Semiannual Report to Congress
on
Farmer Mac

(Federal Agricultural Mortgage Corporation)

by the

Office of Secondary Market Oversight
Farm Credit Administration

as of

December 31, 2003

(Revised as of May 20, 2004)

Contents

Preface

This report summarizes the Federal Agricultural Mortgage Corporation's (Farmer Mac or Corporation) financial reports and program results as of December 31, 2003, and the recent regulatory environment affecting Farmer Mac.

The Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture requested[1] that the Farm Credit Administration (FCA or agency), in a cooperative effort with the United States Department of the Treasury (Treasury), monitor, review, and report semiannually on the operations and financial condition of Farmer Mac. The committees requested that the semiannual reports be provided during "the capital deferral period (defined below) and beyond, if necessary." At the time of the congressional request in 1995, Farmer Mac's capital had been steadily eroding, and efforts to build program volume had met only limited success.

The Farm Credit System Reform Act of 1996 (1996 Act) made significant revisions to Farmer Mac's statutory charter. Among these were new program-related authorities and the mandate that Farmer Mac recapitalize to a core capital[2] level of at least $25 million within 2 years of enactment of the 1996 Act. The revisions also delayed the implementation of a Risk-Based Capital Rule for at least 3 years, requiring the rule to be effective not before February 10, 1999 (a.k.a. the "capital deferral period"). Although the capital deferral period has expired, FCA, as a matter of practice, continues to prepare the semiannual report to Congress and provides a copy to the Treasury for review and the opportunity to comment prior to its release.[3]

Farmer Mac is a Government-Sponsored Enterprise (GSE) providing liquidity and additional lending capacity for agricultural lenders through a secondary market arrangement for agricultural and rural home mortgages. As a publicly traded corporation, Farmer Mac is subject to certain provisions of the Securities and Exchange Acts of 1933 and 1934, and regularly files required reports and makes public disclosures of its financial condition and performance that are required by Securities and Exchange Commission (SEC) rules. In addition, the FCA requires Farmer Mac to report quarterly on financial performance consistent with regulatory requirements, which are similar to the quarterly Call Reports required by other federal financial regulators.[4]

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[1] The request was by letter to FCA dated December 22, 1995, from the Chairmen of the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture.

[2] Core capital is defined as the sum of the following, as determined in accordance with Generally Accepted Accounting Principles (GAAP): (1) the par value of outstanding common stock, (2) the par value of outstanding preferred stock, (3) paid-in capital, and (4) retained earnings.

[3] This report and other information about how the agency fulfills its role as an arms-length independent regulator of Farmer Mac and the Farm Credit System banks and associations are available on the agency's Web site at: www.fca.gov.

[4] "Federal financial regulators" generally refers to the Office of the Comptroller of the Currency and the Office of Thrift Supervision, which operate independently within the Treasury, the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, and the National Credit Union Administration.

Executive Summary

New authorities granted to Farmer Mac in the 1996 Act (detailed below under Corporate Profile and Historical Perspective) spurred successful new product development and rapid growth. On- and off-balance sheet program activity is now $5.8 billion. Non-program investments of nearly $1.7 billion resulted in Farmer Mac managing or guaranteeing assets of $7.5 billion at December 31, 2003.

Program growth since 1996 contributed to an equally rapid evolution in the Corporation's risk profile – including an increase in the size and complexity of financial and operational risks that must be managed by Farmer Mac. In response, FCA, as the safety and soundness regulator, increased examination and oversight activities of the Corporation over the past 18 months to ensure that Farmer Mac's risk management systems are appropriately adjusted to the otherwise positive development of a 37-percent average annual growth rate in program activity over the past 5 years.

The most recent FCA examination as of August 31, 2003, was presented to the Farmer Mac Board at its regularly scheduled meeting in February 2004. In addition to increased onsite examination activities, offsite monitoring and oversight of Farmer Mac also was intensified, and additional permanent resources were budgeted for continued oversight enhancements within the agency's Office of Secondary Market Oversight (OSMO).

The General Accounting Office (GAO) published a report on Farmer Mac in October 2003. The report recognized progress made by Farmer Mac but noted that greater attention to risk management, mission, and corporate governance was needed. The report also recognized FCA oversight work on Farmer Mac, but noted various challenges the agency continues to face. The GAO provided recommendations for Farmer Mac and separate recommendations for enhanced oversight by the FCA. The agency responded to the GAO report in a December 11, 2003, letter to several committees of Congress (see Appendix 4 attached), agreeing to address the oversight recommendations.

The rapid growth rates experienced by Farmer Mac in recent years moderated in 2003, with program assets increasing only 5 percent over 2002. Net income[5] grew nearly 18 percent, but core earnings were up less than 1 percent, reflecting the more moderate increase in program volume.[6] Capital exceeded minimum statutory and regulatory requirements throughout the year. At yearend, nonperforming assets were down as a percent of program activity at 1.39 percent. Nonperforming assets averaged 1.85 percent of program activity over the last 3 years. Interest rate risk remained at moderate levels throughout 2003.

The FCA's recently revised Five-Year Strategic Plan enhanced focus on Farmer Mac's achievement of its public mission as a GSE. Two regulatory initiatives affecting Farmer Mac are included on the agency's portion of the Unified Agenda of Federal Regulations. They are: A proposal for "Non-Program Investments and Liquidity Standards," approved by the FCA Board at its April 2004 meeting, and "Revisions to the Risk-Based Capital Stress Test," planned for Board consideration in late 2004.

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5 "Net Income" refers throughout this report to net income available to shareholders, which is net of preferred stock dividends in all years since 2002 when preferred shares were first issued.

6 Core earnings, reported for the first time for the quarter ended March 31, 2003, is a non-GAAP measure of financial results that excludes the effects of unrealized gains and losses on available-for-sale securities and financial derivatives.

Corporate Profile and Historical Perspective

Farmer Mac is a stockholder-owned, federally chartered instrumentality of the United States created by the Agricultural Credit Act of 1987, which amended the Farm Credit Act of 1971 (Act). Farmer Mac was established to create a secondary market for agricultural real estate mortgage loans, including rural housing loans (qualified loans). The Corporation is authorized to provide liquidity to the agricultural mortgage market by: (1) purchasing newly originated qualified loans directly from lenders on a continuing basis through its "cash window," (2) exchanging qualified loans for securities issued and guaranteed by Farmer Mac (Farmer Mac Guaranteed Securities) backed by such loans in "swap transactions," and (3) purchasing portfolios of "existing loans" on a negotiated basis. Qualified loans purchased by Farmer Mac are aggregated into pools that back Farmer Mac Guaranteed Securities and may be sold in the capital markets. Farmer Mac has elected to retain, rather than sell, the majority of its own securitized loan pools.

Among the 1996 Act's major changes were: (1) authorizing Farmer Mac to act as a pooler of qualified loans, (2) eliminating the "subordinated interest" on loans - a requirement that the seller accept the first dollar losses on loans purchased by Farmer Mac up to 10 percent of the loan amount, (3) the phasing-in of higher minimum and critical capital requirements, and (4) postponing implementation of the risk-based capital requirements until after February 10, 1999.

The 1996 Act permitted the Corporation to accept 100 percent of the credit risk on loans. With that new authority, in 1998 Farmer Mac introduced a product that essentially insures credit risk on loans – the Long-Term Standby Purchase Commitment (Standby). The Standby program has gained acceptance among the institutions of the Farm Credit System (FCS or System), a market that had shown little interest in selling loans into the secondary market previously.

Farmer Mac stock is traded on the New York Stock Exchange (NYSE) under the symbols "AGMa" (NYSE:AGM) for Class A and "AGM" for Class C shares (detailed below). Farmer Mac has three classes of common stock:

1. Class A Voting Common Stock may only be held by banks, insurance companies, and other financial institutions that are not institutions of the FCS. By statute, no owner of Class A stock may hold more than 33 percent of the outstanding shares of Class A stock.
2. Class B Voting Common Stock may only be held by institutions of the FCS and are not exchange-traded. There are no restrictions on the maximum purchase or holdings of Class B stock.
3. Class C Non-Voting Common Stock has no ownership restrictions.

The Farmer Mac Board of Directors (Board) is comprised of 15 members. Five are elected by Class A common stock shareholders. Five are elected by holders of Class B common stock. The President of the United States appoints the remaining five, and one of these is appointed by the President as chairperson. A table identifying the current Board is found in Appendix 3. The Board has organized several standing committees and appoints other ad hoc committees, which oversee Farmer Mac's management and operations.

In the post-Sarbanes-Oxley Act environment, the appropriateness of the Agricultural Credit Act's requirements on Farmer Mac's Board structure has been questioned. The recent GAO report noted the difficulty Farmer Mac could have complying with the independence requirements in NYSE listing standards (see GAO Report: GAO-04-116, page 55). Notably, in response, the Board and, in particular, the Audit Committee have increased their activity in the areas of independent review and reporting processes in recent months.

Farmer Mac is regulated by the FCA through OSMO, which was established in 1991 as required by Public Law 102-237. OSMO provides for the examination and general supervision of Farmer Mac's safe and sound performance of its powers, functions, and duties.

As an SEC registrant, the Corporation regularly files reports, including 10K, 10Q, and 8K forms, and is required by regulation to forward to the FCA copies of all substantive SEC correspondence, including these reports. Further, Farmer Mac is subject to the securities industry self-regulatory standards of the NYSE.

Farmer Mac's statutory purpose, as defined by Section 701 of the Agricultural Credit Act of 1987,[7] is:

> *"(3) to provide for a secondary marketing arrangement for agricultural real estate mortgages that meet the underwriting standards of the corporation —*
>
> > *(A) to increase the availability of long-term credit to farmers and ranchers at stable interest rates;*
> > *(B) to provide greater liquidity and lending capacity in extending credit to farmers and ranchers; and*
> > *(C) to provide an arrangement for new lending to facilitate capital market investments in providing long-term agricultural funding, including funds at fixed rates of interest; and*
>
> *"(4) to enhance the ability of individuals in small rural communities to obtain financing for moderate-priced homes."*

Farmer Mac, by statute, in extreme circumstances may issue obligations to the Treasury in an amount up to $1.5 billion to fulfill its guarantee obligations. However, the recent GAO report notes that the Treasury believes the authority only applies to guarantees on securities held by investors, not those held by Farmer Mac. Currently, Farmer Mac retains roughly 42 percent ($2.4 billion) of its guarantee obligations in portfolio and believes the Treasury backing extends to this retained portfolio.

Major Legislative Milestones

- Agricultural Credit Act of 1987 creates Farmer Mac
- 1991 amendments to the Act – enhanced regulatory oversight
  - Established statutory minimum capital requirements
  - Established FCA Office of Secondary Market Oversight
  - FCA required to establish Risk-Based Capital standards

[7] See Appendix 5 for full text of the Corporation's statutory purpose.

- 1996 Act – paved the way for viability and growth
  - Permitted Farmer Mac to purchase loans directly
  - Abolished the 10 percent subordinated interest requirement

To illustrate the pivotal effect of the 1996 Act, Farmer Mac's first year of positive earnings came in 1996, when net income was $777,000. Net income generally has risen as rapidly as program growth since then and reached $25 million at yearend 2003, representing a 5-year average annual growth rate of 35 percent.

Core Programs and New Product Development

The Corporation conducts its business primarily through two programs, Farmer Mac I and Farmer Mac II. In the Farmer Mac I program, Farmer Mac purchases or commits to purchase qualified loans or securities backed by qualified loans. Under the Farmer Mac II program, Farmer Mac purchases the guaranteed portions of loans backed by the United States Department of Agriculture.

Farmer Mac recently introduced the Participation Swap product (P-Swap).[8] Under the P-Swap program, Farmer Mac buys 100 percent participation interests in qualified loans for which the seller receives Agricultural Mortgage-Backed Securities (AMBS). The P-Swap product is economically identical to the Standby program for Farmer Mac. However, by transforming the asset from a loan into an investment, P-Swaps offer the opportunity for FCS lenders to hold AMBS as investments and, thus, not be subject to premiums that would otherwise be assessed on loan balances by the Farm Credit System Insurance Corporation (FCSIC or Insurance Corporation).[9] More details on the impact of the P-Swap program are below in the section labeled Assets: Program Activity.

Organizational Structure

Farmer Mac's daily operations are led by its President and Chief Executive Officer (CEO) and a core team of five vice-presidents: Chief Financial Officer, General Counsel, Controller, Agricultural Finance (primarily a marketing/business development position), and the recently created position of vice-president of Mortgage Servicing, whose primary function is to manage relationships with sellers and servicers with the objective of limiting delinquencies, acting on servicing actions, and managing acquired property. The Corporation employs 36 people, and all but one are located at the Washington, D.C. headquarters. The one field employee directs collateral valuation out of Fairfield, California – a region with a significant concentration of Farmer Mac program activity. The lines of reporting for these executives are all direct to the CEO, as illustrated in the organizational chart below.

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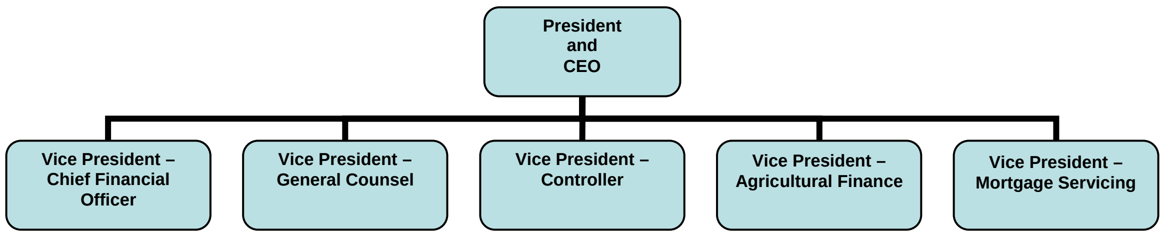
[8] "P-Swap" is not a product name applied by Farmer Mac, but rather simply used here as an ad hoc abbreviation.

[9] Established by the Agricultural Credit Act of 1987 as an independent U.S. government corporation, FCSIC's 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; however, the chairman of the FCA Board is not permitted to serve as the chairman of the FCSIC Board of Directors.



Ownership and Control

At yearend 2003, one Class A stockholder, Zions First National Bank, held significant quantities of Class A common stock with holdings of 31.3 percent (1.7 percentage points under the statutory limit). There were just over one million shares of Class A common stock outstanding.

Major Class B common stockholders of the Farm Credit System include: Agribank, FCB, St. Paul, MN, (40.3 percent); U.S. AgBank, FCB, Wichita, KS, (20.0 percent), and AgFirst Farm Credit Bank, Columbia, SC, (16.8 percent). There were just over 500,000 Class B shares issued and outstanding.

The top holders of Class C non-voting common stock among directors and management[10] of Farmer Mac were Zions Bancorporation (14.6 percent), CEO Henry Edelman (5.8 percent), Chief Financial Officer Nancy Corsiglia (2.3 percent), and Vice President-Agricultural Finance Tom Stenson (1.2 percent).[11] Outstanding shares of Class C common stock were just over 10.5 million at yearend. Together, all directors and executive officers owned 26.9 percent of Class C shares.

[10] This sentence, including the following footnote, was revised as of May 20, 2004. The phrase “among directors and management” was added, and the previous footnote 10 was revised as now shown in footnote 11 below. The revision was made to clarify FCA’s focus on insider ownership of Farmer Mac, not all top holders of Class C non-voting stock. We were advised that several large investors hold higher percentages than the insiders included here. For example, Mr. Edelman would be the fifth largest holder of beneficial ownership of Class C non-voting stock, Ms. Corsiglia the thirteenth, and Mr. Stenson the twenty-second.

[11] Percentages include common stock that may be acquired within 60 days of April 21, 2004, through stock options. We include Zions Bancorporation in the list because it employs Farmer Mac Director, W. David Hemingway, and is also a “related entity” to Farmer Mac as defined by the SEC. However, we note Mr. Hemingway disclaims ownership of the Zions Bancorporation shares. For more information, see SEC-filed proxy statement dated April 21, 2004.

Financial Condition and Program Performance

Highlights

For the year ended December 31, 2003:

Capital

- Net worth increased 16.2 percent to $213.3 million from $183.6 million at yearend 2002.
- Statutory minimum core capital requirement was $142.0 million. Core capital available to meet this requirement was $215.5 million,[12] or 152 percent of the statutory requirement.
- Risk-based regulatory capital requirement was $38.8 million. Regulatory capital available to meet this requirement was $237.6 million.

Operations and Program Portfolio

- Net income for the year was $25 million, a 17.5-percent increase over 2002. However, core earnings were relatively flat, up 0.7 percent (more on core earnings below).
- Program-related activity grew to $5.80 billion from $5.53 billion at yearend 2002, representing an increase of just under 5 percent. The increase was driven by a 10-percent increase in off-balance sheet activity, which offset a slight decline in on-balance sheet activity. Non-program investment assets were $1.7 billion, up 8.6 percent.
- Standby volume outstanding totaled $2.3 billion, down 12.4 percent from 2002 due to the shift of volume from Standbys into the AMBS portfolio through the P-Swap product (explained under "Core Programs and New Product Development" above). Standby volume now represents 40.5 percent of all (off- and on-balance sheet) Farmer Mac program activity.

Portfolio Risk

- Nonperforming asset volume at yearend 2003 amounted to 1.39 percent of post-1996 program volume outstanding,[13] compared to 1.56 percent at December 31, 2002.
- Chargeoffs net of recoveries during 2003 were $5.2 million, up from $4.1 million in 2002 and $2.2 million in 2001. There were no chargeoffs in 2000.

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[12] The difference between core capital and net worth is attributable to other comprehensive income (OCI), which is added back to calculate core capital. OCI represents unrealized net income/losses on certain available-for-sale securities and financial derivatives in accordance with Financial Accounting Standards Board statements (FASB) 115 and 133.

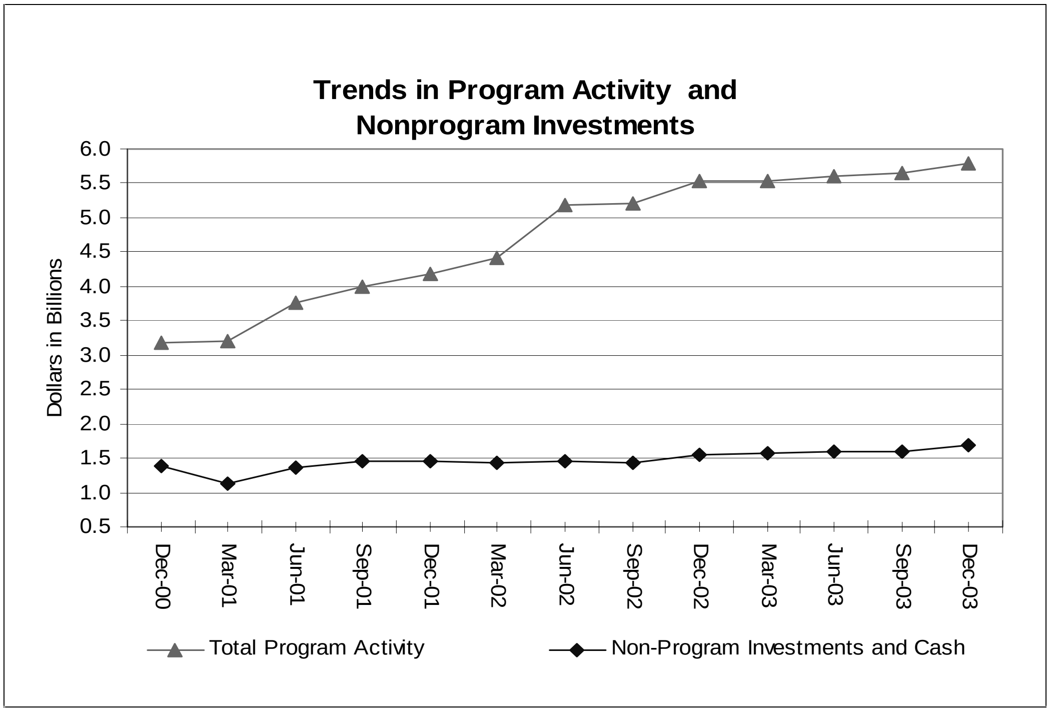
[13] Post-1996 Act Farmer Mac I loans purchased or guaranteed that were 90 days or more past due, in foreclosure, in bankruptcy, and Real Estate Owned (REO).

- The allowance for losses increased to $22.1 million at yearend 2003, compared to $20.0 million at December 31, 2002.

Assets: Program Activity

Growth in program activity moderated in 2003 as shown in Chart 1. On- and off-balance sheet program activity continued an upward trend, reaching $5.796 billion at December 31, 2003, an increase of $268 million, or 4.9 percent, from December 31, 2002. The growth in 2002 over 2001 was 32 percent. On-balance sheet activities decreased 1.4 percent in 2003, while off-balance sheet program activities increased by 10 percent.

CHART 1



On-balance sheet program assets include AMBS,[14] loans, REO, and AgVantage bonds.

Farmer Mac continues to hold more loans and AMBS in portfolio than they sell to investors. This is the result of Farmer Mac adopting a retained portfolio strategy, i.e., AMBS are retained when the estimated present value of the net interest income to be generated over the life of the AMBS is greater than the potential one-time gain on the sale of AMBS. There have been few sales of AMBS since 1998.

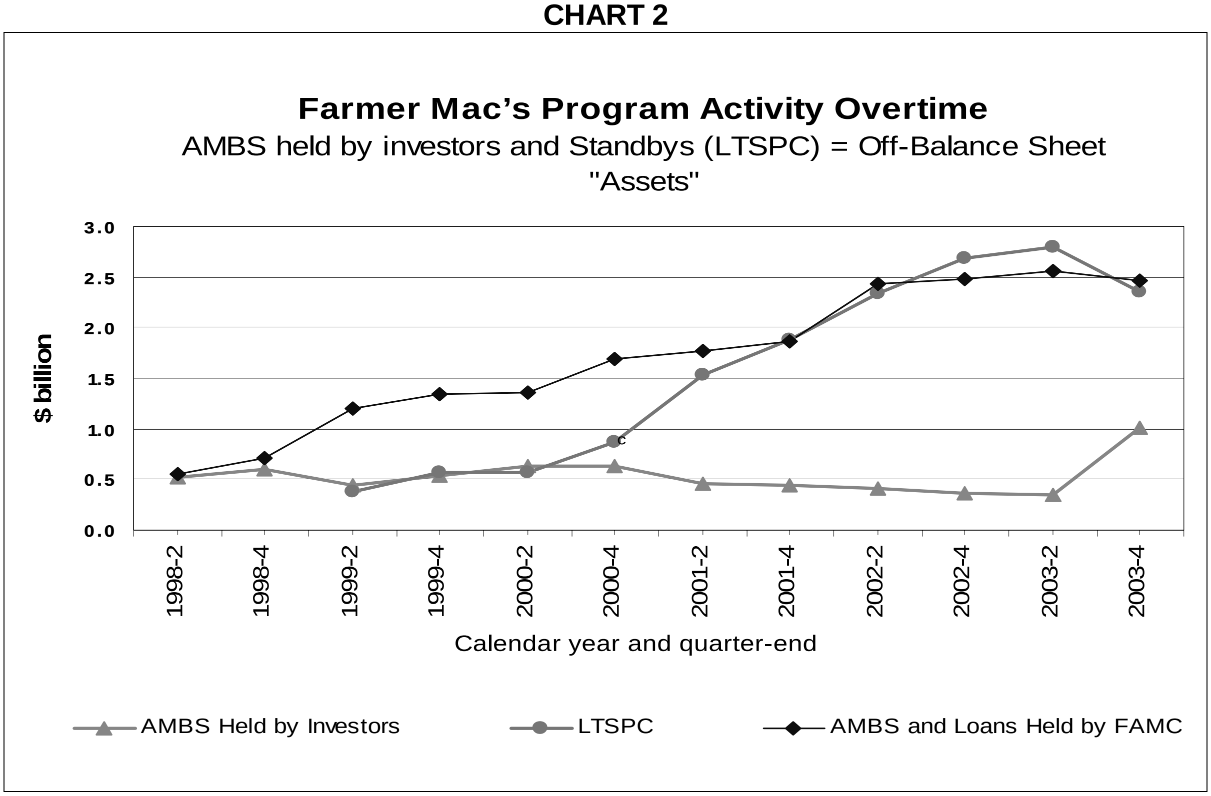
Total off-balance sheet program activity was $3.35 billion at December 31, 2003, up from $3.05 billion at yearend 2002. Farmer Mac's Standby program decreased by $333 million, or

[14] AMBS are of two types based on different kinds of agricultural mortgages. Farmer Mac I is comprised of mortgages secured by the first liens on agricultural real estate or rural housing loans purchased from lenders and represents the primary source of Farmer Mac business activity. Farmer Mac II consists of the portion of certain types of loans guaranteed by the U.S. Department of Agriculture.

12.4 percent, due to the transfer of volume from Standbys to AMBS under the P-Swap program. Under the Standby program, a financial institution acquires a Farmer Mac guarantee on a defined pool of loans for an annual fee paid to Farmer Mac. The institution retains the loans in-portfolio. Farmer Mac's guarantee is to purchase loans from the pool under certain specified conditions at the request of the institution. While the Standby program is available to agricultural lenders generally, System institutions account for all Standby program volume to date. See Appendix 2 for detailed information on both on- and off-balance sheet program activity and Chart 2 for a summary breakout of total program activity.

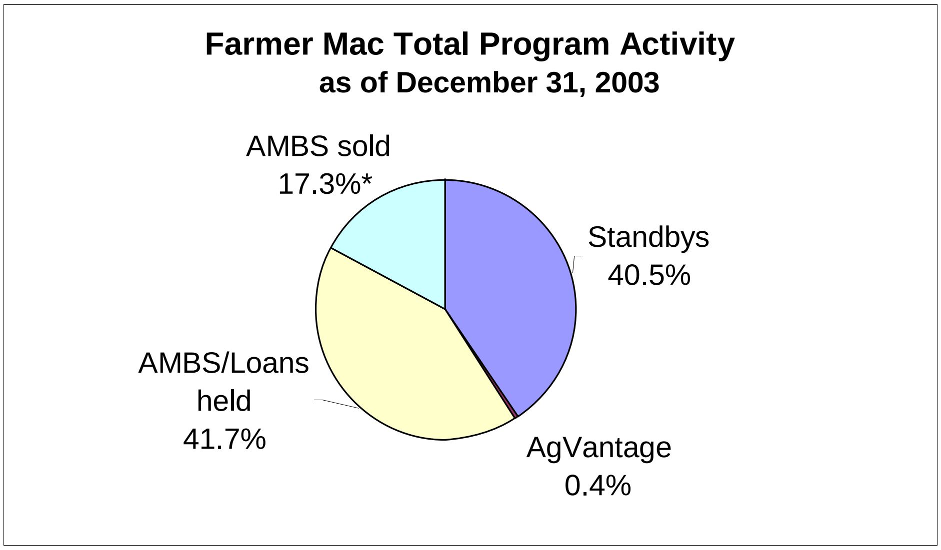
In Chart 2 below, note that off-balance sheet AMBS (those held by investors), grew 217 percent in 2003, or over $700 million. This sharp growth resulted from the transfers from Standbys to AMBS into the new P-Swap program. Under the transfers, Farmer Mac replaces Standby guarantees with an AMBS security in exchange for the purchase of 100-percent loan participations by Farmer Mac in the underlying loans of the FCS association. Like the Standby program, the AMBS carries a Farmer Mac guarantee, thus affording the same regulatory capital treatment at the association as under the Standby program, i.e., a 20-percent risk-weighting for purposes of calculating regulatory capital.

CHART 2



As illustrated in the pie chart below, Farmer Mac holds 42 percent ($2.4 billion) of program assets in portfolio. This portion of the portfolio is the most profitable, though the practice of holding significant program volume on-balance sheet by GSEs has been criticized recently by the Federal Reserve Board. The recent GAO report also questions the practice and suggests that Farmer Mac's retained portfolio strategy has limited the development of a liquid secondary market for AMBS.

CHART 3



*Over 70 percent of this volume is the result of the P-Swap program.

Assets: Non-Program Investments (Liquidity Portfolio)

A liquidity portfolio is maintained by the Corporation to ensure the ability to meet maturing debt obligations in the event of a short-term disruption in the capital markets that prevents issuance of new debt. The liquidity portfolio consists of non-program investments - defined as investment securities, cash, and cash equivalents.

Farmer Mac's program-related growth and relatively stable level of non-program investments have steadily reduced its dependence on earnings from non-program investments over the last several years. At December 31, 2003, non-program investments amounted to 29 percent of program assets (on- and off-balance sheet assets). This compares to 48 percent at December 31, 1999, and 90 percent at yearend 1998. The relationship between program and non-program investments activity is depicted in Chart 1 above. As the proportion of program activity has grown relative to non-program investments, net interest income (NII) from non-program investments to support net income before taxes (NIBT) decreased to under 30 percent. Prior to 2000, NII from non-program investments constituted half or more of NIBT.

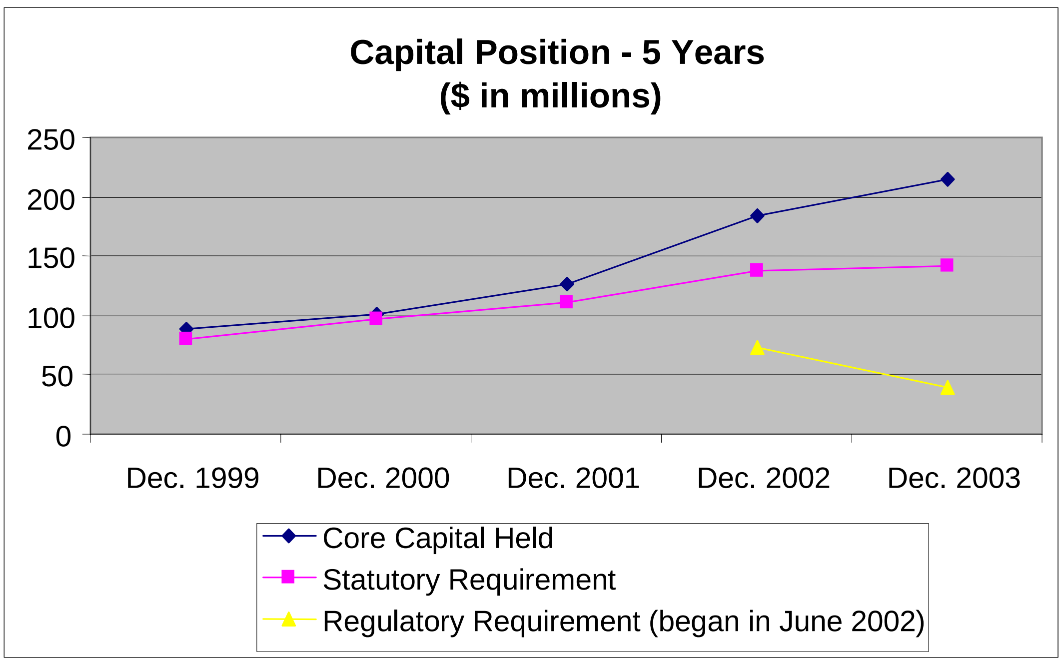
FCA examines and monitors Farmer Mac's non-program investments on an ongoing basis to ensure that non-program investments primarily serve the Corporation's statutory mission and are not used solely for income generation. The FCA Board plans to address non-program investments and liquidity through a Notice of Proposed Rulemaking in 2004; see the Regulatory Activities section for further details.

Capital

The Corporation's core capital remained above the statutory minimum prescribed by Section 8.33 of Act. At January 1, 1999, statutory minimum core capital requirements became fully phased in at 2.75 percent of on-balance sheet assets and 0.75 percent of off-balance sheet guarantees. Farmer Mac's statutory minimum core capital requirements and the amount of current core capital in excess of the requirements are set forth in the Table 1 below for the past 5 years.

FCA's Risk-Based Capital rule for Farmer Mac was published on February 21, 2001, and became effective on May 23, 2001. In accordance with the rule's implementation timeline, Farmer Mac made its first official submission of the Risk-Based Capital Stress Test (RBC model) for June 30, 2002, and has been in compliance with the regulatory capital[15] requirement in each quarter since that date. Farmer Mac's application of the RBC model as of December 31, 2003, produced a regulatory capital requirement of $38.8 million. Farmer Mac's regulatory capital to meet this requirement was $237.6 million. Chart 4 illustrates the Corporation's core capital levels and the statutory and regulatory minimums referenced since 1999.

CHART 4



The information in the chart is set forth in tabular format below to provide the numbers underlying the chart.

[15] Regulatory capital is defined as core capital plus the allowance for losses, as determined in accordance with GAAP.

Table 1

FARMER MAC COMPLIANCE WITH CAPITAL REQUIREMENTS AND ENFORCEMENT LEVEL

($000,000)

	Statutory Capital			Regulatory (Risk-Based) Capital			
Date	Core Capital	Required Core Capital	Excess Core Capital	Regulatory Capital	Required Regulatory Capital	Excess Regulatory Capital	Enforcement Level[16]
12-31-99	88.8	79.6	9.2	N/A	N/A	N/A	I
12-31-00	101.2	96.9	4.3	N/A	N/A	N/A	I
12-31-01	126.0	110.5	15.5	N/A	N/A	N/A	I
12-31-02	184.0	137.2	46.8	204.0	73.4	130.6	I
12-31-03	215.5	142.0	73.5	237.6	38.8	198.8	I

Farmer Mac remains in Enforcement Level I as defined in section 8.35 of the Act. That is, Farmer Mac's core capital equaled or exceeded the minimum core capital requirement set forth in section 8.33 of the Act and its regulatory capital equaled or exceeded the risk-based capital requirement. Enforcement Levels II – IV require that FCA place certain prompt corrective action requirements and supervisory restrictions on Farmer Mac.

Capital Leverage Ratios

Equity (i.e., GAAP capital) was 5 percent of total on-balance sheet assets as of December 31, 2003. When off-balance sheet program guarantee obligations are added to on-balance sheet program assets, capital coverage is reduced to 3.7 percent. In other words, one measure of Farmer Mac's risk exposure is highlighted by the fact that program assets and guarantee obligations exceed equity by over 96 percent (a.k.a. leverage ratio). By comparison, FCS combined capital equates to roughly 16.2 percent of total assets, or an 83.8 percent leverage ratio. However, another point of comparison is Fannie Mae's 1.0 percent capital-to-program assets ratio, or a leverage ratio of 99.0 percent.

[16] Section 8.35 of the Act provides for four levels of capital adequacy, with Level I indicating that Farmer Mac meets both the risk-based and minimum capital requirements. Since Farmer Mac was not required to be in compliance with the risk-based capital regulation until May 23, 2002, the fact that Farmer Mac's core capital is above the statutory minimum core capital requirement warrants an Enforcement Level I classification prior to that date.

Table 2

Farmer Mac Capital Leverage Ratio Trend and Comparisons

($000,000 except percentages)

	Farmer Mac				December 31, 2003	
	31-Dec-01	**31-Dec-02**	**31-Dec-03**		**Fannie Mae**	**Farm Credit System**
Capital (GAAP Equity)	134.4	183.6	213.3		22,373	18,923
On-Balance Sheet Assets	3,417	4,223	4,300		1,009,569	116,894
On- & Off-Balance Sheet Program Assets and Obligations	4,187	5,528	5,796		2,198,604	116,894
Capital/On-balance Sheet Assets Ratio	3.9%	4.3%	5.0%		2.2%	16.2%
Capital/Program Assets and Obligations Ratio	3.2%	3.3%	3.7%		1.0%	16.2%

Source for Fannie Mae: Quarterly Press Release and SEC Form 10-K.
Source for Farm Credit System: Quarterly Press Release, note that FCS Capital includes $1.9 billion in Farm Credit Insurance Fund.

Funding and Interest Rate Risk Management

Farmer Mac issues debt obligations, principally discount notes (DNs) and medium-term notes (MTNs), to fund on-balance sheet Farmer Mac I and II programs, and to conduct other activities of the Corporation, such as maintaining investments in non-program assets for liquidity purposes.

The Farmer Mac Board sets policy limits on the maximum amount of MTNs and DNs that may be outstanding at any one time for the purpose of funding Farmer Mac I and II and the liquidity portfolio, and on the maximum amount of non-program investments that may be held in the liquidity portfolio. Farmer Mac's Board also has set limits on the aggregate amount of credit counterparty exposure.

Short-term debt accounts for over 70 percent of all outstanding debt at yearend, a level that has been relatively constant for the last 3 years. This short-term debt is frequently used to fund long-term assets, with the associated interest rate risk managed through the use of interest rate swap contracts.[17] Overall sensitivity to interest rate risk remained moderate. The sensitivity of Farmer Mac's market value of equity to interest rate risk remained moderate to low. For example, one measure of sensitivity, the duration gap at yearend, was negative 0.1 month.

[17] Interest rate risk refers to the possible adverse financial effects of changes in interest rates due to Farmer Mac's mostly short-term (i.e., variable rate) debt that is used to fund long-term, fixed-rate loan assets.

Earnings

GAAP net income increased 17.5 percent over 2002 results. However, the majority of that increase is attributable to mark-to-market adjustments on certain investment and financial derivative positions (an upward adjustment in 2002, and downward in 2003). When measured as core earnings, net income was relatively flat compared to 2002, up less than 1 percent. The increase in GAAP net income is largely attributable to changes in the market values of financial derivatives and available-for-sale securities. Farmer Mac believes core earnings will grow as much as 10 percent in 2004.

Table 3

Comparison of Recent Statements of Income and Expenses

($000,000 except percentages)

	31-Dec-01 (12 months ended)	31-Dec-02 (12 months ended)	31-Dec-03 (12 months ended)	Annual Growth Rate (2003)
Total Revenues	42.0	51.3	54.8	6.7%
Total Expenses	25.7	30.0	29.8	3.8%
Net Income	16.3	21.3	25.0	17.5%
Core Earnings	N/A	22.9	23.0	0.7%

(See footnote below for revisions made as of May 20, 2004, to the May 3, 2004, copy of this report.[18])

Like the housing GSEs, Fannie Mae and Freddie Mac, Farmer Mac reaps the most profits from AMBS that it holds in its portfolio. At yearend, Farmer Mac held nearly 42 percent of its program assets on balance sheet, which would tend to boost earnings performance and capital growth.

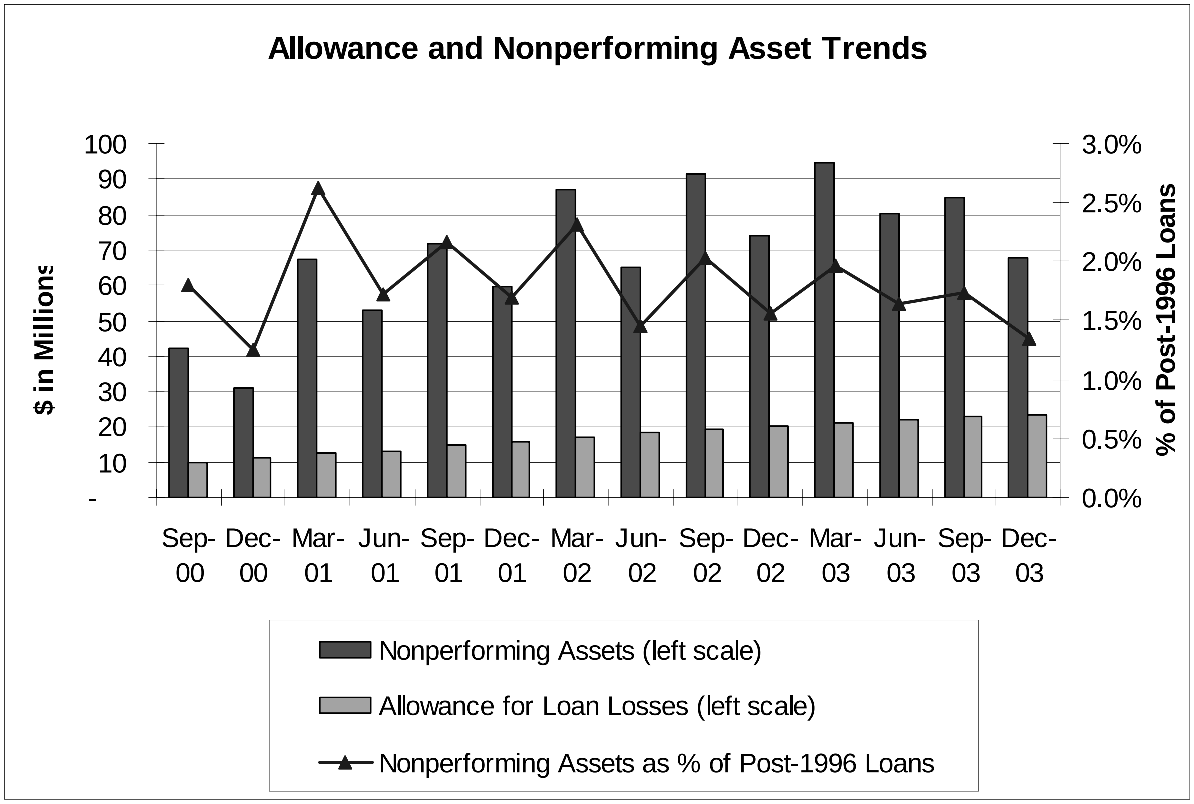
Risk Profile

Farmer Mac has experienced significant growth in program assets since the 1999 introduction of the Standby product. The Corporation assumes 100 percent of the credit risk on post-1996 Act Farmer Mac I loans and Standby obligations. Pre-1996 Act Farmer Mac I loans carry virtually no credit risk due to subordinated interests retained by the originating lender. Under the provisions of the subordinated interests, first dollar losses up to 10 percent of the loan amount are borne by the originating lender. Given the first-loss position of the subordinated interest, Farmer Mac does not expect to incur any losses on the pre-1996 Act loans. Therefore, asset quality is measured against the yardstick of post-1996 Act Farmer Mac I loan volume, which gives a more accurate assessment of credit risk exposure.

[18] A sentence stating that 2003 earnings were partially constrained by the provision for losses increasing over 500 percent to $7.9 million, from $1.3 million in 2002, has been deleted from the original report, which was issued on May 3, 2004. The sentence was removed because it only included provisions made for on-balance sheet assets and did not consider changes made to the provisions made for off-balance sheet obligations. The net effect of the combined provisions for both on-balance sheet assets and off-balance sheet obligations was not a constraining factor to earnings and, instead, had a slightly positive impact on 2003 earnings compared to 2002.

Nonperforming post-1996 Act Farmer Mac I assets include those 90 days or more past due, in foreclosure, in bankruptcy, or REO. At yearend, nonperforming assets were 1.39 percent of the outstanding balance of all post-1996 Act Farmer Mac I loans and Standby obligations outstanding and was down from 1.56 percent a year earlier.

Chart 5



Farmer Mac attributes the downward trend in the amount of nonperforming assets to a sizeable segment of the portfolio moving out of its peak default years (3-5 years from origination). The "zig-zag" behavior of the Nonperforming Assets to Post-1996 Loans ratio in the chart is attributable to the seasonality caused by the fact that agricultural mortgage payments are normally annual, semi-annual, or quarterly, rather than monthly. The pattern in this ratio reflects the heavy loan volume in Farmer Mac's portfolio with semi-annual payment schedules.

Allowance for Losses and Chargeoffs

The allowance for losses at December 31, 2003, increased to $22.1 million, from $20.0 million at yearend 2002. The provision for losses for 2003, was $7.3 million, compared to $8.2 million in 2002.

Chargeoffs on loans, net of recoveries, in 2003 totaled $5.2 million, compared to $4.1 million taken in 2002, and $2.2 million in 2001. There were no chargeoffs in 2000.

Regulatory Activities

FCA regulates, examines, and supervises Farmer Mac through authorities granted by Title VIII of the Act. The agency promulgates regulations, examines all books and records, and ensures safe and sound operations of Farmer Mac through regulatory enforcement powers that are comparable with other federal financial regulators. For example, the statute provides the FCA Board with enforcement powers to issue cease and desist orders, assess civil money penalties, and suspend or remove directors or officers.

As more fully explained in the Corporate Profile and Historical Perspective section, Farmer Mac is also regulated by the SEC and must comply with NYSE listing standards and requirements. As a publicly traded company and SEC registrant, regulatory reporting and disclosure requirements are significant matters demanding constant vigilance for compliance by Farmer Mac's compliance officer, executive management, and Board. Farmer Mac pays regulatory fees and assessments to each of its regulators.

Examination and Supervision

By statute, FCA examines Farmer Mac's operations once each year. In practice, FCA monitors activities and requires reports from all institutions it regulates on an on-going basis, including Farmer Mac. As part of FCA's oversight program, the agency requires Farmer Mac to report quarterly on financial performance consistent with regulatory requirements that are similar to the quarterly Call Reports required by other federal financial regulators. We combine our offsite review and follow-up activities with final onsite testing and verification procedures to publish an annual report of examination. OSMO regularly meets with the Farmer Mac Board and executive management to resolve examination findings, recommendations, and ensure required regulatory reporting.

Consistent with other federal financial regulators, FCA does not make public (1) institution-specific examination findings and recommendations, or (2) enforcement actions taken against institutions it supervises. Ongoing monitoring and oversight activities resulting from examination findings and recommendations are conducted through OSMO and are independent and separate from the oversight activities affecting other institutions of the Farm Credit System.

The FCA increased examination and oversight activities of Farmer Mac over the past 18 months. Numerous meetings and follow-up discussions have occurred with the Farmer Mac Board and management during 2003 as results from the 2002 examination were being addressed and as the 2003 examination was conducted. Examination scopes, both breadth and depth, were expanded significantly. Examiner resources applied to Farmer Mac's oversight increased from under 150 examination staff-days as recently as fiscal year (FY) 2001 to over 800 examination staff-days during FY 2003. Use of outside consultants to assist OSMO in the examination and oversight of Farmer Mac also increased, including securing an outside accounting firm to advise and assist FCA examiners as the 2003 examination was completed.

Throughout 2003, agency offsite monitoring and follow-up activities with Farmer Mac's Board and management increased significantly over prior years. As a result, additional permanent budgeted resources also were increased for OSMO. In October 2002, a full-time Senior Policy Analyst was added, and a full-time examiner position is planned for FY 2004.

The most recent examination with an "as of" date of August 31, 2003, began in June and concluded in December 2003. The examination was comprehensive, risk-based, and focused on what is commonly referred to by federal financial regulators as a "CAMELS" assessment. A CAMELS assessment includes an in-depth analysis of the institution's Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to market risk. The 2003 examination also included an in-depth evaluation of Farmer Mac's information technology, internal controls, and accounting treatment for nonperforming loans and REO. We presented the agency's 2003 Report of Examination to the Farmer Mac Board at its February 2004 meeting.

Borrower Complaints

The agency investigates complaints originating from loan applicants, borrowers, loan servicers of Farmer Mac, and Congressional inquiries. In contrast to zero complaints in 2002, FCA received four complaints referencing Farmer Mac in 2003. Two were from borrowers regarding prepayment penalties and disclosures on their long-term fixed rate loans purchased by Farmer Mac. Another borrower complained about loan servicing and handling of loan escrow disbursements by the loan originator, a commercial bank. The final complaint involved a business dispute between a former loan servicer and Farmer Mac. The agency completed reviews of each of these cases and responded directly to the complainant, their legal counsel, or Congressional requestor. In one case, we forwarded the complaint to the FDIC for additional follow up and response to the complainant.

FCA Strategic Plan and Regulatory Initiatives

At its December 2003 meeting, the FCA Board adopted a revised Five-Year Strategic Plan (Plan) that, among other things, places greater focus on Farmer Mac as a separate GSE for agriculture -- one that has a separate and distinct mission compared to other institutions of the FCS. New desired outcomes were added to the Plan to better focus on Farmer Mac's continued safety and soundness and achievement of its public mission.

With assistance and staff expertise from other offices within the FCA and the use of outside consultants in some instances, OSMO directs development of regulations for the FCA Board's consideration. In September 2003, the FCA Board adopted a revised Unified Agenda and Regulatory Performance Plan, which includes two regulatory projects related to Farmer Mac.

The first proposes regulatory standards for Non-Program Investments and Liquidity requirements for Farmer Mac. A Notice of Proposed Rulemaking was approved by the FCA Board at its April 22, 2004, meeting. This proposed rule includes:

- Minimum regulatory standards that would require sufficient high-quality, marketable investments to provide adequate liquidity to fund maturing obligations and operations for a minimum number of 60 days;
- The type, quality, and maximum amount (or limit) of non-program investments that may be held by Farmer Mac;
- Diversification requirements, including portfolio limits on specific types of investments and counterparty exposure limits; and,

- Minimum regulatory requirements for liquidity and non-program investment management policies and appropriate internal controls for investment and liquidity management.

The second regulation project involves technical adjustments and other enhancements to the Risk-Based Capital Stress Test (12 CFR 650). Some of the issues being explored by staff and outside consultants working on this project include:

- All comments, analysis, and recommendations made by GAO (see General Accounting Office Report below);
- Missing loan origination data;
- Treatment of miscellaneous income;
- Operating expense estimates;
- The impact of stress on cost of funds; and,
- The timing of loan-loss resolutions and the associated carrying costs.

The Risk-Based Capital proposed rule is targeted for consideration by the FCA Board later in 2004.

Regulatory Costs

Under FCA regulation § 607.4(b), the agency assesses Farmer Mac for the estimated cost of regulation, supervision, and examination of the Corporation, including reasonably related administrative and overhead expenses. Farmer Mac makes quarterly payments on the annual assessment. After the fiscal year ends, the annual assessment is adjusted to reconcile differences between the actual and original estimated costs.

FCA's annual assessment for FY 2003 was estimated at $1.385 million. Total costs incurred, however, were $1.784 million necessitating a supplemental assessment of $398,668 being sent to Farmer Mac in the first quarter of FY 2004. This compares with total actual costs of $887 thousand for FY 2002 and $655 thousand for FY 2001. As discussed above, resources deployed by FCA during 2003 were substantially increased over prior years. Examination related follow-up activities accounted for most of the increased resources used. Farmer Mac's assessment for FY 2004 is estimated at $1.695 million and will be reconciled with actual costs during the first quarter of FY 2005.

General Accounting Office Report

At the request of the Chairman and Ranking Member of the United States Senate Committee on Agriculture, Nutrition, and Forestry, GAO studied Farmer Mac and the FCA's oversight of Farmer Mac during 2002 and 2003. GAO's report, <u>Farmer Mac: Some Progress Made, but Greater Attention to Risk Management, Mission, and Corporate Governance Is Needed</u>, was issued on October 16, 2003, and is available at the GAO's Web site: www.gao.gov.

GAO concluded, "Farmer Mac's financial condition has improved since we last reported in 1999. . . . [but] efforts to measure and monitor its risks have not kept pace [with its more complex risk profile] and could be improved." With regard to mission accomplishment, GAO stated, "Farmer Mac has increased its mission-related activities . . . but it is still not apparent if sufficient public benefits are derived from these activities. The lack of specific or measurable mission goals in its statute beyond providing a secondary market and stable long-term financing does not allow for a meaningful assessment of whether Farmer Mac's activities are having the desired impact on the agricultural real estate market." GAO also noted "[s]imilar to other publicly traded companies, Farmer Mac is faced with the challenges of updating its corporate governance practices to comply with Sarbanes-Oxley, SEC rules, and proposed NYSE listing standards as they become effective." GAO provided six recommendations for improving Farmer Mac's risk management practices and four recommendations to further enhance its corporate governance practices.

The GAO report also concluded that, "…FCA had improved its oversight of Farmer Mac, but continues to face significant challenges…" GAO provided five recommendations for FCA[19] that address: the Risk-Based Capital model governing minimum regulatory capital requirements; offsite monitoring and regulatory reporting of Farmer Mac; FCA's plans to reduce capital arbitrage activities that can occur between Farmer Mac and FCS institutions; how other secondary market regulators of GSEs have developed regulations to require a government risk credit rating; and, the impact that Farmer Mac's activities may have on the agricultural real estate lending market.

On December 11, 2003, FCA responded to the required Congressional oversight committees and provided a copy of the response to the Office of Management and Budget summarizing actions taken or to be taken with regard to GAO's recommendations. In the letter, we stated that the GAO report is a fair representation of our work to oversee the safety and soundness of Farmer Mac and that we expect the report to add value to our work on several initiatives that the agency already has underway, including the regulatory projects discussed above. See Appendix 4 of this report for a copy of the agency's December 11, 2003, letter.

In addition to examination activities and planned regulatory activities discussed above, FCA and FCSIC have taken coordinated actions that address, in part, the issue of regulatory capital arbitrage, which the GAO recognized could occur between FCS lenders and Farmer Mac. Two of the more significant actions to date include FCA's Informational Memorandum regarding counterparty risk issued by the agency's Chief Examiner on October 21, 2003, and FCSIC's letter regarding the Insurance Corporation's premium adjustments and other issues dated September 24, 2003. The combination of these two cautionary documents support other planned agency actions on the arbitrage issue and the risk associated with the over reliance on a single counterparty guarantor.

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[19] See the GAO report, page 102, for FCA's letter dated August 21, 2003, in response to GAO's draft report.

APPENDIX 1

Historical Data

Table 5

FARMER MAC BALANCE SHEET & OFF-BALANCE SHEET OBLIGATIONS
($000,000)

Date	Assets	Liabilities	Net Worth	Off-Balance Sheet Obligations
12-31-95	512.5	500.8	11.7	516.7
12-31-96	602.8	555.6	47.2	655.5
12-31-97	1,348.1	1,273.0	75.1	902.0
12-31-98	1,936.0	1,855.1	80.9	598.5
12-31-99	2,590.4	2,503.3	87.1	1,105.5
12-31-00	3,160.9	3,028.2	132.7	1,498.0
12-31-01	3,417.2	3,282.8	134.4	2,329.9
12-31-02	4,222.6	4,039.0	183.6	3,048.3
12-31-03	4,299.7	4,086.4	213.3	3,352.0

Table 6
FARMER MAC CONDENSED STATEMENT OF OPERATIONS
($000,000)

Date	Total Revenue	Total Expenses	Net Income	Core Earnings
12-31-95	3.1	3.7	-0.6	N/A
12-31-96	5.5	4.7	0.8	N/A
12-31-97	12.4	7.7	4.6	N/A
12-31-98	15.8	10.1	5.7	N/A
12-31-99	22.6	15.7	6.9	N/A
12-31-00	29.8	19.3	10.4	N/A
12-31-01	42.0	25.7	16.3	N/A
12-31-02	51.3	30.0	21.3	22.9
12-31-03	54.8	29.8	25.0	23.0

APPENDIX 2

Outstanding Farmer Mac Loans and Guarantees

	December 31 ($000,000)			Change 2002-2003
	2001	2002	2003	Percent
1. On-Balance Sheet				
a. Farmer Mac I (Post-1996 Act)*	$1,065.9	$ 885.5	$ 727.2	-17.9%
b. Farmer Mac I (Pre-1996 Act)*	48.5	32.0	24.7	-22.7%
c. Farmer Mac II	516.7	578.7	678.2	17.2%
d. Loans Held for Investment	163.1	850.5	859.6	1.1%
e. Loans Held for Sale	38.5	35.5	44.9	26.5%
f. Loans Purchased from AMBS Pools	--	63.3	71.8	13.4%
g. Real Estate Owned	--	5.6	15.7	180.4%
h. AgVantage Bonds	24.5	28.6	25.2	-11.9%
i. Subtotal	1,857.2	2,479.7	2,447.3	-1.4%
2. Off-Balance Sheet				
a. Farmer Mac I (Post-1996 Act)	366.7	299.9	952.1	217.5%
b. Farmer Mac I (Pre-1996 Act)	0.5	--		NA
c. Farmer Mac II	78.4	67.1	51.2	-23.7%
d. Long-Term Standby Purchase Commitments	1,884.3	2,681.2	2,348.7	-12.4%
e. Subtotal	2,329.9	3,048.3	3,352.0	10.0%
TOTAL	$4,187.1	$5,527.9	5,799.4	4.9%

*Principal amount versus book value.

APPENDIX 3

Farmer Mac Board of Directors As of December 2003		
Frederick L. Dailey, Chairman[1] Director Ohio Department of Agriculture Reynoldsburg, Ohio	**Dennis L. Brack**[2] President and CEO Bath State Bank Bath, Indiana	**Paul A. DeBriyn**[3] President and CEO AgStar Financial Services, ACA Mankato, Minnesota
Lowell L. Junkins, Vice Chairman[1] Lowell Junkins & Associates Des Moines, Iowa	**W. David Hemingway**[2 *] Executive Vice President Zions First National Bank Salt Lake City, Utah	**Ralph Buddy Cortese**[3] Chairman Farm Credit Bank of Texas Ft. Sumner, New Mexico
Julia Bartling[1] Bartling Feed, Grain, & Trucking Burke, South Dakota	**Mitchell A. Johnson**[2] President MAJ Capital Management, Inc. Washington, D.C.	**Kenneth E. Graff**[3] President Farm Credit West, ACA Visalia, California
Grace T. Daniel[1] Principal Golden State Marketing Services El Macero, California	**Charles E. Kruse**[2] Director Central Bancompany Jefferson City, Missouri	**John G. Nelson III**[3] Former Director AgAmerica Farm Credit Bank Spokane, Washington
Glen Klippenstein[1] CEO Am. Chianina Cattle Assn. Platte City, Missouri	**Peter T. Paul**[2 *] Director GreenPoint Financial Corp. New York, New York	**John Dan Raines, Jr.**[3] Director AgFirst Farm Credit Bank Columbia, South Carolina

[1] Presidential Appointee
[2] Class A Stockholder Director
[3] Class B Stockholder Director

* Directors Hemingway and Paul are not candidates for re-election in 2004. Farmer Mac's Notice of Annual Meeting dated April 21, 2004, shows Dennis E. Everson and Timothy F. Kenny as nominees for election by Class A shareholders. Mr. Everson is President and Manager of First Dakota National, Bank Agribusiness Division, and Mr. Kenny is a Certified Public Accountant and Managing Director with Bearing Point, Inc. (formerly KPMG Consulting, Inc.).

APPENDIX 4

December 11, 2003

See attached list for addressees

Dear :

On October 16, 2003, the General Accounting Office (GAO) issued a final report entitled Farmer Mac: Some Progress Made, but Greater Attention to Risk Management, Mission, and Corporate Governance Is Needed (the Report).[1] This correspondence represents the Farm Credit Administration's (FCA or agency) written statement on actions taken or to be taken pursuant to section 236 of the Legislative Reorganization Act of 1970.

Overall, we believe the Report is a fair representation of our work to oversee the safety and soundness of the Federal Agricultural Mortgage Corporation (Farmer Mac). Further, we appreciate GAO's perspectives and expect the Report to add value to our work on several initiatives designed to enhance oversight of Farmer Mac that we already have underway.

The Report contains five recommendations to improve the quality and effectiveness of FCA's oversight of Farmer Mac. We agree with the recommendations and will act on them. The following describes the actions taken or to be taken to address each recommendation.

Recommendation 1

Continue to obtain more relevant and current data on farm loan behavior used in the risk-based capital model and consider more flexible modeling approaches to credit risk, such as those used by the Office of Federal Housing Enterprise Oversight for regulatory purposes or the Federal Housing Administration for evaluating actuarial soundness.

Actions Taken Or To Be Taken

Staff has begun work on risk-based capital model (RBC model) regulatory revisions for the FCA Board's consideration of a proposed rule in the summer of 2004. The proposed regulatory revisions will consider GAO's recommendations relating to the RBC model. The revisions will also cover a broader spectrum of issues than those addressed in the Report.

[1] GAO-04-116

Recommendation 2

Continue to improve and formalize off-site monitoring of Farmer Mac, including reviews of Farmer Mac's regulatory reporting.

Actions Taken Or To Be Taken

We will continue to improve off-site monitoring and reporting activities employed by FCA's Office of Secondary Market Oversight and FCA examiners. In addition to stepped-up examination and supervision activities, FCA has begun work to enhance and formalize off-site monitoring of Farmer Mac. For example, during fiscal year 2004, we plan to update FCA's requirements for Farmer Mac's quarterly Report of Condition and Performance (Call Report) submissions. The update will consider other informational requirements such as Farmer Mac's RBC model submissions and Securities and Exchange Commission filings. These updates will ensure we have the information necessary for the off-site monitoring of Farmer Mac's operations. The FCA will continue to update the Call Report requirements on an annual basis to reflect changes in Farmer Mac's operations, FCA's informational needs, and accounting requirements.

Recommendation 3

Create a plan to implement actions currently under consideration to reduce potential safety and soundness issues that may arise from capital arbitrage activities of Farmer Mac and Farm Credit System (FCS) institutions.

Actions Taken Or To Be Taken

Two recent actions, in part, address the issue of regulatory capital arbitrage. The first action was FCA's October 21, 2003, Informational Memorandum to FCS institutions on counterparty risk. This memorandum highlights over-reliance on single counterparty loan guarantors such as Farmer Mac. The second action was the Farm Credit System Insurance Corporation's September 24, 2003 Premium Rate Review and Adjustment notice. This notice expressed concern with Government-Sponsored Enterprise (GSE) counterparty risks and Farmer Mac products that potentially erode the insurance premium assessment base. The FCA also intends to undertake two capital regulatory projects that may influence capital arbitrage between Farmer Mac and FCS institutions. These regulatory projects are a capital risk-weighting proposed rule for the FCA Board's consideration in early 2004 and a capital adequacy leverage ratio proposed rule for the FCA Board's consideration in the spring of 2004.

Recommendation 4

Examine how other secondary market regulators developed regulations to require the GSEs to obtain a government risk credit rating from nationally recognized statistical rating agencies.

Actions Taken Or To Be Taken

The FCA will initiate a project to research how other secondary market regulators require credit ratings of their regulated entities.

Recommendation 5

Assess and report on the impact Farmer Mac's activities have on the agricultural real estate lending market.

Actions Taken Or To Be Taken

The FCA is considering different approaches for conducting this assessment and report. In the spring of 2004, we will formalize an approach to conduct this assessment.

Finally, the Report suggests that Congress establish clearer mission goals for Farmer Mac, which would help enable FCA to better identify appropriate criteria for measuring Farmer Mac's success in achieving its public policy mission. The Report also suggests Congress allow FCA more flexibility to establish capital standards commensurate with Farmer Mac's changing risk profile and in setting minimum capital requirements. We support these suggestions, as greater FCA regulatory flexibility would significantly enhance our ability to conduct appropriate supervisory oversight of Farmer Mac. Clearer mission goals would aid the FCA in assessing whether Farmer Mac is meeting its statutory purpose and congressional intent. We would be pleased to assist Congress in any way we can as the appropriate committees consider GAO's suggestions.

We trust the information provided in this letter reflects FCA's continuing commitment to address GAO's recommendations for enhancing regulatory oversight of Farmer Mac. I am available to meet at your convenience to discuss our planned actions in response to the Report. If you have any questions, please call me at (703) 883-4005.

Sincerely,

/s/ *Michael M. Reyna*

Michael M. Reyna
Chairman and Chief Executive Officer

Letter addressed to:

The Honorable Richard G. Lugar
Committee on Agriculture, Nutrition
and Forestry
United States Senate
Washington, DC 20510

The Honorable Susan Collins
Chairman
Committee on Government Affairs
United States Senate
Washington, DC 20510

The Honorable Thomas Davis III
Chairman
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable C. W. Bill Young
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

The Honorable Bob Goodlatte
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

The Honorable Thad Cochran
Chairman
Committee on Agriculture, Nutrition
and Forestry
United States Senate
Washington, DC 20510

The Honorable Joseph Leiberman
Ranking Member
Committee on Government Affairs
United States Senate
Washington, DC 20510

The Honorable Henry Waxman
Ranking Member
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

The Honorable Robert Byrd
Ranking Member
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable David R. Obey
Ranking Member
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

The Honorable Charles W. Stenholm
Ranking Member
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

The Honorable Tom Harkin
Ranking Member
Committee on Agriculture, Nutrition
and Forestry
United States Senate
Washington, DC 20510

APPENDIX 5

TITLE VII—AGRICULTURAL MORTGAGE SECONDARY MARKETS

Subtitle A—The Federal Agricultural Mortgage Corporation

12 U.S.C. 2279aa

SEC. 701. STATEMENT OF PURPOSE.
It is the purpose of this subtitle—

(1) to establish a corporation chartered by the Federal Government;

(2) to authorize the certification of agricultural mortgage marketing facilities by the corporation;

(3) to provide for a secondary marketing arrangement for agricultural real estate mortgages that meet the underwriting standards of the corporation —

(A) to increase the availability of long-term credit to farmers and ranchers at stable interest rates;

(B) to provide greater liquidity and lending capacity in extending credit to farmers and ranchers; and

(C) to provide an arrangement for new lending to facilitate capital market investments in providing long-term agricultural funding, including funds at fixed rates of interest; and

(4) to enhance the ability of individuals in small rural communities to obtain financing for moderate-priced homes.