Farm Credit Administration

Strategic Plan

FY 1997-2002

CONTENTS

MESSAGE FROM THE CHAIRMAN

The financial services industry, the Farm Credit System (FCS or System), and the Farm Credit Administration (FCA or Agency) continue to experience dramatic change. This change is the result of many factors, including significant technological advances, increased competition, the globalization of markets and, for FCA, Government-wide efforts to downsize agencies and improve operating efficiency. These significant forces of change are expected to continue.

This volatile environment dictates that for organizations to succeed, they must do an excellent job of planning strategically. We strongly believe strategic planning to be good business.

FCA has been planning strategically for several years. Our plans have evolved from a focus on shorter term, tactical issues to longer term, strategic issues and a vision of the future. While there is work still to do, I am proud of the remarkable results our Agency has achieved during the past 3 years in improved service to our customers through better rules and rulemaking, risk-based examinations, and improved communication — and all at less cost to the System.

This Strategic Plan reflects our belief that the Farm Credit System will continue to play an important role in agriculture in the 21st century. Our responsibility is to provide a regulatory environment that enables the System to meet rural America's changing demands for credit and other financial services within the authorities established by Congress. Our primary focus will always remain on safety and soundness, but our rules and policies will respect market forces to ensure a competitive System.

The principles of customer service, effective operations, clear communication, and product quality are at the heart of my operating philosophy for the Agency. These principles are consistent with the objectives of the Government Performance and Results Act of 1993, which encourages organizations to manage for results and holds executive leadership accountable for effecting programs that achieve desired outcomes.

This Strategic Plan, our framework for the future, is the culmination of a joint effort of the FCA Board and Agency staff. I believe our goals and objectives provide a firm foundation for FCA's future success and the success of those we regulate.

Marsha Pyle Martin
Chairman and Chief Executive Officer

MISSION

The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System by creating an environment that enables it to serve rural America as a dependable source of credit and other financial services within the authorities established by Congress.

LEGISLATIVE MANDATE

The Farm Credit Act of 1971, as amended (Farm Credit Act) clearly states why Congress established the FCS. Congress determined that the public interest was best served by an effective credit delivery system dedicated to financing rural America. The FCS was established to:

- Ensure that an adequate supply of credit is available to all creditworthy producers and their cooperatives in both good times and bad.
- Provide reasonably priced credit to eligible borrowers by fostering and maintaining competitive markets in rural America.

As the independent regulator of the System, FCA is responsible for protecting and balancing the public's interests. FCA's policies and regulations must be sound and constructive, use an approach that is proactive and preventive, and reflect the continuing changes and needs of agriculture. A healthy America requires a strong agriculture. A strong agriculture requires a financially viable FCS.

FCA performs two basic functions to fulfill its mission:

- Identifies risk and takes corrective actions.
- Promulgates regulations and public policies.

Identifying Risk and Taking Corrective Action
FCA has statutory authority to examine all FCS institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac), as well as the National Consumer Cooperative Bank and the NCB Development Corporation, which are non-System entities. Presently, the FCS is comprised of 216 Farm Credit banks and associations and 8 subsidiary service corporations. The Agency issues written reports that evaluate the overall condition and performance of these entities.

The Agency examination program is risk-based, concentrating resources on institutions having the greatest risk exposure. FCA continuously identifies, evaluates, and proactively addresses risks faced by the entities it examines. FCA also has authority to initiate an enforcement action against an FCS institution that violates statutory or regulatory requirements or engages in an unsafe or unsound practice. Enforcement actions can include formal agreements, cease and desist orders, civil money penalties, or orders of removal or prohibition.

Promulgating Regulations and Public Policies
FCA has statutory and regulatory authority to establish policy and interpret the Farm Credit Act. As such, the Agency promulgates policy statements and regulations to ensure that the FCS complies with the law and operates in a safe and sound manner. FCA is also the chartering authority for the FCS and reviews and rules on corporate applications for mergers and consolidations of System entities.

To achieve its mission efficiently and effectively, the Agency engages in a variety of activities that support the two basic functions. These include long-range planning and budgeting; providing pertinent information to the Administration, Congress, FCS and the general public; legal counsel; economic and financial analysis; management of information resources; management of human resources and training; and payroll and benefits administration.

CONSTITUENCIES AND GUIDING PRINCIPLES

FCA's constituencies are those who have an interest in or are potentially affected by Agency activities. These include institutions regulated by the Agency, investors in Farm Credit securities, the Farm Credit System Insurance Corporation, Congress, individual borrower/shareholders of the FCS, all other eligible borrowers, and the public.

Confidence in FCA promotes confidence in the FCS. Therefore, FCA must demonstrate sound and constructive policymaking that relates directly to its objective of controlling risk in the FCS. Through our actions, there must be no doubt that the FCA Board and management are effectively and efficiently carrying out the Agency's mission.

To achieve its mission, the Agency will adhere to the following **Guiding Principles:**

- We are a fair and effective regulator that provides its constituencies with timely, accurate, and useful communications.
- We seek a proper balance between costs imposed by the Agency and the benefits accruing to our constituencies, but in no case will we compromise safety and soundness.
- We promote teamwork and a positive, productive, and family-friendly work environment.

VISION STATEMENT AND STRATEGIC GOALS AND OBJECTIVES

VISION STATEMENT

FCA is a recognized leader in effective and efficient financial regulation.

STRATEGIC GOALS AND OBJECTIVES

FCA staff conducted an assessment of the internal and external environment affecting the Agency and the FCS. Staff from key congressional committees were interviewed and asked to assess not only the environment but to offer ideas for FCA improvement. FCS bank and association chief executive officers were asked to share their vision for the future of the FCS. Environmental issues and trends influencing FCA's future operating environment were identified using this information. A supplemental document, "FCA's Vision 2002," was also developed that provides more detail of likely internal and external trends for the next 5 years that may have significant long-range implications for the Agency. The FCA Board and senior management used this information to formulate the strategic goals and objectives that follow. The environmental assessment, including the underlying planning assumptions, is presented in Appendix A.

FCA's strategic goals and objectives are:

Goal 1: Minimize risk to the System's customers/shareholders, investors, and Insurance Fund.

Objectives

- Maintain and modify systems to ensure that FCA provides high-quality examinations and oversight of FCS institutions to accurately identify risk and effect corrective action.
- Proactively identify and address systemic risks affecting the FCS.
- Require all System institutions to disclose reliable and meaningful financial information to investors in System securities and their customers/shareholders.

Goal 2: Implement regulations and policies that ensure a competitive and dependable system of credit and financial services for agriculture and rural America.

Objectives

- Adopt policies and regulations that produce appropriate solutions to identified problems and minimize burden.
- Evaluate the Farm Credit Act and develop suggested revisions for Congressional consideration that update the Act's outdated or antiquated provisions.

Goal 3: Enhance FCA's effectiveness, efficiency, and external relationships.

Objectives

- Ensure that the Agency's management processes are efficient and comply with applicable laws and regulations.
- Sustain high-quality employee performance and productivity in our changing environment.
- Apply technology to provide easy-to-use information services that improve work flow.
- Communicate effectively with key external audiences.

STRATEGIES TO ACHIEVE GOALS AND OBJECTIVES

The strategic goals capture our focus for future action. Objectives were developed for each goal, and strategic actions further identify initiatives and activities the Agency will embark on during the next 5 years. Specific action plans link this Strategic Plan and shorter term operational plans. Action plans, dynamic in nature, must be adjusted to fit a changing environment. Timely assignment of personnel, budgeting, and reporting are key ingredients of each action's success. The success of the Agency's actions will be captured by the performance measures delineated in the section entitled *Relationship Between Strategic Goals/Objectives and the Annual Performance Goals*. An overview of our approach to achieve each goal follows.

Goal 1: Minimize risk to the System's customers/ shareholders, investors, and Insurance Fund.

FCA's examination and supervisory programs have been recognized for their high quality and effective results. This goal and its objectives focus on maintaining this high quality, as well as making still more improvements.

Areas of emphasis include the following strategic initiatives:

- Evaluating FCS loan underwriting standards and compliance to detect deterioration and resulting risk.
- Incorporating the evaluation of sensitivity of institutions' exposure to interest rate risk into the FCA Rating System.
- Developing a reserve of commissioned examiners to prepare for a possible downturn in the agricultural economy.
- Identifying systemic risks and incorporating these risks into examinations.
- Evaluating potential risk of legislative proposals in light of safety and soundness issues.
- Identifying current events and emerging issues affecting the FCS and FCA.

In addition, financial information is critical to investors in System securities and FCS customers/shareholders. Adequate and appropriate information is vital to keeping the cost of funds as low as possible for the System. FCA will, therefore, evaluate the effectiveness of the FCS disclosure program.

Goal 2: Implement regulations and policies that ensure a competitive and dependable system of credit and financial services for agriculture and rural America.

A major focus of regulatory and policy development in the 1990s was reduction of regulatory burden. In 1993, the FCA identified policies and regulations that were outdated or imposed undue burden on FCS institutions. Consistent with that effort, the FCA Board established a framework for the development of regulations with the adoption in 1994 of a Policy Statement on Regulatory Philosophy (modified in 1995). These Board actions ensured that regulations were written to implement the law, promote safety and soundness, support the System's continued competitiveness in the marketplace, and not impose undue burden.

Future regulatory efforts will continue to promote safety and soundness and a competitive FCS. In addition, we will focus on improving timeliness of FCA's rulemaking process and producing more "user-friendly" rules. We will continue to evaluate and revise our policy development process to improve customer communications, involvement, and more timely services. We will also evaluate our progress in meeting National Performance Review (NPR) commitments. Near-term rulemaking activities include reducing burdens in areas such as loan underwriting, general financing agreements, non-statutory prior approvals, voting and organizational issues, and borrower rights. In addition, the Agency will have reviewed and be prepared to recommend for congressional consideration needed technical changes to the Farm Credit Act.

Goal 3: Enhance FCA's effectiveness, efficiency, and external relationships.

Over time, the Agency has identified a number of management and communication issues that needed to be addressed. Many of these issues have been resolved. However, in developing this Strategic Plan, the FCA Board and Agency staff worked together to devise a goal with a number of initiatives that would improve the Agency's effectiveness and enhance its ability to accomplish Goals 1 and 2. This goal, therefore, brings balance to the Strategic Plan by combining the internal and external interests of the Agency.

The initiatives in the plan cover several areas. Management systems and internal controls will be reviewed to identify needed improvements and/or efficiencies. The FCA financial management system will be enhanced to integrate administrative processes and applications, while efficiently fulfilling external reporting requirements.

FCA staff is tenured and highly experienced. However, future changes in the financial, banking, and agricultural environments will require continuous professional development to keep employee skills and expertise state-of-the-art.

Ongoing changes in technology provide the opportunity to develop information systems to enhance management decisionmaking. FCA will take a proactive approach to external communications by assessing and monitoring the effectiveness of its communications and identifying appropriate messages for key external audiences.

RESOURCE NEEDS

FCA's direct obligations budget for fiscal year (FY) 1997 is $35.9 million, down $4.5 million from the Agency's budget for FY 1995. Of this amount, we project that approximately 83 percent will be used for Risk Identification and Corrective Actions, one of our two primary functions. The remaining 17 percent is dedicated to the other primary function, Promulgate Regulations and Public Policies. More than 80 percent of the Agency's budget is cost of personnel. This plan's strategic goals and objectives reflect our overall belief that FCA must be a cost-effective regulator. So long as the FCS remains healthy and a viable source of credit for agriculture, FCA's resource needs should not increase significantly over the planning horizon.

The FCA has reduced its staff and budget requirements significantly over the past several years. Staff levels have declined 43 percent from their peak in 1988. In 1997, the number of field offices outside headquarters was reduced to 4, down from 10 in the late 1980s.

In 1994, the Agency conducted a long-range staffing study. This strategic effort positioned the Agency to move into the next century with the right number of employees, the right mix, and the necessary talent to accomplish the FCA's mission, strategic goals, and objectives. Since implementing the Five-Year Staffing and Structure Plan (Staffing Plan), 67 full-time equivalent (FTEs) positions have been eliminated.

When measured in terms of cost to the users of the FCS, the effect of FCA's budget when compared to the System's total assets has been reduced substantially. Since 1992, our peak cost year, FCA's cost has been reduced almost a fourth, from 6.4 basis points to about 4.8 basis points for FY 1997.

RELATIONSHIP BETWEEN STRATEGIC GOALS/OBJECTIVES AND THE ANNUAL PERFORMANCE GOALS

The results achieved by the Agency, through the Goals, Objectives, and Initiatives identified in this plan, will be reported on by an integrated performance measurement system. This system is predicated on four desired outcomes, or results, for the Agency's operations, which closely link to the Agency's three strategic goals. Agency-level performance measures have been developed for each outcome. The performance measures, as identified below, will be influenced by the initiatives associated with each goal. However, many measures are indirectly linked to initiatives in the other goals and will be influenced by this relationship as well. For instance, a regulation or policy-related initiative in Goal 2 will often relate to the safety and soundness of the FCS, which would affect measures listed under Goal 1.

In addition to the Agency-level measures, each FCA operating unit has developed performance measures for its responsibilities. These measures are linked to the Agency-level measures and will be linked to all staff's individual performance standards. By linking the Agency's goals to performance measures and then linking those measures to staff performance standards, every employee in the Agency is encouraged to work toward achieving FCA's goals and objectives.

Development of the Agency's performance measures was guided by the balanced scorecard concept. Creating a "balanced" set of measures requires not only having measures for each desired outcome, but having measures that assess the outputs created and inputs used to achieve the desired outcomes. For example, while achieving the desired outcome or goal is important, consideration must be given to the cost (inputs) and the accuracy and integrity of the products (outputs such as examination reports, regulations, etc.) used to achieve the outcome. Otherwise, the desired result may be obtained, but in a cost-prohibitive, or possibly inappropriate, manner. A balanced group of measures allows management to assess the totality of the Agency's operations and provides the needed information from which future strategic decisions will be made.

Development of performance measures was accomplished with input from all Agency offices and the FCA Board and management. Currently, employees from each Agency office are developing plans that ensure the needed data will be available to accurately measure the Agency's performance. FCA will include the measures, along with the accompanying performance goals, in its FY 1999 Annual Performance Plan. That plan will be submitted to the Office of Management and Budget (OMB) along with the FY 1999 budget. The following table depicts the linkage between the Agency's goals and outcomes, and lists the measures developed to monitor FCA's performance.

GOAL 1:

Minimize Risk to the System's Customers/Shareholders, Investors, and Insurance Fund

Desired Outcome: Effective Risk Identification and Corrective Action

Measures To Be Employed:

1. The health of the FCS, as depicted by the percentage of FCS institution assets assigned to each of the 5 numeric CAMEL (capital, asset quality, management, earnings, and liquidity) ratings, i.e. 1 through 5 with 5 representing the poorest rating.

2. The number of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total number of direct-lender institutions.

3. The total assets of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total assets of direct-lender institutions.

4. The total assets of direct-lender institutions complying with all minimum capital ratios (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio) divided by the total number and total assets of direct-lender institutions.

5. The 3-year average Return on Average Assets of FCS institutions.

6. The percentage of examinations of FCS institutions meeting statutory examination frequency requirements.

7. Customer acceptance of FCA's examination and supervisory programs through the average of the ratings received on the following survey questions (1 to 5, with 1 being the highest):

   - The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.

   - The board and management believe the actions required by the enforcement document will assist (or have assisted) the institution in correcting identified weaknesses.

GOAL 2:

Implement Regulations and Policies that Ensure a Competitive and Dependable System of Credit and Financial Services for Agriculture and Rural America

Desired Outcome: Effective Regulation and Public Policy

Measures To Be Employed:

1. The percentage of regulatory projects completed compared with projects included in the Board-approved annual Regulatory Plan.

2. The percentage of regulations completed that utilized "special" customer service focus or features.[1]

3. The percentage of regulations that customers believe meet the regulation's original objectives.

[1] Special customer service focus or features include "fast-track," interim and "direct" final rules, Advance Notice of Proposed Rulemaking actions, meetings with or use of customer "focus groups" prior to proposing new rules, town meetings, hearings, negotiated rulemakings (Reg-Neg), etc.

GOAL 3:

Enhance FCA's Effectiveness, Efficiency, and External Relationships

Desired Outcome: Effective and Efficient Agency Administration

Measures To Be Employed:

1. Opinion received on FCA's financial statements is Unqualified versus Qualified, Disclaimer, or Adverse.

2. Number of material weaknesses noted in the Federal Managers' Financial Integrity Act letter from the Agency Chairman/CEO to the President.

3. The percentage of surplus between the Board-approved budget and actual expenditures.

4. Cost of FCA to FCS borrowers (FCA's actual expenses divided by average total System assets expressed as basis points).

Desired Outcome: Effective External Relationships

Measures To Be Employed:

1. The percentage of inquiries and complaints from Congress and the general public that:

   - Are answered within specified timeframes (e.g., 30 days).

   - Do not require supplemental responses due to inaccurate or incomplete information.

2. Congressional rejection of final FCA regulations and proposed legislative initiatives, or request for delay in FCA Board action on regulations.

3. Percentage of the Agency's annual budget request approved by Congress without conditions.

4. Percentage of external reports issued on time per Publication Schedule.

KEY EXTERNAL FACTORS AFFECTING STRATEGIC GOAL ACHIEVEMENT

Planning is based on imperfect knowledge about key factors that can determine success or failure. Therefore, business strategies must rely on predictions and probabilities. Success is a function of controlling those factors that are within an organization's power and wisely managing around those that are not.

In developing this Strategic Plan, FCA identified several external factors that could significantly affect achievement of one or more strategic goals. These factors are categorized into two areas —legislative and economic.

LEGISLATIVE

- **Financial Modernization—**Proposals to repeal the Glass-Steagall Act, which for more than 60 years has separated banking from commerce, combined with other reform measures, will likely convert the banking charter into what will be essentially a financial services charter. Without counterbalancing measures for the FCS to maintain a level playing field, its viability and, thus, its safety and soundness could be threatened.

- **New Funding Sources—**Giving commercial banks greater access to either the Federal Home Loan Bank System or the FCS as a source of funds poses a competitive threat to the System. This ultimately may raise safety and soundness concerns for the FCS.

- **Eliminating Government-Sponsored Enterprise (GSE) Status for the FCS—**Within the context of financial reform, a move to eliminate GSE status without significant reform measures for the System and other GSEs, while extending new powers to commercial banks, could seriously erode the System's competitive position in rural credit markets and increase the cost to farmers and ranchers.

ECONOMIC

- **Globalization Trends—**The natural boundaries for the world's commodity and financial markets are evaporating due to technological breakthroughs in the communication and production areas, as well as new and enhanced trade agreements. The new market environment for U.S. farmers will be characterized by greater price and income volatility and likely changes in the comparative advantage for some commodities. These developments suggest greater risk for agricultural lenders.

- **Fiscal and Monetary Policy—**Large swings in Federal spending for farm support programs — or their complete elimination — coupled with significant changes in the money supply can affect income levels and interest rates, leading to financial hardships for farmers and loan losses for lenders.

- **Recession—**A major economic recession, especially one that is worldwide, would be very damaging to agriculture as falling demand decreases price and income levels with no Federal safety net for protection. Trouble for agriculture could cause the FCS to be the only lender willing, and with a mandate, to finance agriculture.

- **Natural Forces—**Because the climate is unpredictable, world production levels are subject to wide swings, leading to occasional gluts and shortages, with closely associated peaks and valleys in prices. Boom-bust economics is a precursor for land price surges and relaxed lending standards, only to be followed by painful adjustments later. Thus, the health of agriculture and the FCS is inextricably connected to the environment and the earth's natural resources.

PROGRAM EVALUATIONS

Information gathering is an important part of the planning process continuum. In gathering the information necessary to develop FCA's Strategic Plan, we relied on numerous sources of information, both internal and external, to help develop the strategic goals and objectives for the Agency. Some examples are staff studies on systemic risk issues, outreach programs with System institutions, and Government reports on the agricultural economy. For performance measurement information, the Agency has systems to produce reliable performance and cost data to set performance goals and evaluate results. Several office-specific systems exist, and more will be developed as needs are identified in this initial year of implementing performance measures.

Three types of Agency audits are a primary source of information in planning development: self assessments, audits by the Agency's Inspector General, and audits from external parties, such as the General Accounting Office (GAO) or the Agency's external auditor. OMB guidance is used to periodically review and report on the Agency's systems for internal controls, financial management, information resources management, and budget control. Significant findings or identified weaknesses are integrated into the strategic planning process so that a clear link exists between these evaluation activities and the goals and objectives of the Strategic Plan.

On a broader scale, FCA's Inspector General and external auditors routinely evaluate significant programs within the Agency and issue reports on the findings. An Agency audit follow-up program, perfected in 1996, assures that timely decisions are made and actions are taken to correct problems and implement improvements identified in audits. The Inspector General, as a member of the Agency's Executive Leadership Team, uses that forum to keep program evaluation issues before Agency management. In addition, the Inspector General's Semiannual Reports to the Congress (March 31 and September 30) provide a vehicle to evaluate any issue, disagreement, or other problem identified by program evaluations. Evaluations by FCA's Inspector General have influenced improvements in Agency operations. Current and upcoming program evaluations include the following:

- Implementation of the legislative change permitting 18-month examination intervals for direct-lender Farm Credit System institutions.
- Effectiveness of FCA's enforcement activities.
- Effectiveness of FCA's rulemaking processes.
- Agency performance measures and related information systems. This evaluation will answer the following questions:

Do measures exist for all material activities?

Have metrics been established for satisfactory performance?

Is reliable information available to support the measurements?

Finally, the Agency has an extensive set of internal controls it uses to monitor its operations. Findings from all of these operational assessments are considered in the development of goals and objectives of the FCA Strategic Plan.

FCA BOARD AND EXECUTIVE LEADERSHIP TEAM CONCURRENCE

FCA is managed by a three-member Board and an Executive Leadership Team comprised of directors for all major operational areas. Members of the Executive Leadership Team below are charged by the Board to carry out the mandate of the FCA and implement programs as provided for in the statute and this Strategic Plan.

We, the Board and senior management of FCA, are committed to working with the employees of our Agency and with our constituents to make this Strategic Plan a reality.

The FCA Board:

Marsha Pyle Martin, Chairman

Doyle L. Cook, Member

Ann Jorgensen, Member

The Executive Leadership Team:

Donald P. Clark, Director
Office of Resources Management

Thomas G. McKenzie, Director
Office of Policy Development and Risk Control

Eileen M. McMahon, Director
Office of Congressional and Public Affairs

Jean Noonan, Director
Office of General Counsel

Roland E. Smith, Chief Examiner
Office of Examination

Eldon W. Stoehr, Inspector General
Office of Inspector General

APPENDIX A

ENVIRONMENTAL ASSESSMENT

The most significant environmental trends affecting FCA's mission are discussed below. These trends and the assumptions that follow were the foundation for formulating the goals and objectives in this Strategic Plan.

Financial Industry and Marketplace

During the planning period, agricultural lenders will face a changed lending environment and a new set of risks. These risks will arise because of the increased reliance of farm income on world market conditions and greater volatility in commodity prices as a result of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act) and resulting planting adjustments. Other risks will arise from increasingly aggressive competition among traditional and non-traditional lenders for good loans.

Historic changes to U.S. farm policy in 1996 caused agricultural income to depend more on world market conditions. Export of agricultural products is vital to the economic well-being of the U.S. farm sector. The year-to-year value of farm exports is subject to forces that are both diverse and unpredictable. These forces include U.S. foreign policy, monetary policy, economic conditions, and weather. Risk is increased when growth in mortgage lending is fueled by factors other than the income-generating capacity of real estate, such as speculative purchases of real estate or unsustainable high commodity prices. Finally, the record high feed costs paid by livestock producers in 1996 are an indication that not all sectors in the farm economy benefit from high commodity prices.

Farm Credit System

Tax law interpretations, new technology, competitive forces, and other developments in the financial services industry will continue to lead to more mergers and consolidations in the FCS. The speed of these changes will depend on such things as whether Agricultural Credit Associations are permitted a bifurcated tax structure and are granted new authorities for lending and financial services and technological advancements in the agricultural and financial industries. Although consolidation will result in fewer FCS institutions at both the wholesale and retail levels, the workload for FCA may not decrease proportionately over the planning period because larger, more complex institutions will likely require closer supervision. Consolidation is a key issue for FCA, as risk becomes concentrated into fewer, larger, and more complex institutions at the bank and association level.

Technological Changes

The explosion of data communication networks will contribute to the gradual disappearance, throughout this planning period, of the "data center" as it is known today. Increasingly, computing resources will be distributed throughout the organization and will require new refined electronic controls to replace the traditional paper-based trails used today.

Increased use of electronic banking through the use of worldwide communication networks and sophisticated data management capabilities will make possible a whole new array of services and products for financial vendors. Similar technology will enable FCA to regulate the FCS with less paper flow and more off-site examination. Opportunities also exist to use technology to electronically transmit data and/or communicate between System institutions and FCA.

FCA will need to continue to address the risk issues associated with the millennium date change, both internally and with the FCS. FCA has a plan in place to correct the date change for all information systems prior to the year 2000. The FCS has begun to deal with the problem; however, many other forward looking organizations that recognized the problem early have found that the year 2000 problem is more massive and costly than they predicted. The early recognition of the problem by the System offers some promise that an effective solution will be found in time.

Major breakthroughs in genetic research and new production methods will not only affect the varieties of agricultural products grown but the way in which they are produced and where they are produced. These developments will change the risk profile of System institutions and pose new challenges for FCA examiners.

Legislative and Regulatory Initiatives

The 1996 Farm Act introduced an entirely new price and income support structure for agriculture by offering fixed payments to producers for 7 years, regardless of current market prices. This legislation eliminated all deficiency payments and set-aside acreage requirements, giving producers the flexibility to grow whatever they want with few restrictions. The result of this is potential additional risk to those institutions for which FCA has oversight responsibility. FCA must be ever vigilant in its monitoring and assessment of additional risk.

Changes in the agricultural economy, the financial industry, and FCS structure will continue to drive FCA's regulatory and policymaking agenda during the planning period. Emphasis will continue to be placed on reducing regulatory burden, client and customer satisfaction, and the increased use of electronic communications technology to encourage public participation in the rulemaking process. Emphasis will also be placed on developing comprehensive educational tools after the adoption of significant regulations. These materials will include key topic summaries for Congress, congressional staff members, and other targeted audiences.

The FCA Board will promote innovative approaches to the rulemaking process that will include more user-friendly regulations that explain complex issues in layman's terms. Major regulatory initiatives that the Agency will undertake in the future include a renewed project to solicit comments from the public on outdated and burdensome policy and regulatory requirements. Finally, the Farm Credit Act is now 26 years old and needs a redesign to effectively address changes in agriculture and rural America, clarify ambiguities, and remove outdated or unnecessarily burdensome or antiquated provisions.

Budget and Staffing Issues

FCA will continue to consider cost reduction measures and respond to the Government's streamlining initiatives under the NPR. In 1996, FCA implemented a Staffing Plan which is responsive to the NPR report *Creating a Government that Works Better and Costs Less*. The Staffing Plan identified many changes that will enable the Agency to function more efficiently. Several offices were restructured, and 67 positions and 2 management layers have been eliminated.

FCA, however, must continue to consider FCS corporate restructuring applications; examine and regulate larger, more complex institutions; and implement appropriate and needed regulations. A deep economic recession, a major financial crisis, or widespread distress in the agricultural sector could place an acute burden on the Agency's available resources. Therefore, FCA must remain alert to any threat to its ability to carry out its mission and be prepared to adjust resources as the need arises.

Maintaining and enhancing employee satisfaction and, consequently, improving Agency productivity is a priority. FCA will utilize its talent base to the maximum advantage. Cross-training, rotational assignments, and new applications of information and communication technology will allow the Agency to address changes in the FCS in a timely and effective manner and preserve FCA's investment in current staff.

PLANNING ASSUMPTIONS

FCA used the information in the environmental assessment to conduct an analysis of the Agency's internal strengths and weaknesses, as well as external opportunities and threats. This analysis formed the foundation for the planning assumptions listed below. It also helped define the Agency's goals for the future.

External Assumptions

Legislative and Regulatory Changes

The FCS will pursue expanded legislative authorities to create new business opportunities.

Commercial bankers will resist any perceived expanded authorities by the System.

The role of GSEs will continue to be evaluated by Congress and the Administration.

There will be a need for clear and persuasive explanations of FCA's regulatory and policy actions and rationales, and proactive communication to Congress and important publics.

Commercial banks will continue to seek access to FCS funding—a proposal that would pose new risks, management challenges, opportunities for the FCS, and regulatory demands on FCA.

There will be continued pressure on the System to advance social purpose programs.

Expansion of the Federal Home Loan Bank charter will intensify competition for the System, presenting challenges to the System and FCA.

The direction and future of the Farm Services Agency will continue to be debated, raising the possibility of FCS and FCA involvement.

Modifications are needed in the Farm Credit Act to permit greater clarity in interpretation without expanding the System's authorities.

Financial and Agricultural Industries

Overall net farm income, after adjusting for inflation, will stay at a relatively flat level during the planning period, but with significant variations among commodity types and geographic areas.

The riskier environment brought about by a reduced Government role will lead to greater year-to-year price and income volatility, making debt repayment capacity more uncertain. This environment will lead to increased use of risk management tools, some of which will be new and will require both farmers and lenders to acquire new skills.

Reduced trade barriers and growth in foreign markets will promote globalization and provide new and expanded markets for agriculture.

Portfolio concentrations in the FCS that are sensitive to export market or currency fluctuations contain inherent risk exposure.

The agricultural industry will see moderate growth in loan demand, reduced repayment capacity margins, and gains in real farmland values (i.e., adjusted for inflation).

Interest rates will be marked more by short-term volatility than by significant upward or downward trends.

The traditional customer base of the FCS, the midsized family farm, will continue to migrate toward a bimodal distribution of large and small operators, significantly changing the way the System conducts its business.

Increasing use of new and complex financial instruments will continue to present challenges and risks.

Farm Credit System

Structure

Continued mergers and consolidations in the FCS will concentrate risk in fewer and larger institutions.

Associations will become more independent of Farm Credit banks, pursue strategic alliances with each other, and increasingly become the focal point for risk in the FCS.

Farm Credit banks will focus on wholesale lending and forming strategic alliances with non-System organizations to provide new financial services to customers.

The majority of structural changes in the System will involve Federal Land Bank Associations consolidating and converting to Federal Land Credit Associations, affecting examination resource needs.

Competition

FCS institutions will face intense competitive pressures from both traditional and nontraditional agricultural lenders, resulting in innovative System responses and corresponding regulatory challenges.

New lending initiatives and related service programs, combined with increasing emphasis on growth, will magnify intra-System competition.

Market Share

The FCS's balanced marketing efforts will be crucial to its long-term success. During a stable agricultural economy, competition for good loans will increase significantly for the FCS. Maintaining market share will be difficult.

Consolidation in the commercial banking industry may, on the other hand, create opportunities for the FCS to increase market share.

Desire for growth and market share within the FCS may cause it to relax lending standards.

Public Information

An effective, well-rounded education and information program will enhance public and constituent understanding of FCA's role and value as an independent regulator.

FCA will continue to address misinformation about System authorities and Agency actions.

Technological Changes

Technology will continue to develop at a fast pace with significant advancement in hardware, software, and telecommunication capabilities.

Secure electronic commerce on the Internet will change the way financial products and services are delivered and money is exchanged.

The FCS will aggressively pursue technology-based, streamlined lending practices, many of which will challenge existing business lending practices and require regulatory adjustments.

Farmer Mac

Farmer Mac's improved prospects for viability and implementation of new program authorities will require increased FCA oversight and resources.

Internal Assumptions

Regulatory and Examination Issues

The Agency will continue its commitment to effective regulations and policies.

The Agency will continue to emphasize ongoing, risk-based examinations and updated practices to ensure timely identification of risks and efficient use of resources.

The Agency will continue to emphasize reliable, meaningful disclosure as a means of increasing management's and boards of directors' accountability to stockholders and to ensure that investors are provided the necessary information to keep appropriately informed.

Management Systems and Operations

Reliable financial management records and information systems will provide an opportunity for improving management decisionmaking.

Reengineering of Agency processes will continue to increase efficiencies and effectiveness.

Meaningful performance measures will improve Agency results and allow accurate and appropriate evaluation of the FCA Strategic Plan.

The effectiveness of the Agency will improve as all employees are involved and better understand their roles in implementing the FCA Strategic Plan.

Public scrutiny of the Agency's budget will continue.

Technological Changes

The Agency's client/server computer network environment will continue to provide opportunities for increased efficiency and effectiveness; costs and security risks will be continuing challenges.

New technology will provide an opportunity for alternative work environments and cultures.

Enhanced computer skills will allow improved use of new technology.

Technological capabilities will be updated to meet business needs.

Electronic access to FCS information will enhance the examination process.

Human Resources Management

FCA staff will continue to be experienced, talented, and highly regarded.

Staff skills will need to keep pace with emerging issues and changing priorities.

Contingency planning will position FCA to respond to changing conditions.

A competitive compensation level will enable FCA to attract and retain high quality employees.

Striking a balance between the Agency's commitment to a family-friendly workplace and Agency needs will present challenges and opportunities.

Employees who are committed and productive will continue to be recognized.

Recommendations from employee task forces and resulting decisions will be vital to ongoing management planning.

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