



# Federal Farm Credit Banks Funding Corporation

10 Exchange Place, Suite 1401  
Jersey City, New Jersey 07302  
201/200-8000  
<http://www.farmcredit-ffcb.com>

## *Press Release*

Thursday, April 30, 2009

### **FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2009 COMBINED RESULTS**

For 5:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported combined net income of \$615 million for the quarter ended March 31, 2009, as compared with combined net income of \$760 million for the same period of the prior year.

“During the first quarter of 2009, the System achieved favorable earnings despite the continued global economic and financial crisis,” remarked Jamie B. Stewart, Jr., President and CEO of the Federal Farm Credit Banks Funding Corporation. “During the first quarter of 2009, the System’s loan growth remained relatively flat and its capital to assets ratio improved. System managements have taken steps to increase liquidity and ensure capital availability to fund farmers and ranchers in the future. Additionally, managements of System institutions continue to be vigilant in applying prudent loan underwriting standards and monitoring the credit quality of their loan portfolios.”

#### Results of Operations

Combined net income decreased \$145 million for the quarter ended March 31, 2009, as compared with the same quarter in 2008, as a result of increases in the provision for loan losses and noninterest expenses and a decrease in noninterest income, partially offset by an increase in net interest income.

Net interest income increased \$136 million to \$1.273 billion during the first quarter of 2009, as compared with \$1.137 billion for the first quarter of the prior year. This increase resulted from higher levels of average earning assets, primarily from our loan portfolio. Average earning assets grew \$16.078 billion or 8.6% to \$202.408 billion for the first quarter of 2009, as compared with the first quarter of 2008.

The net interest margin increased to 2.52% for the quarter ended March 31, 2009, as compared with 2.44% for the quarter ended March 31, 2008. Positively impacting the net interest margin was an increase in the net interest spread of 35 basis points to 2.28% for the quarter ended March 31, 2009, as compared with 1.93% for the same period of 2008. The increase in the net interest spread was primarily attributable to the lower interest rate environment, less competitive market conditions and increased pricing to reflect additional credit risk in the current economic and financial environment. During the first quarter of 2009, the Banks called debt totaling \$19 billion and were able to lower their cost of funds relative to their assets, which did not reprice as quickly. This increase in the net interest

spread was partially offset by a 27 basis point decline in income earned on interest-free funds (primarily capital), as yields on average earning assets declined in this lower interest rate environment.

The System recognized provisions for loan losses of \$246 million for the first quarter of 2009, as compared with provisions for loan losses of \$33 million recognized during the first quarter of 2008. The overall stress in the general economy and certain sectors of the agricultural economy continued to adversely impact System borrowers during the first quarter of 2009. The provisions for loan losses were due to credit deterioration primarily in those agricultural sectors that continue to be impacted by the volatility in commodity prices, such as the livestock/poultry, dairy and ethanol sectors, as well as those sectors impacted by the overall downturn in the general economy. Approximately half of the provisions for loan losses recorded during the quarter were related to loans made to ethanol producers.

Noninterest income was \$81 million and \$109 million for the three months ended March 31, 2009 and 2008. The decrease was primarily due to losses of \$24 million on the impairment of certain available-for-sale securities in the first quarter of 2009, while no impairment losses were recognized in the first quarter of the prior year. Also contributing to the decline was the decrease of \$18 million in the income earned on Insurance Fund assets. Partially offsetting this decrease were increases in fees for financially related services and other noninterest income.

Noninterest expense increased \$51 million to \$447 million for the three months ended March 31, 2009, as compared with \$396 million for the same period of the prior year, principally due to increases in salaries of \$20 million and employee benefit costs of \$24 million. The increase in salaries was primarily due to higher staffing levels at certain System institutions in response to loan growth over the past several years and to annual merit increases. Employee benefits costs increased primarily due to increases in defined benefit pension expenses resulting from a decrease in the expected return on pension plan assets and to increased amortization of actuarial losses.

The provision for income taxes was \$46 million for the first quarter of 2009, as compared with \$57 million for the first quarter of the prior year. The effective tax rate was 7.0% for the first quarters of both 2009 and 2008.

### Loan Portfolio Activity

Gross loans increased \$888 million or 0.6% to \$162.311 billion at March 31, 2009, as compared with \$161.423 billion at December 31, 2008. Loan growth was relatively flat reflecting a softening in loan demand due to the decline in commodity prices and to the overall downturn in the general and agricultural economy. Further, in light of the current global economic and financial crisis, System managements have made a decision to slow growth, while continuing to fulfill their mission.

### Credit Quality

The System's accruing loan volume was \$159.546 billion at March 31, 2009, as compared with \$159.141 billion at December 31, 2008. Nonaccrual loans increased \$483 million to \$2.765 billion at March 31, 2009, as compared with \$2.282 billion at December 31, 2008. This increase in nonaccrual loans was primarily due to deterioration in the credit quality of

loans to borrowers in certain agricultural sectors, such as ethanol, livestock/poultry and dairy. This deterioration was the result of decreases in revenue from lower commodity prices and increases in input costs, particularly for borrowers who purchased crops at elevated prices in 2008 for future production. At March 31, 2009, 65% of nonaccrual loans were current as to principal and interest, as compared with 75% at December 31, 2008. While nonaccrual loans increased from the year-end 2008 level, the current level of nonaccrual loans to total loans has continued to move more in line with historical averages.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased \$500 million to \$2.916 billion at March 31, 2009, as compared with December 31, 2008. These nonperforming loans represented 1.80% of the System's loans at March 31, 2009, an increase from 1.50% at December 31, 2008.

Other credit quality indicators generally declined during the first quarter of 2009. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of loans and accrued interest receivable declined to 96.5% at March 31, 2009, as compared with 97.1% at December 31, 2008. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.68% at March 31, 2009, as compared with 0.52% at March 31, 2008. Net loan charge-offs of \$159 million were recorded during the first quarter of 2009, as compared with net loan charge-offs of \$10 million for the first quarter of 2008. Approximately half of the net loan charge-offs were related to loans to ethanol producers.

The allowance for loan losses was \$1.037 billion at March 31, 2009, as compared with \$936 million at December 31, 2008. The allowance for loan losses as a percentage of total loans was 0.64% at March 31, 2009 and 0.58% at December 31, 2008. The allowance for loan losses was 36% of the System's total nonperforming loans and 38% of its nonaccrual loans at March 31, 2009, as compared with 39% and 41% at December 31, 2008. Risk funds (total capital and the allowance for loan losses), which is a measure of risk-bearing capacity, totaled \$28.858 billion at March 31, 2009 and \$28.060 billion at December 31, 2008, and increased slightly to 17.8% of System loans at March 31, 2009, as compared with 17.4% at December 31, 2008.

### Liquidity and Capital Resources

Cash and investments were \$43.877 billion at March 31, 2009 and \$43.807 billion at December 31, 2008. The System's liquidity position increased to 185 days at March 31, 2009, as compared with 177 days at December 31, 2008.

Total capital increased \$697 million during the first quarter of 2009 to \$27.821 billion. The increase was primarily due to net income earned and retained. The System's surplus increased \$433 million to \$23.581 billion during the first quarter of 2009. Capital as a percentage of total assets increased to 12.9% at March 31, 2009, as compared with 12.7% at December 31, 2008 due to the increase in capital and the slowdown in loan growth.

In April 2009, the Financial Accounting Standards Board (FASB) issued additional accounting guidance for determining fair value when the volume and level of market activity for the asset or liability has significantly decreased and identifying transactions that are not orderly. In addition, the FASB issued additional guidance on the recognition and presentation of other-than-

temporary impairments. The guidance specifies that for investments that are identified as other-than-temporarily impaired, the portion of the impairment related to credit losses is reported in current period earnings, while the remaining portion is recognized in accumulated other comprehensive income. Adoption of the new guidance was optional for the first quarter of 2009 but is mandatory beginning with the second quarter. Three of the five Banks early adopted the guidance, and accordingly, reported a \$7 million cumulative effect adjustment increasing beginning surplus that represents the portion of non-credit related impairments of previously impaired investment securities. There was a corresponding charge reported in accumulated other comprehensive loss.

### About the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions and related service organizations. The System specializes in providing financing and related services to borrowers in the agricultural and rural sectors through the five System Banks and 90 affiliated Associations. Unlike commercial banks, the Banks are not authorized to take deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities.

### Additional Information

Copies of this press release, as well as other information regarding the System, including its annual and quarterly information statements, are available on the Federal Farm Credit Banks Funding Corporation's website at [www.farmcredit-ffcb.com](http://www.farmcredit-ffcb.com). For further information and copies of annual and quarterly information statements, contact:

Daniel M. Bienz, Vice President  
Financial Analysis and Disclosure  
Federal Farm Credit Banks Funding Corporation  
10 Exchange Place, Suite 1401  
Jersey City, NJ 07302  
(201) 200-8070  
E-mail - [DBienz@farmcredit-ffcb.com](mailto:DBienz@farmcredit-ffcb.com)

### Forward-Looking Statements

Any forward-looking statements in this press release are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties, including the illiquidity of the financial markets and its impact on the System's investments. More information about these risks and uncertainties is contained in the System's annual and quarterly information statements. The System undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**FARM CREDIT SYSTEM  
COMBINED FINANCIAL STATEMENT DATA  
(in millions)**

**STATEMENT OF CONDITION DATA**

	<b>March 31, 2009</b> (unaudited)	<b>December 31, 2008</b>
Cash and investments	\$ 43,877	\$ 43,807
Loans	162,311	161,423
Less: allowance for loan losses	<u>(1,037)</u>	<u>(936)</u>
Net loans	<u>161,274</u>	<u>160,487</u>
Accrued interest receivable	1,836	1,970
Other assets	4,891	5,174
Restricted assets	<u>3,004</u>	<u>2,915</u>
Total assets	<u>\$214,882</u>	<u>\$214,353</u>
 Systemwide Debt Securities:		
Due within one year	\$ 66,466	\$ 65,722
Due after one year	<u>112,721</u>	<u>112,643</u>
Total Systemwide Debt Securities	179,187	178,365
Subordinated debt	1,050	1,050
Other bonds	921	1,404
Other liabilities	<u>5,903</u>	<u>6,410</u>
Total liabilities	<u>187,061</u>	<u>187,229</u>
 Preferred stock		
	1,806	1,771
Capital stock	1,422	1,423
Restricted capital	3,004	2,915
Accumulated other comprehensive loss	(1,992)	(2,133)
Surplus	<u>23,581</u>	<u>23,148</u>
Total capital	<u>27,821</u>	<u>27,124</u>
Total liabilities and capital	<u>\$214,882</u>	<u>\$214,353</u>

**STATEMENT OF INCOME DATA**

	<b>For The Quarter Ended March 31, (unaudited)</b>	
	<b>2009</b>	<b>2008</b>
Interest income	\$2,310	\$2,841
Interest expense	<u>(1,037)</u>	<u>(1,704)</u>
Net interest income	1,273	1,137
Provision for loan losses	(246)	(33)
Noninterest income	81	109
Noninterest expense	<u>(447)</u>	<u>(396)</u>
Income before income taxes	661	817
Provision for income taxes	<u>(46)</u>	<u>(57)</u>
Net income	<u>\$ 615</u>	<u>\$ 760</u>