2018 Annual Report of the Farm Credit Administration

Regulator of the Farm Credit System

Contents

About this report

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

- An annual report to Congress on the condition of the System and its institutions
- A summary and analysis of the annual reports submitted to us by System banks regarding programs for serving young, beginning, and small farmers and ranchers

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

After many years of following the same format, we decided to restructure the report this year to make it more concise and consistent with the requirements of section 5.17 of the Farm Credit Act. One important change was to eliminate a section titled "Challenges Facing the Agricultural Economy and the Farm Credit System." Some of that information is now included in a new section called "Message from the Board."

This report is available on the FCA website at www.fca.gov. If you have any questions about it, please contact the Office of Congressional and Public Affairs at info-line@fca.gov or 703-883-4056. Also, please contact the office if you have accessibility issues with any of the charts in the report.

For more financial information about the Farm Credit System, go to the website for the Federal Farm Credit Banks Funding Corporation at www.farmcreditfunding.com. For information about the Farm Credit System Insurance Corporation, go to www.fcsic.gov.

FCA's mission is to ensure that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

About FCA and the Farm Credit System

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for regulating and supervising the Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

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

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

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

Examination

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

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

If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to bring about appropriate corrective action.

Regulation

We issue policies and regulations governing how System institutions conduct their business and interact with borrowers. These policies and regulations focus on

- protecting System safety and soundness;
- implementing the Farm Credit Act;
- providing minimum requirements for lending, related services, investments, capital, and mission; and
- ensuring adequate financial disclosure and governance.

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

We also approve corporate charter changes, System debt issuances, and other financial and operational matters.

Our authorities and governance

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

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

FCA is governed by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate. Board members serve a six-year term and may remain on the board until a successor is appointed. 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. For information about our current board, see page 49.

The Farm Credit System Insurance Corporation

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

It fulfills this purpose by maintaining the Farm Credit Insurance Fund, a reserve that represents the equity of FCSIC. The balance in the Insurance Fund at June 30, 2019, reflects the secure base amount. For more information about FCSIC, go to www.fcsic.gov. Also see FCSIC's 2018 annual report.

Message from the Board

We are pleased to present the 2018 Annual Report of the Farm Credit Administration. The late Dallas Tonsager was the FCA chairman in 2018. Under his capable leadership, the agency had a successful year of oversight and examination of the Farm Credit System and Farmer Mac. Dallas passed away in May of 2019. On a personal level, his death was a great loss to FCA's board and staff, but we are pleased to report that we continued to fulfill our mission throughout the leadership transition. Jeff Hall has served as a member of the FCA board and as chairman of the board of directors of the Farm Credit System Insurance Corporation since November 2016. Glen Smith has served as a member of the FCA board since December 2017. On July 17, 2019, President Donald Trump designated Glen to be the FCA board chairman and CEO. Together, we bring to the board a blend of many years of experience and service to both agriculture and government, which will serve us well as we make decisions on how best to achieve FCA's mission of safety and soundness. We would like to share with you two of the priorities we've identified for the coming year.

FCA Board Chairman and CEO Glen Smith (left) and FCA Board Member Jeff Hall.

Our priorities

Monitoring credit risk

Although the Farm Credit System and Farmer Mac remain strong and financially sound, monitoring credit risk is our highest priority. The farm economy remains in a prolonged slump. Trade uncertainties and weather extremes continue to threaten agriculture's economic outlook.

Because of the continued downturn in profitability, many farmers have used up much of the working capital they built during the years of stronger profitability. They've also increased their debt levels. In just three years, farmers took on over $45 billion in additional farm debt. With cash flows tight, producers of several key farm commodities are finding it more difficult to pay back their loans. High-cost producers and those with significant leverage are feeling the most financial pressure.

With key commodity prices still relatively low and 2019 yields extremely variable, the opportunities to rebuild working capital and repair balance sheets are not on the immediate horizon. And because of trade challenges, this situation is not likely to improve in the immediate future. President Trump has been renegotiating agreements with our trading partners to improve our nation's trade position in the long term, but these efforts are certainly creating challenges for farmers in the short term.

Another important reason to monitor credit risk closely is the danger of declining land values. Although land values have stabilized in many markets — especially for high-quality farmland, a pronounced pullback in values would increase financial stress for farmers and lenders alike.

Improving service to young, beginning, and small producers

Another one of our top priorities is to strengthen service for young, beginning, and small (YBS) farmers and ranchers. In 1980, Congress established a mandate for the institutions of the Farm Credit System to develop and maintain programs to provide credit and related services to these farmers and ranchers.

This country is facing a real challenge from the decline in the number of farmers. As the last agricultural census revealed, the average age of the American farmer has increased to 58. For the U.S. agriculture economy to remain strong, the country needs new entrants to agriculture. Because of the high capital demands of agriculture, these new entrants will require affordable, dependable credit. That's why we want to prioritize strengthening service to YBS farmers and ranchers.

We believe improving YBS service will involve three key steps:

1. Improve data accuracy and reporting.
2. Identify and share best practices.
3. Evaluate growth and performance.

We are working with the System right now to identify ways to improve the accuracy of YBS data and reporting. For example, System institutions engage in loan participations, whereby multiple institutions provide portions of a single loan. The fact that each institution counts its portion of the loan as a separate loan has created an overcounting problem. By addressing this issue and others, we will improve the accuracy of YBS data and reporting by System institutions. This will give us a better picture of the System's overall service to YBS farmers and ranchers.

Also, in February 2019, we issued an advance notice of public rulemaking to collect information from the public as we consider revisions to our YBS regulations. The current guidance is more than 20 years old. Currently, we are reviewing and considering the comments we've received on this notice. The public feedback we've received will help us improve our ability to measure service to YBS producers.

Improvements in the ability to track service to YBS producers will allow us to see which institutions are the most successful at serving these producers. This will allow us to identify best practices that other institutions can adopt to improve their service to these borrowers.

The third and final step will be to evaluate the effectiveness of each institution's YBS program. We plan to contribute additional resources to allow examiners to focus on these evaluations and to encourage institutions to use best practices. After all, YBS farmers are — literally — the future of American agriculture.

Current conditions

This report covers the condition of the Farm Credit System and Farmer Mac in 2018. However, we'd like to share with you a brief update about conditions as they stand in September of 2019 when this report goes to print. In addition to conditions in the System and Farmer Mac, we'll discuss conditions in the general and farm economy as well.

The Farm Credit System and Farmer Mac

Despite continued deterioration in portfolio quality, credit risk remains manageable in the Farm Credit System. Nonperforming loans (nonaccrual loans, restructured loans, and loans that are 90 days or more past due) increased by $231 million at the end of 2018 and another $252 million during the first six months of 2019 to just under $2.5 billion. Despite this increase, nonperforming loans still represented less than 1% (0.89%) of the System's $276 billion loan portfolio at June 30, 2019.

Loans classified as less than acceptable increased to 6.6% of volume at Dec. 31, 2018, and to 7.2% of volume at June 30, 2019, compared with 6.1% a year earlier. However, System institutions remain well capitalized to protect against this increased risk, and loan losses remain very low, with net charge-offs representing only 3 basis points of volume in calendar year 2018.

Credit quality stress within the System is higher in grain-producing areas. Of the 10 states with the highest levels of less-than-acceptable loans, six are in the Midwest, and only Texas and California are outside key grain-producing regions. We are typically seeing less credit stress in areas of the country where off-farm income is higher.

For several years now, FCA has emphasized the importance of capital in its oversight and guidance of System institutions, and two years ago we updated our capital regulations to further strengthen capital positions. Because of the emphasis that both FCA and the System have placed on capital, System institutions are now well capitalized, which means they are in a good position to work with producers who may have some difficulty making their loan payments. Plus, some institutions have dedicated credit staff to help customers experiencing financial difficulties.

What's more, the System's strong capital position makes System debt attractive to investors. This will help ensure that the System can meet increases in credit demand from farmers whose working capital has eroded.

System institutions not only can use their capital to help borrowers, they can also provide education. Producers who control their costs, keep good records, and actively manage risk tend to be profitable even when many producers are losing money. System institutions can offer additional training opportunities for their customers in the areas of risk management and recordkeeping.

Fortunately, despite the current challenges in the farm economy, credit risk levels are nothing like they were in the 1980s. They are even appreciably lower than they were during the Great Recession of 2008 and 2009, when stress in the general economy weakened the farm economy, especially those sectors that relied on off-farm income. Also, although farm sector debt-to-asset ratios have increased modestly since 2012, they remain lower than those recorded in the 1980s.

Farmer Mac also remains safe and sound. For the 12-month period that ended June 30, 2019, its asset growth was moderate. Its portfolio grew $1.22 billion, or 6.3 percent, to $20.75 billion. The primary source of portfolio growth was the rural utilities business line, which grew $486.2 million, or 31%, over the 12-month period.

Farmer Mac's credit quality remained manageable. Loans classified as 90 days past due declined from 0.61% to 0.38% of loans outstanding. Special-mention and substandard volume increased slightly; however, it declined as a percentage of the total portfolio because of volume growth. Farmer Mac's core capital was $786.6 million, up 13.5% for the twelve-month period; its core capital was $191.6 million above the minimum requirement.

The general and farm economies

Just as our examiners track conditions and risks in the System and Farmer Mac, FCA's economists monitor conditions in the general and farm economies. Currently, our economists report favorable macro trends in the general economy throughout 2019, despite an expected slowdown in economic growth later this year. If U.S. consumers continue to provide support, the economic outlook will stay on firm footing even with slower growth.

As mentioned above, trade tension between China and the United States is a major concern right now — for both the general and the farm economies. Retaliatory tariffs on U.S. agricultural products have redirected U.S. agricultural exports away from China and toward other markets, including Southeast Asia and the European Union.

As a net exporter, the U.S. farm sector depends on export demand to absorb its output. An uncertain path toward resolution of trade disagreements elevates the risk of economic slowdown and a decline in business investment. A slowing economy could weaken employment and income growth, which are important for farm loan repayment, particularly for smaller farms and rural homeowners.

The unemployment rate, which remains historically low even in some rural areas, continues to support consumer confidence and spending. Also, interest rates are low and are expected to remain favorable into next year. That will make loan repayment easier for all System borrowers.

While government payments from the Market Facilitation Program and Farm Bill programs are helping farmers through this period of low prices, industries servicing producers, including supply and marketing cooperatives, are also facing economic challenges because of shifts in planting acres, lower exports, and lower input demand. Many farmers continue to be cautious when making large capital investments, such as farm equipment purchases.

Of course, the outlook for the farm economy varies significantly by commodity, so let's look at the primary commodities represented in the loan portfolios of System institutions.

For several years now, FCA has emphasized the importance of capital in its oversight and guidance of System institutions, and two years ago we updated our capital regulations to further strengthen capital positions.

For the past two years, the Partnership for Public Service has ranked FCA among the top five Best Places to Work in the Federal Government among small agencies.

Cash grains and soybeans: Global grain and oilseed supplies remain ample, which keeps farm prices weak. Despite spring rains that severely delayed or prevented farmers from planting millions of acres, the futures market continues to suggest harvest prices will be near or below breakeven for corn, soybeans, and wheat. Government payments will help offset some of the weakness into 2020. This year's Market Facilitation Program payments are expected to provide positive profit margins for some producers, particularly those who harvest above-average yields. Those with poor yields will struggle to cover their costs of production, even with crop insurance indemnities.

Cotton: Cotton prices are very weak. With harvested area expected to be up sharply, U.S. production will likely exceed use for the third consecutive season, pushing up the stocks-to-use ratio to the highest level in more than a decade.

Cattle: Returns for cow-calf producers are expected to be slightly above breakeven levels for 2019. Herd expansion continues to pressure prices, and producer profits may hinge on pasture and hay condition. For cattle feeders, margins will likely remain tight throughout much of 2019, but lower feed costs and feeder pricing opportunities could boost the margin outlook.

Hogs: Herd disease in China has slashed production in the world's biggest market for pork, causing a boost in U.S. prices in 2019. This is a decided improvement over 2018, during parts of which hog producers faced negative margins.

Poultry: Broiler integrator margins should perform slightly better than in 2018, but the industry faces strong retail competition from beef and pork.

Dairy: For small and higher-cost dairy farms, margins are expected to be either extremely tight or negative. Margins for larger farms are just above breakeven levels. Profitability should improve through the year because a contraction in the dairy herd is outpacing the increase in productivity. The Dairy Margin Coverage Program is providing limited support and may help some producers hang on. Nationally, more than 55 percent of dairy operations have signed up.

The mission

We often hear critics of the Farm Credit System say that the System's mission is no longer relevant — that the nation no longer needs a GSE dedicated to lending to agriculture. We'd like to state for the record that the System's mission is more relevant today than ever.

Reuters News recently analyzed the farm-loan holdings of Wall Street banks. They found that, between 2008 and 2015, when the farm economy was strong, these banks grew their farm-loan portfolios significantly. Now, however, after several years of falling farm income, they have significantly reduced their farm-loan holdings.

In fact, according to the analysis, the nation's top 30 banks reduced their farm loan holdings by $3.9 billion in March 2019 from their peak in December 2015. In a July 11 Reuters news article, a Minneapolis-St. Paul bankruptcy attorney said, "My phone is ringing constantly. It's all farmers. Their banks are calling in the loans and cutting them off."

This is the reason our nation needs the Farm Credit System. Commercial banks have the luxury of following the money — when the farm economy declines, they can invest in other sectors. Not the Farm Credit System.

The whole purpose of the System is to serve the credit needs of our nation's farmers and ranchers — both in good times and in bad. While most farmers are in a better position than they were in in the 1980s, these are not good times. We are encouraged by the work the System is doing to support farmers in these challenging times.

Diversity

An often-cited strength of the Farm Credit System and Farmer Mac is their diversity of geographic location and agricultural enterprise — they serve farmers and ranchers across the nation, producing a wide range of commodities. Diversity of demographics is also important, which is why we require institutions to promote diversity and inclusion in their business plans.

At FCA, we feel diversity is equally important for our workforce, and we're proud of our record. We regularly recruit at 30 colleges across the United States, including land-grant universities, historically black colleges and universities, Hispanic-serving institutions, and high minority-enrollment schools.

Not only do we constantly strive to maintain a diverse, talented workforce, but we also strive to keep them. For the past two years, the Partnership for Public Service has ranked FCA among the top five Best Places to Work in the Federal Government among small agencies. And for promotion of diversity, the Partnership ranked us second in our size category in 2018.

One of the ways we promote diversity is to support special emphasis programs such as the Federal Women's Program, the Hispanic Employment Program, Blacks in Government, Pride, Veterans, Asian Americans and Pacific Islanders, and the Disability Program. These programs are important because they raise awareness and help with recruiting and outreach.

We recognize that happy employees make productive, dedicated employees. The board is extremely proud of our staff and confident in their abilities. We look forward to working with them in the coming year to continue to ensure a dependable, affordable source of credit for our nation's farmers and ranchers.

Glen R. Smith
FCA Board Chairman and CEO

Jeffery S. Hall
FCA Board Member

The Farm Credit Administration is responsible for regulating and supervising the Farm Credit System and Farmer Mac.

FCS banks and associations

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

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

Congress 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.

The System obtains the money it lends by selling securities in the national and international money markets through the Federal Farm Credit Banks Funding Corporation. Established under the Farm Credit Act, the Funding Corporation issues and markets debt securities on behalf of the System banks to raise loan funds. The System's debt issuances are subject to FCA approval. The U.S. government does not guarantee the securities that the System issues.

The banks are jointly and severally liable for the principal and interest on all Systemwide debt securities. Therefore, if a bank is unable to pay the principal or interest on a Systemwide debt security and if the Farm Credit Insurance Fund has been exhausted, then FCA must call all nondefaulting banks to satisfy the liability.

FCS structure

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 68 associations, which in turn make loans to farmers, ranchers, and other eligible borrowers. (See figure 1.) All but one of these associations are structured as agricultural credit associations (ACAs) with two subsidiaries — a production credit association (PCA) and a federal land credit association (FLCA). The PCA primarily makes agricultural production and intermediate-term loans, and the FLCA primarily makes real estate loans. The other remaining association is a stand-alone FLCA.

The ACA's parent-subsidiary structure offers several benefits. It allows the association to preserve the tax-exempt status of the FLCA and to build and use capital more efficiently. It also 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 them to deliver credit and related services to borrowers more efficiently.

Each 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.

CoBank, one of the four Farm Credit System banks, is an agricultural credit bank (ACB). It 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, CoBank provides loan funds to 21 ACAs.

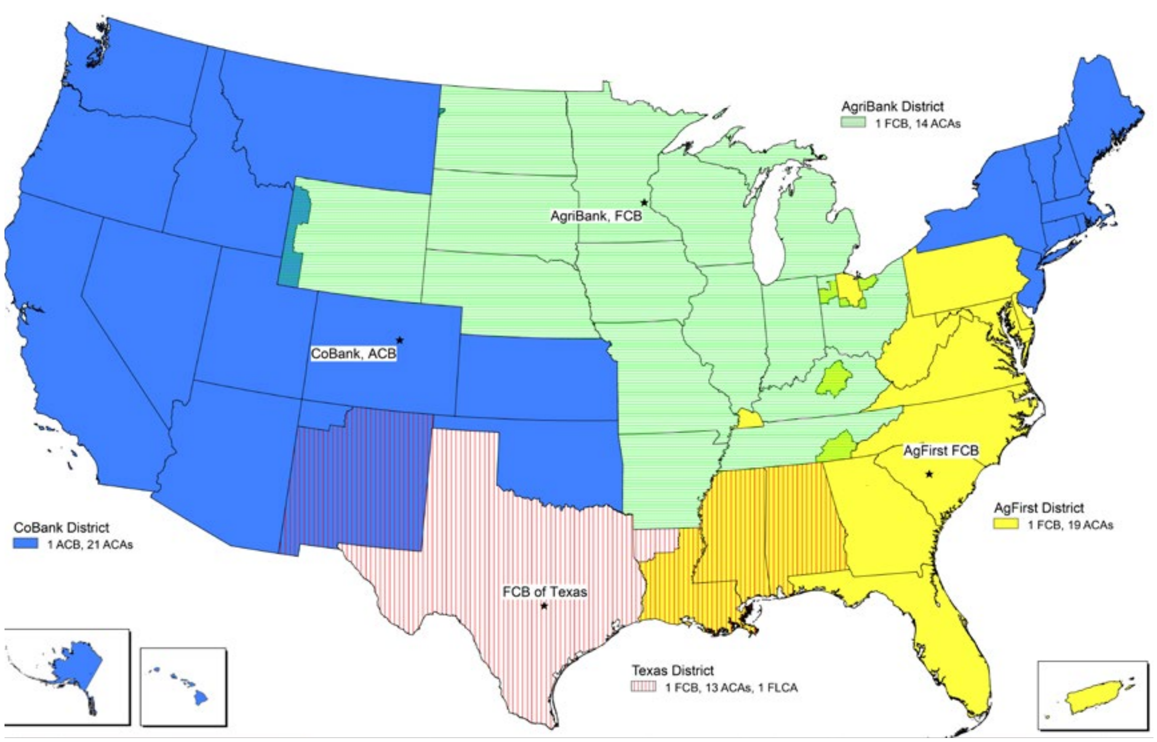
Borrowers served

Under the Farm Credit Act of 1971, as amended, the System has the authority,

Figure 1

Chartered territories of FCS banks

As of July 1, 2019



subject to certain conditions, to make the following types of loans:

- Agricultural real estate loans
- Agricultural production and intermediate-term loans (e.g., for farm equipment)
- Loans to producers and harvesters of aquatic products
- Loans to certain farmer-owned agricultural processing facilities and farm-related businesses
- Loans to farmer-owned agricultural cooperatives
- Rural home mortgages
- Loans that finance agricultural exports and imports
- Loans to rural utilities
- Loans to farmers and ranchers for other credit needs

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

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had over 1.3 million loans and leases and nearly 568,000 stockholders in 2018. Approximately 88% of the stockholders were farmers or cooperatives with voting stock. The remaining percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System.

Nationwide, the System had $272 billion in gross loans outstanding as of Dec. 31, 2018. Loans for agricultural production and agricultural real estate purposes represented by far the largest type of lending, with $178 billion, or 66%, of the total dollar amount of loans outstanding. See table 1 and figure 2 for a breakdown of lending by type.

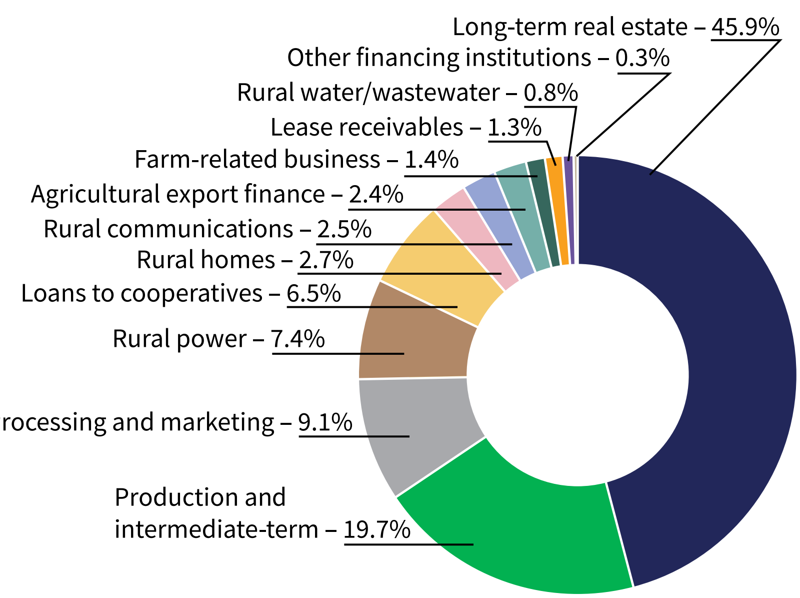
Total loans outstanding at FCS banks and associations (net of intra-System lending) increased by $13 billion, or 5.1%, during the year that ended Dec. 31, 2018. This compares with increases of 4.0% in 2017. Since year-end 2014, total System loans outstanding have increased by $54.9 billion, or 25.3%.

The $13 billion increase in 2018 was driven by increases in real estate mortgages and processing and marketing loans. With the continued demand for cropland and financing for permanent plantings, real estate mortgage loans increased $5.4 billion, or 4.5%. Processing and marketing loans increased $3.3 billion or 15.1%.

Figure 2

Farm Credit System lending by type

As of Dec. 31, 2018



Source: 2018 Federal Farm Credit Banks Funding Corporation Annual Information Statement.

Table 1

FCS gross loans outstanding, 2014 – 2018

As of Dec. 31

Dollars in millions

Loan Type	2014	2015	2016	2017	2018	Percent change from 2014	Percent change from 2017
Agricultural long-term real estate loans	$100,811	$107,813	$114,446	$119,450	$124,876	23.9%	4.5%
Agricultural production and intermediate-term loans	46,305	49,204	50,282	51,724	53,447	15.4%	3.3%
Agribusiness loans to the following:							
Processing and marketing operations	16,974	19,949	21,166	21,582	24,832	46.3%	15.1%
Cooperatives	12,553	13,113	15,300	17,335	17,589	40.1%	1.5%
Farm-related businesses	3,408	3,533	3,162	3,293	3,692	8.3%	12.1%
Rural utility loans by type of utility:							
Energy	15,036	17,925	19,577	19,689	20,100	33.7%	2.1%
Communication	5,044	6,196	6,023	6,311	6,755	33.9%	7.0%
Water/ wastewater	1,488	1,677	1,840	1,965	2,305	54.9%	17.3%
Rural home loans	6,754	7,117	7,148	7,261	7,308	8.2%	0.6%
Agricultural export loans	4,837	5,075	5,531	5,645	6,581	36.1%	16.6%
Lease receivables	2,976	3,373	3,480	3,665	3,630	22.0%	(1.0%)
Loans to other financing institutions	868	915	813	857	829	(4.5%)	(3.3%)
Total	$217,054	$235,890	$248,768	$258,777	$271,944	25.3%	5.1%

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

Production and intermediate-term loans also increased, going up $1.7 billion, or 3.3%. 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 2018 except for lease receivables, which declined by 1.0%, and loans to other financing institutions, which declined by 3.3%.

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.

As of Dec. 31, 2018, the System served 20 OFIs, down from 22 in 2017. Outstanding loan volume to OFIs was $931 million at year-end, up $66 million from 2017. OFI loan volume continues to be less than half of 1% of the System’s loan portfolio. About 73% 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 grew by more than $2 billion over the past year to $18.0 billion at year-end 2018. This figure includes volume from syndications that System institutions have with other System institutions, as well as with non-FCS institutions.

At year-end 2018, the System had $5.6 billion in net eligible-borrower loan participations with non-System lenders. Net eligible-borrower loan participations have increased from their 2012 value of $3.7 billion, when sales of these participations were at a low point. The volume of eligible-borrower loan participations purchased from non-System lenders grew from $7.4 billion at Dec. 31, 2014, to $8.8 billion at year-end 2018, and the volume of eligible-borrower loan participations sold to non-System lenders was $3.2 billion at year-end 2018, unchanged from the prior year.

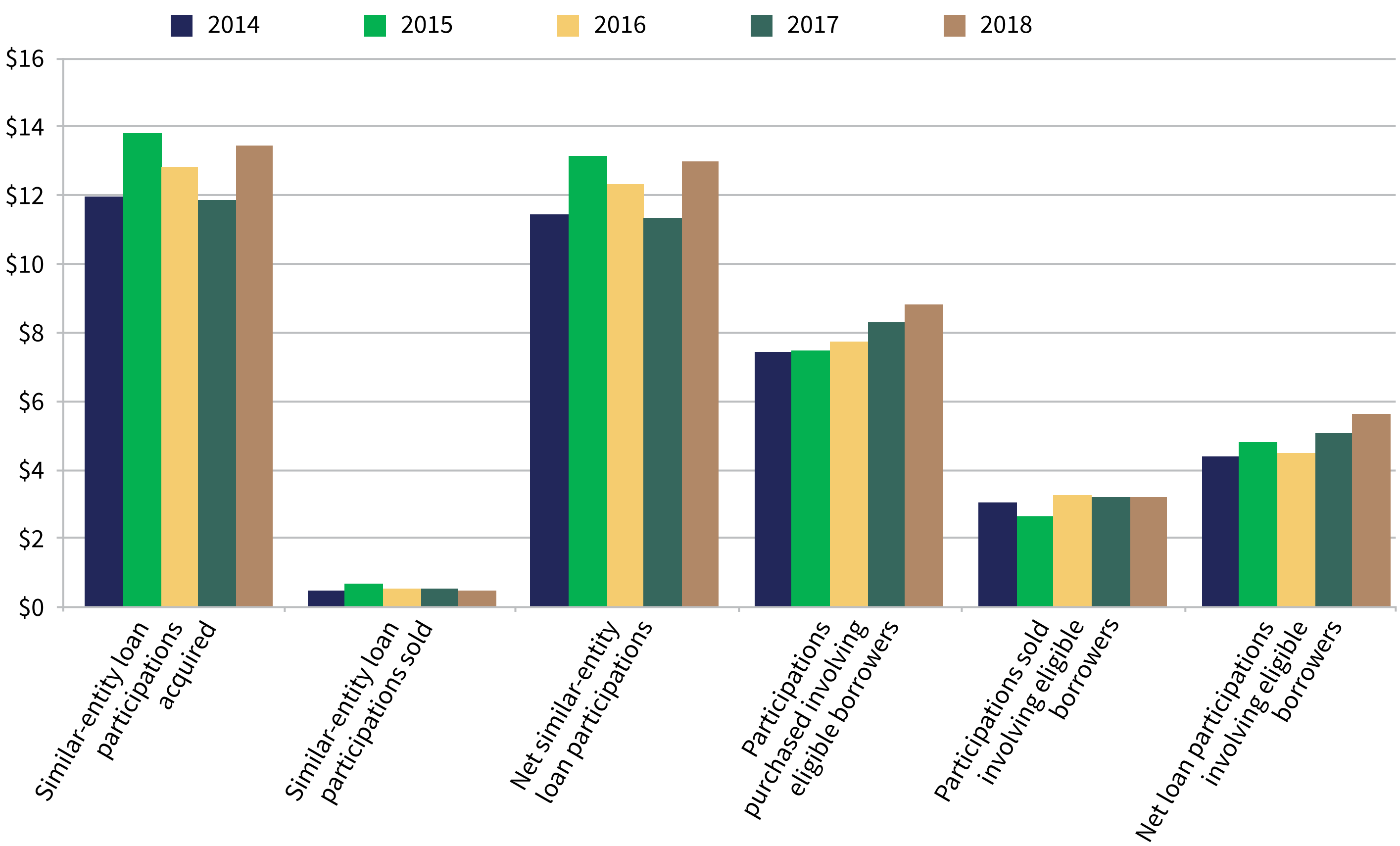
In addition to participating in loans to eligible borrowers, FCS institutions have the authority to work with non-System lenders that originate "similar-entity" loans. A similar entity borrower is not

Figure 3

Loan participation transactions with non-System lenders, 2014 – 2018

As of Dec. 31

Dollars in billions



Source: Farm Credit System Call Reports.

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%). 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 $13.5 billion in acquired similar-entity loan participations as of Dec. 31, 2018, up from $11.9 billion the prior year. As figure 3 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 five years.

Farm debt and market shares

The U.S. Department of Agriculture's estimate of total farm business debt for the year ended Dec. 31, 2018, was $402 billion, up 2.3% from its $393 billion estimate for year-end 2017. The System's market share of total farm business debt has been relatively stable in recent years and stood at 41.4% at the end of 2018.

Except for brief periods, the FCS has typically had the largest market share of farm business debt secured by real estate. At year-end 2018, the System held 46% of this $246 billion of debt; by comparison, commercial banks held 37.8%. Commercial banks have historically dominated non-real estate farm lending. At year-end 2018, commercial banks held 47.9% of this $156 billion of debt, and the System held 34.2%.

Financial condition

For 2018, the System reported strong financial results, including record earnings, increased capital levels, and acceptable portfolio credit quality. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum. Tables 1 and 2 provide a summary of the System's major financial indicators.

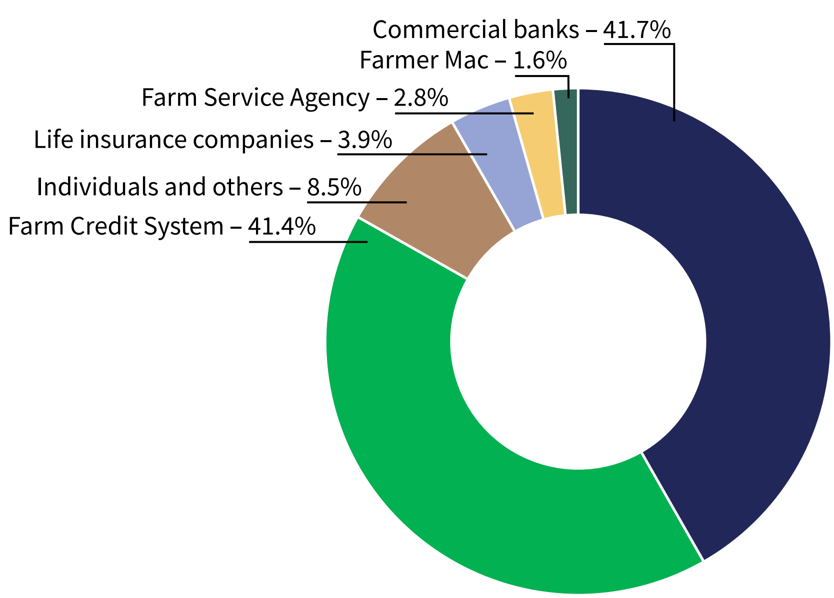
While the System is financially sound, a small number of individual FCS institutions displayed some weaknesses in 2018. As the System's regulator, we addressed these weaknesses by increasing our oversight and supervision of these institutions. For more information on our supervisory and enforcement approach, see pages 35 to 37. For more information on the condition and performance of the System, see the 2018 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation.

For many agricultural producers, 2018 was another challenging year. As

Figure 4

Estimated market shares of U.S. farm business debt

As of Dec. 31, 2018



Source: FCA's Office of Regulatory Policy, based on Aug. 30, 2019, data from USDA's Economic Research Service.

Table 2

Farm Credit System major financial indicators, by annual comparison

Dec. 31, 2018

Dollars in thousands

At and for the 12 months ended	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15	31-Dec-14
FCS Banks[1]					
Total assets	306,394,952	289,079,600	281,973,917	267,587,575	249,370,568
Gross loan volume	239,543,125	228,084,765	220,160,768	208,766,996	192,083,080
Nonaccrual loans	424,665	324,571	292,938	231,520	227,872
Cash and marketable investments	64,972,381	59,146,365	60,131,933	57,123,019	55,472,944
Net income	2,264,932	2,191,414	2,016,110	1,945,693	2,042,527
Nonperforming loans/Total loans[2]	0.19%	0.15%	0.16%	0.13%	0.15%
Capital/Assets[3]	6.34%	6.44%	6.35%	6.28%	6.41%
Unallocated retained earnings/Assets	2.63%	2.64%	2.59%	2.60%	2.62%
Return on assets	0.76%	0.77%	0.73%	0.74%	0.84%
Return on equity	11.67%	11.62%	11.13%	11.47%	12.76%
Net Interest margin[4]	0.92%	0.96%	0.98%	0.98%	1.05%
Operating expense ratio[5]	0.32%	0.33%	0.34%	0.33%	0.33%
Efficiency ratio[6]	26.13%	25.55%	25.37%	25.30%	24.20%
Payout ratio[7]	74.95%	71.36%	64.84%	59.44%	58.19%
FCS Associations					
Total assets	207,602,451	197,531,420	189,925,697	180,005,335	167,312,405
Gross loan volume	195,379,456	186,319,454	179,317,967	169,995,422	157,543,635
Nonaccrual loans	1,463,637	1,349,999	1,305,535	1,095,206	1,146,358
Net income	4,280,661	3,684,910	3,375,183	3,126,729	3,383,894
Nonperforming loans/Gross loans[2]	0.90%	0.88%	0.90%	0.80%	0.92%
Capital/Assets[3]	19.51%	19.32%	18.84%	18.68%	18.78%
Unallocated retained earnings/Assets	12.31%	11.96%	12.75%	13.24%	13.38%
Return on assets	2.08%	2.05%	1.80%	1.84%	2.07%
Return on equity	10.46%	10.37%	9.33%	9.57%	10.69%
Net interest margin[4]	2.69%	2.71%	2.66%	2.68%	2.75%
Operating expense ratio[5]	1.42%	1.42%	1.48%	1.50%	1.51%
Efficiency ratio[6]	35.65%	32.95%	40.78%	41.38%	39.52%
Payout ratio[7]	42.52%	33.04%	31.35%	28.31%	25.22%
Total Farm Credit System[8]					
Total assets	348,992,000	329,518,000	319,915,000	303,503,000	282,733,000
Gross loan volume	271,944,000	258,777,000	248,768,000	235,890,000	217,054,000
Bonds and notes	283,276,000	267,119,000	260,213,000	246,214,000	229,064,000
Nonperforming loans	2,198,000	1,967,000	1,962,000	1,629,000	1,737,000
Nonaccrual loans	1,883,000	1,660,000	1,591,000	1,324,000	1,375,000
Net income, year-to-date	5,332,000	5,189,000	4,848,000	4,688,000	4,724,000
Nonperforming loans/Gross loans[2]	0.81%	0.76%	0.79%	0.69%	0.80%
Capital/Assets[3]	16.75%	16.81%	16.35%	16.09%	16.17%
Surplus/Assets	13.31%	13.24%	13.50%	13.33%	13.36%
Return on assets	1.58%	1.61%	1.55%	1.62%	1.74%
Return on equity	9.27%	9.48%	9.41%	9.75%	10.50%
Net interest margin[4]	2.46%	2.48%	2.49%	2.55%	2.64%

Sources: FCA's Consolidated Reporting System as of December 31, 2018, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

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, annualized.

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 dividends to shareholders. This ratio is only valid at Dec. 31.

8 Cannot be derived by adding the categories above because of intradistrict and intra-System eliminations used in Reports to Investors

of March 2019, the USDA estimated 2018 net cash farm income at $91.4 billion, down 9.6% from 2017. Generally, world economic conditions continued to support global demand for agricultural products in 2018, however, U.S. producer returns were affected by trade policy uncertainties, retaliatory tariffs, and strong global competition.

With production levels above demand needs, producers in several key crop and livestock sectors saw a continuation of low prices and tight margins in 2018. Higher operating costs associated with labor, farm inputs, and other expenses put additional pressure on farm cash flows and liquidity levels. While high crop yields, trade-related USDA payments and other farm programs provided some relief, many producers continued to face significant financial challenges.

As anticipated, the Federal Reserve continued to raise its key interest rate in 2018 in response to strong economic and labor market conditions. Farmland values remained relatively stable despite higher interest rates as the volume of land for sale was balanced with demand in many markets.

Table 3

Farm Credit System major financial indicators, by district

December 31, 2018

Dollars in thousands

District	Total Assets	Gross Loan Volume	Non-Accrual 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]
FCS Banks										
AgFirst	33,078,462	24,275,882	24,743	18,049	8,520,166	317,840	2,223,697	79,353	305,987	0.56%
AgriBank	109,771,684	92,716,701	54,147	25,571	16,263,117	2,551,085	5,887,765	143,341	577,639	0.14%
CoBank	139,015,657	104,493,855	326,288	621,591	34,051,457	3,415,654	9,534,933	253,645	1,190,775	0.36%
Texas	24,529,149	18,056,687	19,487	11,974	6,137,641	316,463	1,776,932	54,305	190,531	0.60%
Total	306,394,952	239,543,125	424,665	677,185	64,972,381	6,601,042	19,423,327	530,644	2,264,932	0.32%
FCS Associations										
AgFirst	22,701,354	21,771,577	236,438	191,609	98,820	140,834	4,735,341	235,387	554,362	1.85%
AgriBank	106,145,633	98,786,434	742,512	465,236	2,671,445	266,625	20,532,022	662,567	2,078,462	1.31%
CoBank	59,519,370	56,235,203	384,529	309,177	278,005	70,110	12,042,784	296,669	1,248,027	1.41%
Texas	19,236,094	18,586,242	100,158	70,095	25,888	65,361	3,185,783	95,420	399,810	1.47%
Total	207,602,451	195,379,456	1,463,637	1,036,117	3,074,158	542,930	40,495,930	1,290,043	4,280,661	1.42%
Total FCS[6]	348,992,000	271,944,000	1,883,000	1,713,000	67,905,000	1,937,000	58,444,000	1,320,000	5,332,000	

Sources: FCA's Consolidated Reporting System as of December 31, 2018, 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 $4.881 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.

Earnings

The System reported strong earnings in 2018. For the year, System net income equaled $5.3 billion, up $143 million or 2.8% from 2017 (See figure 5). Increases in net interest income of $264 million and noninterest income of $92 million offset $128 million in higher noninterest expense and $88 million in additional provision for income taxes.

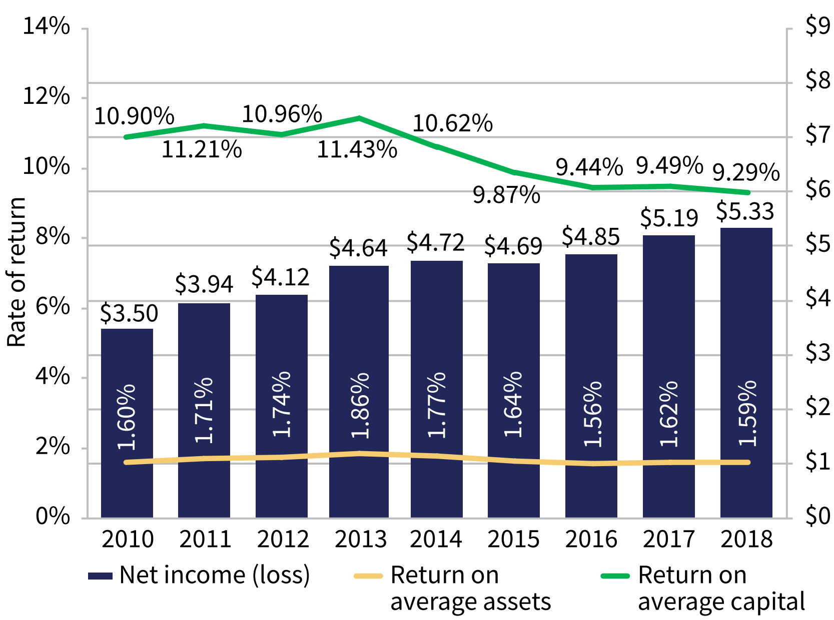
The increase in net interest income was primarily due to the higher level of average earning assets, partially offset by a decline in net interest spread. Driven largely by growth in loan volume, average earning assets increased $13.8 billion, or 4.4%, to $324.8 billion. Net interest spread decreased 13 basis points to 2.12% as the rising cost of System debt continued to outpace the increase in rate on earning assets. Net interest margin decreased 2 basis points to 2.46%. An increase of 11 basis points 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 decreased to 1.59% in 2018 from 1.62% in 2017. The return on average capital dropped to 9.29% from 9.49%

As cooperative institutions, FCS banks and associations typically pass on a portion of their earnings as patronage distributions to their borrower-owners. For 2018, System institutions declared a total of $2.3 billion in patronage distributions — $1.91 billion in cash, $257 million in allocated retained earnings, and $102 million in stock. This represents 42.6% of the System's net income for 2018 as compared with 38.5% in 2017. The System also distributed $242 million in cash from allocated retained earnings related to patronage distributions from previous years.

Figure 5

FCS net income, 2010 – 2018

As of Dec. 31, Dollars in billions



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

System growth

The System continued to grow at a moderate pace in 2018. Total assets increased to $349.0 billion, up $19.5 billion or 5.9% from 2017. Gross loan balances were $271.9 billion at year-end, up $13.2 billion or 5.1% in 2018, compared with 4.0% in 2017. (See figure 6.)

Growth in the System's portfolio was primarily in real estate mortgage, production and intermediate-term, and processing and marketing loans. Real estate mortgages, the largest segment of the System's loan portfolio at 46%, grew by $5.4 billion, or 4.5%. Production and intermediate-term loans, the System's second largest loan category at 20%, increased $1.7 billion, or 3.3%, Processing and marketing loans, accounting for 9% of the loan portfolio, were up $3.3 billion, or 15.1% in 2018.

Loan volume was up for all commodity categories in 2018. The cash grains and cattle sectors represent the System's two largest commodity categories, equaling just over 25% of the total loan portfolio. Lending to the cash grains sector was up 1% in 2018. Lending to the cattle sector was up 4%, reflecting generally favorable producer margins during the year.

Asset quality

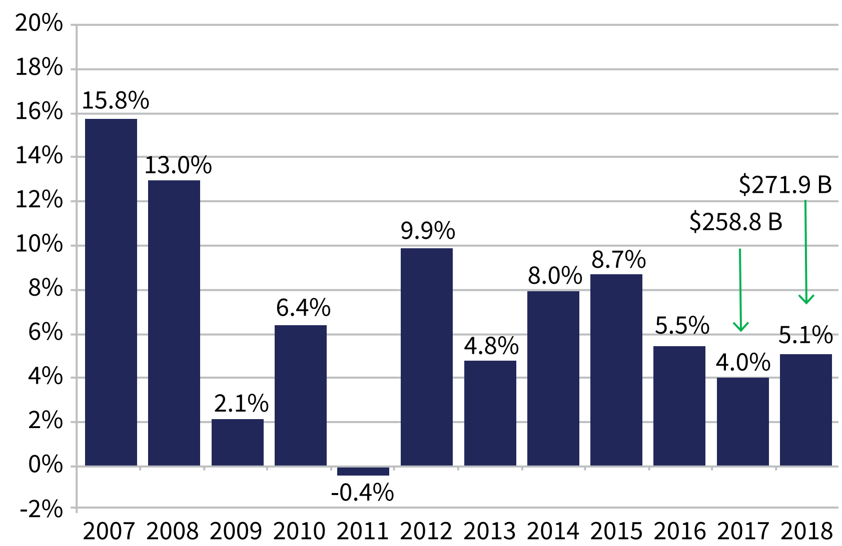
Loan quality in the System's portfolio continued to be good in 2018 although credit risk increased for certain crop and livestock sectors. For these sectors, weak pricing caused by supply and demand imbalances, trade uncertainties, and rising input costs negatively impacted producer profits. While some additional deterioration in portfolio credit quality is likely in 2019, the expected level of credit stress in the portfolio is well within the System's risk-bearing capacity.

As of Dec. 31, 2018, nonperforming loans totaled $2.2 billion, or 0.81% of gross loans outstanding. This is up from $2.0 billion, or 0.76%, at year-end 2017. (See figure 7.) Loan delinquencies (accruing loans that are 30 days or more past due) increased to 0.31% of total accruing loans from 0.25% at year-end 2017. In total, 93.4% of System loans were classified as acceptable, down from 93.9% at year-end 2017.

The allowance for loan losses was $1.7 billion, or 0.63% of loans outstanding, at year-end 2018. This compares with an allowance for loan losses of $1.6 billion, or 0.62% of loans outstanding, at year-end 2017. The System recognized provisions for loan losses of $194 million in 2018 as compared with $197 million in 2017 and $266 million in 2016. Net loan charge-offs were up slightly but remained relatively low at $89 million in 2018 as compared with $80 million in 2017.

Figure 6

Annual growth rate of FCS loans outstanding, 2007 – 2018

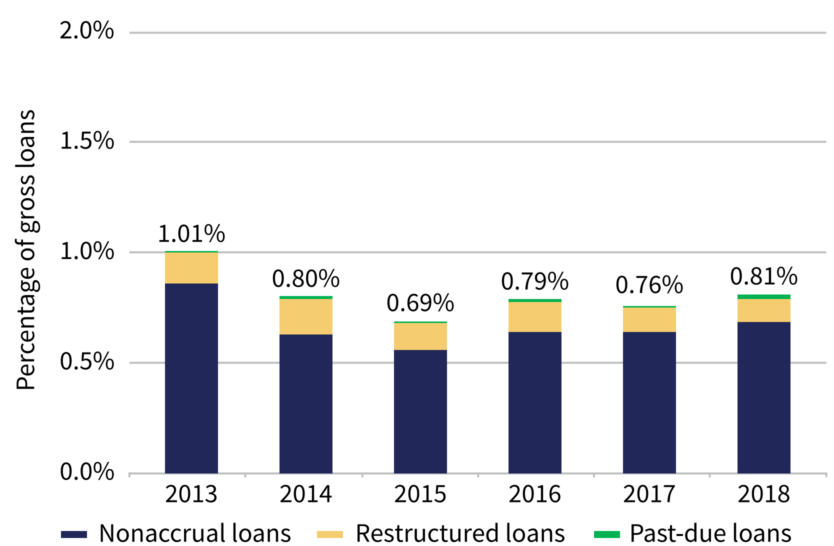


Source: Annual Information Statements of the Federal Farm Credit Banks Funding Corporation.

Figure 7

FCS nonperforming loans, 2013 – 2018

As of Dec. 31



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

Funding

Throughout 2018, the System had reliable access to the global debt capital markets to support its mission, and investor demand for System debt securities remained favorable across all products. Year-over-year, the amount of Systemwide debt securities due within a year increased 6.2% while securities with maturities greater than one year increased by 6.1%. In total, Systemwide debt increased by 6.1%.

The System's funding composition remained unchanged in 2018 with securities due within a year accounting for 38.8% of total Systemwide debt (See page 39 for further discussion of the System's funding activities.)

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, 2018, 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 2018, the liquidity positions of the four System banks ranged from 160 days to 241 days. The System's overall liquidity position on a consolidated basis was 182 days, as compared with 175 days as of Dec. 31, 2017.

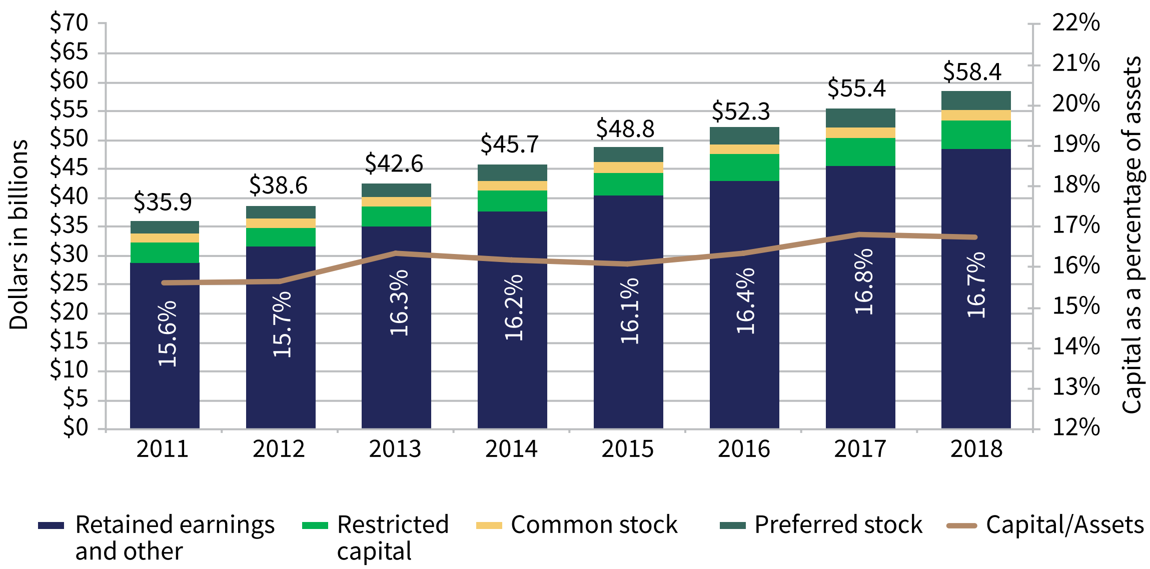
System investments available-for-sale (based on fair value) increased to $58.5 billion and had a weighted average yield of 2.39%. Under FCA regulations, each System bank may hold federal funds and available-for-sale securities in an amount not to exceed 35% of its average loans outstanding for the quarter.

Excluded from the bank's liquidity calculations and the eligible investment

Figure 8

FCS capital, 2011 – 2018

As of Dec. 31



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

limitation are the System's mission-related investments. Mission-related and other investments available for sale (based on fair value) equaled $467 million, with a weighted average yield of 3.21%. Mission-related and other investments held to maturity equaled $2.7 billion, with a weighted average yield of 3.78%.

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 continued to support System capital growth in 2018. Total capital equaled $58.4 billion at Dec. 31, 2018, compared with $55.4 billion at year-end 2017. At year-end 2018, the System's capital-to-assets ratio was 16.7%, compared with 16.8% in 2017.

As illustrated in figure 8, retained earnings is the most significant component of System capital at 79.5%. FCA regulations establish minimum capital levels that each System bank and association must achieve and maintain. As of Dec. 31, 2018, capital levels at all System banks and associations were above the regulatory minimum capital requirements.

As an additional layer of protection for Systemwide debt securities holders, the FCS had $5.0 billion of restricted capital in the Farm Credit Insurance Fund as of Dec. 31, 2018.

Ratings

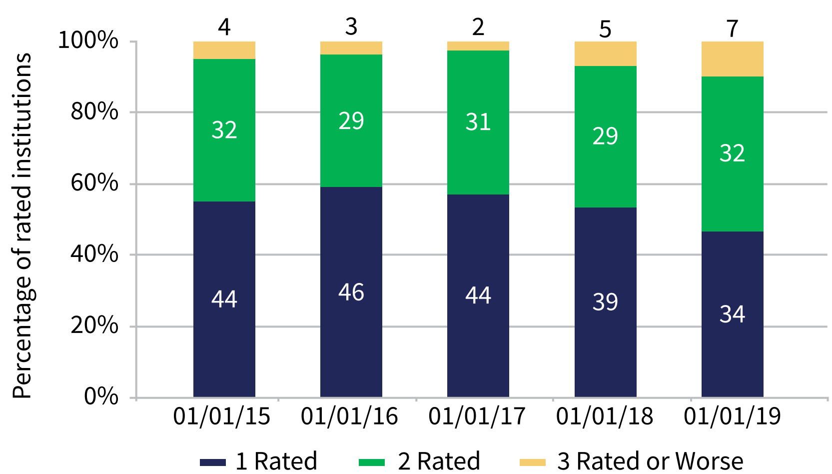
FCA uses the Financial Institution Rating System (FIRS) to assess the safety and soundness of each FCS institution. Similar to the systems used by other federal banking regulators, FIRS is a framework of component and composite ratings to help examiners evaluate significant financial, asset quality,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

As figure 9 shows, the financial condition and performance of the FCS remains strong. The System's strength reduces the risk to investors in FCS debt, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders.

Based on the institutions' Dec. 31, 2018, financial information, 66 FCS institutions were rated 1 or 2 (90%) and 7 institutions were rated 3 or lower (10%). The institutions rated 3 or lower represented less than 2.5% of the System's total assets, which is well within the System's risk-bearing capacity.

Figure 9

Financial Institution Rating System (FIRS) composite ratings for the FCS, 2015 – 2019



FCA's FIRS ratings database.

Note: Figure 9 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.

Each institution must annually report to FCA on the operations and achievements of its YBS program.

Serving young, beginning, and small farmers and ranchers

FCA supports the Farm Credit System's mission to serve young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products. We define young farmers as those who are 35 years old or younger, beginning farmers as those who have been farming for 10 years or less, and small farmers as those with less than $250,000 in annual sales.

The System's YBS mission is outlined in the Farm Credit Act, and we have adopted regulations to implement the YBS provisions of the act. 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

The association's board oversight and reporting are key parts of every YBS program. Each institution must annually report to FCA on the operations and achievements of its YBS program. Each association must also establish an internal control program to ensure that it provides credit in a safe and sound manner.

In addition, FCA regulations require association business plans to include a marketing plan and strategies with specific outreach toward diversity and inclusion within each market segment. Operational and strategic business plans must include the goals and targets for the association's YBS lending. System institutions must also coordinate with other government and private sources of credit in implementing their YBS programs. FCA's oversight and examination activities monitor each institution's assessment of its performance and market penetration in the YBS area.

Current reporting practices and guidance involve technology, data, and standards developed primarily in the 1990s. To provide a more accurate picture of System service to YBS producers, we issued an advance notice of public rulemaking on the topic in February 2019. The purpose of this notice was to solicit public input on how we might achieve the following:

- Improve the accuracy, transparency, and process by which we ensure that YBS farmer data are properly collected and reported by the FCS
- Clarify the definitions of terms related to the collection, reporting, and identification of YBS farmer data
- Ensure the definitions of YBS farmers and related terms remain relevant and reflective of the evolving agricultural economy

- Evaluate the effectiveness of each FCS institution's YBS program to achieve its mission of serving YBS farmers

The 90-day comment period on the public notice closed in May 2019. We appreciate the comments we received, and we're in the process of reviewing this input and developing additional guidance to enhance the reporting, definitions, evaluation, and service related to YBS farmers and ranchers. FCA is committed to a long-term strategy to improve and modernize these efforts. In 2020, we plan to provide the System updated guidance regarding the YBS mission.

Quantitative results

The following information summarizes the quantitative information that System institutions provided for their YBS programs.

In 2018, a total of 257,318 new loans were made by the System, totaling $85.7 billion. The total number of outstanding loans at year-end 2018 was 910,111, amounting to $263.8 billion.

Young: The System reported making 46,680 new loans to young farmers in 2018, and the volume of these loans amounted

Table 4A

YBS loans made during 2018

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	46,680	18.1%	$9,765	11.4%	$209,200
Beginning	62,323	24.2%	$13,327	15.6%	$213,839
Small	114,817	44.6%	$12,479	14.6%	$108,684

Table 4B

YBS loans outstanding as of Dec. 31, 2018

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	177,132	19.5%	$30,885	11.7%	$174,363
Beginning	268,444	29.5%	$47,100	17.9%	$175,455
Small	456,305	50.1%	$49,533	18.8%	$108,552

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

Note: The YBS 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.

to $9.8 billion. The new loans made to young farmers in 2018 represented 18.1% of all loans the System made during the year and 11.4% of the dollar volume of loans made. At the end of 2018, the System reported 177,132 loans outstanding to young farmers, totaling $30.9 billion.

Beginning: The System reported making 62,323 new loans to beginning farmers in 2018, and the volume of these loans amounted to $13.3 billion. The new loans made to beginning farmers in 2018 represented 24.2% of all System loans made during the year and 15.6% of the dollar volume of loans made. At the end of 2018, the System reported 268,444 loans outstanding to beginning farmers, totaling $47.1 billion.

Small: System institutions reported making 114,817 new loans to small farmers in 2018, totaling $12.5 billion. The new loans made to small farmers in 2018 represented 44.6% of all System loans made during the year and 14.6% of the dollar volume of loans made. At the end of 2018, the System reported 456,305 loans outstanding to small farmers, totaling $49.5 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.

New loans made in 2018 by dollar volume

From December 31, 2017, to December 31, 2018, the System's overall new loan dollar volume increased by 12.2%. New loan dollar volume to young farmers increased by

FCA supports the Farm Credit System's mission to serve young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products.

7.6%, to beginning farmers by 7.1%, and to small farmers by 6.8%. (See table 5A.)

The number of loans made during the year decreased for both total System lending and for all YBS categories. The number of total System loans made during the year decreased by 21.4%. The number of loans to young farmers decreased by 17.7%, while the number of loans to beginning farmers decreased by 15.5% and to small farmers by 16.1%.

The ratio of new YBS loans (by number) to total new System loans increased from 2017 to 2018. For young farmers, the ratio increased from 17.3% to 18.1%, for beginning farmers from 22.5% to 24.2%, and for small farmers from 41.8% to 44.6%. (See figures 10A, 10B, and 10C).

Outstanding loans by dollar volume

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding increased in 2018. Total System loan dollar volume outstanding increased by 3.2%, and loan dollar volume outstanding to young farmers increased by 6.2%, to beginning farmers by 4.5%, and to small farmers by 1.8%. (See table 5B.)

Outstanding loans by number of loans

The total number of loans outstanding both for the System as a whole and for YBS borrowers decreased in 2018. The number of System loans outstanding decreased by 9.5%. The number of loans outstanding to young farmers decreased by 5.3%, to beginning farmers by 3.8%, and to small farmers by 6.8%.

The ratio of outstanding YBS loans (by number) to total outstanding System loans increased from 2017 to 2018. For young farmers, the ratio increased from 18.6% to 19.5%, for beginning farmers from 27.7% to 29.5%, and for small farmers from 48.7% to 50.1%.

The decrease in the number of new and outstanding loans was primarily driven by changes in the way System institutions have been tracking loan participations — which are loans that are shared by two or more institutions. Under the current approach and FCA's direction for reporting, an institution may count each participation interest as a separate loan for FCA's YBS reporting. Therefore, each institution participating in a multi-lender credit to an individual YBS farmer may count that credit in its YBS reporting. This leads to duplication when the YBS and non-YBS numbers are consolidated at the System-wide level.

Table 5A

Change in new YBS lending from 2017 to 2018

YBS category	Dollar volume	Loan numbers
Young	7.6%	-17.7%
Beginning	7.1%	-15.5%
Small	6.8%	-16.1%

Table 5B

Change in outstanding YBS lending from 2017 to 2018

YBS category	Dollar volume	Loan numbers
Young	6.2%	-5.3%
Beginning	4.5%	-3.8%
Small	1.8%	-6.8%

Figure 10A
Young farmers and ranchers

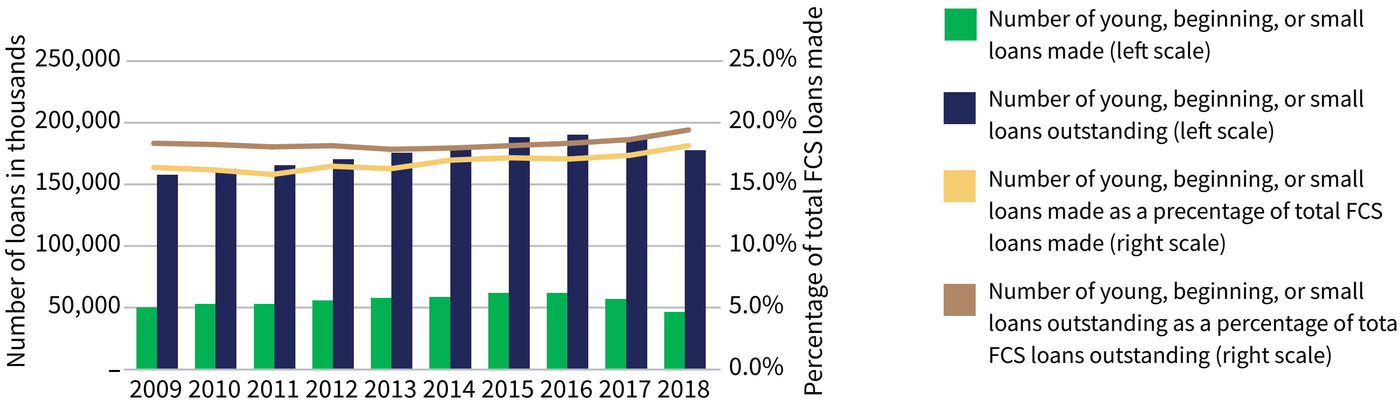


Figure 10B
Beginning farmers and ranchers

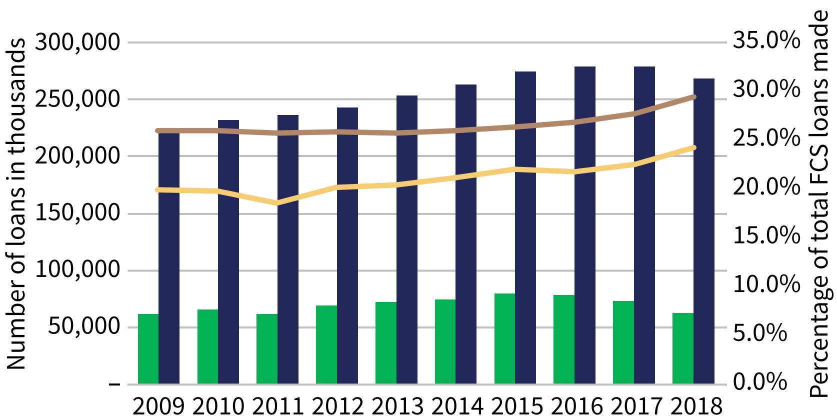
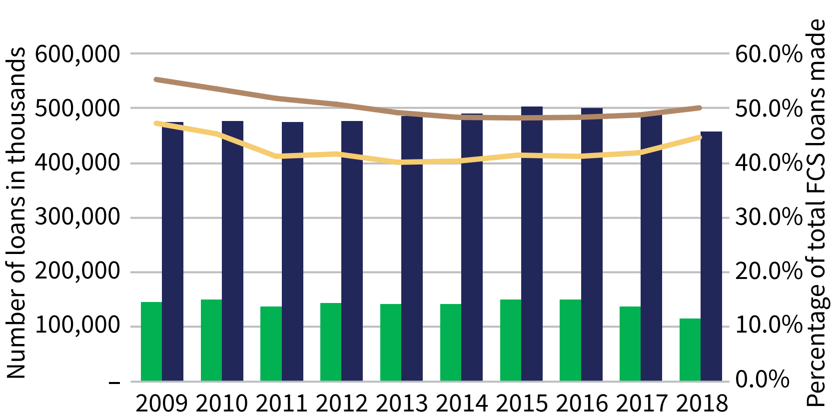


Figure 10C
Small farmers and ranchers



In 2018, a change in how certain credits are shared led to a reduction in reported loan numbers. FCA issued an advance notice of proposed rulemaking in February of this year as a first step in a multi-year effort to improve and modernize YBS activities. FCA is actively working to update guidance, methodology, data collection, and evaluation of YBS activities.

Qualitative results

System institutions are responsible for serving the needs of YBS farmers in a safe and sound manner, and they do so in various ways. Most institutions use federal or state loan guarantees as part of their YBS programs. Some institutions have specific YBS capital commitment programs to mitigate credit risk and help them make YBS loans. Some institutions also use YBS-specific underwriting standards, personal guarantors, and co-signers.

FCA regulations require institutions to establish goals for offering "related" services to YBS farmers, as well as credit. To provide these services, institutions coordinate with other System institutions and government and private sources. Examples of services offered in 2018 include the following:

- Crop insurance
- Risk management seminars
- Financial document preparation
- Educational courses
- Farm management seminars
- Generational transfer workshops

Institutions reported networking and partnering with a host of agencies and organizations, including USDA's Farm Service Agency, district funding banks, Extension Service staff, other Farm Credit System institutions, producer organizations, nonprofits, state and local government, and the Natural Resources Conservation Service.

Institutions conducted new studies or updated previous studies that researched the demographic diversity and financial needs of current and potential YBS farmers. Through these studies and other efforts, institutions identified new market segments and worked to reach 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 are veterans, women, next-generation farmers, minority farmers, organic farmers, and local food hubs.

Outreach programs were used to connect with current and potential YBS farmers. In 2018, some institutions updated their websites and started new and potential borrower relations 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 and local and regional food banks.

Of the institutions that provided educational opportunities for YBS borrowers, some offered one-time classes or webinars, while others had 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 held economic outlook meetings and next-generation conferences.

Institutions employed a variety of advertising methods to reach potential YBS farmers in 2018. They increased their social media activity; issued press releases;

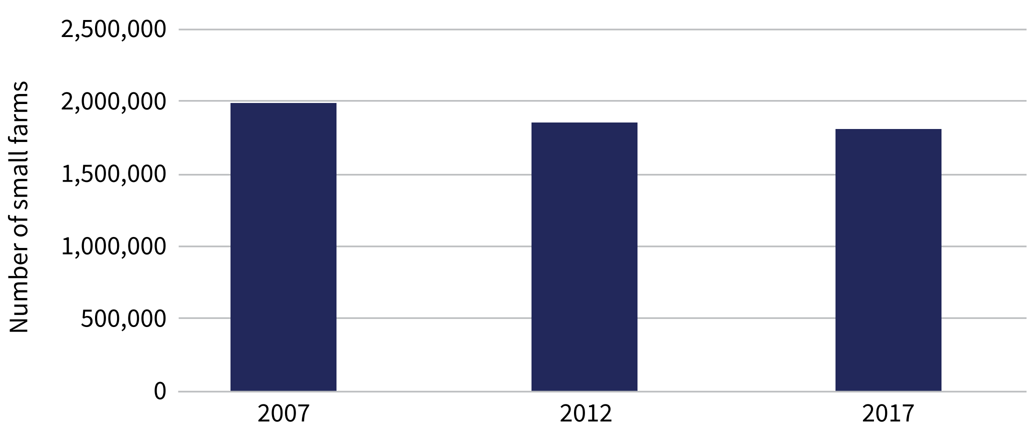
advertised through magazines, radio, and television; published blogs and websites; and networked person to person.

Characteristics of YBS farmers

According to the 2017 Census of Agriculture, approximately 9% of all farmers were 35 years old or younger, and 12% of farms had at least one young farmer on the operation. Approximately 27% of all farmers had 10 or fewer years of experience in farming or ranching (that is, they were "beginning farmers"), and 29% of all farms had at least one beginning farmer on the operation. The average age of beginning farmers in 2017 was 46.3 years old — more than a decade younger than the overall average age of 57.5 years.

In 2017 there were 1.8 million small farms — that is, farms with $250,000 or less in agricultural sales. As shown in figure 11, from 2007 to 2017, the number of small farms declined. The ratio of small farms to all farms also declined. These declines are at least partially due to inflation. Because of inflation, more and more farms would have grown out of the small category. However, despite the decrease in the relative share of small farms, they still composed a large majority (89%) of all farms in 2017.

Figure 11
Number of small farms



Source: FCA Office of Regulatory Policy, based on data from the 2017 Census of Agriculture.

Our examiners determine how issues affecting agriculture and the economy create risk for System institutions.

Examining and regulating the banks and associations

Examination

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

Our examiners also evaluate whether each institution is fulfilling its chartered mission to provide credit and financially related services to all eligible, creditworthy customers. They do so in a couple of ways. They determine whether each institution is complying with mission-related laws and regulations. They also evaluate System outreach efforts and best practices in implementing innovative programs for serving the credit needs of eligible agricultural producers and cooperatives, including young, beginning, and small farmers and ranchers.

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

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

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

National oversight program for FY 2019

In addition to monitoring risks that are unique to a single institution, we also monitor risks that affect the System as a whole. Each year we develop a national oversight plan that takes certain systemic risks into account. In 2019, we emphasized two types of risk:

- **Portfolio risk.** Production agriculture has experienced considerable stress in recent years, with a prolonged period of relatively low net farm income and low prices for key commodities. The stress during this period has eroded the working capital and the debt repayment capacity of many producers. As a result, we monitored credit risk closely in FY 2019, particularly in loans to producers of cash grains, cattle, and dairy.

- **Internal controls over financial reporting.** Ensuring accurate financial reporting is critical to the System's ability to sell its debt to investors. In examinations completed in 2019, we focused on the institutions' internal controls over financial reporting. During those examinations, we tested to ensure the institutions' controls included logical delegated authorities, clear segregation of duties, appropriate access controls to loan and accounting systems, and detective and corrective controls.

Three tiers of supervision

In examining and overseeing System institutions, we use a three-tiered program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and are complying with laws and regulations. These institutions 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 a timeframe for correcting 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 several reasons:

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

Our enforcement authorities include the following powers:

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

If we take an enforcement action, the FCS institution must operate under the conditions of the enforcement document and report back to us on its progress in addressing the issues identified. The document may require the institution to take corrective actions, such as reducing risk exposures, increasing capital, enhancing earnings, and strengthening risk management. Our examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of Jan. 1, 2019, no FCS institutions were under enforcement action.

Borrower rights

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

- To know the current effective rate of interest on their loan by the date it closes
- To be informed that they are required to purchase at-risk stock in their FCS institution
- To receive copies of all the documents they have signed by the time the loan closes
- To be informed promptly as to whether their loan application has been accepted, reduced, or denied
- To be informed of their right to request restructuring for their loan if they cannot meet current payments
- To obtain a credit committee review of a denial or reduction of a loan request and a denial of a restructuring request
- To have first refusal when their FCS institution decides to sell any agricultural property it has acquired from them

We also receive and review complaints from borrowers who believe their rights have been denied. If we find violations of law or regulations, we have several options to bring about corrective action. In 2018, we received 43 borrower complaints, compared with 39 in 2017.

Regulation

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

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs. With our regulations, we seek to meet two general objectives. The first is to ensure that the System continues to be a dependable source of credit and related services for agriculture and rural America while also ensuring that System institutions comply with the law and with the principles of safety and soundness. The second is to promote participation by member-borrowers in the management, control, and ownership of their System institutions.

Regulatory activity in 2018

The following paragraphs describe some of FCA's regulatory efforts in 2018, along with several projects that will remain active in 2019. 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.

Investment eligibility — The FCA board approved a final rule in May 2018 that amended the FCA regulations governing eligible investments and investment management at System banks and associations.

Standards of conduct — The FCA board approved a proposed rule in May 2018 that would require each System institution to have a Standards of Conduct Program and a code of ethics that put into practice core ethical values as part of its corporate culture.

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

Eligibility criteria for outside directors — The FCA board approved a proposed rule in July 2018 that would amend the eligibility criteria for outside director candidates to ensure independence of outside directors.

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 the controls remain effective and comply with FCA regulations.

Revised capital treatment for certain rural water and wastewater facility exposures — The FCA board approved a bookletter in November 2018 to convey the reduced risk weight for certain rural water and wastewater exposures that meet specific criteria.

Regulatory capital treatment of certain centrally cleared derivative contracts — We issued an informational memorandum in April 2018 to provide guidance to System institutions on regulatory capital treatment of certain centrally cleared derivative contracts. We issued this guidance in response to changes certain central counterparties have made to their rulebooks.

Phase-out of LIBOR — We issued an informational memorandum in September 2018 to provide guidance to System institutions on planning and preparing for the expected phase-out of the London Interbank Offered Rate (LIBOR).

Guidance on Farm Credit bank and association nominating committees — The FCA board revised an existing bookletter in November 2018 that provides guidance on organizing the nominating committees of System banks and associations.

National Oversight and Examination Program for 2019 — We issued an informational memorandum in October 2018 that summarized the National Oversight Plan for 2019. The plan detailed strategies for addressing critical risks and other areas of focus.

Compensation for 2018 — 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.

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.

Corporate activity in 2018

In 2018 and early 2019, we analyzed and approved two corporate applications.

- On Jan. 1, 2018, an ACA affiliated with AgriBank changed its name.
- On July 1, 2019, an ACA affiliated with CoBank, ACB, combined its operations with another ACA in the CoBank district. The PCA and FLCA subsidiaries associated with the ACAs also combined their operations.

The total number of associations as of July 1, 2019, was 68 (67 ACAs and 1 FLCA), unchanged from a year earlier. We publish information about corporate applications on our website at www.fca.gov.

Funding activity in 2018

During 2018, 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 financial performance and strength.

Risk spreads and pricing on System debt securities during 2018 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 were in conservatorship and were congressionally mandated to reduce their respective debt outstanding to $250 billion by Jan. 1, 2019. As a result of the strong demand for System debt, the System was able to continue to issue debt on a wide maturity spectrum at highly 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 efficiently flow from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with ready access to global resources. At year-end 2018, Systemwide debt outstanding was $281.5 billion, representing a 6.1% increase from the preceding year-end.

Several factors contributed to the $16.3 billion increase in Systemwide debt outstanding. Gross loans increased $13.2 billion in 2018, while the System's combined investments, federal funds, and cash balances increased by $6.1 billion during the year.

The System had $2.62 billion in outstanding perpetual preferred stock at the end of 2018, $100 million more than at the previous year-end. The System had no outstanding subordinated debt at year-end 2018. It also had no outstanding subordinated debt at year-end 2017.

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, which we monitor on an ongoing basis, that allows the System to issue discount notes at any time up to an outstanding balance of $60 billion. In addition, we approve most longer-term debt issuances through a monthly "shelf" approval program. For 2018, we approved $127.5 billion in longer-term debt issuances through this program.

The amount of debt issued by the System increased in 2018. For the 12 months ended Dec. 31, 2018, the System issued $309 billion in debt securities, compared with $278 billion in 2017, $334 billion in 2016, $298 billion in 2015, and $330 billion in 2014. The System issued more debt in 2018 for two primary reasons: the domestic economy continued to grow, and the credit needs of System borrowers increased because of lower commodity prices.

The amount of outstanding debt on which the System exercised its call options declined substantially because of the persistent increases in yields during 2018. The System exercised calls on $29 million of its outstanding debt in 2018, compared with $5.3 billion in the preceding year.

Favorable investor sentiment 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 in 2018. The weighted average of remaining maturities was unchanged for 2018 at 2.9 years. Meanwhile, the weighted-average interest rates for insured debt increased substantially, going from 1.64% as of Dec. 31, 2017, to 2.31% as of Dec. 31, 2018.

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%. In addition, FCA regulations provide for a 1% leverage ratio buffer. Certain restrictions apply if the buffer does not exceed 1%. Throughout 2018, all System banks maintained their tier 1 leverage ratios above the required minimum and the accompanying buffer, with 5.5% being the lowest for any single bank as of Dec. 31, 2018.

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, 2018, were as follows:

- 22 days (15 days regulatory minimum) of level 1 assets
- 70 days (30 days regulatory minimum) of level 1 and 2 assets
- 135 days (90 days regulatory minimum) of level 1, 2, and 3 assets
- 160 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 2018, all Farm Credit System banks maintained scores above the benchmarks in the Contractual Interbank Performance Agreement.

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%.

Farmer Mac offers greater liquidity and lending capacity to agricultural and rural lenders.

Farmer Mac

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

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

Farmer Mac is a federally chartered instrumentality and an institution of the FCS. However, it has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac debt.

Farmer Mac conducts activities through four major lines of business:

- Farm & Ranch, which involves mortgage loans secured by first liens on agricultural real estate and rural housing.
- USDA Guarantees, 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 made by cooperative lenders to finance rural electric facilities.
- Institutional Credit, which involves Farmer Mac's purchase or guarantee of collateralized bonds known as AgVantage securities. AgVantage bonds are general obligations of the issuer that are secured by pools of eligible loans or real estate.

Farmer Mac purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing obligations secured by those loans or assets that qualify as eligible agricultural real estate collateral, 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.

Examining and regulating Farmer Mac

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

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

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

On Sept. 13, 2018, the FCA board approved a final rule governing eligibility criteria for Farmer Mac's nonprogram investments. In the final rule, we also revised our creditworthiness standards. In doing so, we fulfilled a requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring federal agencies to replace references to credit ratings in their regulations with some other measure of creditworthiness.

Later, in March 2019, the FCA board approved a bookletter to provide guidance to Farmer Mac on managing interest rate risk.

Financial condition of Farmer Mac

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. Table 6 summarizes Farmer Mac's condensed balance sheets at the end of each calendar year from 2013 to 2018.

Capital

As of Dec. 31, 2018, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was $752.6 million, compared with $708.1 million a year earlier. Its net worth was 4.0% of its on-balance-sheet assets as of Dec. 31, 2018, unchanged from 2017 results. Net worth, in terms of dollars, went up primarily because of increases in retained earnings.

When Farmer Mac's off-balance-sheet program assets (essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 3.3% as of Dec. 31, 2018, compared with 3.2% in 2017. Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2018, 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 $727.6 million, exceeding the statutory minimum capital requirements of $545.0 million by $182.6 million or 33.5%.

Its regulatory capital (core capital plus allowance for losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test. Farmer Mac's regulatory capital totaled $736.8 million as of Dec. 31, 2018, exceeding the regulatory risk-based capital requirement of $119.0 million by $617.8 million.

Regulatory capital was 4.3% 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 guaranteed portions is very low because they are backed by the U.S. Department of Agriculture. Table 7 offers a historical perspective on capital and capital requirements for 2013 through 2018.

Table 6
Farmer Mac condensed balance sheets, 2013 – 2018

As of Dec. 31
Dollars in millions

Financial statement line item	2013	2014	2015	2016	2017	2018	Growth rate 2017–2018
Total assets	$13,361.8	$14,287.8	$15,540.4	$15,606.0	$17,792.3	$18,694.3	5.1%
Total liabilities	$12,787.3	$13,506.0	$14,986.6	$14,962.4	$17,084.1	$17,941.8	5.0%
Net worth or equity capital	$574.5	$781.8	$553.7	$643.6	$708.1	$752.6	6.3%

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

Table 7
Farmer Mac capital positions, 2013 – 2018

As of Dec. 31
Dollars in millions

Capital category	2013	2014	2015	2016	2017	2018
GAAP equity	$574.5	$781.8	$553.7	$643.6	$708.1	$752.6
Core capital	$590.7	$766.3	$564.5	$609.7	$657.1	$727.6
Regulatory capital	$604.0	$776.4	$571.1	$617.1	$665.9	$736.8
Statutory requirement	$398.5	$421.3	$462.1	$466.5	$520.3	$545.0
Regulatory requirement	$90.8	$121.6	$72.2	$104.8	$235.4	$119.0
Surplus core capital over statutory requirement*	$192.2	$345.0	$102.4	$143.2	$136.8	$182.6
Capital margin excess over the minimum	48.2%	81.9%	22.2%	30.7%	26.3%	33.5%

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

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

Table 8
Farmer Mac condensed statements of operations, 2013 – 2018

As of Dec. 31
Dollars in millions

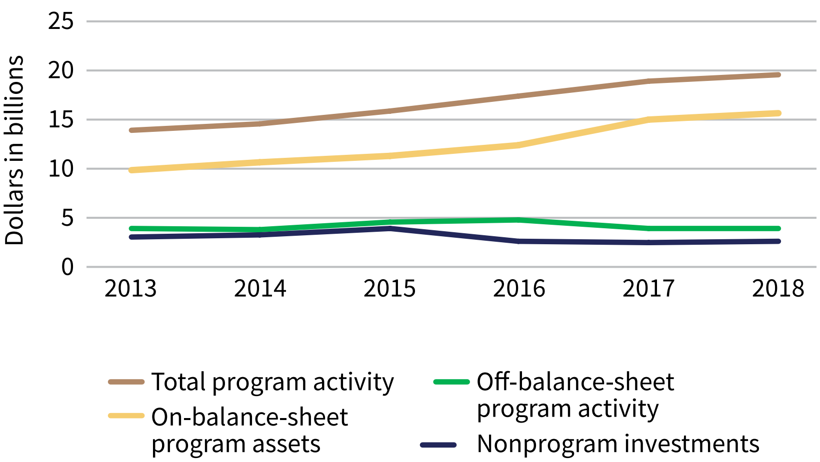
Income statement category	2013	2014	2015	2016	2017	2018	Growth rate 2017–2018
Total revenues	$164.4	$103.6	$145.9	$160.8	$175.1	$186.1	6%
Total expenses	$92.5	$65.4	$98.5	$96.6	$103.8	$91.2	−12%
Net income available to common stockholders	$71.8	$38.3	$47.4	$64.2	$71.3	$94.9	33%
Core earnings	$54.9	$53.0	$47.0	$53.8	$65.6	$84.0	28%

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

Figure 12

Farmer Mac program activity and nonprogram investment trends

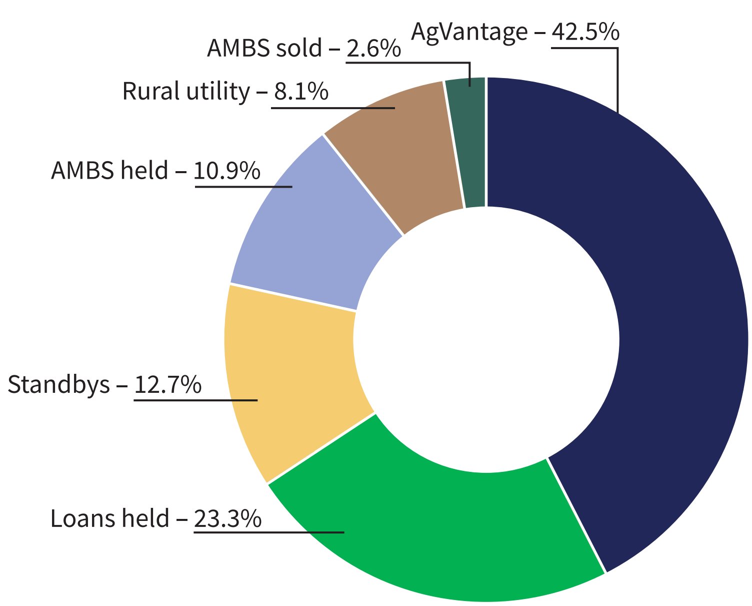
As of Dec. 31



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

Figure 13

Farmer Mac total program activity



Source: Farmer Mac's Report on Securities and Exchange Commission Form 10-K.
AMBS = agricultural mortgage-backed securities.

Program activity

Farmer Mac's total program activity increased to $19.7 billion by year-end 2018, up from $19.0 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 2018, 20.2% of program activity consisted of off-balance-sheet obligations, as compared with 21.3% 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 a fee in return for Farmer Mac's commitment to stand ready (that is, "stand by") to purchase loans at face value even under adverse conditions. As shown in figure 13, standbys represented 12.7% of Farmer Mac's total program activity in 2018.

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, 2018, Farmer Mac's allowance for losses totaled $9.2 million, compared with $8.9 million the year before. Of its Farm & Ranch program portfolio, $232.7 million was substandard, representing 3.22% of the principal balance of Farm & Ranch loans purchased, guaranteed, or committed to be purchased. This compares with $221.3 million on Dec. 31, 2017. The ratio of substandard assets to the principal balance of Farm and Ranch loans remained the same from 2017 to 2018, at 3.22%. 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, 2018, Farmer Mac's 90-day delinquencies decreased to $26.9 million, or 0.37% of Farm & Ranch loans, compared with $48.4 million, or 0.71%, as of Dec. 31, 2017.

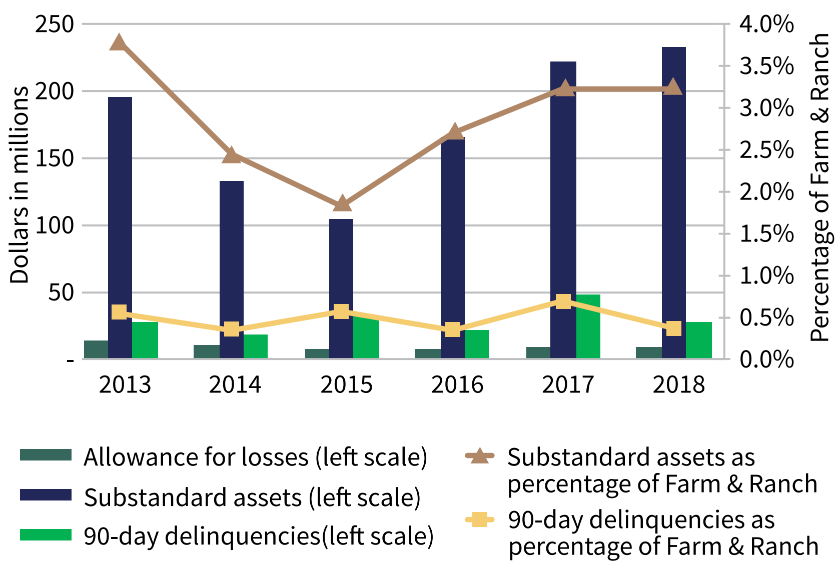
Real estate owned at the end of 2017 was $0.13 million, down from $0.14 million a year earlier. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

Earnings

Farmer Mac reported net income available to common stockholders of $94.9 million (in accordance with GAAP) for the year ended Dec. 31, 2018, up from $71.3 million reported at year-end 2017. Core earnings for 2018 were $84.0 million, compared with $65.6 million in 2017. Net interest income, which excludes guarantee fee income, was reported at $174.2 million in 2018, up from $155.9 million in 2017. Guarantee fee income was $14.0 million, compared with $14.1 million in 2017. Table 8 shows a six-year trend for the basic components of income.

Figure 14

Allowance, nonperforming asset, and delinquency trends, 2013 – 2018



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

Figure 15
FCA organizational chart as of September 2019

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

FCA Board

Glen R. Smith, Chairman

Jeffery S. Hall, Member

Office of the Board Chairman and Chief Executive Officer
Glen R. Smith

Office of Inspector General
Wendy R. Laguarda

Office of the Chief Operating Officer
S. Robert Coleman

Office of Secondary Market Oversight*
Laurie A. Rea

Office of Congressional and Public Affairs
Michael A. Stokke

Designated Agency Ethics Official
Jane Virga

Equal Employment and Inclusion Director
Thais Burlew

Secretary to the Board
Dale L. Aultman

Office of the Chief Financial Officer
Stephen G. Smith

Office of Agency Services
Vonda Bell

Office of Examination
Roger Paulsen (Acting)

Office of Information Technology
Jerald Golley

Office of Regulatory Policy
David Grahn

Office of General Counsel†
Charles R. Rawls

A view from inside the Farm Credit Building, the headquarters of the Farm Credit Administration, located in McLean, Virginia.

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

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

FCA's Organization and Leadership

Organization of FCA

FCA's headquarters and one field office are in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. As of September 1, 2019, we had 317 employees.

FCA's leadership

Currently, FCA has only two board members: Chairman Glen R. Smith and Board Member Jeffery S. Hall. The board has one vacancy because former Chairman Dallas Tonsager passed away in May 2019. Please see "In Memoriam" on page 51.

Glen R. Smith, FCA Board Chairman and CEO

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

Jeffery S. Hall, Board Member

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

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

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

From 1994 to 2001, Mr. Hall served as assistant to the dean of the University of Kentucky, College of Agriculture, advising the dean on state and federal legislative activities and managing a statewide economic development initiative called Ag-Project 2000.

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

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

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for 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.

Dallas P. Tonsager, Former Chairman

Dallas P. Tonsager was appointed to the Farm Credit Administration board by President Barack Obama on March 13, 2015. He was designated chairman and CEO by President Obama on November 22, 2016. He died in office on May 21, 2019.

Mr. Tonsager brought 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. He also 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.

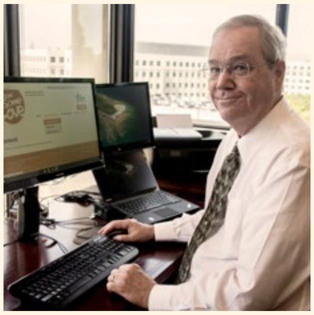
In 1993, he was selected by President William J. Clinton to serve as USDA's state director for rural development in South Dakota. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota. His term ended in February 2001.

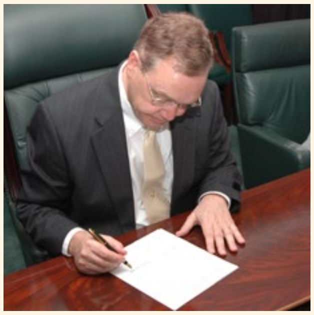
A longtime member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization from 1988 to 1993. During that same period, he was a board member of Green Thumb Inc., a nationwide job training program for senior citizens. In addition, he served on the board of National 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. He was a graduate of South Dakota State University where he earned a Bachelor of Science in agriculture in 1976.

In Memoriam: Dallas P. Tonsager

June 24, 1954 - May 21, 2019





Appendix

Glossary

Agricultural credit association — An ACA results from the merger of a federal land bank association (or a federal land credit association) and a production credit association (PCA) and has the combined authority of the two institutions. An ACA borrows funds from a farm credit bank or an agricultural credit bank to provide short-, intermediate-, and long-term credit to farmers, ranchers, and producers and harvesters of aquatic products. It also makes loans to these borrowers for certain processing and marketing activities, to rural residents for housing, and to certain farm-related businesses.

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

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

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)

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.

Additional information

The Farm Credit Administration 2018 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
101 Hudson Street, Suite 3505
Jersey City, NJ 07302
Telephone: 201-200-8131

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
McLean, VA 22102
Telephone: 703-883-4380