

News Release

Farm Credit Administration
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Farm Credit System Lending to Young, Beginning and Small Farmers and Ranchers Continues to Increase

McLEAN, Va., May 10, 2007 — A report on the 2006 performance of the Farm Credit System (FCS or System) in meeting its congressional mandate to provide constructive credit and related services to young, beginning and small (YBS) farmers and ranchers was presented today to the Farm Credit Administration (FCA or Agency) Board.

The overall trend for YBS lending for each of the three borrower categories continued to be positive, with the dollar value of loans made during the year showing solid gains from 2005 levels. The number of new loans was up for beginning and young farmers and was flat for small farmers. However, the growth rate in the YBS categories as a percentage of the System's total new loan dollars was down slightly for 2006. Small farmers continued to receive the largest share — 54 percent — of the System's new loan numbers during the year.

The report, prepared by Office of Regulatory Policy (ORP) staff, is part of the FCA Board's continuing effort to ensure that the FCS responds to the credit needs of these farmers and ranchers. In 2001, the Board instituted new YBS definitions and reporting requirements for the System. In March 2004, the FCA Board approved a regulation strengthening YBS programs and policies at System banks and associations. Congress established the YBS mission in the 1980 amendments to the Farm Credit Act. The amendments called for (1) each FCS association to have a program for furnishing sound, constructive credit and related services to YBS borrowers and (2) each Farm Credit Bank to report annually to FCA on its district YBS activities.

At the end of 2006, the System held 140,209 loans to young farmers, defined as aged 35 or younger, totaling \$15.4 billion. This volume is up 11 percent from 2005. During 2006, 46,459 new loans totaling \$5.5 billion were made to young farmers, which represented 17.0 percent of all new loans the System made during the year and 10.5 percent of the new loan dollar volume. The number of new loans made to young farmers during 2006 was 9.7 percent higher than in 2005, and the volume of new loans was 8.7 percent higher.

Beginning farmer loans held by System institutions, defined as those made to farmers with 10 or fewer years of farming experience, amounted to 189,223 loans totaling \$25.4 billion at year-end 2006. Also during 2006, 57,838 new loans totaling \$9.3 billion were made to beginning farmers, which represented 21.2 percent of all new loans and 17.8 percent of new loan dollar volume. The number of new loans made to beginning farmers during 2006 was 5.4 percent higher than in 2005, and the volume of new loans was 12.3 percent higher.

FCS institutions had 465,951 loans outstanding totaling \$36.3 billion to small farmers, defined as those with gross annual sales of less than \$250,000, at the end of 2006. During the year, 148,025 new loans were made to small farmers for a total of \$11.6 billion. New loans to small farmers represented 54.3 percent of all new loans and 22.2 percent of new loan volume. Although the number of new loans made during 2006 was essentially unchanged from 2005, the volume of new loans increased 6.0 percent.

Economic and demographic factors have led to a decline in the number of small and young farmers in the farming population. As a result, the System's potential YBS lending market has declined. To encourage lending to these farmers, many associations report the use of special underwriting standards, lower interest rates, or other programs aimed at YBS borrowers. The report concludes that continuing analysis is needed and is underway to better understand how the System's performance in meeting its YBS mission is affected by economic and demographic changes.

Systemwide data on YBS lending and data by individual associations are available on the Agency's Web site at www.fca.gov.

Mission-Related Investments and Investments in Rural America Pilot Program

In other business, the FCA Board received a report from ORP staff on the status of the FCS's Mission-Related Investments and FCA's Investments in Rural America pilot program. The Investments in Rural America program is designed to strengthen the System's mission to provide for an adequate and flexible flow of capital to agriculture, agribusinesses, and rural communities across the country. The program gives FCS institutions greater flexibility to partner with agriculture and rural lenders to increase the availability of affordable funding to rural communities to improve infrastructure and quality of life and to stimulate economic growth and development. Under the Investments in Rural America pilot program, 17 FCS institutions held investments totaling \$1.33 billion at year-end 2006.

Since January 2005, when FCA issued guidance to System institutions on Investments in Rural America, the Agency has approved 13 pilot investment programs, including three district-wide programs and one program that includes two districts. Examples include mortgage-backed securities that help increase the availability of affordable housing in rural areas; agriculture and rural community bonds targeted at rural economic development and revitalization, and commercial bank debt obligations to provide rural lenders greater access to longer-term funds for rural credit needs; and partnerships to provide small rural businesses and starter farmers and agricultural cooperatives greater access to capital.

At December 31, 2006, FCS institutions held mission-related investments totaling \$3.9 billion, with 96 percent of this volume guaranteed by the U.S. Government or Government-sponsored enterprises. FCS institutions held \$1.34 billion in Federal Agricultural Mortgage Corporation agricultural mortgage-backed securities, making them the single largest component of FCS mission-related investments. In addition, FCS institutions held \$804 million in tobacco buyout successor-in-interest contracts and \$413 million in agriculture and rural development obligations guaranteed by the U.S. Department of Agriculture.

Office of Examination Quarterly Report

The FCA Board also received a report from the Agency's Office of Examination on the financial condition of the FCS as of December 31, 2006. The report showed that the FCS remains financially safe and sound with no discernible change in its overall condition and performance.

During 2006, FCS assets increased more than 16 percent and investments increased almost 20 percent. Loan assets also increased by more than 16 percent during the period. Asset quality remained high, with Acceptable and Other Assets Especially Mentioned volume being more than 98 percent of total loans and related accrued interest receivable.

FCS earnings and liquidity remain strong. On a combined basis, earnings for the year ended December 31, 2006, totaled \$2.4 billion compared with \$2.1 billion for 2005. The FCS remains adequately capitalized with all institutions exceeding minimum regulatory capital ratio requirements.

Notational Votes

The FCA Board approved two notational votes since its April 12 meeting. Notational votes are actions taken by the FCA Board between meetings.

1. On April 15, the Board voted to grant a waiver for the United ACA board of directors to appoint an additional outside director who retired as a bank chief executive officer earlier in 2007. FCA determined that, in this instance, no conflict of interest would occur.
2. On April 23, the Board voted to delegate to the Director of FCA's Office of Regulatory Policy the authority to make certain approvals in connection with the sale of preferred stock by an FCS institution.

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The Farm Credit Administration is the safety and soundness regulator of the cooperative Farm Credit System. FCA charters, regulates, and examines the 107 banks, associations, and service corporations of the FCS. System institutions make loans to agricultural producers and their cooperatives nationwide. Members of the FCA Board are Nancy C. Pellett, Chairman and CEO; Dallas P. Tonsager; and Leland A. Strom.

Note: FCA news releases are available on the Internet. Access the FCA Web site at www.fca.gov.