



FCA Board Meeting December 2022

Tab 2

Quarterly Report on FCS Condition December 8, 2022

Yuri Katrinic
Hal Johnson





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Macroeconomic update
 - Supply chains and input costs
 - Production risks for 2023

- ▶ Farm Credit System Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Yuri Katrinic

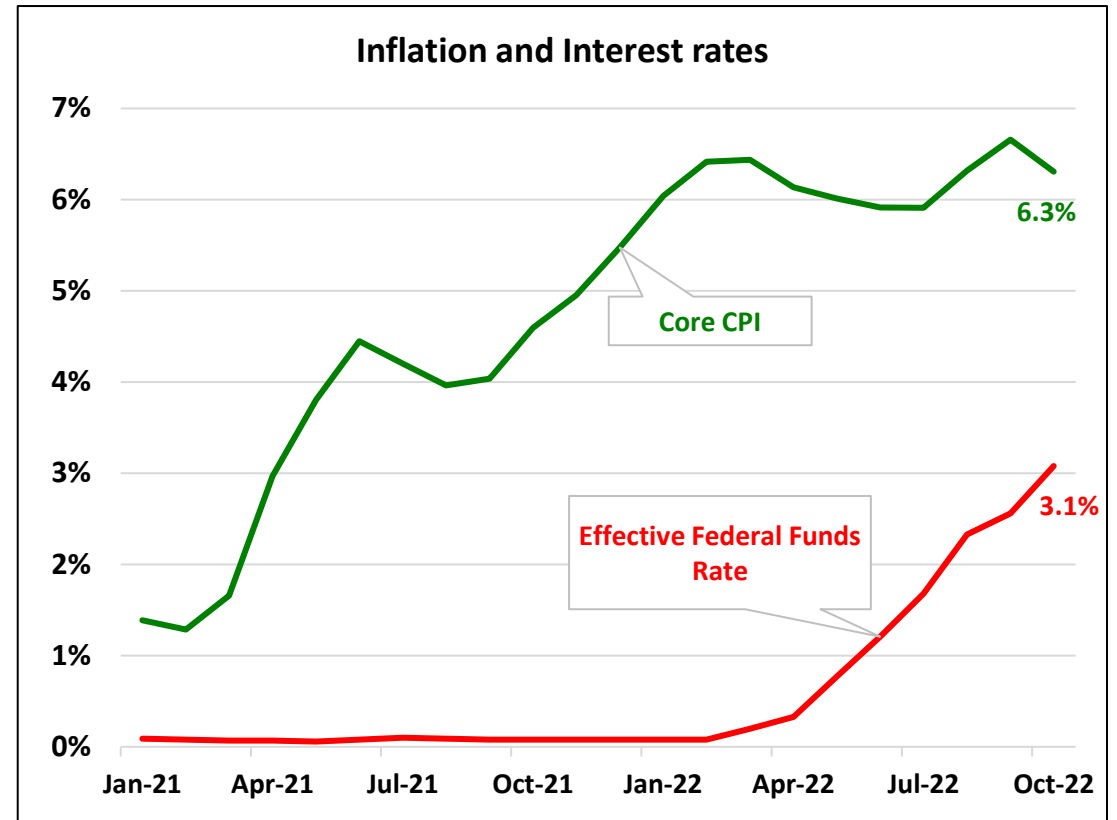
Senior Economist

Office of Data Analytics and Economics



Inflation slows, interest rates continue to climb

- ▶ Inflation has plateaued in response to higher interest rates.
- ▶ Pressure to raise rates will continue until inflation falls.
- ▶ Consumers' response to high rates and prices will play an important role in 2023.

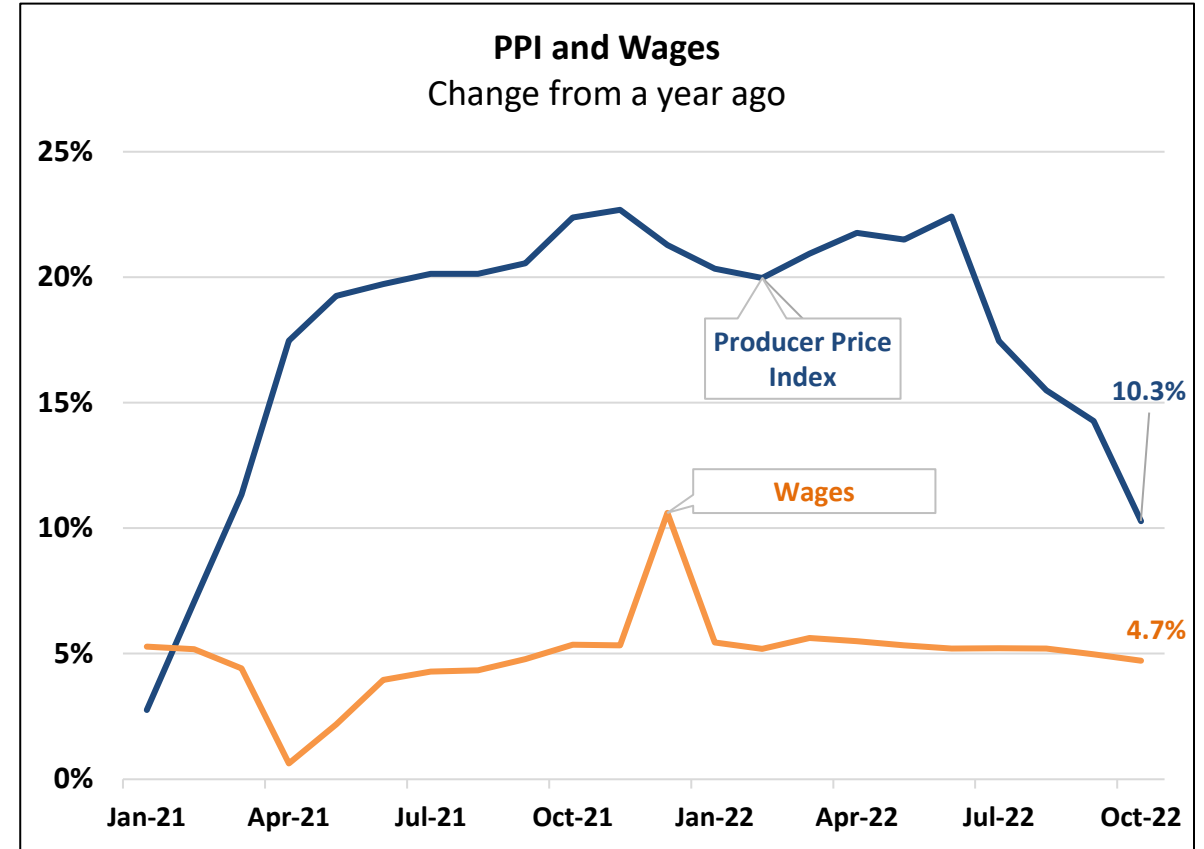


Sources: [Bureau of Labor Statistics](#) and [Board of Governors of the Federal Reserve System](#)



Wages and wholesale prices

- ▶ Wholesale inflation and wage growth are leading indicators for inflation.
- ▶ Declines suggest consumer inflation will continue to cool off.

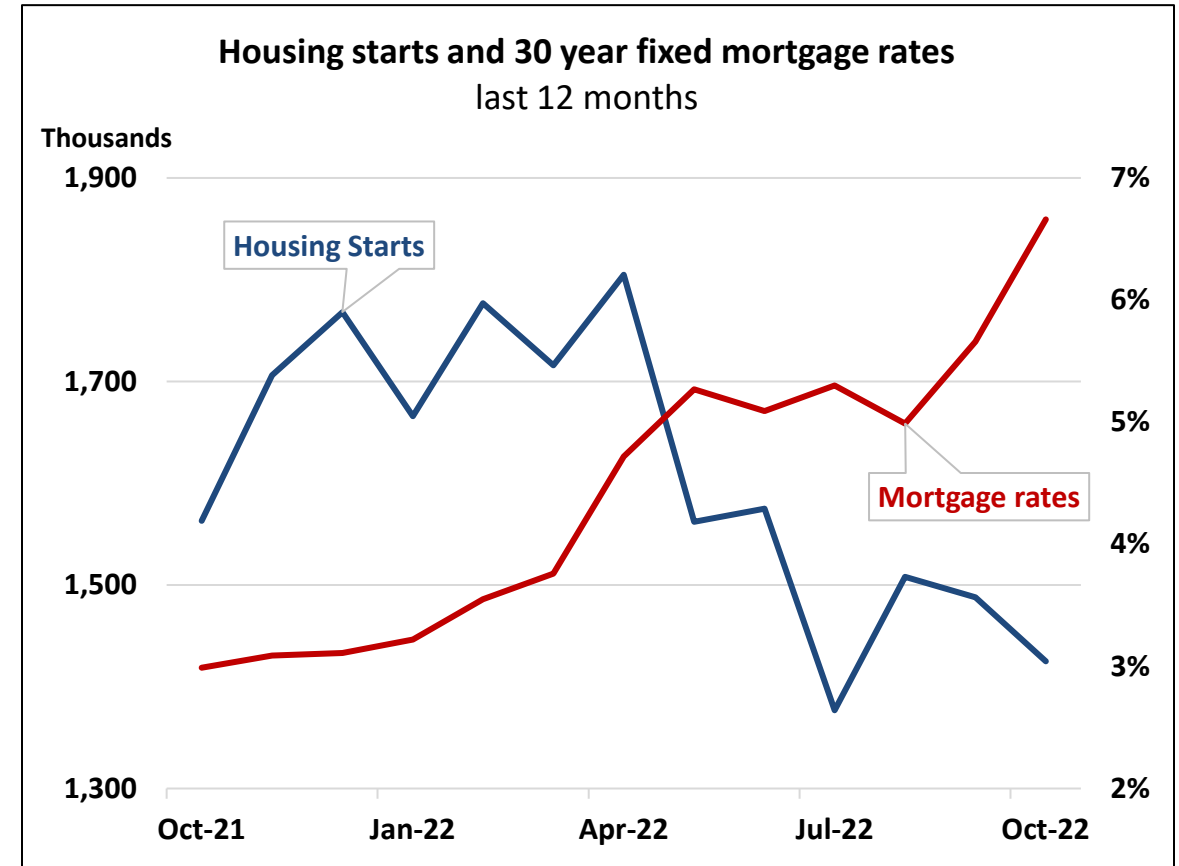


Source: [Bureau of Labor Statistics](https://www.bls.gov)



Higher interest rates cool off housing market amid weakening sub-prime credit quality

- ▶ Higher rates slowing demand for refinance.
- ▶ Early payment defaults for FHA-backed loans have doubled in the past year.
- ▶ Weakness in housing creates headwinds for economic growth and employment.

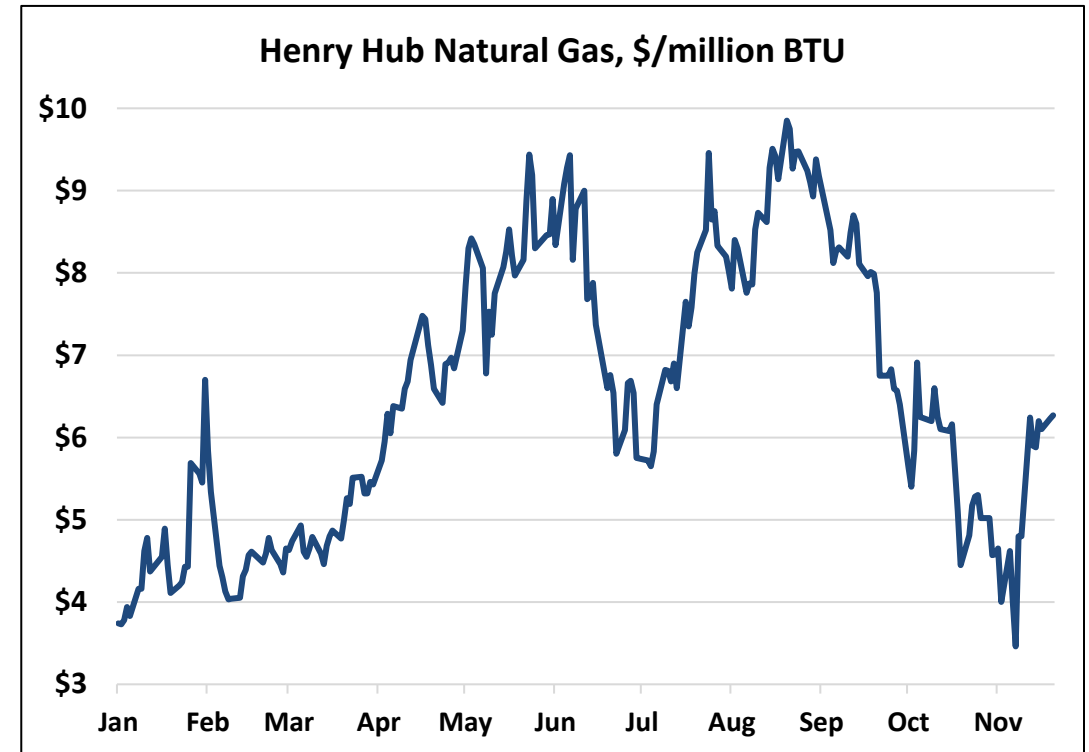


Source: [US Census Bureau](#) , [Freddie Mac](#)

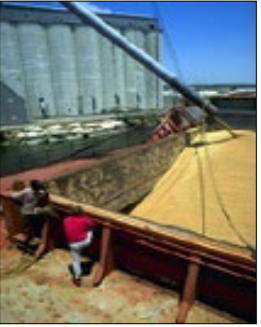


Natural gas and fertilizer outlook remains volatile

- ▶ EU boosted gas storage to lower risk of rationing this winter.
- ▶ Continued risk of disruptions and ensuing shortages.
- ▶ Natural gas is the primary input for nitrogen fertilizer.
- ▶ Fertilizer and other inputs will be crucial for margins in 2023.

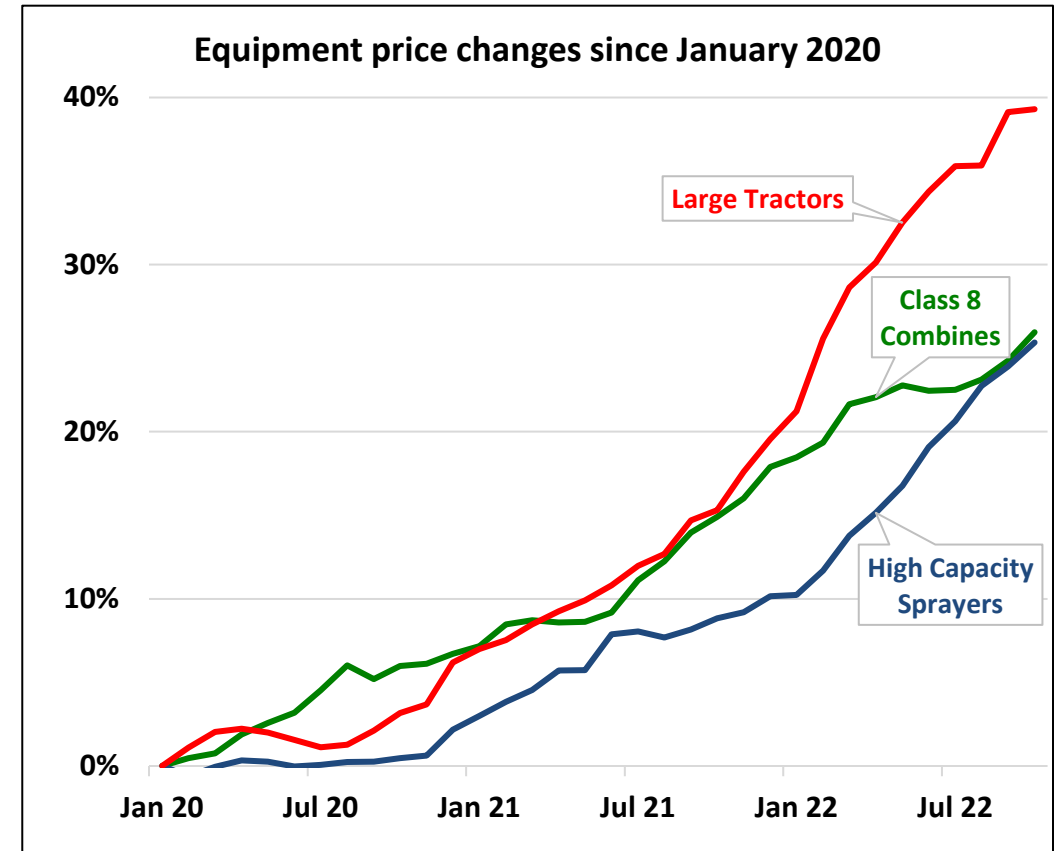
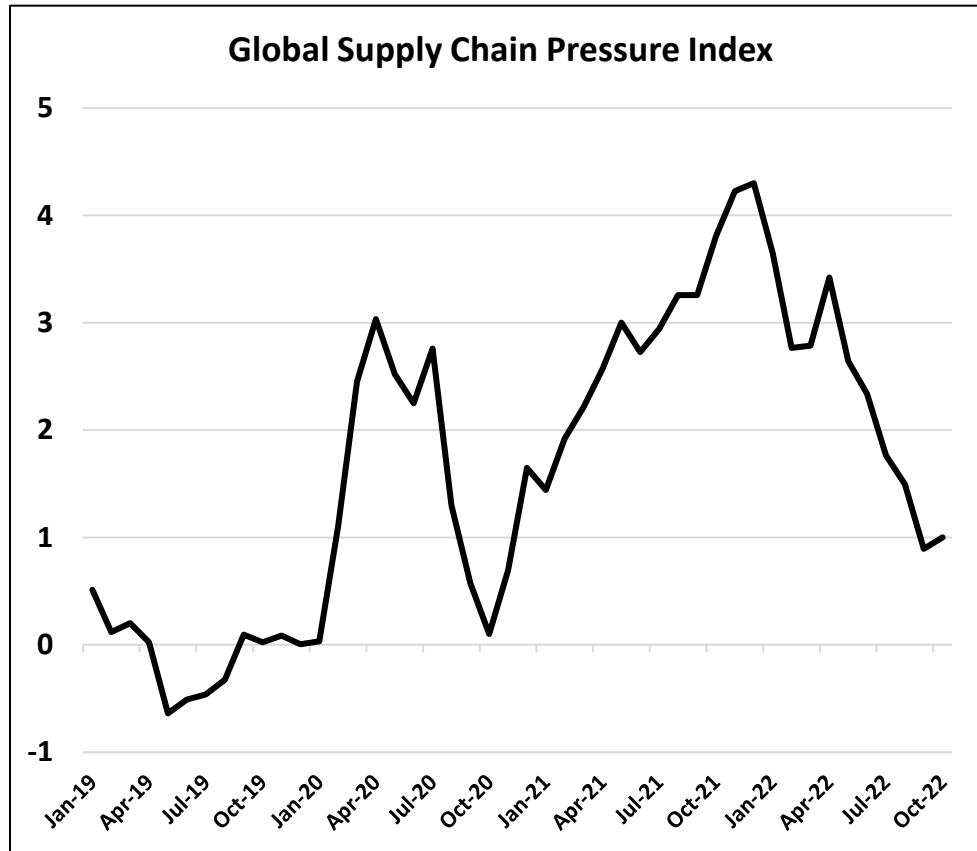


Source: [New York Mercantile Exchange](#)





Supply chains have improved, but still problematic for farm equipment and parts

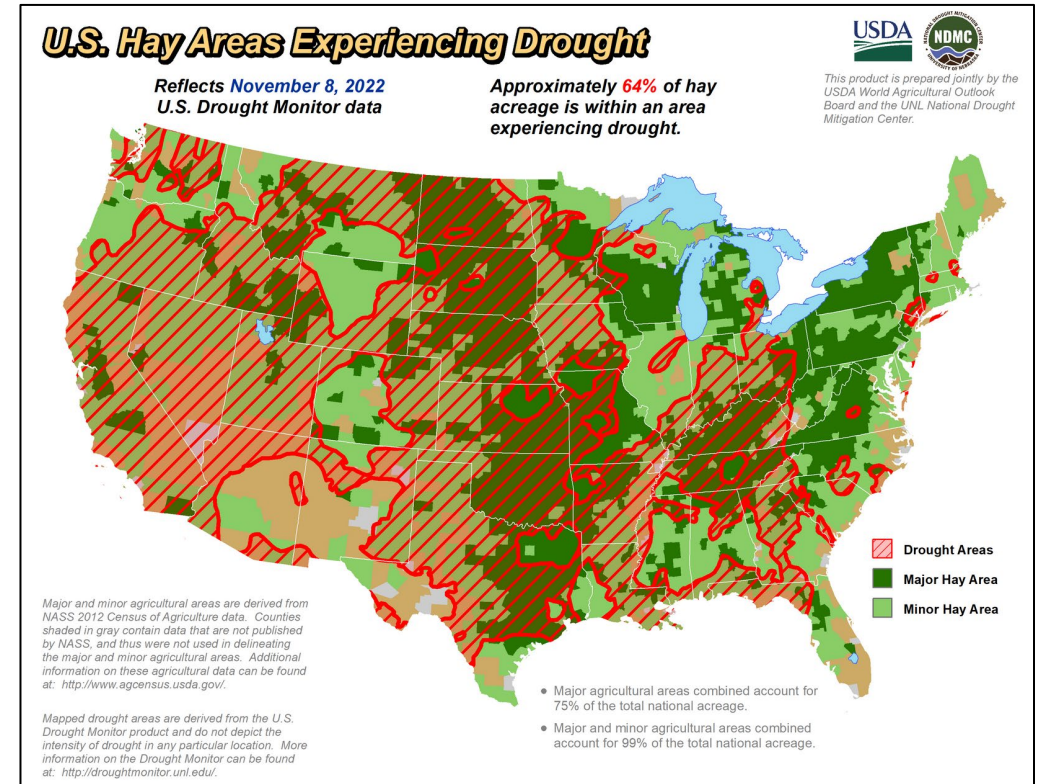


Sources: [Federal Reserve Bank of New York](#) and Iron Solutions



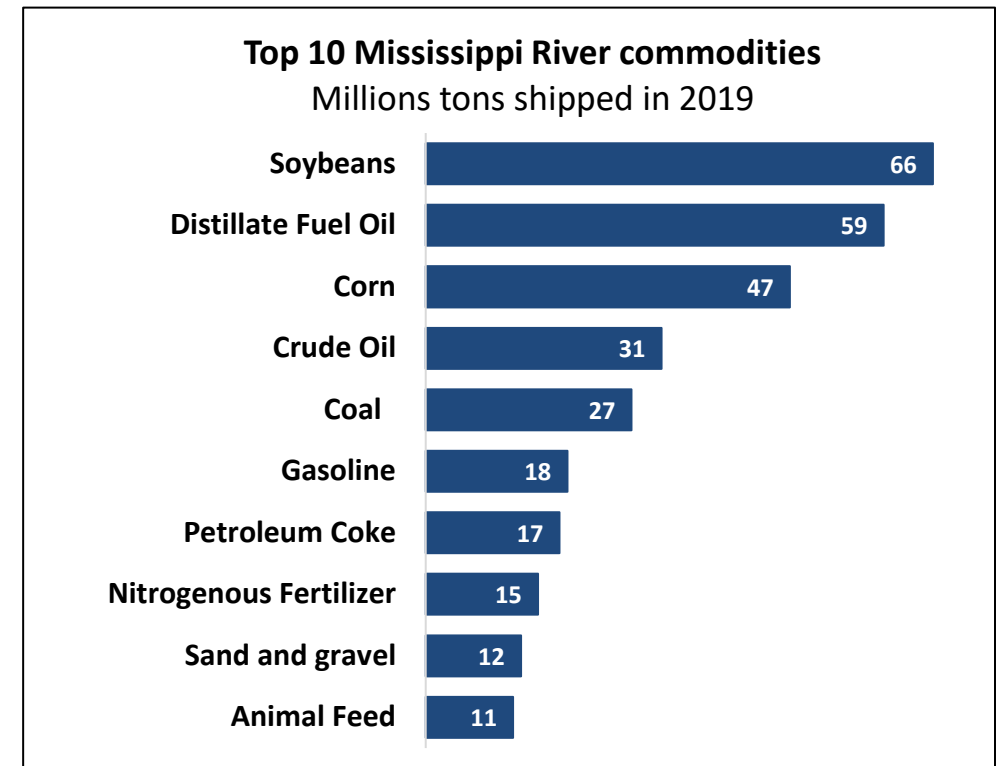
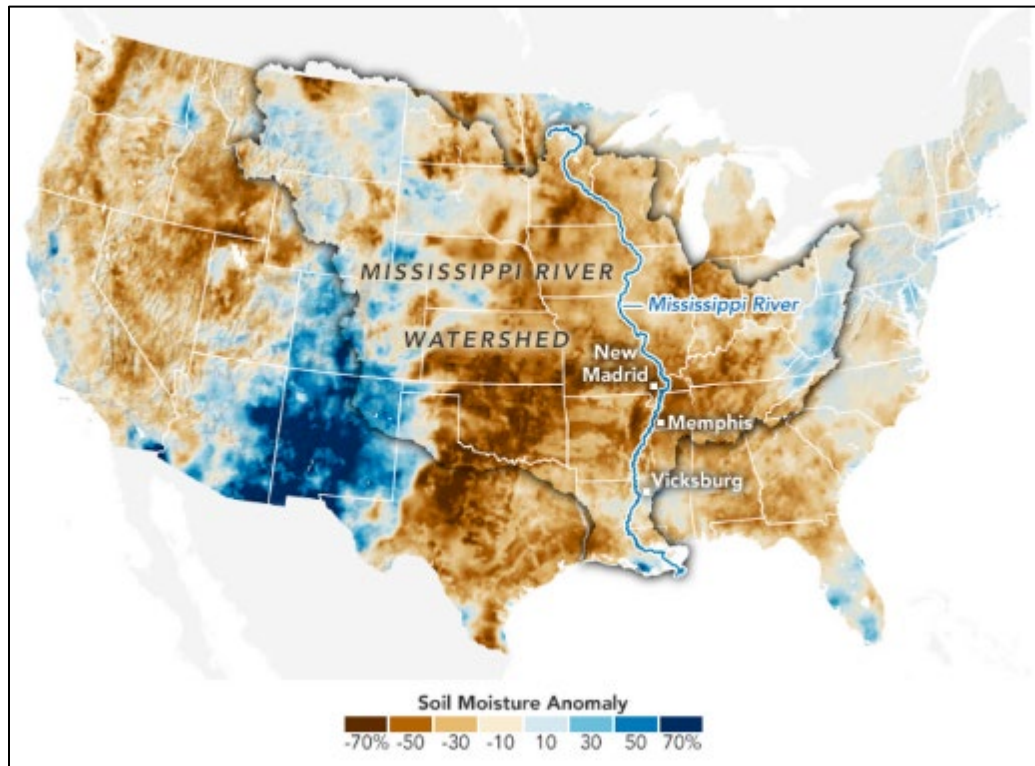
Drought continues in much of the United States, including cattle and wheat regions

- ▶ Cattle producers continue to face poor pasture conditions in many areas and high feed costs.
- ▶ A poor start for winter wheat crop makes it more vulnerable to winter damage.
- ▶ Longer term water concerns continue in California and Colorado Valley.





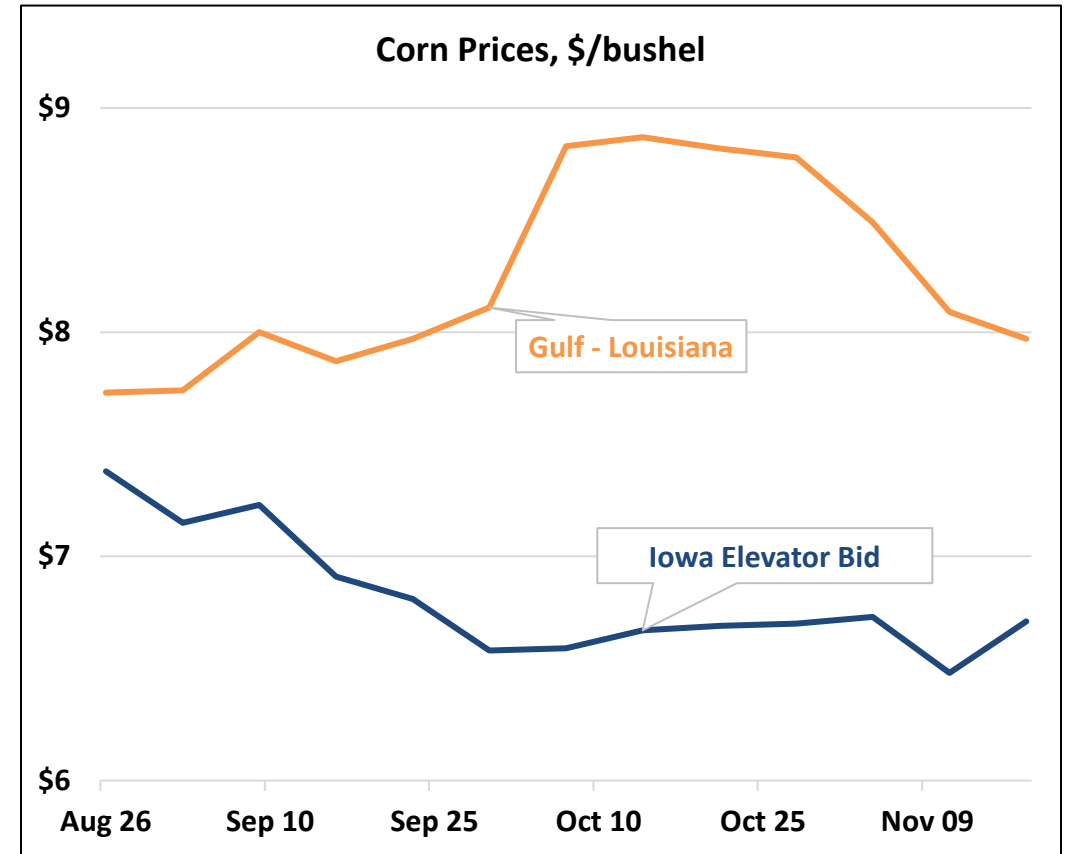
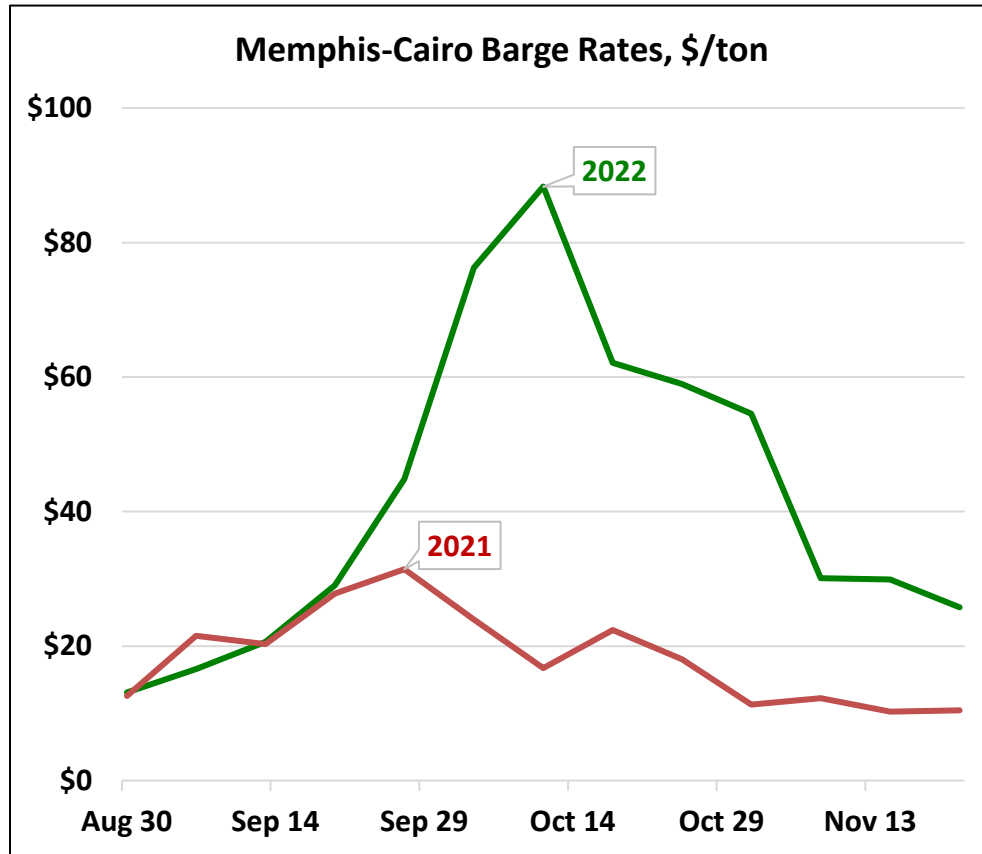
Drought has dropped Mississippi River water levels, snarling barge traffic



Sources: [NASA SPoRT-Lis data](#) and [U.S. Department of Transportation](#)



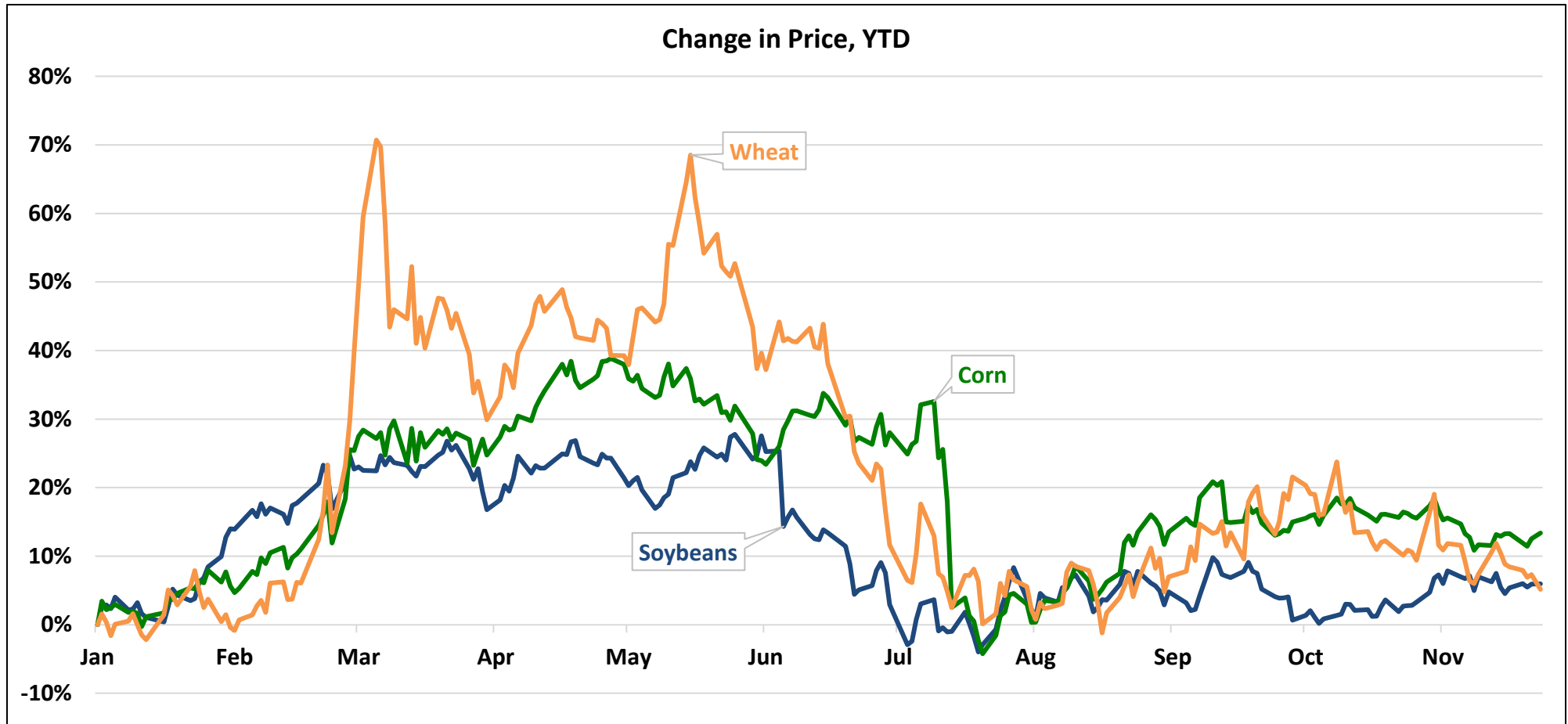
High transportation costs affect farmers through local grain prices



Source: [USDA AgTransport data](https://www.usda.gov/agtransport), GeoGrains



Commodity prices have fallen and stabilized despite war in Ukraine and drought

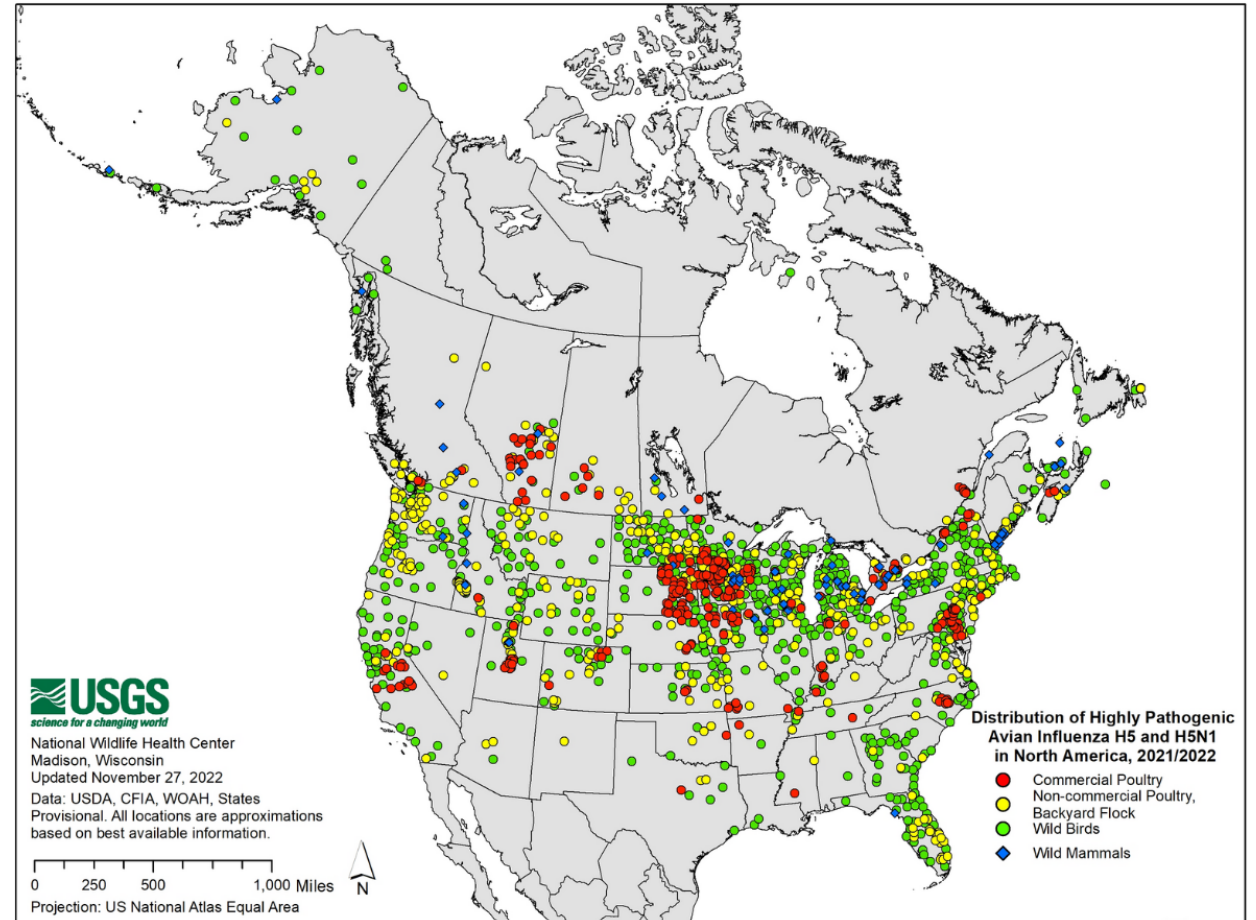


Sources: [Chicago Board of Trade](https://www.cbot.com/)



Highly Pathogenic Avian Influenza (H5N1) returns along with wild birds

- ▶ Disease has spread since spring.
- ▶ Over 50 million birds killed.
- ▶ Potential endemic disease.
- ▶ Record high turkey and egg retail prices.
 - Turkey: +73% year-on-year
 - Eggs: +87%
 - Chicken: +30%





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
September 30, 2022

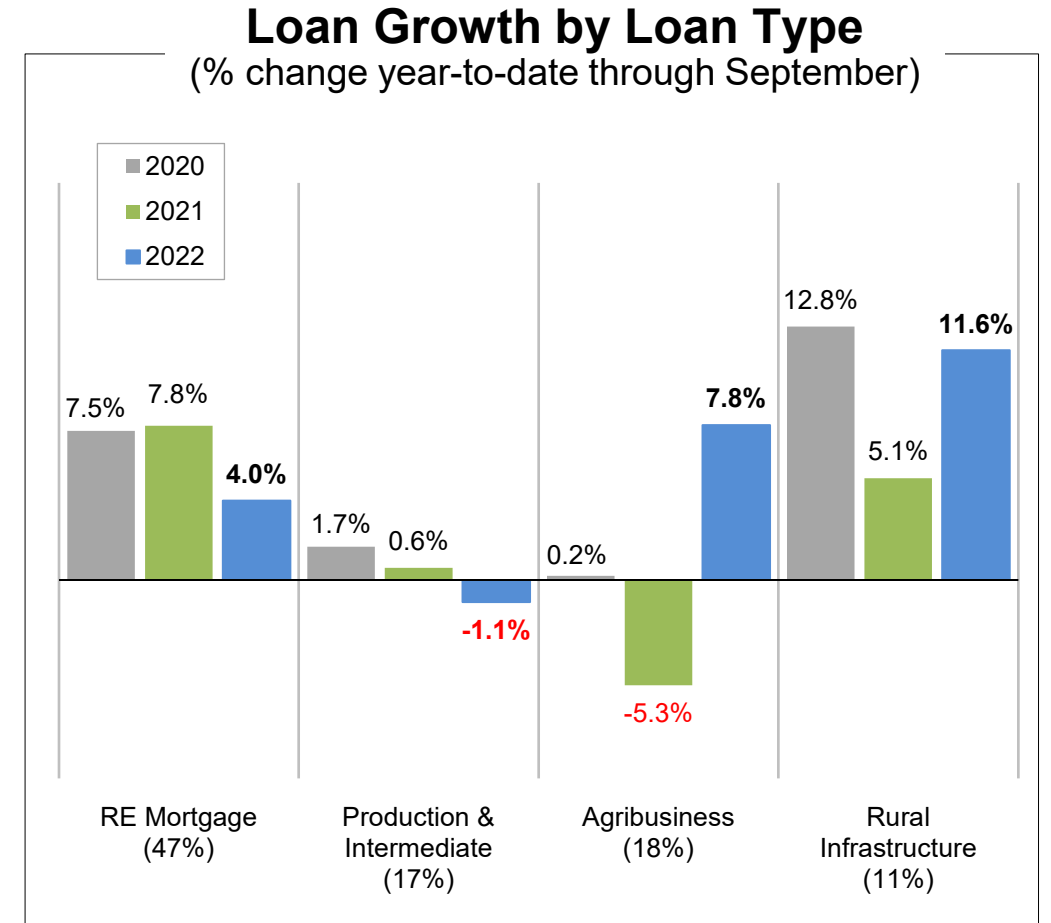
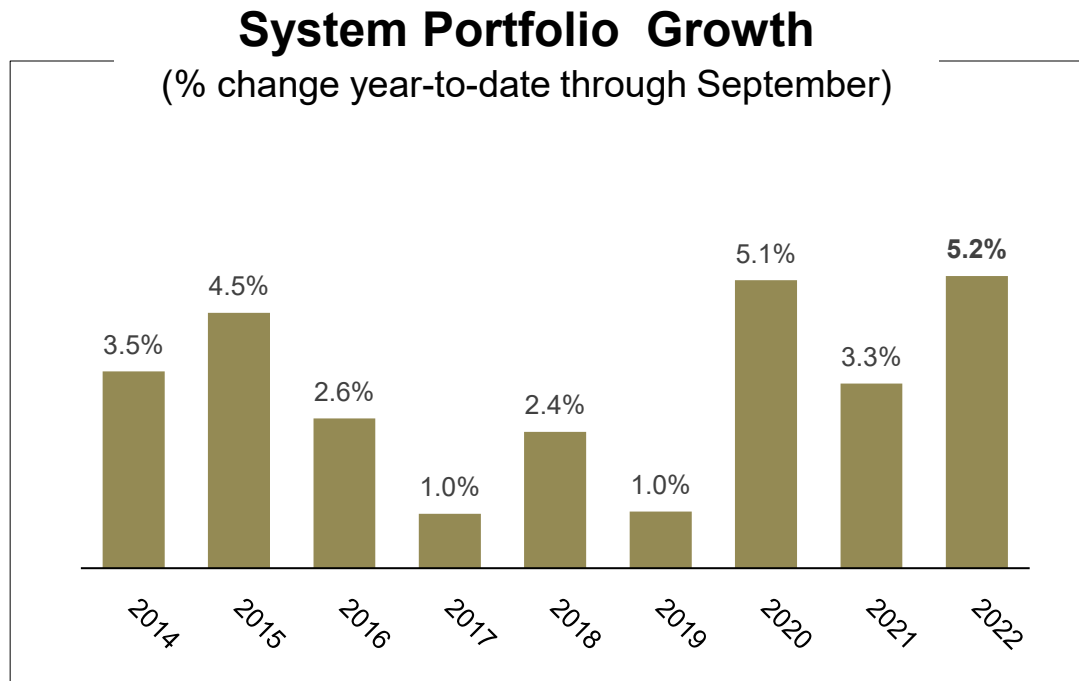
Hal Johnson
Sr. Financial Analyst
Office of Examination



System growth reflects a strong farm economy



Total Assets 9/30/22	\$464.7	+1.8%	Qtr	Gross Loans 9/30/22	\$361.7	1.2%	Qtr
	billion	+6.6%	YTD		billion	+5.2%	YTD
		+13.2%	12M			+11.0%	12M



Source: Federal Farm Credit Banks Funding Corporation Information Statements



System portfolio continues to perform well



Nonperforming Assets
(9/30/22)

\$1.830 billion

Qtr chg. +61M or 3.4%

YTD chg. +252M or 16.0%

12 month chg. +46M or 2.6%

Delinquencies ⁽¹⁾
(9/30/22)

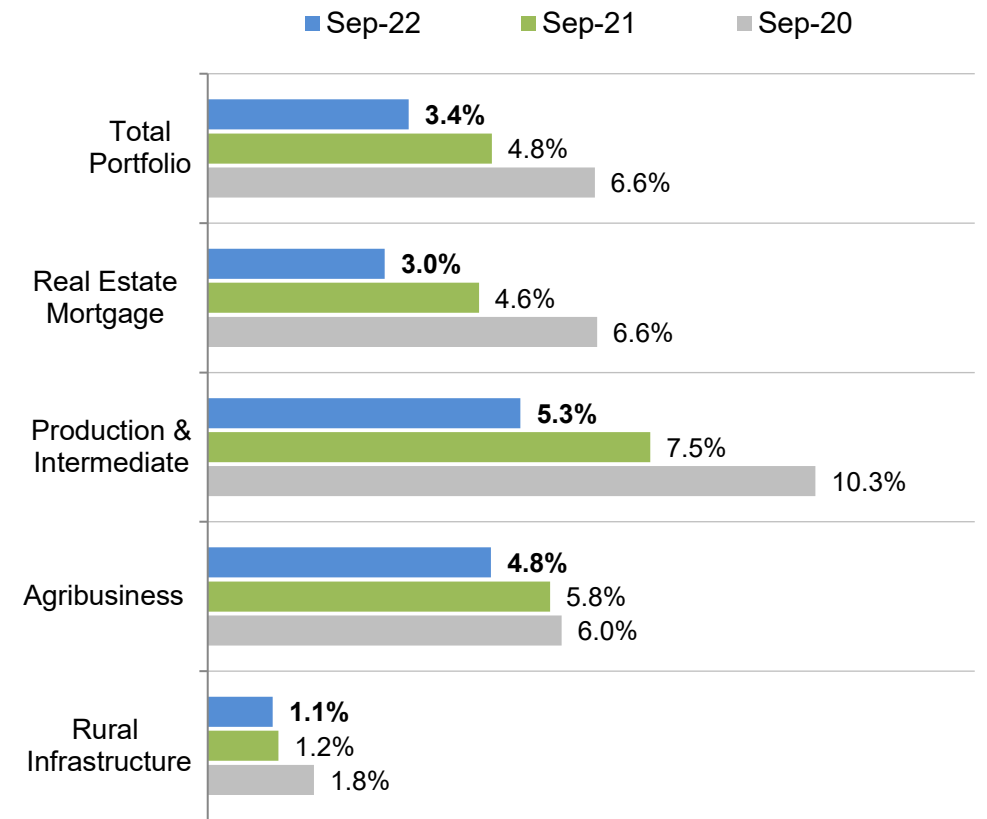
0.24%

Q3 '21 0.22%

Q4 '21 0.27%

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

% of Loans Classified Less than Acceptable



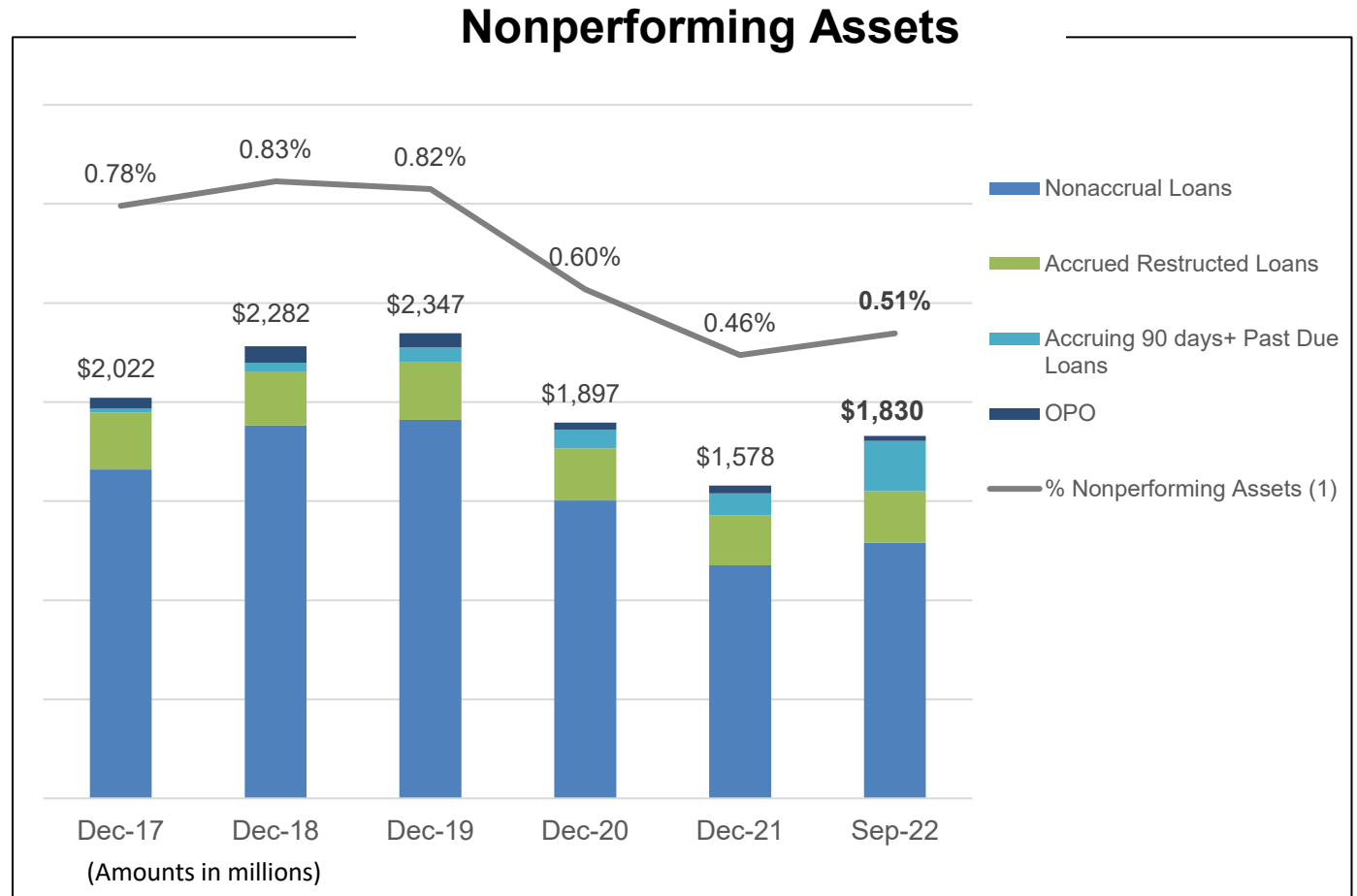
Source: Federal Farm Credit Banks Funding Corporation Information Statements



Nonperforming assets rise but overall level remains low



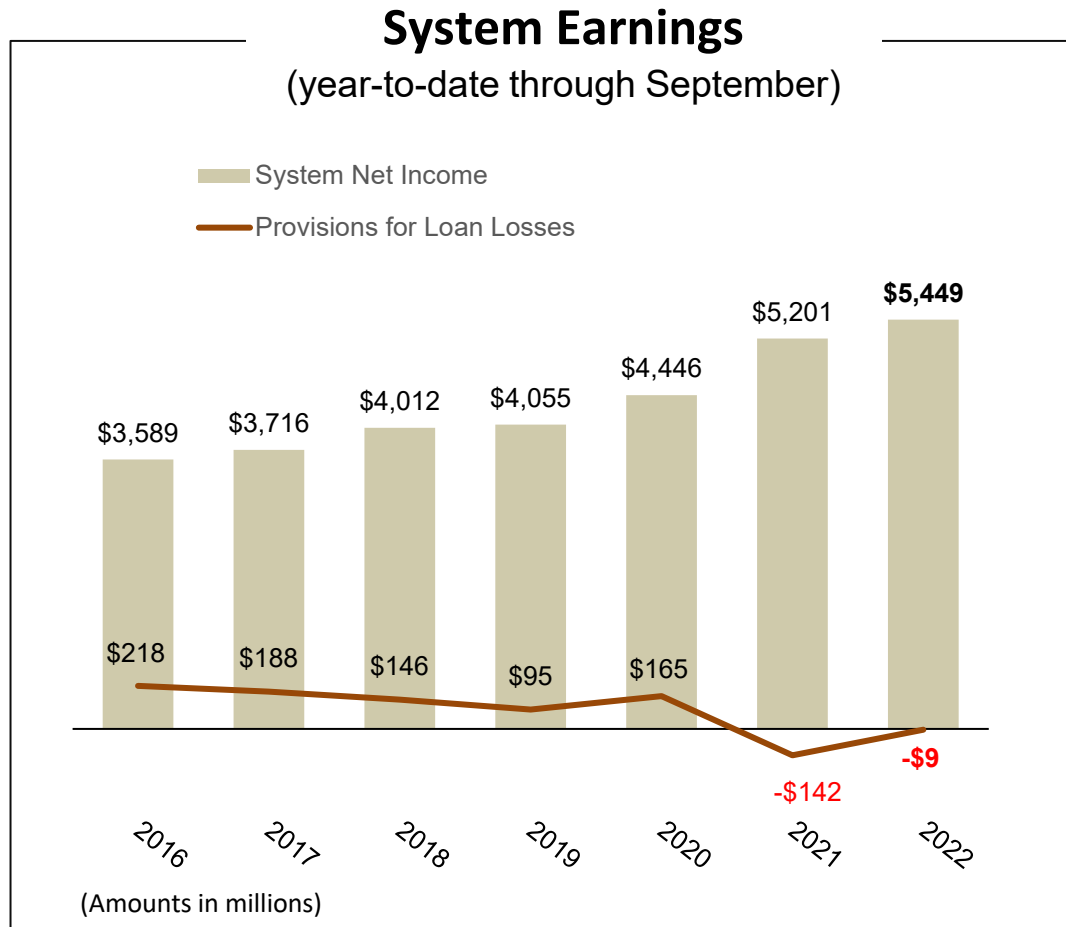
- ▶ Nonperforming assets were 0.51% of loans outstanding and other property owned compared with 0.46% at year-end.
- ▶ Nonaccrual loans totaled \$1.291 billion, up 9.8% from year-end, but down 3.7% from a year ago.
- ▶ 68.5% of nonaccrual loans were current as to principal and interest, compared with 63.7% at year-end.



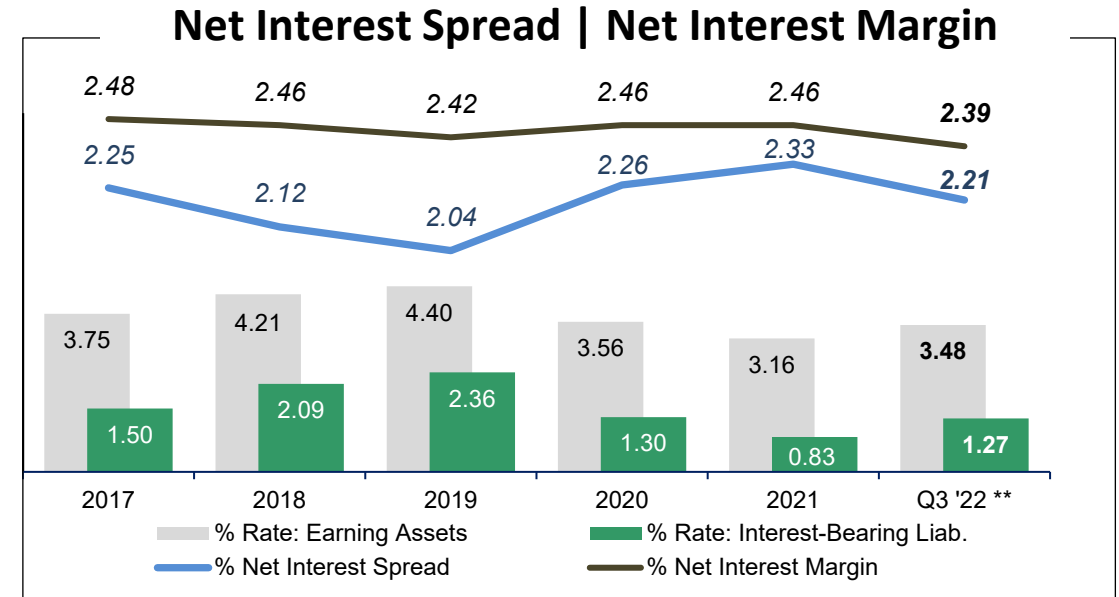
(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)



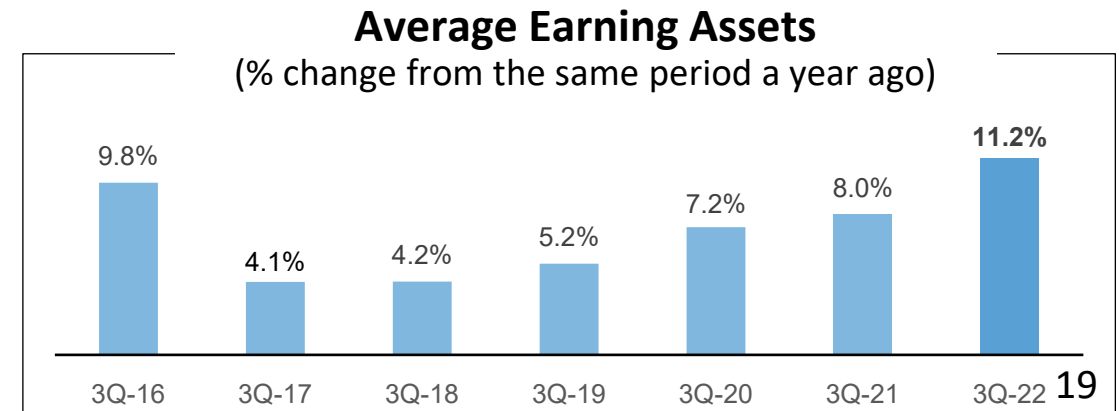
System earnings increase on strong asset growth



Source: Federal Farm Credit Banks Funding Corporation Information Statements



** year-to-date annualized





The System continues to be strongly capitalized

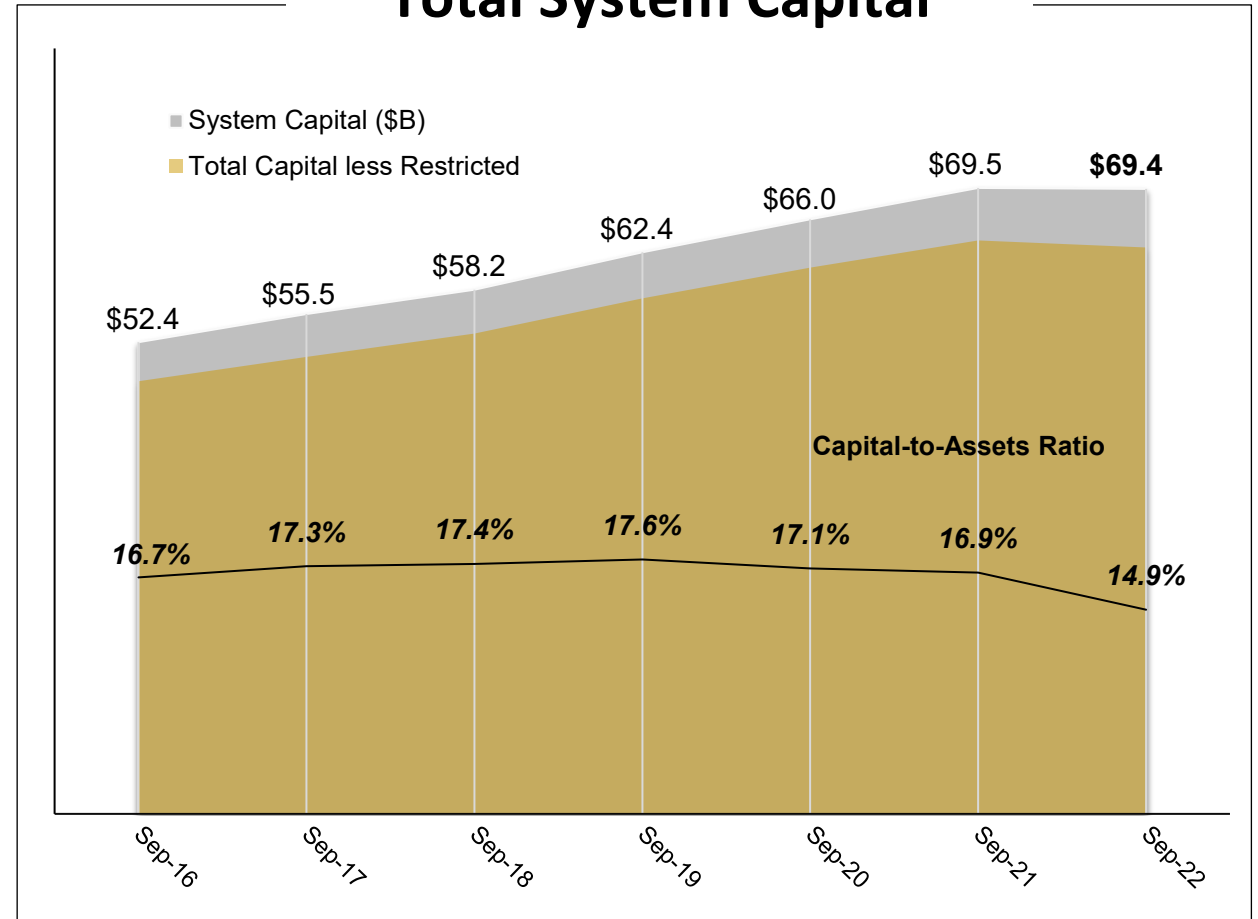
Capital and Liquidity

(as of September 30, 2022)

- ▶ Total Regulatory Capital levels:
Banks: 13.7% to 17.1%
Associations: 11.6% to 31.7%
- ▶ Days of liquidity for the four funding banks ranged from 159 to 214 days
- ▶ 83% of System institutions are in the Capital benchmark 1 range and all are in the benchmark 1 or 2 range

Source: Federal Farm Credit Banks Funding Corporation Information Statements

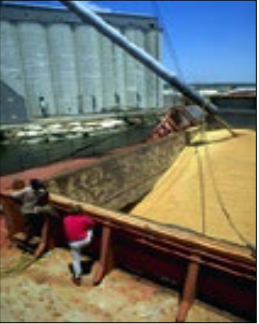
Total System Capital



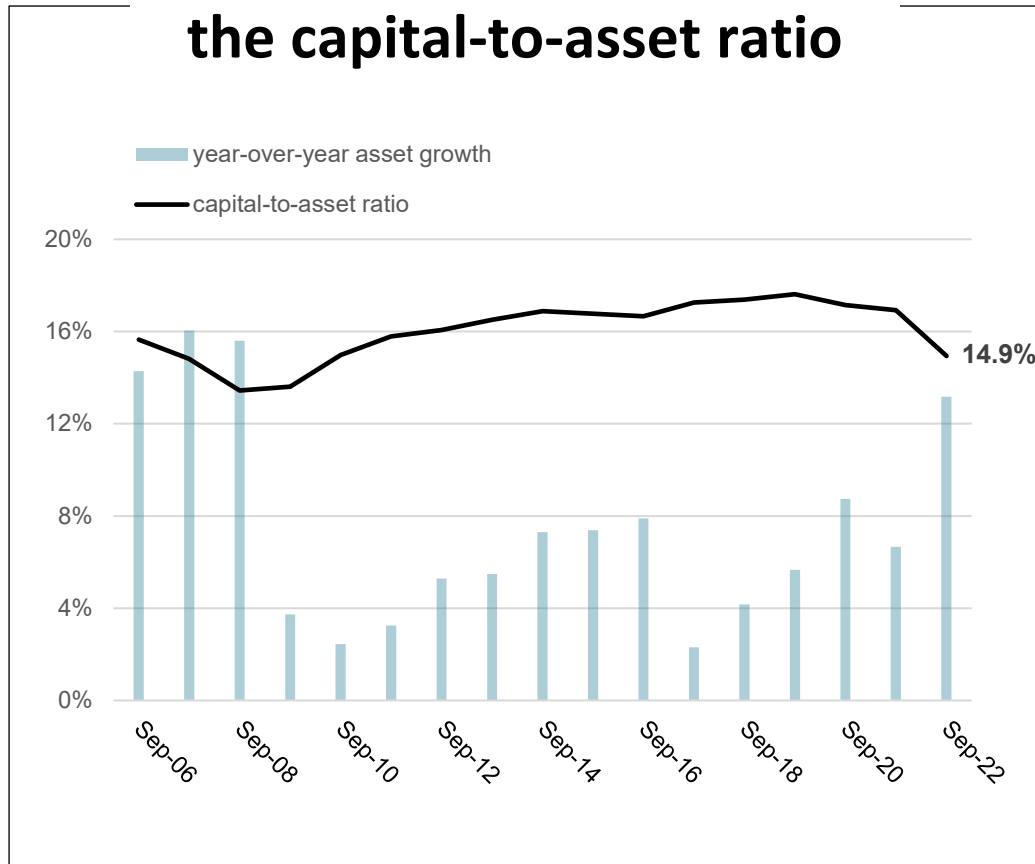
Note: Restricted capital represents capital associated with the Insurance Fund.



Strong asset growth and rising interest rates impact capital-to-asset ratio

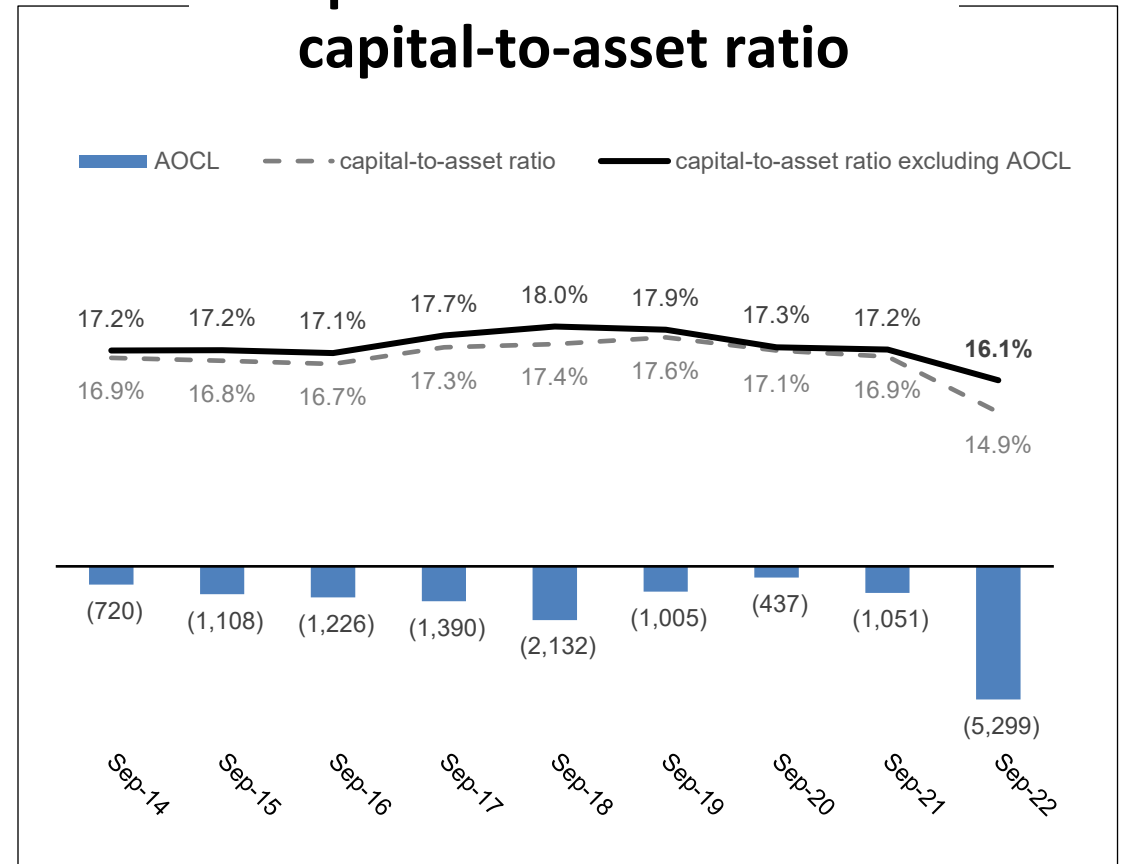


Impact of asset growth on the capital-to-asset ratio



Source: Federal Farm Credit Banks Funding Corporation Information Statements

Impact of AOCL⁽¹⁾ on the capital-to-asset ratio



(1) Accumulated other comprehensive loss



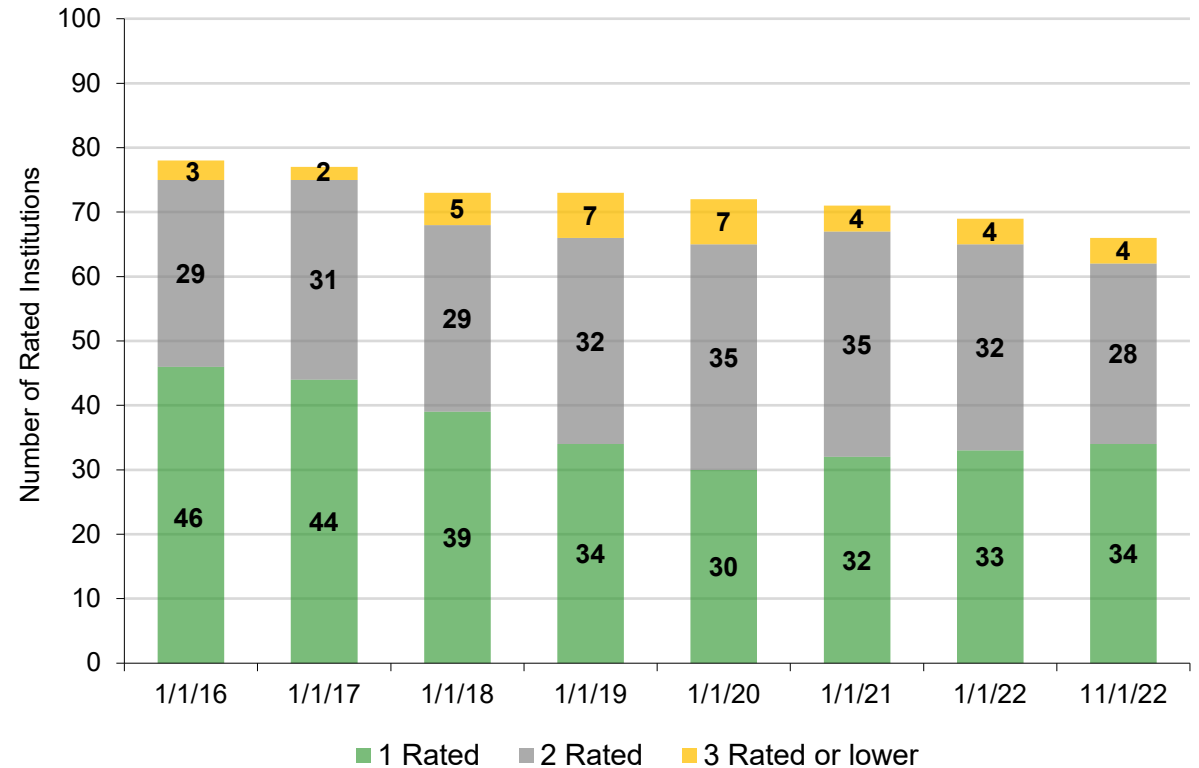
Composite FIRS ratings remain strong

FIRS Ratings

(based on 9/30/22 financial reporting)

- ▶ Composite FIRS ratings reflect the System's sound financial condition.
- ▶ Almost 94% of System banks and associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower represent less than 1.5% of System assets.

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ Rising interest rates slow inflation but raise borrowing costs.
- ▶ Input price risk and supply chain uncertainties an ongoing challenge for ag producers.
- ▶ Drought persists in the Western U.S.; pasture conditions remain poor in many areas.
- ▶ The Farm Credit System continues to be safe and financially strong. Portfolio quality is very good, but risks are elevated for certain sectors and geographic regions.
- ▶ System institutions are strongly capitalized and well positioned to meet the credit needs of agricultural producers and rural America.

