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**Farm Credit Administration  
Fiscal Year 2017 Proposed Budget  
and Performance Plan**



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## **List of Acronyms and Abbreviations**

ACA	Agricultural Credit Association
CAMELS	capital, assets, management, earnings, liquidity, and sensitivity
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Farm Credit Act	Farm Credit Act of 1971, as amended
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
Leasing Corporation	Farm Credit Leasing Services Corporation
FCS or System	Farm Credit System
FCSBA	FCS Building Association
FCSIC	Farm Credit System Insurance Corporation
FIRS	Financial Institution Rating System
FLCA	Federal Land Credit Association
FTE	full-time equivalent
FTP	full-time permanent
FY	fiscal year
Funding Corporation	Federal Farm Credit Banks Funding Corporation
GSE	government-sponsored enterprise
IT	information technology
NCB	National Consumer Cooperative Bank
OSMO	Office of Secondary Market Oversight
PCA	Production Credit Association
RBC	risk-based capital
USDA	U.S. Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)



## **Preface**

The Farm Credit Administration is an independent agency in the executive branch of the U.S. government. We are responsible for the regulation and examination of the banks, associations, and related entities that collectively constitute what is known as the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).<sup>1</sup>

Created by an executive order of the President in 1933, FCA now derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. We promulgate regulations to implement the act and examine System institutions for compliance with the act and regulations, and with safe and sound banking practices. Our mission is to promote a safe, sound, and dependable source of credit and related services for agriculture and rural America.

This document presents and justifies our proposed budget for fiscal year 2017. It discusses our functions and program activities and presents an overview of the financial condition of the FCS and Farmer Mac, the entities we regulate. Also included is the fiscal year 2017 performance budget, which ties proposed expenditures to the goals and objectives in our strategic plan. Please note: Because of formatting changes to make the document more readable and to meet requirements of Section 508, the FY 2017 report has more pages than the FY 2016 report, but the word count remains comparable.

This document is organized into four sections as follows:

1. Part I contains our budget request. This section presents budget trends that we monitor annually.
2. Part II covers the functions, programs, and services we undertake to fulfill our public mission. It also provides information on actions we have taken to improve internal operations.
3. Part III discusses the System's financial condition and performance.
4. Part IV contains our FY 2017 performance budget, which provides a basis for measuring our overall effectiveness.

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<sup>1</sup> Although Farmer Mac is an FCS institution under the Farm Credit Act (12 U.S.C. 2279aa-1(a)(2)), we discuss Farmer Mac separately from the other entities of the FCS in this document because of the secondary market authorities unique to Farmer Mac. Farmer Mac is not jointly and severally liable on debt issuances with other parts of the FCS.



# **Part I**

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## **Fiscal Year 2017 Proposed Budget**



## Fiscal Year 2017 Budget Overview

The FY 2017 proposed budget request, as shown in table 1, includes \$69.8 million in assessments (current year and carryover funds) from FCS institutions, including Farmer Mac. Reimbursable funding from the U.S. Department of Agriculture, Farm Credit System Insurance Corporation, and the National Consumer Cooperative Bank adds \$600,000 to this amount, bringing the total proposed FCA budget request to \$70.4 million.

**Table 1. Farm Credit Administration FY 2017 Proposed Budget**

Description	Amount Proposed	Percentage of Total Budget
Full-time-permanent personnel (FTP)	\$41,405,933	58.8
Other than FTP	1,081,701	1.6
Other personnel compensation	374,167	0.5
<b>Total personnel compensation</b>	<b>\$42,861,801</b>	<b>60.9</b>
Personnel benefits	16,081,217	22.8
Benefits for former personnel	25,000	0.0
<b>Total compensation and benefits</b>	<b>\$58,968,018</b>	<b>83.7</b>
Travel and transportation of persons	3,822,802	5.4
Transportation of things	166,400	0.2
Rent, communications, and utilities	885,890	1.3
Printing and reproduction	240,750	0.4
Consulting and other services	4,577,516	6.5
Supplies and materials	741,659	1.1
Equipment	996,965	1.4
<b>Total budget</b>	<b>\$70,400,000</b>	<b>100.0</b>

Note: Of the amount collected in assessments from current and prior years, no more than \$69.8 million may be used for administrative expenses in FY 2017. The total budget includes an additional \$600,000 from anticipated reimbursable activity.

The FY 2017 proposed budget of \$70.4 million increased by \$1.0 million over the FY 2016 proposed budget of \$69.4 million. Because we have leveraged technology and continually emphasized savings and efficiencies in operations, our costs have remained relatively stable. As a result, we are able to present a prudent, cost-effective budget.

The FY 2017 budget is necessary to maintain an effective examination program. A robust examination program will help us identify any emerging risks early so that we can better protect the safety and soundness of the Farm Credit System.

The environment in which the FCS operates is dynamic and increasingly complex. The challenges in the nation's financial sector over the past few years were important considerations during our most recent strategic planning period. As a result, we have redirected staff resources to proactively manage systemic risk and to continually seek ways to increase our effectiveness and efficiency. We are also adding staff to our examination program in FYs 2016 and 2017 to address our current challenges.

In the FY 2017 proposed budget, the full-time-equivalent (FTE) staffing level increases by approximately five FTE positions over the FY 2016 proposed budget. The FY 2017 budget also anticipates increases in spending for salaries and benefits — both because of career-ladder promotions and the hiring of staff for the agency's newly created Office of Information Technology. As an agency covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, we must strive to achieve comparability in compensation and benefit programs with other agencies covered under the act.

In addition, the FY 2017 proposed budget takes into account increases in funded leave, training and travel needs of our newly hired examiners, IT security enhancements, IT maintenance, and replacements for network equipment.

The budget provides the resources needed to fulfill the objectives of the FCA Board Chairman and CEO, which are as follows:

- To maintain strong examination and supervisory programs
- To establish the right level of regulatory capital for FCS institutions
- To ensure that the public purpose and mission-related responsibilities of the System are carried out appropriately

The budget continues to implement the FCA Board's philosophy on risk-based examination. We have included sufficient resources to ensure that risks are properly identified, managed, and controlled. These resources will enable us to send our examiners to the institutions we regulate to perform on-site testing of the institutions' credit reviews, internal audits, and internal controls. In addition, we will continue to invest in IT modeling applications to help us identify risk throughout the System. The budget also includes resources to hire contractors when we need technical specialists and technology upgrades. (For more information about our risk-based examination and supervision, see page 39.)

The budget provides resources for developing regulations and policy positions that implement statutes, for promoting the safety and soundness of the FCS, and for supporting the System's mission as a dependable source of credit and related services for agriculture and rural America.

We also continue to invest in our human capital initiative. This initiative promotes learning, expertise, and personal growth among our employees. It is an important part of our strategy to retain our skilled workforce and to prepare employees for future leadership roles. It also supports our results-oriented culture.

Knowledge management is a key component of our continuous learning strategy. When we foresee vacancies in critical fields, we ask our experienced employees to work with our newly hired employees to transfer critical knowledge and skills.

Our policies on training and employee development further enhance the transfer of knowledge. We will continue to emphasize training for pre-commissioned examiners and the need to capture the knowledge of employees who are eligible to retire.

In addition, the budget includes continued funding for the following multi-year projects.

**Risk Project.** The goals of the FCA Risk Project are to evaluate and acquire tools that enable us to

- conduct risk and statistical analysis of the FCS; and
- enable users to create reports and dashboards for FCA's Structured Query Language data (which includes the following databases: FCS Loans, Consolidated Reporting System, Enterprise Documentation Guidance (EDGe), and Time Recording System).

We want to turn data into information and make the information quickly available to managers and staff so they can take appropriate action for the oversight of the FCS and management of FCA. This project will enhance our ability to perform our core mission of ensuring the safety and soundness of the FCS.

**EDGe Project.** The Enterprise Documentation and Guidance (EDGe) system is a custom FCA application that supports the day-to-day operations and product deliveries of the agency's examination program and documentation system. Ongoing enhancements to the system include providing robust data analysis capabilities, building management reports, implementing tools for improving scheduling, and enhancing work papers. Among quarterly version upgrades, we will specifically implement loan and compliance workpaper tools and integrate the analysis and reporting tool, which is being converted from Excel to Cognos under a different project in FY 2016.

**CRS Call Reports.** Every one or two years we make significant changes to maintain and improve our Call Report system. This system provides an electronic source of FCS financial data for the general public, FCS institutions, FCA management, financial analysts, and FCA examiners.

**Records Management System.** The objective of this project is to implement an electronic recordkeeping system that will allow us to meet the mandate of the Presidential Memorandum on Managing Government Records, which requires that agencies manage all permanent and temporary email records in an accessible electronic format by 2016, and manage all permanent electronic records in an electronic format by 2019.

**Farmer Mac Data Collection.** This project will create an electronic system to collect, store, and use data from Farmer Mac. It will increase the efficiency and effectiveness of our examination and oversight of Farmer Mac, allowing us to conduct more work off site. It will also make the process of submitting data more efficient for Farmer Mac.

**Legislative Histories.** The goal of this project is to scan and preserve old legislative documents. Completing this project will not only help us meet the government requirement to maintain old records, it will also assist with our legal and regulatory work.

**Application Modernization.** The purpose of this project is to ensure that we can access our applications through a browser from most devices. To take full advantage of new Web-based technologies, we must migrate our legacy applications to the Web. When they are on the Web, we will no longer need the Microsoft Windows Operating System to access the applications, and we can use them from our mobile devices.

**Management Dashboard.** This project will provide key information for the effective management of programs and activities. It will push information to users and allow them to drill down or look at more detailed information related to a key indicator. This application will benefit all programs and offices by providing timely, easy-to-access information.

**Financial Data Warehouse.** The goal of this project is to collect all the financial data elements needed to fully automate monthly and quarterly financial reports that currently require manual intervention. Data elements added will also allow for management dashboard reporting. This will improve the efficiency and effectiveness of financial reporting.

**Direct Access Connectivity Project.** This project will explore the feasibility of expanding the network infrastructure to accommodate Microsoft's Direct Access connectivity. Direct Access will allow agency laptops to automatically connect to the FCA network remotely through a secure Internet connection without the use of third-party VPN software. This technology will simplify the process of connecting to network resources.

**UNINUM Project.** The UNINUM Project will align CRS data with GAAP accounting conventions. The scope of this project extends beyond CRS and will need to be fully vetted with all FCA offices. The CRS Users Group will evaluate the scope of this project and report back to the Information Resources Management Operations Committee.

**Continuity of Operations Program.** FCA will continue to enhance its test, training, and readiness program to provide staff with the knowledge and training they need to provide continuity of operations in an emergency.

## **Background**

We expect the FCS to continue to evolve in the coming years to meet the demands of an increasingly complex marketplace for agriculture and rural America. As FCS institutions grow and change, their operations become more complex. Because of increased risk in several institutions, we expect mergers and consolidations to continue; and because of challenges in the global economy, we expect the System's asset base to grow at only a moderate pace. Currently, the average institution's asset base exceeds \$1 billion.

Our budget request includes the resources necessary to ensure the safety and soundness of the System as it grows and changes. The budget strategy will enable us to leverage our most valuable investment — our people. It will enable us to continue to streamline and improve operations and to enhance staff expertise to meet any challenges and opportunities that may arise. The budget request supports our Human Capital Plan by allowing us to increase the number of examiners and to implement our Information Resources Management Plan.

## **FCA Program Areas**

The agency has two primary programs: (1) policy and regulation and (2) safety and soundness. All FCA office activities support these programs directly or indirectly.

### ***The Policy and Regulation Program***

The budget provides resources for developing regulations and policy positions that implement statutes, promote the safety and soundness of the FCS, and ensure that the System carries out its mission. In addition, the budget provides for activities such as evaluating and recommending regulatory and funding approvals, managing merger and chartering activities, and providing strategic and systemic policy research and analyses of risks and other issues facing the System.

The budget also provides for support activities, including the processing of information, the communication of agency positions, and the administration of activities associated with the policy and regulation program. In total, policy and regulation activities account for approximately \$14.7 million, including 55.69 FTEs in the proposed FY 2017 budget (see table 26 on page 83).

***The Safety and Soundness Program***

Through our safety and soundness program, the budget provides resources to examine the System for safety and soundness. These resources also ensure that FCS institutions comply with applicable laws and regulations. The budget continues to implement a risk-based approach to oversight and examination, which maximizes the effectiveness of examinations by allocating more examination resources to institutions with greater risk.

The budget also includes sufficient resources to ensure that the FCS properly identifies, manages, and controls risk. Initiatives include the development of risk topics, on-site examination presence, and a greater emphasis on loan review through the testing of credit reviews, internal audits, and internal controls.

Our budget also enables us to take special supervisory and enforcement actions when necessary. Weaknesses in the nation's economy and credit markets and volatility in agriculture have weakened some FCS institutions, requiring our examiners to take special action to address areas of concern.

In total, safety and soundness activities account for \$54.2 million, including 245.55 FTEs in the proposed FY 2017 budget (see table 26 on page 83).

## **Office of Inspector General's FY 2017 Budget Request**

Section 6(f)(1) of the Inspector General Act of 1978, as amended, requires an Inspector General (IG) to include specific information in the budget request the IG submits to the head of the department or designated federal entity to which the IG reports. To fulfill the requirement of section 6(f)(2) of the IG Act, the FCA Board must in turn include this same information in the budget request that we submit to the President.

The information that the IG Act requires to be included is provided below:

- The aggregate budget request for the Office of Inspector General (OIG) is \$1,504,411.
- The amount needed for OIG training is \$20,450 (tuition).
- The amount needed to support the Council of the Inspectors General on Integrity and Efficiency is \$4,100.

The FCA Board is submitting the IG's budget request as received from the IG.

## **Budget Trends**

This budget supports the agency's safety and soundness programs. It maintains and slightly grows our talent pool so that we can examine and supervise the System effectively and monitor the changing risk environment. The FY 2017 budget is necessary to continue to fund the examination program, employee salary and benefit costs, and technology expenditures — all of which represent approximately 89 percent of FCA's total budget.

We reduced our FY 2016 Proposed Budget by \$3.2 million to comply with the limitation agreed upon by the Full Appropriations Committees of the House and Senate. We achieved this reduction in several ways:

- delaying hiring,
- reducing relocation expenses,
- utilizing the FCS Loans Database and EDGe,
- improving videoconferencing quality (which enabled us to reduce travel costs), and
- using controls and procedures to keep down expenses for employee travel and conference-related activities.

We were careful to identify cost savings that did not jeopardize our examination and supervisory responsibility to ensure the safety and soundness of the Farm Credit System. We were also cognizant of the need to continue to carry out our public purpose and mission-related responsibilities appropriately. Table 2 provides information on our budget trends.

**Table 2. FY 2016 Proposed Budget Compared with the FY 2016 Revised Budget**

	<b>FY 2016 Proposed Budget</b>	<b>FY 2016 Revised Budget</b>	<b>Increase (Decrease) from FY 2016 Proposed Budget</b>
Full-time permanent (FTP)	\$41,290,793	\$39,079,838	(\$2,210,955)
Other than FTP	1,176,544	1,152,534	(24,010)
Other personnel compensation	374,127	374,120	(7)
<b>Total personnel compensation</b>	<b>\$42,841,464</b>	<b>\$40,606,492</b>	<b>(\$2,234,972)</b>
Personnel benefits	15,747,015	14,954,516	(792,499)
Benefits for former personnel	25,000	25,000	0
<b>Total compensation and benefits</b>	<b>\$58,613,479</b>	<b>\$55,586,008</b>	<b>(\$3,027,471)</b>
Travel and transportation of persons	3,658,380	3,417,301	(241,079)
Transportation of things	217,250	170,150	(47,100)
Rent, communications, and utilities	823,308	821,175	(2,133)
Printing and reproduction	246,000	229,750	(16,250)
Consulting and other services	3,986,860	4,283,579	296,719
Supplies and materials	685,026	745,000	59,974
Equipment	1,169,697	947,037	(222,660)
<b>Total budget</b>	<b>\$69,400,000</b>	<b>\$66,200,000</b>	<b>(\$3,200,000)</b>

Note: A comparison of FCA's FY 2016 proposed budget request with the FY 2016 revised budget reflects a \$3.2 million decrease.

The Office of Management and Budget (OMB) has issued guidance for agencies to reduce costs and increase efficiencies. We have taken the following actions to reduce costs:

- Implemented improved audio- and videoconferencing, thereby controlling travel costs.
- Revised and issued the Travel and Relocation Policy to encourage prudent travel practices.
- Issued detailed guidance regarding conference costs, including a policy that requires the Chief Financial Officer or the Chief Operating Officer to approve higher-cost conferences.
- Allowed employees to use penalty fares to take advantage of lower airfares.

- Reduced travel to the field offices.
- Increased reliance on the FCS Loans Database to help reduce travel costs.
- Installed network copier printers with scanning capabilities to reduce hard copies, promote electronic files, and reduce the number of printers.
- Implemented additional electronic workflow processes to enhance internal controls, reduce paper, and increase our use of electronic records.

In addition, we regularly use the following practices to keep our costs low:

- Use technology devices (such as laptops and smartphones) to keep travel costs down and maintain continuity of operations.
- Ensure that service provider costs are well managed.
- Scrutinize the issuance of information technology devices to ensure that only employees who have a bona fide business need receive the devices.
- Review, on a monthly basis, the usage of smartphones and other wireless devices to ensure the devices are being fully utilized and costs are being minimized.
- Use laptops as our standard platform for computer needs since most of our employees are examiners who travel frequently. The laptops also help us ensure continuity of operations. In addition, the use of laptops supports telecommuting initiatives during normal operating conditions and inclement weather.
- Continue to expand our use of technology to disseminate publications (such as publishing documents on our website and distributing them by email) in order to reduce the amount of printing, where appropriate.
- Reduce printing by conducting research online and instituting a “Going Green” initiative for training materials.
- Continue to make our workflow more efficient and integrated by using the EDGe Project.
- Continue to collaborate and share resources across FCA offices to increase efficiency.
- Implement IG recommendations as quickly as possible to realize efficiencies.

**Table 3. FCA Budgets, FYs 2015 – 2017**

	<b>FY 2015 Revised Budget</b>	<b>FY 2016 Revised Budget</b>	<b>FY 2017 Proposed Budget</b>
Full-time permanent (FTP)	\$39,508,558	39,079,838	\$41,405,933
Other than FTP	1,120,627	1,152,534	1,081,701
Other personnel compensation	374,191	374,120	374,167
<b>Total personnel compensation</b>	<b>\$41,003,376</b>	<b>40,606,492</b>	<b>\$42,861,801</b>
Personnel benefits	13,522,503	14,954,516	16,081,217
Former personnel benefits	25,000	25,000	25,000
<b>Total compensation and benefits</b>	<b>\$54,550,879</b>	<b>55,586,008</b>	<b>\$58,968,018</b>
Travel and transportation of persons	3,636,940	3,417,301	3,822,802
Transportation of things	238,250	170,150	166,400
Rent, communications, and utilities	813,753	821,175	885,890
Printing and reproduction	257,000	229,750	240,750
Consulting and other services	4,102,531	4,283,579	4,577,516
Supplies and materials	654,337	745,000	741,659
Equipment	1,346,310	947,037	996,965
<b>Total obligations</b>	<b>\$65,600,000</b>	<b>\$66,200,000</b>	<b>\$70,400,000</b>

### Sources of FCA Revenue and Funding

We maintain a revolving fund financed primarily from assessments to System institutions and Farmer Mac. We also earn interest from investments with the U.S. Department of the Treasury, and we perform reimbursable work for the Farm Credit System Insurance Corporation, U.S. Department of Agriculture, and the National Consumer Cooperative Bank. Table 4 shows budgeted sources of revenue and funding for FYs 2015 to 2017.

**Table 4. Budgeted Sources of FCA Revenue and Funding, FYs 2015 – 2017**

Source	FY 2015 Revised Budget	FY 2016 Revised Budget	FY 2017 Proposed Budget
<b>ASSESSMENTS</b>			
Banks, associations, and related entities <sup>a</sup>	\$52,100,000	55,850,000	TBD
Federal Agricultural Mortgage Corporation	2,400,000	2,450,000	TBD
Carryover funds <sup>b</sup>	10,600,000	7,300,000	TBD
<b>Assessments available for obligation</b>	<b>\$65,100,000</b>	<b>\$65,600,000</b>	<b>\$69,800,000<sup>c</sup></b>
<b>REIMBURSEMENTS<sup>d</sup></b>			
National Consumer Cooperative Bank	<b>69,762</b>	<b>98,798</b>	<b>99,178</b>
Farm Credit System Insurance Corporation	<b>366,929</b>	<b>411,324</b>	<b>433,769</b>
U.S. Department of Agriculture	<b>63,309</b>	<b>89,878</b>	<b>67,053</b>
<b>Total</b>	<b>\$65,600,000</b>	<b>\$66,200,000</b>	<b>\$70,400,000</b>

a FY 2015 assessments were reduced by \$3.0 million.

b Carryover funds are amounts brought forward from prior years' assessments that remain available for obligation. The \$7.3 million of carryover includes \$4.4 million of assessment carryover. We will determine assessments and carryover amounts for FY 2017 in September of FY 2016.

c Our proposed obligation limit from assessments is \$69.8 million for FY 2017.

d From a budget standpoint, reimbursements do not include indirect costs.

Note: The revolving fund is financed by three sources: (1) assessments to System institutions and Farmer Mac, (2) income from reimbursable services that we provide to other federal agencies and the National Consumer Cooperative Bank, and (3) interest earned from investments with the U.S. Treasury.

## FCA Reserve

The institutions we oversee are involved in two volatile industries — agriculture and finance. Volatility can produce financial stress for institutions, creating a need for heightened oversight and supervision. To ensure that we have the resources to provide the necessary supervision and oversight during periods of financial stress, we established a reserve. Congress granted approval for the reserve under section 5.15(a)(1)(B) of the Farm Credit Act, and the FCA Board established guidelines for it.

The reserve ensures that we can effectively and efficiently respond to unanticipated, material, one-time policy or safety and soundness issues arising within the System. The reserve strategy provides us with a proactive plan to respond to these issues without increasing assessments at a time that may be financially difficult for System institutions. At the end of FY 2015, we had approximately \$12.1 million in our reserve.

## Assessments

FCA’s operating costs are financed by direct assessments collected from System institutions, including Farmer Mac. As table 5 shows, assessments grew slowly and steadily until 2009 when financial stress began to affect many System institutions, creating a need for heightened oversight and supervision.

Assessments increased more rapidly through 2012 to cover the costs of the additional resources required for oversight and supervision. In 2013 and 2014, we were able to reduce assessments to System institutions by using carryover from prior-year assessments to help fund our operations.

To fund the FY 2016 budget, we raised our assessments by \$6.8 million; this number would have been higher if we had not used carryover to offset the costs.

**Table 5. FCS Assessments, FYs 2007 – 2016**

<b>Fiscal Year</b>	<b>Assessment (in millions)</b>
2007	\$41.5
2008	\$42.5
2009	\$45.1
2010	\$49.1
2011	\$52.5
2012	\$54.1
2013	\$50.0
2014	\$50.0
2015	\$51.5*
2016	\$58.3

\* The original assessment was \$54.5 million and was reduced by \$3.0 million during the year.

At the direction of Congress, we continue to reduce our carryover. From FY 2013 to FY 2014, we reduced our carryover from assessments by 27 percent. As table 6 shows, we assessed the System \$51.5 million in FY 2015. At the end of the year, we also had \$1.5 million in reimbursable revenue and deobligations. During the year, we had obligations of \$59.5 million. The difference between our obligations and our revenue was – \$6.5 million, which allowed us to draw down our carryover amount to \$5.2 million. Therefore, from FY 2014 to FY 2015, we reduced our assessment carryover by 56 percent.

We anticipate more hiring in FY 2017. The Office of Examination, where we hire the majority of our entry-level staff, has made significant progress in reaching planned hiring numbers for FY 2016. Therefore, for FYs 2016 and 2017, we expect to have the number of associate examiners for which we have budgeted.

**Table 6. FCA Funding, Obligations, and Assessment Carryover, FYs 2014 and 2015 (Dollars in Millions)**

	<b>FY 2014</b>	<b>FY 2015</b>
Current year assessments	\$50.0	\$51.5
Reimbursable revenue and deobligations	\$1.5	\$1.5
<b>Total funding</b>	<b>\$51.5</b>	<b>\$53.0</b>
Obligations	\$55.8	\$59.5
<b>Total funding minus obligations</b>	<b>(\$4.3)</b>	<b>(\$6.5)</b>
Assessment carryover from prior years	\$16.0	\$11.7
<b>Carryover from assessments at end of fiscal year</b>	<b>\$11.7</b>	<b>\$5.2</b>

### **FCS Borrower Costs**

As table 7 shows, FCS borrowers incurred a net cost of approximately 1.7 basis points, or 1.7 cents for every \$100 of assets held, to pay for FCA operations in FY 2015. Since FY 2006, the net cost to borrowers has decreased by 0.8 basis points.

FCS borrower costs are based on the relationship between the System's total assessments and assets held (not including Farmer Mac). The FCS held \$291.5 billion in total assets as of September 30, 2015, up from \$271.3 billion a year earlier.

Borrower costs have declined over the years for the following reasons:

- System assets have grown.
- FCA has used carryover to offset additional costs.
- FCA has taken various measures to reduce operating costs. (See pages 11 and 12 for details.)

**Table 7. FCA's Net Cost to System Borrowers, FYs 2006 – 2015**

<b>FY Ended September 30</b>	<b>Basis Points</b>
2006	2.5
2007	2.2
2008	2.0
2009	2.0
2010	2.1
2011	2.2
2012	2.2
2013	1.9
2014	1.8
2015	1.7

**Assessments for the Federal Agricultural Mortgage Corporation (Farmer Mac)**

Farmer Mac's assessment for FY 2016 is \$2.45 million. As required by regulation, we will reconcile and adjust the assessment after the fiscal year-end to reflect the actual amount expended. Actual costs for FY 2015 were \$2.58 million. The assessment for FY 2017 is not yet available because the Office of Secondary Market Oversight (OSMO) will not complete the FY 2017 budget and estimation of examination, oversight, and regulatory costs pertaining to Farmer Mac until September 2016.

Table 8 shows assessments for fiscal years 2007 to 2016. These assessments include costs associated with increased examination and oversight activities. We have increased these activities because, like other federal financial regulators, we are placing additional emphasis on capital adequacy and stress testing.

**Table 8. Farmer Mac Assessments, FYs 2007 – 2016**

<b>Fiscal Year</b>	<b>Assessment (in millions)</b>
2007	\$2.20
2008	\$2.05
2009	\$2.05
2010	\$2.25
2011	\$2.20
2012	\$2.25
2013	\$2.38
2014	\$2.38
2015	\$2.40
2016	\$2.45

Note: Although it will not be set until September 2016, Farmer Mac's FY 2017 assessment is expected to be about \$2.45 million, the same as the FY 2016 assessment.

## **Part II**

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# **Farm Credit Administration**



## **Profile of the Farm Credit Administration**

The Farm Credit Administration was created through an executive order of President Franklin D. Roosevelt and currently derives its powers and authorities primarily from the Farm Credit Act of 1971, as amended. As an independent agency within the executive branch of the federal government, we are responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS), as well as the Federal Agricultural Mortgage Corporation (Farmer Mac).<sup>2</sup>

The FCS is the oldest of the financial government-sponsored enterprises (GSEs). The Farm Credit Act states that the objective of the FCS is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and selected farm-related businesses. In short, the FCS was created to provide an adequate and flexible flow of money to rural areas.

The System consists of a nationwide network of borrower-owned, cooperative financial institutions that provide credit and related services to

- farmers and ranchers,
- producers and harvesters of aquatic products,
- farm-related businesses,
- rural homeowners,
- agricultural and aquatic cooperatives,
- agribusinesses, and
- rural utilities.

The FCS had \$226.8 billion in outstanding loans to agriculture and rural America as of September 30, 2015.

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<sup>2</sup> By statute, Farmer Mac is an institution of the Farm Credit System; however, in this document, we will use the terms “FCS” and “System” to refer to all the entities in the Farm Credit System except Farmer Mac and affiliates of Farmer Mac.

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States, and its authority is derived from Title VIII of the Farm Credit Act. Farmer Mac was established in 1988 to create a secondary market for agricultural real estate loans and rural housing mortgage loans. In 2008, Farmer Mac's secondary market authorities were expanded to include rural utility loans. It provides secondary market services through a network of agricultural lenders and intermediaries, including commercial banks, FCS banks and associations, life insurance companies, mortgage companies, and rural utility cooperatives. As of September 30, 2015, the volume of loans either purchased or guaranteed by Farmer Mac totaled \$15.6 billion.

FCA is also required by the National Consumer Cooperative Bank Act of 1978, as amended, to examine and report on the condition of the National Consumer Cooperative Bank (NCB). Since the passage of this law, we have conducted safety and soundness examinations of NCB and issued reports of examination to NCB's board of directors. NCB is a federally chartered, privately owned banking corporation. It is not a federal instrumentality, and it is not part of the FCS. In addition, we contract with the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture to provide examination services.

The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCS, Farmer Mac, and FCA. Our operations are funded through assessments paid by the System institutions and by our reimbursable activities; we do not receive a federal appropriation.

## **Mission Statement**

As stated in our Strategic Plan for FYs 2013 –2018, our mission is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. To fulfill this mission, we issue regulations and conduct examinations of FCS institutions and Farmer Mac to evaluate and oversee the safety and soundness of their activities. Our examinations also evaluate whether institutions are complying with laws and regulations, especially the congressional mandate requiring System institutions to have programs to make credit and services available to young, beginning, and small (YBS) farmers. In addition, we research, develop, and adopt rules, regulations, and other guidelines that govern how institutions conduct their business and interact with customers.

If any System institution, including Farmer Mac, violates laws or regulations, or if operations are determined to be unsafe or unsound, we may use our enforcement authority to ensure that the problem is corrected in a timely manner. We also ensure that the rights of certain borrowers are protected.<sup>3</sup>

Other statutory duties require us to issue and amend FCS institution charters, to report to Congress on the System's and Farmer Mac's financial condition and performance, and to approve the issuance of System debt obligations.

### **FCA Board and Governing Philosophy**

Our policy and regulations are established by a full-time, three-person Board whose members are appointed by the President of the United States with the advice and consent of the Senate. They serve staggered six-year terms and may not be reappointed to succeed themselves after serving a full term or more than three years of a previous member's unexpired term. A Board member may serve after expiration of his or her term until a successor has been appointed and qualified. The President designates one member as Chairman of the Board; this member serves as Chairman until the end of his or her term. The Board Chairman also serves as the agency's Chief Executive Officer.

The FCA Board approves charters of FCS institutions, oversees the agency's supervision and examination of those institutions, and issues enforcement actions. The governing philosophy of the FCA Board is grounded in the Farm Credit Act. The Board believes that the principles on which the System was founded are just as important today as they were in the early decades of the 20th century.

In the Strategic Plan for FYs 2013 – 2018, the Board stressed its commitment to maintaining the safety and soundness of the System and Farmer Mac. The Board also expressed its commitment to ensuring that the System provide opportunities to young, beginning, and small farmers; increase diversity in its customer-owner base; and provide an adequate and flexible flow of funds into rural America. In addition, because the System's lending institutions are cooperatives, we will continue to advocate for both strong governance and local control.

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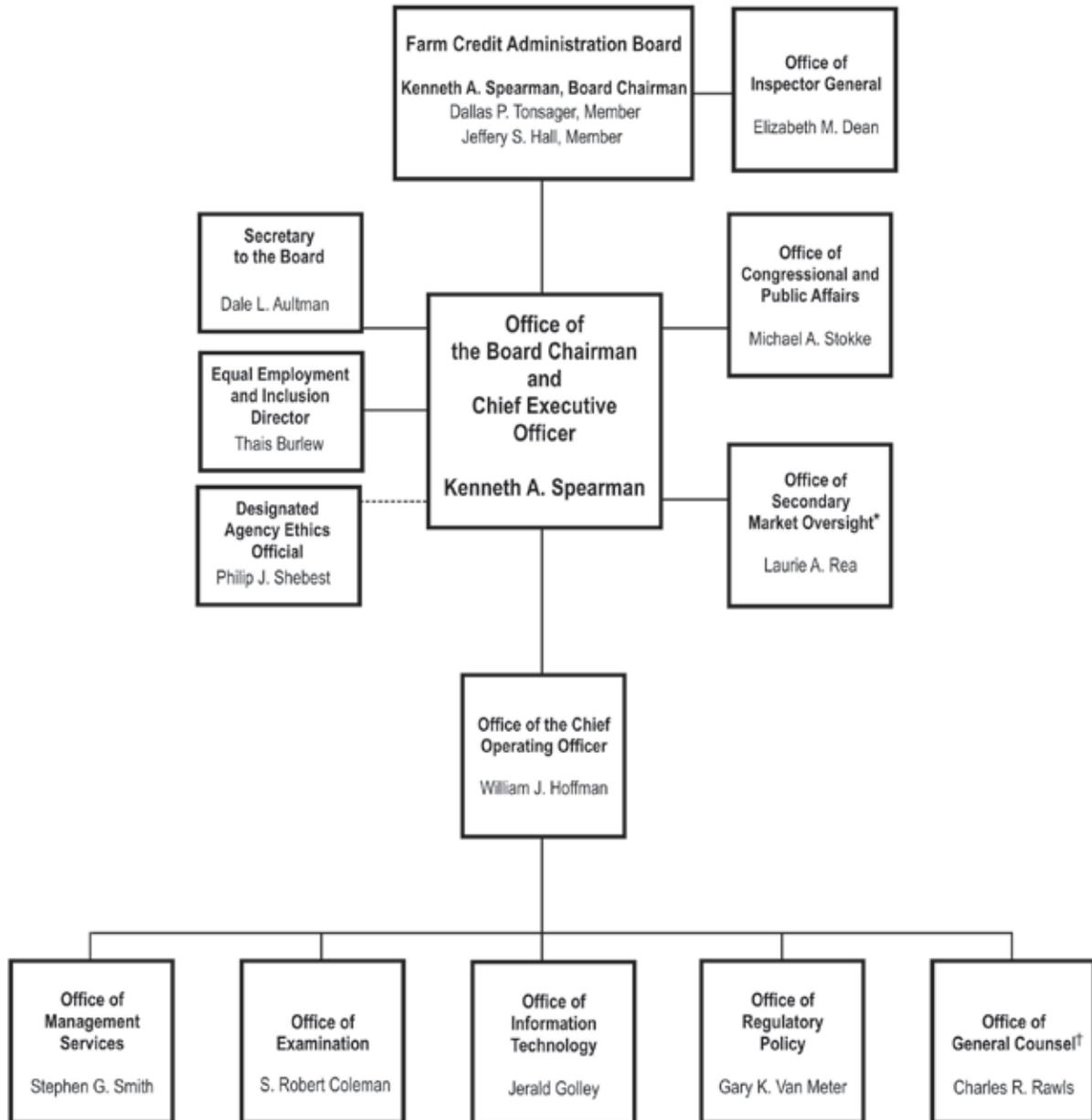
<sup>3</sup> Provisions in the Farm Credit Act regarding borrower rights do not apply to loans to cooperatives.

## **FCA Organizational Structure**

Figure 1 presents our organizational structure and shows how the offices provide strategic support to the FCA Board and ensure that our mission and goals are performed effectively and efficiently. We have our headquarters in McLean, Virginia, with additional field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

**Figure 1. FCA Organizational Chart**

As of October 2015 (Note: For the text version of this chart, go to [http://www.fca.gov/about/offices/orgchart\\_accessible.html](http://www.fca.gov/about/offices/orgchart_accessible.html).)



\*Reports to the Board for policy and to the CEO for administration.

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

## FCA Internal Operations

FCA is firmly committed to the continuous development and support of its most valuable asset — its employees. This commitment is at the core of our five-year Human Capital Plan. The plan focuses on workforce planning and talent management, leadership and knowledge management, a results-oriented performance culture, professional growth and motivation, and accountability. The framework of our Human Capital Plan is based on the Human Capital Standards for Success, a collaboration of the Office of Management and Budget, the Office of Personnel Management, and the U.S. Government Accountability Office.

### Human Capital Management

Human capital strategies are linked to our strategic plan through clearly defined strategic initiatives and action plans. We continually monitor workforce trends and implement best practices. We also monitor the System’s changing environment so that we can adjust our staffing levels and maintain requisite skill sets by hiring additional staff, providing employee training and development, and transitioning employees from staff positions that are no longer necessary. We review our workforce planning strategies annually. See table 9 for full-time-equivalent (FTE) staffing levels (rounded to the nearest whole number) from FYs 2007 through 2017.

**Table 9. Full-Time-Equivalent Staffing Levels**

Fiscal Year	FTE Staffing Level
2007	253
2008	251
2009	261
2010	277
2011	286
2012	287
2013	273
2014	278
2015	277
2016	297 (authorized)
2017	307 (authorized)

Note: From FYs 2007 to FY 2017, we have maintained a one-to-six ratio of managers and supervisors to other personnel.

We perform workforce assessments annually to obtain information on critical staffing variables, such as the age and grade of employees. From this analysis, we develop five-year projections to determine and mitigate the impact of employee retirements and separations.

As of September 30, 2015, approximately 25 percent of our personnel were eligible to retire. We estimate that this number will increase to 27 percent by the end of FY 2016. As a result of recent hiring, the number of employees who have been employed five years or fewer has risen substantially over the past three years and now constitutes a sizable portion of our workforce. This trend is likely to continue over the next three to five years. See table 10 for retirement eligibility projections at FCA.

**Table 10. FCA Retirement Eligibility, FYs 2016 – 2020**

<b>Fiscal Year</b>	<b>Eligible Retirements</b>
2016	64*
2017	11
2018	7
2019	11
2020	15

\* This number includes 55 staff members who became eligible to retire prior to FY 2016.

### ***Implementing the Human Capital Plan***

Identifying our human capital needs over the next five years, including the optimal size of our workforce and the appropriate skill sets of our employees, is one of our primary goals; assessments take place at all levels to accurately gauge human capital requirements. We use the results of these assessments to develop, enhance, and redirect training and development programs.

As we face the retirement of a significant percentage of the FCA workforce, we are working hard to sustain a high level of institutional knowledge, job skills, and analytical expertise. In addition to succession planning and cross-training, we provide a variety of resources and programs for sharing knowledge across the organization.

Our continuous learning strategy emphasizes leadership, competencies, and knowledge management. Succession planning is also an important element. By providing education, training, and other development opportunities, we seek to attract and retain bright, creative, and enthusiastic people.

We coordinate training goals with the leadership skills and competencies that are integral to achieving our mission. We establish training projection plans at the office level and the agency level each year to help us manage employee training and development activities. These plans project budget needs for training and development; they are directly linked to FCA's Performance Management System. Supervisors and employees collaborate on training and development goals.

By working closely with agency management and conducting staff surveys, our Learning Officer gauges our training needs and develops efficient and effective methods to acquire outside training and develop internal training courses and learning techniques. This training strategy helps prepare our workforce for emerging challenges and leadership succession.

Formal training programs support the needs of core occupational groups through a variety of methods, such as in-house training, vendor courses, self-study, rotational assignments, special assignments, shadowing experiences, and e-learning. Each employee has a laptop computer with the technology to support e-learning initiatives. In addition, all employees have regular access to training on our computer systems.

We demonstrated our commitment to our training and knowledge transfer goals in FY 2015 by providing appropriate training to pre-commissioned examiners and capturing the knowledge of examiners who are eligible to retire. As more and more employees become eligible to retire, knowledge transfer becomes a greater concern. We have created an internal training website to capture examination knowledge and best practices. Subject-matter experts developed the information on the website, which includes both instructor and student materials.

Knowledge management remains a key component of our continuous learning strategy. As vacancies in critical fields are projected, orientation plans seek to have newly hired employees work closely with experienced employees to transfer critical knowledge and skills. We regularly update our policies on training and employee development, and we use mentoring, details, and special projects to provide development opportunities.

FCA's electronic databases, such as the internal training site used by examiners, the Policies and Procedures database, the electronic examination files, and the Training and Evaluations database, are another component of knowledge management and best practices. These databases enable employees to communicate and share knowledge.

We have also established internal SharePoint sites to enhance knowledge transfer and collaboration. All employees have access to most of the sites, including the sites containing resources on contracting, technology, leadership development, and audit and internal controls. Other sites are intended for the use of specific groups of employees, such as credit specialists, operations specialists, and recruiters. Still others are set up for workgroups on topics such as training, planning and reporting, and policy development. Through these sites, we can deliver information in real time to multiple audiences.

In addition, because we recognize the value of diversity and inclusion to the agency, we work hard to attract and retain staff with varied backgrounds and skills. We endorse programs that promote equal employment opportunity (EEO), diversity, and inclusion, and we have an active EEO program.

Long-term rotational assignments enhance employee knowledge and expertise. Through an organized program that encourages offices and employees to participate in rotational assignments, employees gain a deeper understanding of the agency's mission. Rotational assignments build teamwork and collaboration and enhance the motivation and productivity of our employees.

### ***FCA Compensation Program***

Section 1206 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires federal financial regulators to "seek to maintain comparability regarding compensation and benefits." This provision enables financial regulators to attract and retain qualified staff.

To comply with the FIRREA, we annually survey the other federal bank regulators and adjust our employees' compensation and benefits accordingly. Our compensation rates are similar to the average market rate provided by other agencies covered under the FIRREA. For a general comparison, we also survey the private sector, the System banks, and the General Schedule agencies.

We use a pay-for-performance program to adjust each employee's salary according to his or her performance rating and salary range position. We make salary adjustments each calendar year on the basis of a number of factors, including the compensation programs of other federal bank regulators and available funding.

On December 23, 2015, the FCA Board approved the agency's Compensation Program for 2016. The program includes pay-for-performance increases based on a 2 percent pay matrix and an increase in the locality rates. These changes enable us to keep our compensation comparable with that of other FIRREA agencies.

We did not increase the salary ranges for FY 2016, and we only increased senior executive salaries for those executives in the lower quintiles of the agency's pay ranges. Also, career senior executives did not receive locality adjustments. They did share a bonus pool.

## External Contracting and Shared Services

### Outsourcing

As the table below shows, we continue to outsource several functions. Our shared-service agreement with the Bureau of the Fiscal Service began in FY 2006. We also outsource our payroll services to USDA's National Finance Center. In FY 2010, we began outsourcing our EEO counseling services through the U.S. Geological Survey. Outsourcing these services allowed us to manage our employee benefits and other agency functions without additional personnel costs.

**Table 11. Outsourcing, FY 2015**

<b>Contract</b>	<b>Purpose</b>	<b>Amount</b>
Administrative Service Center (BFS)	To provide full-service accounting, e-Travel, credit card, and platform procurement services	\$618,127
National Finance Center (USDA)	To provide payroll services	\$45,000
U.S. Geological Survey	To provide EEO counseling	\$7,000

Note: FCA's shared-service agreements during FY 2015 totaled \$670,127.

### Single-Source and Competitive Consulting Service Contracts

Tables 12 and 13 provide a summary of our single-source and competitive consulting service contracts for FYs 2014 and 2015.

**Table 12. Competitive Consulting Service (CCS) Contracts of More Than \$25,000 and Single-Source (SS) Contracts, FY 2014**

<b>Contract</b>	<b>Purpose</b>	<b>Amount</b>
Editorial Experts, Inc.; 14-FCA-240-001 (SS)	To provide editorial services	\$100,725
Personnel Decisions Research Institute; 14-FCA-301-002 (SS)	To conduct job analysis	\$49,165
Centrec; 14-FCA-301-005 (SS)	To conduct self-study of online training	\$16,882
R&R Consulting; 13-FCA-450-002 (CCS)	To help update FCA's capital module (Option year 1)	\$100,000
C.B. Harris & Co.; 14-FCA-011 (CCS)	To scan documents for conversion	\$60,775
SoftChoice Corporation; 13-FCA-601-064 (SS)	To provide Microsoft Enterprise Agreement	\$180,161
Murphy Brothers; 14-FCA-601-013 (SS)	To provide taxi services	\$10,995
Digital Office Products; 14-FCA-601-024 (SS)	To provide maintenance	\$4,322
Avitecture; 14-FCA-601-028 (SS)	To provide maintenance	\$13,990
Dave Redden; 14-FCA-601-033 (SS)	To provide retirement counseling	\$38,982
International Business Machines; 14-FCA-601-037 (SS)	To provide consulting for Cognos and SPSS products	\$14,736
International Business Machines; 14-FCA-601-042 (SS)	To report studio training and eLabs	\$78,215
Happier, LLC; 14-FCA-601-040, 047, 050, 052, 069; 14-FCA-700-002 (SS)	To facilitate training programs	\$71,070
Entrust, Inc.; 14-FCA-601-055 (SS)	To renew server certifications	\$4,025
Teracai; 14-FCA-601-059 (SS)	To provide maintenance	\$12,419
SoftChoice; 14-FCA-601-061 (SS)	To help with file sharing and security analysis	\$5,500
Patch Advisor; 14-FCA-601-062 (SS)	To assess external network security	\$25,000
Economic Systems; 14-FCA-601-063 (SS)	To provide services for Federal Human Resources (FHR) Navigator	\$12,955
SAP National Security Services, Inc.; 14-FCA-601-066 (SS)	To renew software license/maintenance contract	\$5,720
Gladis Communications, LLC; 14-FCA-067 (SS)	To facilitate training sessions	\$6,500

*Farm Credit Administration FY 2017 Proposed Budget and Performance Plan*

<b>Contract</b>	<b>Purpose</b>	<b>Amount</b>
Economic Systems, Inc.; 14-FCA-601-076 (SS)	To validate accuracy of service information on FHR Navigator retirement module	\$19,900
ARX, Inc.; 14-FCA-601-084 (SS)	To cosign support and maintenance contract	\$9,792
Towers Watson; 14-FCA-601-091 (SS)	To interpret the 2015 compensation survey of agencies covered by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989	\$19,000
BI Technologies; 14-FCA-601-100 (CCS)	To provide Cognos consulting	\$75,000
RDA Corporation; 14-FCA-601-101 (CCS)	To provide Cognos Data Warehouse Consulting	\$60,953
Delta Research Associations; 14-FCA-601-102 (CCS)	To provide human resource support	\$46,836
Gladis Communications, LLC; 14-FCA-601-105 (SS)	To facilitate follow-up on training	\$9,000
Towers Watson; 14-FCA-601-107 (SS)	To provide services for job-leveling project	\$72,000
Economic Systems, Inc.; 14-FCA-601-110 (SS)	To integrate FHR Navigator with the electronic Official Personnel Folder system	\$9,850

Note: The agency's SS and CCS contracts totaled \$1,134,468 in FY 2014.

**Table 13. Competitive Consulting Service (CCS) Contracts of More Than \$25,000 and Single-Source (SS) Contracts, FY 2015**

<b>Contract</b>	<b>Purpose</b>	<b>Amount</b>
LRP Publications;15-FCA-113001 (SS)	To provide No Fear Act training	\$4,350
Art of Resolutions, LLC 15-FCA-113-002 (SS)	To provide EEO and Inclusion services	\$8,000
Robert Half International, Inc.; 15-FCA-240-002 (SS)	To provide temporary administrative services	\$39,096
Claire W. Haverstock; 15-FCA-240-003 (SS)	To provide temporary writer/editor services	\$59,400
Reddish & Associates; 15-FCA-240-009 (SS)	To provide editing services	\$3,500
Jo Ann Kissal; 15-FCA-240-010 (SS)	To provide temporary administrative services	\$59,904
CETRA Inc.; 15-FCA-240-011 (SS)	To provide Spanish translation	\$3,374
BJ Chagon Corp; 15-FCA-240-012 (SS)	To provide 508 certification training	\$25,000
Site Improve Inc.; 15-FCA-240-013 (SS)	To provide website maintenance services	\$6,537
PDRI Inc.; 15-FCA-301-001 / Exercise Option Year 1	To provide job evaluations and assist with administration of the commissioning test	\$122,296
ABG An Adayana Company; 15-FCA-301-003 (SS)	To update e-Learning classes	\$47,150
Global Financial Markets Institute; 15-FCA-301-007 (SS)	To provide training on Capital Stress Testing	\$5,500
Digital Management Inc.; 15-FCA-450-001	To assist with SQL database development	\$148,770
Emergency Power Services Inc.; 15-FCA-601-002 (SS)	To provide IT maintenance	\$3,050
Murphy Brothers; 15-FCA-601-003 (SS)	To provide taxi services	\$10,500
Digital Office Inc.; 15-FCA-601-010 (SS)	To provide maintenance for Toshiba 652 copier	\$4,375
Digital Office Inc.; 15-FCA-601-011 (SS)	To provide maintenance for Toshiba 853 copier	\$3,208
N2Shape Inc.; 15-FCA-601-016 (SS)	To provide yoga classes	\$4,600
David Redden; 15-FCA-601-017 (SS)	To provide retirement counseling	\$24,750

*Farm Credit Administration FY 2017 Proposed Budget and Performance Plan*

<b>Contract</b>	<b>Purpose</b>	<b>Amount</b>
Iron Bow Tech; 15-FCA-601-020 (SS)	To provide phone systems & software license	\$30,236
Auto-Fidelity Communications Corp.; 15-FCA-601-025 (SS)	To provide A/V parts	\$4,092
Northern Virginia Temp Inc.; 15-FCA-601-026 (SS)	To provide mail clerk services	\$13,736
Teracai Corp.; 15-FCA-601-031(SS)	To upgrade voice application	\$7,700
Federal Employment Law Training Group LLC.; 15-FCA-601-032 (SS)	To provide on-site legislative training	\$12,950
All Points Logistics; 15-FCA-601-035 (SS)	To provide Barracuda Hardware	\$14,901
Callister Nebeker & McCullough; 15-FCA-601-038 (SS)	To review 401K plan for employees	\$4,000
ECity Market Inc. 15-FCA-601-043 (SS)	To provide "Project Management" training	\$20,000
SAP National Security Services Inc.;15-FCA-601-055 (SS)	To provide software license and maintenance	\$9,746
Towers Watson Inc.; 15-FCA-601-056 (SS)	To assist with compensation survey	\$19,000
Patch Advisor Inc.;15-FCA-601-059 (SS)	To provide network security assessment	\$33,000
InfoReliance Corporation 15-FCA-601-060	To assist with migration of Microsoft Office to the cloud	\$140,000
Patch Advisor Inc.;15-FCA-601-063 (SS)	To review IT systems	\$90,000
Gartner Inc.;15-FCA-601-066 (SS)	To provide IT research and advisory services	\$62,680
Wells Fargo 401K;15-FCA-601-067 (SS)	To administer 401K Plan	\$9,289
TrueNorth, LLC; 15-FCA-601-068	To provide consulting service for the design and development of data warehouse solution	\$136,000
ARX Inc.; 15-FCA-601-070 (SS)	To provide Cosign support and maintenance	\$9,792
Day 1 Solutions; 15-FCA-601-073 (SS)	To provide a Alta Vault Appliance System	\$86,551
Teraci Corporation; 15-FCA-601-077 (SS)	To provide Cisco maintenance support	\$20,815

<b>Contract</b>	<b>Purpose</b>	<b>Amount</b>
Executive Info System; 15-FCA-601-078 (SS)	To provide SAS Maintenance	\$3,056
Computer Security Solutions LLC.; 15-FCA-601-086 (SS)	To provide Splunk Enterprise License	\$17,703
Environmental System Research Institute Inc.; 15-FCA-911-002 (SS)	To provide server maintenance	\$17,019

Note: The agency's SS and CCS contracts totaled \$1,345,626 in FY 2015.

## **Other Functions and Activities**

### ***Reception and Representation Expenditures***

FCA spent \$583.66 on reception and representation expenses in FY 2015.

### ***Foreign Travel Expenditures***

During FY 2015, there were no foreign travel expenses.

## **Leveraging FCA Technology**

In the beginning of fiscal year 2016, FCA reorganized to establish an Office of Information Technology and to hire a chief information officer (CIO) whose exclusive responsibility is to lead the new office. We made this change to further leverage our investments in communication, database, and security technologies.

The new office focuses on improving project management procedures and reporting, enhancing FCA data processing and dashboards, tightening our security posture, and cultivating better technology support for examination and other mission areas.

Through our annual Information Resources Management Plan, we monitor and coordinate our IT investments. We continually seek to provide IT services, data sources, and communication tools that complement current technology and increase connectivity for our mobile workforce. A number of agency-wide IT projects improved our capabilities in FY 2015:

- We improved the EDGe application through a series of quarterly version upgrades and added five significant reports: Audit Procedure Roll-up, Reviewer Notes Sent by Examiner, Topic Conclusions – Institution, Procedure Results – by Topic, and Topic Conclusions – Portfolio.

- We procured new laptops for all employees and new iPhones for employees who require them; the new equipment will be rolled-out to employees in FY 2016. The new laptops will ensure the agency has up-to-date technology and our employees have reliable, powerful computers. With the new laptops, we will upgrade from the Windows 7 to the Windows 10 operating system.
- We began migrating our email support services to a FedRamp-certified government cloud. As a first step, we completed the upgrade of our on-premises email environment to Exchange 2013. By moving email to the cloud, we will improve IT flexibility and responsiveness, and minimize cost.
- We coordinated with the Call Report System (CRS) Working Group to implement a series of changes to the data to collect information about liquidity — adding 13 new variables to existing schedules and creating two new schedules. We also updated CRS data to include more geographic and relevant contact information.
- We improved security of FCA and FCSIC employees' identity by removing or encrypting personally identifiable information from our SQL databases.
- We successfully upgraded both our internal and external SharePoint production environments from SharePoint 2010 to SharePoint 2013. The new version dramatically improved the search capability in SharePoint.
- We planned and completed the moves for Bloomington, Dallas, and Denver field offices. We coordinated with the office directors, staff, and vendors and moved network equipment, data services, conferencing technology, and phone system.
- We began implementing a continuous monitoring security program. The program stems from a government-wide initiative to enhance the security of federal agencies by requiring continuous monitoring of security controls rather than examining controls once in a three-year period. In conjunction with the continuous monitoring program, we partnered with the Department of Homeland Security to take advantage of the tools and services it offers through its Continuous Diagnostics and Mitigation program.
- We completed the transition of additional Internet traffic through Managed Trusted Internet Protocol Services (MTIPS). Routing traffic through an approved MTIPS provider is part of the government-wide Trusted Internet Connections mandate designed to increase the security of the federal government.

- We created a telework database to streamline the approval process for flexi-place agreements, to reduce paper, and to retain records electronically. The database allows employees to complete and sign FCA annual flexi-place forms electronically. It allows supervisors and the Agency Telework Coordinator to review and approve each form electronically. The project supports FCA's Continuity of Operations Program, the federal government's telework initiatives, and the Federal Government Paperwork Reduction Act.

There are numerous, multi-year projects planned for FYs 2016 and 2017 that will further leverage technology to support our mission and achieve our strategic goals. For a summary of these projects, please see pages 5 to 7.

### **Independent Auditing and Accountability**

The Office of Inspector General contracted with Harper, Rains, Knight & Company, P.A., to perform the FY 2015 audit of FCA's financial statements. On November 6, 2015, Harper, Rains, Knight & Company issued an unmodified opinion on our financial statements for the fiscal year ended September 30, 2015.

- First, the auditor opined that the financial statements presented fairly, in all material respects, FCA's financial position as of September 30, 2015, in conformity with generally accepted accounting principles.
- Second, the auditor did not identify any deficiencies in internal control over financial reporting that would be considered material weaknesses.
- Third, the auditor did not identify any instances of noncompliance with selected provisions of laws and regulations or other reportable matters that could have a direct and material effect on the financial statements.

## **Ensuring Safety and Soundness**

The Farm Credit Administration's role is to regulate the Farm Credit System and to ensure that System institutions comply with applicable laws and regulations. In doing so, we ensure the safety and soundness of the System, including the Federal Agricultural Mortgage Corporation.

The first section below, titled "The Farm Credit System," summarizes examination and supervisory activities performed on the banks, direct-lending associations, and service organizations of the FCS. Because the role of Farmer Mac is different from the rest of the System, we discuss Farmer Mac separately in the second section below. In addition, we provide examination and other services on a reimbursable basis to certain entities that are not part of the System. These activities are summarized in the third section below, titled "Other Entities."

Our examination and supervision responsibilities are carried out by staff located in five field offices. One field office is in the McLean, Virginia, headquarters; the other field offices are located in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. We do not expect any changes in the field office structure in FY 2017.

### **The Farm Credit System**

#### ***Statutory and Regulatory Requirements***

The Farm Credit Act requires FCA to examine each FCS institution at least once every 18 months. We meet this requirement through a risk-based process of oversight and examination designed to maximize efficiency while addressing System risk effectively.

To monitor and evaluate the System's safety and soundness, we must have loan portfolio and other data from System institutions, and section 5.9(4) of the Farm Credit Act gives us the authority to collect these data. Our regulations include the following reporting requirements:

- Each System institution must prepare and file quarterly reports of condition and performance with FCA in accordance with 12 CFR 621.12. These reports provide detailed information on each institution's financial performance, portfolio quality, and other relevant information.
- The Federal Farm Credit Banks Funding Corporation must prepare consolidated System information and make this information available to investors and the public in accordance with 12 CFR 630.4.

System institutions submit other data to us through our Consolidated Reporting System. Some of the submitted information is available to the public on our website ([www.fca.gov](http://www.fca.gov)). We also collect loan data for all System institutions. Recently we expanded loan data collection and analysis to enhance our evaluation of risk to the System as a whole.

In addition to overseeing and examining the System, we establish policies and regulations to ensure that the System addresses key risk areas. For example, our regulations require System institutions to have effective loan underwriting and loan administration processes, to have minimum capital levels, to provide strong asset-liability management, and to establish high standards for governance and transparent disclosures for shareholder oversight.

### ***Risk-Based Examination and Supervision***

We design examination and supervision processes to address material risks and emerging issues on an individual-institution and Systemwide basis. We base our examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. In evaluating each institution's business model, we must ensure the institution fulfills its public mission as a government-sponsored enterprise. In addition to overseeing and examining individual institutions, we also identify and evaluate Systemwide emerging risk and allocate examination resources to matters of highest priority and potential risk.

We have developed a comprehensive regulatory and supervisory framework to promote and help ensure the System's safety and soundness and its compliance with laws and regulations. This approach recognizes each institution's responsibility and ability to identify and manage both institution-specific and systemic risks. Our examination and supervision program promotes accountability in System institutions for their programs, policies, procedures, and controls. System institutions have developed effective risk-management cultures in response to our examination and supervision programs and our policies and regulations. These programs, policies, and regulations continue to set high standards for the System.

Because of volatility in the agricultural and credit markets, as well as significant changes in the financial markets, guarding the safety and soundness of the System is more important and challenging than ever. Annually, to help address these challenges, we identify and use risk topics to set examination priorities, identify potential regulatory issues, allocate resources, and evaluate emerging risk exposures. The oversight and examination program includes strategies for addressing these emerging risks and communicating our expectations to both internal and external audiences. Risk topics for 2016 are as follows:

- Internal controls and operations risks
- Intensifying credit risk

When our examiners identify unsafe and unsound practices within a System institution or find that an institution has failed to comply with a law or regulation, we outline the corrective actions the institution must take in a Report of Examination or other form of communication. If necessary, we will use our enforcement powers to effect changes in an institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. However, in most cases, we achieve corrective action without the use of formal enforcement powers.

***Measuring the Safety and Soundness of the System***

We use our Financial Institution Rating System (FIRS) as a key method to assess the safety and soundness of each FCS institution. The FIRS provides a general framework, consisting of component and composite ratings, for evaluating and assimilating all significant financial, asset quality, and management factors. Similar to systems used by other federal financial regulators, the FIRS evaluates six key component areas to properly assess the degree of risk in an institution. These key component areas are capital, assets, management, earnings, liquidity, and sensitivity (CAMELS).

On the basis of our CAMELS ratings, we assign an overall composite rating for the institution. The rating system ranges from 1 to 5. A composite rating of 1 indicates that an institution is sound in every respect and that it exhibits the strongest performance and risk management practices, whereas a rating of 5 represents an extremely high, immediate, or near-term probability of failure.

Our examiners continually evaluate institutional risk and regularly review and update FIRS ratings to reflect current risks and conditions in each System institution. We provide guidance on both quantitative benchmarks and qualitative factors to help examiners apply the FIRS process consistently.

We disclose these confidential FIRS composite and component ratings to the institution's board and management to provide perspective on relative safety and soundness. Examination reports and other forms of communication also provide the institution's board with an assessment of the governance, management, quality of assets, and financial condition and performance of the institution.

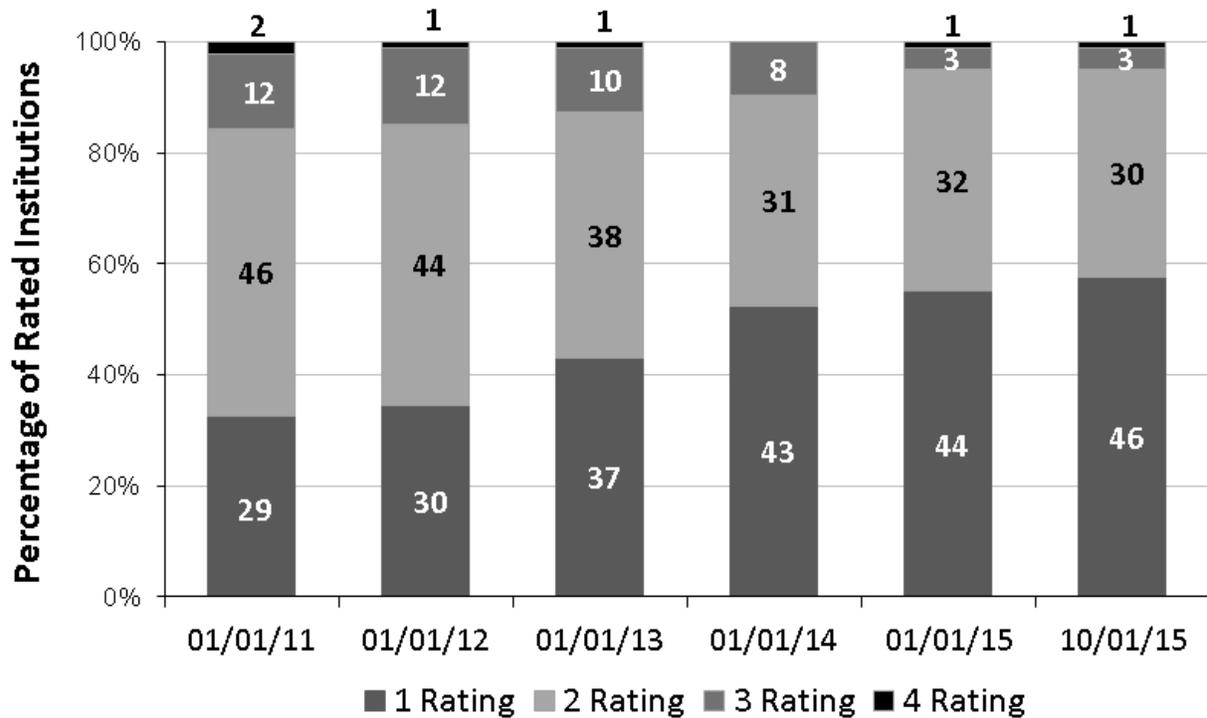
## **Recent Results**

As the composite FIRS ratings over the past several years show, the System's condition and performance have remained satisfactory. Composite FIRS ratings are gradually improving; however, the FIRS ratings have yet to return to the pre-2008 levels. The following summarizes FIRS ratings for System banks and associations as of October 1, 2015:

- Forty-six institutions were rated 1.
- Thirty were rated 2.
- Three were rated 3.
- One was rated 4.

See [figure 2](#) for FIRS rating trend information. For a more detailed discussion of the financial condition and performance of the System, see part III of this report.

**Figure 2. Farm Credit System Financial Institution Rating System (FIRS)  
Composite Ratings**



Source: FCA's FIRS Ratings Database.

Note: This chart 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.

**Table Data for Figure 2**

	Rating	01/01/11	01/01/12	01/01/13	01/01/14	01/01/15	10/01/15
Total	1	29	30	37	43	44	46
	2	46	44	38	31	32	30
	3	12	12	10	8	3	3
	4	2	1	1	–	1	1

## **Federal Agricultural Mortgage Corporation**

Through our Office of Secondary Market Oversight (OSMO), we examine and supervise Farmer Mac to ensure both its safety and soundness and mission achievement. OSMO performs annual CAMELS-based examinations, which include examination of capital, assets, management, earnings, liquidity, and sensitivity. Throughout the year, OSMO oversees Farmer Mac's condition and compliance with regulations, and supervises its operations.

### ***Statutory Authority***

We regulate Farmer Mac through OSMO, which was established in 1992 by the Food, Agriculture, Conservation, and Trade Act Amendments of 1991 (Public Law 102 – 237). OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties. The statute requires that OSMO be managed by a full-time director who reports to the FCA Board and that OSMO's activities, to the extent practicable, be carried out by individuals not responsible for supervising the banks and associations of the FCS.

### ***Data Reporting Requirements***

Farmer Mac is required to submit quarterly Call Reports to OSMO in addition to meeting several other periodic reporting requirements related to Farmer Mac's regulatory risk-based capital, mission, liquidity, and financial derivatives portfolio. In addition, Farmer Mac is subject to the disclosure and reporting requirements of the Securities and Exchange Commission.

### ***Financial Condition and Performance***

Farmer Mac's financial condition and performance trends were generally positive in FY 2015.

- Net income available to common shareholders was \$38.0 million for the 12 months ended September 30, 2015, compared with \$45.1 million during FY 2014.
- Core earnings, a non-GAAP measure of economic performance, totaled \$43.4 million during FY 2015 compared with \$58.8 million during FY 2014.
- Farmer Mac's core capital totaled \$558.2 million at the end of FY 2015, compared with \$761.3 million at the end of FY 2014. The minimum core capital requirement for Farmer Mac's on- and off-balance-sheet exposures is set in the statute and totaled \$442.8 million at the end of FY 2015. Thus, Farmer Mac exceeded its minimum core capital requirement by approximately \$115.4 million.
- At the end of FY 2015, Farmer Mac had \$568.4 million in regulatory capital available to meet the \$75.5 million minimum requirement established by FCA's Risk-Based Capital (RBC) Model.

Farmer Mac experienced growth in its program and nonprogram portfolios during FY 2015.

- Program activity increased approximately 7.9 percent and ended FY 2015 at \$15.1 billion.
- Cash and nonprogram investments decreased approximately 16.4 percent and ended FY 2015 at \$3.5 billion.

Credit quality remained stable and generally good. Real estate owned increased over FY 2015, finishing the year at \$1.4 million, up approximately \$0.2 million from fiscal year-end 2014.

### ***Risk-Based Capital (RBC) Model***

Section 8.32 of the Farm Credit Act requires the RBC Model to be used to determine the amount of regulatory capital that is sufficient for Farmer Mac to maintain positive capital during a 10-year period under certain credit risk and interest rate risk situations. The RBC Model must estimate credit losses on agricultural mortgages owned or guaranteed by Farmer Mac.

The rate of loan default and severity of losses on agricultural mortgages must be reasonably related to the default rate and severity of losses experienced in contiguous areas of the United States; the contiguous areas considered must contain at least 5 percent of the total U.S. population that experienced the highest rate of default and severity of agricultural mortgage losses during the past two consecutive years or more. The rate of loan default and severity of losses on rural utility loans must be reasonably related to risks in electric and telephone facility loans.<sup>4</sup>

The Farm Credit Act also requires the RBC Model to incorporate an interest rate risk stress scenario based on rising and falling interest rates on Treasury obligations of various terms. In addition, the Farm Credit Act requires Farmer Mac to maintain capital to protect against management and operational risks. This additional capital must amount to 30 percent of the sum of the credit loss and interest rate risk components of the RBC Model.

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<sup>4</sup> Farmer Mac's express program activities were expanded in the Food, Conservation, and Energy Act of 2008 to include rural utilities.

The output of the stress test depends on Farmer Mac's risk profile. High-risk loan assets or significant interest rate risk exposure causes the RBC Model to calculate a higher regulatory capital requirement. Conversely, if Farmer Mac maintains a low risk profile in both its loan portfolio and interest rate risk exposure, the stress test will calculate a low capital requirement. Our regulations require Farmer Mac to have its operation of the RBC Model validated by an independent third party at least every three years. In all of these third-party validations, Farmer Mac has been found to be operating the model appropriately.

We published a final rule in early 2011 to amend our RBC Model regulation to allow for revisions to the model, including a revision that would reflect loan activity involving rural utility cooperatives. An Advance Notice of Proposed Rulemaking was published in June 2011 to solicit public input on further revisions to the model. We are considering a revision to the software platform on which the model runs. Currently, the model uses a Microsoft Excel platform. A different platform could significantly streamline the processing of model runs as Farmer Mac's portfolio grows and its product mix broadens.

### **Other Entities**

On a reimbursable basis, we perform examinations of certain entities that are not part of the Farm Credit System.

- As mandated by 12 U.S.C. 3025, we examine the National Consumer Cooperative Bank, which owns a federal savings bank, has a congressional charter, and specializes in nonagricultural cooperative loans.
- From time to time, the U.S. Department of Agriculture contracts with us to provide examination services for specific USDA programs. We annually review the amount of resources dedicated to providing these services. Currently, the amount is limited.
- We also provide services on a reimbursable basis to the Farm Credit System Insurance Corporation (FCSIC), an independent, government-controlled corporation that insures the timely payment of principal and interest on certain System notes, bonds, and other obligations issued to investors. The FCSIC Board consists of the members of the FCA Board. Section 5.59(5) of the Farm Credit Act provides that, to the extent practicable, FCSIC must use FCA personnel and resources to minimize duplication of effort and reduce costs.

## **Developing Regulations and Policies**

FCA routinely issues regulations, Informational Memoranda, policy statements, and other guidance to ensure that the System complies with the law, operates in a safe and sound manner, and efficiently carries out its statutory mission.

We are committed to providing a flexible regulatory environment that allows the System to offer high-quality, reasonably priced credit and related services to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. We strive to develop balanced, well-reasoned, and flexible regulations, always taking into account both the benefits and the costs of these regulations to System institutions. Our objectives are to ensure that the System's activities remain consistent with the law and safety and soundness principles and to encourage participation by member-borrowers in the management, control, and ownership of their institutions.

### **Regulatory and Policy Projects Active at End of FY 2015**

The FCA Board periodically reviews its regulatory agenda to evaluate progress on open projects and to determine the need for additional initiatives. The FCA Board-approved agenda is part of the federal Unified Agenda, which is published online at [www.reginfo.gov](http://www.reginfo.gov). We are not obligated to act on our agenda items, and we may propose or issue regulations that have not been set forth in the Unified Agenda. We publish our Regulatory Projects Plan on our website to notify the public of our upcoming regulatory actions and to encourage the public to participate in the regulatory process.

The following list summarizes our current regulatory efforts and other guidance under consideration in FY 2016 and FY 2017.

**Investment Eligibility:** We plan to publish a final rule to revise the eligibility requirements for investments by System institutions. To comply with a provision of the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

**Capital — Basel III:** We plan to publish a final rule to revise sections of the capital rules to make them consistent with Basel III where appropriate.

**Standards of Conduct:** We plan to reissue a notice of proposed rulemaking to clarify and strengthen regulations related to the standards of conduct of directors, employees, and agents of System institutions.

**Private Flood Insurance:** We plan to issue a notice of proposed rulemaking to amend our regulations on private flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

**Amortization Limits — Agricultural Credit Associations and Production Credit Associations:** We plan to issue a notice of proposed rulemaking to clarify or change the amortization limits for Agricultural Credit Associations and Production Credit Associations.

**Farmer Mac — Corporate Governance and Standards of Conduct:** We plan to publish a final rule to clarify and strengthen Farmer Mac's board governance regulations and to establish standards-of-conduct regulations. The proposed rule addresses director independence, risk governance, and the director nomination process. We are currently evaluating the 77 comments received and working through possible modifications for the final rule.

**Farmer Mac — Investment Eligibility:** We plan to publish a proposed rule and a final rule to change eligible investment asset classes. To comply with the Dodd-Frank Act, this rule would also remove references to credit ratings in the regulations and substitute an appropriate standard of creditworthiness.

**Bank Review of Insider Loans:** We are reviewing whether current regulations requiring bank review of association insider loans are appropriate for the System's current structure and whether the bank review ensures compliance with applicable standards-of-conduct regulations.

**Appraisal Regulations:** We plan to complete our review to consider whether changes in appraisal regulations are necessary in light of changing credit and economic conditions.

**Territorial Concurrence:** We plan to complete our review of current regulations requiring associations to notify each other and obtain concurrence when they extend loans in the chartered territories of other associations. The purpose of the review is to determine whether the regulations are appropriate for the System's current structure, lending practices and operating environment, and whether the regulations support safety and soundness, operational efficiency, cooperative principles, and customer service.

**Eligibility Criteria for Directors:** We plan to complete our review of the eligibility criteria for directors, particularly when a candidate for a director position owns an interest in an entity that borrows or holds stock in a System bank or association.

**Removal of Stockholder-Elected Directors:** We plan to complete our review of whether, and under what circumstances, a stockholder-elected director of a System bank or association can be removed by the bank's or association's board of directors.

**Financing Farm-Related Service Businesses:** We plan to complete our evaluation of the System's lending to farm-related service businesses to determine whether our regulations provide the appropriate framework for determining borrower eligibility and purposes of financing. Among the businesses to be considered are service providers within local food systems.

**Criminal Activity Referrals and Related Internal Controls:** We plan to complete our review of our regulatory guidance on internal controls designed to prevent, identify, and monitor fraud and criminal activity. We will also review the processes for referring known or suspected criminal violations.

**Highly Compensated Employees Disclosures:** We plan to conduct a review of our regulations that define highly compensated employees. The purpose of the review would be to consider amendments that simplify the definition in order to provide consistent and quality disclosure information to shareholders.

**Criteria to Reinstate Nonaccrual Loans:** We plan to conduct a review of our regulatory criteria for reinstating nonaccrual loans.

**Director Election Nomination Procedures:** We plan to begin a review of our regulations and guidance related to the director nomination process. As part of this review, we will consider the kind of information to which nominating committees should have access when considering potential nominees.

**Attribution Rules:** We plan to begin a review of the attribution rules that institutions must use when they determine whether loans to a borrower should be combined and attributed to a related borrower's outstanding loans. Attribution rules affect calculations for lending and leasing limits.

**Lending and Loan Servicing Controls:** We plan to begin a review of our regulations to determine if revised or additional regulatory guidance is needed for internal or other controls over the System's lending functions. These functions would include the loan application, loan origination, loan servicing, and portfolio administration functions.

**Basel III Liquidity Requirements:** We plan to begin a review to consider aligning liquidity requirements with the Federal Banking Regulatory Authorities and adopting a Basel III liquidity regime. As part of this review, we will consider whether the liquidity coverage ratio and the net stable funding ratio are applicable for System banks.

## **Regulatory and Policy Projects Completed in FY 2015 and Early FY 2016**

Following is a list of projects we completed in FY 2015 and early FY 2016, along with a list of communications we issued to System institutions to clarify our rules.

**Loans in Areas Having Special Flood Hazards:** We published a final rule to amend our regulations on flood insurance to conform to the Biggert-Waters Flood Insurance Reform Act of 2012.

**Mergers, Consolidations, and Charter Amendments:** We published a final rule to amend regulations pertaining to mergers, consolidations, and charter amendments of System banks and associations.

**Pension Benefits Disclosure:** We published a final rule to exclude certain employees and their compensation amounts from the compensation disclosure requirement for System institutions.

**Institution Stockholder Voting Procedure:** We published a final rule to clarify and enhance voting procedures related to the tabulation of votes, the use of teller committees, and the handling of ballots.

**Margin and Capital Requirements for Noncleared Swaps:** We published an interagency final rule to establish margin and capital requirements for FCS institutions, including Farmer Mac, that engage in noncleared swaps and noncleared security-based swap transactions. The rulemaking would fulfill a requirement of the Dodd-Frank Act.

**Capital — Basel III:** We extended the comment period on the proposed rule to revise sections of the capital rules to modernize them and make them consistent with Basel III where appropriate.

**Farmer Mac — Corporate Governance and Standards of Conduct:** We published a Notice of Proposed Rulemaking to clarify and strengthen Farmer Mac's board governance regulations and to establish standards-of-conduct regulations.

**Bank-Association Lending Relationship:** We completed our review to evaluate the regulatory requirements of general financing agreements between banks and associations. As part of this review, we considered whether we should enhance the banks' authorities to address safety and soundness issues in affiliated associations.

**Crop Insurance Sales Compensation:** We completed a review to consider whether current limitations on compensation from crop insurance sales should be modified.

**Compliance with Section 4.38 of the Farm Credit Act — Affirmative Action:** We issued an Informational Memorandum to System institutions to clarify section 4.38 of the Farm Credit Act of 1971, as amended. This section requires System institutions with more than 20 employees to “establish and maintain an affirmative action program plan that applies the affirmative action standards otherwise applied to contractors of the federal government.”

**Cybersecurity Assessment and Expectations for System Institutions:** We issued an Informational Memorandum to System institutions to ensure that they are aware of recent guidance concerning cybersecurity risks, as well as our expectations related to cybersecurity.

**Whistleblower Programs:** We issued an Informational Memorandum to System institutions to provide guidance on whistleblower programs and their importance in an effective internal control program.

**Safety and Soundness of the Farm Credit System:** We issued an Informational Memorandum to System institutions to reiterate that our foremost priority is maintaining the safety and soundness of the System and that a key component of this priority is ensuring System institutions have effective internal controls.

**Portfolio Management in Volatile Times:** We issued an Informational Memorandum to System institutions to discuss recent emerging risks in agriculture and to identify the areas we will be examining to determine how FCS institutions are responding to the volatile environment.

**Cybersecurity Framework and Other Recent Guidance:** We issued an Informational Memorandum to System institutions outlining best practices and recent guidance for managing cybersecurity risk. All System institutions should be taking appropriate actions to monitor and manage cybersecurity threats and vulnerabilities.

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

**Maximum Bank Director Compensation:** We issued an Informational Memorandum to notify Farm Credit banks of the maximum allowable bank director compensation for 2015.

## **FCS Corporate Activity and Other Prior Approvals and Clearances**

In accordance with the Farm Credit Act and our regulations, we issue prior approvals for corporate and noncorporate applications. Corporate applications include requests from FCS institutions for us to issue new or amended charters, as well as to cancel charters because of mergers, consolidations, liquidations, or terminations of System status.

Noncorporate applications include requests related to preferred stock and subordinated debt offerings and requests for prior approval of funding, mission-related investments, and any new financially related services.

### ***Corporate Activities in FY 2015 and Early FY 2016***

During FY 2015, we canceled the charters of six associations — two ACAs and four subsidiaries — as a result of two mergers. We also approved a name change.

- On October 1, 2014, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with subsidiaries.
- On January 1, 2015, two ACAs affiliated with the Farm Credit Bank of Texas merged, resulting in an ACA with subsidiaries.
- On January 1, 2015, an ACA affiliated with CoBank, ACB, changed its name.

Thus far in FY 2016, we canceled the charters of three associations — one ACA and two subsidiaries — as a result of a merger.

- On November 1, 2015, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with five subsidiaries.
- On January 1, 2016, two ACAs affiliated with CoBank, ACB, merged, resulting in an ACA with subsidiaries.

### ***Projected Mergers and FCS Institution Size***

As of January 1, 2016, the System had 74 direct-lender associations and 4 banks. Seven service corporations and special-purpose entities (see pages 59 and 60) brought the total number of FCS institutions to 85 (including Farmer Mac). Because of mergers and consolidations, the number of FCS associations has declined by 56 percent since 2000, and the number of FCS banks has decreased by 43 percent.

Although merger activity has slowed in recent years, we estimate that over time the number of direct-lender associations will continue to decline. These mergers, coupled with asset growth, will increase the size of System entities. System institutions will also possess more complex management systems and offer a broader range of financial services to their borrowers.

### ***Security Offerings During FY 2015***

We reviewed and did not object to the proposed offering circular from CoBank, ACB, for issuing fixed-to-floating Series H noncumulative perpetual preferred stock.

Previously, we had authorized CoBank, ACB, to use a Base Form Disclosure Document under specified terms (preclearance) to issue noncumulative perpetual preferred stock until the end of 2014.

### ***Funding Activity***

The FCS raises funds for loans and investments primarily by selling Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation,<sup>5</sup> the fiscal agent for the Farm Credit banks. In this way, funds flow from worldwide capital-market investors to agricultural producers, agricultural cooperatives, and rural communities, providing them with ready and efficient access to global resources. Systemwide debt securities are issued as discount notes, master notes, bonds, or designated bonds. As required by the Farm Credit Act, the System must obtain FCA approval for all debt issuances.

For the 12 months ended September 30, 2015, the FCS issued \$286 billion in Systemwide debt, which was \$60 billion less than the debt issued in FY 2014 and \$90 billion less than the debt issued in FY 2013. Although investor demand for outstanding FCS debt instruments has been strong for several years, it has waned as interest rates have trended upward; the exception is debt instruments with maturities of one year or less, for which demand continues to be strong. Yet, despite the substantial decline in Systemwide issuance, FCS debt outstanding increased to \$231.3 billion at the end of FY 2015.

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<sup>5</sup> See section 4.9 of the Farm Credit Act. The Federal Farm Credit Banks Funding Corporation's primary function is to issue, market, and handle debt securities on behalf of the System banks. In addition, the Funding Corporation assists the System banks with a variety of asset/liability management and specialized funding activities. Headquartered in the greater New York City area, the Funding Corporation is responsible for the System's financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

The financial markets exhibited general stability, with a few episodes of volatility caused by major geopolitical events. Regardless, investor demand for System debt remained favorable across the yield curve.

### ***Investments in Rural America***

In January 2005, we issued guidance that gave System institutions an opportunity to participate in pilot programs supporting investments in rural America.

The pilot programs gave FCS institutions greater flexibility to partner with government agencies and other agricultural and rural lenders in fulfilling FCS mission objectives. In addition, through the programs, we gained a better understanding of the diverse financing needs of agriculture and rural communities and the ways FCS institution investments can help increase the availability of funds to these markets.

The FCA Board later voted to conclude the pilot programs, effective December 31, 2014. The Board's action permits each System institution that participated in a pilot program to continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions.

Although we have concluded these pilot programs, we now consider investment requests on a case-by-case basis under the existing investment regulations.

### ***Rural Business Investment Company***

The 2002 Farm Bill created the Rural Business Investment Companies (RBIC) program for leveraged RBICs and gave the Secretary of Agriculture the authority to license and examine them. The 2008 Farm Bill modified the RBIC program to allow for nonleveraged RBICs and to permit System institutions to form and invest in nonleveraged RBICs.

In 2012, we entered into an Interagency Agreement with USDA whereby we perform the following services for the nonleveraged RBIC program:

- Provide technical advice regarding regulatory and program requirements
- Receive and review nonleveraged RBIC licensing applications and advise USDA as to whether to approve the applications
- Examine licensed nonleveraged RBICs

The agreement calls for us to review and provide recommendations for five RBIC applications over a five-year timeframe. We agreed to expend no more than 2,080 hours, or one full-time-equivalent staff position, to complete the RBIC assignments per fiscal year.



## **Part III**

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# **Farm Credit System**



## **Profile of the Farm Credit System**

The Farm Credit System consists of a network of borrower-owned cooperative financial institutions, as well as related service organizations and the Federal Agricultural Mortgage Corporation. The Farm Credit System was created by Congress in 1916 to provide American agriculture with a dependable source of credit. It is the oldest of the financial government-sponsored enterprises (GSEs). As of January 1, 2016, the System had four banks providing loan funds to

- 72 Agricultural Credit Association (ACA) parent organizations, each of which has two subsidiaries — a Production Credit Association (PCA) and a Federal Land Credit Association (FLCA), and
- 2 stand-alone FLCAs.

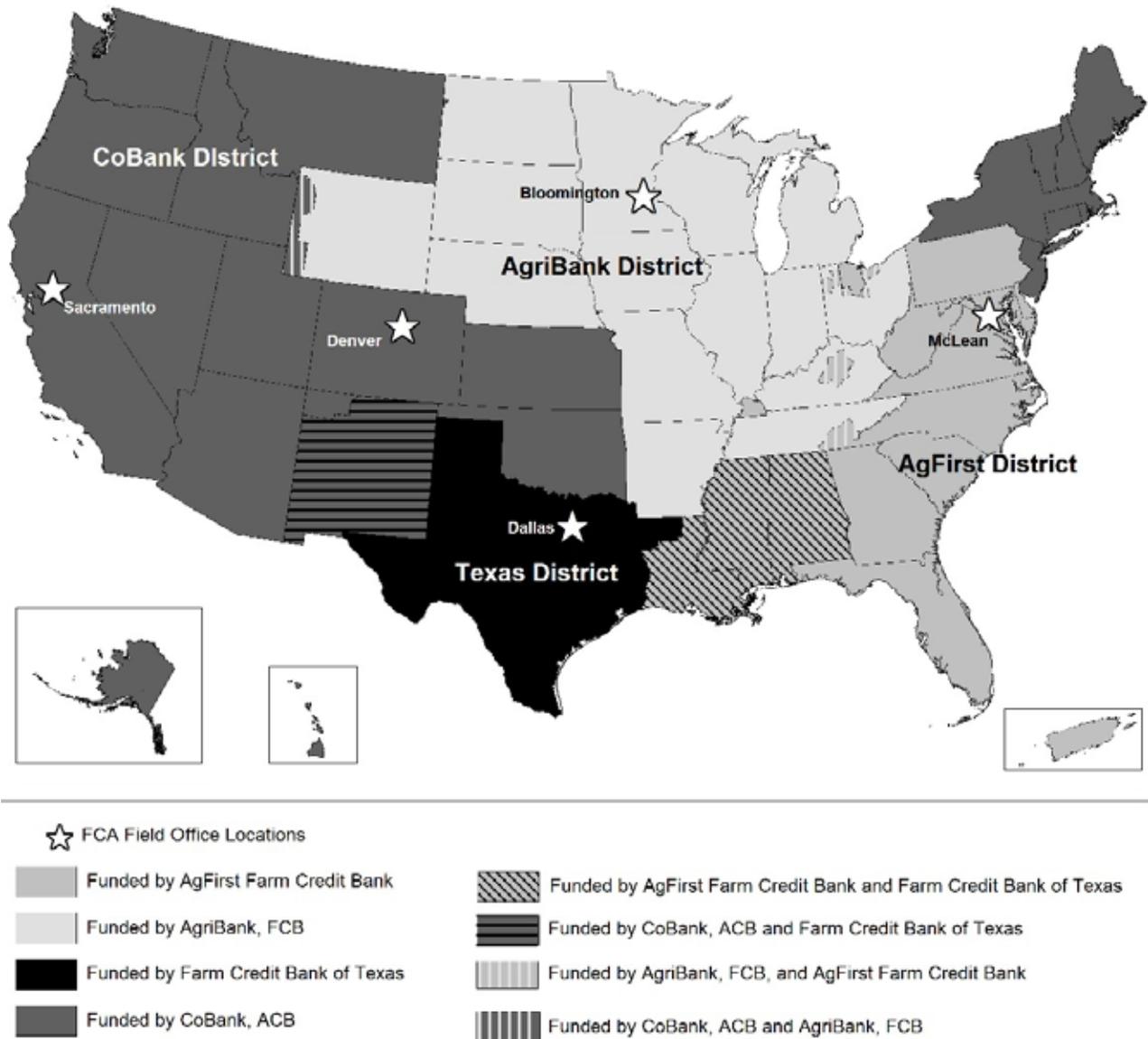
The map in [figure 3](#) shows each bank's chartered territory.

Although legally separate, the ACA and its PCA and FLCA subsidiaries operate as an integrated lending business, with loans made through the subsidiaries appropriate to the authority of each subsidiary. The ACA, the PCA, and the FLCA are jointly and severally liable for the full amount of the indebtedness to the funding bank under a General Financing Agreement. In addition, the parent company and its subsidiaries pledge their respective assets as security for each other's debts and obligations and share each other's capital.

The three associations have a common board and management and a common set of shareholders. Under the Farm Credit Act, FLCAs are Federal Land Bank Associations that originate long-term agricultural mortgages and are exempt from federal and state income taxes; ACAs and PCAs originate short- and intermediate-term operating loans and are not tax-exempt.

System institutions provide credit and financially related services to farmers, ranchers, producers or harvesters of aquatic products, and farmer-owned cooperatives. Institutions also make loans for agricultural processing and marketing activities, rural housing, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and foreign and domestic entities in connection with international agricultural trade. The System raises its loan funds by selling debt securities in the national and international money markets; these securities are subject to FCA's approval, but they are not guaranteed by the U.S. government.

Figure 3. Farm Credit System Bank Chartered Territories



NOTE: CoBank, ACB, funds 24 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 78 banks and direct-lending associations.

## **Additional System Entities and Service Corporations**

In addition to the System's banks and associations, we are responsible for regulating and examining the Federal Agricultural Mortgage Corporation and the Federal Farm Credit Banks Funding Corporation. We also regulate and examine the five service corporations organized under section 4.25 of the Farm Credit Act<sup>6</sup>: AgVantis, Inc.; Farm Credit Leasing Services Corporation; Farm Credit Financial Partners, Inc.; the FCS Building Association (FCSBA); and Farm Credit Foundations.

**Federal Agricultural Mortgage Corporation** — Farmer Mac<sup>7</sup> is a stockholder-owned, federally chartered instrumentality of the United States created in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. In May 2008, the Food, Conservation, and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac conducts its business primarily through four core programs:

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

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<sup>6</sup> Section 4.25 of the Farm Credit Act provides that one or more FCS banks or associations may organize a service corporation to perform functions and services on their behalf. These federally chartered service corporations are prohibited from extending credit or providing insurance services.

<sup>7</sup> Farmer Mac is established in law as a part of the FCS. However, Farmer Mac has no liability for the debt of any other System institution, and the other System institutions have no liability for Farmer Mac's debt. Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative. Investors in voting stock may include commercial banks, insurance companies, other financial organizations, and FCS institutions. Nonvoting stock may be owned by any investor. Farmer Mac is regulated by FCA through the Office of Secondary Market Oversight. The OSMO Director reports directly to the FCA Board on matters of policy.

Under the Farm & Ranch and Rural Utilities segments, Farmer Mac purchases, or commits to purchase, qualified loans, or obligations backed by qualified loans, that are not guaranteed by any instrumentality or agency of the United States. Under USDA Guarantees, Farmer Mac purchases the guaranteed portions of farm ownership and farm operating loans, rural business and community development loans, and certain other loans guaranteed by USDA. Under Institutional Credit, Farmer Mac purchases bonds backed by eligible debt obligations of agricultural and rural utility lenders.

**Federal Farm Credit Banks Funding Corporation** — The Funding Corporation is owned by System banks; it sells debt securities on behalf of the banks to raise funds for loans and other purposes. System institutions obtain the majority of their funds through the sale of these securities in the Nation's capital markets. These securities, chiefly in the form of bonds and discount notes, are offered by the Funding Corporation through a nationwide group of securities dealers and dealer banks. The Funding Corporation's debt issuance programs provide the System banks with funds to lend to farmers, ranchers, and agricultural cooperatives; debt issuances also provide the banks with funding for their other operations.

**AgVantis, Inc.** — AgVantis, Inc., provides technology-related and other support services to associations in the CoBank, ACB, district. It was chartered by FCA in 2001 and is owned by CoBank, ACB, and 16 of its affiliated associations.

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

**Farm Credit Financial Partners, Inc.** — Farm Credit Financial Partners, Inc., provides support services to CoBank, ACB; five associations affiliated with CoBank, ACB; one association affiliated with AgriBank, FCB; the Leasing Corporation; and two FCS-related entities.

**FCS Building Association** — FCSBA, which acquires, manages, and maintains facilities to house our headquarters and field office staff, was formed in 1981. It is owned by System banks and is subject to the oversight and direction of the FCA Board.

**Farm Credit Foundations** — Farm Credit Foundations provides human resource services to its employer-owners, including payroll processing, benefits administration, centralized vendor management, workforce management and operations services, corporate tax and financial reporting services, and retirement workshops. It is owned by 41 Farm Credit associations, one service corporation (AgVantis, Inc.), and one Farm Credit Bank (AgriBank, FCB).

## **FCS Mission Fulfillment**

The System fulfills its overall mission by lending to agriculture and rural America. Through changes in the law since the System's original authorization in 1916, System lending authorities have evolved to include the following:

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

In addition to its lending programs, System institutions participated (until December 31, 2014) in several mission-related pilot investment programs (referred to as Investments in Rural America). The programs allowed us to evaluate the ability of System institutions to provide a flexible flow of funds to agriculture and rural communities across the country. (See page 53 for a description of the Investments in Rural America program.)

## Financial Condition and Performance

In FY 2015, the overall condition and performance of the FCS remained safe and sound, and the System is well positioned to withstand the challenges facing U.S. agriculture during the current cyclical downturn. Supporting the overall condition of the FCS is moderate loan growth, adequate capital, and reliable access to debt capital markets. As of September 30, 2015, the System's liquidity position equaled 183 days, significantly above the 90-day regulatory minimum required for each FCS bank.

Margins for many grain and soybean producers in 2015 remained low or negative for the third consecutive year. For livestock producers, lower crop prices translated into lower feed costs, but profitability has been adversely affected by lower livestock product prices, particularly for the hog, dairy, and broiler sectors.

The System's loan portfolio continued to grow because of continued demand for cropland and the overall demand for new loans. For the 12 months ended September 30, 2015, gross loans increased by 9.0 percent. Real estate mortgage lending was up 7.2 percent as demand for cropland continued in 2015.

### Earnings

The FCS earned \$3.48 billion in the first nine months of 2015, a 2.5 percent decrease from the \$3.57 billion earned in the same period in 2014. As table 14 shows, net interest income rose 3.2 percent but not enough to offset higher noninterest expenses and provisions for loan losses.

**Table 14: Net Income (Dollars in Millions)**

	First 9 Months of 2014	First 9 Months of 2015	Dollar Change	Percent Change
Net interest income	\$5,056	\$5,217	\$161	3.2
– Provision for losses	7	87	\$80	1,142.9
= Net interest income after loss provision	\$5,049	\$5,130	\$81	1.6
+ Noninterest income	489	463	(\$26)	(5.3)
– Noninterest expense	1,795	1,945	\$150	8.4
= Pretax income	\$3,743	\$3,648	(\$95)	(2.5)
– Provision for income tax	174	167	(\$7)	(4.0)
= Net income	\$3,569	\$3,481	(\$88)	(2.5)

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-3.

An increase in average interest-earning assets, from \$255.0 billion at September 30, 2014, to \$271.4 billion a year later, primarily drove the increase in net interest income. However, the net interest margin declined 8 basis points from the previous year; this decline was caused by a 9-basis-point decline in the net interest spread to 2.41 percent, offset by a 1-basis-point increase in noninterest-bearing items. The decline in the net interest spread was largely driven by competitive pressures, changing product mix into lower-spread lines of business, and an increase in debt costs. The yield on interest-earning assets fell by an annualized rate of 5 basis points, while the yield on interest-bearing liabilities increased by an annualized rate of 4 basis points. See table 15.

**Table 15: Interest Margin in Annualized Percentages**

	<b>First 9 Months of 2014</b>	<b>First 9 Months of 2015</b>	<b>Change (bps)</b>
<b>Total interest-earning assets</b>	<b>3.46</b>	<b>3.41</b>	<b>(5)</b>
Total loans	3.98	3.92	(6)
Investments and other assets	1.33	1.30	(3)
<b>Total interest-bearing liabilities</b>	<b>0.96</b>	<b>1.00</b>	<b>4</b>
<b>Net interest spread</b>	<b>2.50</b>	<b>2.41</b>	<b>(9)</b>
Impact of noninterest-bearing items	0.14	0.15	1
<b>Net interest margin</b>	<b>2.64</b>	<b>2.56</b>	<b>(8)</b>

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. 12.

bps = basis points

As table 16 shows, the return on average assets and the return on average capital declined in all System districts during the first nine months of 2015. However, the System's net return measures remained satisfactory across all the districts.

**Table 16: Profitability Across System Districts for First 9 Months of Year**

		<b>AgFirst</b>	<b>AgriBank</b>	<b>Texas</b>	<b>CoBank</b>
Percentage return on average assets	2014	1.97	1.83	2.11	1.46
	2015	1.67	1.63	1.70	1.44
Percentage return on average capital	2014	12.01	10.85	12.86	11.07
	2015	10.50	9.53	10.83	10.57

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-57.

## Asset Growth

The System's loans and assets grew moderately during the year ended September 30, 2015. FCS assets grew to \$291.5 billion as of September 30, 2015, up \$20.1 billion (7.4 percent) from September 30, 2014. Increases in loans by \$18.8 billion (9.0 percent), cash by \$788 million (33.2 percent), and investments by \$333 million (0.7 percent) produced the moderate increase in total assets.

The dollar volume to major loan categories increased. Real estate mortgage lending increased because of the continued demand for cropland in 2015. The dollar volume also increased for production and intermediate term lending and agribusiness lending.

All System districts experienced loan growth for the year ended September 30, 2015. Loan volume in the CoBank district grew by \$9.4 billion, an increase of 11.2 percent over its loan volume a year earlier. Gross loan volume in the Texas and AgriBank districts increased by \$1.8 billion (9.8 percent) and \$6.5 billion (7.6 percent), respectively. The AgFirst district experienced the smallest increase; its gross loan volume increased by \$1.3 billion (5.5 percent). See table 17.

**Table 17: Gross Loan Growth by District and Systemwide (Dollars in Millions)**

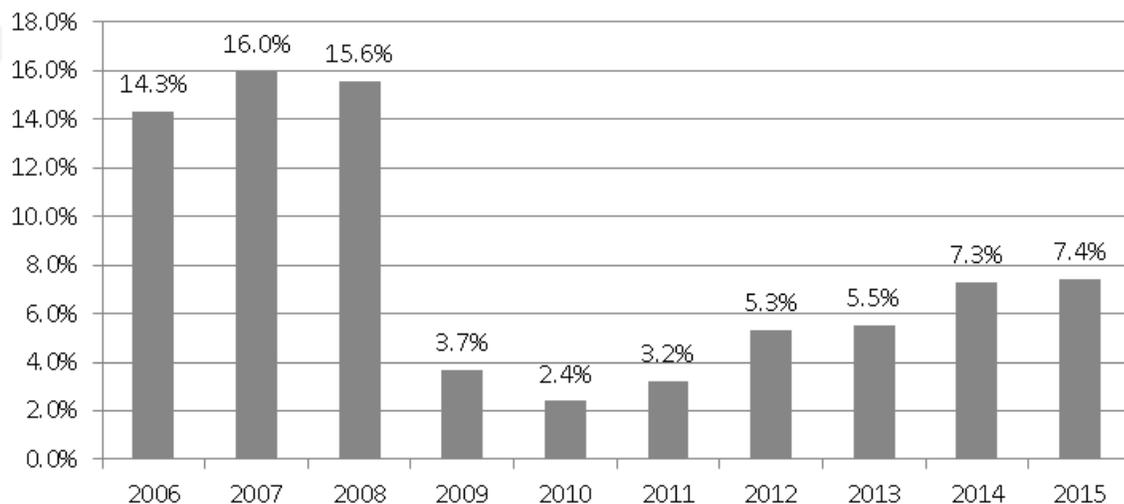
	September 30, 2014		September 30, 2015		Change in Dollars	Percent Change
	Gross Loans	Percent Total	Gross Loans	Percent Total		
AgFirst	\$24,117	11.6	\$25,452	11.2	1,335	5.5
AgriBank	85,210	41.0	91,662	40.4	6,452	7.6
Texas	18,692	9.0	20,527	9.0	1,835	9.8
CoBank	84,350	40.5	93,775	41.3	9,425	11.2
Intra-System Eliminations	(4,318)	(2.1)	(4,572)	(2.0)	(254)	NM*
<b>Total for System</b>	<b>\$208,051</b>	<b>100</b>	<b>\$226,844</b>	<b>100</b>	<b>\$18,793</b>	<b>9.0</b>

\* Not meaningful.

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, p. F-53; and Third Quarter 2014 Quarterly Information Statement of the Farm Credit System, p. F-54.

As noted in figure 4 below, the System's total assets increased by 7.4 percent during the 12-month period ended September 30, 2015. This was a slightly greater increase than the System experienced during the previous 12-month period, but it was significantly lower than during the 2006 to 2008 period, the three years prior to the recession.

**Figure 4: Percent Change in System Assets, September 2006 to September 2015**



Source: FCS Quarterly Information Statements.

**Table Data for Figure 4**

Year	Percent Change in System Assets
2006	14.3
2007	16.0
2008	15.6
2009	3.7
2010	2.4
2011	3.2
2012	5.3
2013	5.5
2014	7.3
2015	7.4

### Assets — Investments

As of September 30, 2015, the System’s investments totaled \$51.4 billion, up 0.7 percent from a year earlier. As shown in table 18, investments available for sale totaled \$48.9 billion, including \$0.3 billion for mission-related investments. Investments held to maturity were \$2.5 billion, including \$1.9 billion for mission-related mortgage-backed securities. The System increased its holdings of U.S. agency securities and other asset-backed securities while reducing holdings of money market instruments and U.S. Treasury securities.

During the most recent 12-month period, the yield on investments available for sale increased from 1.25 percent to 1.31 percent. Yield increases for money market instruments and U.S. treasuries more than offset declines in yields for the other segments. For investments held to maturity, the yield increased from 3.16 percent to 3.21 percent. An increase in yield for mission-related mortgage-backed securities more than offset yield declines for the other segments.

Ineligible investments held by the System declined from \$1.2 billion at September 30, 2014, to \$0.9 billion at September 30, 2015. Most ineligible investment securities that the System has on its books became ineligible as a result of the unfavorable market conditions caused by the financial crisis.

According to our regulations, to be eligible to be held by the System, the vast majority of investments must maintain the highest credit rating by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings. In addition, certain investments are not allowed to make up more than a limited percentage of an institution's portfolio.

Under our former regulations, an investment can become ineligible even though it was an eligible investment when purchased. However, under the Investment Management final rule, which became effective on December 31, 2012, System institutions may now continue to hold, subject to certain conditions, investments that no longer satisfy eligibility criteria that they met when they were purchased. Previously the ineligible investment had to be divested within six months unless FCA approved a plan to hold the investments for a longer period of time.

**Table 18: FCS Investments (Dollars in Millions)**

		September 30, 2014		September 30, 2015		Change		
		Amount	WAY (%)	Amount	WAY (%)	Dollars	Percent	WAY (bps)
<b>Available for sale (fair value)</b>	Money Market instruments	\$5,713	0.28	\$4,803	0.43	-910	(15.9)	15
	U.S. Treasury securities	10,002	0.94	9,775	1.20	-227	(2.3)	26
	U.S. agency securities	5,354	1.59	6,256	1.44	902	16.8	-15
	Mortgage-backed securities	24,908	1.52	25,107	1.50	199	0.80	-2
	Other asset-backed securities	2,040	1.07	2,655	1.02	615	30.1	-5
	Mission-related investments	416	3.05	332	2.58	-84	-20.2	-47
	<b>Total</b>	<b>\$48,433</b>	<b>1.25</b>	<b>\$48,928</b>	<b>1.31</b>	<b>495</b>	<b>1.0</b>	<b>5.5</b>
<b>Held to maturity (amortized cost)</b>	Mission-related mortgage-backed securities	2,216	3.01	1,912	3.20	-304	-13.7	19
	Asset-backed securities	219	2.38	360	1.97	141	64.4	-41
	Other securities	191	5.75	192	5.63	1	0.5	-12
	<b>Total</b>	<b>\$2,626</b>	<b>3.16</b>	<b>\$2,464</b>	<b>3.21</b>	<b>-162</b>	<b>-6.2</b>	<b>5</b>

Source: Third Quarter 2015 Quarterly Information Statement of the Farm Credit System, pp. F-9 and F-11; and Third Quarter 2014 Quarterly Information Statement of the Farm Credit System, pp. F-9 and F-11.

WAY = weighted average yield; bps = basis points

## **Loan Quality**

Despite wet weather and lost acreage in the planting season, growing conditions in key grain- and oilseed-producing states were favorable in the summer of 2015. Both because of the good harvest and large beginning stocks, crop supplies were at a record high. As a result, crop prices were the lowest since the 2009 growing season. The lower crop prices have pushed major grain and oilseed producers' margins to breakeven or slightly below breakeven levels, resulting in sharply lower farm income.

In contrast, lower grain and oilseed prices are welcome news for producers of livestock, dairy, poultry, and biofuels (ethanol and biodiesel); these producers are also experiencing reduced prices for their commodities because of sluggish global demand. The slowdown in the economies of many key export destinations for U.S. agricultural products combined with the strong U.S. dollar is negatively affecting U.S. exports, contributing to the buildup of inventories and putting downward pressure on commodity prices.

Furthermore, farmers seeking loans in 2016 may experience additional stress because the Federal Reserve is expected to continue gradually raising the Federal Funds target rate, which in turn will raise borrowing costs for real estate, equipment, and other production inputs. On December 16, 2015, the Federal Reserve made its first increase since 2006, raising its key policy rate by 25 basis points to a range of 0.25 to 0.50 percent. In announcing its decision to raise the rate, the Federal Reserve cited improving labor market conditions and expectations that inflation would eventually increase to the Fed's 2 percent goal.

Another source of stress for some farmers and ranchers is the decline in collateral values. Because of the drop in crop prices, farmland values have deteriorated in some key producing regions.

During fiscal year 2015, the System's nonperforming assets declined from \$1.903 billion (0.91 percent of total loans) on September 30, 2014, to \$1.826 billion (0.80 percent of total loans) a year later. The decline in nonperforming loans reflects improvements in the credit quality of real estate mortgage loans as well as production and intermediate-term loans. The improvement of credit quality in these loans offset some deterioration in the credit quality of agribusiness loans and communication loans.

In the first nine months of 2015, net charge-offs for the System were nearly double (\$33 million) what they had been for the same period a year earlier (\$17 million). Total net charge-offs went up mostly because of the increase in net charge-offs for production and intermediate term loans. The allowance for loan losses (ALL) decreased slightly as a share of total loans and increased as a percentage of nonperforming loans and nonaccrual loans. See table 19.

**Table 19: FCS Loan Quality**

<b>Loan Quality</b>	<b>September 30, 2014</b>	<b>September 30, 2015</b>
Total nonperforming assets as percentage of total loans	0.91	0.80
Nonperforming assets as percentage of capital	4.15	3.74
Nonaccrual loans as percentage of total loans	0.68	0.62
ALL as percentage of total loans	0.57	0.55
ALL as percentage of nonperforming loans	67.1	72.3
ALL as percentage of nonaccrual loans	83.6	89.1

Source: FCS Quarterly Information Statements.

ALL = allowance for loan losses

### **Liabilities, Funding, and Liquidity**

For the year ended September 30, 2015, the System's overall liabilities increased by 7.6 percent to \$242.6 billion. Short-term debt securities (due within one year) increased 7.2 percent to \$84.5 billion, while debt securities due after one year increased 8.4 percent to \$146.8 billion. See table 20 below. Short-term debt securities represented 34.8 percent of the total Systemwide liabilities at September 30, 2015, slightly less than the 35.0 percent a year earlier.

**Table 20: Systemwide Debt (Dollars in Millions)**

	September 30, 2014	September 30, 2015	Change	
			Dollars	Percent
Systemwide discount notes due within 1 year	\$ 21,583	\$ 23,130	\$1,547	7.2
Systemwide bonds, medium-term notes, and master notes due within 1 year	57,296	61,394	4,098	7.2
<b>Total short-term liabilities</b>	<b>\$78,879</b>	<b>\$84,524</b>	<b>\$5,645</b>	<b>7.2</b>
Systemwide bonds, medium-term notes, and master notes due after 1 year	135,473	146,810	11,337	8.4
Other liabilities	11,156	11,249	93	0.8
<b>Total liabilities</b>	<b>\$225,508</b>	<b>\$242,583</b>	<b>\$17,075</b>	<b>7.6</b>

Source: FCS Quarterly Information Statements.

The System's liquidity position increased from 174 days as of September 30, 2014, to 183 days as of September 30, 2015. Each bank has maintained the three tiers of the liquidity reserve and exceeded the regulatory minimum of 90 days of liquidity.<sup>8</sup>

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<sup>8</sup> The regulatory liquidity standard requires each FCS bank to maintain a minimum of 90 days of liquidity on a continuous basis. The number of days of liquidity is calculated by comparing the principal portion of a given bank's maturing Systemwide debt securities, as well as its other borrowing, with the total amount of the bank's cash, cash equivalents, and investments. For the purpose of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale.

The duration gap,<sup>9</sup> which derives from the estimated durations of assets and liabilities, is a concise and simple measure of interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. A positive duration gap (in which the duration of assets exceeds the duration of liabilities) exposes the System to rising interest rates. Conversely, a negative duration gap (in which the duration of liabilities exceeds the duration of assets) exposes the System to declining interest rates. In general, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

The aggregate duration gap for the FCS (the sum of the banks' duration gaps) was a positive 4.6 months on September 30, 2015, compared with a positive 3.2 months a year earlier. The banks' duration gap grew in 2015 because of balance sheet management strategies designed to take advantage of changing interest rates. A duration gap of a positive six months to a negative six months generally indicates a small exposure to interest rate risk. An institution's overall exposure to interest rate risk is a function not only of its duration gap but also of the financial leverage of its capital position

## **Capital**

The System's total capital grew by 6.7 percent during FY 2015 to reach \$48.9 billion. Most of the \$3.1 billion increase in capital came from surplus (or net income earned and retained), but increases in preferred stock, capital stock and participation certificates, additional paid-in capital, and restricted capital (Insurance Fund) also added to the total. See table 21 for changes in the capital components.

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<sup>9</sup> Duration is the average maturity of cash flows, weighted by the present value of this cash flow. It is a useful way to estimate the direction and size of changes in the value of a financial instrument when market interest rates experience small changes. Here, "duration gap" is the difference between the duration of assets and the duration of liabilities, measured in months. When the duration gap is small, changing market interest rates pose less interest rate risk than when the gap is large.

Surplus still accounts for the overwhelming majority of capital, at 82.5 percent as of September 30, 2015, up slightly from 82.0 percent as of September 30, 2014. While results were mixed for district banks and associations, the System’s overall capital-to-assets ratio declined slightly, from 16.9 percent to 16.8 percent over this 12-month period. This decline occurred because earnings retained by System institutions slowed relative to asset growth, reflecting a decline in net income. The decline in net income was the result of several factors: an increase in noninterest expense, an increase in the provision for loan losses, and a decrease in noninterest income.

**Table 21: FCS Capital Composition**

	September 30, 2014	September 30, 2015	Change	
			Dollars	Percent
Preferred stock	\$2,559	\$2,783	224	8.8
Capital stock and participation certificates	1,667	1,714	47	2.8
Additional paid-in capital	1,073	1,183	110	10.3
Restricted capital (Insurance Fund)	3,684	3,964	280	7.6
Accumulated other comprehensive income (loss)	(720)	(1,108)	(388)	53.9
Surplus	37,553	40,342	2,789	7.4
<b>Total capital</b>	<b>\$45,816</b>	<b>\$48,878</b>	<b>3,062</b>	<b>6.7</b>

Source: FCS Quarterly Information Statements.

As of September 30, 2015, all System institutions complied with FCA capital standards: a permanent capital ratio and a total surplus ratio of at least 7 percent of risk-adjusted assets, and a core surplus ratio of at least 3.5 percent of risk-adjusted assets. All banks are required to maintain a net collateral ratio of at least 103 percent of total liabilities. However, because they have subordinated debt outstanding, three banks (CoBank, AgriBank, and the Farm Credit Bank of Texas) must maintain a minimum net collateral ratio of 104 percent. While most banks showed slight deterioration in their respective capital ratios as of September 30, 2015, from the year before, table 22 shows that the banks are capitalized well in excess of regulatory requirements.

For associations, permanent capital ratios declined slightly on the low end of the range — from 13.5 percent as of September 30, 2014, to 13.3 percent as of September 30, 2015, and they rose slightly on the high end of the range — from 35.9 percent to 36.1 percent.

**Table 22: Regulatory Capital Ratios of FCS Banks**

		<b>AgFirst</b>	<b>AgriBank</b>	<b>Texas</b>	<b>CoBank</b>
Permanent capital ratio	9/30/2014	22.7	20.9	18.6	16.4
	9/30/2015	21.4	20.9	17.7	15.6
	Change	(1.3)	(0.0)	(0.9)	(0.8)
Total surplus ratio	9/30/2014	22.7	18.3	15.8	15.4
	9/30/2015	21.4	18.1	15.3	14.6
	Change	(1.3)	(0.2)	(0.5)	(0.8)
Core surplus ratio	9/30/2014	20.2	11.8	10.0	10.9
	9/30/2015	19.1	12.2	9.8	10.7
	Change	(1.1)	0.4	(0.2)	(0.2)
Net collateral ratio	9/30/2014	107.9	106.1	108.8	107.4
	9/30/2015	107.8	105.9	108.1	107.2
	Change	(0.1)	(0.2)	(0.7)	(0.2)

Source: FCA Consolidated Reporting System.

## **Young, Beginning, and Small Farmers and Ranchers**

Congress has mandated that the Farm Credit System serve the credit needs of young, beginning, and small (YBS) farmers and ranchers by directing System associations to set up YBS programs and by requiring the banks to issue annual reports on their associations' programs. To ensure that the System fulfills this responsibility, FCA issued a final rule in 2004 that

- amended regulations to provide clear, meaningful, and results-oriented guidelines for System YBS policies and programs;
- allows associations the flexibility to design YBS programs unique to the needs of their territories and encourages associations to establish advisory committees composed of YBS farmers;
- requires each System association to include quantitative YBS targets and qualitative YBS goals in its operational and strategic business plan, as well as to establish internal controls over its YBS program; and
- requires System banks and associations to include information on YBS loans and programs in their annual reports to shareholders and investors.

Our examiners review the policies and programs of the institutions to ensure that the institutions are complying with the YBS regulations.

In addition, we continue to consider regulatory options to support YBS programs. In October 2012, we issued a Bookletter to the System that provides guidance on how associations can meet the credit and related services needs of farmers who market their agricultural products through local and regional food systems. Because of their age, farming experience, or the size of their operations, many local food farmers will qualify as YBS farmers under Section 4.19 of the Farm Credit Act, as well as under FCA regulation 12 CFR 614.4165.

In November 2014, we issued an Informational Memorandum to System institutions explaining how they can increase their outreach and service to YBS farmers by coordinating with USDA Farm Service Agency loan programs. The guidance we provide helps ensure that System institutions make full use of their authorities to assist YBS farmers to begin farming, to expand their operations, or to remain in agricultural or aquaculture production.

The information that follows shows YBS results for calendar year 2014. We are currently collecting information for 2015, and we expect this information to be available after April 2016. A summary of the System's YBS program results is also available on our website at [www.fca.gov](http://www.fca.gov).

Tables 23 and 24 provide the YBS results for calendar year 2014. Loans to YBS producers include real estate loans and short- and intermediate-term loans. Please note that information is reported separately for each of the three YBS categories because some borrowers fit into two or even all three categories. Therefore, the sum of the numbers in the categories is not an accurate measure of the System's YBS lending activity.

In 2014, the pace of new lending to YBS farmers exceeded the pace of overall Farm Credit System lending to farmers. The number of loans made in 2014 to young and beginning farmers increased by 2.0 percent and 1.8 percent, respectively, from 2013, while overall the number of farm loans made by the System fell 1.8 percent. Although the number of loans the System made to small farmers declined, it declined by only 1.4 percent, which is less than the rate by which total farm loans fell. Therefore, the share of total System farm loans made to all three YBS categories rose from that of 2013.

From 2013 to 2014, the dollar volume of new loans made to young and beginning categories rose by 5.0 percent and 3.2 percent, respectively. The System's overall volume of new farm loans grew by 1.8 percent. Therefore, the share of total System farm loan volume made to these YBS categories rose from that of 2013. Loan volume to small farmers decreased by 5.2 percent from 2013.

Because of a decline in repayments, the number and dollar volume of loans outstanding increased in all three YBS categories in 2014 from the prior year. The number of loans outstanding increased by 4.0 percent to beginning farmers, 3.5 percent to young farmers, and 1.2 percent to small farmers. The dollar volume outstanding increased by 7.4 percent to young farmers, 5.5 percent to beginning farmers, and 1.7 percent to small farmers.

The following information summarizes lending activity for the three separate YBS categories.

**Young** — In 2014, the System made 59,145 loans to young farmers — that is, to those who are 35 years old or younger. The volume of total new loans to young farmers amounted to \$8.7 billion. The loans made to young farmers in 2014 represented 16.9 percent of all farm loans made during the year and 11.3 percent of the dollar volume of loans made. At the end of 2014, the System had 181,736 loans outstanding totaling \$25.5 billion to young farmers.

**Beginning** — The System made 74,099 loans to beginning farmers — that is, to those who have been farming for 10 years or less. The volume of total new loans to beginning farmers amounted to \$11.4 billion in 2014. The loans made to beginning farmers in 2014 represented 21.2 percent of all farm loans made during the year and 14.8 percent of the dollar volume of loans made. At the end of 2014, the System had 263,277 loans outstanding totaling \$39.0 billion to beginning farmers.

**Small** — FCS institutions made 140,608 loans, totaling \$10.7 billion, to small farmers (those with gross annual sales of less than \$250,000) in 2014. The loans made in 2014 to farmers in this category represented 40.2 percent of all farm loans made during the year and 13.9 percent of the dollar volume of all farm loans made. At the end of 2014, the System had 490,425 loans outstanding totaling \$45.7 billion to small farmers.

**Table 23. YBS Loans Outstanding (as of December 31, 2014)**

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	181,736	17.9	\$25.5	11.2	\$140,542
Beginning	263,277	26.0	\$39.0	17.1	\$148,079
Small	490,425	48.4	\$45.7	20.0	\$93,129

Source: FCA 2014 Annual Report on the Farm Credit System

Note: YBS data for each category are reported separately and should not be added.

**Table 24. YBS Loans Made During 2014 (as of December 31, 2014)**

Type of Farmer	Number of Loans	Percentage of Total Number of System Farm Loans	Dollar Volume of Loans in Billions	Percentage of Total Volume of System Farm Loans	Average Loan Size
Young	59,154	16.9	\$8.7	11.3	\$147,587
Beginning	74,099	21.2	\$11.4	14.8	\$153,280
Small	140,608	40.2	\$10.7	13.9	\$76,359

Source: FCA 2014 Annual Report on the Farm Credit System.

Note: YBS data for each category are reported separately and should not be added.

To help YBS farmers qualify for credit in 2014, FCS associations offered differentiated loan underwriting standards for YBS borrowers or made exceptions to their regular standards. For example, some associations used higher loan-to-appraised-value ratios or lower debt repayment capacity standards for YBS borrowers. More than a third of associations provided concessionary loan fees, and more than half offered lower interest rate programs for YBS borrowers.

Many associations partnered with state and federal programs to provide interest rate reductions, guarantees, or loan participations for YBS borrowers. About three-quarters of associations indicated they had used government loan guarantee programs, primarily those of the USDA Farm Service Agency, to increase their service to YBS farmers. This was up from two-thirds of associations in 2013. These guarantees reduce the risk associations face when lending to individuals who cannot otherwise meet underwriting standards.

In addition, FCS institutions are using various approaches and sources of information to improve their YBS performance and outreach. For example, more System associations in 2014 (43 percent) used YBS advisory committees to provide input on YBS-related issues to their boards of directors. To further improve performance, most FCS institutions have YBS training for their staff at least annually and in 2014 more associations linked their manager and lending staff performance evaluations to their YBS performance criteria.

Finally, associations employed a range of outreach measures to reach potential YBS farmers, such as sponsorship of local farmers markets and various agricultural events. They also provided training programs and services to YBS farmers, often in partnership with state or national young farmer groups or colleges of agriculture; examples include programs to build leadership and financial management skills, and special conferences geared to young, beginning, or small farmers. In addition, most FCS associations provide financial support for college scholarships or for FFA, 4-H, and other agricultural organizations.

## **Market Share of Farm Debt**

According to the U.S. Department of Agriculture's November 2015 forecast, total farm business debt will be \$367.4 billion at the end of 2015, up 6.3 percent from a year earlier and up 25.0 percent since 2011. Commercial banks and the Farm Credit System are the primary suppliers of credit to farmers; other providers include life insurance companies, USDA programs, Farmer Mac, individuals, and merchants and dealers.

The System's share of the \$345.7 billion farm business debt market was 39.6 percent at the end of calendar year 2014, down from 41.0 percent at the end of 2013.<sup>10</sup> The market share for commercial banks also decreased — from 42.1 percent in 2013 to 41.7 percent in 2014. USDA estimates on the market shares of individual lender groups for year-end 2015 will not be available until August 2016.

Historically, except for the unusual period of the 1980s and various market adjustments in the 1990s, FCS institutions have typically held the largest share of the farm real estate debt market, while commercial banks have held the largest share of non-real-estate farm lending.

Despite modest growth in the System's real estate lending, its share of farm business debt secured by farm real estate decreased at year-end 2014 to 45.2 percent from 46.1 percent the previous year. Farm real estate lending by commercial banks grew at a faster pace during the year, with their share of farm real estate debt holding at 37.3 percent. The System has had the largest market share of farm business debt secured by farm real estate since 2001.

The System also experienced modest growth in non-real-estate farm debt in 2014, yet its market share still declined from 33.8 percent at year-end 2013 to 33.2 percent at year-end 2014. Commercial banks continue to lead the non-real-estate-secured farm debt market with a 47.5 percent market share at the end of 2014. Historically, commercial banks have had the greatest share of this debt segment.

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<sup>10</sup> USDA's estimate of farm debt includes debt associated with the farming business and therefore excludes FCS lending associated with cooperatives, rural homes, rural utilities, marketing and processing operations, and other nonfarm-lending activities.

## **Part IV**

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# **Performance Budget**

**FY 2017**



## Performance Budget Overview

Our FY 2017 Performance Budget reflects our commitment to maintaining a flexible regulatory environment that meets current and future rural credit needs while ensuring the safety and soundness of the FCS. The total Performance Budget (table 25) is \$70.4 million and reflects a 6.34 percent increase from FY 2016.

**Table 25. FCA Performance Budget, FYs 2015 – 2017**

	<b>FY 2015 Revised</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Proposed</b>
Policy and regulation	\$14,433,003	\$14,140,400	\$14,671,159
Safety and soundness	49,911,992	50,558,847	54,197,733
Reimbursable activities <sup>1</sup>	1,255,005	1,500,753	1,531,108
<b>Total</b>	<b>\$65,600,000</b>	<b>\$66,200,000</b>	<b>\$70,400,000</b>

\* In contrast to the reimbursement numbers in table 4, these totals include indirect costs.

### Policy and Regulation

Our Performance Budget includes \$14.7 million for the policy and regulation program, a 3.75 percent increase from FY 2016. Most of the funds requested for policy and regulation in FY 2017 will support regulatory projects that were published in the Unified Agenda in the fall of 2015. Generally, we open about a dozen regulatory projects each year. Funds are also used to support other statutory and regulatory activities, including policy studies and market research; management of our Consolidated Reporting System; and approvals of corporate applications, System funding requests, and mission-related investment programs.

### Safety and Soundness

The Performance Budget includes \$54.2 million for the safety and soundness program, a 7.20 percent increase from FY 2016. This increase is necessary because of staff increases and a reallocation of examination resources from reimbursable activities to examination activities to meet System needs.

By statute, we are required to examine each FCS institution at least once every 18 months except Farmer Mac, which we must examine at least once a year.<sup>11</sup> Examiners evaluate the overall condition and performance of these institutions and communicate the results to the boards of directors and management through discussions and Reports of Examination. The Financial Institution Rating System ratings are evaluated and assigned to individual institutions at least quarterly. In addition, FY 2017 budgeted monies will support development of examination guidance and systemic risk oversight of the System, including Farmer Mac.

### **Reimbursable Activities**

The Performance Budget includes \$1,531,108 for reimbursable activities. The reimbursable activities are summarized below and include indirect costs.

- **Farm Credit System Insurance Corporation (FCSIC)** — \$1,107,224 for administrative support services to be provided under FCSIC contract. The administrative support services in FY 2017 include support for examination, information technology, human resources, and communication and public affairs, as well as assistance in completing one premium audit.
- **National Consumer Cooperative Bank (NCB)** — \$252,975 for examining NCB. FY 2017 activities involve conducting the annual safety and soundness examination and performing interim monitoring and CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) assessments.
- **USDA** — \$170,909 for potential work completed under contract with USDA. The work in FY 2017 will involve supporting USDA in its review of the Rural Business Investment Programs.

Table 26 summarizes the costs associated with our program activities, broken down by products and services.

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<sup>11</sup> Section 5.19(a) of the Farm Credit Act requires FCA to examine Federal Land Bank Associations (FLBAs) at least once every three years; however, the two stand-alone FLBAs in the System are direct lenders and are examined at least once every 18 months.

**Table 26. FY 2017 Proposed Budget and Full-Time Equivalents for Program Activities**

<b>Program activity</b>	<b>Products and Services</b>	<b>Budget Amount</b>	<b>FTEs</b>
<b>Policy and regulation</b>	Regulation and policy development	\$13,077,327	49.61
	Statutory and regulatory approvals	1,593,832	6.08
	<b>Total for policy and regulation</b>	<b>\$14,671,159</b>	<b>55.69</b>
<b>Safety and soundness</b>	Examination	\$50,055,610	228.15
	Economic, financial, and risk analysis	2,349,673	8.38
	FCS data management	1,792,450	9.02
	<b>Total for safety and soundness</b>	<b>\$54,197,733</b>	<b>245.55</b>
<b>Reimbursable activities</b>	<b>Total for reimbursable activities</b>	<b>\$1,531,108</b>	<b>6.06</b>
<b>All program activities</b>	<b>Total</b>	<b>\$70,400,000</b>	<b>307.30</b>

## Desired Outcomes for Strategic Goals

Our strategic goals and desired outcomes, which are detailed in table 27, help us measure whether we have achieved our public mission. The information that follows provides

- the strategies we use to accomplish the outcomes;
- the measures for each outcome, with targets that reflect our desired performance for FYs 2016 through 2017; and
- a historical summary of the costs of accomplishing the desired outcomes.

**Table 27. Desired Outcomes for Strategic Goals**

Strategic Goal	Desired Outcome
1. Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.	A regulatory environment that provides for fulfilling the public missions of the System and Farmer Mac.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.	Effective risk identification and timely corrective action

**Policy and Regulation** — We established the Policy and Regulation program to track the product and service costs of achieving a flexible regulatory environment. The products and services we provide to support this program are

- regulation and policy development, and
- statutory and regulatory approvals.

**Safety and Soundness** — We established the Safety and Soundness program to track the product and service costs of identifying risk and taking timely corrective action. The products and services we provide to support this program are

- examination;
- economic, financial, and risk analysis; and
- FCS data management.

## **Flexible Regulatory Environment**

### ***Strategies***

For goal 1, we are using the following strategies to achieve a flexible regulatory environment that enables the System and Farmer Mac to fulfill their public missions.

1. Develop regulatory capital rules within the FCA's regulatory framework for the System and Farmer Mac that are clearly defined, easily understood, and consistent with industry standards.
2. Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.
3. Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.
4. Encourage System institutions to evaluate their YBS programs to ensure that the programs also meet the credit and financial service needs of producers seeking to enter urban agriculture, to produce local foods, or to use direct-to-consumer marketing channels.
5. Encourage the System and Farmer Mac to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.
6. Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.
7. Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.
8. Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.
9. Encourage full participation of stakeholders in the development and review of regulatory proposals as appropriate.

**Measuring the Achievements**

Table 28 summarizes the results of our efforts to maintain a flexible regulatory environment for the FCS and Farmer Mac. We achieved or exceeded the goals we identified for FY 2015.

**Table 28. Flexible Regulatory Environment — Performance Measures and Achievements**

Measure	FY 2015 (Actual)		FYs 2016 – 2017
	Target	Result	Target
1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	99%	≥90%
2. Whether Farmer Mac’s business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Yes	Yes	Yes
3. Percentage of direct-lender institutions with satisfactory consumer and borrower rights compliance.	≥90%	98%	≥90%
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations.	≥90%	100%	≥90%
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year.	Yes	Yes	Yes
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions.	Yes	Yes*	Yes

\* We did not approve any proposed rules during the reporting period that were related to GSE mission.

**Budgets**

Table 29 provides the budgeted amounts we need to achieve a flexible regulatory environment from FYs 2015 to 2017.

**Table 29. Budgets to Achieve a Flexible Regulatory Environment**

	<b>FY 2015 Revised</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Proposed</b>
Regulation and policy development	\$12,991,536	\$12,580,161	\$13,077,327
Statutory and regulatory approvals	1,441,467	1,560,239	1,593,832
<b>Total</b>	<b>\$14,433,003</b>	<b>\$14,140,400</b>	<b>\$14,671,159</b>

Note: The resources required to achieve a flexible regulatory environment will increase in FY 2017 because of additional hiring, salary and benefit increases, training, information technology costs, and our regulatory initiatives.

## **Effective Risk Identification and Timely Corrective Action**

### **Strategies**

For goal 2, we are using the following strategies to achieve effective risk identification and timely corrective action.

1. Ensure that staff provides prompt and comprehensive information to the FCA Board and remains flexible and responsive to the Board’s priorities so that the Board will be better able to make fully informed, arm’s-length decisions.
2. Recruit and retain a diverse and highly skilled workforce to meet FCA’s current and future risk analysis, examination, and oversight needs.
3. Continue proactive oversight of institution-specific and systemic risks.
4. Promote a vibrant program of Systemwide risk supervision that uses stress testing, research, and analysis to identify emerging systemic risks, and provides proactive examination direction and policy guidance for use internally and externally.
5. Use agency supervisory and enforcement authorities effectively to remediate weakened institutions.
6. Promote the continued importance and improvement in the quality of System loan data for use by both the agency and the System in risk management and business planning.
7. Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs in meeting the changing needs of agriculture and rural America.

8. Continue to integrate standards of conduct rules and codes of ethical behavior into the organizational culture that are consistent with government ethics guidelines, universally understood, and consistently applied.

**Measuring the Achievements**

Table 30 provides the results of our examinations and oversight efforts to effectively identify risk and take timely corrective action. We achieved or exceeded our goals as of the end of FY 2015.

**Table 30. Effective Risk Identification and Timely Corrective Action — Performance Measures and Achievements**

Measure	FY 2015 (Actual)		FYs 2016 – 2017
	Target	Result	Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	≥90%	99.5%	≥90%
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	≥80%	91%	≥80%
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio).	≥90%	100%	≥90%
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	Yes	Yes	Yes
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	100%
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2014: ≥90 percent; target for 2015: 100 percent)	≥90%	100%	≥100%

**Budgets**

Table 31 provides the budgeted amounts we need to identify risk in the FCS and to take timely corrective action from FYs 2015 to 2017.

**Table 31. Budgets to Identify Risk and Take Timely Corrective Action**

	<b>FY 2015 Revised</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Proposed</b>
Examination	\$45,740,951	\$46,434,836	\$50,055,610
Economic, financial, and risk analysis	2,658,738	2,301,040	2,349,673
FCS data management	1,512,303	1,822,971	1,792,450
<b>Total</b>	<b>\$49,911,992</b>	<b>\$50,558,847</b>	<b>\$54,197,733</b>

Note: The resources required to identify risk and take timely corrective action will increase in FY 2017 because of additional hiring, salary and benefit increases, training, and information technology costs.

## **Performance Measurement and Reporting**

Our performance measurement system evaluates our progress in achieving the goals of our Strategic Plan for FYs 2013 to 2018. In FY 2015, the FCA Board and executive staff began reviewing the current Strategic Plan. We plan to update our Strategic Plan to address current conditions and emerging issues that may cause our strategic initiatives to be revised.

Our performance measurement system provides a balanced view of our overall performance, taking into account the inputs used, the products and services produced, and the achievement of desired outcomes. As we have shown in this report, the agency-level measures are linked to our strategic goals.

Our Chief Executive Officer, with assistance from our Chief Operating Officer and designated office directors, is responsible for measuring performance by collecting and analyzing performance data. The Chief Executive Officer monitors the agency's progress and results relative to the agency-level measures on a quarterly basis throughout each fiscal year. Periodic performance reports are provided to the FCA Board. The year-end performance report is incorporated in the FCA Performance and Accountability Report, which is submitted to the President and Congress.



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