

FCA Board Meeting
September 2023



Quarterly Report on FCS Condition
September 14, 2023

Greg Lyons
Mindy Stultz





Topics for Open Session

Economic Conditions Affecting the Farm Credit System

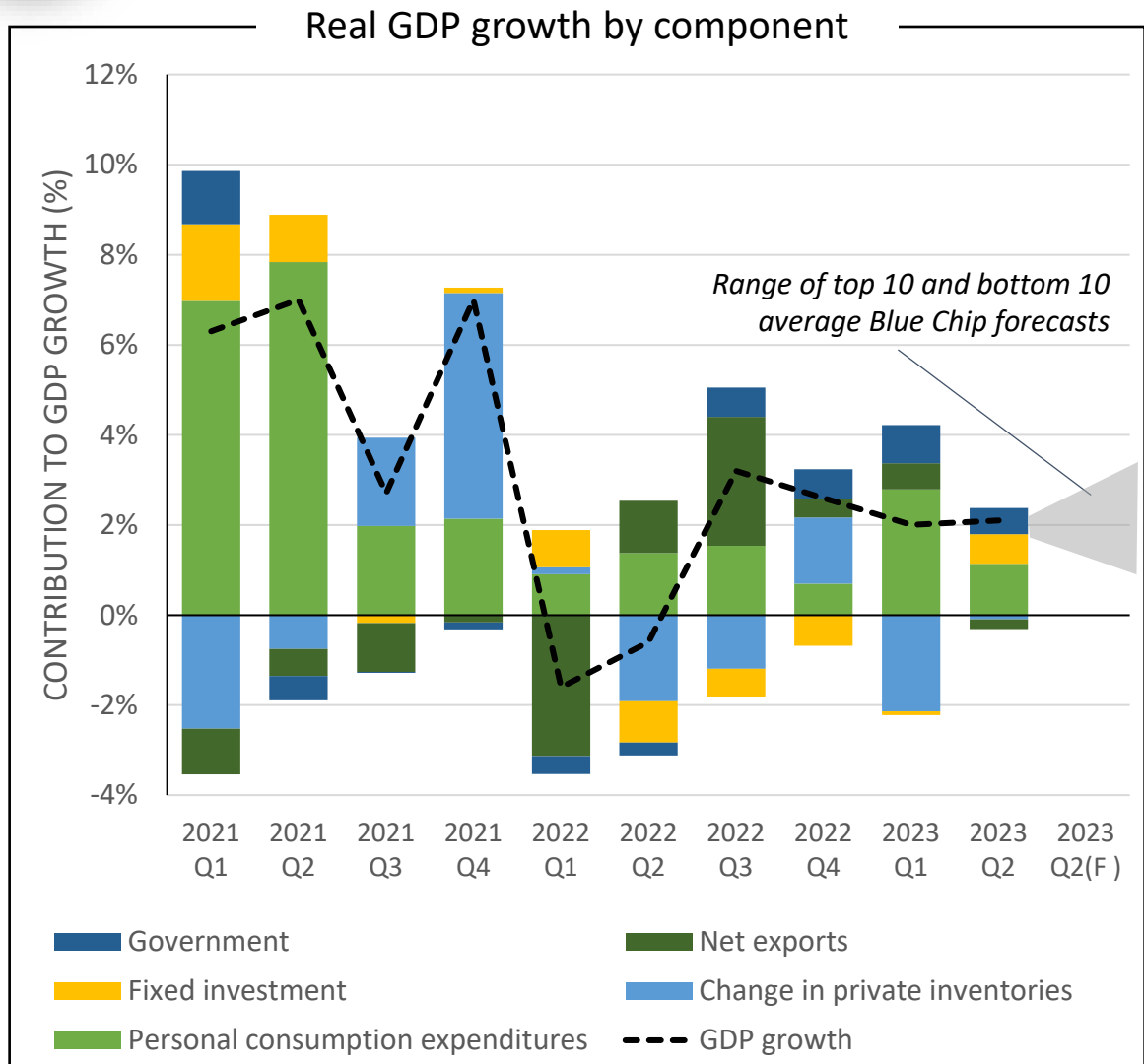
- Near term economic resilience
- Contributions to inflation
- Agricultural incomes
- Farmland markets

Farm Credit System Condition and Performance

- System growth and loan portfolio credit quality
- Earnings and capital
- Financial Institution Rating System (FIRS)



Economic growth continues to defy expectations amidst near-term uncertainty



Slow but stable growth to date

- Consumer spending drives recent growth
- Labor markets support consumer activity
- Improving outlook for second-half 2023

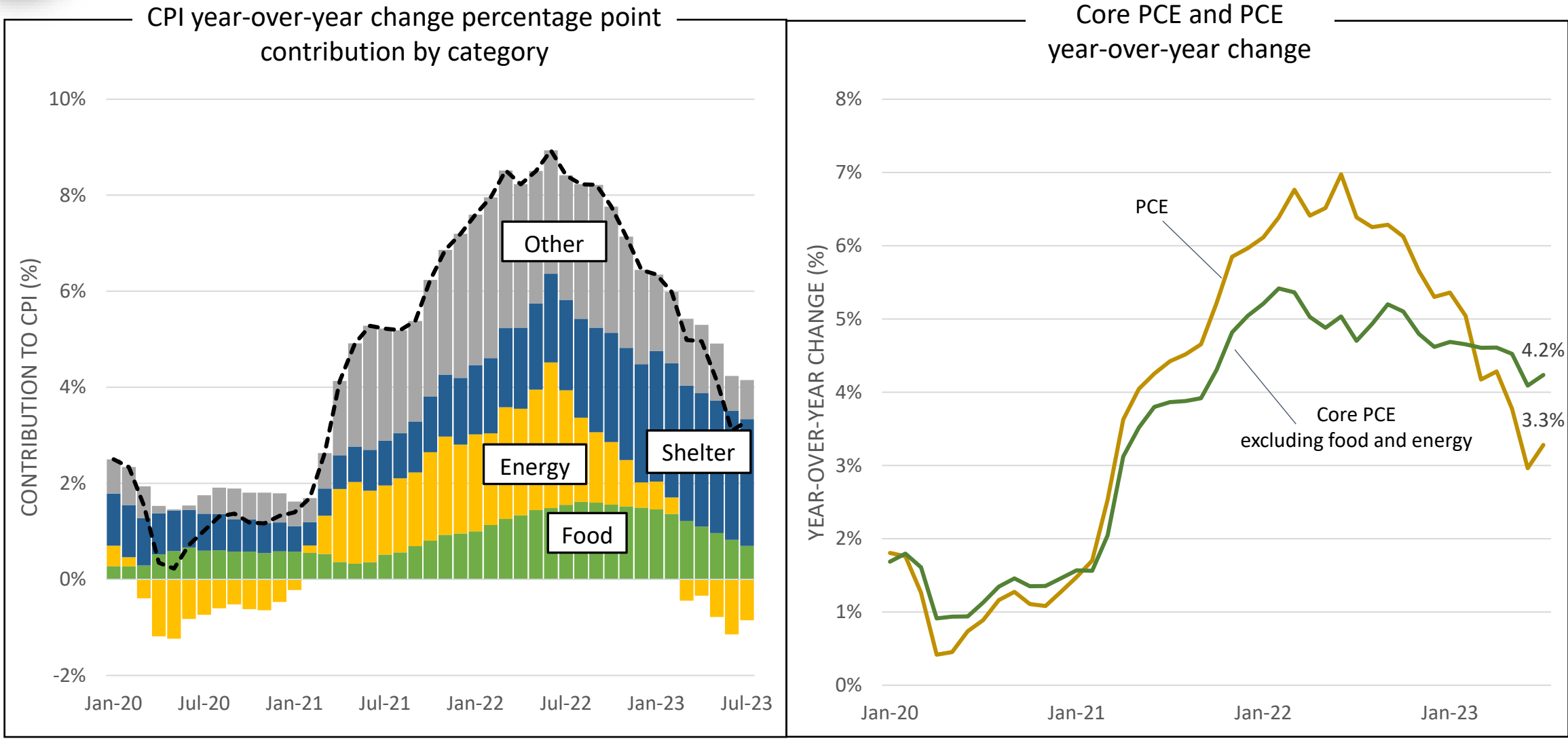
Uncertain 2024 outlook

- Consumer sentiment falls
- Manufacturing pulls back
- Inflation

Source: Bureau of Economic Analysis, Gross Domestic Product (Second Estimate).
Blue Chip forecast range from Federal Reserve Bank of Atlanta GDPNow.



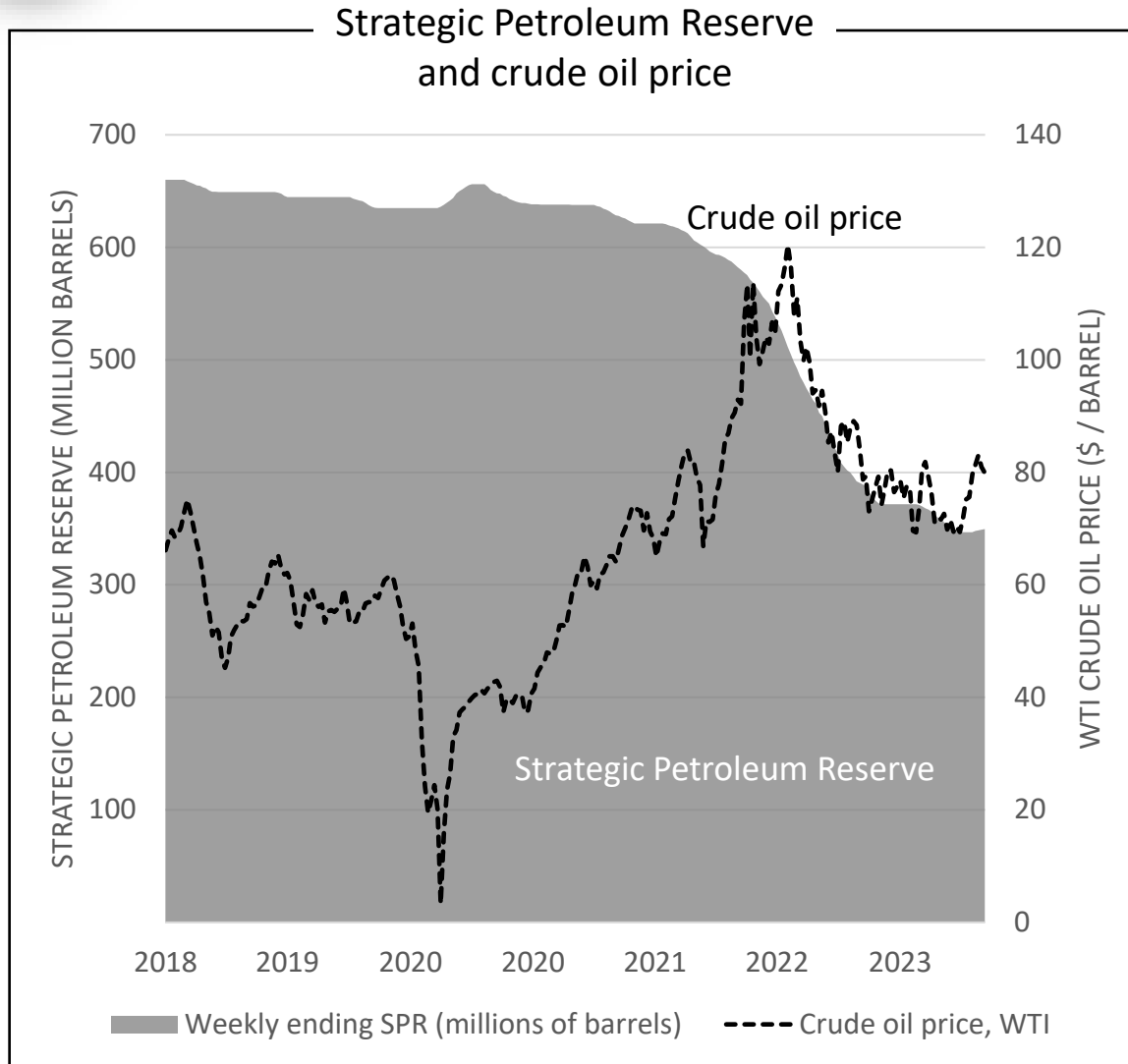
Overall inflation moderates, but core inflation shows slower declines



Source: U.S. Bureau of Labor Statistics Consumer Price Index, author's calculations and U.S. Bureau of Economic Analysis Personal Income and Outlays.



Energy price declines have contributed to slower inflation



No further price declines anticipated

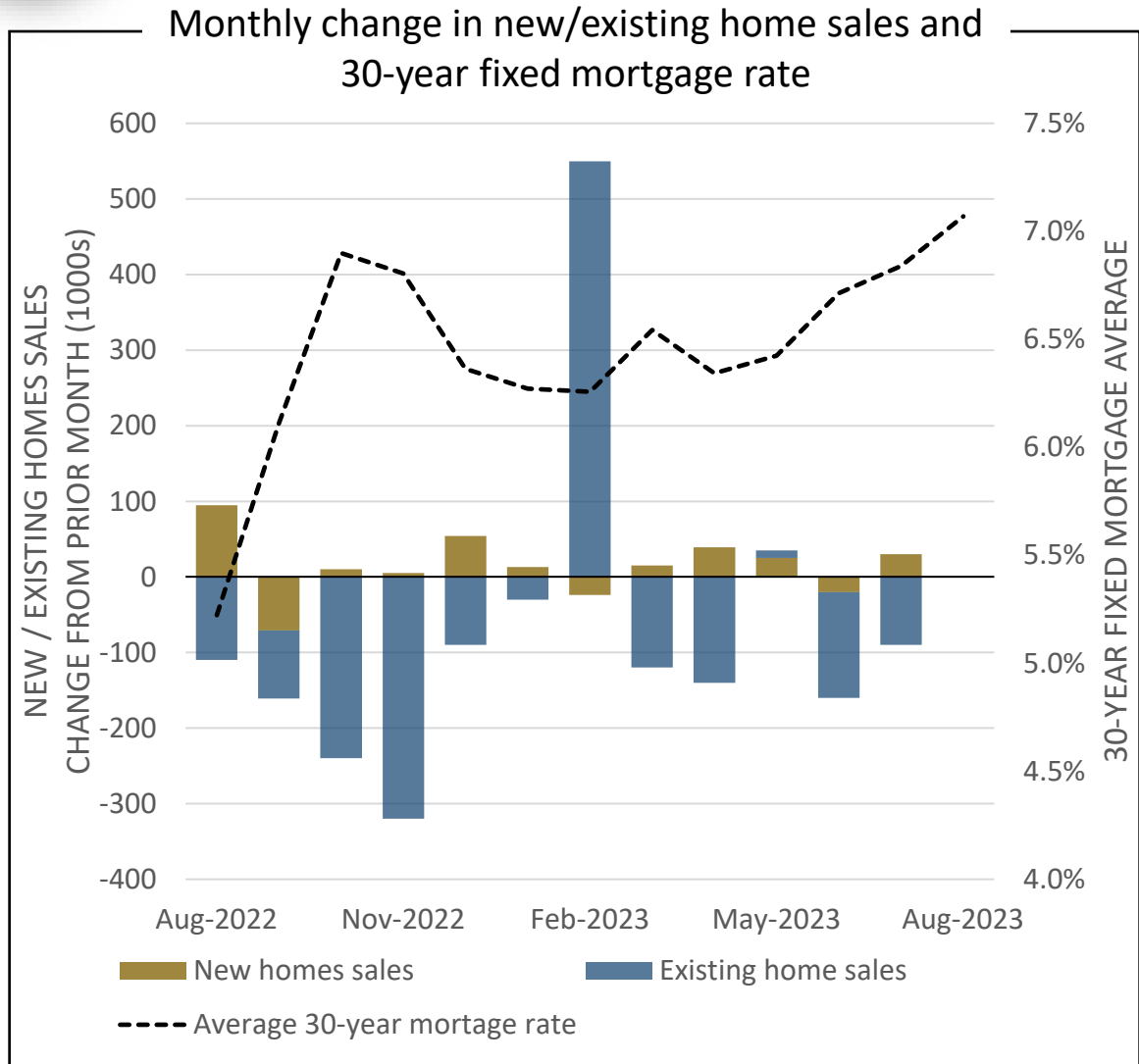
- Refilling the SPR
- Impacts to inflation largely accounted for

Stable short-term price outlooks

- Gains in U.S., other non-OPEC production
- Production cuts add uncertainty



Shelter cost growth remains high due to low inventories, some signs of moderation



Low inventories pressure shelter prices

- High mortgage rates
- Fewer “plans to move”

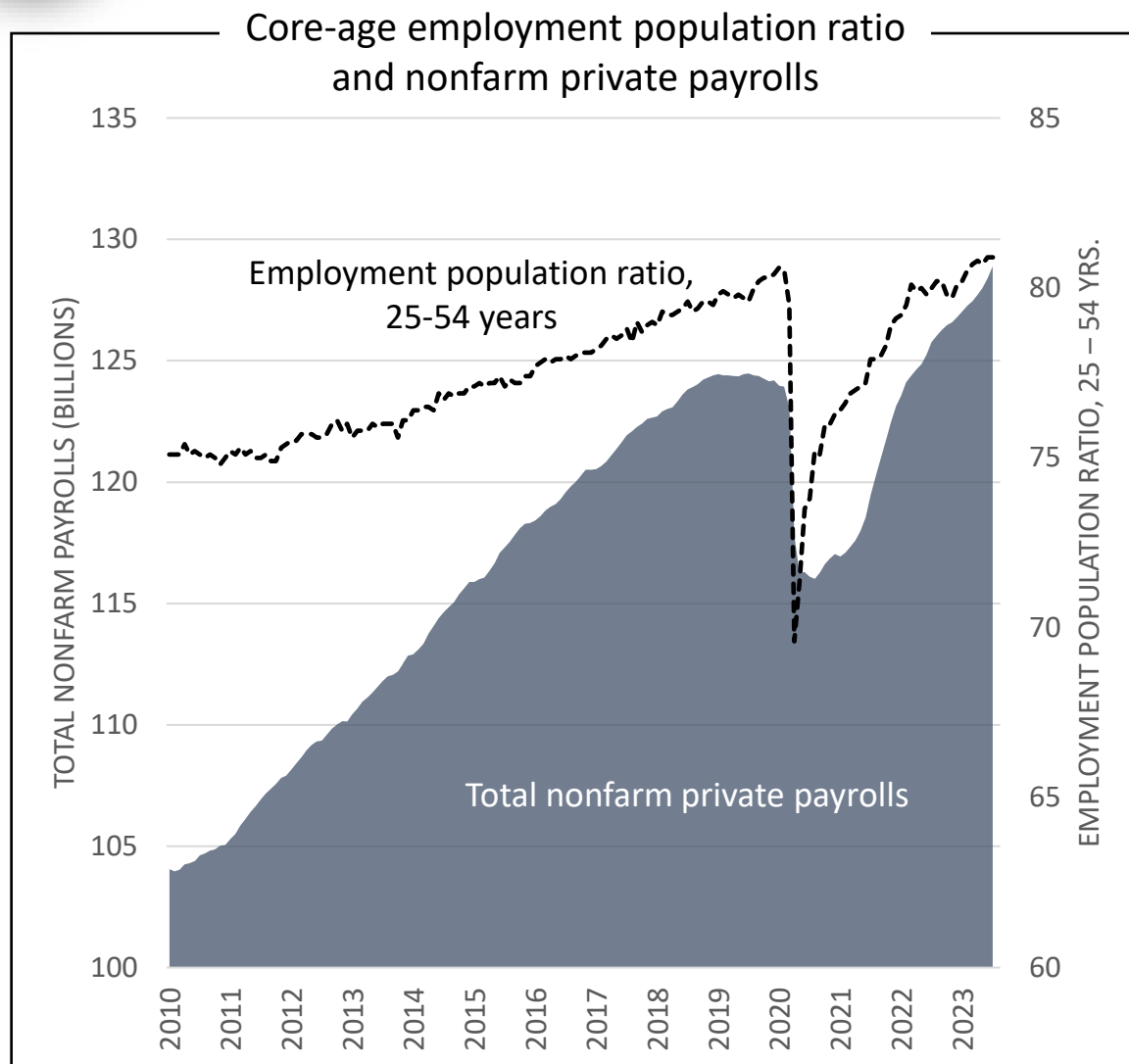
A peak in shelter prices?

- CPI shelter price growth slows
- New construction rebounds

Source: U.S. Census Bureau, New Residential Construction. Freddie Mac, Primary Mortgage Market Survey.



Tight labor markets show signs of softening



Existing labor force remains tight

- Core-age employment ratios at record high
- 65+ population employment remains low

Some signs of easing conditions

- Job openings, quits come off record highs
- Increases in foreign-born labor population

Payrolls driving looser conditions

- Payroll growth slows
- Some sectors signal reduced labor needs



Net farm income drops sharply in 2023 driven by falling cash receipts, select expenses

Farm incomes forecast above average

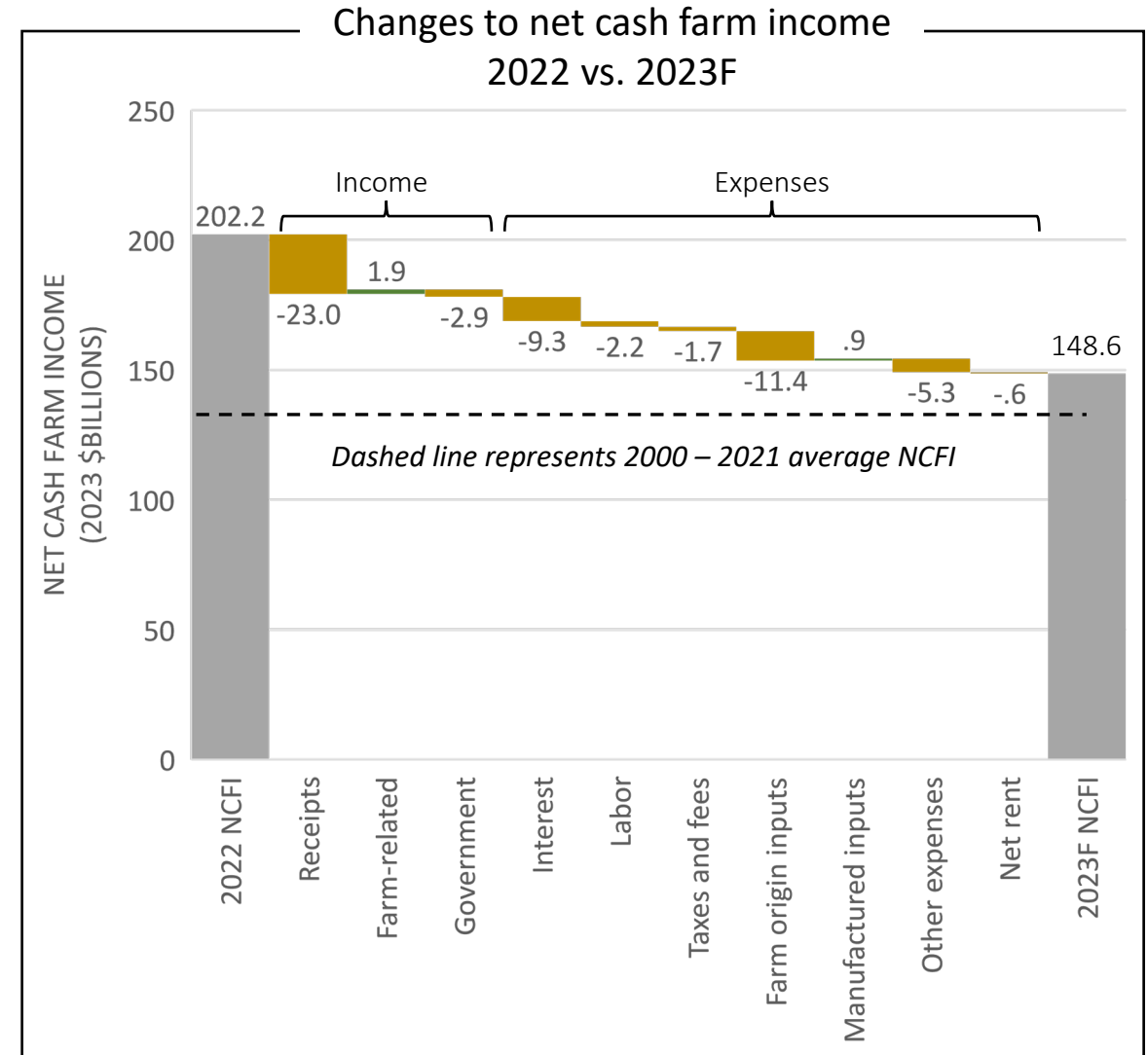
- Cash receipt declines dominate
- Receipts remain near record highs

Revised forecast shows broader declines

- Nonreal estate interest expenses
- Government payments near multi-decade lows

Farm sector financial ratios remain strong

- Solvency ratios improve for 4th consecutive year
- Liquidity, profitability metrics fall from peak



Source: USDA Economic Research Service Farm Income and Wealth Statistics, August 31, 2023 Release.



Commodity profitability forecast to fall through 2024

Crops

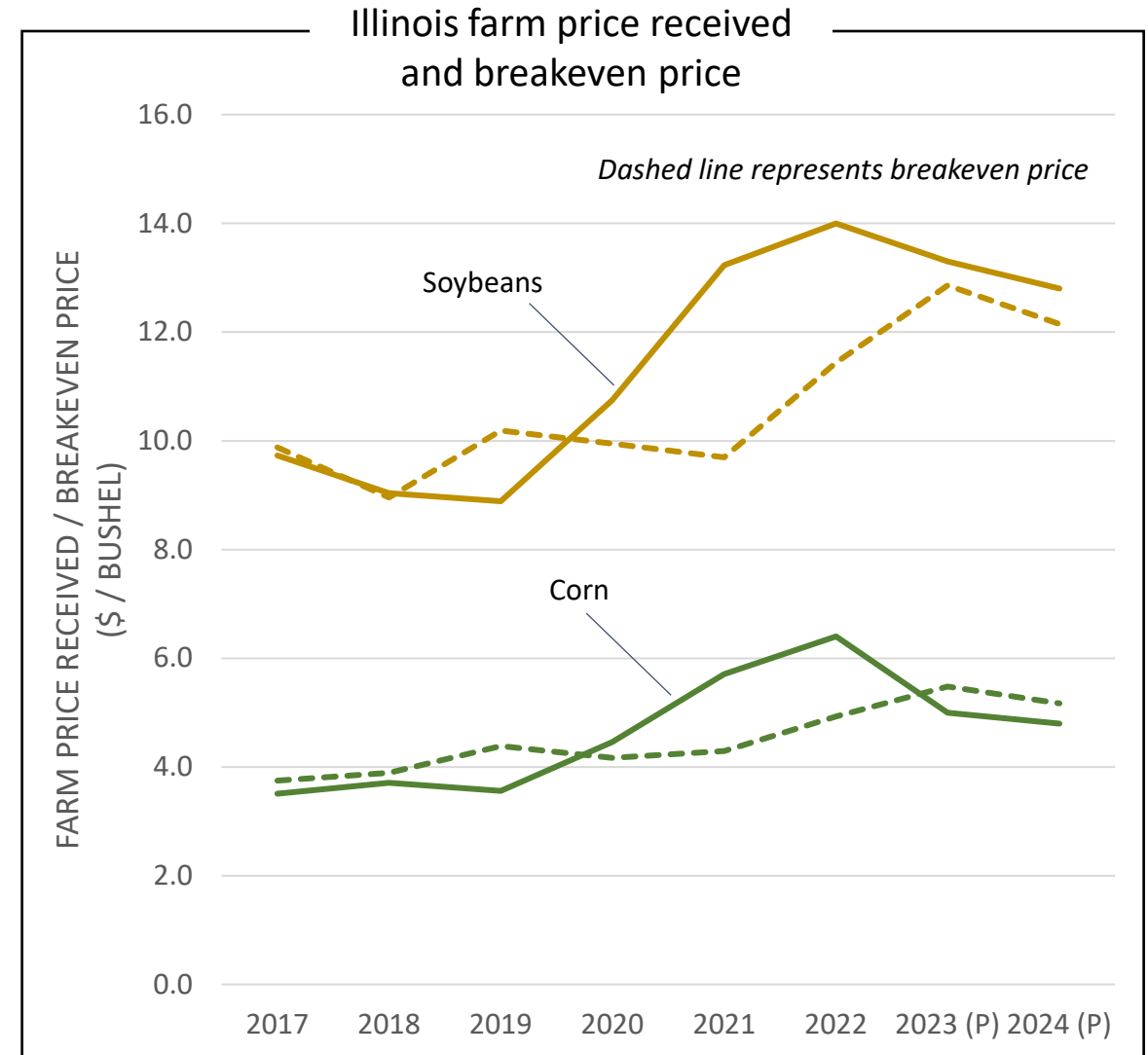
- Slightly below trend domestic yields
- Global production rebounds

Livestock

- Higher prices, but profitability concerns
- Value and volume of exports fall

Specialty commodities

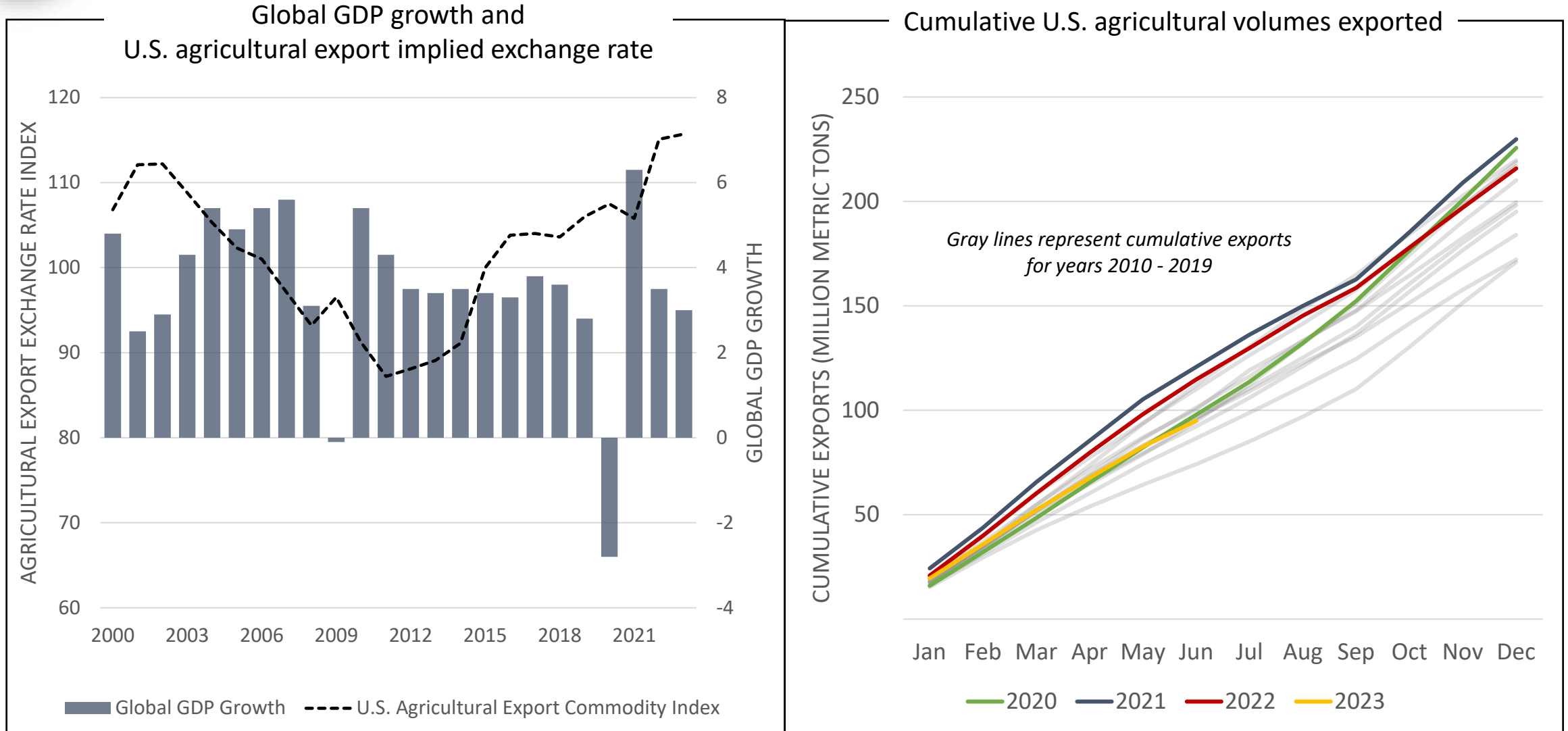
- Consumer-oriented goods face pressure
- High income nations drive export declines



Source: University of Illinois, Revenue and Costs for Illinois Grain Crops.
Breakeven price reflects only cash receipt income and includes land costs.



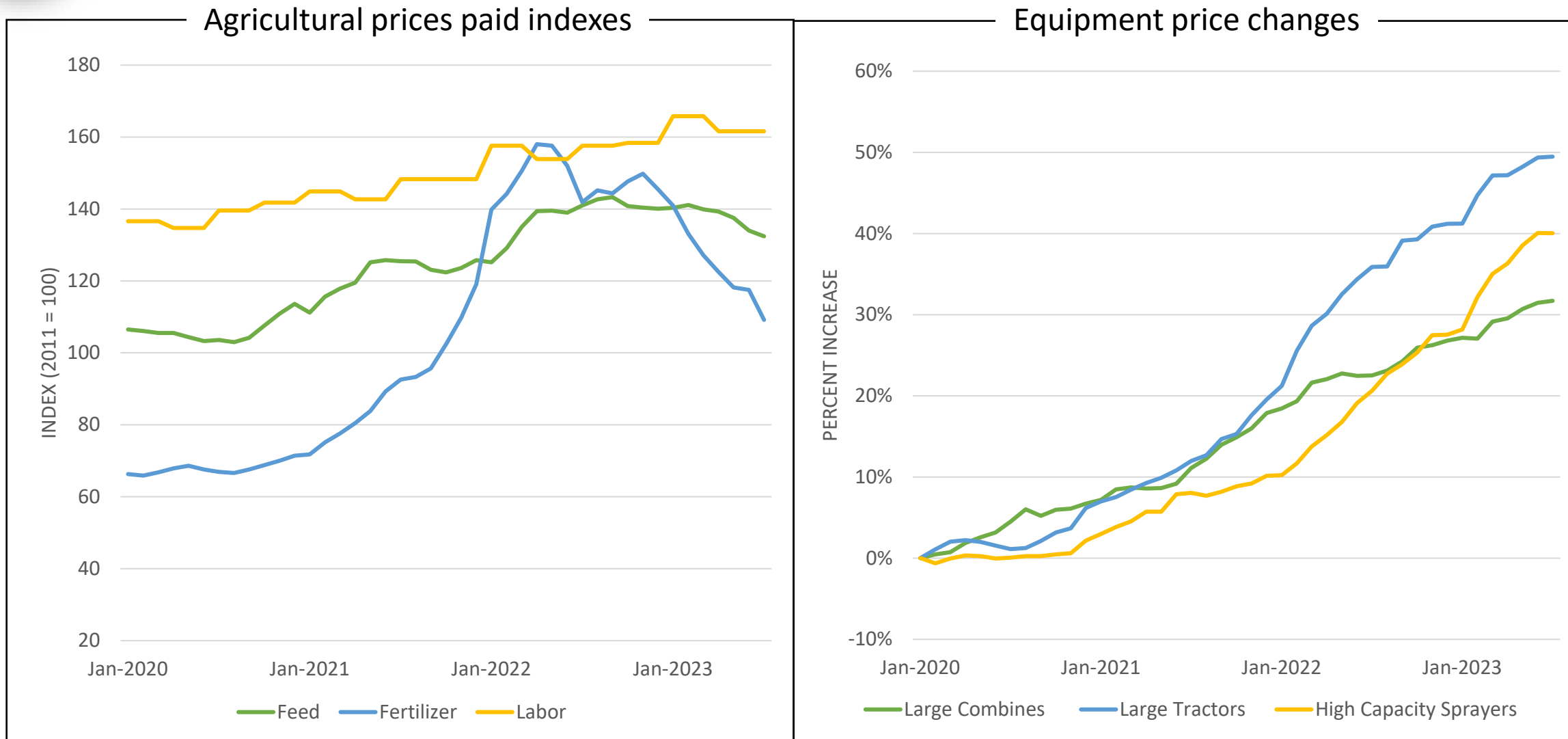
Export demand returns to baseline on higher food cost, slower global growth



Source: USDA FAS Global Agricultural Trade System, International Monetary Fund World Economic Outlook, USDA ERS Agricultural Exchange Rate Data Set.



Select farm expenses may have peaked



Sources: USDA NASS Agricultural Prices, Iron Solutions.



Farmers absorb losses from weather events in 2023

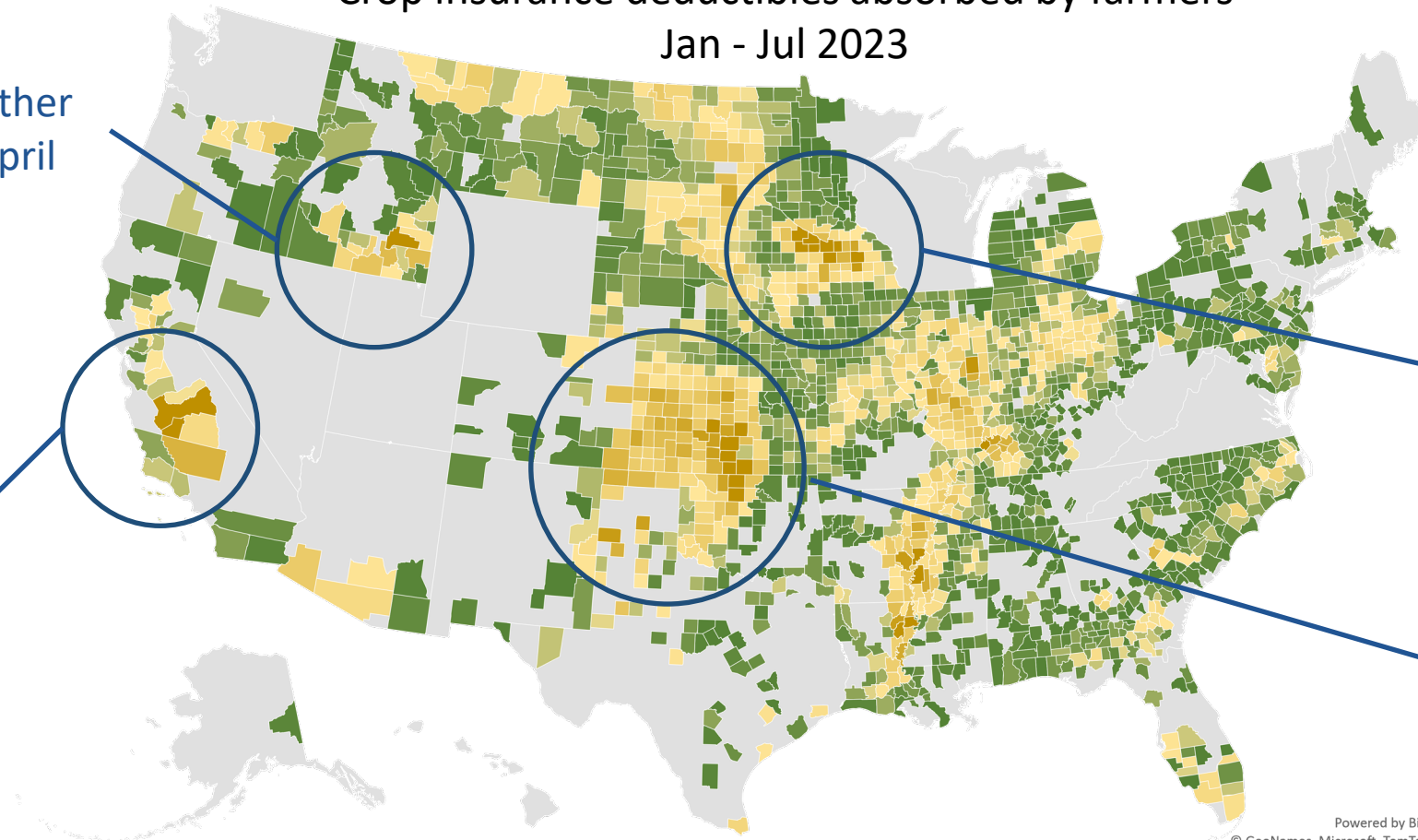
Crop insurance deductibles absorbed by farmers
Jan - Jul 2023

Winter Weather
January - April

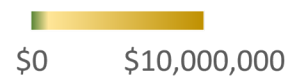
Flooding
April - May

Drought
April, June

Flooding
March



Total Reported Deductible

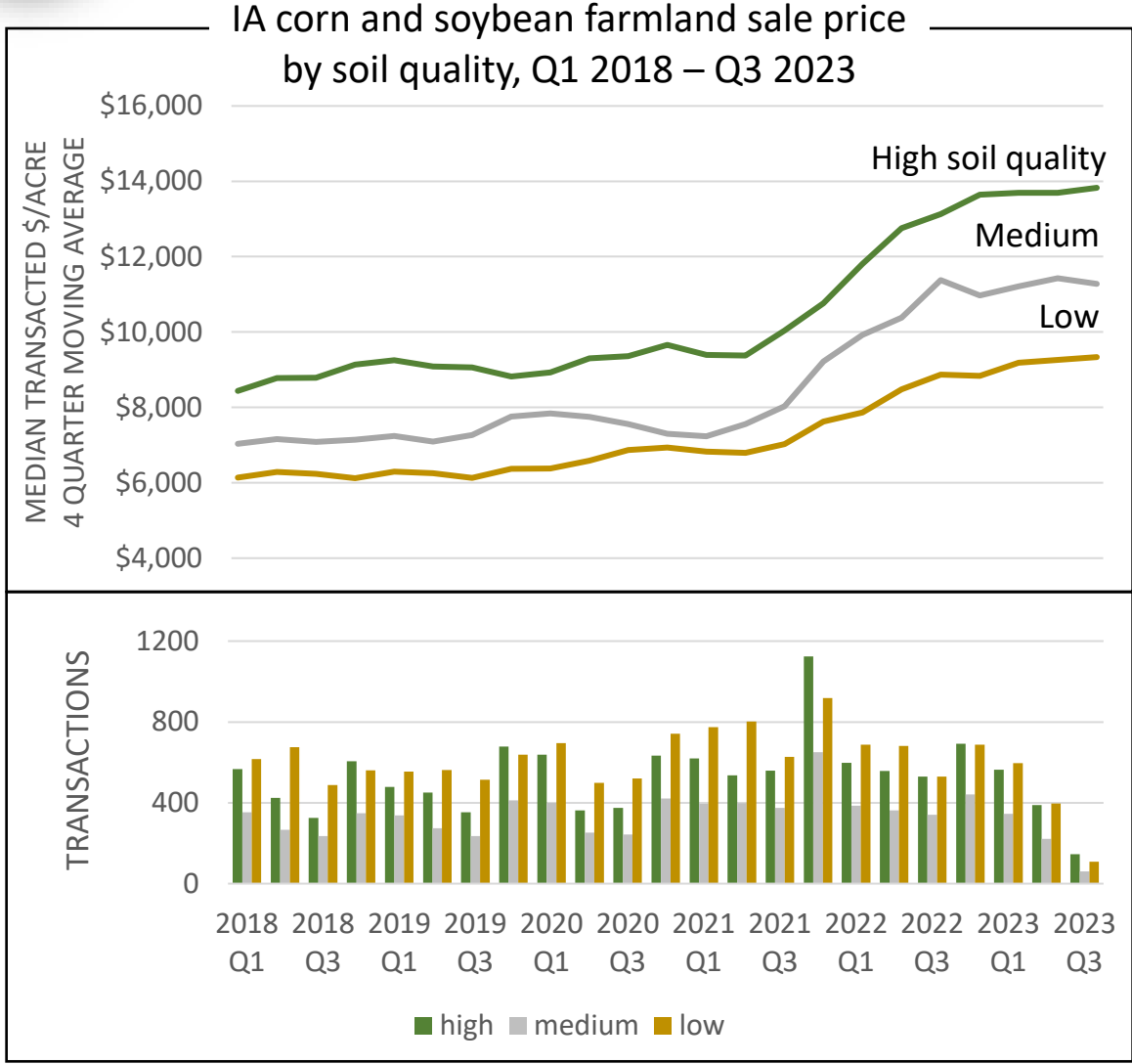


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Source: USDA Risk Management Agency, Cause of Loss
Note: Gray regions listed no reported losses as of July 2023.



Farmland value growth slows, but transactions indicate a potential peak



Land value growth slows

- Weakening fundamentals
- Survey data show slow, positive growth

Sale prices indicate potential plateau

- Number of transactions declines
- Divergence in soil quality

Source: CoreLogic Transaction Database, CropScape, gNATSGO, ODAE calculations



Questions



Farm Credit System Condition and Performance as of June 30, 2023

Mindy Stultz
Supervisory FCA Examiner
Office of Examination

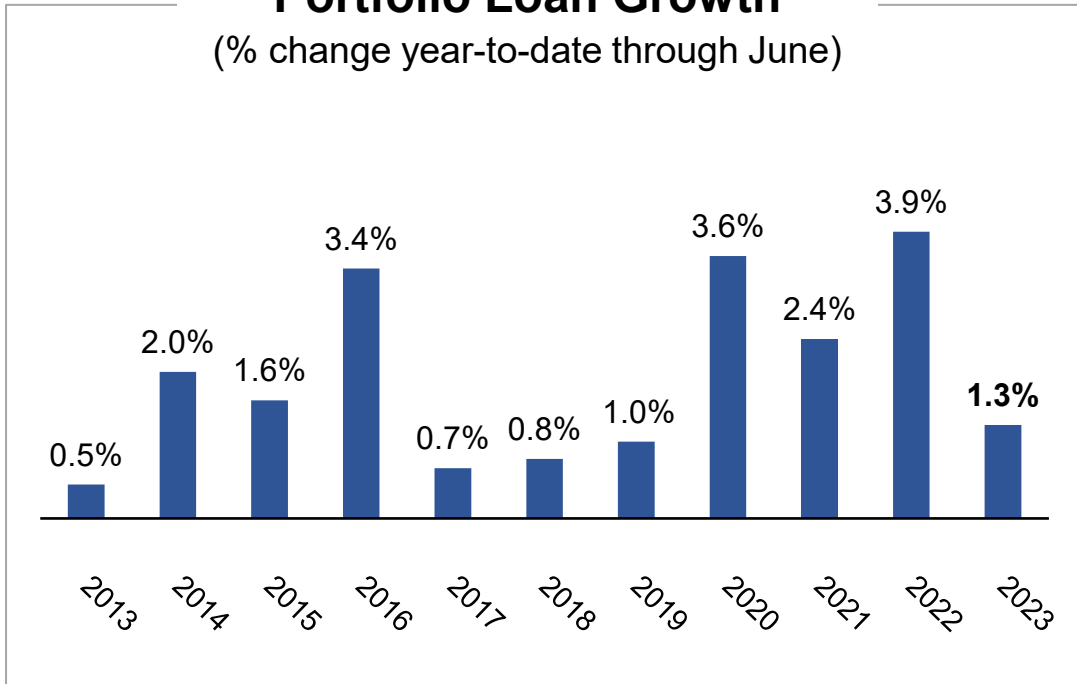




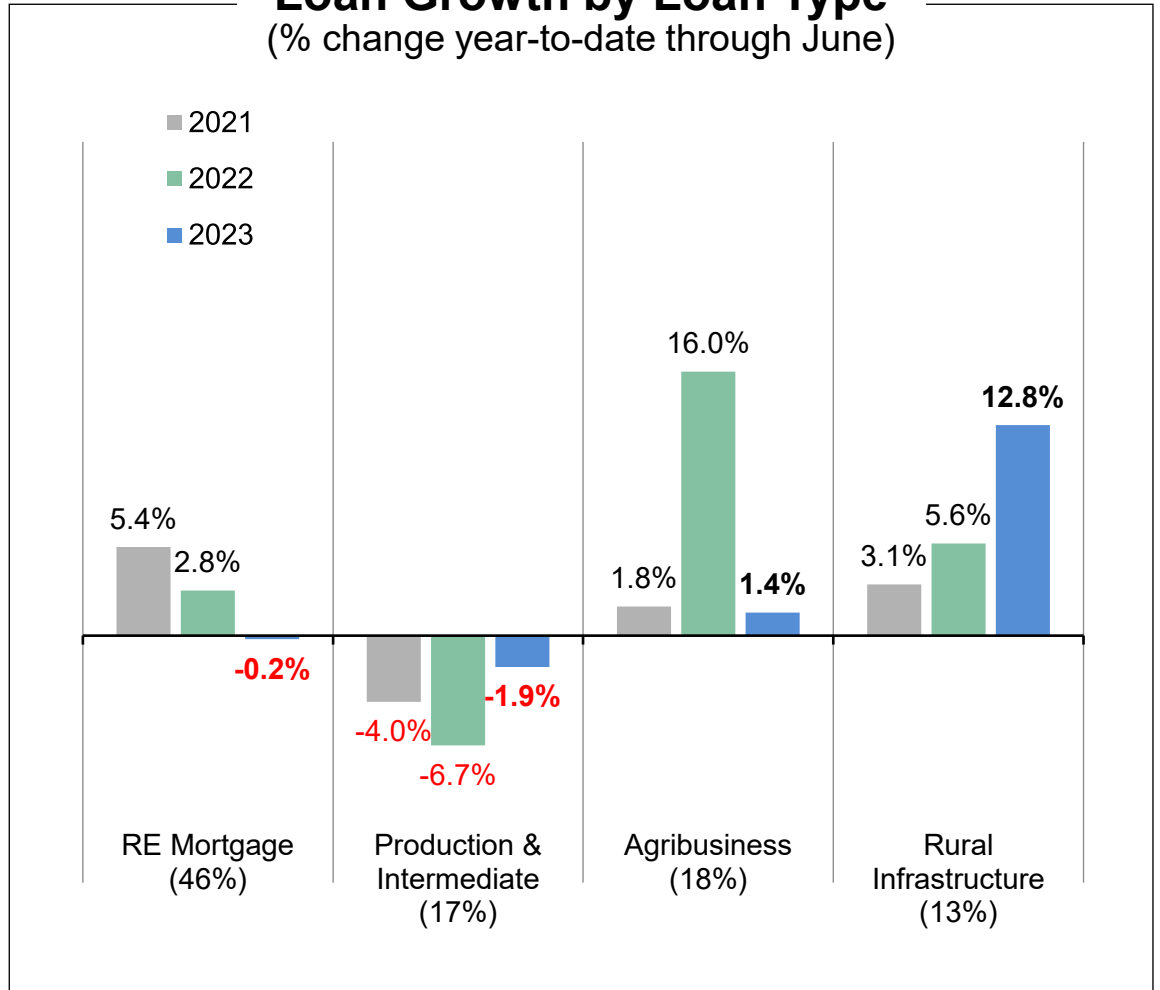
Portfolio growth slows against a backdrop of higher interest rates and tighter margins

Total Assets 6/30/23	\$484.6 billion	+0.0%	Qtr	Gross Loans 6/30/23	\$378.0 billion	0.3%	Qtr
		+1.6%	YTD			+1.3%	YTD
		+6.2%	12M			+5.8%	12M

Portfolio Loan Growth
(% change year-to-date through June)



Loan Growth by Loan Type
(% change year-to-date through June)

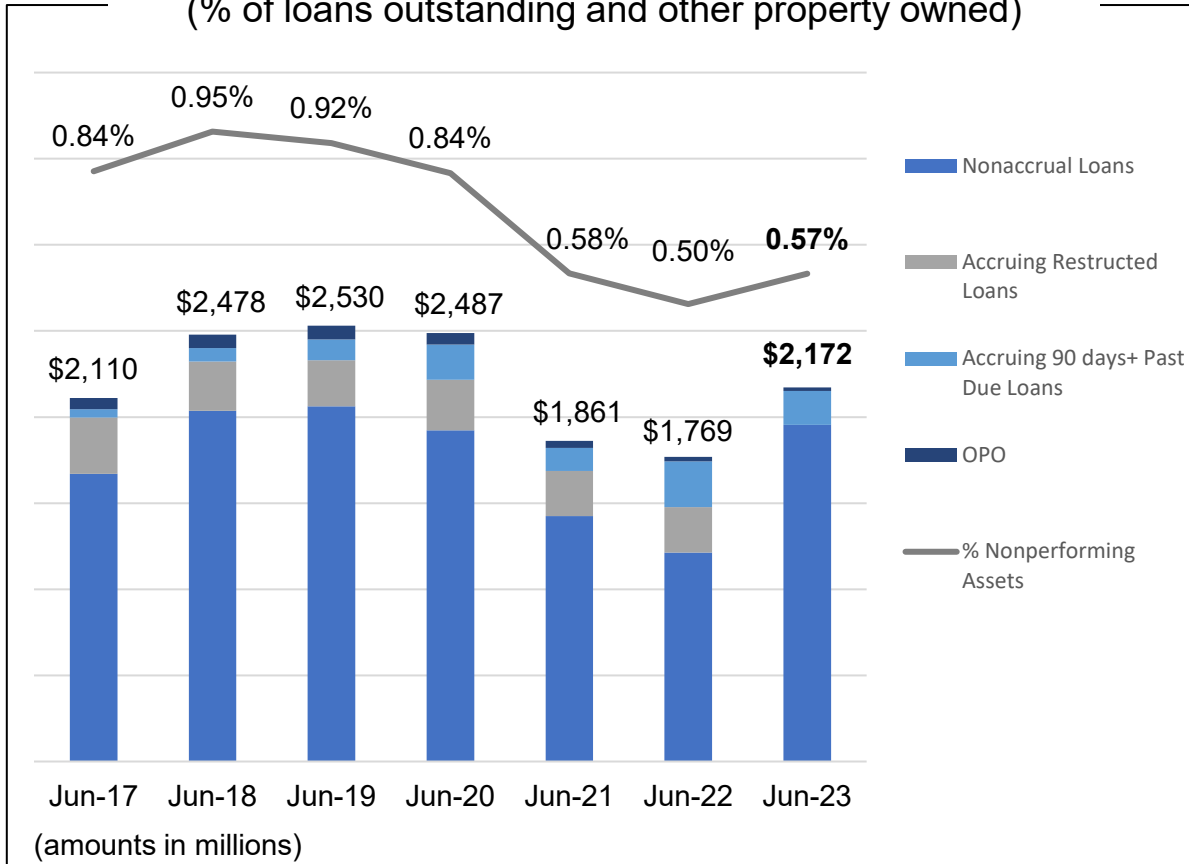




Credit risk measures edge higher; overall levels remain low

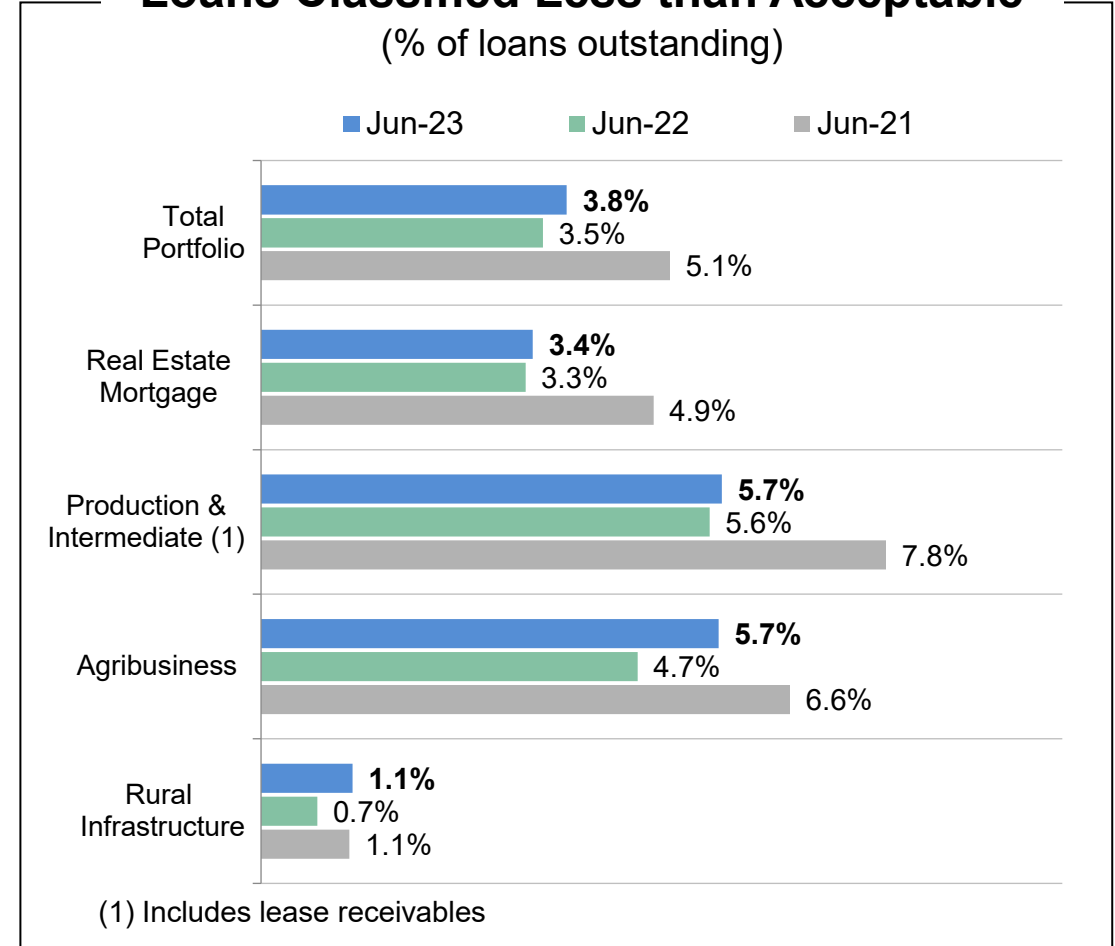
Nonperforming Assets

(% of loans outstanding and other property owned)



Loans Classified Less than Acceptable

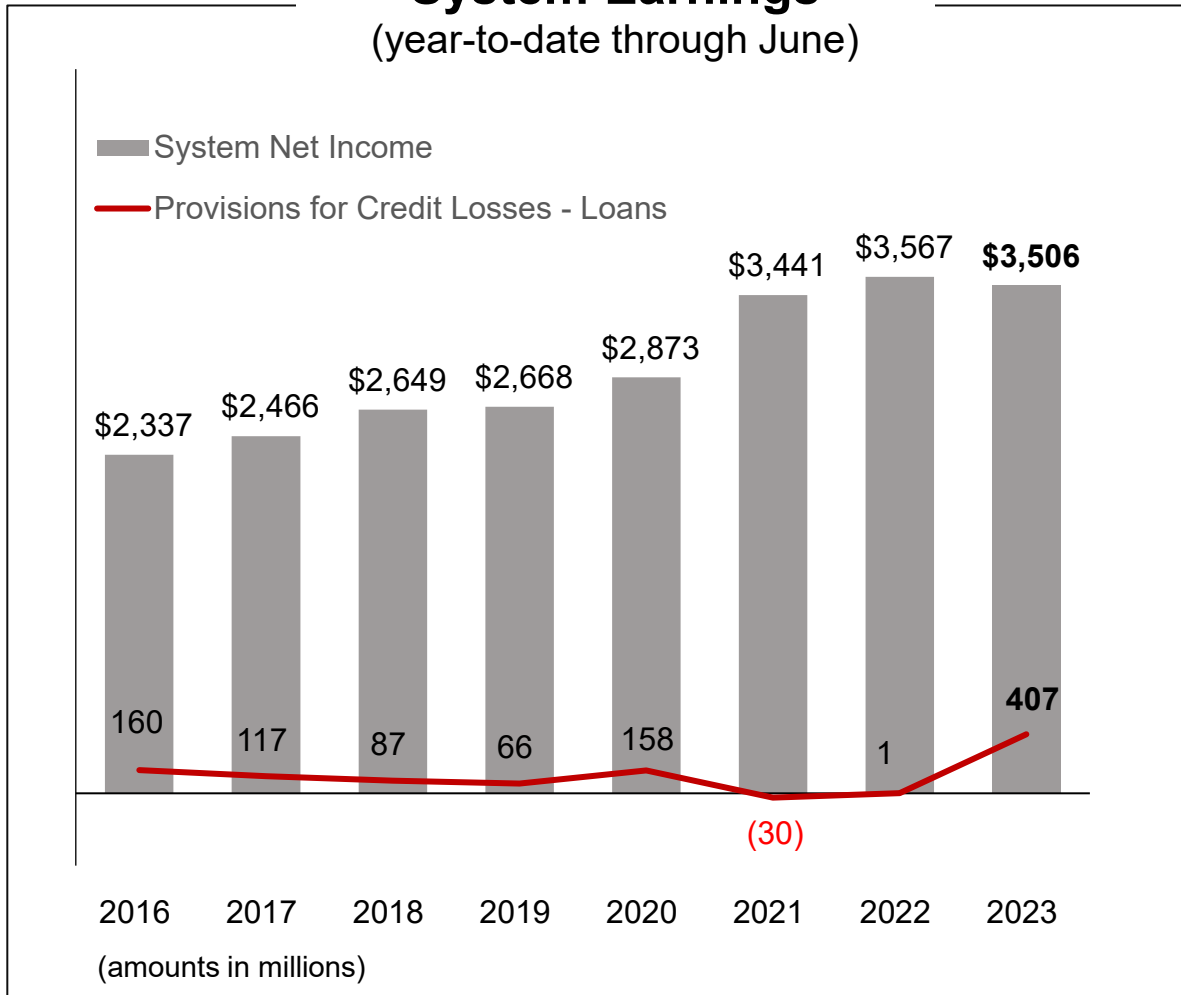
(% of loans outstanding)





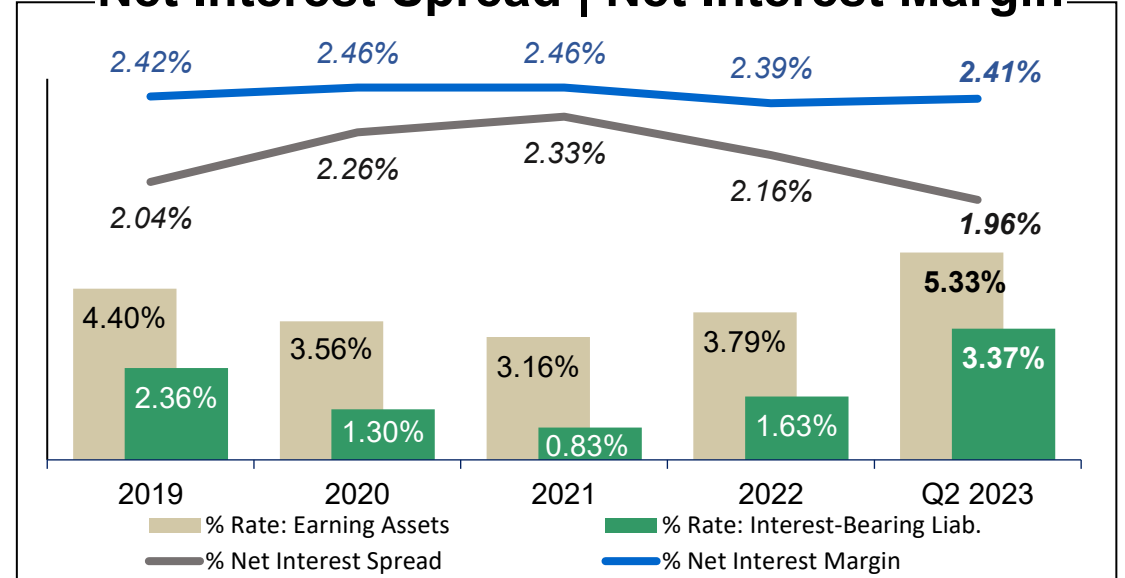
The System reported solid financial results for the 1st half of 2023

System Earnings (year-to-date through June)

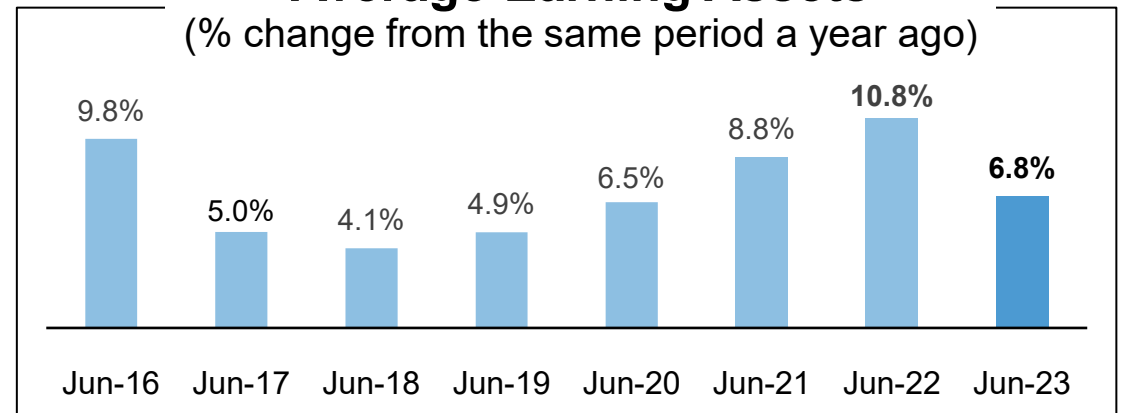


Source: Federal Farm Credit Banks Funding Corporation Information Statements

Net Interest Spread | Net Interest Margin



Average Earning Assets





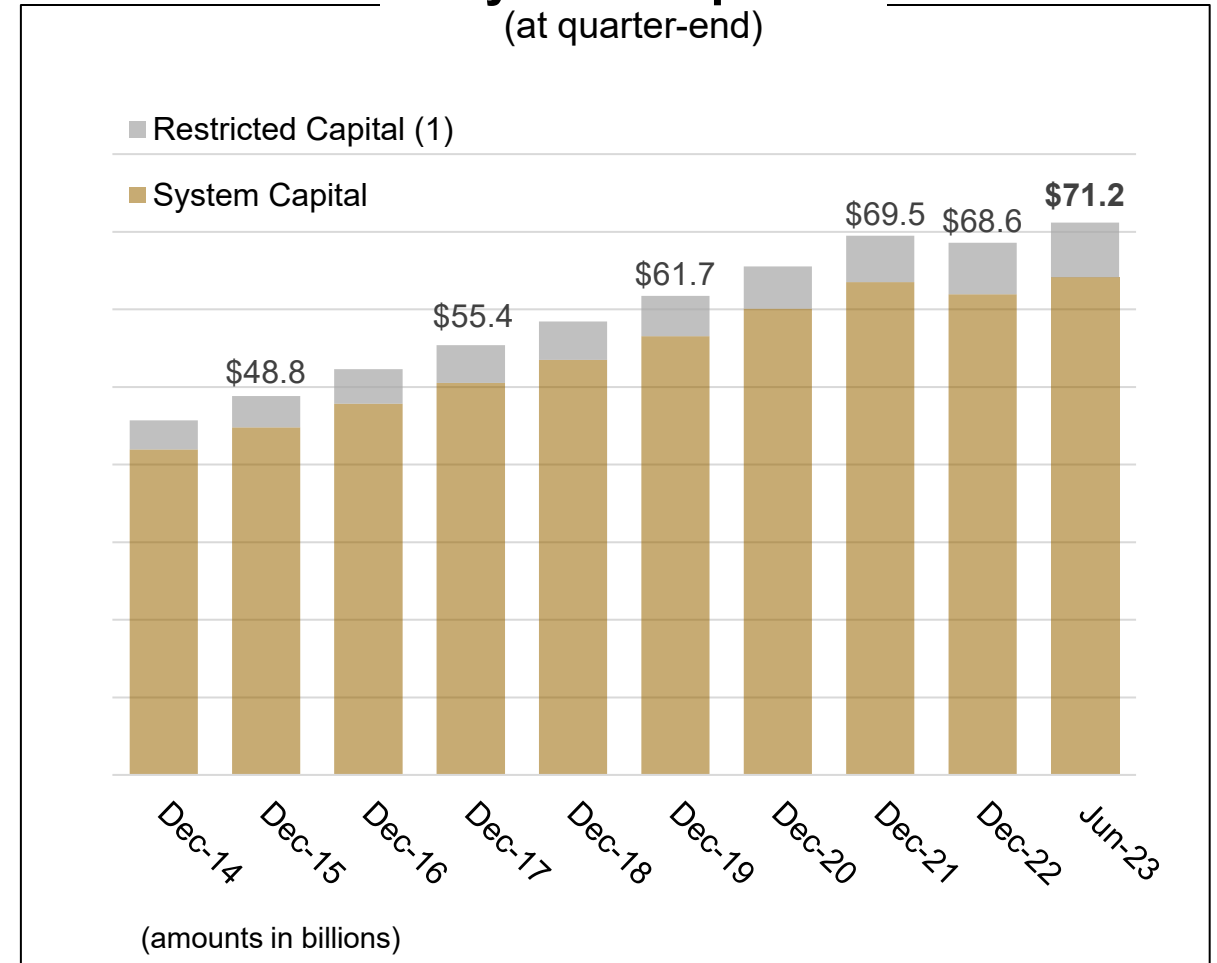
The System continues to be soundly capitalized with strong risk-bearing capacity

Capital

(as of June 30, 2023)

- ▶ Year-to-date, System capital has increased 3.7% or \$2.6 billion.
- ▶ Total regulatory capital ratios are sound:
 - Banks: 13.0% to 17.4%
 - Associations: 12.0% to 34.0%.
- ▶ Capital and the allowance for loan credit losses equaled 19.3% of loans outstanding at June 30 as compared with 19.7% a year ago.

System Capital (at quarter-end)



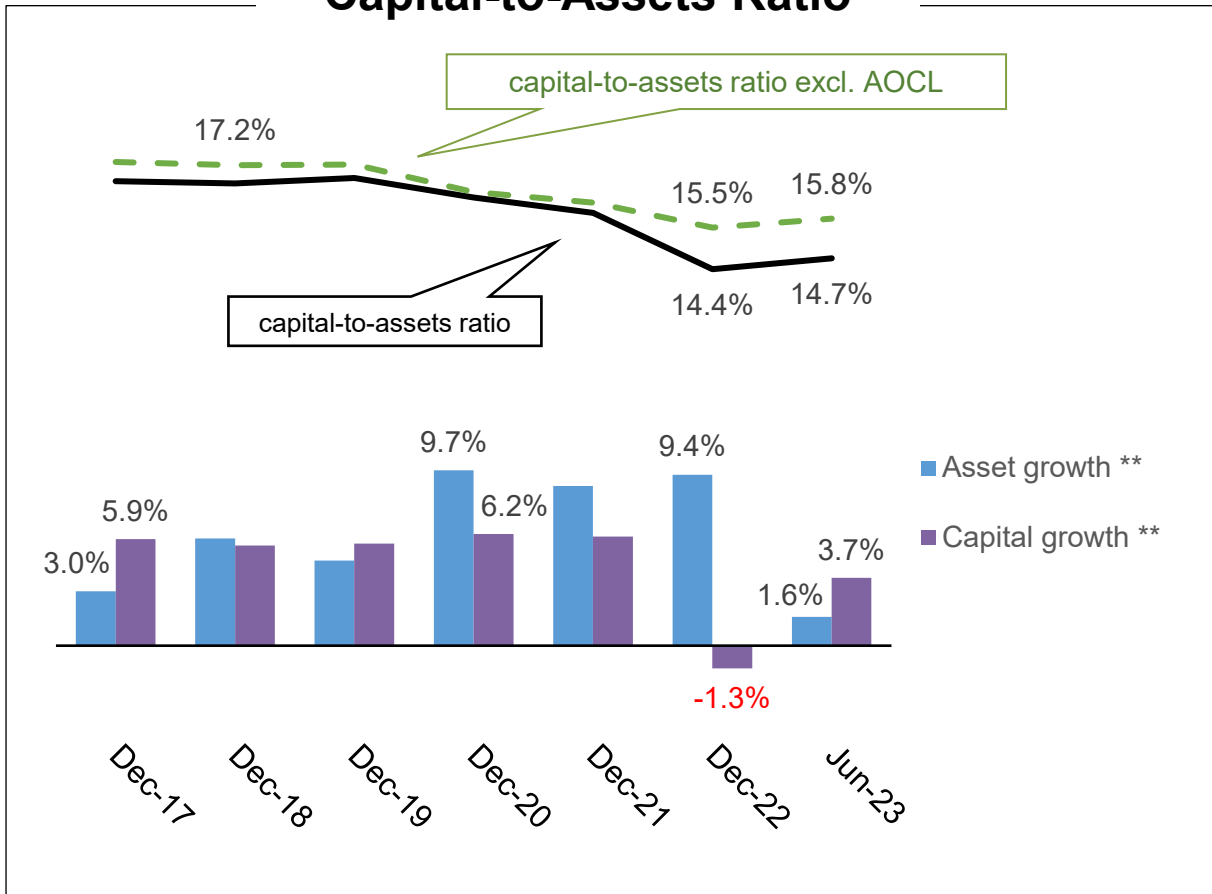
Source: Federal Farm Credit Banks Funding Corporation Information Statements

(1) Restricted Capital represents capital associated with the FCS Insurance Fund



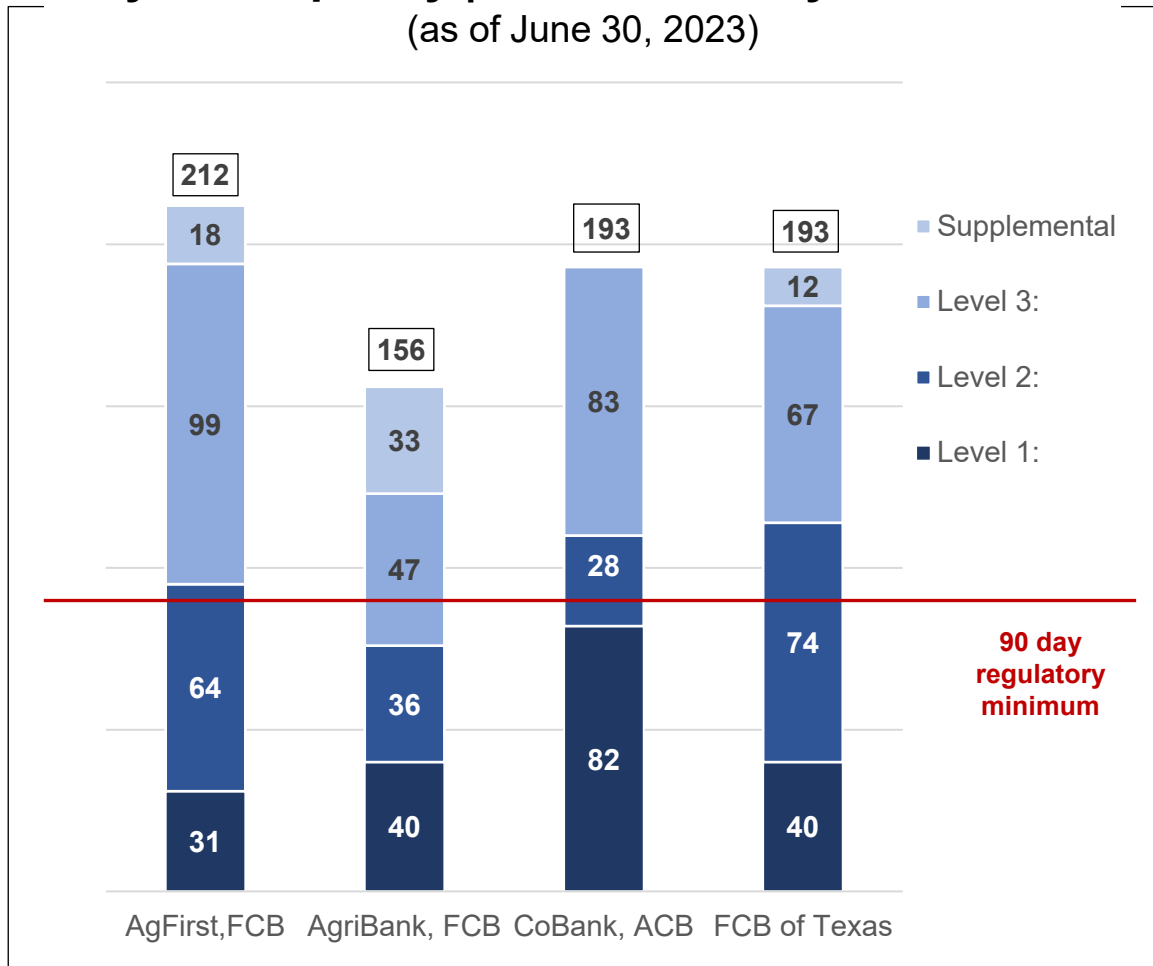
Capital-to-assets ratio improves; banks maintain robust liquidity levels

Capital-to-Assets Ratio



Days of Liquidity | Farm Credit System Banks

(as of June 30, 2023)



** 2017-2022 represents year-over-year growth; 2023 represents year-to-date growth
 AOCL refers to accumulated other comprehensive loss



Composite FIRS ratings remain stable

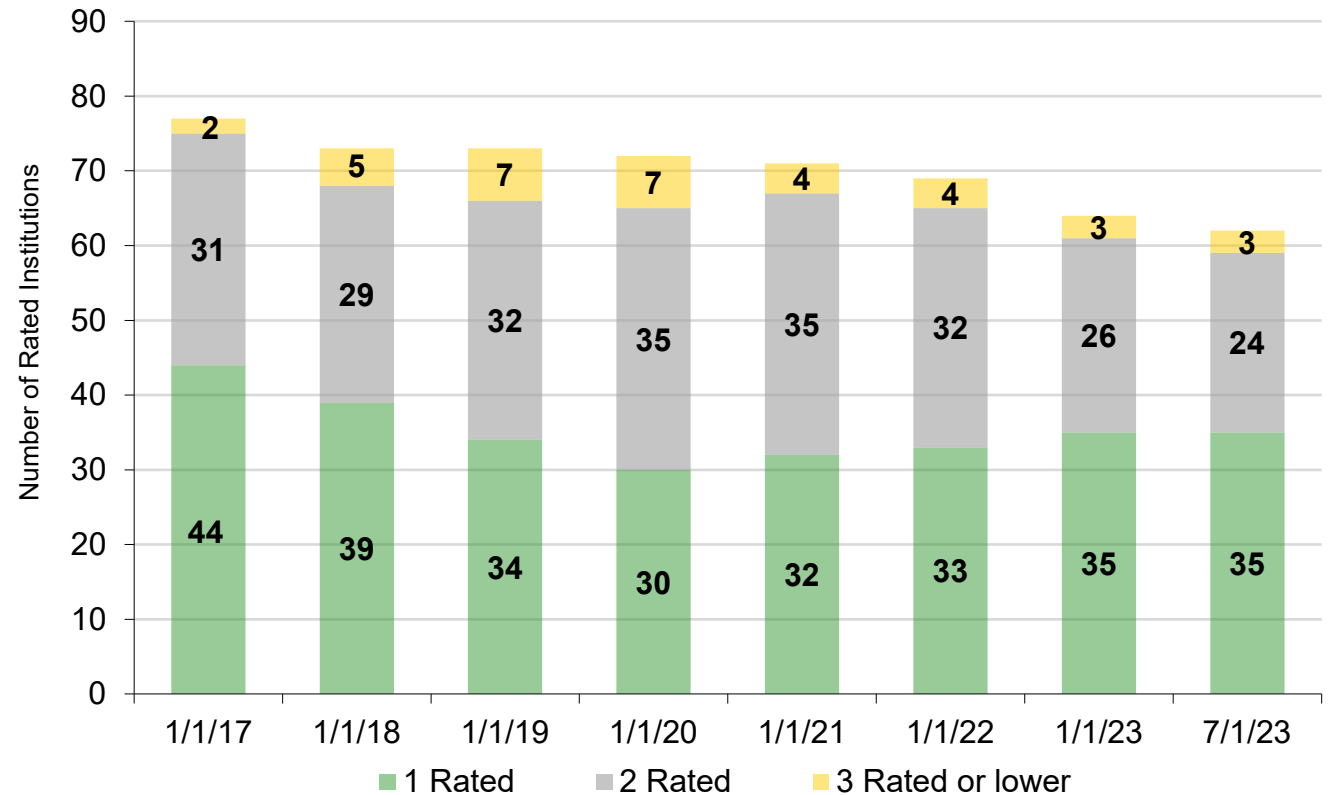
Composite FIRS Ratings

(based on 6/30/23 financial reporting)

- ▶ Composite FIRS ratings reflect the System’s sound financial condition.
- ▶ Over 95% of System banks and associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower hold just over 1% of System assets.

Source: FCA’s FIRS ratings database

Composite FIRS Ratings
Farm Credit System Banks and Associations^(a)



(a) actively reporting