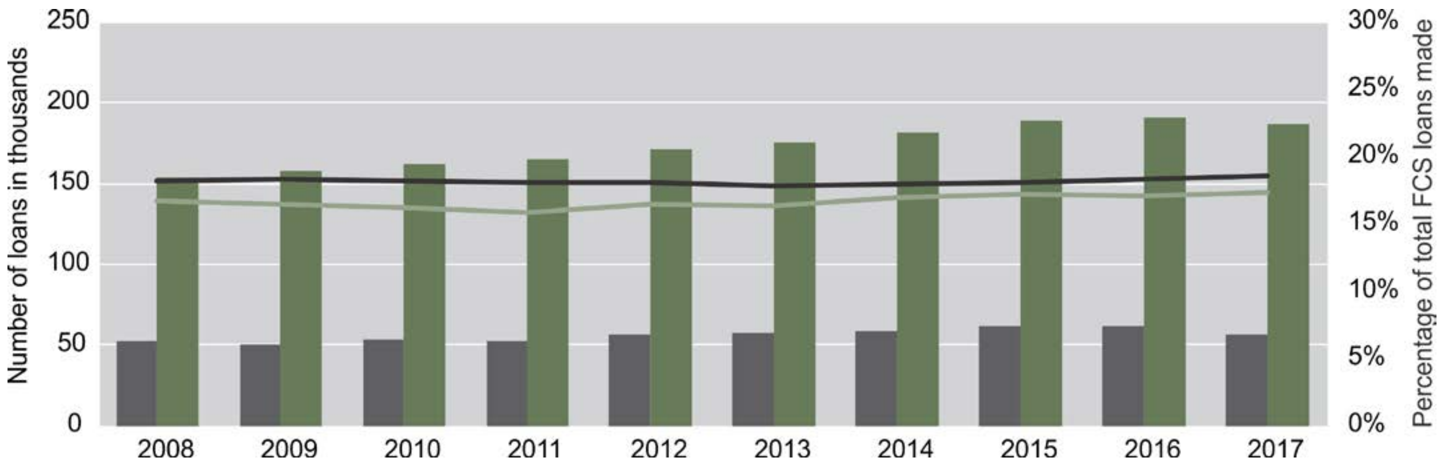


Figure 9B
Beginning farmers and ranchers

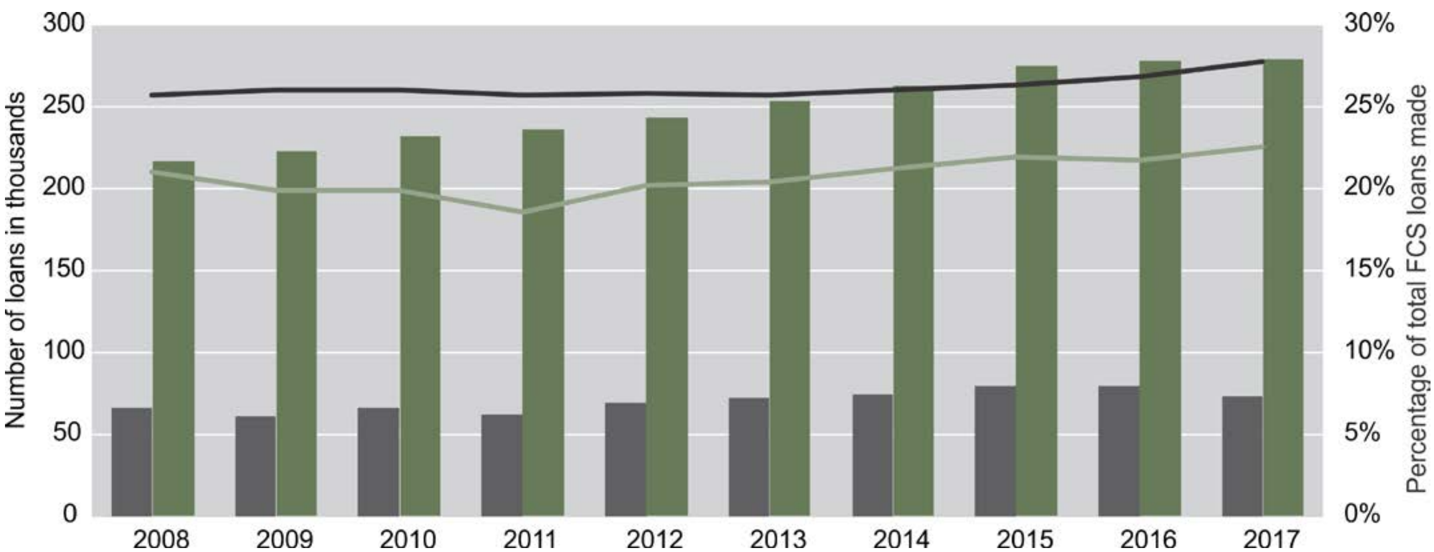
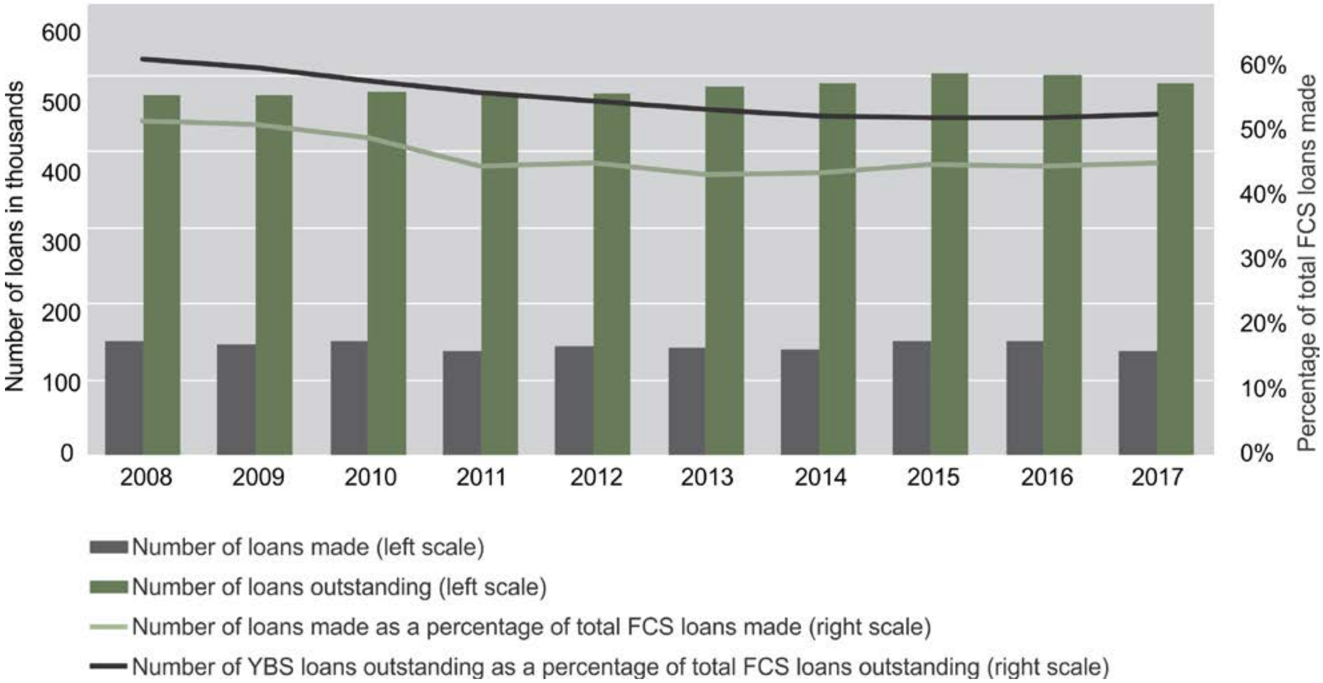


Figure 9C
Small farmers and ranchers



Sources: Annual YBS reports submitted by System associations through the System banks.

The number of institutions that have developed programs to help new farmers increased last year. Some institutions offered mentorship opportunities by pairing new farmers with experienced farmers. Some provided formalized training and educational courses, grants, and scholarships for borrowers to attend third-party training.

In addition, some institutions developed specialized loan underwriting standards for YBS producers or allowed underwriting exceptions. Some offered interest rate concessions or interest-only loans for the initial start-up years, while others paid Farm Service Agency guarantee fees.

Each association is charged with serving the needs of YBS farmers in a safe and sound manner. Some have a YBS capital commitment program to address credit risk and help them make YBS loans. Some provide services, such as crop insurance and risk mitigation seminars, to help farmers manage production risk. Also, to ensure safe and sound lending practices, some provide annual staff training and employee education on YBS lending.

Regulatory Policy and Approvals

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

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs. With our regulations, we seek to meet two general objectives. The first is to 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 2017

The following paragraphs describe some of FCA's regulatory efforts in 2017, along with several projects that will remain active in 2018. 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.

Governance

Third Amended and Restated Marketing Access Agreement — The FCA board approved in January 2017 the Third Amended and Restated Market Access Agreement among the System banks and the Federal Farm Credit Banks Funding Corporation.

Military Lending Act — We issued an informational memorandum to System institutions in February 2017 to provide information about the Military Lending Act, which protects active-duty members of the military, their spouses, and their dependents from certain lending practices.

Compensation for 2017 — We issued an informational memorandum in January 2018 to communicate the annual adjustment in the maximum annual compensation payable to FCS bank directors. The adjustment reflects the change in the Consumer Price Index.

Lending

Lending and loan servicing controls — The FCA board approved a bookletter in March 2018 to convey our expectation that each System institution will continuously assess its lending and loan servicing controls to ensure controls remain effective and comply with FCA regulations.

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

Capital and investments

Margin and capital requirements for swap entities — The FCA board approved a proposed rule in January 2018 that would amend the definition of "eligible master netting agreement" in the final regulation on margin and capital requirements for covered swap entities.

Farmer Mac

Farmer Mac nonprogram investments — Rural enterprise bonds backed by agricultural chattel loans — The FCA board approved a request in June 2017 from Farmer Mac to purchase and hold private placement bonds that are backed by pools of farm operating, equipment, or fixture loans.

Other

National Oversight and Examination Program for 2018 — We issued an informational memorandum in September 2017 that summarized the National Oversight Plan for 2018. The plan detailed strategies for addressing critical risks and other areas of focus.

Regulatory burden — We issued a notice with request for comment in May 2017 to solicit comments for the removal or revision of outdated, unnecessary, or burdensome regulations.

Civil money penalty adjustment — We published a final rule to adjust our civil money penalties for inflation as required by the Federal Civil Penalties Inflation Adjustment Act Improvement Act of 2015.

Corporate activity in 2017

In 2017 and early 2018, we analyzed and approved five corporate applications.

- On Jan. 1, 2017, two agricultural credit associations (ACAs) affiliated with CoBank, ACB, merged their operations following stockholder approval. The production credit association (PCA) and federal land credit association (FLCA) subsidiaries associated with the ACAs also merged.
- On July 1, 2017, three ACAs affiliated with AgriBank, FCB, merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.
- On July 1, 2017, two ACAs affiliated with AgriBank merged their operations following stockholder approval. The PCA and FLCA subsidiaries associated with the ACAs also merged.
- On Oct. 1, 2017, a stand-alone FLCA and a FLCA subsidiary associated with an ACA merged their operations following stockholder approval. These associations are affiliated with AgriBank.
- On Jan. 1, 2018, an ACA affiliated with AgriBank changed its name.

The total number of associations as of Jan. 1, 2018, was 69 (68 ACAs and a FLCA), compared with 73 associations a year earlier. Figure 10 shows the chartered territory of each FCS bank. Details about specific corporate applications are available on FCA's website at www.fca.gov/info/mergers.html.

Funding activity in 2017

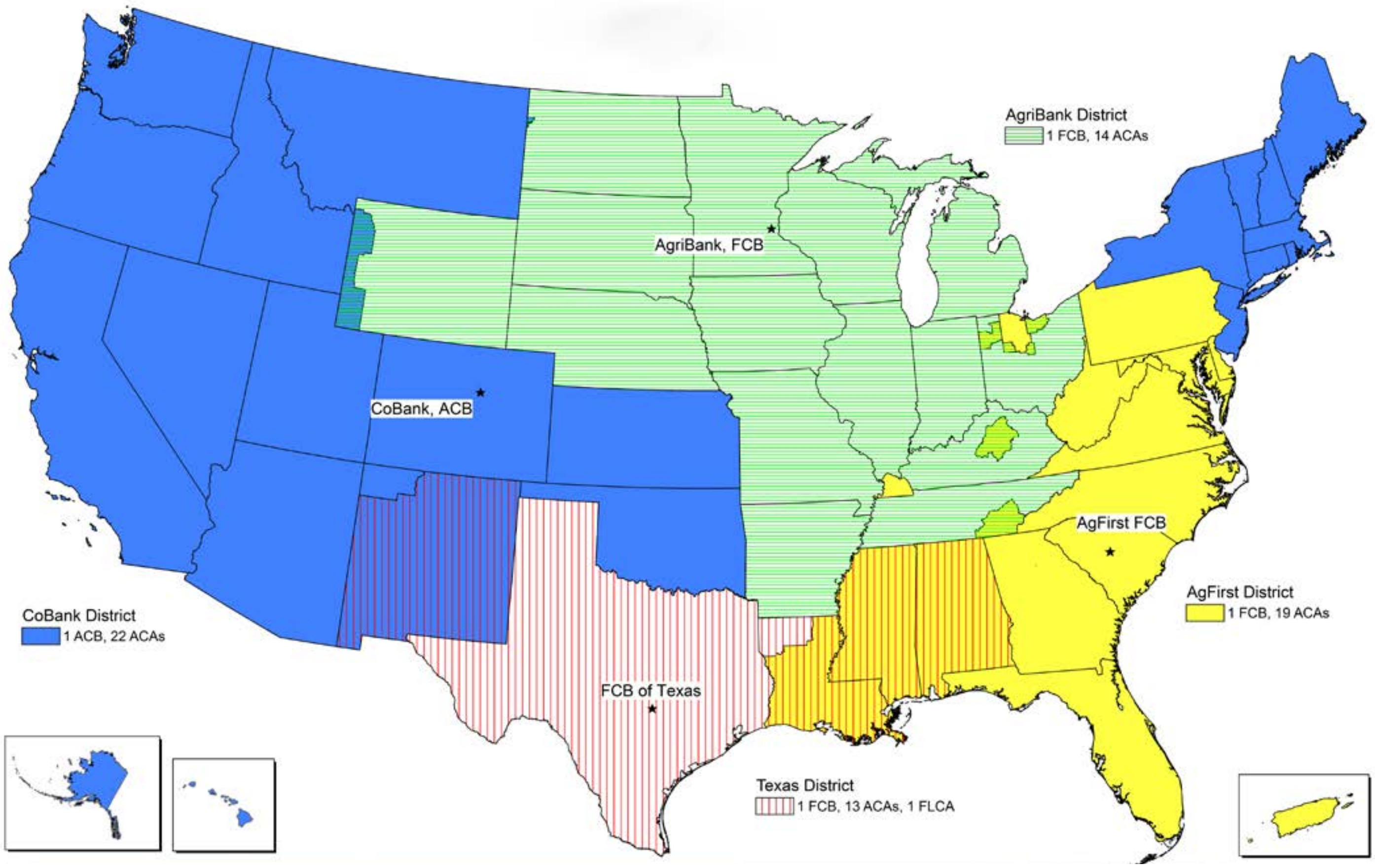
During 2017, the System maintained reliable access to the debt capital markets. Investors were attracted by the System's status as a government-sponsored enterprise (GSE), as well as its long-term financial performance and strength.

Risk spreads and pricing on System debt securities during 2017 remained favorable for the System. Since regulatory requirements promote the use of GSE debt, the System benefits from its GSE status; it also benefits from the continuing decline in debt issuances by the two housing-related GSEs, which are in conservatorship and are congressionally mandated to reduce their respective debt outstanding to $250 billion by Jan. 1, 2019. As a result of the continued strong demand for System debt, the System was able to continue to issue debt on a wide maturity spectrum at very competitive rates.

The System funds loans and investments primarily with a combination of consolidated Systemwide debt and equity capital. The Funding Corporation, the fiscal agent for System banks, sells debt securities, such as discount notes, bonds, designated bonds, and retail bonds, on behalf of the System. This process allows funds to flow from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with efficient access to global resources. At year-end 2016, Systemwide debt outstanding was $265.2 billion, representing a 2.9 percent increase from the preceding year-end.

Several factors contributed to the $7.4 billion increase in Systemwide debt outstanding. Gross loans increased $10.0 billion in 2017, while the System's combined investments, federal funds, and cash balances decreased by $791 million during the year.

Figure 10
Chartered territories of FCS banks
As of Jan. 1, 2018



Note: As of Jan. 1, 2018, CoBank was funding 22 associations in the indicated areas and serving cooperatives nationwide; Farm Credit Bank of Texas was funding 14 associations; AgriBank, FCB, was funding 14 associations; and AgFirst Farm Credit Bank was funding 19 associations. The FCS contains a total of 73 banks and associations.

The System had $2.52 billion in outstanding perpetual preferred stock at the end of 2017, $20 million more than at the previous year-end. The System had no outstanding subordinated debt at year-end 2017. It had $499 million in outstanding subordinated debt at year-end 2016.

As the System's regulator, we have several responsibilities pertaining to System funding activities. The Farm Credit Act requires the System to obtain our approval before distributing or selling debt. Because we make it a high priority to respond efficiently to the System's requests for debt issuance approvals, we have a program that allows the System to issue discount notes at any time up to $60 billion as long as it provides us with periodic reports on this activity. In addition, we approve most longer-term debt issuances through a monthly "shelf" approval program. For 2017, we approved $133.3 billion in longer-term debt issuances through this program.

The amount of debt issued by the System decreased significantly in 2017. For the 12 months ended Dec. 31, 2017, the System issued $278 billion in debt securities, compared with $334 billion in 2016, $298 billion for 2015, $330 billion for 2014, and $377 billion for 2013. The System issued significantly less debt in 2017 primarily because domestic and global economic growth pushed yields persistently higher during the year, which all but eliminated any economic opportunity for the System to exercise call options on its outstanding debt. As a result, the System exercised calls on only $5 billion of its outstanding debt in 2017, compared with $58 billion in the preceding year.

Favorable investor sentiment during 2017 and a continuation of relatively low yields on the full spectrum of debt instruments allowed the System to access a wide range of debt maturities. Their weighted average of remaining maturity increased by two months during 2017 to 2.9 years. Meanwhile, the weighted-average interest rates for insured debt increased substantially, going from 1.18 percent as of Dec. 31, 2016, to 1.64 percent as of Dec. 31, 2017.

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

Furthermore, our regulations require each System bank to maintain a tier 1 leverage ratio (primarily unallocated retained earnings and common cooperative equities divided by total assets) of not less than 4.0 percent. In addition, FCA regulations provide for a 1.0 percent leverage ratio buffer. Certain restrictions apply if the buffer does not exceed 1.0 percent. Throughout 2017, all System banks maintained their tier 1 leverage ratios above the required minimum and the accompanying buffer, with 5.65 percent being the lowest for any single bank as of Dec. 31, 2017.

All System banks have kept their respective days of liquidity above the required minimum levels. The lowest liquidity levels at any single bank as of Dec. 31, 2017, were as follows:

- 22 days (15 days regulatory minimum) of level 1 assets
- 59 days (30 days regulatory minimum) of level 1 and 2 assets
- 130 days (90 days regulatory minimum) of level 1, 2, and 3 assets
- 151 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.
- The Amended and Restated Contractual Interbank Performance Agreement, which is tied to the Market Access Agreement and establishes certain measures that monitor the financial condition and performance of the institutions in each System bank's district. For all of 2017, all Farm Credit System banks maintained scores above the benchmarks in the Contractual Interbank Performance Agreement.

Maintaining a Dependable Source of Credit for Farmers and Ranchers

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

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

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

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

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

Conducting a risk-based examination and oversight program

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

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

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

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

Identifying and responding to potential threats to safety and soundness

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

Currently, we are emphasizing the following areas:

- **Portfolio risk.** Despite considerable volatility in production agriculture over the past several years, the System's credit quality has remained relatively strong, and borrowers have been resilient. However, credit stress is expected to intensify as profits decline in 2018 in certain agricultural sectors.

  To help producers weather the storm, the System will need to be proactive and responsive by counseling customers, restructuring debts, and establishing stronger credit controls. In the more severe cases, System institutions will need to update their ability to handle increased credit risk by setting up special credit departments.

  Institutions must maintain the financial capacity and risk-bearing ability to help borrowers experiencing stress. And as always, institutions must ensure they are fully complying with all borrower rights requirements.

- **Internal controls over financial reporting**. All System institutions, regardless of size or scope of operations, must have strong internal controls over financial reporting. These controls rely on logical delegated authorities, clear segregation of duties, appropriate access controls to loan and accounting systems, and detective and corrective controls — including an effective internal audit program.

  Internal controls over financial reporting are critical to safeguarding the integrity of financial reporting at all levels — institution, district, and Systemwide. All institutions must have effective internal controls over financial reporting to ensure their financial statements and FCA call reports are above reproach. System investors, shareholders, FCA, and the external auditor rely on these controls to safeguard the integrity of FCS financial reports.

  An internal controls breakdown could have significant consequences and be very expensive to recover from. System leaders and the System's Internal Controls Over Financial Reporting Workgroup have focused on improving these controls in recent years.

  This emphasis must continue in 2018 and beyond to ensure the integrity of institution and Systemwide financial statements and FCA call reports. We encourage every institution to dedicate staff and audit resources to ensuring strong internal controls.

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

- FCA board policy statements
- Bookletters
- Reports of examination
- Informational memorandums

You can access many of these documents online by going to fca.gov, clicking on the Law & Regulations tab, and selecting the document type in which you are interested.

Measuring the System's safety and soundness

FCA uses the Financial Institution Rating System (FIRS) to measure safety and soundness threats at System institutions. Similar to the systems used by other federal banking regulators, FIRS is a CAMELS-based system, with component ratings for capital, assets, management, earnings, liquidity, and sensitivity, all factoring into an overall composite rating.

The FIRS process includes quantitative benchmarks for evaluating institution performance, qualitative rating criteria for evaluating risk management practices, and outlook ratings for evaluating risks. These benchmarks help our examiners apply FIRS ratings consistently from one institution to the next.

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

Through our monitoring and oversight program, our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions. We disclose the FIRS composite and component ratings to the institution's board and CEO to give them perspective on the safety and soundness of their institution.

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

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

As figure 11 shows, risks were higher in 2014 when stresses from the weather, price volatility, and the global economy were affecting some institutions. Despite a slight increase in risk in the past year, the FIRS ratings as of Jan. 1, 2018, show that 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.

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

Figure 11
Financial Institution Rating System (FIRS) composite ratings for the FCS, 2014 – 2018

Source: FCA's FIRS ratings database.

Note: Figure 11 reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, Farmer Mac, or the Federal Farm Credit Banks Funding Corporation. Also, the numbers shown on the bars reflect the total number of institutions with a given rating; please refer to the y-axis to determine the percentage of institutions receiving a given rating.

As of Jan. 1, 2018, 39 FCS institutions were rated 1 (53 percent), 29 were rated 2 (40 percent), and 5 were rated 3 (7 percent). The institutions rated 3 represented less than 1.5 percent of the System's total assets. There were no institutions with a 4 or 5 rating.

Providing differential supervision and enforcement

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

We use a three-tiered supervision program:

- Normal supervision
- Special supervision
- Enforcement actions

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

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

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

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

Our enforcement authorities include the following powers:

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

If we take an enforcement action, the FCS institution must operate under the conditions of the enforcement document and report back to us on its progress in addressing the issues identified. The document may require the institution to take corrective actions in such areas as financial condition and performance, portfolio management, asset quality, and institution management or governance. Our examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of Jan. 1, 2018, no FCS institutions were under enforcement action.

Protecting borrower rights

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

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

We also receive and review complaints from borrowers who believe their rights have been denied. In 2017, we received 39 borrower complaints, compared with 42 in 2016.

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

Farmer Mac

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States and an institution of the Farm Credit System. Created in 1988, Farmer Mac provides a secondary market for agricultural real estate mortgage loans, rural housing loans, and rural utility cooperative loans.

This secondary market is designed to increase the availability of long-term credit at stable interest rates to America's rural communities and to provide liquidity and lending capacity to rural lenders.

Farmer Mac conducts activities through four major lines of business:

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

Farmer Mac purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing

Table 6
Farmer Mac condensed balance sheets, 2012 – 2017

As of Dec. 31
Dollars in millions

	2012	2013	2014	2015	2016	2017	2016 – 2017
Total assets	$12,622.2	$13,361.8	$14,287.8	$15,540.4	$15,606.0	$17,792.3	14.0%
Total liabilities	$12,029.2	$12,787.3	$13,506.0	$14,986.6	$14,962.4	$17,084.1	14.2%
Net worth or equity capital	$593.0	$574.5	$781.8	$553.7	$643.6	$708.1	10.0%

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

Table 7
Farmer Mac capital positions, 2012 – 2017

As of Dec. 31
Dollars in millions

	2012	2013	2014	2015	2016	2017
GAAP equity	$593.0	$574.5	$781.8	$553.7	$643.6	$708.1
Core capital	$519.0	$590.7	$766.3	$564.5	$609.7	$657.1
Regulatory capital	$535.9	$604.0	$776.4	$571.1	$617.1	$665.9
Statutory requirement	$374.0	$398.5	$421.3	$462.1	$466.5	$520.3
Regulatory requirement	$58.1	$90.8	$121.6	$72.2	$104.8	$235.4
Excess core capital over statutory requirement[1]	$145.0	$192.2	$345.0	$102.4	$143.2	$136.8
Capital margin excess over the minimum	38.8%	48.2%	81.9%	22.2%	30.7%	26.3%

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

1 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 model, whichever is higher.

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

FCA regulates Farmer Mac through the Office of Secondary Market Oversight (OSMO), which was established by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991. This office provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties.

The statute requires OSMO to be a separate office within our agency and to report directly to the FCA board on matters of policy. The law also stipulates that OSMO's activities must, to the extent practicable, be carried out by individuals who are not responsible for supervising the banks and associations of the FCS.

Through OSMO, we perform the following functions:

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

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 6 summarizes Farmer Mac's condensed balance sheets at the end of each calendar year from 2012 to 2017.

Capital

As of Dec. 31, 2017, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $708.1 million, compared with $643.6 million a year earlier. Its net worth was 4.0 percent of its on-balance-sheet assets as of Dec. 31, 2017, compared with 4.1 percent at the end of 2016. Net worth went up primarily because of increases in after-tax net interest income and gains from the sale of real estate-owned properties. The gains were partially offset by normal increases in noninterest expenses, as well as by changes in the measurement of net deferred tax assets after the federal corporate income tax rate was revised.

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 3.2 percent as of Dec. 31, 2017, compared with 3.1 percent in 2016. Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2017, 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 $657.1 million, exceeding the statutory minimum capital requirements[4] of $520.3 million by $136.8 million or 26.3 percent.

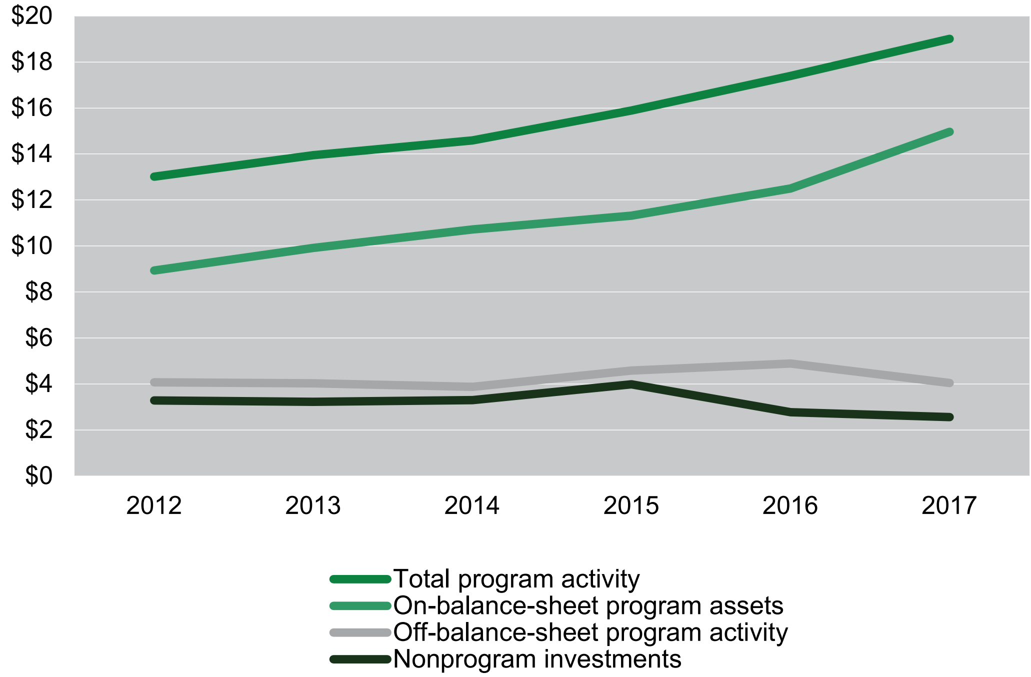
Its regulatory capital (core capital plus allowance for losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test.[5] Farmer Mac's regulatory capital totaled $665.9 million as of Dec. 31, 2017, exceeding the regulatory risk-based capital requirement of $235.4 million by $430.5 million.

Regulatory capital was 4.0 percent of total Farm & Ranch and Rural Utilities Program volume (including both on- and off-balance-sheet volume but excluding USDA guarantees). Risk exposure on USDA guarantee loans is very low because they are guaranteed by the U.S. Department of Agriculture. Table 7 offers a historical perspective on capital and capital requirements for 2012 through 2017.

We published a proposed rule in February 2016 governing eligibility criteria for Farmer Mac's nonprogram investments. The proposed rule also includes revised creditworthiness standards; as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, these standards will replace references to credit ratings in FCA regulations. We expect the final rule to be presented for FCA board action in 2018.

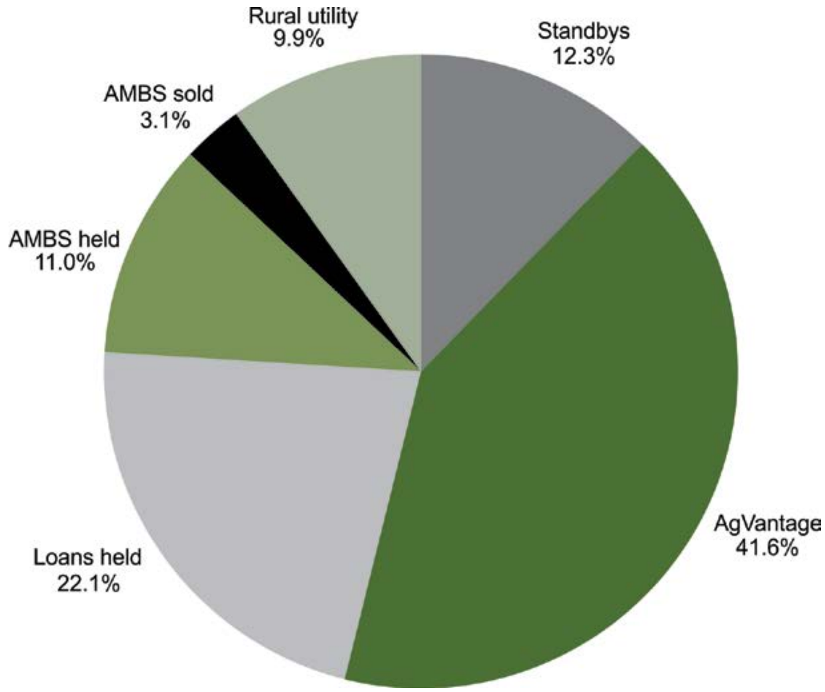
4 The statute requires minimum capital of 2.75 percent for on-balance-sheet assets and 0.75 percent for off-balance-sheet obligations.
5 See the FCA website at www.fca.gov/info/farmer_mac_test.html for more information about the Risk-Based Capital Stress Test.

Figure 12
Farmer Mac program activity and nonprogram investment trends
As of Dec. 31
Dollars in billions



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

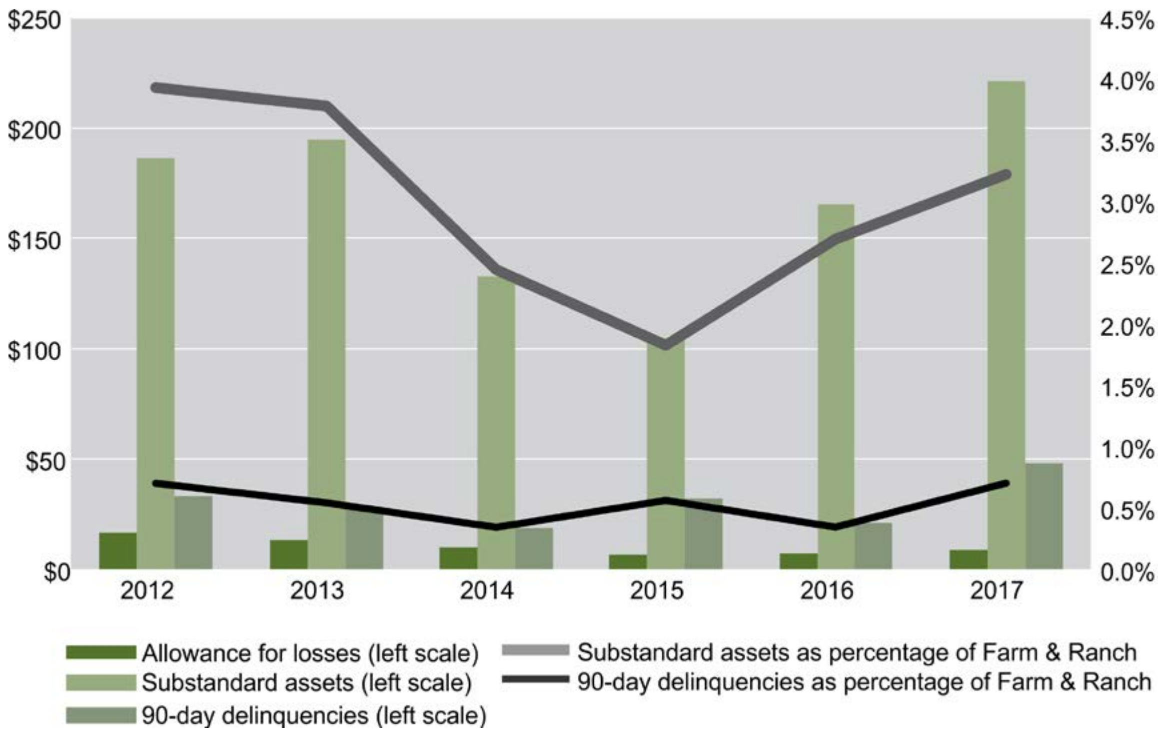
Figure 13
Farmer Mac total program activity
As of Dec. 31, 2017



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

AMBS = agricultural mortgage-backed securities.

Figure 14
Allowance, nonperforming asset, and delinquency trends, 2012 – 2017
Dollars in millions



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

Program activity

Farmer Mac's total program activity increased to $19.0 billion by year-end 2017, up from $17.4 billion a year earlier. (See figure 12.) Farmer Mac experienced steady growth in its Farm & Ranch loan purchases, as well as its Institutional Credit Program, which involves 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 standbys, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2017, 21.3 percent of program activity consisted of off-balance-sheet obligations, as compared with 28.1 percent a year earlier.

Farmer Mac's Long-Term Standby Purchase Commitment product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays an annual fee in return for Farmer Mac's commitment to purchase loans in a specific pool under specified conditions at the option of the institution. As shown in figure 13, standbys represented 12.3 percent of Farmer Mac's total program activity in 2017.

Asset quality

Figure 14 shows Farmer Mac's allowance for losses, its levels of substandard Farm & Ranch assets, and its 90-day delinquencies relative to outstanding program volume, excluding AgVantage loan volume.

As of Dec. 31, 2017, Farmer Mac's allowance for losses totaled $8.9 million, compared with $7.4 million the year before. Of its Farm & Ranch program portfolio, $221.3 million was substandard, representing 3.22 percent of the principal balance of Farm & Ranch loans purchased, guaranteed, or committed to be purchased. This compares with $165.2 million, or 2.69 percent, on Dec. 31, 2016. 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 Dec. 31, 2017, Farmer Mac's 90-day delinquencies increased to $48.4 million, or 0.71 percent of non-AgVantage Farm & Ranch loans, compared with $21.0 million, or 0.34 percent, as of Dec. 31, 2016.

Real estate owned at the end of 2017 was $0.14 million, down from $1.53 million a year earlier. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

Earnings

Farmer Mac reported net income available to common stockholders of $71.3 million (in accordance with GAAP) for the year ended Dec. 31, 2017, up from $64.2 million reported at year-end 2016.[6] Core earnings for 2017 were $65.6 million, compared with $53.8 million in 2016. Net interest income, which excludes guarantee fee income, was reported at $155.9 million in 2017, up from $139.2 million in 2016. Guarantee fee income was $14.1 million, compared with $14.9 million in 2016. Table 8 shows a six-year trend for the basic components of income.

Table 8

Farmer Mac condensed statements of operations, 2012 – 2017

As of Dec. 31
Dollars in millions

	2012	2013	2014	2015	2016	2017	Growth rate 2016 – 2017
Total revenues	$122.0	$164.4	$103.6	$145.9	$160.8	$175.1	9%
Total expenses	$78.1	$92.5	$65.4	$98.5	$96.6	$103.8	7%
Net income available to common shareholders	$43.9	$71.8	$38.	$47.4	$64.2	$71.3	11%
Core earnings	$49.6	$54.9	$53.0	$47.0	$53.8	$65.6	22%

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

6 Core earnings provide a non-GAAP measure of financial results that excludes the effects of certain unrealized gains and losses and nonrecurring items. Farmer Mac reports core earnings to present an alternative measure of earnings performance. The components included in core earnings calculations are at Farmer Mac's discretion.

Challenges Facing the Agricultural Economy and the Farm Credit System

The U.S. farm economy stabilized in 2017. The farm economy benefitted from stronger cash receipts for the livestock sector, higher total agricultural exports, and an uptick in U.S. farm income after a sharp three-year decline from record levels. USDA estimates that in 2017 net cash income was $96.9 billion, up 3 percent from 2016.

Still, the farm economy in 2017 was considerably weaker than it was four years ago. This was primarily because global crop supplies continued to be large and markets for grains and oilseeds continued to be weak. Both of these factors contributed to low or negative profit margins for producers. In 2017, despite these downward pressures, U.S. net cash income adjusted for inflation was near the historic average (1960 to 2016) for the second consecutive year.

A small increase in farm income, combined with low interest rates, helped support farm asset values in 2017. However, farm debt remains relatively high, at four times the income for the sector, whereas the historical average is only three times the sector income. As a result, some farmers may not have enough liquidity to cover farm expenses and repay their loans. For farms with debt, the decline in working capital remains a concern, particularly for grain and dairy farms.

With modest growth in outstanding loans, System earnings increased from $4.8 billion in 2016 to $5.2 billion in 2017. Loan performance declined fractionally for the System overall because of some weakening in long-term real estate lending and production and intermediate-term lending.

Modest growth in the general economy of the United States is expected again in 2018, exceeding the 2.3 percent growth in 2017. In general, rural economies are also expected to grow modestly in 2018, lifted by employment growth in various sectors — including transportation and warehousing, professional and business services, and manufacturing — depending on the state.

The U.S. Department of Agriculture forecasts that net cash income for 2018 will fall 5 percent from 2017. If the forecast proves correct, net cash income will be the lowest since 2009. (See figure 15.) The size of this year's crops in the United States and in other major producing countries will greatly influence the level of farm income for 2018. Export demand will be critical in 2018 as trade policies evolve between the United States and its major trading partners. As a net exporter, the U.S. farm sector faces risk from changes in trade policy.

The following paragraphs identify several risk factors — both domestic and foreign — that could affect the System's long-term ability to profitably finance agricultural enterprises. The factors include conditions in the general economy and the farm economy, government policies, and foreign trade. As the regulator of the System, we will continue to closely monitor and address these risks.

Prospects for the general economy

According to key economic indicators, the U.S. economy in 2018 will likely continue to grow modestly in a range of 2.5 to 3.0 percent. In 2017, real GDP growth averaged 2.3 percent, with economic growth averaging closer to 3 percent in the latter half. Advances in consumer incomes, spending, and confidence, along with advances in business incomes and investment, were the drivers behind last year's economic growth. Many positive trends like these carried over into 2018. The economy in 2018 will also be shaped by new federal tax rules.

A strong job market should continue to support consumer confidence, incomes, and spending in 2018. The civilian unemployment rate dropped to 4.1 percent by the end of 2017, where it has remained through early 2018. This is the lowest rate in 18 years. By some measures, the labor market is the tightest in nearly 50 years. This is important to the Farm Credit System because off-farm employment is a key source of repayment for many System loans.

While the strong labor market is good for consumer demand, which accounts for 70 percent of the economy, it presents a challenge for businesses. Labor shortages in some regions and for some occupations are raising labor costs as employers bid for scarce workers. In some situations, the shortage is hindering the ability of businesses to satisfy demand for their products or services. The employment cost index is expected to reach 2.7 percent in 2018, up from 2.5 percent in 2017 and 2.2 percent in 2016.

The tight labor market within the broad economic expansion is contributing to a notable rise in domestic inflation. Although many observers believe inflation will remain in check this year, there is a risk inflation may rise more quickly. Inflation affects agriculture by increasing farm input costs, squeezing farm profit margins, and pushing up retail food prices.

The rate of inflation as measured by the producer price index (PPI), which measures the average change over time in

Figure 15

Inflation-adjusted net cash income for the farm sector, 1960 – 2017

In billions of 2009 dollars

Source: USDA, Economic Research Service.

the prices received by domestic producers for their output, rose throughout 2017. The PPI rate topped 3 percent in 2017 and has remained above 3 percent in early 2018. For 2015 and much of 2016 the PPI rate was negative. Likewise, the consumer price index, which changed little in 2015, rose 2.1 percent in 2017 and was increasing further in early 2018.

Another factor that contributes to recent inflationary pressures is rising energy prices. Falling crude oil and natural gas prices in 2015 and 2016 contributed to the low inflation of that period. However, since bottoming out, prices in early 2018 had returned to levels not seen since 2014.

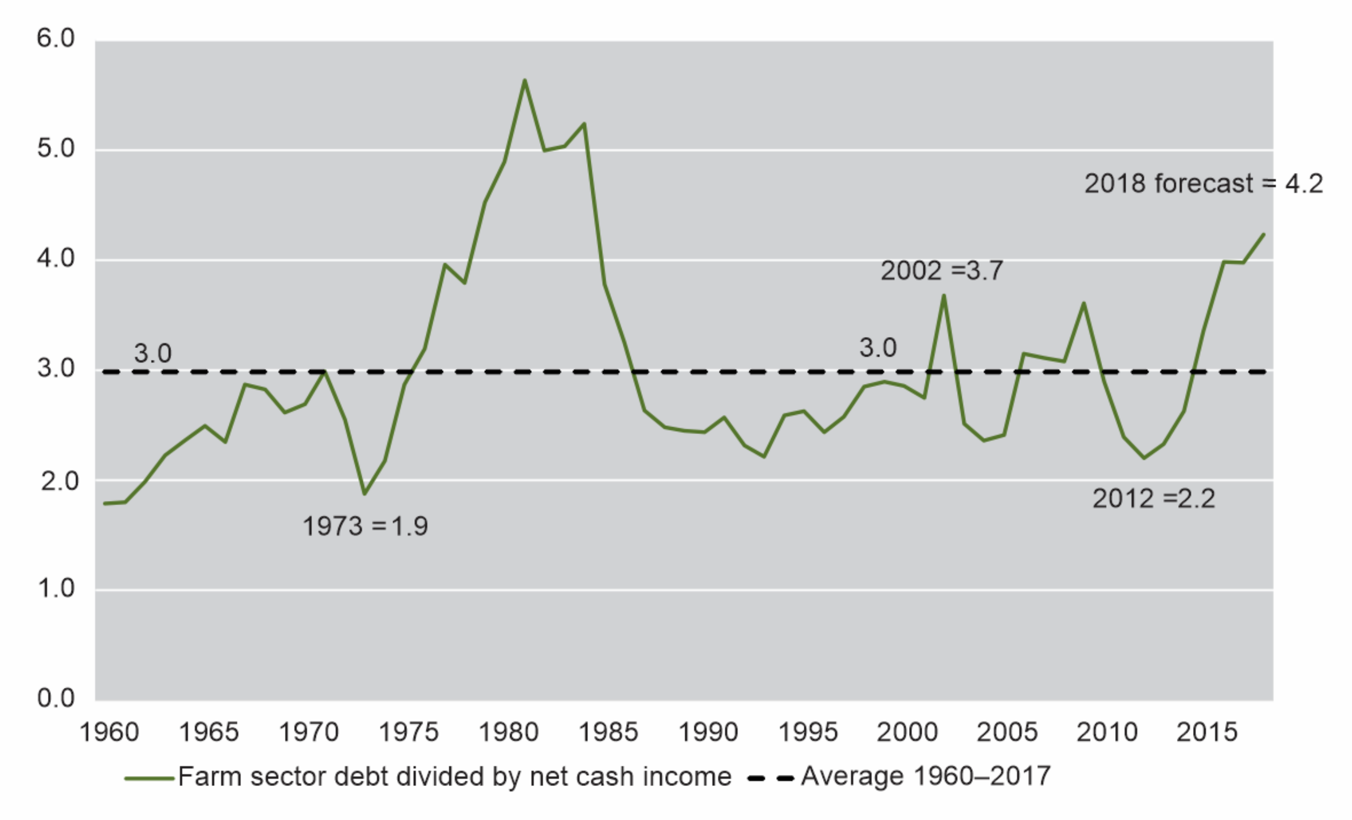
With modest inflationary pressures and the economy still on a firm footing, the Federal Reserve Board indicates it will continue to gradually increase the Federal Funds target rate. After making three quarter-point rate increases in 2017, the Federal Reserve again raised the target from 1.50 percent to 1.75 percent in March 2018 and from 1.75 percent to 2.00 percent in June 2018.

The Fed's policies and the prospects for inflation are significantly affecting System funding costs and hence borrower interest costs. The rate increases last year pushed up gross interest income on System loans by nearly $600 million over 2016. If the Federal Reserve continues to raise the target rate for federal funds, the rates paid by System borrowers, especially for short-term loans, will continue to climb.

Rate-sensitive sectors of the economy, such as housing, also bear watching. Since higher interest rates on home mortgages affect housing affordability, demand, and pricing, these rates will also affect the health of the System's forestry and housing-related loan segments. Nationally, housing values have rebounded to new highs since the sector collapsed 10 years ago. Home values and demand may stall in 2018 with rising rates. The average rate for a 30-year housing mortgage reached the highest level in four years in the spring of 2018.

U.S. exports grew modestly in 2017 as world economies improved and the dollar weakened. Observers expect exports to continue to grow in 2018. The future economic activity of major agricultural trading partners, such as China, remains most critical. Trade policies and disputes with major trading partners could derail potential export gains.

Figure 16
Ratio of farm sector debt to net cash income, 1960 – 2018



Source: USDA, Economic Research Service.

The rural economy and the farm sector

Rural areas encompass 72 percent of the nation's land area and house 46 million residents. While the rural economy benefits from many of the same trends as the overall economy, the rural picture can be mixed. The same rural areas that benefited from the past boom in agriculture or the extraction of minerals and energy have struggled lately as these sectors have weakened. Rural economies closer to more urban job centers are benefiting from the overall strong employment picture.

While agriculture and mining (including oil and gas) industries provide significant revenue in rural areas, they provide less than 5 percent of the jobs. Rural employment is more dependent on manufacturing and service industries. Rural employment continues to struggle to return to its prerecession level, and job growth in rural areas has generally not kept up with growth in urban areas, in part because of declines in manufacturing jobs.

Rural areas distant from major metro centers can have low unemployment rates. This is particularly true in rural midwestern states, such as in Nebraska, Kansas, South Dakota, or Iowa. Some of this can be attributed to a shrinking rural population resulting from long-term outmigration of young adults, fewer births, increased mortality, and an aging population. Median incomes in rural areas remain below those of urban areas, and rural poverty rates are higher.

The agricultural sector remains a major contributor to the rural economy. After significant declines in farm income between 2013 and 2016, the sector stabilized in 2017. USDA is forecasting net farm income for 2017 at $63.8 billion, up from $61.5 billion for 2016. Net cash farm income (reflecting cash transactions during the year) rose slightly more, reaching $96.9 billion, up from $94.0 billion in 2016. USDA's forecast for 2018 suggests that both income measures will decline about 3 percent but remain near levels seen prior to the run-up that began in 2010.

The balance sheet of the farm sector improved in 2017. Total asset values increased by 2.8 percent, with a rise in land values more than offsetting a decline in machinery, the two largest asset categories.

Debt outstanding rose modestly at 2.9 percent in 2017. The increase in debt matched the increase in net cash farm income. This left the debt-to-income ratio unchanged at 4.0 in 2017, above the historical average of 3.0 but below record levels above 5.0 in the early 1980s. (See figure 16.)

The sector's debt-to-asset ratio was 12.7 percent, unchanged from 2016 and relatively low historically. However, for individual farm lenders, this often-quoted national average leverage ratio is not particularly relevant — in part because it includes the roughly two-thirds of farms that carry little or no debt from one year to the next.

While inflation-adjusted farm income appears to be stabilizing near its historical average, producers of the major field crops had lower incomes in 2017. Some dairy producers also experienced losses. In contrast, income recovered modestly in 2017 for hog, beef, and poultry producers. Naturally, conditions vary considerably from region to region, depending on the mix of enterprises and local economic conditions.

Farmland values

Since about 83 percent of the farm sector balance sheet is made up of farmland assets, land values have a major influence on the creditworthiness of farmers. Land prices rose between 2009 and 2014 as major crop prices soared. Then, after consecutive years of declining farm income, the average values softened, particularly in the nation's midsection. In mid-2017, the U.S. average cropland value stabilized at $4,090 per acre according to USDA. Despite lower crop returns, sufficient underlying demand for farmland by farmers and investors has supported the land markets. Also, according to the Federal Reserve Bank of Kansas City, the limited number of farms for sale has contributed to the stability of farmland values.

On a regional basis, surveys conducted by a variety of sources — including universities and Federal Reserve district banks — suggest that farmland prices in 2017 were mixed when compared with a year earlier. According to Federal Reserve district agricultural credit surveys, fourth quarter 2017 values for nonirrigated cropland rose 2 to 3 percent in Iowa, southern Wisconsin, and northern Indiana, but declined 1 percent in Minnesota and northern Illinois.

Although interest in purchasing farmland has increased among nonfarmers, farmers remain the dominant purchasers of farmland. The use of debt to make such purchases is generally viewed as modest. Systemwide farm real estate debt outstanding rose by 4.4 percent during 2017.

Price and production risks

Many field crop producers experienced low or negative profits in 2017 because prices remained low and production costs, including land rental costs, did not fall significantly. Cropland rental rates in 2018 are expected to be little changed, as are costs for fertilizer and chemicals. Rising interest rates will increase interest expenses. Total labor costs are expected to increase as well.

In 2017, global crop supplies were ample as global production continued unabated. Demand expanded as well, but global stocks remained high enough to keep U.S. farm prices under $3.50 per bushel for corn and under $10 per bushel for soybeans. However, in early 2018, smaller corn and soybean crops in Argentina resulted in price volatility and lifted U.S. farm prices. Also, according to information issued in late March, USDA expects U.S. corn and soybean acreage to decline in 2018.

In early 2018, uncertainty regarding both U.S. and South American crops created crop selling opportunities for U.S. producers. In June, corn and soybean prices declined sharply because of good U.S. crop conditions and escalating tariffs by China and others on U.S. agricultural exports.

The volatility presents decision-making challenges for producers and lenders alike, especially since price declines have reduced the working capital of many producers in recent years. As a result, many lenders today are looking more closely at the risk management practices of credit applicants, including the use of risk management tools such as forward contracting, futures, options, and crop insurance.

Livestock and dairy producers benefited from two important market developments in 2017: strong domestic and export demand for protein products and low feed costs. An unexpected resurgence in calf prices during 2017 — in the midst of a cattle expansion, no less — resulted in profitable margins for cow-calf producers. However, as cattle supplies build in 2018 and spring drought conditions expand in the Plains, producers could again see negative returns.

Despite increases in hog production, hog prices were also relatively strong in 2017, supported by strong pork exports and an increase in packer competition after two new plants opened. In early 2018, hog margins were expected to remain positive for most of the year, but large pork supplies and the imposition of Chinese tariffs on U.S. pork have cut profit expectations. Average monthly dairy returns in 2017 were modestly positive. Dairy farmers will likely face challenges in 2018 because of increased production by major dairy exporters and large stocks of dairy products.

Export demand remains critical for the animal agriculture sector. Given the expected increase in U.S. production in 2018, any slowdown in U.S. exports pushes more product into an already well-supplied domestic market.

For fruit and tree nut producers, factors that have supported prices in recent years include strong demand for tree nuts and limited growth in the number of acres for noncitrus fruit. Labor availability and costs are significant concerns to these growers. Also, hurricane damage and long-term issues with disease are affecting Florida citrus crops.

Policy concerns

Since government policies can have a significant effect on the level and variability of farm income, they also affect borrower repayment risk. Policies that shape the farm sector include agricultural, trade, energy, labor, and environmental.

Agricultural policy is mostly set in the farm bill. Crops harvested in 2018 will be the last ones covered under the 2014 Farm Bill, so a key concern for agricultural lenders will be what follows. Most policy observers expect that farm programs and crop insurance will not change significantly in the next farm bill, although the timing of a reauthorization or extension of farm programs is not known. With lower crop prices in recent years and their impact on farm program revenue guarantees, reference prices for program crops established in the 2014 Farm Bill have become the de facto minimum level of support going forward. Budget limitations will likely prevent the next farm bill from increasing price protections.

Related to but separate from farm bill deliberations, the Bipartisan Budget Act of 2018 upgraded several aspects of the federal farm safety net. For example, it brought back cotton as a program crop eligible for price- or revenue-based farm program payments. It also revised the Margin Protection Program for dairy farmers and provided more generous disaster payments for livestock producers.

In recent years, crop producers under traditional farm programs and livestock producers under disaster programs have been the greatest beneficiaries of government payments that support farm income. Federal crop insurance

continues to provide a solid backstop for weather-related losses, with policies becoming available for an increasing number of commodities. However, these programs have sometimes come at a heavy cost to taxpayers, generating calls for reform. A potential reduction in farm assistance is a risk for farmers and lenders because of the effect it would have on loan repayment capacity.

Trade policy is also a concern because at least one-fifth of total U.S. farm output is exported. This relatively high dependence on exports makes the sector susceptible to shifts in trade policy that could dampen U.S. agricultural exports. In 2017, many U.S. producers had hoped that the 12-member Trans-Pacific Partnership (TPP) would boost exports for U.S. beef, pork, dairy, soybeans, and other commodities. But the Trump administration halted U.S. participation in the TPP to address other trade concerns. Similarly, in 2017, the administration began renegotiating the North American Free Trade Agreement. U.S. agriculture exports have grown because of the lower tariffs and improved market access under the existing agreement with Canada and Mexico, and backsliding could dampen agricultural trade in 2018 and beyond.

China is also a major market for U.S. agricultural products. In spring 2018, China imposed additional tariffs on several U.S. agricultural products, including pork and citrus, as the two countries ratcheted up pressure on trade issues. Trade policy events in 2017 and early 2018 have heighted uncertainty surrounding agricultural trade policy and its impact on farm prices.

Energy policy requires the use of U.S. ethanol in transportation fuels under the Renewable Fuel Standard established in 2005 and amended in 2007. Since then, the standard has contributed to significant growth in corn production and an upward shift in grain prices. But beginning in 2015, the mandate capped the conventional biofuel volume amounts (filled by ethanol), limiting growth in corn use for ethanol production.

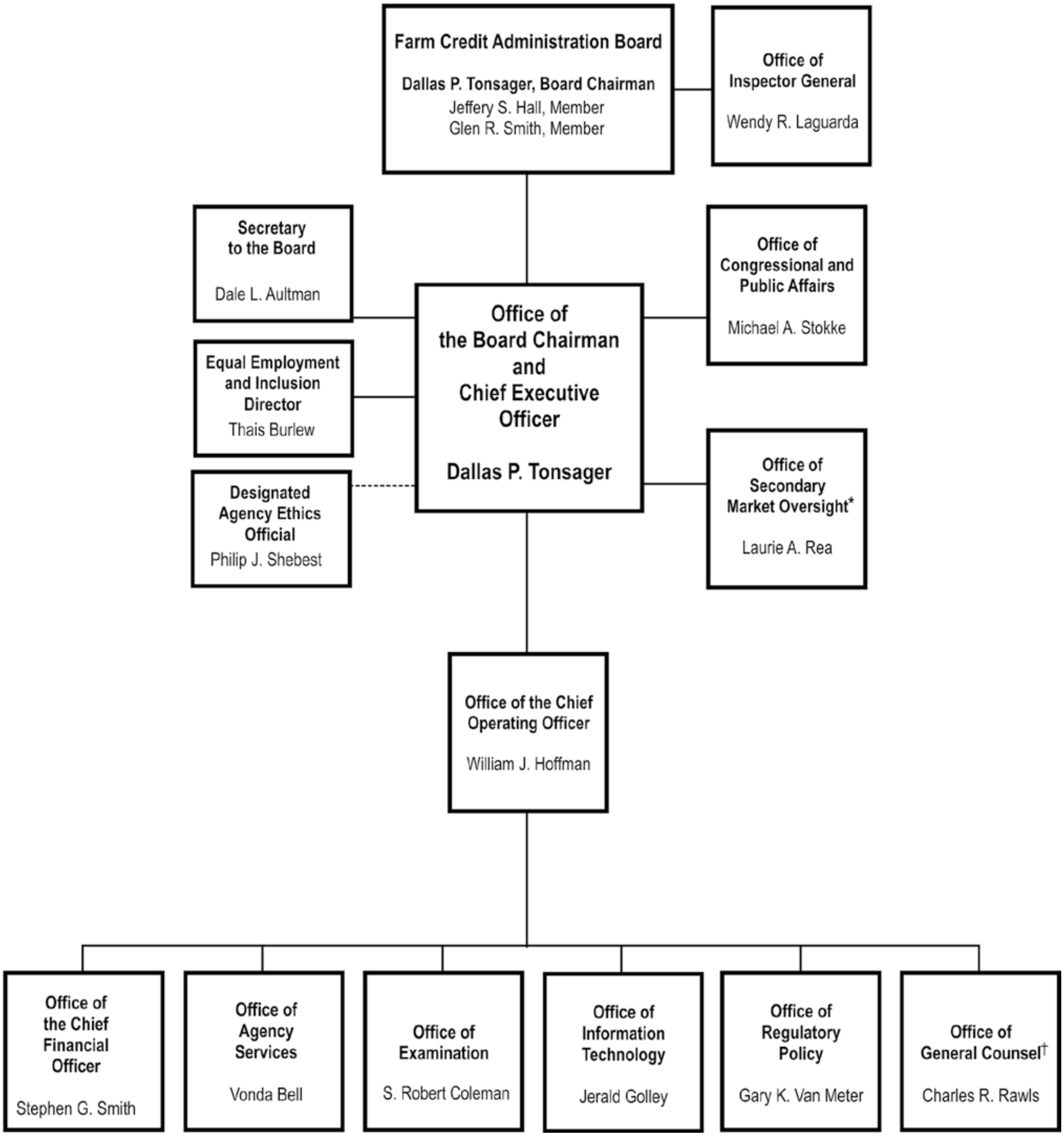
Today, ethanol accounts for more than one-third of total U.S. corn use. Without changes in policies that encourage higher blend rates of ethanol in gasoline, the relative costs of feedstocks (crude oil for gasoline; corn for ethanol) and U.S. gains in export markets will largely determine how much the demand for corn-based ethanol will grow.

For corn producers and the agricultural sector in general, a major change occurs in 2023, when the statute no longer specifies a minimum usage amount of conventional biofuel. Instead, the level will be determined by the U.S. Environmental Protection Agency, in consultation with the secretaries of energy and agriculture.

Labor and environmental policies affect business operational costs in agriculture. Immigration polices directly affect labor availability and costs, particularly for producers of specialty crops and dairy farmers. Labor tends to be a significant part of their operational costs, and reports of worker shortages and higher costs have increased in recent years. Producers are also affected by the cost of complying with environmental regulations related to water, endangered species, and pesticide usage.

Appendix

Figure 17
FCA organizational chart
As of October 2018
For an accessible version of this chart, go to www.fca.gov/about/fca-organizational-chart.



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

Farm Credit Administration offices and officials

As of Dec. 31, 2017, FCA had 297 full- and part-time employees. These employees are divided among the following offices, with the majority serving in the Office of Examination.

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

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

The **chief operating officer (COO)** has broad responsibility for planning, directing, and controlling the operations of the Offices of Agency Services, Examination, Regulatory Policy, Information Technology, Chief Financial Officer, and General Counsel in accordance with the operating philosophy and policies of the FCA board. He or she supervises and provides policy direction to the executive staff responsible for managing these offices. The COO oversees and coordinates the development and implementation of the agency-wide strategic, operating, and budget plans and activities. The COO also coordinates the resolution of internal policy, personnel, and program issues with agency executive leadership and the FCA board.

William J. Hoffman is chief operating officer. During Mr. Hoffman's tenure as FCA's COO (from 2008 to the present), the agency has issued several significant final rules, including a rule that updates and modernizes the agency's capital regulations and a rule requiring System institutions to include strategies in their business and marketing plans that emphasize diversity and inclusion. As COO, Mr. Hoffman has also supported diversity and inclusion programs and events at FCA. Before taking this position, Mr. Hoffman was executive assistant to Chairman and CEO Nancy C. Pellett. Prior to this, he served as the associate director for examination and supervision in the Office of Secondary Market Oversight, which oversees the Federal Agricultural Mortgage Corporation. He began his career as a credit representative in the Louisville Farm Credit District. In 1986 he joined the St. Louis Farm Credit Bank as vice president of risk assets. He later was the CEO of PennWest Farm Credit, ACA. Before joining FCA in 2004, he was involved in agricultural finance in the private sector and several international projects.

The **Office of Agency Services,** which was created in April 2016, manages human capital and administrative services for the agency. This includes providing the following services to the agency: staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management and awards, employee relations, employee training and development, contracting, acquisitions, records and property management, supply services, agency purchase cards, design, publication, and mail service.

The **Office of the Chief Financial Officer,** which was created in April 2016, manages and delivers timely, accurate, and reliable financial services to the agency. The office establishes financial policies and procedures and oversees the formulation and execution of the agency's budget. The office reports periodically on the status of the agency's financial position, results of operations, and budgetary resources. It also oversees the agency's travel management, internal controls, and personnel security programs.

Vonda Bell is FCA's chief human capital officer and the director of the Office of Agency Services. Vonda joined FCA in May 2017 as FCA's deputy chief human capital officer and deputy director of the Office of Agency Services. Before joining FCA, Vonda served as the human resources director for the U.S. Census Bureau, where she was responsible for successfully leading an end-to-end optimization of the human resources program. Before this, she served as the director of human capital management for the Housing and Urban Development's Office of Inspector General and the director of business services at the Department of the Interior's Office of the Chief Information Officer. Vonda is an alumna of the University of Alabama – Huntsville. She also holds a master's degree in human resources from Troy University. She is a senior certified professional in the Society of Human Resource Management, as well as a certified project management professional.

Stephen G. Smith is chief financial officer and director of the Office of the Chief Financial Officer. Previously, from 2005 to 2016, he served as the agency's director of the Office of Management Services. From 2001 to 2005, he served as the agency's inspector general. He joined FCA in 1981 as a technical specialist. He is a commissioned FCA examiner and served in several leadership roles, including associate regional director for the Albany, New York field office; senior staff director for the chief examiner; and director of the Technical and Operations Division. In 1993, he assumed responsibilities as director of the Information Resources Division. He was named chief information officer in 1996, directing all technology and information operations for FCA. Before joining the agency, he worked at the North Central Jersey Farm Credit Association.

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

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

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

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

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

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

Charles R. Rawls is the FCA general counsel. Before joining FCA in March 2003, he was general counsel and vice president for legal, tax, and accounting at the National Council of Farmer Cooperatives. During the consideration of the 2002 farm bill, he served as the general counsel of the Senate Committee on Agriculture, Nutrition, and Forestry. From 1998 to 2001, he was general counsel for the U.S. Department of Agriculture, and from 1993 to 1998 he was chief of staff to the deputy secretary of agriculture. From 1988 to 1993, he was legislative director and then administrative assistant to Congressman Martin Lancaster. From 1985 to 1988, he was associate general counsel of the House Committee on Agriculture. He was counsel to the House Agriculture Subcommittee on Forests, Family Farms, and Energy from 1983 to 1985.

Jerald Golley is chief information officer (CIO) and director of the Office of Information Technology. Before joining FCA in November 2015, Mr. Golley had 25 years of IT management experience. Most recently, he was the deputy CIO for the Commodity Futures Trading Commission for six years. In 1996, he founded AMI Technical Consultants, Inc., a software development, internet hosting, and technical consulting company based in Denver; he served as CEO there until 2009. He began his career as a programmer and geographic information system specialist at American Management Systems in Rosslyn, Virginia, where he worked from 1990 to 1994. Mr. Golley served in the 101st Airborne Division of the U.S. Army based out of Ft. Campbell, Kentucky, from 1982 to 1984. He holds a bachelor's degree in geography, with a minor in computer science from the State University of New York at Oneonta, as well as a Master of Arts in geography and geographic information systems from the State University of New York at Binghamton.

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

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

Wendy Laguarda is inspector general. From May 2015 to July 2017, Ms. Laguarda served as executive assistant to the FCA board chairman and chief executive officer. She joined FCA's Office of General Counsel in 1990, eventually becoming assistant general counsel and the designated agency ethics official. She served as legal counsel for personnel issues and undertook assignments on rulemaking and policymaking. Before coming to FCA, Ms. Laguarda was an attorney adviser at the Office of Thrift Supervision and its predecessor agency, the Federal Home Loan Bank Board. In 1995 and again in 2004, she was detailed to the White House Counsel's Office for brief periods to work on ethics issues. A graduate of Tufts University and George Washington University National Law Center, she is a member of the Maryland and District of Columbia Bars and is a mediator certified by the Supreme Court of Virginia.

Gary K. Van Meter is director of the Office of Regulatory Policy (ORP). He was named to this position in June 2011 after having served as acting director for seven months and deputy director for five years. Prior to this, he was in the Office of General Counsel for 17 years, where he served as a senior attorney and later as senior counsel before joining the Office of Regulatory Policy. Mr. Van Meter holds a Juris Doctor from West Virginia University College of Law and a master of law in taxation from Georgetown University Law Center. He is also a certified public accountant. From 1972 to 1974, Mr. Van Meter was an enlisted member of the U.S. Marine Corps, and he was an officer in the U.S. Navy Judge Advocate General's Corps from 1981 to 1986.

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

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

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

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

The **Office of Equal Employment Opportunity and Inclusion** manages and directs the diversity, inclusion, and equal employment opportunity (EEO) program for FCA and FCSIC. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of Personnel Management on all EEO, diversity, and inclusion issues. The office provides counsel and leadership to agency management to carry out its continuing policy and program of nondiscrimination, affirmative action, and diversity.

The **Designated Agency Ethics Official (DAEO)** is designated by the FCA chairman to administer the provisions of title I of the Ethics in Government Act of 1978, as amended, to coordinate and manage FCA's ethics program and to provide liaison to the Office of Government Ethics with regard to all aspects of FCA's ethics program.

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

Philip J. Shebest is the designated agency ethics official. As DAEO, Mr. Shebest administers the ethics program for FCA and the Farm Credit System Insurance Corporation. In addition to serving as DAEO, Mr. Shebest is an assistant general counsel in the Office of General Counsel and the agency contracts officer. While at FCA, he has held the position of alternate DAEO, as well as acting general counsel, chief administrative officer, and chief human capital officer. Before joining FCA in 1990, Mr. Shebest was a senior attorney with the Drug Enforcement Administration and a lieutenant in the U.S. Navy Judge Advocate General's Corps. A graduate of East Stroudsburg University of Pennsylvania and Temple School of Law, he is a member of the Pennsylvania bar, as well as a certified mediator.

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 in all Farm Credit System districts merged to become FCBs or the ACB. Thus, no FICBs remain within the FCS.

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

Federal land bank association — These associations were lending agents for FCBs 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 Oct. 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 institutions with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.

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

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

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

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

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 Jan. 1, 2003, all PCAs were eliminated as independent, stand-alone, direct-lender associations. All PCAs are now subsidiaries of ACAs.

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

Acronyms and abbreviations

ACA — agricultural credit association

ACB — agricultural credit bank

CAMELS — capital, assets, management, earnings, liquidity, and sensitivity

CEO — chief executive officer

Farm Credit Act — Farm Credit Act of 1971, as amended

Farmer Mac — Federal Agricultural Mortgage Corporation

FCA — Farm Credit Administration

FCB — farm credit bank

FCS — Farm Credit System

FCSIC — Farm Credit System Insurance Corporation

FIRS — Financial Institution Rating System

FLCA — federal land credit association

GAAP — generally accepted accounting principles

OFIs — other financing institutions

PCA — production credit association

USDA — U.S. Department of Agriculture

YBS — young, beginning, and small (farmers and ranchers)

Additional information

The Farm Credit Administration 2017 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

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

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302
Telephone: 201-200-8000

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

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
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