FCA Board Meeting
December 2020




Quarterly Report on FCS Condition

December 10, 2020

Steven Koenig
Hal Johnson

Topics for Open Session




- Economic Conditions Affecting the Farm Credit System
  - Economic conditions
  - Commodities and trade
  - Agriculture sector finance
- FCS Condition and Performance
  - System growth and loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)




Economic Conditions Affecting the Farm Credit System

Steven Koenig

Senior Agricultural Economist
Office of Data Analytics and Economics

Economic trends going into 2021

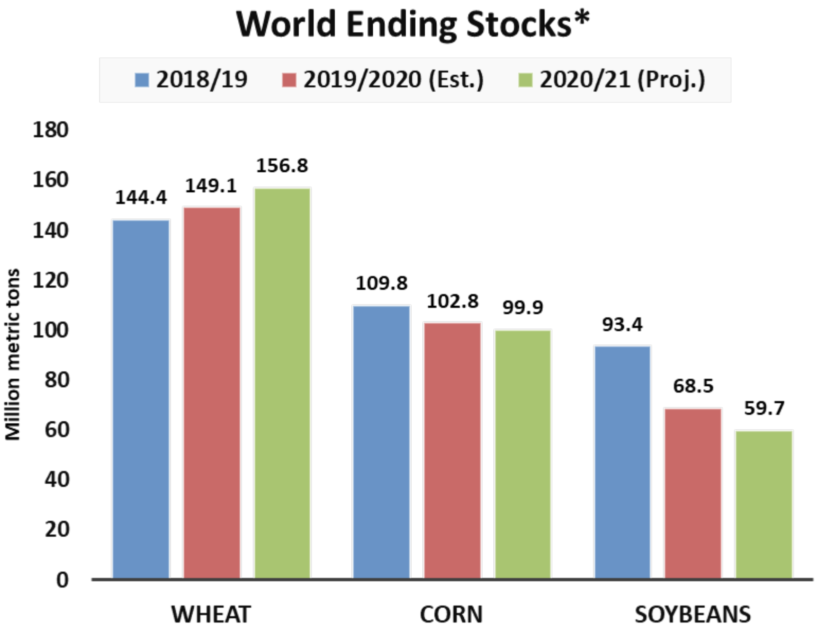
- World & U.S. economies expected to rebound in 2021 but under continuing pandemic influences and uncertainties

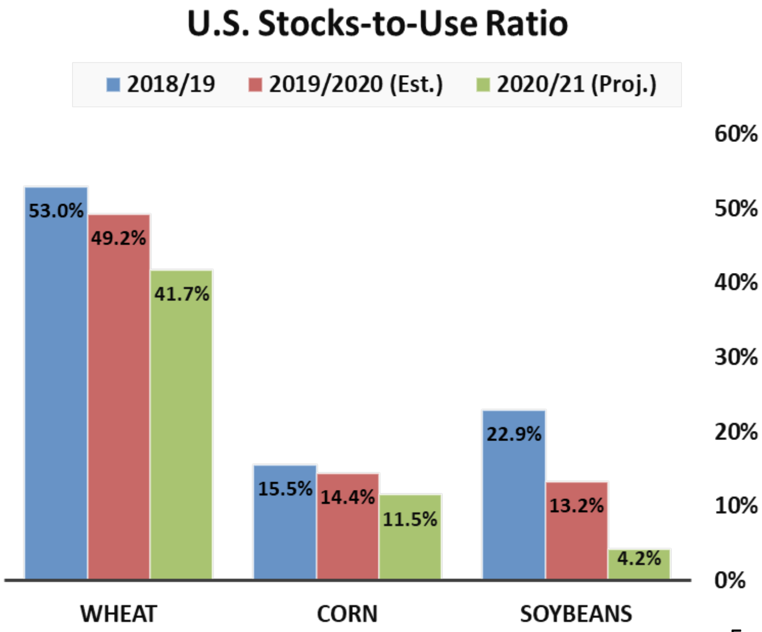
- World trade growth
  - China
  - Dollar value

- U.S. economy rebounds with support
  - U.S. labor markets healing
  - Consumer spending is a strength
  - Business investment rebounds

Improved prospects for major cash crops

Corn and soybean supplies tighten





* Excluding China.
Data source: USDA/WAOB, November 10, 2020.

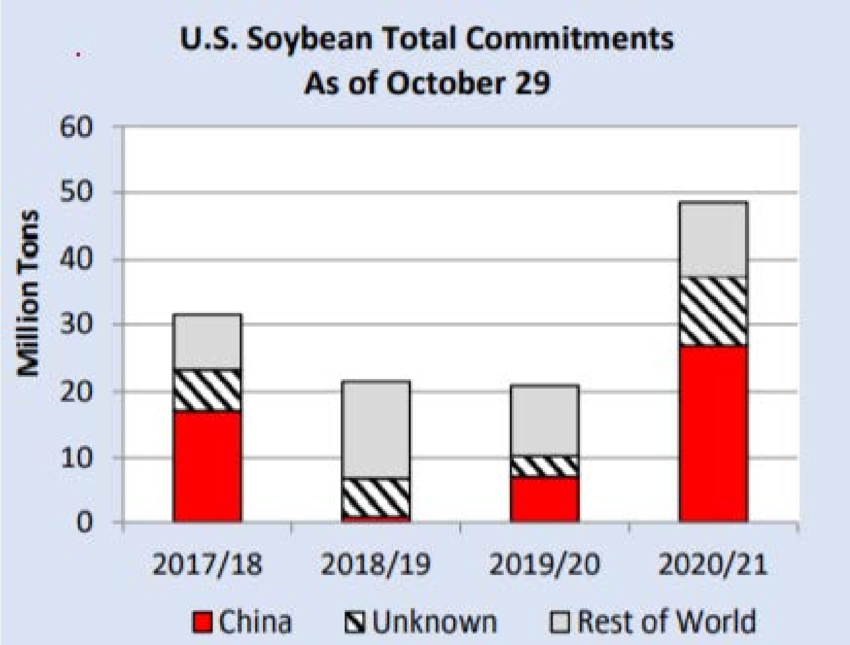
China returns to the market




- China has returned to purchasing soybeans in the U.S. market in part to meet the needs of recovering hog production in the aftermath of the African Swine Fever.

- U.S. soybean export commitments to China this year are expected rise to 26.8 million tons compared to 7.1 million the previous year.

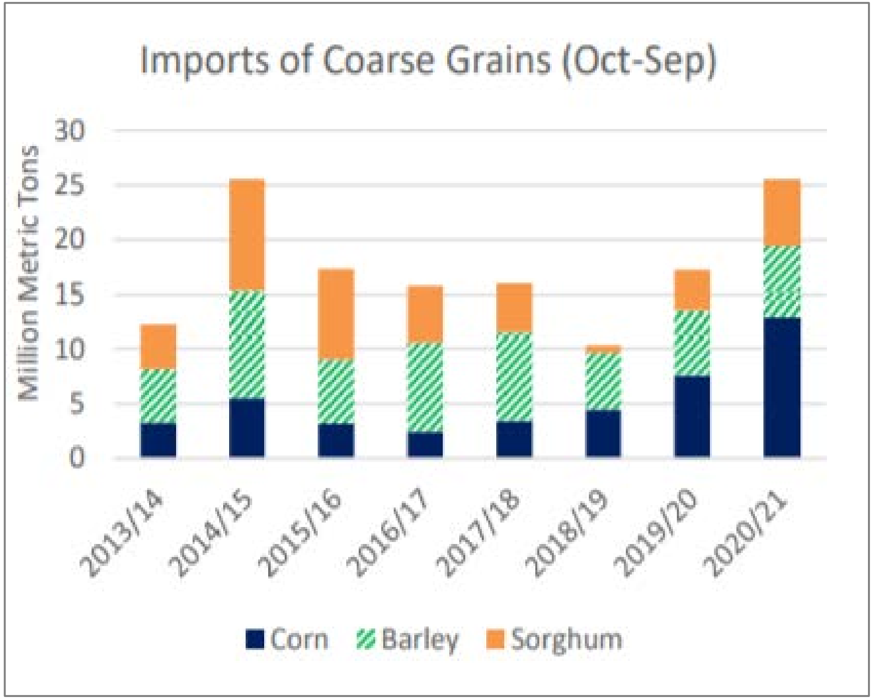
- Total soybean commitments to the world, including unknown destinations, more than doubled to 48.5 million tons compared to 20.9 million last year.



Source: USDA/FAS.

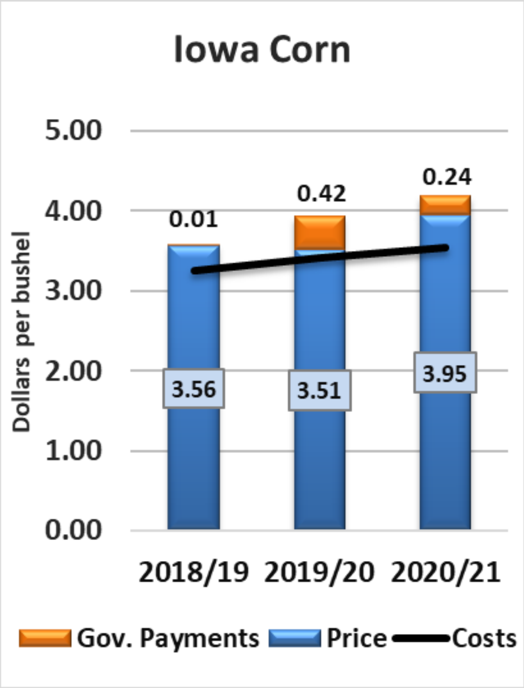
China returns to the market

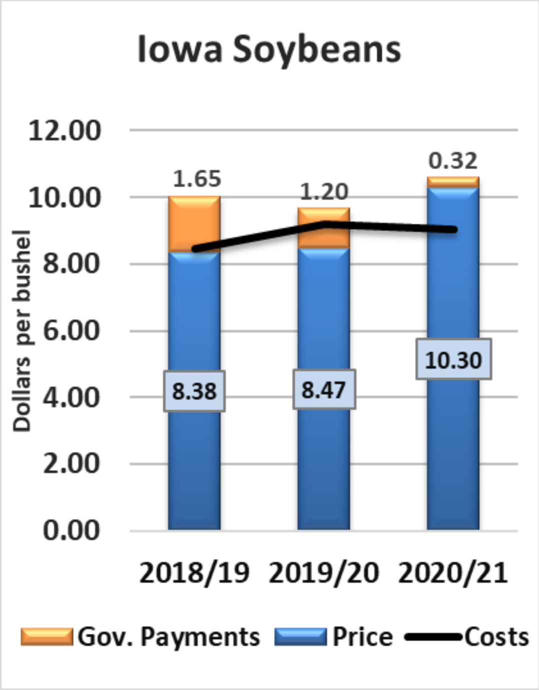
- China's combined grain imports are forecast at a record level in 2020/21 driven by demand for feedstuffs.
- Greater imports by China are primarily driven by corn purchases.
- China wheat imports of 8.0 million tons in 2020/21 are forecast at their highest level in 25 years. The demand is being driven for feed-quality wheat in the face of high price of domestic corn.

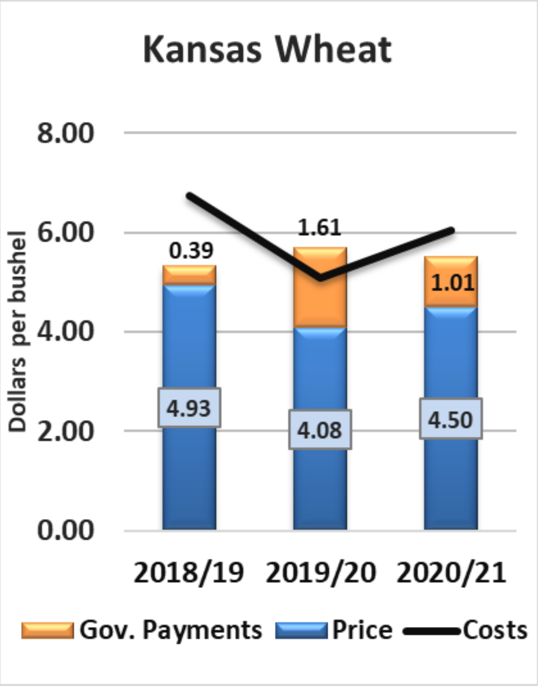


Source: USDA/FAS.

Profits for corn and soybeans but not wheat

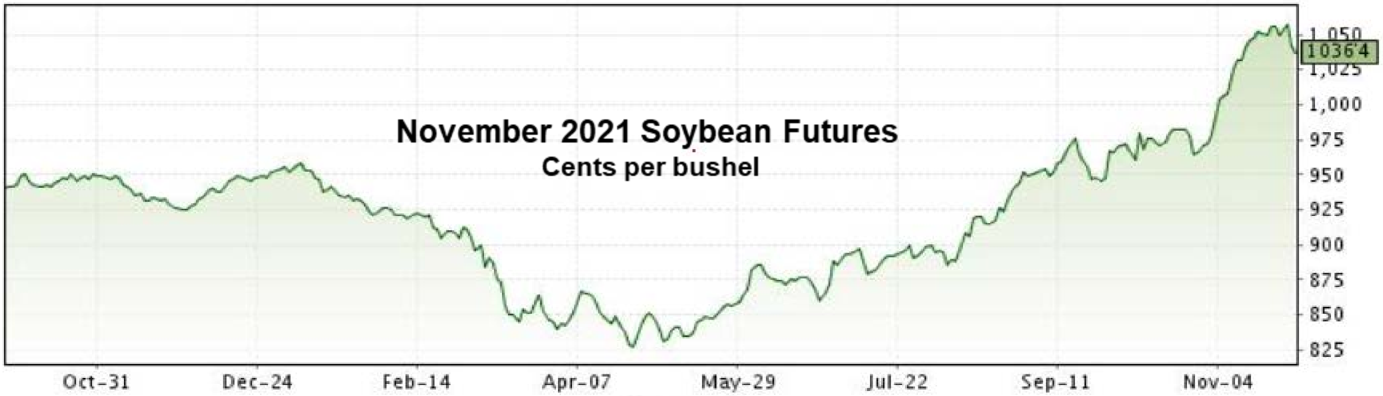


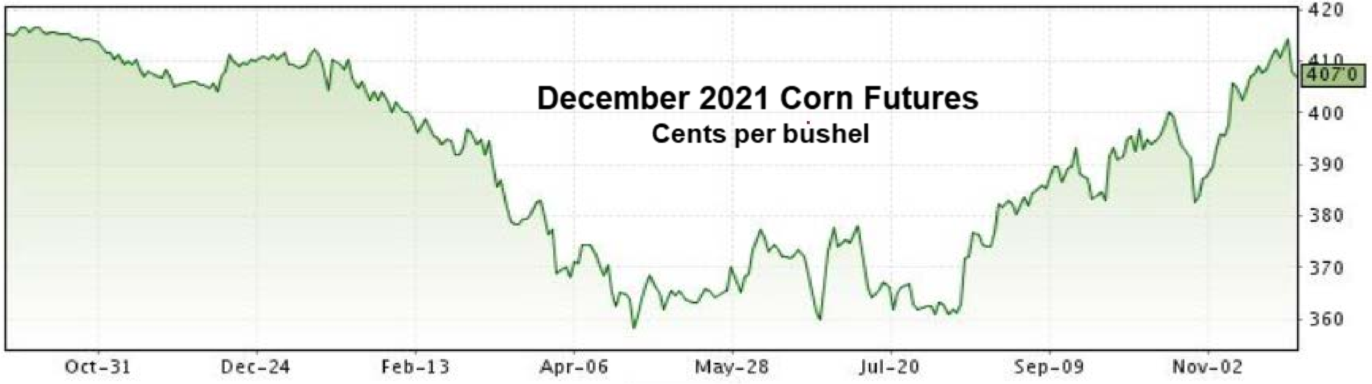




Sources: USDA/WAOB data and FCA/ODAE.

Looking ahead: future prices offer pricing opportunities

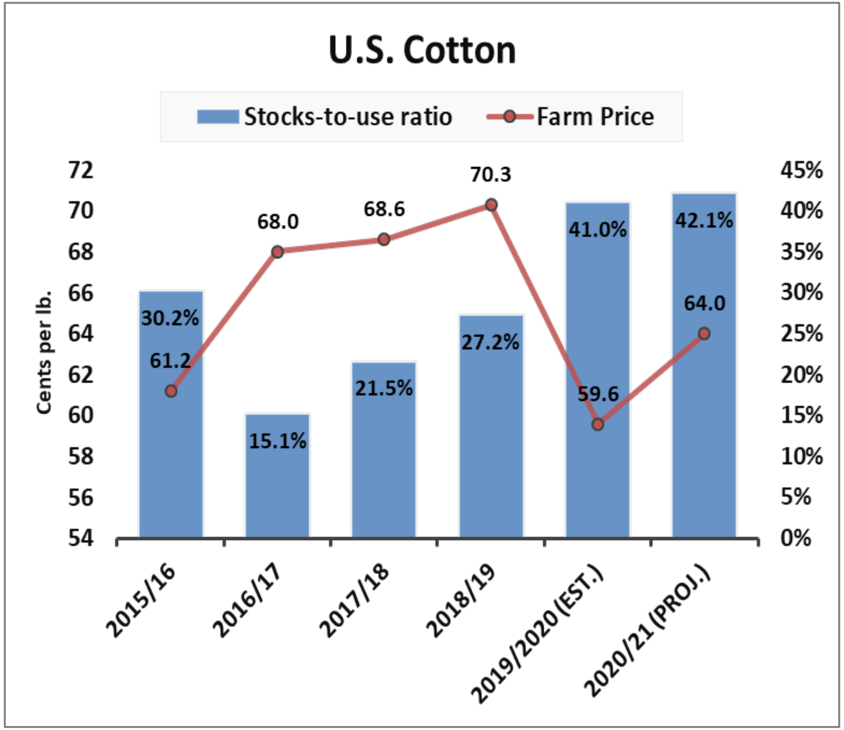




Data source: DTN, as of 12/1/2020.

Cotton depends on trade

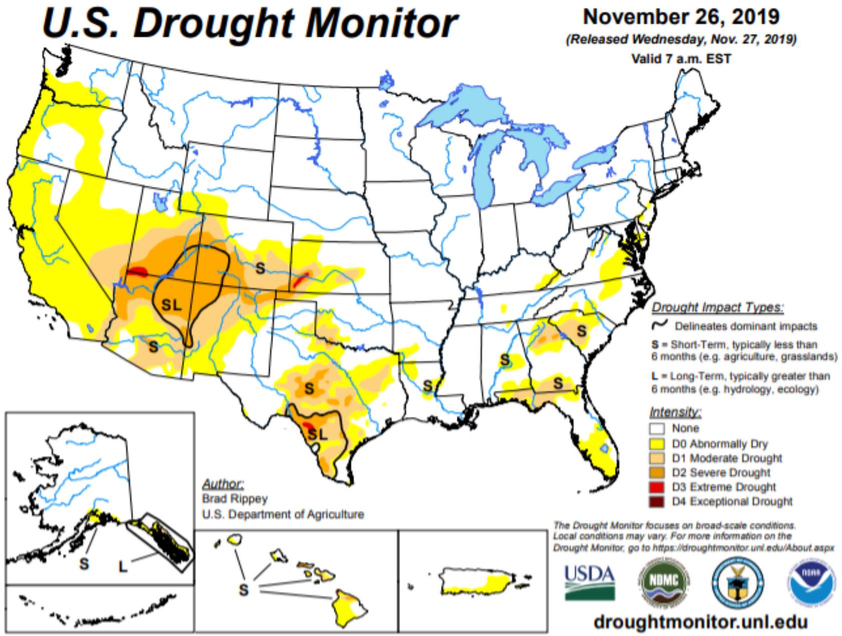
- U.S. stock-to-use ratio is the highest since 2007/08
- Ample world production and supplies restrain prices
- Softer demand in the pandemic
- Favorable U.S. yields and government payments help producers

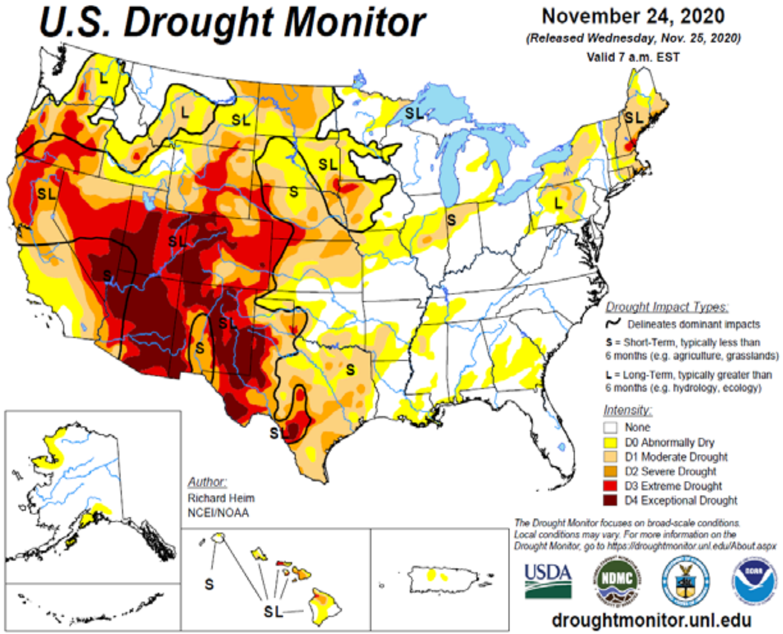


Note: Upland cotton prices.
Data source: USDA/WAOB, November 10, 2020.

Outlook for 2021: Drought watch





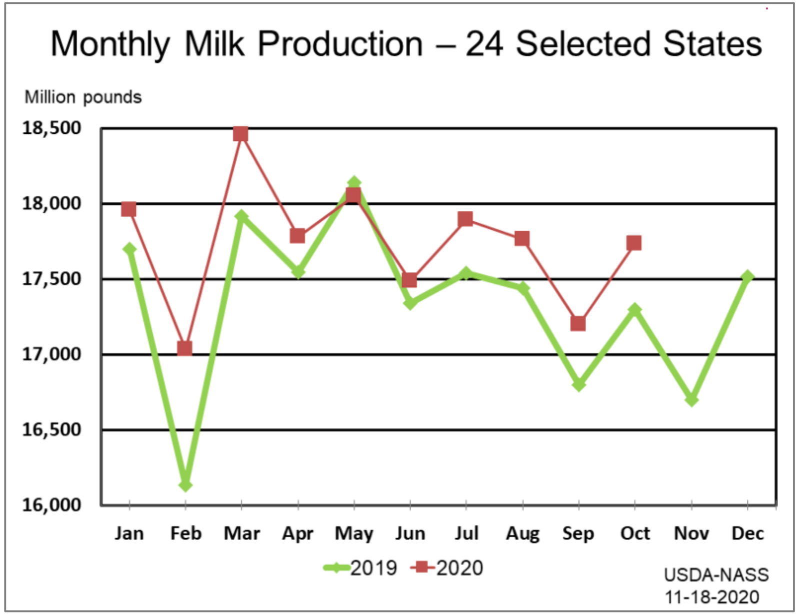
Source: https://droughtmonitor.unl.edu/.

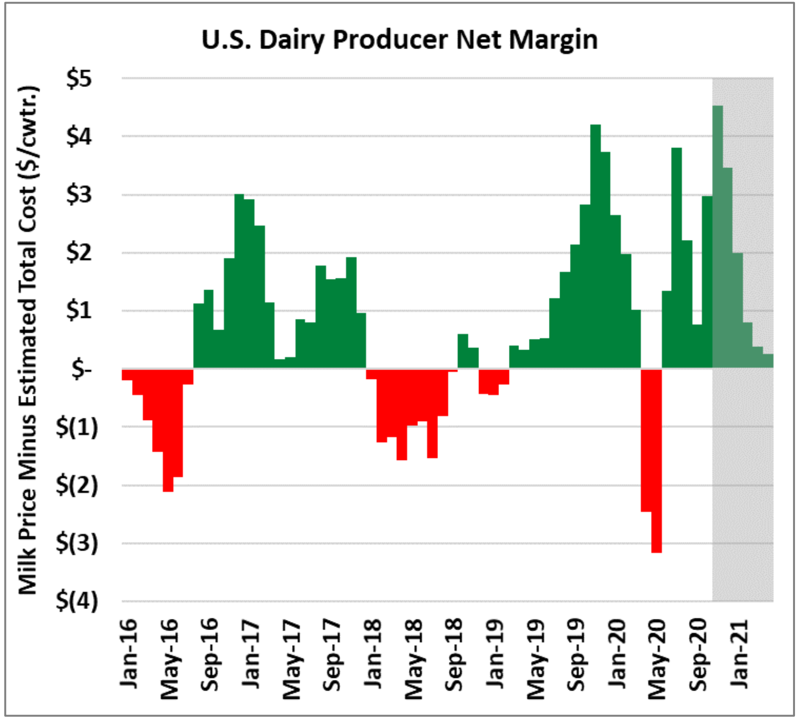
Mixed picture for protein




- Tight margins for cow/calf and feeders
- Profits for dairy and hogs
- Broilers continue to see red
- Looking ahead:
  - Retail vs. food service marketing disruptions
  - Processing changes & disruptions
  - Rising feed costs
  - Export growth

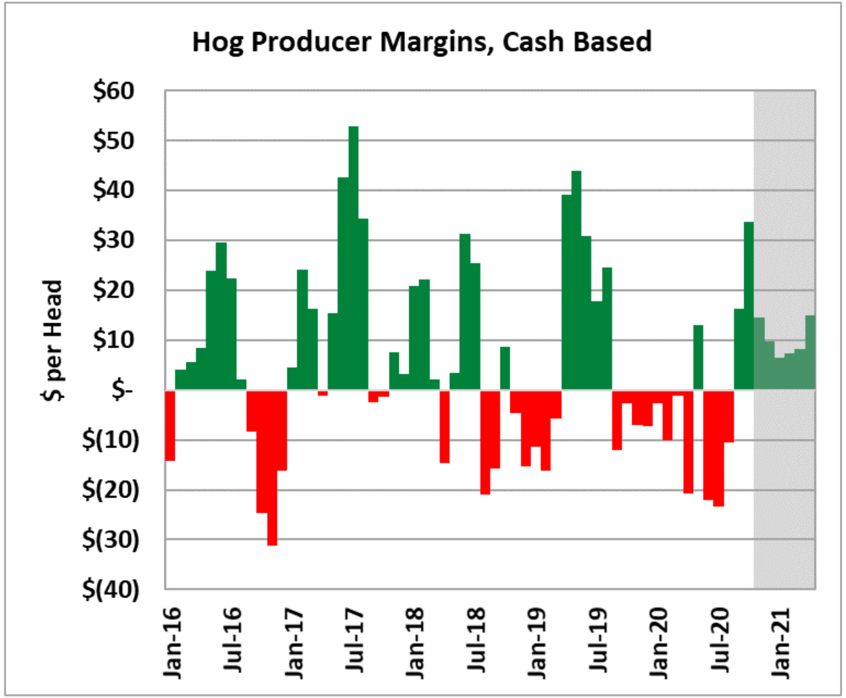
Dairy production and profits rise



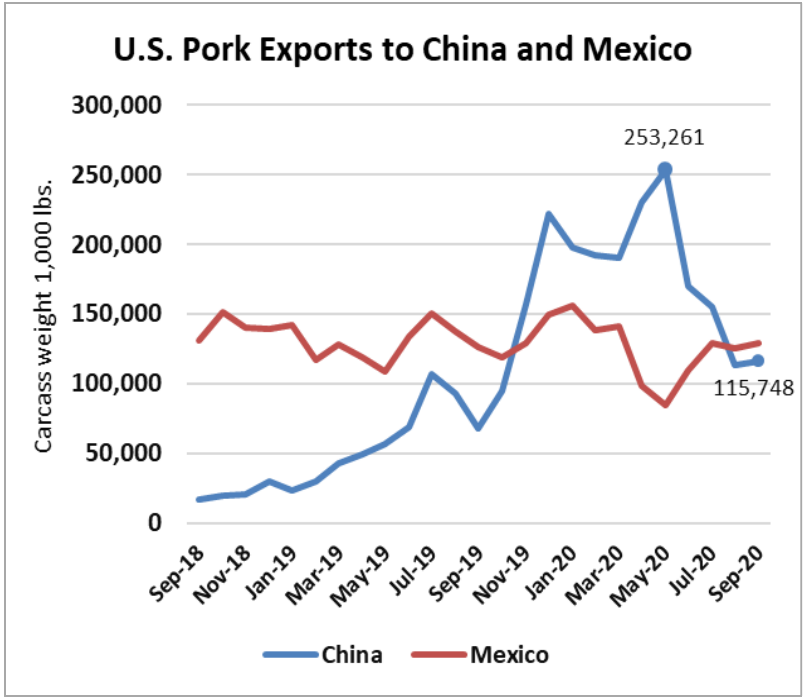


Shaded areas is a forecast.
Source: IHS Markit.

Hog profits return…China backs off



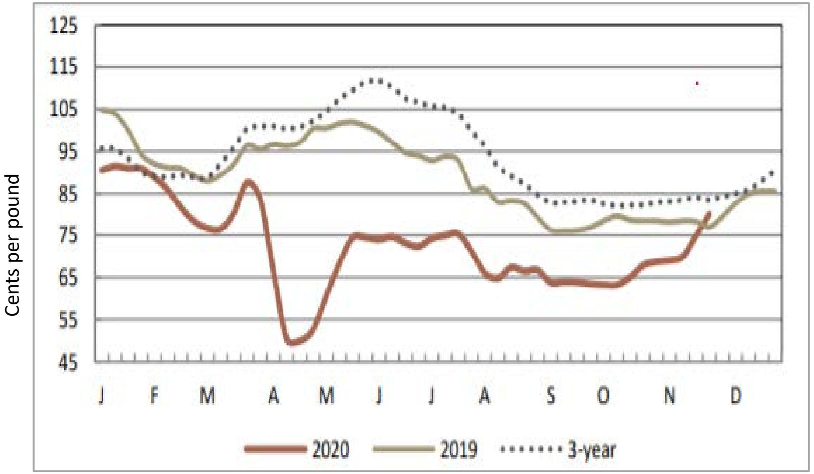
Shaded area is a forecast.
Source: IHS Markit.



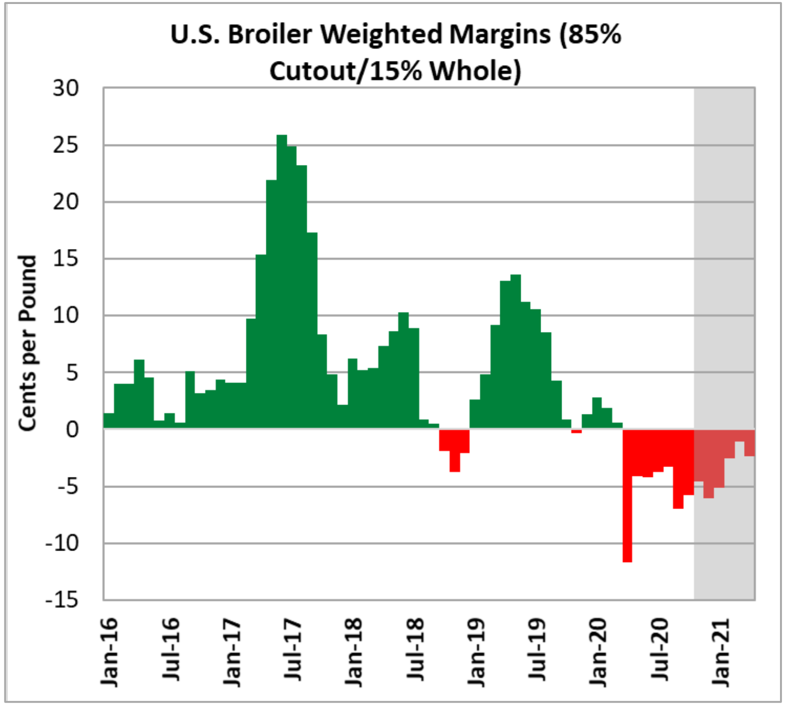
Data Source: USDA/FAS.

Broiler returns coming out of the red?

National Whole Broiler/Fryer Composite Price



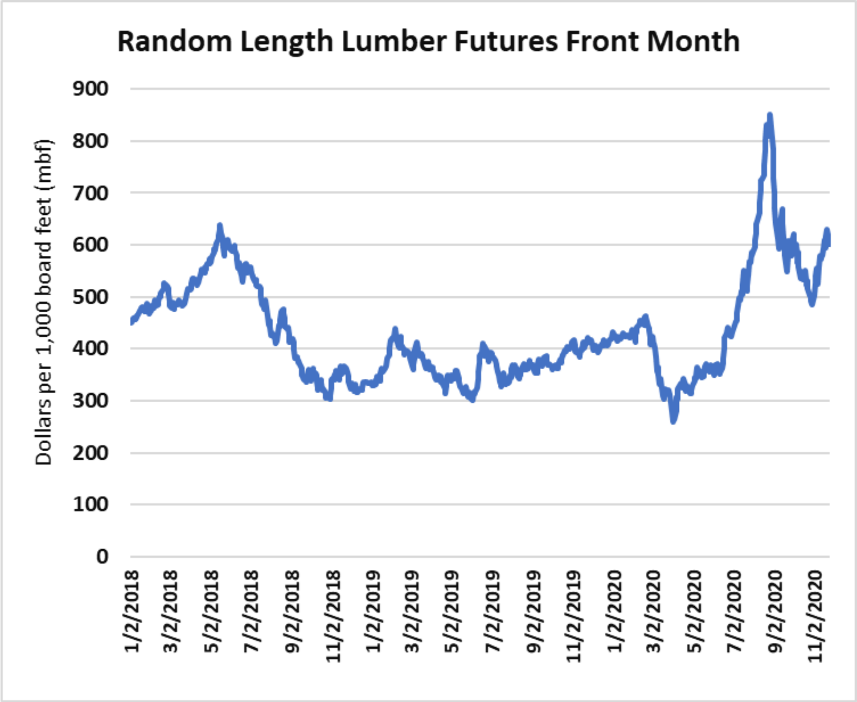
Source: USDA/AMS.



Shaded area is a forecast.
Source: IHS Markit.

Forestry, nursery, rural housing benefit

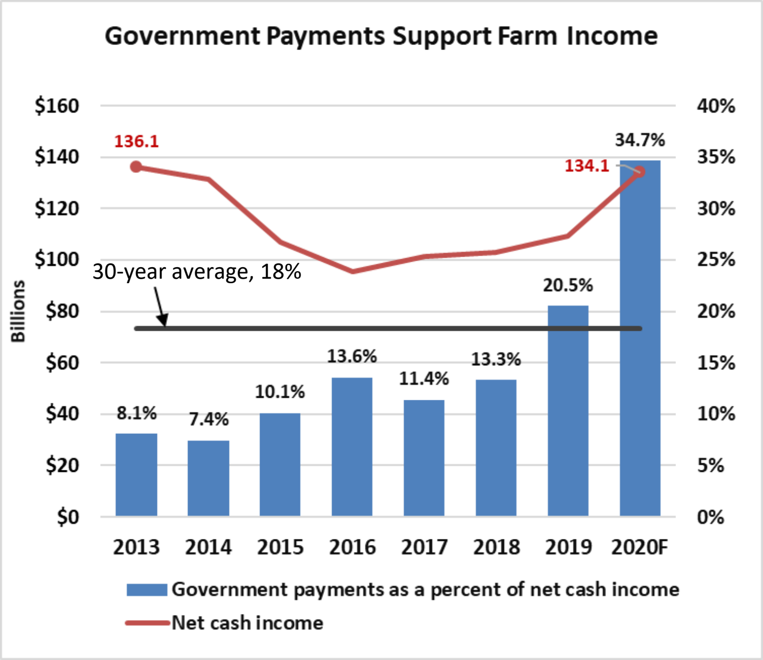
- Home purchases and prices move higher on historically low interest rates and shift in COVID-induced demand
- Forestry products (timber and wood manufacturing) and nursery products see direct benefit from construction and remodeling boom
- Paper products see increased packaging demand from e-commerce

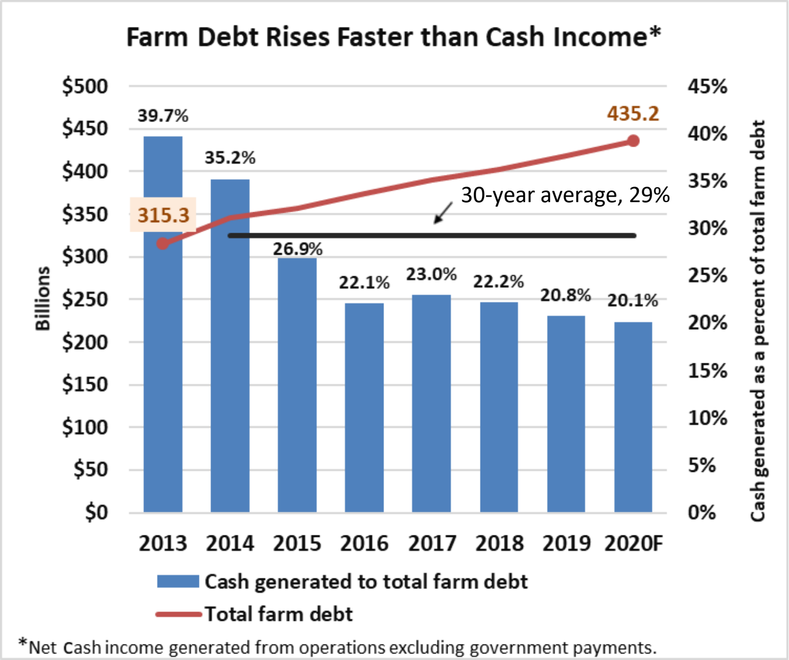


Data: www.macrotrends.net.

Farm finance measures signal caution



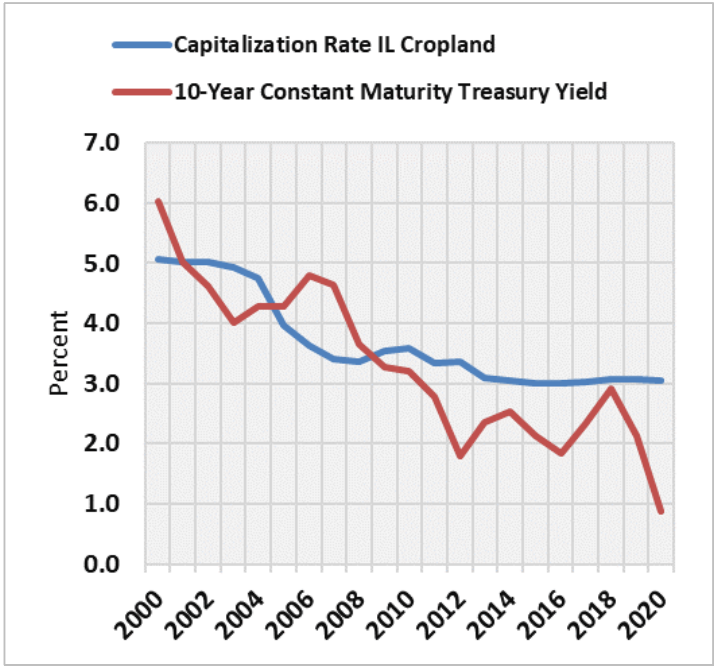



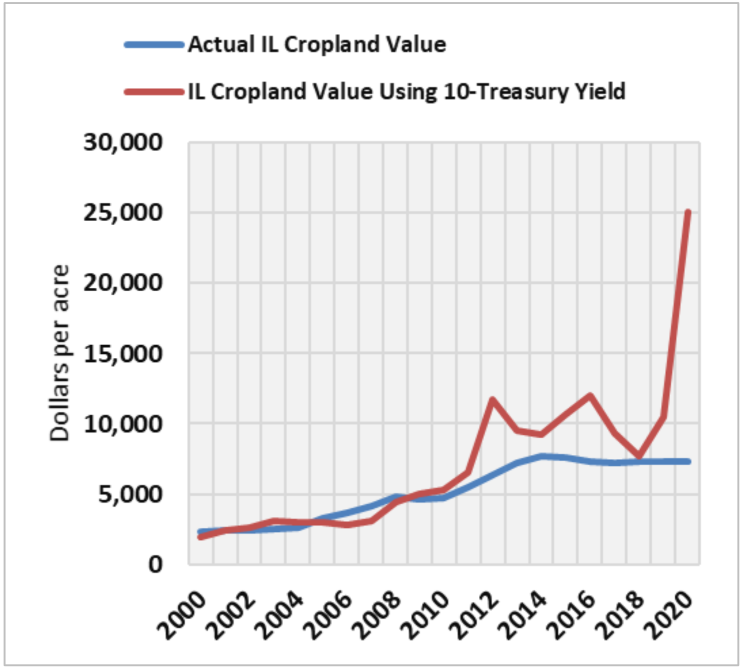


Data source: USDA, Economic Research Service, 12/2/2020.

The stalwart farmland market

Historically low rates, limited land supply, rising land returns





Data sources : USDA and St. Louis Federal Reserve Bank.

Concluding comments

- Challenges in U.S. economic recovery
- Mixed outlook for major farm commodities
- Global demand uncertainties
- Future policies impacting Ag

Questions

THANK YOU




Farm Credit System Condition and Performance

as of
September 30, 2020

Hal Johnson
Sr. Financial Analyst
Office of Examination

Topics

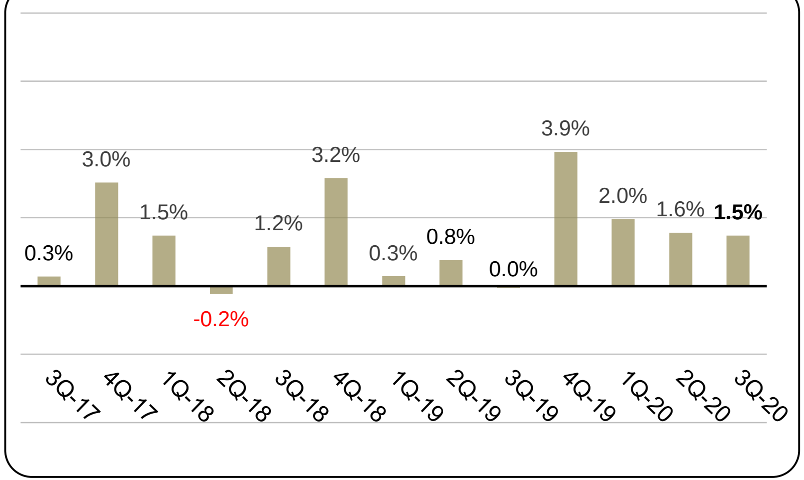



- System growth
- Portfolio credit quality
- Earnings
- Capital | Liquidity
- FIRS

Strong real estate mortgage lending continued to drive portfolio loan growth

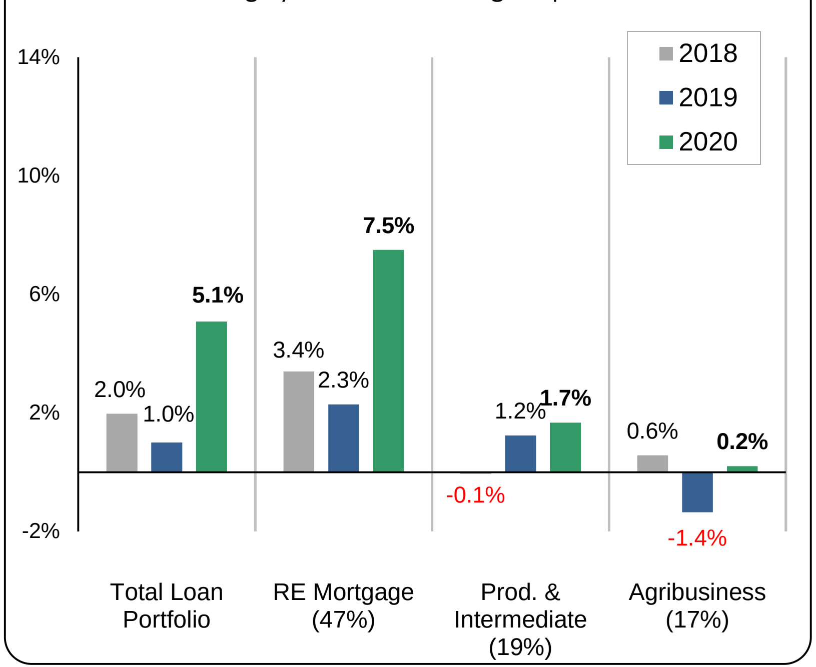
Total Assets 9/30/20	$384.9 billion	0.1% Qtr	+5.4% YTD
Gross Loans 9/30/20	$301.6 billion	+1.5% Qtr	+5.1% YTD

Quarterly Portfolio Loan Growth



Loan Growth by Loan Type

% change year-to-date through September



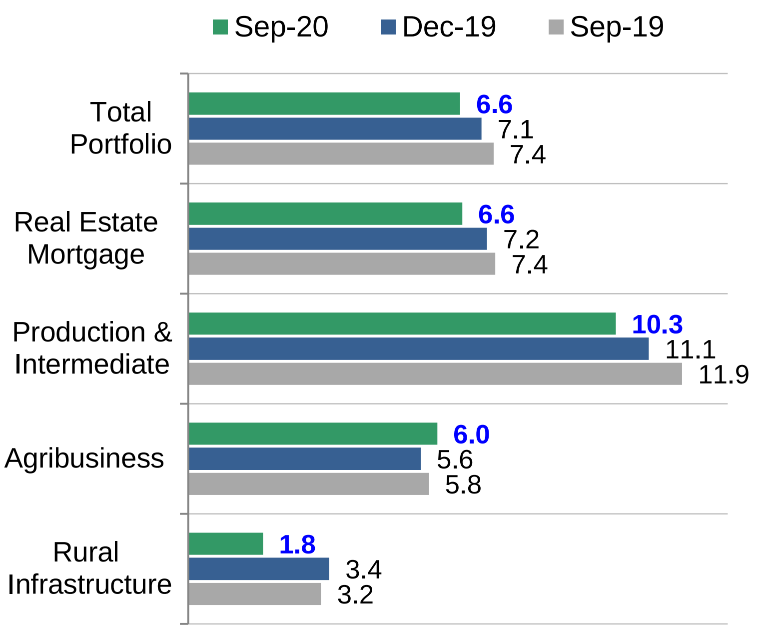
Source: FCS Information Statements

Portfolio loan quality remained stable

Nonperforming Assets (9/30/20)	**$2.321** billion	YTD chg.	- $26M or -1.1%
		12 month chg.	- $228M or -8.9%
Delinquencies [1] (9/30/20)	**0.28%**	Q4 '19	0.32%
		Q3 '19	0.30%

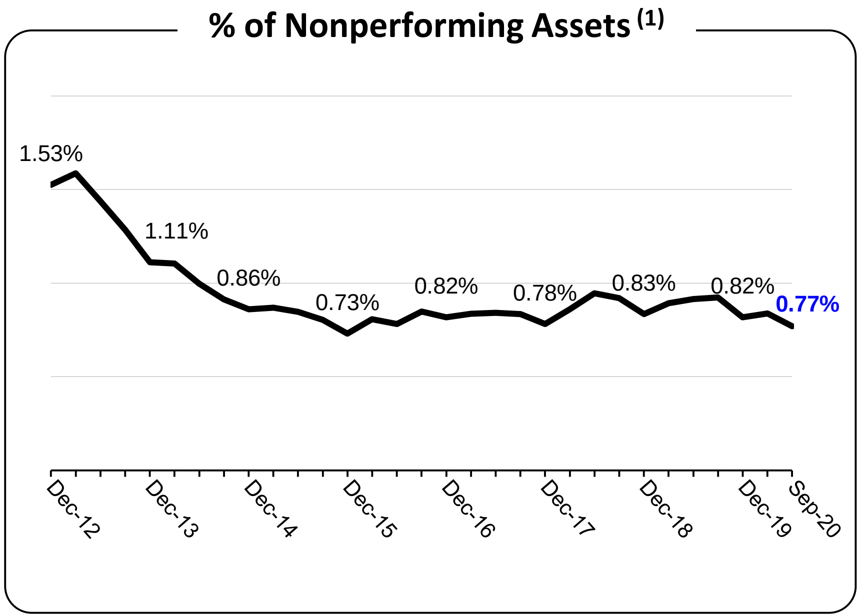
(1) accruing loans 30 days or more past due as a % of accruing loans

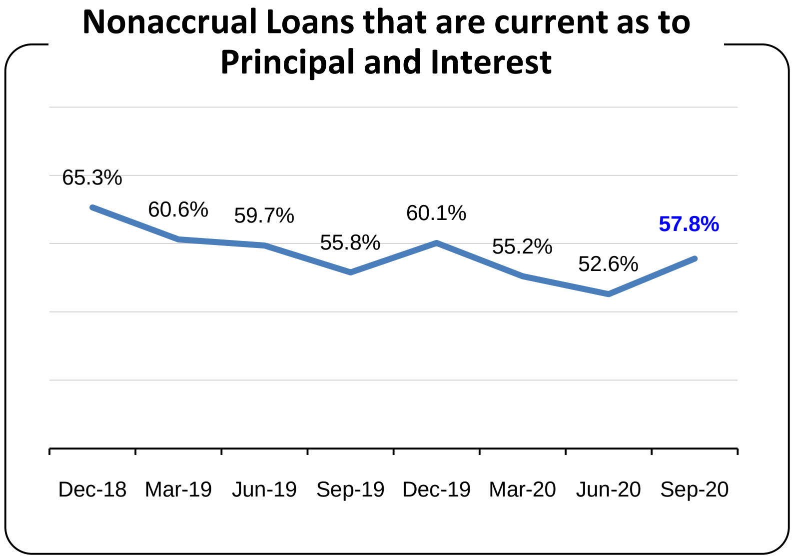
% of Loans Classified less than Acceptable



Source: FCS Information Statements

Percentage of nonperforming assets edge lower as nonaccrual loans decline



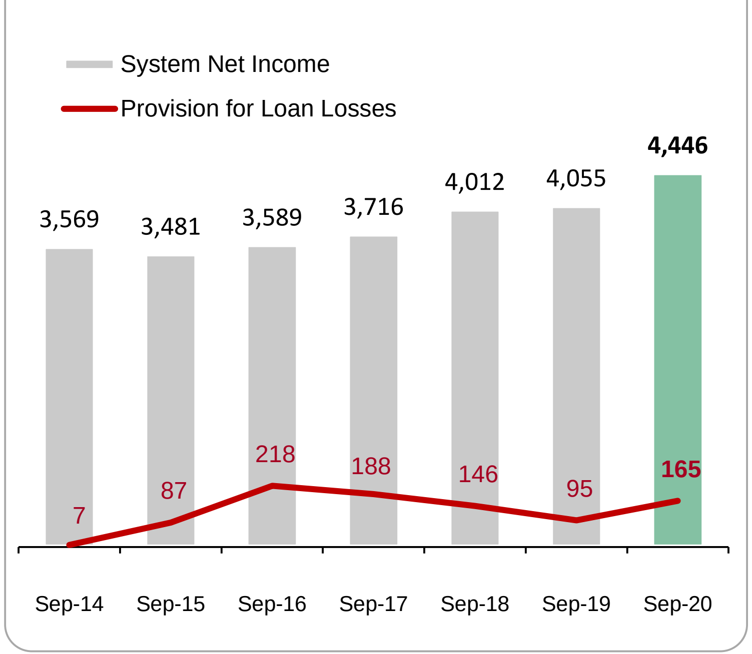


(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

Source: FCS Information Statements

The System reports strong earnings; interest spread widens year-over-year

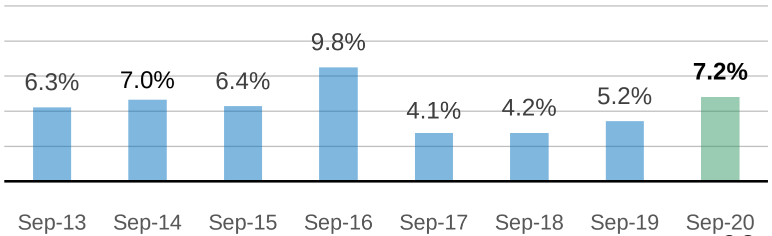
System Earnings **($M)**
Year-to-date through September



Source: FCS Information Statements

	Sept. '18	Sept. '19	Sept '20
Net Interest Spread (YTD annualized)	**2.13%**	**2.02%**	**2.22%**
Net Interest Margin (YTD annualized)	**2.45%**	**2.41%**	**2.45%**

% increase in Average Earning Assets
(compared to the same period a year ago)



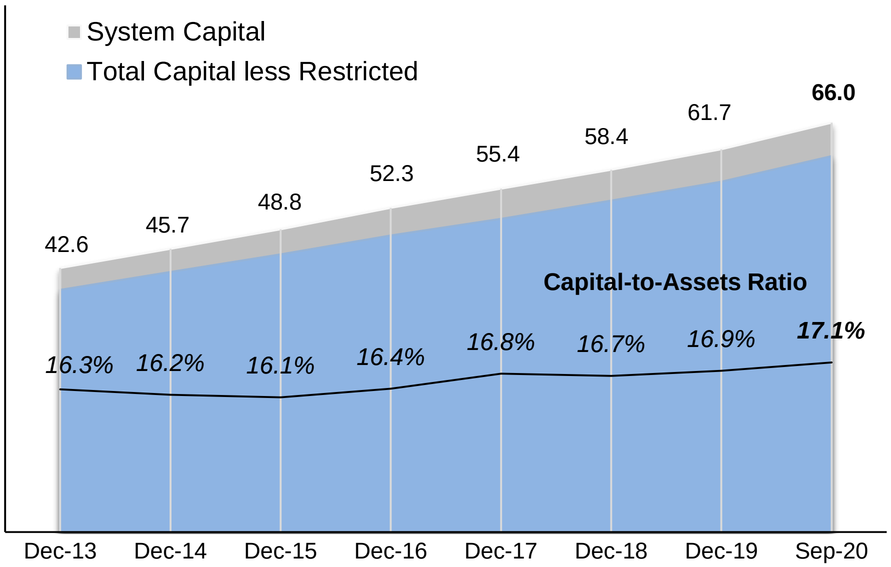
The System is strongly capitalized

Capital and Liquidity
(as of September 30, 2020)

- Total Regulatory Capital:
  Banks| 15.8% to 18.5%
  Associations| 12.0% to 37.4%
- Days of liquidity for the four funding banks ranged from 168 to 218 days
- Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.7% to 23.7% at a combined district level

Source: FCS Information Statements

Total System Capital ($B)



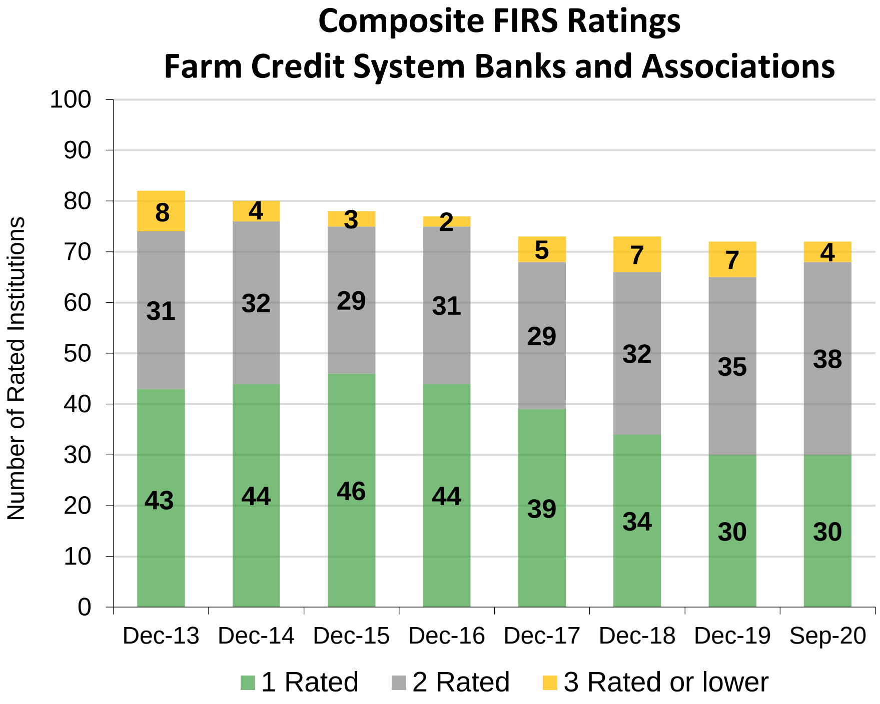
Note: Restricted capital represents capital associated with the Insurance Fund.

System FIRS ratings

FIRS Ratings

(based on 9/30/20 financial reporting)

- Composite FIRS ratings remained steady in the 3rd quarter
- Almost 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower account for about 1.0% of System assets



Source: FCA's FIRS ratings database

Summary and final points

- U.S. economic activity rebounded sharply in the 3rd quarter.
- Prospects have improved for the major cash crops, but challenges remain for the livestock sector.
- System portfolio loan quality has been stable, but the risk environment for agriculture remains elevated.
- The Farm Credit System remains fundamentally safe and financially sound.
- System institutions are strongly capitalized and are well-positioned to support agricultural producers and rural America.

Questions




THANK YOU