

# 2020

## Annual Report

of the Farm Credit Administration  
Regulator of the Farm Credit System





# Contents

<b>About this report</b> .....	<b>1</b>
<b>About FCA and the Farm Credit System</b> .....	<b>3</b>
Examination .....	3
Regulation .....	3
Our authorities and governance .....	4
The Farm Credit System Insurance Corporation .....	4
<b>Message from the board</b> .....	<b>6</b>
Our priorities and progress .....	6
Current conditions .....	9
In conclusion .....	10
<b>FCS banks and associations</b> .....	<b>13</b>
FCS structure .....	13
Borrowers served .....	15
System funding for other lenders .....	16
Farm debt and market shares .....	18
Financial condition .....	18
<b>Serving young, beginning, and small farmers and ranchers</b> .....	<b>29</b>
Results .....	30
<b>Examining and regulating the banks and associations</b> .....	<b>35</b>
Examination .....	35
Regulation .....	37
<b>Farmer Mac</b> .....	<b>41</b>
Examining and regulating Farmer Mac .....	41
Financial condition of Farmer Mac .....	42
<b>FCA's organization and leadership</b> .....	<b>47</b>
Organization of FCA .....	47
FCA's leadership .....	47
<b>Appendix</b> .....	<b>49</b>
Glossary .....	49
Abbreviations .....	52
Additional information .....	53

# About this report

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

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

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

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

For more financial information about the Farm Credit System, go to the website for the Federal Farm Credit Banks Funding Corporation at [www.farmcreditfunding.com](http://www.farmcreditfunding.com). For information about the Farm Credit System Insurance Corporation, go to [www.fcsic.gov](http://www.fcsic.gov).



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

# About FCA and the Farm Credit System

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

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

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

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

## Examination

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

- evaluate its financial condition;

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

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

## Regulation

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

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

<sup>1</sup> Although Farmer Mac is an FCS institution under the Farm Credit Act, we discuss Farmer Mac separately from the other institutions of the FCS. Therefore, throughout this report, unless Farmer Mac is explicitly mentioned, the Farm Credit System refers only to the banks and associations of the System. For more information about Farmer Mac, [see page 41](#).

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

### **Our authorities and governance**

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

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others. FCA's access to the revolving fund, however, is regulated through congressional appropriations legislation.

FCA is governed by a full-time, three-person board whose members are appointed by the president of the United States with the advice and consent of the Senate. Board members serve a six-year term and may remain on the board until a successor is appointed. The president designates one member as chairman of the board, who serves in that capacity until the end of his or her term. The chairman also serves as our chief executive officer. For information about our current board, see [page 47](#).

### **The Farm Credit System Insurance Corporation**

FCA board members also serve as the board of directors for the Farm Credit System Insurance Corporation (FCSIC), which was established by the Agricultural Credit Act of 1987 in the wake of the agricultural

credit crisis of the 1980s. The purpose of FCSIC is to protect investors in Systemwide debt securities by insuring the timely payment of principal and interest on obligations issued by FCS banks.

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



## Message from the board

On behalf of the agency's board, it is our pleasure to present the 2020 annual report of the Farm Credit Administration. We provide this message as an introduction to the annual report. In it, we outline three important priorities and the progress we've made toward achieving them. Here in this message, we also describe current conditions (as of late summer 2021) in the Farm Credit System, Farmer Mac, and in the general and farm economies. The balance of this report focuses on results from 2020.



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

### **Our priorities and progress**

The year 2020 will go down in the history books for the challenges it presented people and organizations the world over, and these challenges have persisted into 2021. The global COVID-19 pandemic has claimed an estimated 4.3 million lives worldwide and weakened the global

economy, creating tremendous disruptions in supply chains and causing many to lose their jobs.

But the United States is a resilient nation, and agriculture is a resilient economic sector. We're pleased to say that both our nation and the agricultural economy are in recovery. We're also pleased to

report that, throughout this challenging period, FCA continued to fulfill its important mission. Thanks to the business solutions and support we received from our Office of Information Technology, our examiners continued to oversee and examine the institutions we regulate, and our policy analysts continued to provide them guidance.

We also continued to make progress toward achieving our three greatest priorities: monitoring credit risk; improving service to young, beginning, and small (YBS) farmers and ranchers; and improving the timeliness and efficiency of our regulatory activities. These continue to be our priorities as we enter the fall of 2021.

### *Monitoring credit risk*

The Farm Credit System and Farmer Mac remain strong and financially sound despite the ongoing challenges of the pandemic, and monitoring credit risk remains the agency's highest priority. To keep System and agency staff safe, we began conducting most of our examination activities remotely in 2020 and continue to do so in 2021.

We have not allowed COVID-19 considerations to materially interrupt our examination activities or our monitoring of risk. With the expert knowledge and skills of our examiners and our information technology team, we have successfully monitored the safety and soundness of System institutions remotely.

We recognize COVID-19 is not the only challenge facing the farm economy and farm lenders. Intensifying drought in the West and the Great Plains, wildfires in the western United States, and other regional adverse weather events have threatened the livelihoods of System borrowers. Low prices for several agricultural products and increases in input prices are also

adding to the financial stress some borrowers are experiencing.

We will continue to closely monitor the effects on credit quality of these and other challenges. Our mission remains the safety and soundness of the System so it can continue to provide credit to future generations of farmers and ranchers — which leads us to our second priority.

### *Improving service to YBS producers*

In 1980, Congress established a mandate for the institutions of the Farm Credit System to develop and maintain programs to provide credit and related services to young, beginning, and small farmers and ranchers. Congress recognized that, for the U.S. economy to remain strong, the country needs new entrants to agriculture. And because of the high capital demands of agriculture, these new entrants require affordable, dependable credit. For this reason, improving service to YBS producers is one of our highest priorities, and we have developed three initiatives for meeting this goal:

1. Work with System institution data workgroups to modernize YBS data collection and reduce the reporting burden.
2. Improve the agency's ability to track System institutions' service to YBS producers and identify best practices the institutions can use to serve them — such as working with other government agencies for the benefit of YBS producers.
3. Evaluate the effectiveness of each institution's YBS program.

Over the past two years, we have improved our ability to track the System's service to YBS producers. We continually strive to modernize the collection of YBS data, and we're working with technical staff at

System institutions to do so. In addition to planning outreach events to YBS farmers, we're participating in System events focused on the YBS mission. We're also working with other government agencies to find better ways to meet the needs of YBS producers.

We have identified several practices that are common to institutions with strong YBS programs. Here are some examples:

- Committing to provide discounts and concessions to producers who complete certain educational programs
- Providing scholarships and grants to help YBS farmers improve their financial and operational management skills
- Offering more flexible underwriting standards for qualifying YBS producers
- Developing strong relationships with federal and state programs that offer loan guarantees and other programs for the benefit of YBS producers
- Coordinating with industry and commodity organizations to provide training events

We're pleased with the progress we've made toward meeting this goal, and we look forward to further progress over the next year.

### *Improving the timeliness and efficiency of regulatory activities*

Another important priority for our board has been to improve the timeliness and efficiency of our regulatory activities, and we've made significant progress on this front as well. The regulatory pause we took last year to allow the System and the agency to focus on COVID-19 concerns gave us an opportunity to reassess and streamline our approach to regulatory projects.

The FCA board believes in a strong regulatory presence, with efficient, timely processes for policymaking and rulemaking. Over the past year we developed a collaborative process to carry out the policy direction of the board. This process requires early discussion of regulatory and policy issues among agency leaders.

As a result, so far in 2021, we have accomplished the following:

- Issued a direct final rule on receivership and conservatorship authorities granted by the Farm Bill
- Issued a final rule to provide a principles-based update to the standards of conduct regulations
- Approved an investment in Farm-Start, a limited liability partnership that assists beginning farmers who have good business plans but do not meet the underwriting standards for traditional loans
- Issued two proposed rules — one on risk weights for high-volatility commercial real estate loans and the other on collateral evaluations
- Issued an advance notice of proposed rulemaking on bank liquidity
- Approved several requests to invest in critical health care infrastructure in chronically underserved areas in rural America

FCA has also provided guidance to lenders on financing hemp production. In July of 2021, we issued an updated informational memorandum that outlined several factors institutions should consider when extending loans to hemp producers and processors.

## Current conditions

Following is a brief update about conditions in the Farm Credit System and Farmer Mac, as well as conditions in the general and farm economies.

### *The Farm Credit System*

Although the U.S economy is recovering, challenges remain for 2021. For U.S. farmers and ranchers, volatile market conditions, rising input costs, price uncertainty, and adverse weather conditions represent significant risks for certain agricultural sectors and geographic regions. In times like these, the System's mission to provide reliable credit and related services in support of agriculture and rural America becomes more important than ever. Fortunately, System institutions are well-positioned to work with borrowers to meet funding and liquidity needs.

For the first half of 2021, the System reported strong earnings growth, increased capital, and high loan portfolio quality. For the six months that ended June 30, System net income equaled \$3.4 billion, up from \$2.9 billion for the same period a year ago. Strong earnings continued to support additional capital growth, providing System institutions the risk-bearing capacity to support U.S. farmers and ranchers during uncertain times. As of June 30, System capital totaled \$68.4 billion, up 5.5% from a year ago. Capital as a percentage of total assets increased to 16.8% compared with 16.4% at Dec. 31, 2020.

The System's loan portfolio continued to perform well, and credit risk indicators remained favorable. Nonperforming assets (nonaccrual loans, restructured loans, loans that are 90 days or more past due, and other property owned) decreased \$36 million during the first six months of 2021 to \$1.9 billion. At June 30, nonperforming assets represented 0.58% of the

System's \$323 billion loan portfolio plus other property owned. Loans classified as less than acceptable amounted to 5.2% of loan volume at June 30, down from 6.8% a year ago.

### *Farmer Mac*

Farmer Mac also remains safe and sound. For the 12-month period that ended June 30, 2021, its portfolio grew \$0.1 billion, or 0.44%, to \$22.2 billion. The Farm & Ranch portfolio was the primary contributor to this growth, increasing by \$1.04 billion (12.95%) over the 12-month period. Rural utilities volume increased by \$88.4 million (3.28%) while Institutional Credit and USDA Guarantees declined. Institutional Credit declined by \$1.02 billion (11.8%) and USDA Guarantees declined by \$8.4 million (0.31%). Farmer Mac's core capital was \$1.2 billion, up 31% for the 12-month period; its core capital was \$482.6 million above the minimum requirement.

Farmer Mac's credit quality remains manageable, and year-over-year trends show improvement. Loans classified as 90 days past due decreased from 0.86% to 0.70% of loans outstanding. As a percentage of total outstanding loan volume, special-mention and substandard volume decreased from 9.4% to 6.7%.

### *The general economy*

The COVID-19 pandemic had an immediate and unprecedented impact on communities, businesses, and markets around the world. Actions to contain the disease abruptly disrupted economic activity in the early days of the pandemic. Although we still have not yet fully returned to pre-pandemic levels of economic activity, the U.S. economy, as well as many other national economies, began to recover rapidly with the introduction of vaccines in early 2021. In fact, the U.S. economy grew

In times like these, the System's mission to provide reliable credit and related services in support of agriculture and rural America becomes more important than ever.

by 6.4% in the first quarter of 2021, a pace rarely seen. Massive levels of monetary and fiscal stimulus supported this rapid growth.

As more of the U.S. economy has reopened, a surge in demand for goods and services has often exceeded the ability of business to meet the higher demand. Supply chains, many of which are global, have struggled to fully recover from last year's shocks. Businesses have faced shortages and higher costs for many key production components, as well as domestic and global transportation bottlenecks. Labor markets this year have tightened, causing personnel shortages in certain positions and regions, including rural areas. Overall, improving unemployment rates are a good sign for loan repayment in rural America because off-farm employment contributes significantly to farm household income.

As 2021 continues to unfold, some economists are concerned that the continued mismatch between supply and demand is igniting inflation for the broader economy. U.S. inflation in the first part of 2021 rose at its fastest pace in 13 years as the recovery from the pandemic gained steam and consumer demand drove up prices. If inflation gains a firmer footing, containment might require changes to monetary policies that would drive up interest rates. Of course, the Farm Credit System will continue to perform its vital role of providing competitive rates of financing to the agriculture industry.

### *The farm economy*

The pandemic caused major disruptions to our food supply and delivery system, with many of these disruptions persisting in 2021. Like the economy in general, our food system today faces greater price volatility and rising production costs. Agricultural producers and processors, particularly in the Western and Plains states,

are facing serious production challenges this year from drought and wildfires, while those in other regions face other adverse weather events.

Thanks to solid domestic demand and robust ag exports, we have seen a marked improvement in many ag commodity prices. Although higher production costs are offsetting the effect of some of the price increases, producers of most grains and oilseeds are expecting to be profitable. The higher prices, coupled with strong yields in areas unaffected by drought and restrictions on irrigation, create positive conditions for many producers.

For livestock producers, however, the higher grain prices are unwelcome because they drive up feed costs, thereby reducing profitability. Limited supplies and strong domestic and export demand have shielded pork and poultry producers from the effects of higher feed costs, but dairy and cattle producers have been less fortunate. Also, the drought across the Western and the Plains states is a particular challenge to cattle producers because it reduces pasture and hay production.

As a result of these challenges, government support will remain important for a wide diversity of agricultural enterprises in 2021.

### **In conclusion**

For many years, the agency has ranked high on the Partnership for Public Service's list of best places to work in the federal government. This year was no exception. Once again, we placed among the top five small federal agencies. But this year, we achieved something even more remarkable. For our response to the pandemic, we received the highest rating of all federal agencies regardless of size.

We believe we received this rating because, at a time of widespread uncertainty

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and fear, we took the measures necessary to protect our employees' safety and well-being. At the same time, we never lost sight of our public mission to ensure the safety and soundness of the Farm Credit System and Farmer Mac.

As leaders of this agency, we are very proud of the service our employees have rendered this past year. Thanks to their commitment and flexibility, we have no doubt that we will continue to fulfill this important mission for years to come.

Glen R. Smith  
*FCA Board Chairman and CEO*

Jeffery S. Hall  
*FCA Board Member*





**Congress formed the FCS  
as a system of farmer-owned  
cooperatives to ensure  
that farmer- and rancher-  
borrowers participate in  
the management, control,  
and ownership of their  
institutions.**

## FCS banks and associations

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

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

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

The System helps to meet broad public needs by providing liquidity and competition in rural credit markets in both good and bad economic times. The accomplishment of this public goal benefits all eligible borrowers, including young, beginning, and small farmers, as well as rural homeowners.

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

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

### FCS structure

The System is composed of the following four banks:

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

As of Jan. 1, 2021, these banks provide loans to 67 associations, which in turn make loans to farmers, ranchers, and other eligible borrowers. (See [figure 1.](#)) All but one of these associations are structured as agricultural credit associations (ACAs) with two subsidiaries — a production credit association (PCA) and a federal land credit

association (FLCA). The PCA primarily makes agricultural production and intermediate-term loans, and the FLCA primarily makes real estate loans. The other remaining association is a stand-alone FLCA.

The ACA's parent-subsidiary structure offers several benefits. It allows the association to preserve the tax-exempt status of the FLCA and to build and use capital more efficiently. It also enables members to hold stock in only the ACA but to borrow either from the ACA or from one or both of its subsidiaries. This gives the ACA and its subsidiaries greater flexibility in serving their borrowers, and it allows

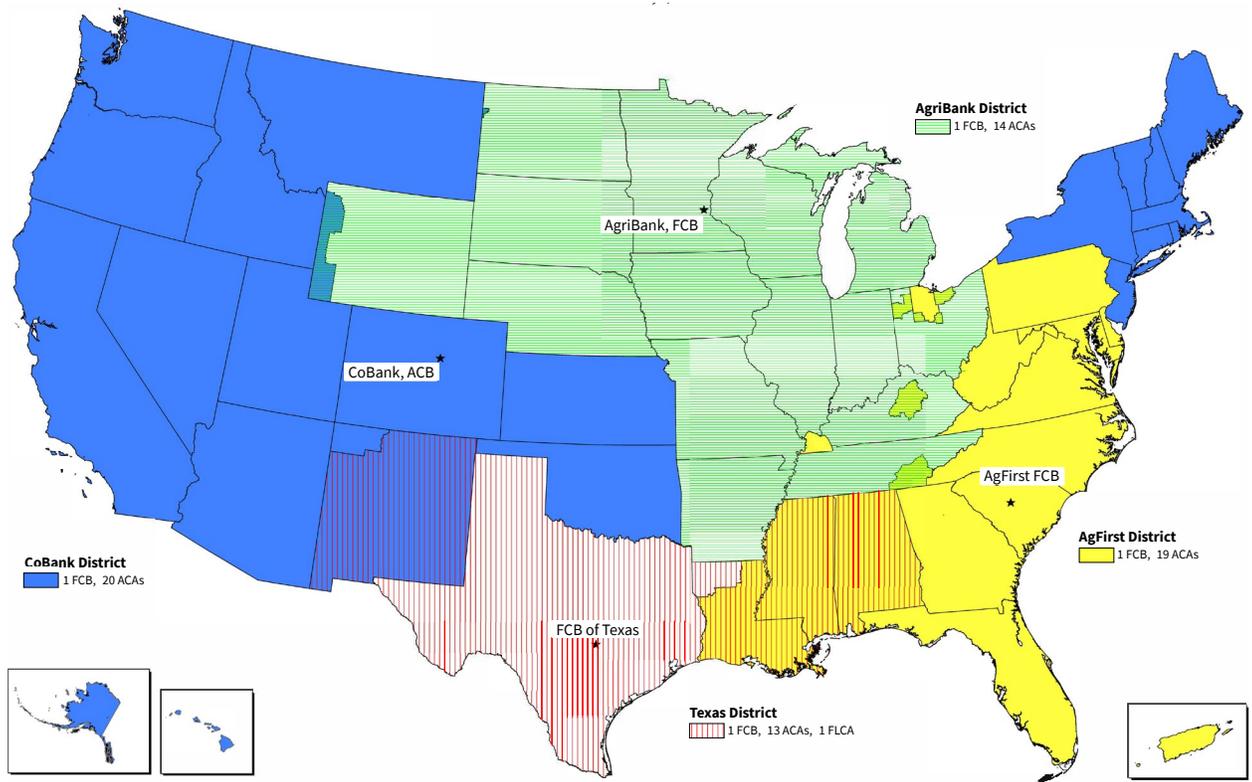
them to deliver credit and related services to borrowers more efficiently.

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

CoBank, one of the four FCS banks, is an agricultural credit bank (ACB). It has a nationwide charter to make loans to agricultural and aquatic cooperatives and rural utilities, as well as to other persons

**Figure 1**  
Chartered territories of FCS banks

As of April 1, 2021



Note: As of April 1, 2021, CoBank funds 20 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 14 associations; AgriBank, FCB, funds 14 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 71 banks and associations.

or organizations that have transactions with, or are owned by, these cooperatives. The ACB finances U.S. agricultural exports and imports and provides international banking services for farmer-owned cooperatives. In addition to making loans to cooperatives, CoBank provides loan funds to 20 ACAs.

### Borrowers served

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

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

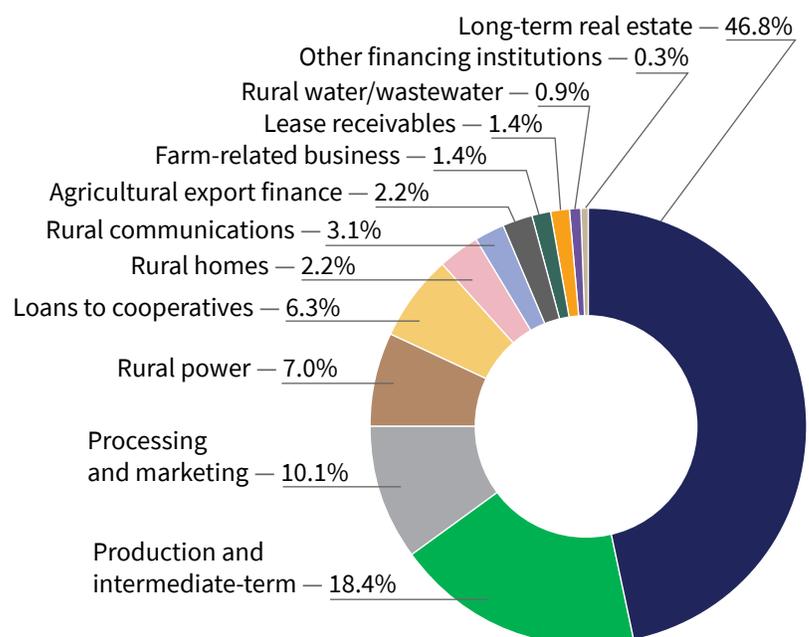
Also, under its similar-entity authority, the System may participate with other lenders to make loans to those who are not eligible to borrow directly from the System but whose activities are functionally like those of eligible borrowers. Through these participations, the System diversifies its portfolio,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

As required by law, borrowers own stock or participation certificates in System institutions. The FCS had over 1.2 million loans and leases and over 588,000 stockholders in 2020. Approximately 87% of the stockholders were farmers or cooperatives with voting stock. The remaining percent were nonvoting stockholders, including rural homeowners and other financing institutions that borrow from the System.

Nationwide, the System had \$315.5 billion in gross loans outstanding as of Dec. 31, 2020. Loans for agricultural production and agricultural real estate purposes represented by far the largest type of lending, with \$205.6 billion, or 65%, of the total dollar amount of loans outstanding. See [figure 2](#).

**Figure 2**  
Farm Credit System lending by type

As of Dec. 31, 2020



Source: 2020 Federal Farm Credit Banks Funding Corporation Annual Information Statement.

## System funding for other lenders

### *Other financing institutions*

Under the Farm Credit Act, System banks may further serve the credit needs of rural America by providing funding and discounting services to certain non-System lending institutions described in our regulations as “other financing institutions” (OFIs). These include the following:

- Commercial banks
- Savings institutions
- Credit unions
- Trust companies
- Agricultural credit corporations
- Other specified agricultural lenders that are significantly involved in lending to agricultural and aquatic producers and harvesters

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

As of Dec. 31, 2020, the System served 18 OFIs, down from 19 in 2019. Outstanding loan volume to OFIs stood at \$839 million at year-end. OFI loan volume continues to be less than half of 1% of the System’s loan portfolio. About 70% of the System’s OFI lending activity occurs in the AgriBank district.

### *Syndications and loan participations with non-FCS lenders*

In addition to the authority to provide services to OFIs, the Farm Credit Act gives FCS banks and associations the authority

to partner with financial institutions outside the System, including commercial banks, in making loans to agriculture and rural America. Generally, System institutions partner with these financial institutions through loan syndications and participations.

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

Loan participations are loans in which two or more lenders share in providing loan funds to a borrower. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

Financial institutions primarily use loan syndications and participations to reduce credit risk and to comply with lending limits. For example, a financial institution with a high concentration of production loans for a single commodity could use participations or syndications to diversify its loan portfolio, or it could use them to sell loans that are beyond its lending limit.

Institutions also use syndications and participations to manage and optimize capital, earnings, and liquidity. Syndications and participations allow the System to more fully meet its mission by serving agricultural and rural borrowers who might not otherwise receive funding.

The System’s gross loan syndication volume grew by more than \$2.7 billion over the past year to \$23.3 billion at year-end 2020. This figure includes volume from syndications that System institutions have with other FCS institutions and with non-FCS institutions.

At year-end 2020, the System had \$6.3 billion in net eligible-borrower loan participations with non-System lenders. Net eligible-borrower loan participations have increased in recent years. The volume of eligible-borrower loan participations purchased from non-System lenders grew from \$7.8 billion at Dec. 31, 2016, to \$12.0 billion at year-end 2020, and the volume of eligible-borrower loan participations sold to non-System lenders was \$5.7 billion at year-end 2020, up \$1.4 billion from the prior year.

In addition to participating in loans to eligible borrowers, FCS institutions have the authority to work with non-System

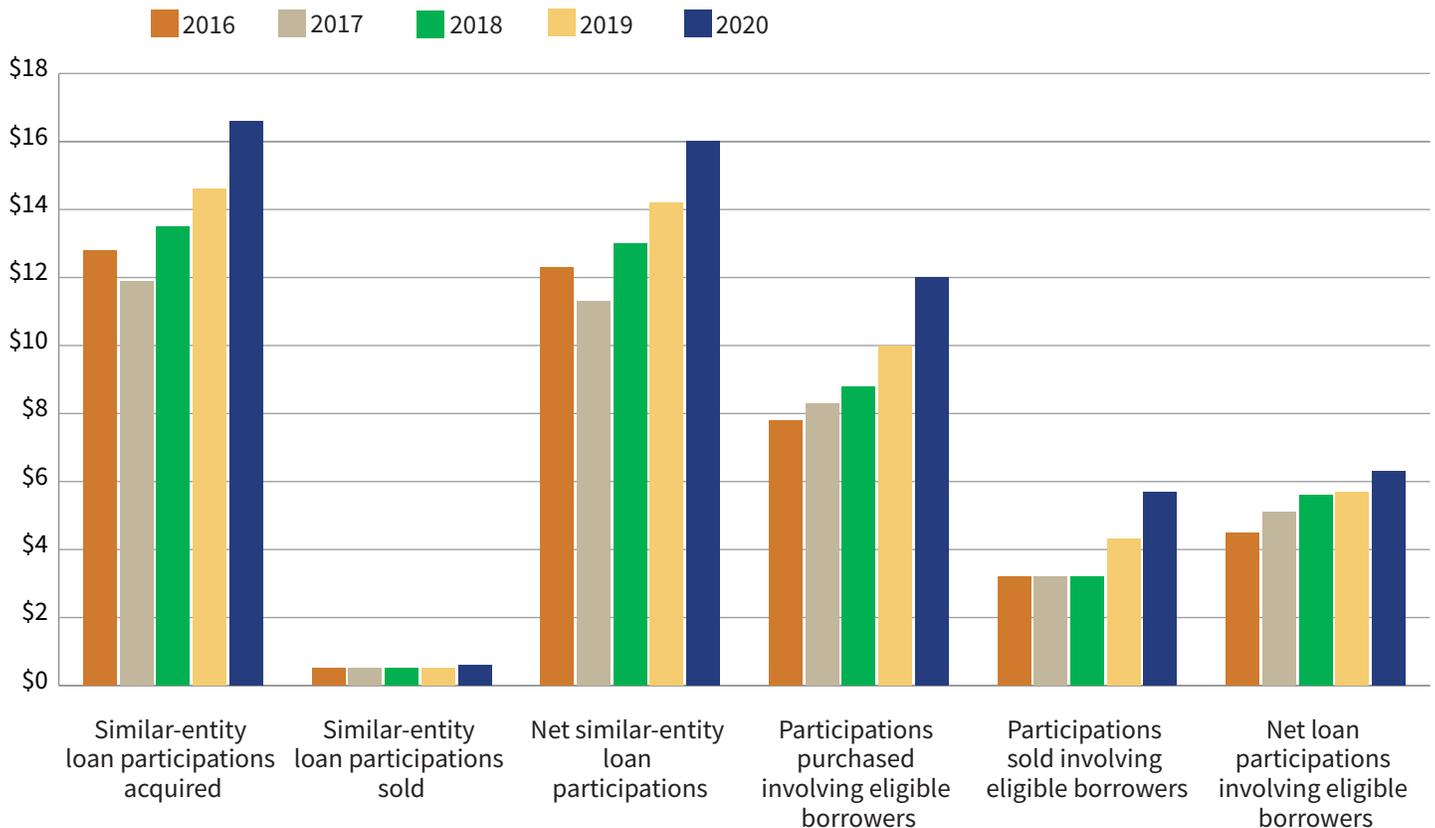
lenders that originate “similar-entity” loans. A similar-entity borrower is not eligible to borrow directly from an FCS institution, but because the borrower’s operation is functionally similar to that of an eligible borrower’s operation, the System has authority to participate in the borrower’s loans (the participation interest must be less than 50%). Similar-entity loans contain other limitations as specified in sections 3.1(11)(B) and 4.18A of the Farm Credit Act.

The System had \$16.6 billion in acquired similar-entity loan participations as of Dec. 31, 2020, up from \$14.6 billion the prior year. As [figure 3](#) indicates, the

**Figure 3**  
Loan participation transactions with non-System lenders, 2016 – 2020

As of Dec. 31

Dollars in billions



Source: Farm Credit System Call Reports.

volume of similar-entity participations that System institutions sell to non-System institutions is relatively small, amounting to around \$500 million over the past several years.

### Farm debt and market shares

The U.S. Department of Agriculture's estimate of total farm business debt for the year ended Dec. 31, 2019, was \$419 billion, up 4.1% from its \$402 billion estimate for year-end 2018. The System's market share of total farm business debt rose from 41.4% at the end of 2018 to 42.6% at the end of 2019. (See figure 4. Also, please note that 2020 data were not available at the time of publication of this report.)

Except for brief periods, the FCS has typically had the largest market share of farm business debt secured by real estate.

At year-end 2019, the System held 47% of this \$267 billion of debt; by comparison, commercial banks held 36.7%. Commercial banks have historically dominated non-real estate farm lending. At year-end 2019, commercial banks held 46.3% of this \$152 billion of debt, and the System held 34.9%.

### Financial condition

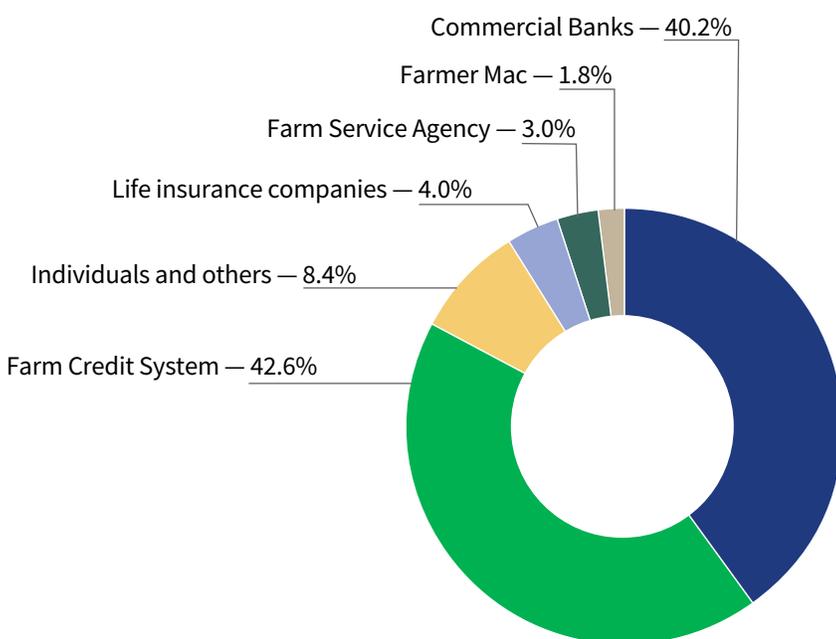
Despite the pandemic's immediate and unprecedented impact on agriculture and rural America, the System reported strong financial results in 2020, including higher earnings, increased capital, and stable portfolio credit quality. FCS banks had reliable access to debt capital markets and maintained liquidity levels well above the 90-day regulatory minimum.

Tables 1 and 2 provide a summary of the System's major financial indicators. For more information on the condition and performance of the System, see the 2020 Annual Information Statement of the Farm Credit System on the website of the Federal Farm Credit Banks Funding Corporation.

While the System is financially sound, a small number of individual FCS institutions displayed some weaknesses in 2020. As the System's regulator, we addressed these weaknesses by increasing our oversight and supervision of these institutions. For more information on our supervisory and enforcement approach, see pages 35 to 37.

The hallmarks of U.S. agriculture — creativity, perseverance, and hard work — served U.S. farmers and ranchers well during a difficult year. Rapidly changing markets, price volatility, demand uncertainty, and processing disruptions were some of the many challenges facing U.S. farmers and ranchers.

**Figure 4**  
Estimated market shares of U.S. farm business debt  
As of Dec. 31, 2019



Helping to stabilize the farm sector was a record level of government support in 2020. Payments were made available through traditional farm programs, USDA's Coronavirus Food Assistance Program, and the Market Facilitation Program. Some producers also received funds under the Paycheck Protection Program.

Major cash crop prices surged higher in the fall of 2020 on tighter-than-expected world supplies and strong demand. Following years of low prices and declining cash flows, the strong price movements in corn and soybeans provided producers with attractive pricing opportunities.

**Table 1**  
Farm Credit System major financial indicators, by annual comparison

Dec. 31, 2020

Dollars in millions

Item	31-Dec-20	31-Dec-19	31-Dec-18	31-Dec-17	31-Dec-16
Total assets	\$400,693	\$365,359	\$348,992	\$329,518	\$319,915
Gross loan volume	\$315,490	\$286,964	\$273,378	\$259,888	\$249,791
Bonds and notes	\$325,214	\$295,499	\$283,276	\$267,119	\$260,213
Nonperforming assets <sup>1</sup>	\$1,897	\$2,347	\$2,282	\$2,022	\$2,037
Net income, full year	\$6,002	\$5,446	\$5,332	\$5,189	\$4,848
Nonperforming assets/Gross loans and other property owned	0.60%	0.82%	0.83%	0.78%	0.82%
Capital & insurance/Assets <sup>2</sup>	16.36%	16.90%	16.75%	16.81%	16.35%
Retained earnings/Assets	12.92%	13.41%	13.31%	13.24%	13.50%
Return on average assets	1.57%	1.54%	1.59%	1.62%	1.56%
Return on average capital	9.26%	8.91%	9.29%	9.49%	9.44%
Net interest margin <sup>3</sup>	2.46%	2.42%	2.46%	2.48%	2.49%
Efficiency ratio <sup>4</sup>	35.9%	36.2%	35.2%	35.1%	34.6%
Operating expenses/Average loans <sup>5</sup>	1.18%	1.18%	1.17%	1.17%	1.16%

Sources: FCA's Consolidated Reporting System as of Dec. 31, 2020, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

<sup>1</sup> Nonperforming assets are defined as nonaccrual loans, accruing restructured loans, accrual loans 90 or more days past due, and other property owned.

<sup>2</sup> Capital excludes mandatorily redeemable preferred stock and protected borrower capital. Insurance refers to the funds in the Farm Credit Insurance Fund administered by the Farm Credit System Insurance Corporation.

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

<sup>4</sup> The efficiency ratio measures total noninterest expenses for the preceding 12 months divided by net interest income plus noninterest income for the preceding 12 months.

<sup>5</sup> Operating expenses divided by average gross loans, annualized.

For the protein sector, 2020 was defined by price instability, major shifts in food product demand, business disruptions, and rising feed costs. Producers' margins were generally weak to negative, with financial stress greatest on high-cost producers and those with significant leverage.

Low interest rates, rising crop prices, and large government payments to producers helped push farmland values higher near the end of 2020. Prices will likely

remain strong in 2021, reflecting continued farmer and investor interest, current income prospects, and the limited supply of land for sale.

### *Earnings*

The System reported strong earnings in 2020. For the year, System net income equaled \$6.0 billion, up \$556 million or 10.2% from 2019 (See figure 5). The

**Table 2**  
Farm Credit System major financial indicators, by district

Dec. 31, 2020

Dollars in millions

<b>Institution Name</b>	<b>Total Assets</b>	<b>Gross Loan Volume</b>	<b>Nonaccrual Loans</b>	<b>Allowance for Loan Losses</b>	<b>Cash and Marketable Investments</b>	<b>Capital Stock<sup>1</sup></b>	<b>Total Capital</b>	<b>Net Income</b>
<b>FCS banks</b>								
AgFirst	\$36,338	\$26,225	\$26	(\$18)	\$9,729	\$312	\$2,478	\$418
AgriBank	\$130,308	\$109,786	\$68	(\$40)	\$19,847	\$3,301	\$6,580	\$709
CoBank	\$158,586	\$120,855	\$117	(\$635)	\$35,996	\$3,918	\$11,910	\$1,263
Texas	\$28,228	\$21,825	\$1	(\$10)	\$5,885	\$420	\$1,992	\$251
<b>Total</b>	<b>\$353,460</b>	<b>\$278,691</b>	<b>\$212</b>	<b>(\$703)</b>	<b>\$71,457</b>	<b>\$7,951</b>	<b>\$22,960</b>	<b>\$2,641</b>
<b>FCS associations</b>								
AgFirst	\$24,860	\$23,930	\$205	(\$202)	\$41	\$186	\$5,122	\$681
AgriBank	\$122,794	\$115,630	\$620	(\$471)	\$1,742	\$167	\$22,980	\$2,322
CoBank	\$71,183	\$66,732	\$371	(\$335)	\$922	\$52	\$13,347	\$1,403
Texas	\$22,850	\$22,077	\$97	(\$85)	\$91	\$68	\$3,506	\$467
<b>Total</b>	<b>\$241,687</b>	<b>\$228,369</b>	<b>\$1,292</b>	<b>(\$1,093)</b>	<b>\$2,796</b>	<b>\$473</b>	<b>\$44,955</b>	<b>\$4,873</b>
<b>Total FCS<sup>2</sup></b>	<b>\$400,693</b>	<b>\$315,490</b>	<b>\$1,504</b>	<b>(\$1,796)</b>	<b>\$74,210</b>	<b>\$1,977</b>	<b>\$65,535</b>	<b>\$6,002</b>

Sources: FCA's Consolidated Reporting System as of Dec. 31, 2020, and the Farm Credit System Quarterly Information Statement provided by the Federal Farm Credit Banks Funding Corporation.

<sup>1</sup> Includes capital stock and participation certificates, excludes mandatorily redeemable preferred stock and protected borrower capital.

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

increase in net income was the result of a \$780 million increase in net interest income, a \$62 million decrease in loan loss provisions, and a \$47 million increase in noninterest income, partially offset by increases in noninterest expenses of \$264 million and income tax provisions of \$69 million.

The increase in net interest income resulted from a combination of higher average earning assets and an increase in net interest spread. Driven largely by growth in the System’s loan portfolio, average earning assets rose \$26.6 billion, or 7.8%, to \$367.9 billion. Net interest spread increased 22 basis points to 2.26%. The sharp drop in interest rates in 2020 allowed FCS banks to lower debt costs by calling \$115 billion of debt. With the rise in net interest spread, net interest margin increased 4 basis points to 2.46%. The return on average assets was 1.57%, up from 1.54% in 2019. The return on average capital increased to 9.26% from 8.91%.

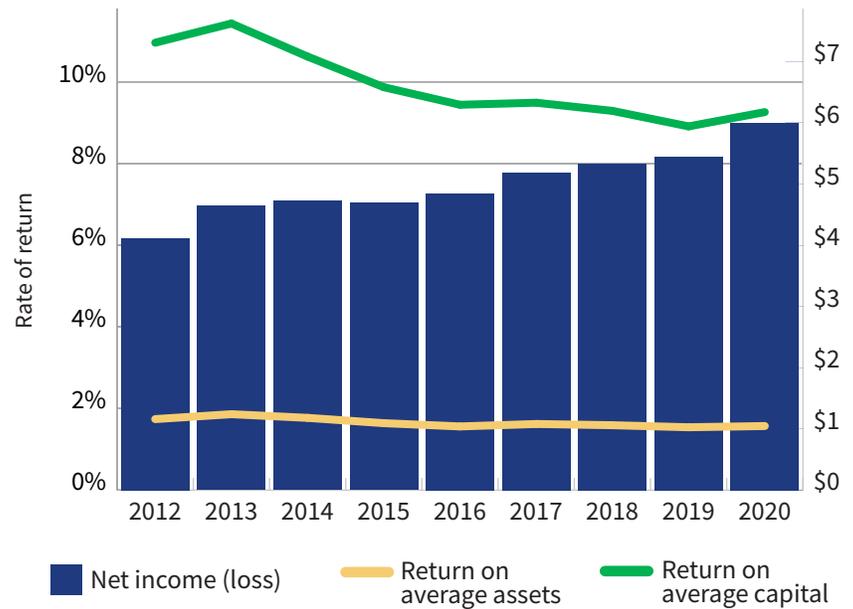
As cooperative institutions, FCS banks and associations typically pass on a portion of their earnings as patronage distributions to their borrower-owners. For 2020, System institutions declared a total of \$2.9 billion in patronage distributions — \$2.5 billion in cash, \$276 million in allocated retained earnings, and \$108 million in capital stock and participation certificates. This represents 48.1% of the System’s net income for 2020 as compared with 45.6% in 2019. The System also distributed \$194 million in cash from allocated retained earnings related to patronage distributions from previous years.

**System growth**

The System experienced strong growth in 2020 as borrowers took advantage of the sharp decline in interest rates. Total assets increased to \$400.7 billion, up \$35.3 billion

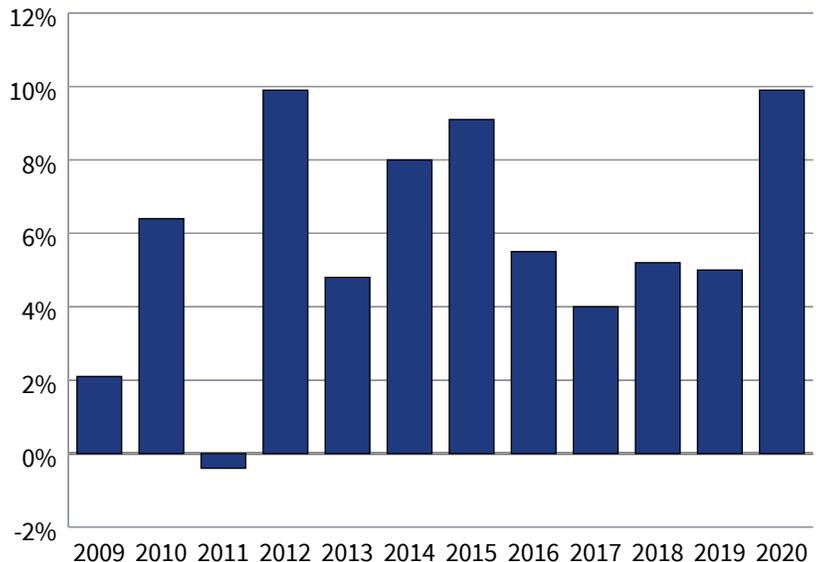
**Figure 5**  
FCS net income, 2012 – 2020

As of Dec. 31, Dollars in billions



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

**Figure 6**  
Annual growth rate of FCS loans outstanding, 2009 – 2020



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

**Table 3**  
FCS gross loans outstanding, 2016 – 2020

As of Dec. 31

Dollars in millions

<b>Loan Type</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Percent Change from 2016</b>	<b>Percent Change from 2019</b>
Agricultural real estate mortgage loans	\$147,623	\$132,215	\$126,310	\$120,561	\$115,469	27.8%	11.7%
Agricultural production and intermediate-term loans	57,973	56,095	53,447	51,724	50,282	15.3%	3.3%
Agribusiness loans to the following:							
Processing and marketing operations	31,939	28,205	24,832	21,582	21,166	50.9%	13.2%
Cooperatives	20,020	17,776	17,589	17,335	15,300	30.8%	12.6%
Farm-related businesses	4,453	4,068	3,692	3,293	3,162	40.8%	9.5%
Rural utility loans by type of utility:							
Energy	22,066	19,432	20,100	19,689	19,577	12.7%	13.6%
Communication	9,708	7,847	6,755	6,311	6,023	61.2%	23.7%
Water/wastewater	2,703	2,390	2,305	1,965	1,840	46.9%	13.1%
Rural home loans	6,928	7,405	7,308	7,261	7,148	-3.1%	-6.4%
Agricultural export finance	6,873	6,712	6,581	5,645	5,531	24.3%	2.4%
Lease receivables	4,345	3,902	3,630	3,665	3,480	24.9%	11.4%
Loans to other financing institutions	859	917	829	857	813	5.7%	-6.3%
<b>Total</b>	<b>\$315,490</b>	<b>\$286,964</b>	<b>\$273,378</b>	<b>\$259,888</b>	<b>\$249,791</b>	<b>26.3%</b>	<b>9.9%</b>

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

or 9.7% from 2019. Gross loan balances were \$315.5 billion at year-end, up \$28.5 billion or 9.9% in 2020. (See figure 6 and table 3.)

Most of the System's loan growth in 2020 related to real estate mortgages, rural infrastructure, and processing and marketing lending. Real estate mortgages, the largest segment of the loan portfolio at almost 47%, grew by \$15.4 billion, or 11.7% for the year. Rural infrastructure loans, at 11% of the portfolio, increased \$4.8 billion, or 16.2% in 2020. Processing and marketing loans, representing 10% of the portfolio, increased \$3.7 billion, or 13.2%.

Loan volume increased for most major commodity categories in 2020. The cash grains and cattle sectors were the System's two largest commodity categories, equaling almost 25% of the total loan portfolio. For the year, lending to the cash grains and cattle sectors was up 9.2% and 6.7%, respectively.

### Asset quality

Despite the challenges facing U.S. farmers and ranchers, System loans performed well, and portfolio credit quality remained sound. Throughout 2020, agricultural producers were challenged by rapidly changing markets, significant price volatility, and sudden shifts in demand. Although strong export demand and favorable market fundamentals sent grain and oilseed prices soaring in the second half of the year, stress remained high in other agricultural sectors and geographical regions.

As of Dec. 31, 2020, nonperforming loans totaled \$1.9 billion, or 0.59% of gross loans outstanding. This is down from \$2.3 billion, or 0.79%, at year-end 2019. (See figure 7.) Loan delinquencies (accruing loans that are 30 days or more past due) decreased slightly to 0.28% of total accruing loans from 0.32% at year-end 2019. In total, 94.0% of System loans were classified as

acceptable, up from 92.9% at year-end 2019.

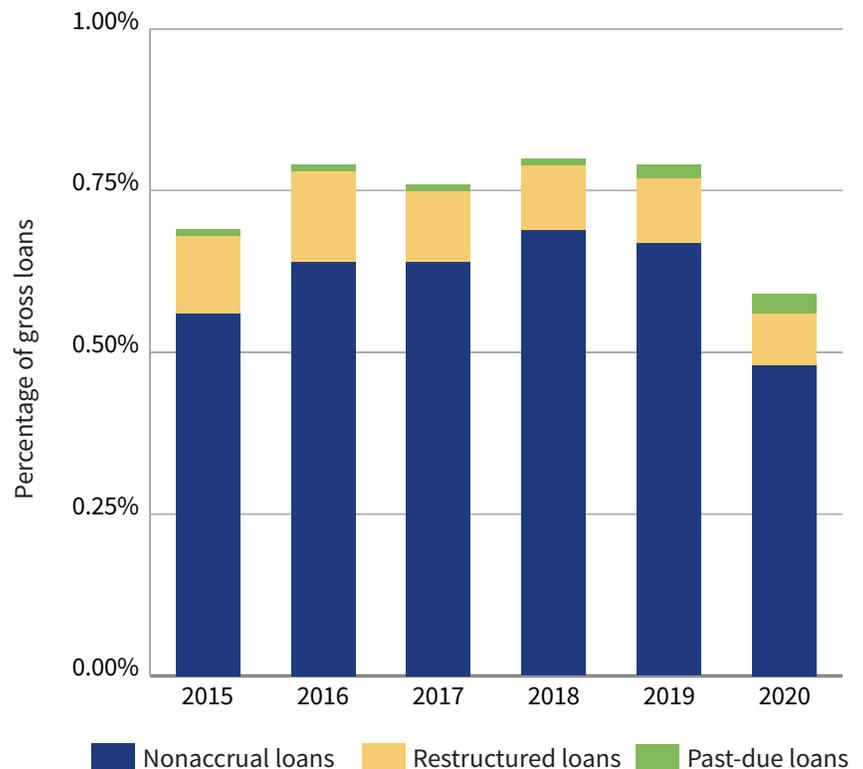
The allowance for loan losses remained largely unchanged at \$1.80 billion, or 0.57% of loans outstanding, at year-end 2020 compared with \$1.81 billion, or 0.63% of loans outstanding, at year-end 2019. The System recognized provisions for loan losses of \$107 million in 2020 as compared with \$169 million in 2019. Net loan charge-offs increased in 2020 but remained low at \$90 million compared with \$59 million in 2019.

### Capital

Strong earnings continued to support System capital growth in 2020. At Dec. 31, total capital equaled \$65.5 billion compared

**Figure 7**  
FCS nonperforming loans, 2015 – 2020

As of Dec. 31



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

with \$61.7 billion at year-end 2019. (Please note that these numbers include restricted capital, which is the amount held in the Farm Credit Insurance Fund.) At year-end, the System’s capital-to-assets ratio was 16.4%, compared with 16.9% a year ago.

As shown in figure 8, retained earnings is the most significant component of System capital, equaling 79.0% of total capital at year-end 2020 compared with 79.4% a year ago. FCA regulations establish minimum capital levels that each FCS bank and association must achieve and maintain. As of Dec. 31, 2020, capital levels at all System banks and associations were above the regulatory minimum capital requirements.

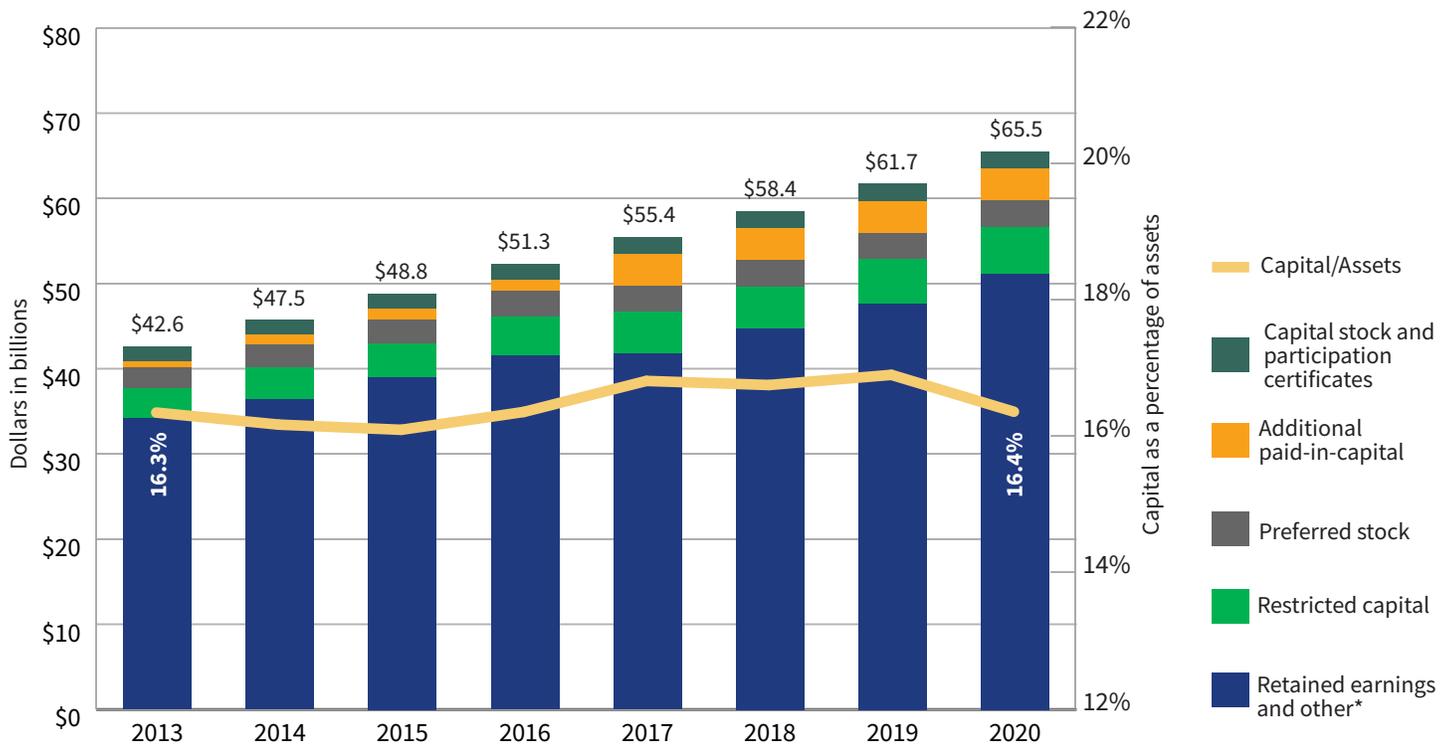
**Funding and liquidity**

During 2020, the System was able to maintain reliable access to the debt capital markets even at the height of unprecedented instability in the global capital markets caused by the COVID-19 pandemic and its effects. Investors continued to be strongly attracted by the System’s status as a government-sponsored enterprise (GSE) and its financial performance and strength. The significant reduction in overall GSE debt available was another incentive for investors to invest in System debt.

Risk spreads and pricing on System debt securities during most of 2020 were historically favorable. However, severe market volatility caused spreads to widen significantly as investors initially reacted to the

**Figure 8**  
FCS capital, 2013 – 2020

As of Dec. 31



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

Note: Other includes additional paid-in capital and accumulated other comprehensive income or loss.

potential economic impacts of COVID-19. The Federal Reserve, along with other central banks, managed to assuage these fears with numerous forceful monetary actions. Overall, regulatory requirements promote the use of GSE debt, whereby the System benefits from its GSE status. The System also benefits from its persistently strong financial performance and the continuing decline in debt issuances by the two housing-related GSEs, which are in conservatorship. (This decline is likely due to the increasingly lower caps on the amount of mortgage assets the GSEs have been permitted to hold during their conservatorship status.) During 2020, the System also benefited from the sizeable decline in the debt needs of the Federal Home Loan Bank System. As a result of the strong demand for System debt, the System was able to continue to issue debt on a wide maturity spectrum at highly competitive rates for all but a very limited portion of 2020.

The System funds loans and investments primarily with a combination of consolidated Systemwide debt and equity capital. The Funding Corporation, the fiscal agent for System banks, sells debt securities, such as discount notes, bonds, designated bonds, and retail bonds, on behalf of the System. This process allows funds to flow efficiently from worldwide capital-market investors to agriculture and rural America, thereby providing rural communities with ready access to global credit resources. At year-end 2020 Systemwide debt outstanding was \$322.5 billion, representing a 10% increase from the preceding year-end.

Several factors contributed to the \$28.9 billion increase in Systemwide debt outstanding. Gross loans increased \$28.5 billion in 2020, while the System's combined investments, federal funds, and cash balances increased by \$5.9 billion during the year.

The System had \$3.20 billion in outstanding preferred stock at the end of 2020, an increase of \$83 million from the previous year-end. It has had no outstanding subordinated debt since June of 2016.

The amount of debt issued by the System increased significantly in 2020. For the 12 months ended Dec. 31, 2020, the System issued just under \$421 billion in debt securities, compared with \$364 billion in 2019. The System issued 15% more debt in 2020 for three primary reasons: to take advantage of the pronounced increase in opportunities to exercise call options, to bolster liquidity portfolios, and to meet the increased credit needs of System borrowers.

The amount of outstanding debt on which the System exercised its call options increased dramatically because of the precipitous decline in yields during the first quarter of 2020 when the Federal Reserve rapidly decreased the target federal funds range to 0.0% to 0.25%, which it maintained through the remainder of 2020. In addition, the Federal Reserve took several other significant monetary policy actions to help reduce longer-term rates as well. The System exercised calls on a record \$115.2 billion of its outstanding debt during 2020, compared with \$54.5 billion in the preceding year.

Favorable investor sentiment and lower yields continued to provide the System with access to a wide range of debt maturities in 2020. The weighted average of remaining maturities increased slightly for 2020 to 2.9 years from 2.8 years. The weighted-average interest rates for insured debt decreased dramatically, plummeting from 2.15% as of Dec. 31, 2019, to 1.04% as of Dec. 31, 2020.

To participate in the issuance of an FCS debt security, a System bank must maintain — free from any lien or other pledge — specified eligible assets (available collateral) that are at least equal in

**The System  
funds loans and  
investments  
primarily with  
a combination  
of consolidated  
Systemwide  
debt and equity  
capital.**

value to the total amount of its outstanding debt securities. Securities subject to the available collateral requirements include Systemwide debt securities for which the bank is primarily liable, investment bonds, and other debt securities that the bank may have issued individually.

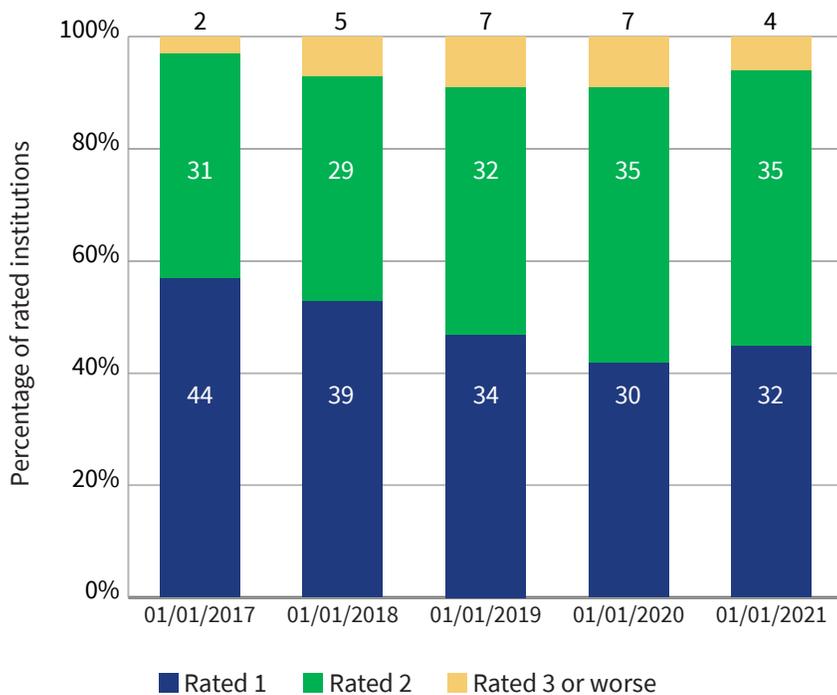
Furthermore, our regulations require each FCS bank to maintain a tier 1 leverage ratio (primarily unallocated retained earnings and certain common cooperative equities divided by total assets) of not less than 4%. In addition, FCA regulations provide for a leverage ratio buffer. Certain restrictions apply if the buffer does not exceed 1%. Throughout 2020, all System

banks maintained their tier 1 leverage ratios above the required minimum and the accompanying buffer, with 5.23% being the lowest for any single bank as of Dec. 31, 2020.

All System banks have kept their respective days of liquidity above the required minimum levels. The lowest liquidity levels at any single bank as of Dec. 31, 2020, were as follows:

- 27 days (15 days regulatory minimum) of level 1 assets
- 76 days (30 days regulatory minimum) of level 1 and 2 assets
- 136 days (90 days regulatory minimum) of level 1, 2, and 3 assets
- 167 days overall (including the supplemental liquidity buffer)

**Figure 9**  
Financial Institution Rating System (FIRS) composite ratings for the FCS, 2017 – 2021



Source: FCA’s FIRS ratings database.

Note: Figure 9 reflects ratings for only the Farm Credit 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.

In addition to the protections provided by the joint and several liability provisions, the Funding Corporation and the System banks have entered into the following voluntary agreements:

- The Amended and Restated Market Access Agreement, which establishes certain financial thresholds and provides the Funding Corporation with operational oversight and control over the System banks’ participation in Systemwide debt obligations.
- The Amended and Restated Contractual Interbank Performance Agreement, which is tied to the Market Access Agreement and establishes certain measures that monitor the financial condition and performance of the institutions in each FCS bank’s district. For all of 2020, all Farm Credit System banks maintained scores above the benchmarks in the Contractual Interbank Performance Agreement.

## Ratings

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

As [figure 9](#) shows, the financial condition and performance of the FCS remains strong. The System's strength reduces the risk to investors in FCS debt, to the Farm Credit System Insurance Corporation, and to FCS institution stockholders. Based on the institutions' financial reporting as of Dec. 31, 2020, 67 FCS institutions were rated 1 or 2 (94%) and 4 institutions were rated 3 or worse (6%). The institutions rated 3 or worse represented less than 1.5% of the System's total assets, which is well within the System's risk-bearing capacity.





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

## Serving young, beginning, and small farmers and ranchers

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

The System's YBS mission is outlined in the Farm Credit Act of 1971, as amended, and we have adopted regulations to implement the YBS provisions of the act. The Farm Credit Act and FCA regulations require each FCS bank to have written policies that direct each association to have the following:

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

An association's board oversight and reporting are key parts of every YBS program. Each institution must report annually to FCA on the operations and achievements of its YBS program. Each

association also must establish an internal controls program to ensure that it provides credit in a safe and sound manner.

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

In 2020, we continued to make progress on the objectives included in the 2019 advance notice of public rulemaking. We continue to work with the System to leverage existing data assets to improve usability and consistency of YBS lending data, while also reducing regulatory burden. Over the past year, we have made significant strides in improving the collection of YBS nonlending data. This information will improve our understanding of effective YBS programs, and it will help us identify best practices that can be shared across the System.

In the fall of 2020, USDA and FCA facilitated an event to find ways for agricultural lenders to better serve the credit needs of beginning producers. The event was a success and included staff from FCA and USDA's Farm Service Agency (FSA),

members of the agricultural lending community, and beginning farmers. The event culminated with three initiatives:

- Establishing a process for agricultural lenders and FSA to communicate when challenges arise in financing beginning farmers and ranchers
- Engaging agricultural lenders and FSA staff in loan-making training sessions and farm loan conferences
- Forming workgroups of agricultural lenders and FSA representatives to identify a consistent process to overcome challenges to financing beginning farmers and ranchers

We continue to work with FSA and other stakeholders to further solidify this first step of many to improve financing opportunities for beginning farmers.

## Results

The following information summarizes the quantitative information that System institutions provided for their YBS programs. (See [tables 4A](#) and [4B](#).)

In 2020, the System made a total of 370,943 new loans, totaling \$119.7 billion. The total number of outstanding loans at year-end 2020 was 946,119, amounting to \$311.9 billion.

**Table 4A**  
YBS loans made during 2020

YBS Category	Number of Loans	Percentage of Total Number of System Loans	Dollar Volume of Loans in Millions	Percentage of Total Volume of System Loans	Average Loan Size
Young	65,807	17.7%	\$13,810	11.5%	\$209,850
Beginning	94,329	25.4%	\$22,488	18.8%	\$238,402
Small	166,282	44.8%	\$23,437	19.6%	\$140,946

**Table 4B**  
YBS loans outstanding as of Dec. 31, 2020

YBS Category	Number of Loans	Percentage of Total Number of System Loans	Dollar Volume of Loans in Millions	Percentage of Total Volume of System Loans	Average Loan Size
Young	181,378	19.2%	\$33,586	10.8%	\$185,170
Beginning	283,936	30.0%	\$54,779	17.6%	\$192,927
Small	470,836	49.8%	\$58,587	18.8%	\$124,432

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

Note: The YBS totals listed in tables 4A and 4B include loans, advancements, commitments, and participation interests to farmers, ranchers, and aquatic producers. The totals exclude rural home loans made under FCA regulation 613.3030, loans to cooperatives, and the activities of the Farm Credit Leasing Services Corporation.

**Young:** The System reported making 65,807 new loans to young farmers in 2020, and the volume of these loans amounted to \$13.8 billion. The new loans made to young farmers in 2020 represented 17.7% of all loans the System made during the year and 11.5% of the dollar volume of loans made. At the end of 2020, the System reported 181,378 loans outstanding to young farmers, totaling \$33.6 billion.

**Beginning:** The System reported making 94,329 new loans to beginning farmers in 2020, and the volume of these loans amounted to \$22.5 billion. The new loans made to beginning farmers in 2020 represented 25.4% of all System loans made during the year and 18.8% of the dollar volume of loans made. At the end of 2020, the System reported 283,936 loans outstanding to beginning farmers, totaling \$54.8 billion.

**Small:** System institutions reported making 166,282 new loans to small farmers in 2020, totaling \$23.4 billion. The new loans made to small farmers in 2020 represented 44.8% of all System loans made during the year and 19.6% of the dollar volume of loans made. At the end of 2020, the System reported 470,836 loans outstanding to small farmers, totaling \$58.6 billion.

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

#### *New loans made in 2020 by dollar volume and number of loans*

From Dec. 31, 2019, to Dec. 31, 2020, the System's total new loan dollar volume increased by 31.6%. New loan dollar volume

to young farmers increased by 36.9%, to beginning farmers by 57.4%, and to small farmers by 63.0%. (See [table 5A.](#))

The number of total System loans made during the year increased by 37.4%. The number of loans to young farmers increased by 34.0%, to beginning farmers by 40.6%, and to small farmers by 34.9%.

Several factors contributed significantly to the large increases in new loan volume and the number of new loans:

- The System's ability to re-price existing loans
- Higher demand for agricultural land and equipment
- The Small Business Administration's Payroll Protection Program



***Outstanding loans by dollar volume and number of loans***

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding increased in 2020. Total System loan dollar volume outstanding increased by 11.3%. The loan dollar volume outstanding to young farmers increased by 8.0%, to beginning farmers by 12.5%, and to small farmers by 12.9%. (See [table 5B](#).)

The number of total System loans outstanding increased in 2020 by 3.5%. The number of loans outstanding to young farmers increased by 2.1%, to beginning

farmers by 4.1%, and to small farmers by 2.4%.

***Ratio of new and outstanding YBS loans to total System loans***

The ratio of new YBS loans (by number) to total new System loans was 17.7% for young farmers, 25.4% for beginning farmers, and 44.8% for small farmers. The ratio of outstanding YBS loans (by number) to total outstanding System loans was 19.2% for young farmers, 30.0% for beginning farmers, and 49.8% for small farmers. (See [figures 10A](#), [10B](#), and [10C](#).) All the ratios either increased slightly from 2019 or remained flat.

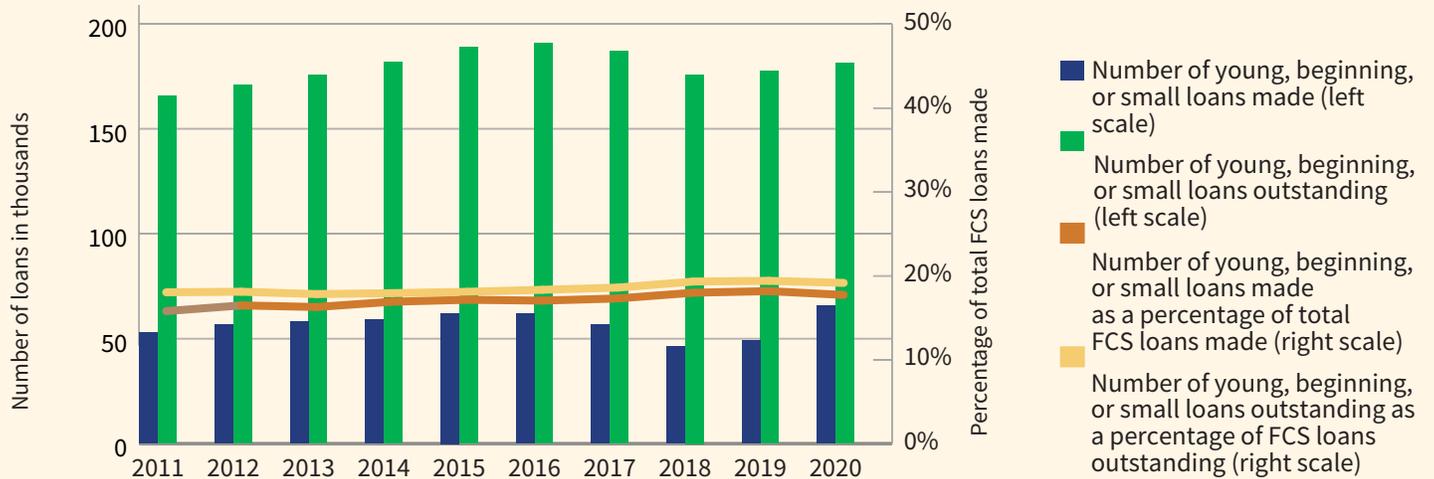
**Table 5A**  
Change in new YBS lending from 2019 to 2020

<b>YBS Category</b>	<b>Dollar Volume</b>	<b>Loan Numbers</b>
Young	36.9%	34.0%
Beginning	57.4%	40.6%
Small	63.0%	34.9%

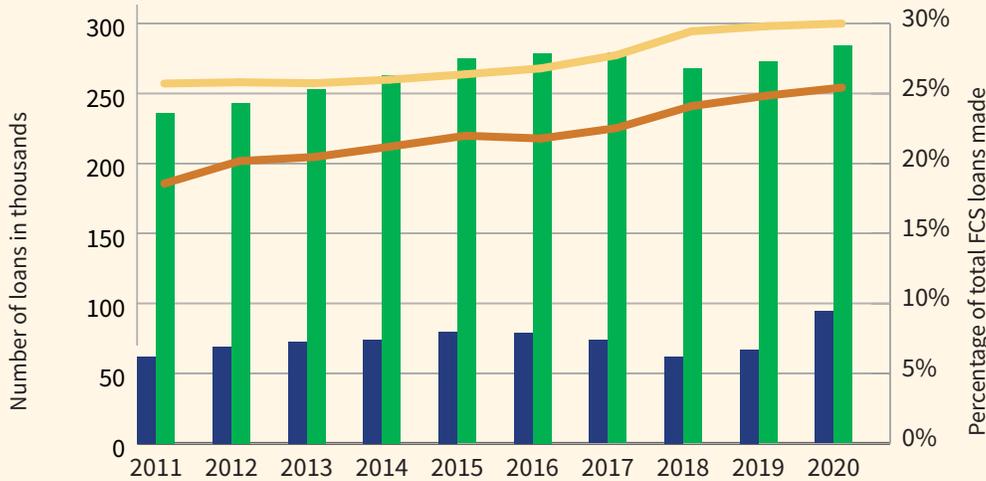
**Table 5B**  
Change in outstanding YBS lending from 2019 to 2020

<b>YBS Category</b>	<b>Dollar Volume</b>	<b>Loan Numbers</b>
Young	8.0%	2.1%
Beginning	12.5%	4.1%
Small	12.9%	2.4%

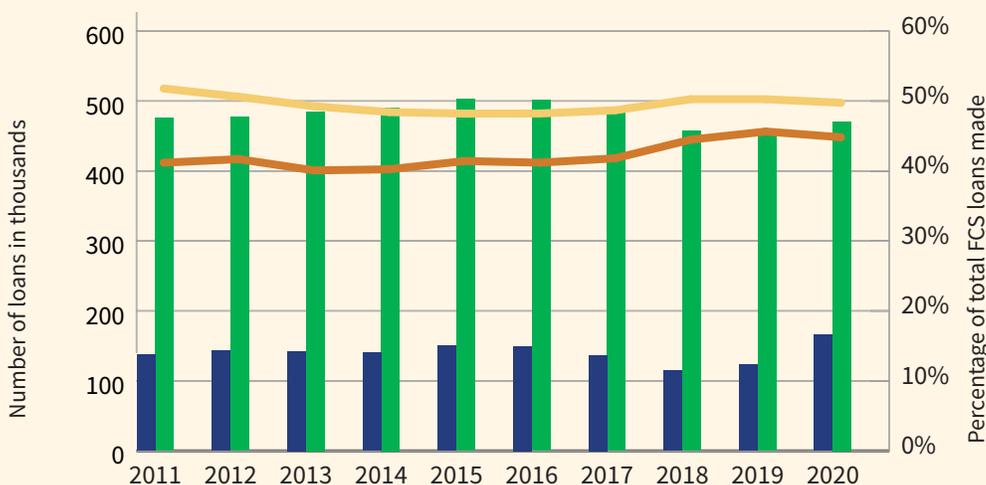
**Figure 10A**  
Young farmers and ranchers



**Figure 10B**  
Beginning farmers and ranchers



**Figure 10C**  
Small farmers and ranchers



A close-up photograph of a person's hands. The left hand holds a silver pen, and the right hand holds a tablet computer. The tablet is positioned over an open document that contains a table with multiple columns of text and numbers. The background is blurred, showing a wooden desk and another person's hand holding a tablet. The overall scene suggests a professional or financial setting.

**Managing risk is a challenge for all kinds of lenders but especially for those lending to a single sector of the economy — in this case, agriculture.**

# Examining and regulating the banks and associations

## Examination

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

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

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

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

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

### *National oversight program*

In addition to monitoring risks that are unique to a single institution, we also monitor risks that affect the System as a whole. Each year we develop a national oversight plan that takes certain systemic risks into account. In fiscal year 2021, we are focusing on two risk areas:

#### **Credit risk management and loan servicing**

Pressure on commodity prices caused by ample supplies, weak trade, and the pandemic continues to impact agriculture, the System, and its borrowers. Timely and effective risk identification,

risk management, and loan servicing are increasingly important. Our FY 2021 examination program emphasizes these areas, particularly for portfolios with commodity concentrations in stressed industries.

Where appropriate, we focus on ensuring timely and accurate risk identification, effective internal credit reviews, robust stress testing, and well-supported allowances for loan losses. We also examine the effectiveness of loan servicing, including servicing related to deferral programs and borrower rights. Finally, we evaluate the adequacy of institutions' processes to identify, report, and manage affiliated exposures related to large borrowers and processors. We give special attention to the most stressed industries.

#### **Operational risk management and response to the pandemic**

The pandemic continues to impact institutions' business operations. Many institutions materially modified operational processes to continue providing products and services while adhering to stay-at-home and social distancing guidelines.

Furthermore, the shift to the predominantly virtual work environment and remote access likely increased the potential for fraud involving funds transfer activities and new lending programs introduced during the pandemic. For this reason, our FY 2021 examinations focus on adjustments to operations, strategic business plans, controls, and internal audit risk assessments in response to the pandemic and other risks.

We also began applying our new examination guidance on model risk management. System institutions rely on models in many decision-making aspects, and this reliance presents risk. The pandemic may have increased model risk by introducing more uncertainty to the inputs and assumptions used, thus impacting some

models' predictability and reliability. We are focusing on examining policies, procedures, and processes for model development, implementation, and validation, as well as change controls, internal controls, and board reporting.

#### ***Three tiers of supervision***

In examining and overseeing System institutions, we use a three-tiered program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and are complying with laws and regulations. These institutions can correct weaknesses in the normal course of business.

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

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

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

Our enforcement authorities include the following powers:

- To enter into formal agreements

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

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

As of Jan. 1, 2021, no FCS institutions were under enforcement action.

### *Borrower rights*

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

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

We also receive and review complaints from borrowers and loan applicants who believe their rights have been denied. If we find violations of law or regulations, we have several options to bring about corrective action. In 2020, we received 32 borrower complaints, compared with 27 in 2019. In June 2021, we added an online complaint form to our website to provide an additional means by which borrowers and loan applicants may submit complaints regarding System institutions.

### **Regulation**

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

We strive to develop balanced, well-reasoned regulations whose benefits outweigh their costs. With our regulations, we seek to meet two general objectives. The first is to ensure that the System continues to be a dependable source of credit and

related services for agriculture and rural America while also ensuring that System institutions comply with the law and with the principles of safety and soundness. The second is to promote participation by member-borrowers in the management, control, and ownership of their System institutions.

### *Regulatory activity in 2020*

When the president declared a national emergency on March 13, 2020, FCA implemented a regulatory pause, which delayed the publication of three rulemaking actions in the Federal Register. This delay postponed the dates of some planned rulemaking activities listed in the agency's Spring 2020 Regulatory Projects Plan. We eventually published two of the three delayed rulemaking actions in the Federal Register, but one remained unpublished at year-end.

FCA also issued guidance to FCS institutions during 2020 and early 2021 on managing some of the challenges created by the COVID-19 pandemic. Our guidance covered working with borrowers, meeting capital and liquidity requirements, complying with financial reporting requirements, and handling other managerial and operational issues. Our guidance also addressed the impact on FCS institutions of regulations issued by other federal agencies. We provided guidance on the Small Business Administration's Paycheck Protection Program and the Consumer Financial Protection Bureau's forbearance relief on federally backed mortgage loans.

The following paragraphs describe some of FCA's regulatory efforts in 2020, along with several projects that will remain active in 2021. More information on these topics is available on our website. From the **Laws & regulations** tab at [www.fca.gov](http://www.fca.gov), you can read our board policy statements, bookletters, informational

memorandums, proposed rules, and any final rules whose effective dates are pending.

**Criteria to reinstate nonaccrual loans** — The FCA board approved a final rule in February 2020 that uses more measurable standards to determine when high-risk loans are suitable for reinstatement to accrual status. The standards closely resemble the standards of the Federal Financial Institutions Examination Council.

**District financial reporting** — The FCA board approved a final rule in September 2020 that amended regulations governing the presentation of financial information from an FCS bank's affiliated associations in the bank's Annual Report to Shareholders.

**Investment eligibility** — The FCA board approved a final rule in August 2020 that amended FCA regulations governing eligible investments for System associations.

**Amortization limits** — The FCA board approved a proposed rule in January 2020 and a final rule in August 2020 that repealed obsolete regulatory provisions that imposed amortization limits on production credit association loans and required System associations to address amortization through their credit underwriting standards and internal controls.

**Tier 1/tier 2 capital framework** — The FCA board approved a proposed rule in February 2020 to amend the tier 1/tier 2 capital framework to clarify FCA's expectations on numerous provisions, to correct technical errors, and to codify previous guidance and reduce burden.

**Flood insurance** — The FCA board approved a notice and request for comments on 24 proposed interagency questions and answers regarding private flood insurance in February 2020.

**Interest rate risk management guidance**

— The FCA board approved a booklet in January 2020 to provide clarification and guidance on interest rate risk management to System institutions.

**Guidance for System Institutions Affected by the COVID-19 Pandemic**

— We issued an informational memorandum in May 2020 that provided guidance to help System institutions manage challenges associated with the COVID-19 pandemic. Also, over the course of the pandemic, we issued numerous supplements to provide guidance on topics such as troubled debt restructurings, consumer financial protection, and flood insurance.

**Guidance on the Paycheck Protection Program (PPP) for Small Businesses Affected by the COVID-19 Pandemic**

— We issued an informational memorandum in July 2020 that provided guidance on the PPP for eligible borrowers; we also issued a supplement on regulatory capital requirements for PPP loans.

**National Oversight and Examination Program for 2021**

— We issued an informational memorandum in October 2020 that summarized the National Oversight Plan for 2021. The plan detailed strategies for addressing critical risks and other areas of focus.

**Loan syndications and assignment markets study**

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

*Corporate activity in 2020*

In 2020 and early 2021, we analyzed and approved the following corporate applications.

- Effective Feb. 1, 2020, we issued a charter to a service corporation affiliated with AgriBank.
- On Jan. 1, 2021, a CoBank-affiliated agricultural credit association (ACA) and its production credit association (PCA) and federal land credit association (FLCA) subsidiaries merged their operations with another ACA and its PCA and FLCA subsidiaries in the CoBank district.

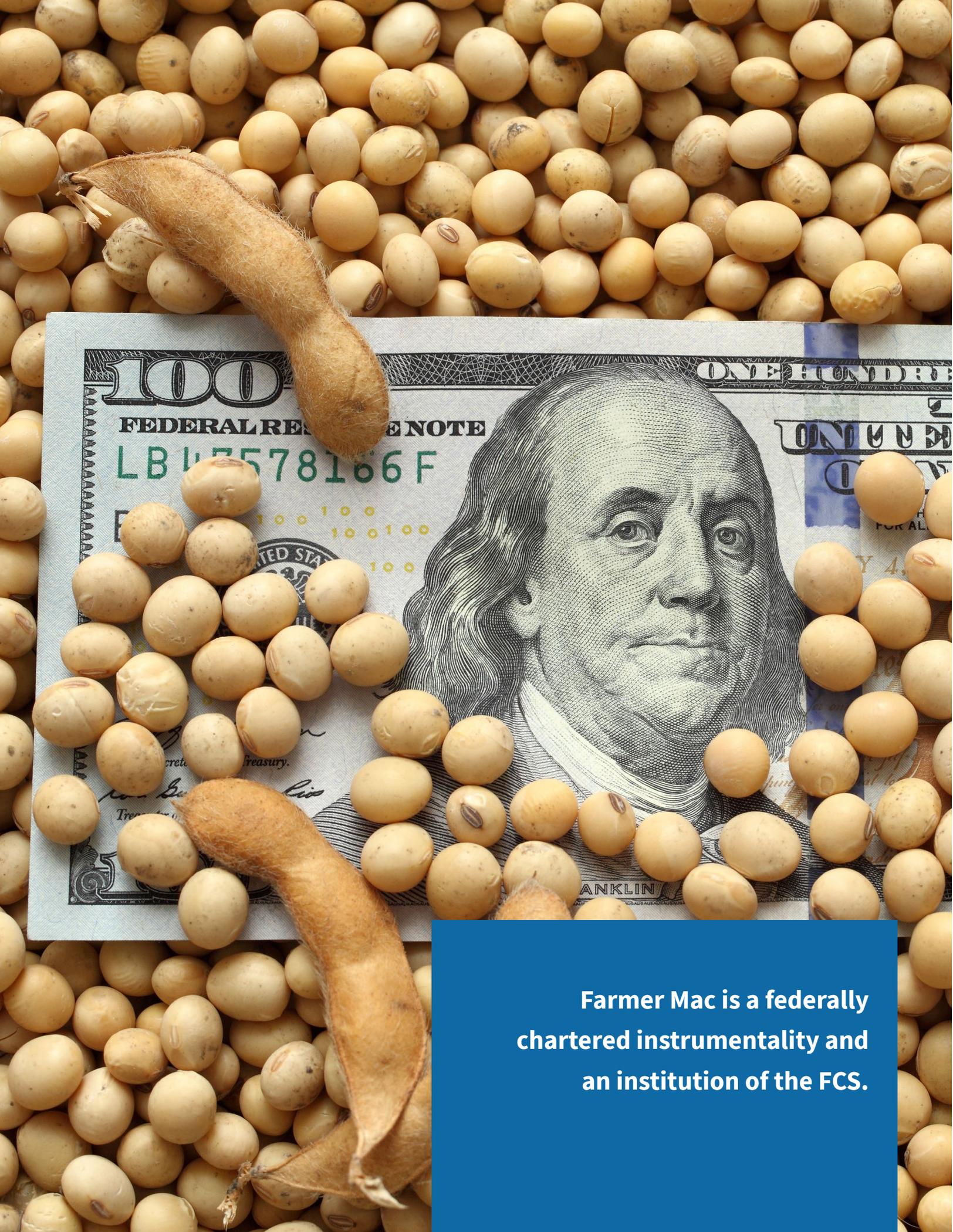
The total number of associations as of Jan. 1, 2021, was 67 (66 ACAs and 1 FLCA). We publish information about corporate applications on our website at [www.fca.gov](http://www.fca.gov) under the **Bank and association oversight** tab.

*Funding activity in 2020*

As the System's regulator, we have several responsibilities pertaining to System funding activities. The Farm Credit Act requires the System to obtain our approval before distributing or selling debt.

Because we make it a high priority to respond efficiently to the System's requests for debt issuance approvals, we have a program, which we monitor on an ongoing basis, that allows the System to issue discount notes at any time up to an outstanding balance of \$100 billion. (From 2008 to March 2020, the discount ceiling had been \$60 billion; in March 2020, it increased to \$100 billion.)

In addition, we approve most longer-term debt issuances through a monthly "shelf" approval program. For 2020, we approved \$230.6 billion in longer-term debt issuances through this program. For more information about the System's funding and liquidity, [see pages 24 through 26.](#)



**Farmer Mac is a federally chartered instrumentality and an institution of the FCS.**

# Farmer Mac

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

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

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

Farmer Mac conducts activities through four major lines of business:

- **Farm & Ranch**, which involves mortgage loans secured by first liens on agricultural real estate and rural housing.
- **USDA Guarantees**, which involves certain agricultural and rural loans guaranteed by the U.S. Department of Agriculture, including farm ownership loans, operating loans, and rural business and community development loans.

- **Rural Utilities Program**, which involves loans made by cooperative lenders to finance rural electric facilities.
- **Institutional Credit**, which involves Farmer Mac's purchase or guarantee of collateralized bonds known as AgVantage securities. AgVantage bonds are general obligations of the issuer that are secured by pools of eligible loans or real estate.

Farmer Mac purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing obligations secured by those loans or assets that qualify as eligible agricultural real estate collateral, securitizes assets and guarantees the resulting securities, and issues long-term standby purchase commitments (standbys) for eligible loans. Securities guaranteed by Farmer Mac may be held either by the originator of the underlying assets or by Farmer Mac, or they may be sold to third-party investors.

## Examining and regulating Farmer Mac

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

The statute requires OSMO to be a separate office within our agency and to report directly to the FCA board. The law also

stipulates that OSMO's activities must, to the extent practicable, be carried out by individuals who are not responsible for supervising the banks and associations of the FCS.

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

In January 2020, the FCA board approved FCA Policy Statement 35 on the oversight of Farmer Mac. Later in the year, OSMO issued the following guidance documents to Farmer Mac:

- COVID-19 Pandemic and Mission, Communication, and Reporting (March 2020)
- Guidance on Loan Servicing and Reporting Troubled Debt Restructurings for Lines of Business Affected by the COVID-19 Outbreak (April 2020)
- Preferred Stock Issuance Response to Notice (August 2020)

### **Financial condition of Farmer Mac**

OSMO reviews Farmer Mac's compliance with statutory and regulatory minimum capital requirements and supervises its operations and condition throughout the year. [Table 6](#) summarizes Farmer Mac's condensed balance sheets at the end of each calendar year from 2015 to 2020.

#### ***Capital***

As of Dec. 31, 2020, Farmer Mac's net worth (that is, equity capital determined using generally accepted accounting principles [GAAP]) was \$992.5 million, compared with \$799.3 million a year earlier. Its

net worth was 4.1% of its on-balance-sheet assets as of Dec. 31, 2020, compared with 3.7% a year earlier. Net worth, in terms of dollars, went up primarily because of an issuance of preferred stock and an increase in net income.

When Farmer Mac's off-balance-sheet program assets (essentially its guarantee obligations) are added to its total on-balance-sheet assets, net worth was 3.6% as of Dec. 31, 2020, compared with 3.2% in 2019. Farmer Mac continued to be in compliance with all statutory and regulatory minimum capital requirements.

At year-end 2020, Farmer Mac's core capital (the sum of the par value of outstanding common stock, the par value of outstanding preferred stock, paid-in capital, and retained earnings) remained above the statutory minimum requirement. It totaled \$1,006.4 million, exceeding the statutory minimum capital requirements of \$680.9 million by \$325.5 million or 47.8%.

Its regulatory capital (core capital plus allowance for credit losses) exceeded the required amount as determined by the Risk-Based Capital Stress Test. Farmer Mac's regulatory capital totaled \$1,024.0 million as of Dec. 31, 2020, exceeding the regulatory risk-based capital requirement of \$197.4 million by \$826.6 million.

Risk exposure on USDA guaranteed portions is very low because they are backed by the U.S. Department of Agriculture. [Table 7](#) offers a historical perspective on capital and capital requirements for 2015 through 2020.

#### ***Program activity***

Farmer Mac's total program activity increased to \$21.9 billion by year-end 2020, up from \$21.1 billion a year earlier. (See [figure 11](#).) Farmer Mac experienced steady growth in its Farm & Ranch loan purchases, as well as its Institutional Credit Program, which involves the purchase or

**Table 6**  
Farmer Mac condensed balance sheets, 2015 – 2020

As of Dec. 31

Dollars in millions

<b>Item</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Growth Rate 2019–2020</b>
Total assets	\$15,540.4	\$15,606.0	\$17,792.3	\$18,694.3	\$21,709.4	\$24,355.5	12.2%
Total liabilities	\$14,986.6	\$14,962.4	\$17,084.1	\$17,941.8	\$20,910.1	\$23,363.0	11.7%
Net worth or equity capital	\$553.7	\$643.6	\$708.1	\$752.6	\$799.3	\$992.5	24.2%

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

**Table 7**  
Farmer Mac capital positions, 2015 – 2020

As of Dec. 31

Dollars in millions

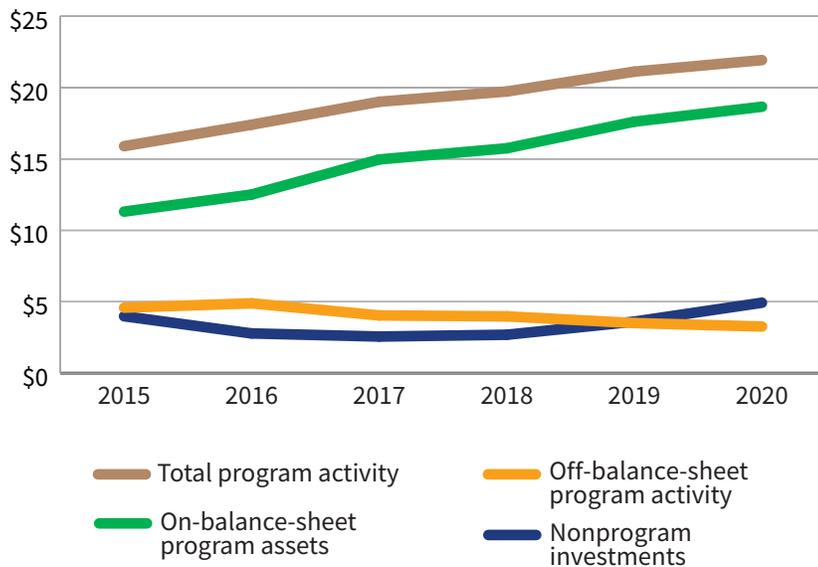
<b>Item</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
GAAP equity	\$553.7	\$643.6	\$708.1	\$752.6	\$799.3	\$992.5
Core capital	\$564.5	\$609.7	\$657.1	\$727.6	\$815.4	\$1,006.4
Regulatory capital	\$571.1	\$617.1	\$665.9	\$736.8	\$828.1	\$1,024.0
Statutory requirement	\$462.1	\$466.5	\$520.3	\$545.0	\$618.8	\$680.9
Regulatory requirement	\$72.2	\$104.8	\$235.4	\$119.0	\$122.1	\$197.4
Surplus core capital over statutory requirement*	\$102.4	\$143.2	\$136.8	\$182.6	\$196.7	\$325.5
Capital margin excess over the minimum	22.2%	30.7%	26.3%	33.5%	31.8%	47.8%

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

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

**Figure 11**  
Farmer Mac program activity and nonprogram investment trends

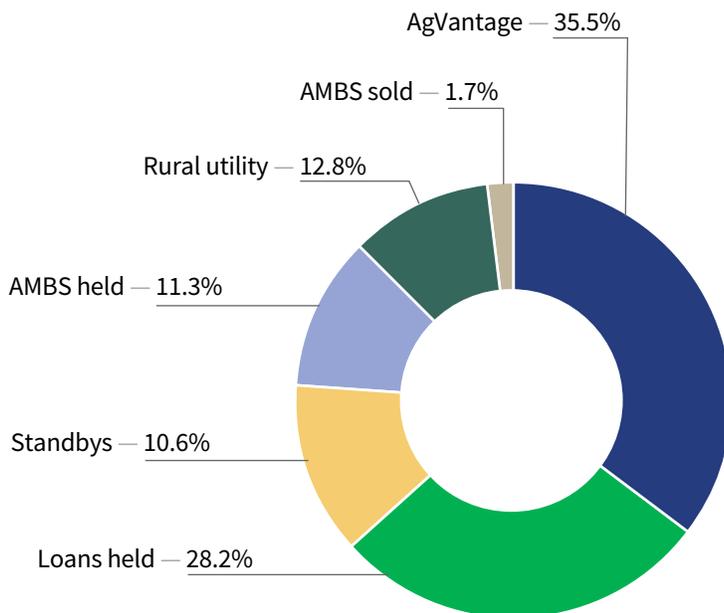
As of Dec. 31  
Dollars in billions



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

**Figure 12**  
Farmer Mac total program activity

As of Dec. 31, 2020



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

guarantee of AgVantage securities. These bonds are general obligations of the issuing financial institution that are purchased or guaranteed by Farmer Mac. Each AgVantage security is secured by eligible loans under one of Farmer Mac’s programs in an amount at least equal to the outstanding principal amount of the security.

Off-balance-sheet program activity consists of standbys, certain AgVantage securities, and agricultural mortgage-backed securities (AMBS) sold to investors. At the end of December 2020, 14.9% of program activity consisted of off-balance-sheet obligations, as compared with 16.6% a year earlier.

Farmer Mac’s Long-Term Standby Purchase Commitment product is similar to a guarantee of eligible pools of program loans. Under the standbys, a financial institution pays a fee in return for Farmer Mac’s commitment to stand ready (that is, “stand by”) to purchase loans at face value even under adverse conditions. As shown in figure 12, standbys represented 10.6% of Farmer Mac’s total program activity in 2020.

**Asset quality**

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

As of Dec. 31, 2020, Farmer Mac’s allowance for credit losses totaled \$17.6 million, compared with \$12.6 million the year before. Of its Farm & Ranch program portfolio, \$291.5 million was substandard, representing 3.40% of the principal balance of Farm & Ranch loans purchased, guaranteed, or committed to be purchased. This compares with \$310.0 million on Dec. 31, 2019. Assets are considered to be substandard when they have a well-defined weakness or weaknesses that, if not corrected, are likely to lead to some losses.

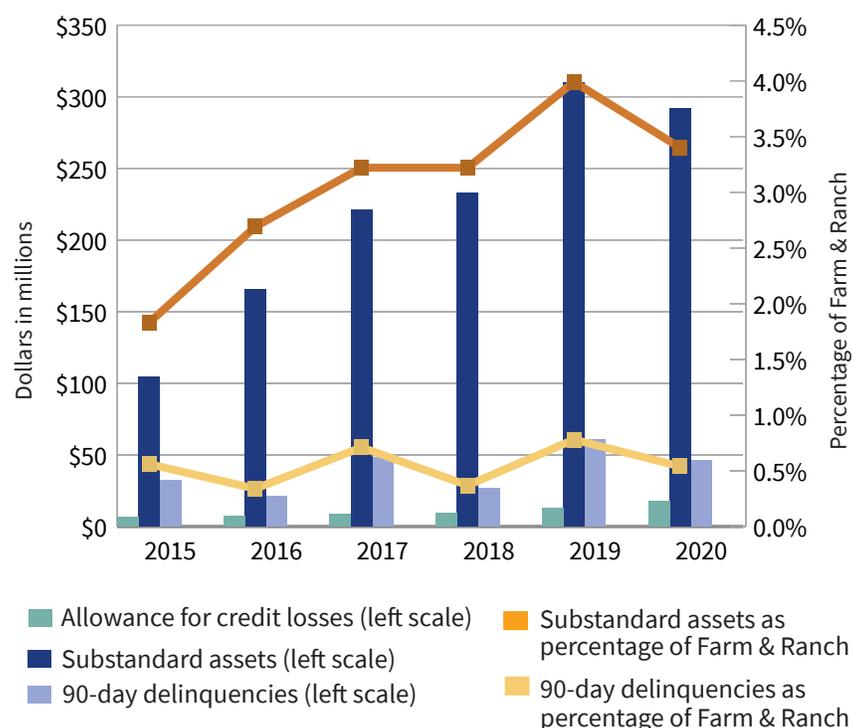
As of Dec. 31, 2020, Farmer Mac's 90-day delinquencies decreased to \$46.2 million, or 0.54% of Farm & Ranch loans, from \$61.0 million, or 0.78%, as of Dec. 31, 2019.

Farmer Mac had no real estate owned at the end of 2020, compared with 2019, when it had \$1.77 million in real estate owned. Farmer Mac reported no delinquencies in its pools of rural utility cooperative loans.

### Earnings

Farmer Mac reported net income available to common stockholders of \$89.2 million (in accordance with GAAP) for the year ended Dec. 31, 2020, down from \$93.7 million reported at year-end 2019. Core earnings for 2020 were \$100.6 million, compared with \$93.7 million in 2019. Net interest income, which excludes guarantee fee income, was reported at \$182.8 million in 2020, up from \$169.6 million in 2019. Guarantee fee income was \$12.5 million, compared with \$13.7 million in 2019. [Table 8](#) shows a six-year trend for the basic components of income.

**Figure 13**  
Allowance, nonperforming asset, and delinquency trends, 2015 – 2020



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

**Table 8**  
Farmer Mac condensed statements of operations, 2015 – 2020

As of Dec. 31  
Dollars in millions

Item	2015	2016	2017	2018	2019	2020	Growth Rate 2019 – 2020
Total revenues	\$145.9	\$160.8	\$175.1	\$186.1	\$194.1	\$206.7	7%
Total expenses	\$98.5	\$96.6	\$103.8	\$91.2	\$100.4	\$117.5	17%
Net income available to common stockholders	\$47.4	\$64.2	\$71.3	\$94.9	\$93.7	\$89.2	-5%
Core earnings	\$47.0	\$53.8	\$65.6	\$84.0	\$93.7	\$100.6	7%

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

**Figure 14**  
FCA organizational chart as of August 2021

For an accessible version of this chart, go to [www.fca.gov/about/fca-organizational-chart](http://www.fca.gov/about/fca-organizational-chart).



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

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

# FCA's organization and leadership

## Organization of FCA

FCA's headquarters is in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California. As of July 1, 2021, we had 337 employees.

## FCA's leadership

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

### *Glen R. Smith, FCA Board Chairman and CEO*

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



He also serves as a member of the board of directors of the Farm Credit System Insurance

Corporation, an independent U.S. government-controlled corporation that insures the timely payment of principal and interest on obligations issued jointly by Farm Credit System banks.

Mr. Smith is a native of Atlantic, Iowa, where he was raised on a diversified crop and livestock farm. His farm experience started at a very early age, after his father

was involved in a disabling farm accident. He graduated from Iowa State University in 1979 with a Bachelor of Science in agricultural business and accepted a position with Doane Agricultural Services as state manager of the company's farm real estate division.

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

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

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

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

*Jeffery S. Hall, FCA Board Member*



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

cessor has been named.

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

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

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

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 until 1994. During

that time, he was the legislative assistant for agriculture, accountable for internal and external issue management.

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

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for over 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a Bachelor of Science from Purdue University.

# Appendix

## Glossary

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

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

**Bank for cooperatives** — A BC provided lending and other financial services to farmer-owned cooperatives, rural utilities (electric and telephone), and rural sewer and water systems. It was also authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives. The last remaining BC in the FCS, the St. Paul Bank for Cooperatives, merged with CoBank on July 1, 1999.

**Farm Credit Act** — The Farm Credit Act of 1971, as amended, (12 U.S.C. §§ 2001 – 2279cc) is the statute under which the FCS operates.

**Farm credit bank** — FCBs provide services and funds to local associations that, in turn, lend those funds to farmers, ranchers, producers and harvesters of aquatic products, rural residents for housing, and some agriculture-related businesses. On July 6, 1988, the federal land bank and the federal intermediate credit bank in 11 of the 12 then-existing Farm Credit System districts merged to become FCBs. The mergers were required by the Agricultural Credit Act of 1987.

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

**Farm Credit System Insurance Corporation** — FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. government-controlled corporation. Its purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. The FCA board serves ex officio as the board of directors for FCSIC. The chairman of the FCSIC board of directors must be an FCA board member other than the current chairman of the FCA board.

**Federal Agricultural Mortgage Corporation** — Farmer Mac was created with the enactment of the Agricultural Credit Act of 1987 to provide a secondary market for agricultural real estate and rural housing mortgage loans.

**Federal Farm Credit Banks Funding Corporation** — The Funding Corporation, based in Jersey City, New Jersey, manages the sale of Systemwide debt securities to finance the loans made by FCS institutions. It uses a network of bond dealers to market its securities.

**Federal intermediate credit bank** — The Agricultural Credits Act of 1923 provided for the creation of 12 FICBs to discount farmers' short- and intermediate-term notes made by commercial banks, livestock loan companies, and thrift institutions. The Farm Credit Act of 1933 authorized farmers to organize PCAs, which could discount notes with FICBs. As a result, PCAs became the primary entities for delivery of short- and intermediate-term credit to farmers and ranchers. The FICBs and the federal land banks merged to become FCBs or part of the ACB. Thus, no FICBs remain within the FCS.

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

**Federal land bank association** — These associations were lending agents for FCBs before they received their affiliated banks' direct-lending authority to make long-term mortgage loans to farmers, ranchers, and rural residents for housing. As lending agents, the associations did not own loan assets but made loans only on

behalf of the FCBs with which they were affiliated. As of Oct. 1, 2000, all active federal land bank associations had received direct-lending authority and did not serve as lending agents for FCBs.

**Federal land credit association** — An FLCA is the regulatory term FCA uses for a federal land bank association that owns its loan assets. An FLCA borrows funds from an FCB to make and service long-term loans to farmers, ranchers, and producers and harvesters of aquatic products. It also makes and services housing loans for rural residents.

**Financial Institution Rating System** — The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators. However, unlike the Uniform Financial Institutions Rating System, the FIRS was designed to reflect the nondepository nature of FCS institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

**Rating 1** — Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than those with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.

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

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

**Rating 4** — Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe

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

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

**Government-sponsored enterprise** — A GSE is typically a federally chartered corporation that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy — either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE attributes) to allow it to overcome

## Abbreviations

**ACA** — agricultural credit association

**ACB** — agricultural credit bank

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

**CEO** — chief executive officer

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

**Farmer Mac** — Federal Agricultural Mortgage Corporation

**FCA** — Farm Credit Administration

**FCB** — farm credit bank

**FCS** — Farm Credit System

**FCSIC** — Farm Credit System Insurance Corporation

**FIRS** — Financial Institution Rating System

**FLCA** — federal land credit association

**GAAP** — generally accepted accounting principles

**OFIs** — other financing institutions

**PCA** — production credit association

**USDA** — U.S. Department of Agriculture

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

the barriers that prevented purely private markets from developing. The FCS is the oldest financial GSE.

**Participation** — A loan participation is usually a large loan in which two or more lenders share in providing loan funds to a borrower to manage credit risk or overcome a legal lending limit for a single credit. One of the participating lenders originates, services, and documents the loan. Generally, the borrower deals with the institution originating the loan and is not aware of the other participating institutions.

**Production credit association** — PCAs are FCS entities that deliver only short- and intermediate-term loans to farmers and ranchers. A PCA borrows money from its FCB to lend to farmers. PCAs also own their loan assets. As of Jan. 1, 2003, all PCAs were eliminated as independent, stand-alone, direct-lender associations. All PCAs are now subsidiaries of ACAs.

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

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

## Additional information

The 2020 Annual Report of the Farm Credit Administration is available on FCA's website at [www.fca.gov](http://www.fca.gov). For questions about this publication, contact FCA:



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

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

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