



# Federal Farm Credit Banks Funding Corporation

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## *Press Release*

Thursday, February 19, 2009

### **FARM CREDIT SYSTEM REPORTS NET INCOME OF \$2.916 BILLION FOR 2008**

For 3:00 p.m. (EST) Release

NEW YORK - The Farm Credit System today reported combined net income of \$2.916 billion for the year ended December 31, 2008, an increase of \$213 million, as compared with combined net income of \$2.703 billion for the prior year. Combined net income decreased \$136 million to \$546 million for the fourth quarter of 2008, as compared with \$682 million for the fourth quarter of 2007.

“The System’s 2008 financial results were strong, despite the unprecedented instability in the global financial markets and the general slowdown in the overall economy,” remarked Jamie B. Stewart, Jr., President and CEO of the Federal Farm Credit Banks Funding Corporation. “Even in these uncertain times, the System has maintained the ability to access the debt capital markets and has built liquidity levels as protection in the current volatile economic environment. In short, while credit and funding challenges exist, we believe we are well positioned to continue to meet our mission of being a reliable source of debt capital for eligible borrowers.”

#### 2008 Results of Operations

Combined net income increased for the year ended December 31, 2008, as compared with 2007, as a result of increases in net interest income and noninterest income, partially offset by increases in the provision for loan losses and noninterest expense.

Net interest income was \$4.702 billion for 2008, an increase of \$642 million, as compared with \$4.060 billion for the prior year. The increase in net interest income resulted principally from higher levels of average earning assets, which grew \$27.965 billion or 16.8% to \$194.832 billion during the year ended December 31, 2008, as compared with \$166.867 billion for the same period of the prior year. The higher level of average earning assets was primarily due to the continued growth in the System’s loan portfolio and, to a lesser extent, the growth in the investment portfolio.

The net interest margin declined two basis points to 2.41% for the year ended December 31, 2008, as compared with 2.43% for the same period of the prior year. The decrease in the net interest margin was primarily due to a decline of 28 basis points in income earned on earning assets funded by noninterest-bearing sources (principally capital), as yields on average earning assets declined in this lower interest rate environment, and to a decline in capital as a percentage of average earning assets. These declines were mostly offset by an increase in the net interest spread of 26 basis points to 1.99% for the year ended December 31, 2008, as compared with 1.73% for the same period of 2007. The increase in the net interest spread was primarily attributable to continued favorable agricultural lending conditions and the lower interest

rate environment in 2008, as compared with 2007. The Banks took advantage of the lower interest rate environment during 2008 and called debt totaling \$49 billion. As a result, the Banks were able to lower their cost of funds relative to the interest rates earned on their assets, which did not change as quickly.

As expected, the overall stress during 2008 on the general economy and certain sectors of the agricultural economy adversely impacted System borrowers. The System recognized provisions for loan losses of \$408 million and \$81 million for the years ended December 31, 2008 and 2007. The 2008 provision for loan losses consisted of \$416 million of provisions for loan losses recorded by certain System institutions, partially offset by \$8 million of loan loss reversals recorded by other System institutions due to the recovery of prior charge-offs. The 2007 provision for loan losses consisted of \$100 million of provisions for loan losses recorded by certain System institutions, partially offset by \$19 million of loan loss reversals recorded by other System institutions. The provisions for loan losses recorded for 2008 primarily resulted from credit deterioration due to exceptional volatility in commodity prices, which adversely impacted the livestock/poultry and ethanol sectors, and, to a lesser extent, to a decline in the condition of the overall economy.

Noninterest income increased \$40 million to \$502 million for 2008, as compared with \$462 million for 2007. The increase was primarily due to increases in earnings from financially related services of \$85 million, in fee income of \$33 million and in mineral income of \$23 million, partially offset by an increase in losses on other-than-temporarily impaired investments of \$77 million and an increase in losses on extinguishment of debt of \$36 million. The increase in fees for financially related services resulted from an increase in multi-peril crop insurance commission income due to a combination of additional emphasis on marketing and sales of related services and a higher volume of loans outstanding. As a result of the current conditions impacting the mortgage market, the Banks recorded losses on impaired mortgage- and asset-backed investments of \$82 million for 2008, as compared with a \$5 million impairment loss on an asset-backed security for 2007. At December 31, 2008, cash and investments of \$43.807 billion were maintained by the Banks primarily for liquidity purposes.

Noninterest expense increased \$130 million to \$1.727 billion for 2008, primarily due to an increase in salaries and employee benefits and to an increase in other operating expenses. Salaries and employee benefits increased \$59 million or 5.8% due to higher staffing levels at certain System institutions in response to strong loan growth and to annual merit and performance-based incentive compensation. Other operating expenses, which includes purchased services and occupancy and equipment expenses, increased \$59 million or 10.0%.

The System recorded a provision for income taxes of \$153 million for 2008, as compared with \$141 million for 2007. The effective tax rate remained unchanged at 5.0% for the years ended December 31, 2008 and 2007.

#### Fourth Quarter 2008 Results of Operations

Combined net income declined to \$546 million for the fourth quarter of 2008, as compared with \$682 million for the fourth quarter of 2007. The decline in earnings primarily resulted from increases in the provision for loan losses and noninterest expense and a decrease in noninterest income as a result of losses on impaired investments, partially offset by an increase in net interest income. Net interest income increased \$145 million to \$1.197 billion in the fourth quarter of 2008, as compared with the prior-year period. The increase in net interest income resulted from higher levels of average earning assets, primarily loans, which grew \$23.447

billion to \$199.122 billion for the quarter ended December 31, 2008, as compared with \$175.675 billion for the same period in 2007.

The net interest margin was 2.40% and remained unchanged for the fourth quarter of 2008, as compared with the fourth quarter of 2007. Positively impacting the net interest margin was an increase in the net interest spread of 29 basis points to 2.04% for the quarter ended December 31, 2008, as compared with 1.75% for the same period of 2007. The increase was primarily attributable to the lower interest rate environment. However, this increase in the net interest spread was offset by a decline of 29 basis points due to a decrease in income earned on interest-free funds (primarily capital), as yields on average earning assets declined in this lower interest rate environment, and to a reduction in the net interest margin resulting from a decline in capital as a percentage of average earning assets.

The System reported provisions for loan losses of \$284 million and \$17 million for the fourth quarters of 2008 and 2007. The provision for loan losses recorded for the fourth quarter of 2008 primarily resulted from credit deterioration due to exceptional volatility in commodity prices, which adversely impacted the livestock/poultry and ethanol sectors, and, to a lesser extent, to a decline in the condition of the overall economy. The provision for loan losses for the fourth quarter of 2007 was due to the credit deterioration in a limited number of loans.

Noninterest income decreased \$6 million to \$130 million for the fourth quarter of 2008, as compared with the same period in 2007. This decrease was due primarily to an increase in losses on other-than-temporarily impaired investments and a decrease in income earned on Farm Credit Insurance Fund investments, offset, in part, by increases in fees for financially related services and other noninterest income. Losses on impaired investments of \$67 million were recognized in the fourth quarter of 2008, as compared with a \$5 million impairment loss for the same period of the prior year.

Noninterest expense increased \$37 million to \$485 million for the fourth quarter of 2008, as compared with the fourth quarter of 2007. This increase was largely due to increases in salaries and employee benefits and other operating expenses.

The provision for income taxes was \$12 million for the fourth quarter of 2008, as compared with \$41 million for the fourth quarter of 2007. The decrease was primarily due to decreased earnings at taxable System institutions during the fourth quarter of 2008.

#### Loan Portfolio Activity

Gross loans increased \$18.517 billion or 13.0% to \$161.423 billion at December 31, 2008, as compared with \$142.906 billion at December 31, 2007. Contributing to the growth in our loan portfolio was the reduced sources of financing for agriculture and related businesses resulting from the overall tighter credit markets. Approximately 45% of the increase in loan volume was attributable to growth in real estate mortgage loans primarily due to continued demand for these loans, marketing efforts by System institutions and competitive rates and products. The remaining loan growth was in the production and intermediate-term loans, communications loans, energy loans and international loans. The increase in production and intermediate-term loans was primarily attributable to increased demand as borrower needs grew because of rising input costs, such as fertilizer and fuel. The increase in communications and energy loans was driven by increased capital expenditures by these borrowers. International loans also increased as tighter world credit markets led to greater lending opportunities in the latter half of 2008.

## Credit Quality

The System's accruing loan volume was \$159.141 billion at December 31, 2008, as compared with \$142.394 billion at December 31, 2007. As noted above, System borrowers were negatively impacted by the overall stress on the general economy and certain sectors of the agricultural economy. Nonaccrual loans were \$2.282 billion at December 31, 2008, as compared with \$512 million at December 31, 2007. This increase was due primarily to the movement into nonaccrual loan status of one large agribusiness loan in the livestock/poultry industry and one large loan to an ethanol producer resulting from higher corn prices that adversely impacted borrowers in these industries. Also impacting the deterioration in the credit quality were loans to other borrowers adversely impacted by commodity price volatility and higher farm input costs in the current agricultural environment and loans to borrowers who were adversely impacted due to deterioration in the general economy. Nonaccrual loans that were current as to principal and interest as a percentage of total nonaccrual loans was 75% at December 31, 2008, as compared with 52% at December 31, 2007. Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due) increased \$1.795 billion to \$2.416 billion at December 31, 2008, as compared with December 31, 2007. These nonperforming loans represented 1.50% of the System's loans at December 31, 2008, an increase from 0.43% at December 31, 2007.

"Extraordinary volatility in commodity prices increased the risk profile of our borrowers, including livestock/poultry producers, producers and marketers of grains and oilseeds, and borrowers that use corn or other grains in their products, including ethanol producers," noted Mr. Stewart. "While we have seen our nonaccrual loans increase as credit deterioration has accelerated in this volatile environment, the current level of nonaccrual loans to total loans has moved more in line with historical averages."

In addition, while other credit quality indicators have declined, they remain at generally favorable levels. Loans classified under the regulatory uniform classification system as acceptable and other assets especially mentioned as a percentage of total loans decreased to 97.1% at December 31, 2008 from 98.5% at December 31, 2007. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased but remained at a relatively low level of 0.53% at year-end 2008, as compared with 0.41% at December 31, 2007.

The allowance for loan losses was \$936 million at December 31, 2008, as compared with \$781 million at December 31, 2007. Net loan charge-offs of \$99 million were recorded during 2008, as compared with \$34 million for 2007. During 2008, one Bank refined its allowance for loan losses methodology and reclassified \$154 million from the allowance for loan losses to the reserve for unfunded commitments, which is included in other liabilities. The allowance for loan losses as a percentage of loans outstanding and nonaccrual loans was 0.58% and 41% at December 31, 2008, as compared with 0.55% and 153% at December 31, 2007. Risk funds (total capital and the allowance for loan losses), which are a measure of risk-bearing capacity, totaled \$28.060 billion at December 31, 2008, representing 17.4% of System loans, as compared with \$27.200 billion and 19.0% at December 31, 2007.

## Agricultural Outlook

Overall, agricultural borrowers' financial conditions remained favorable due to the high levels of farmers' net cash income over the past several years. The February 2009 United States Department of Agriculture forecast estimates 2008 farmers' net cash income (a measure of the cash income after payment of business expenses) at \$93.4 billion, up \$6.0 billion from 2007 and

up \$21.6 billion from its 10-year average. The USDA's February 2009 outlook for the farm economy, as a whole, forecasts 2009 farmers' net cash income to decline to \$77.3 billion, a \$16.1 billion decrease from 2008, but \$5.5 billion above the 10-year average. Contributing to this decrease in farmers' net cash income are decreases in cash receipts for crops of \$18.7 billion and livestock of \$10.9 billion and a decrease in direct government payments of \$1.0 billion, offset, in part, by a decrease in cash expenses of \$14.1 billion and an increase in farm-related income of \$400 million.

### Liquidity and Capital Resources

Cash and investments increased \$7.347 billion to \$43.807 billion at December 31, 2008, as compared with \$36.460 billion at year-end 2007. The System's liquidity position increased to 177 days at December 31, 2008, as compared with 122 days at December 31, 2007. The Banks' liquidity management objectives are designed to meet maturing debt obligations, to provide a reliable source of funding to borrowers and to fund our operations on a cost-effective basis. As noted above, the global credit markets have experienced significant, negative events and, as a result, the global level of credit availability and investor willingness to purchase debt securities issued by financial institutions has been substantially reduced. While we expect to continue to issue Systemwide Debt Securities, the cost of the debt issuances is expected to remain at higher levels. Despite these conditions, the Banks have various resources available to meet liquidity management objectives through the debt maturity structure, holdings of liquid assets and expected continued access to the debt capital markets.

Total capital increased \$705 million during 2008 to \$27.124 billion. The increase was primarily due to net income earned and retained, offset, in part, by the increase in accumulated other comprehensive loss. The System's surplus increased \$1.667 billion to \$23.148 billion during 2008. In July 2008, one Bank issued \$200 million of non-cumulative subordinated perpetual preferred stock with a \$50 per share par value. Dividends are payable quarterly and will accrue at an annual rate equal to 11% of par value per share up to, but excluding, July 1, 2013. Thereafter, dividends will accrue at an annual rate equal to the 3-month USD LIBOR plus 6.79%. The net proceeds from the sale of the preferred stock were used to increase the Bank's capital and for general corporate purposes.

Accumulated other comprehensive loss increased \$1.590 billion during 2008 to \$2.133 billion at December 31, 2008. This increase principally resulted from an increase of \$838 million in unrealized losses on investments available-for-sale to \$1.028 billion during 2008, and from an increase of \$715 million in the unfunded status of pension and other benefit plans to \$1.041 billion. The market value of the investments and pension and other benefit plan assets was negatively impacted by reduced liquidity and increased volatility in the financial markets.

Capital as a percentage of total assets declined to 12.7% at December 31, 2008, as compared with 14.2% at December 31, 2007 due to loan growth and the increase in accumulated other comprehensive loss described above. Although System institutions continue to have favorable capital levels, they continue to evaluate capital and asset management strategies to provide additional capacity and to ensure the demands for future asset growth will be met.

During the second quarter of 2008, one Bank issued \$500 million of 7.875% 10-year subordinated debt. In addition, during the third quarter of 2008, another Bank issued \$50 million of 8.406% 10-year subordinated debt. The net proceeds from these issuances of subordinated debt were used primarily to increase each of the Bank's regulatory permanent capital and total surplus and for general corporate purposes. The debt is subordinate to all other categories of

creditors, including any claims of the holders of Systemwide Debt Securities and general creditors, and is senior to all capital stock and surplus. This debt is not a Systemwide Debt Security, and thus is not the joint and several liability of the other Banks, and is not insured by the Farm Credit System Insurance Corporation.

### 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:

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### 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. 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>December 31, <u>2008</u></b>	<b>December 31, <u>2007</u></b>
Cash and investments	\$ 43,807	\$ 36,460
Loans	161,423	142,906
Less: allowance for loan losses	<u>(936)</u>	<u>(781)</u>
Net loans	<u>160,487</u>	<u>142,125</u>
Accrued interest receivable	1,970	2,013
Other assets	5,174	3,254
Restricted assets	<u>2,915</u>	<u>2,599</u>
Total assets	<u><u>\$214,353</u></u>	<u><u>\$186,451</u></u>
 Systemwide Debt Securities:		
Due within one year	\$ 65,722	\$ 57,034
Due after one year	<u>112,643</u>	<u>97,409</u>
Total Systemwide Debt Securities	178,365	154,443
Subordinated debt	1,050	500
Other bonds	1,404	852
Other liabilities	<u>6,410</u>	<u>4,237</u>
Total liabilities	<u><u>187,229</u></u>	<u><u>160,032</u></u>
 Preferred stock	1,771	1,525
Capital stock	1,423	1,357
Restricted capital	2,915	2,599
Accumulated other comprehensive loss	(2,133)	(543)
Surplus	<u>23,148</u>	<u>21,481</u>
Total capital	<u>27,124</u>	<u>26,419</u>
Total liabilities and capital	<u><u>\$214,353</u></u>	<u><u>\$186,451</u></u>

**STATEMENT OF INCOME DATA**

	<b>For The Quarter Ended <u>December 31,</u> (unaudited)</b>		<b>For The Year Ended <u>December 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Interest income	\$2,649	\$2,948	\$10,822	\$11,422
Interest expense	<u>(1,452)</u>	<u>(1,896)</u>	<u>(6,120)</u>	<u>(7,362)</u>
Net interest income	1,197	1,052	4,702	4,060
Provision for loan losses	(284)	(17)	(408)	(81)
Noninterest income	130	136	502	462
Noninterest expense	<u>(485)</u>	<u>(448)</u>	<u>(1,727)</u>	<u>(1,597)</u>
Income before income taxes	558	723	3,069	2,844
Provision for income taxes	<u>(12)</u>	<u>(41)</u>	<u>(153)</u>	<u>(141)</u>
Net income	<u><u>\$ 546</u></u>	<u><u>\$ 682</u></u>	<u><u>\$ 2,916</u></u>	<u><u>\$ 2,703</u></u>