



FCA Board Meeting June 2022

Quarterly Report on FCS Condition June 9, 2022

Yuri Katrinic
Hal Johnson





Topics for Open Session



- ▶ Economic Conditions Affecting the Farm Credit System
 - Macroeconomic outlook
 - Farm equipment shortage and diesel prices
 - Grains, livestock, and timber

- ▶ 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

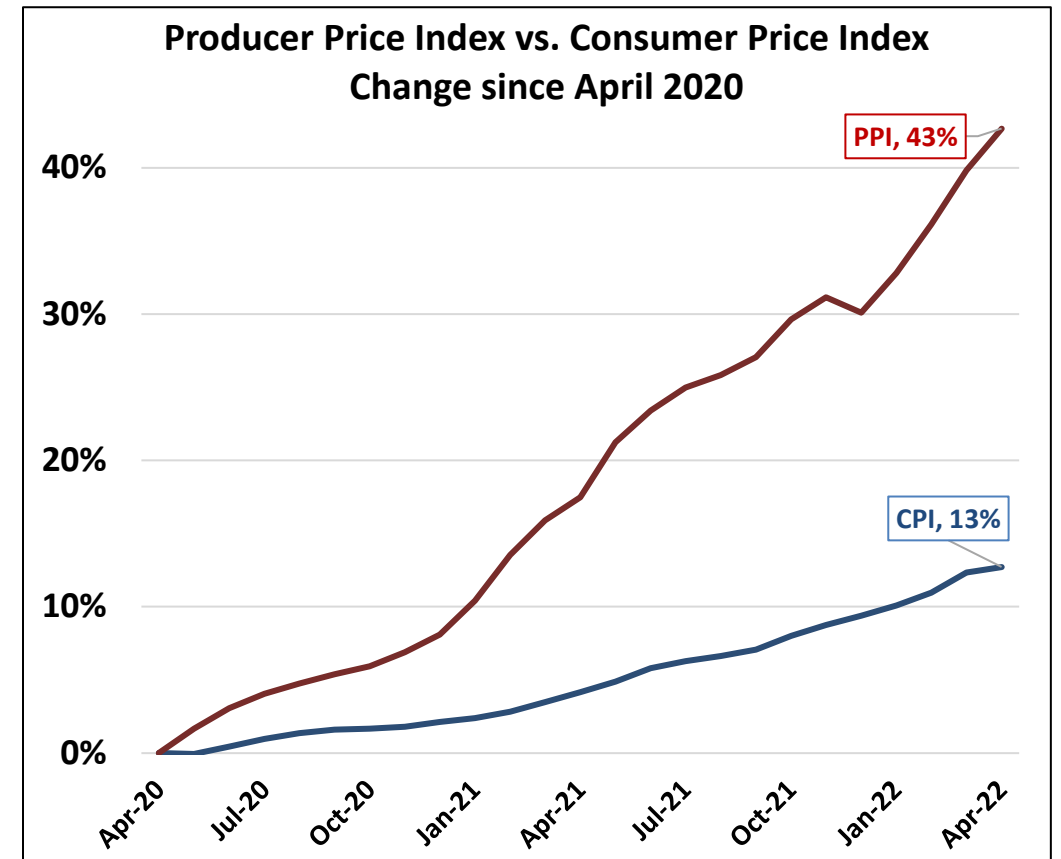
Senior Economist

Office of Data Analytics and Economics



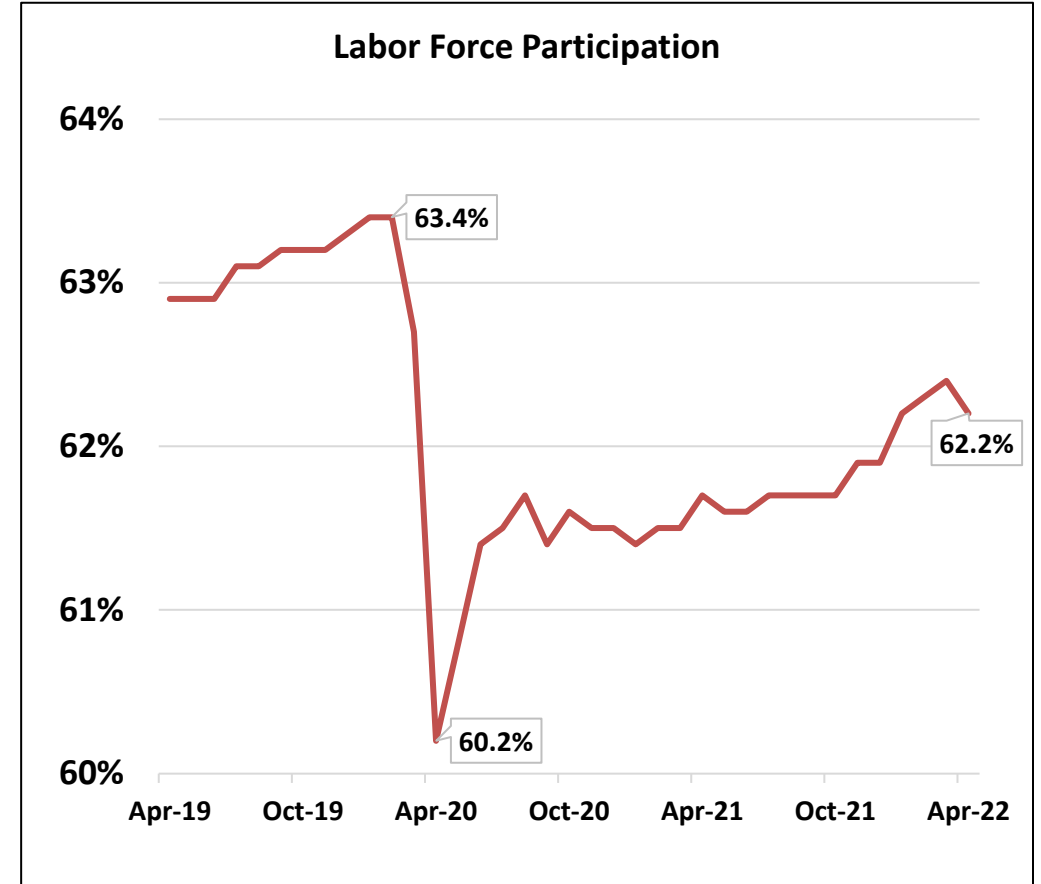
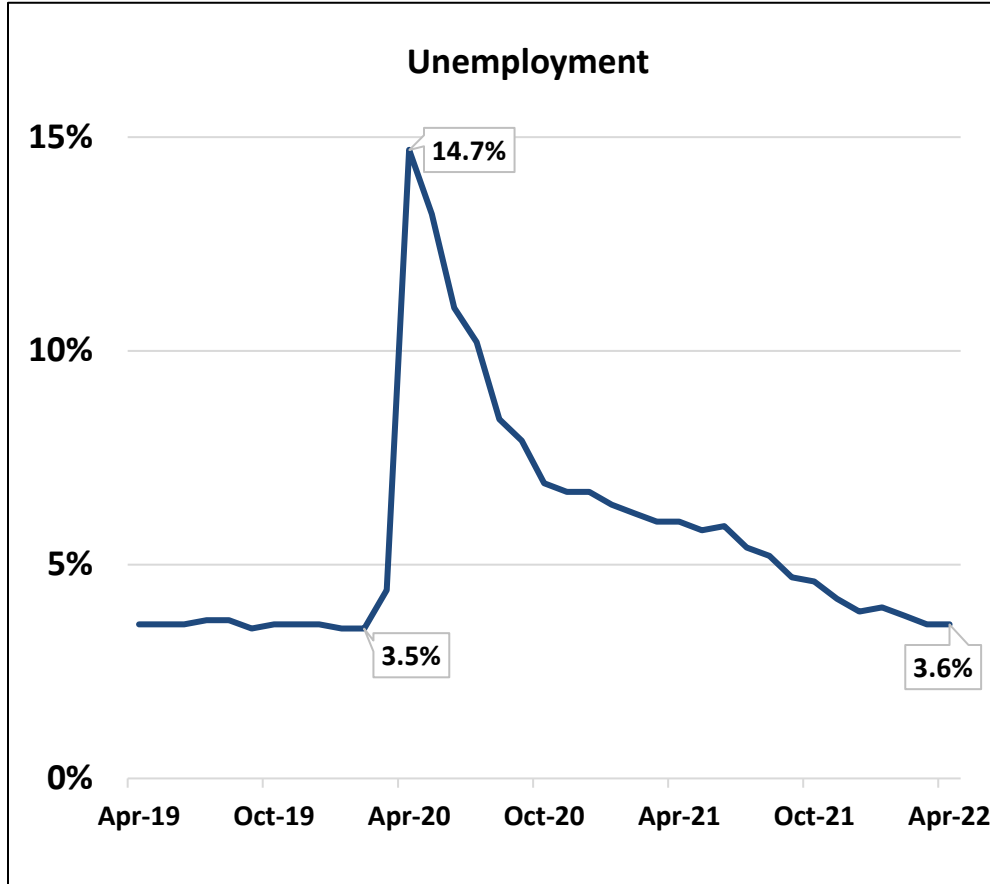
Growth and inflation create unclear economic outlook

- ▶ Rising interest rates, supply chain disruptions, and the war in Ukraine create a climate of economic uncertainty.
- ▶ Latest indicators:
 - 1st Quarter GDP down at 1.5% rate.
 - April consumer spending up at 0.7% rate.
 - Falling consumer confidence and sentiment.
 - Wholesale inflation is far ahead of consumer prices.
 - Slowing consumer inflation in April.





Extremely tight labor market due to very low unemployment and smaller workforce

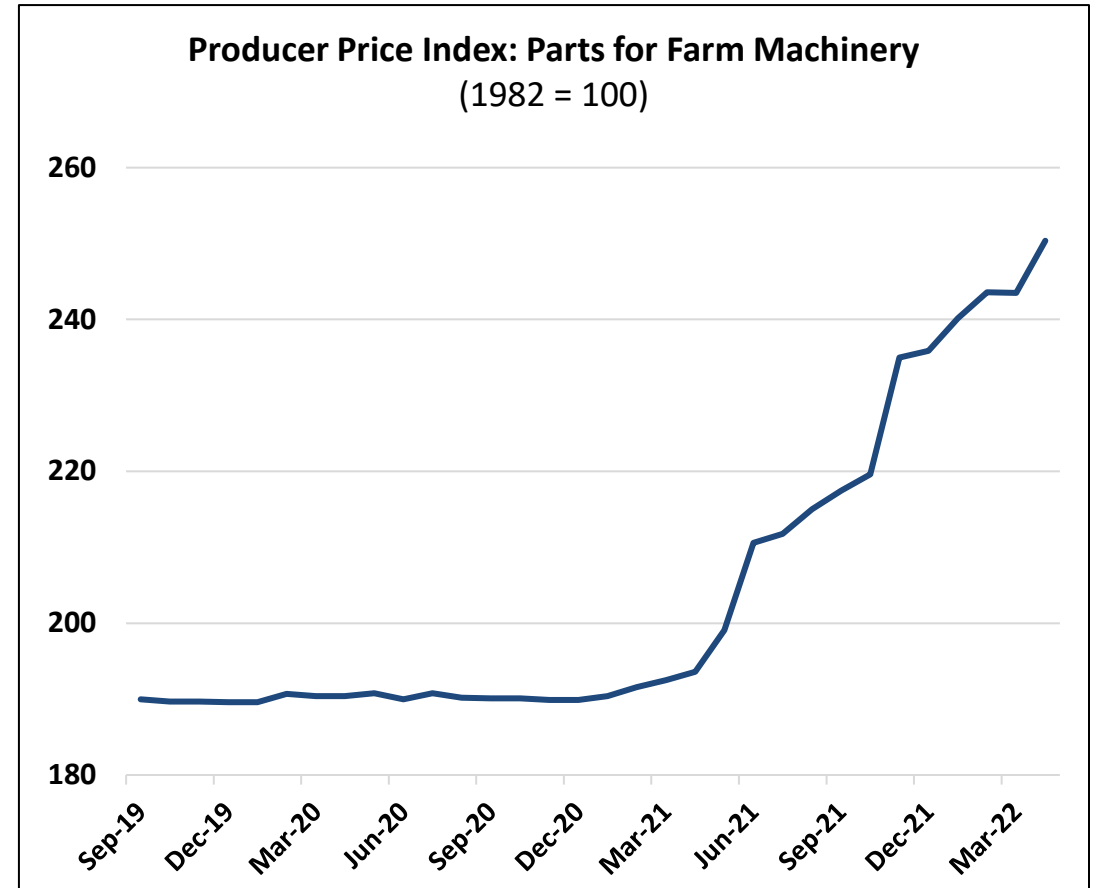


Source: [FRED](#), [Bureau of Labor Statistics](#)



Supply chain crunch limiting availability, raising prices of farm equipment and parts

- ▶ Supply chain and labor disruptions have led to farm equipment shortages.
- ▶ Sales down 25% and inventory down 5% compared to April last year.
- ▶ New equipment often sold out; parts and used equipment prices skyrocketing.
- ▶ Shortages likely to continue into 2023.

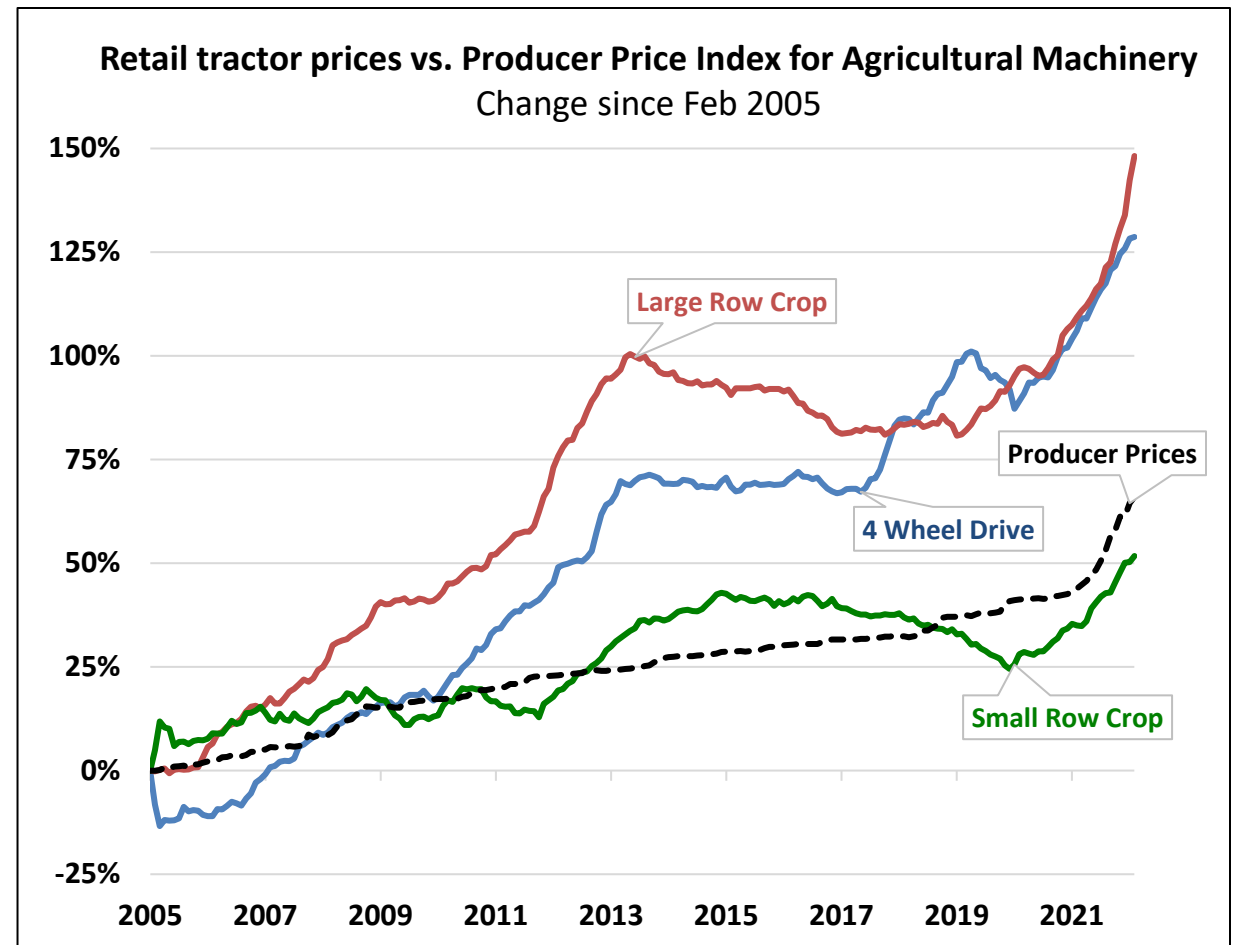


Source: FRED, [Bureau of Labor Statistics](#)
[Association of Equipment Manufacturers](#)



Production costs play a larger role in today's farm equipment prices

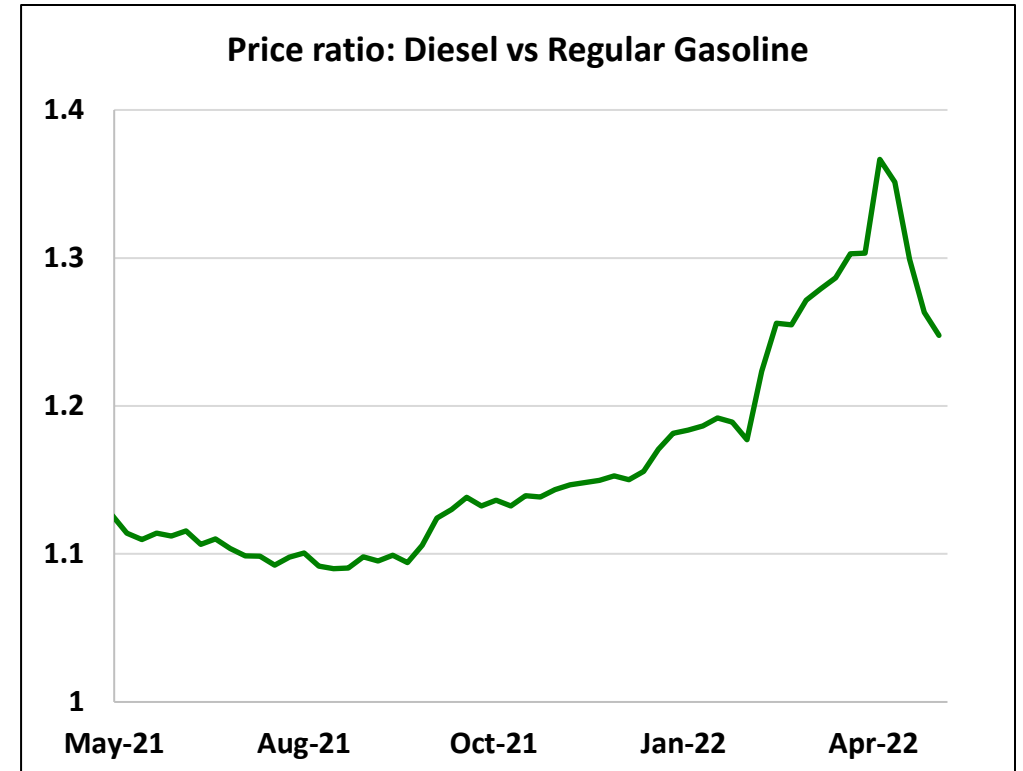
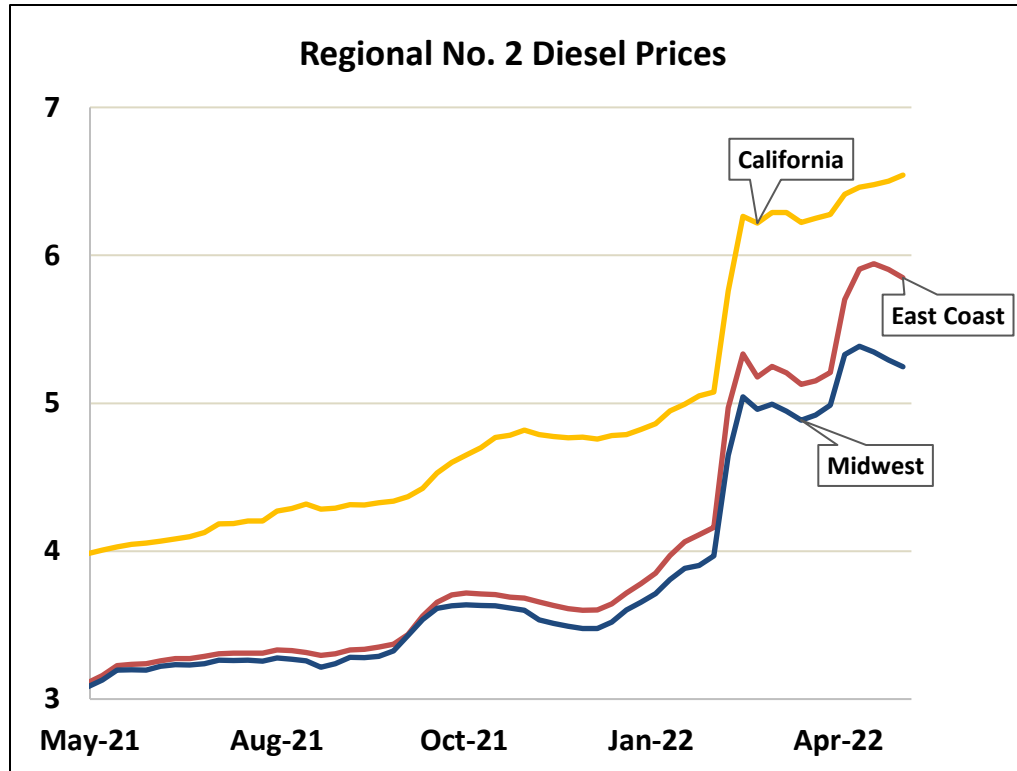
- ▶ In 2013, tractor prices increased due to strong farm profits despite stable production costs.
- ▶ In contrast, today's price increases also reflect rising production costs.



Source: [Bureau of Labor Statistics](#), Iron Solutions



Rising diesel prices driven by crude oil prices, refining capacity, and exports to Europe



Source: [Energy Information Administration](https://www.eia.gov)



Continued volatility in grain markets

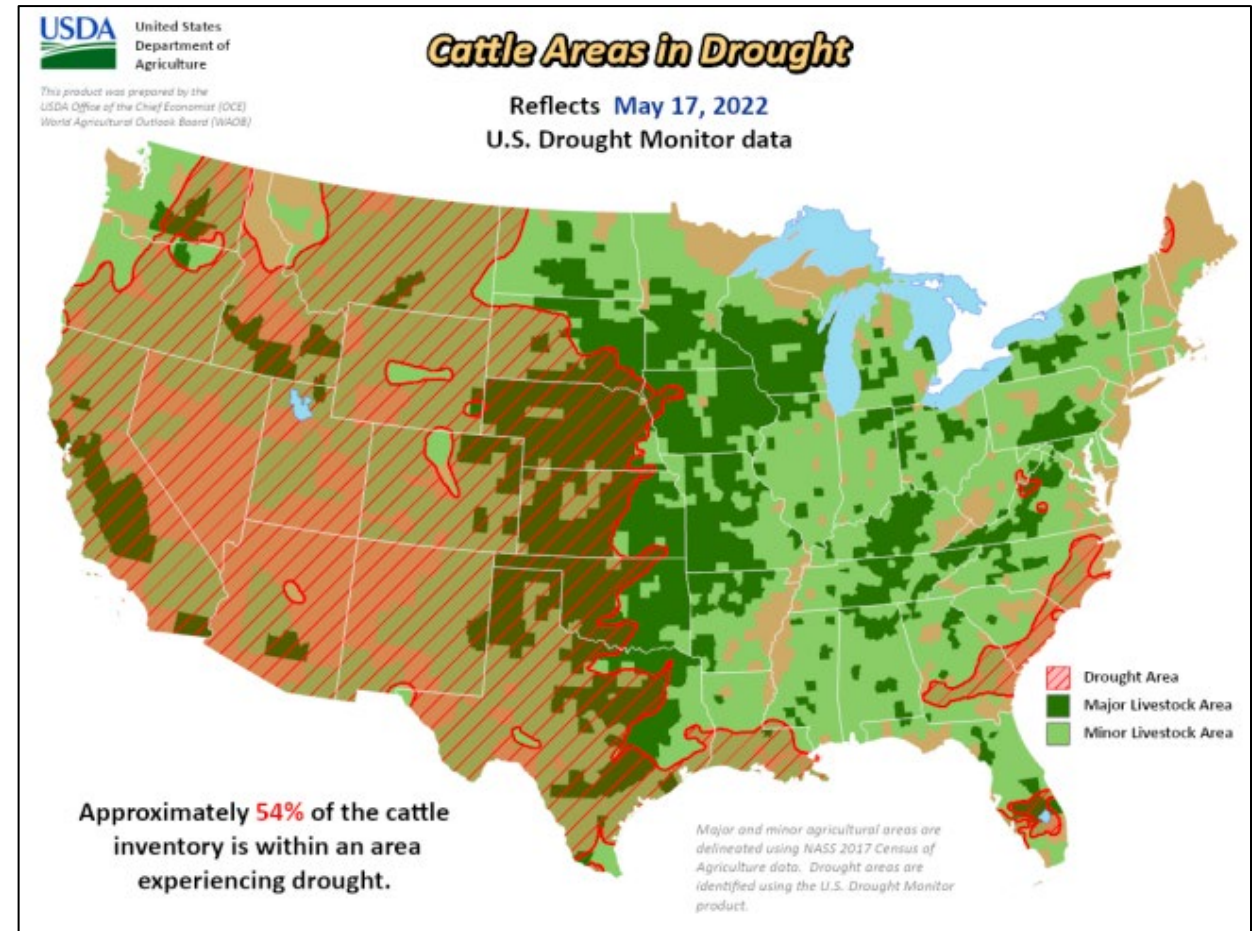
- ▶ War in Ukraine continues to keep commodity prices high and raises risk of food shortages and export controls.
- ▶ Drought in western plains and California impacting sorghum, winter wheat and rice.
- ▶ Wet planting conditions in Minnesota and eastern Dakotas impacting corn and spring wheat.
- ▶ Strong soybean crop expected due to favorable planting weather and farmers choosing it over corn because of lower fertilizer requirements.





Drought has caused poor pasture conditions and low hay supplies for ranchers

- ▶ Challenging cow-calf profit outlook for much of the country.
- ▶ Producers reducing herds to cope with high input costs.
- ▶ Consumers could switch to cheaper proteins in response to rising prices.

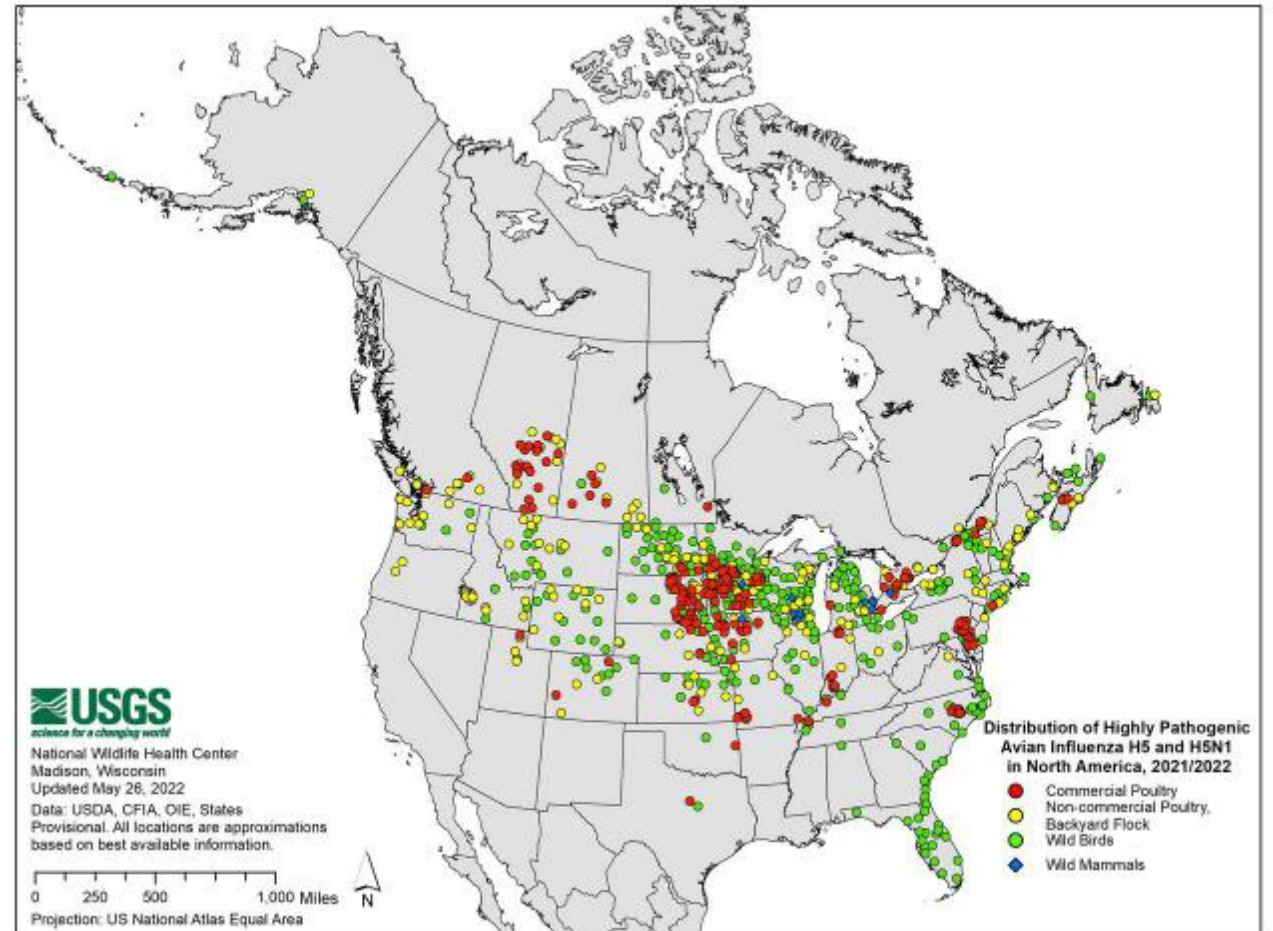


Source: <https://www.usda.gov/sites/default/files/documents/AgInDrought.pdf>



Highly Pathogenetic Avian Influenza pushes egg prices to record high

- ▶ Worst impacts on egg and turkey farms in Iowa and Minnesota.
- ▶ Disease moved north as wild birds migrated.
- ▶ Limited impact in the South but could happen during fall migrations.
- ▶ Better monitoring and management practices today compared to 2015 outbreak.

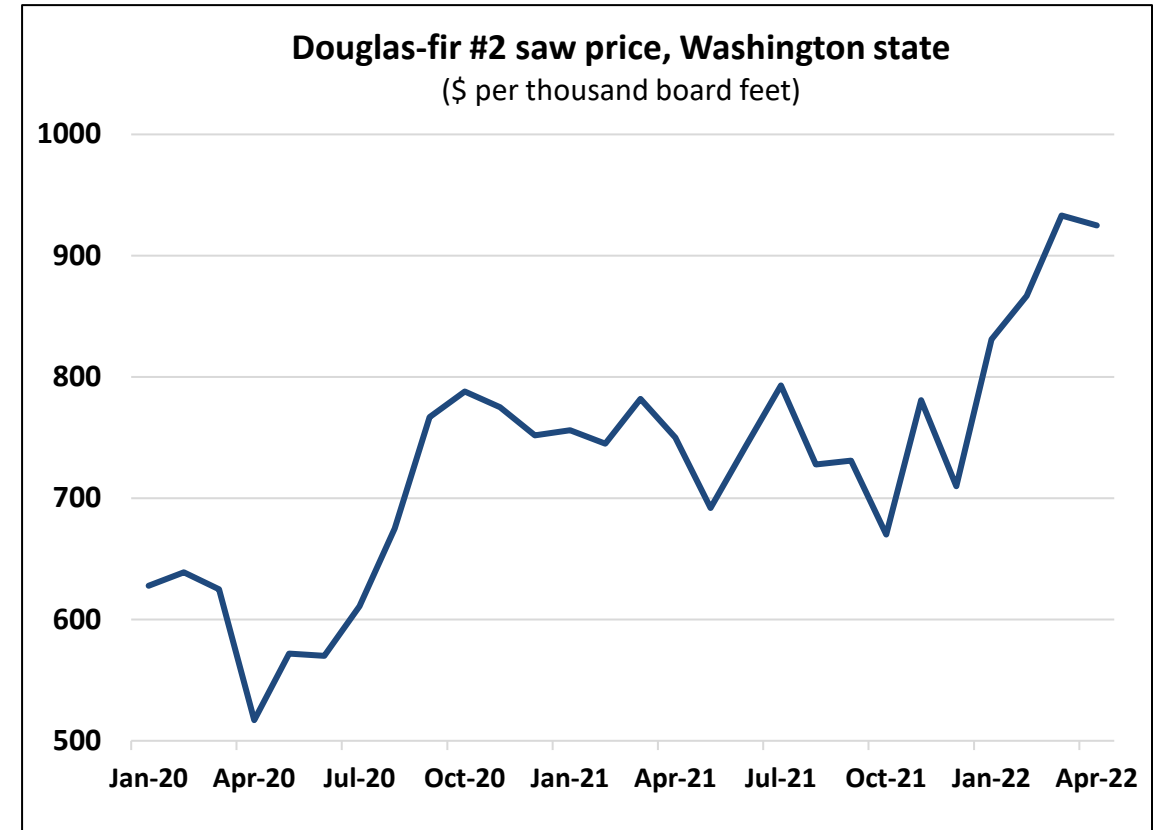


Source: [Distribution of Highly Pathogenic Avian Influenza in North America, 2021/2022](#) | U.S. Geological Survey (usgs.gov)



Demand for lumber supports high log prices for timberland owners

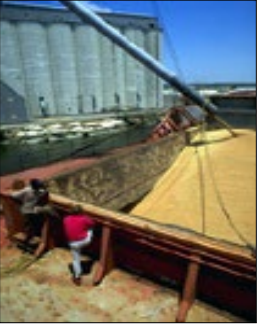
- ▶ Housing starts up 14.6% compared to April 2021, driving up demand and prices for lumber.
- ▶ Log prices initially lagged retail lumber prices but are catching up.
- ▶ Demand for lumber could eventually slow down with rising mortgage interest rates, housing prices, and construction costs.



Source: [Washington Department of Natural Resources](#), [US Census Bureau](#)



Questions



THANK YOU



Farm Credit System Condition and Performance

as of
March 31, 2022

Hal Johnson
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Office of Examination



Topics

- ▶ System Growth
- ▶ Loan Portfolio
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

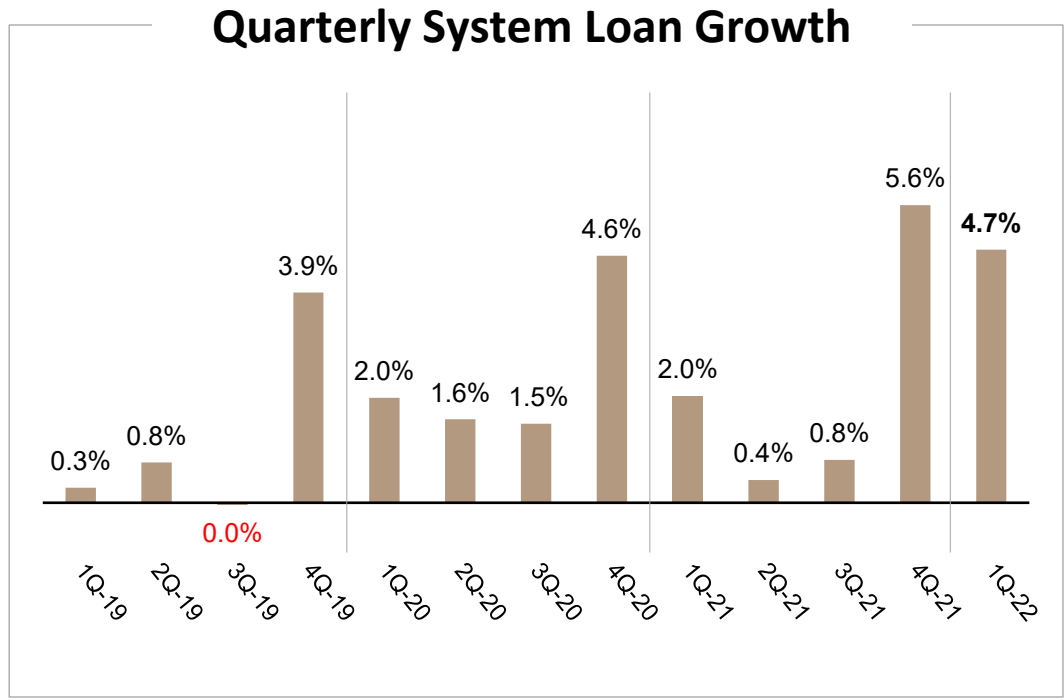




Agribusiness lending drives 1st quarter loan growth

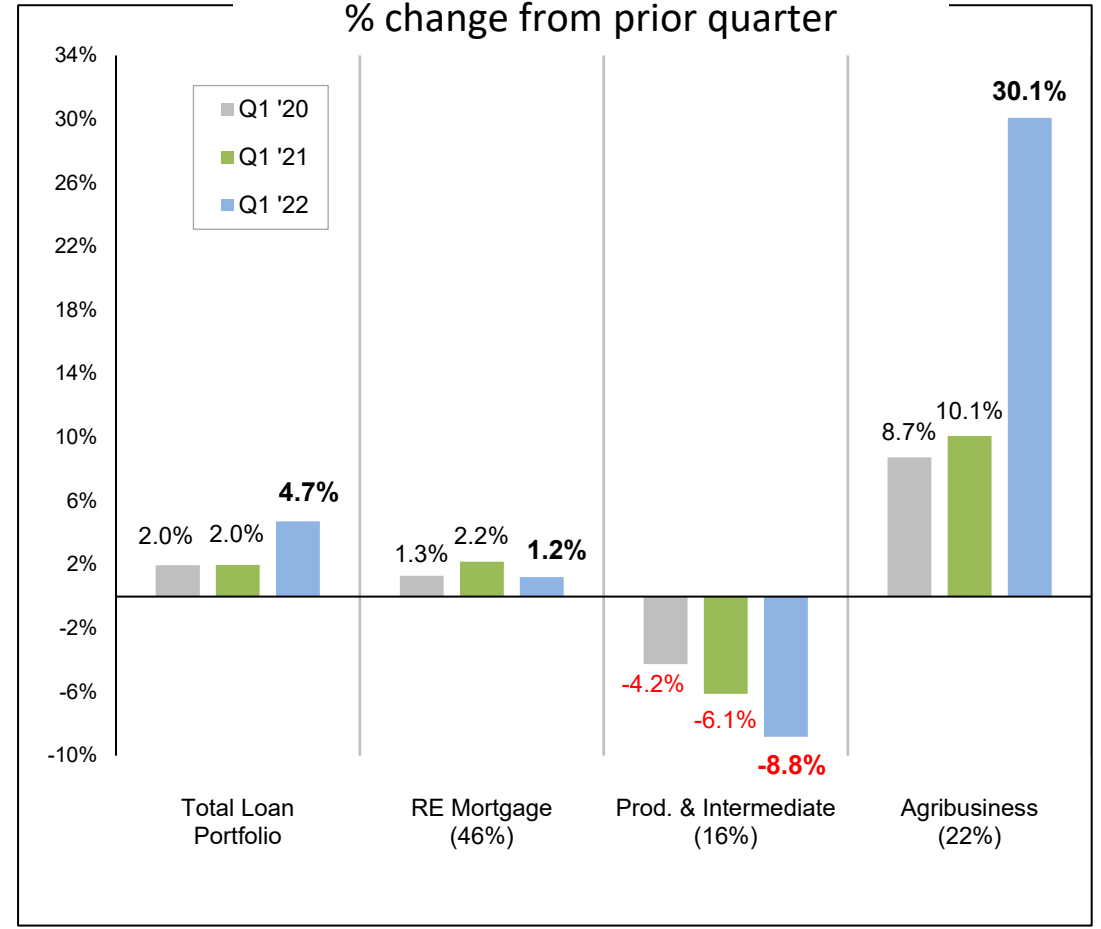


Total Assets 3/31/22	\$453.0	+3.9%	Qtr	Gross Loans 3/31/22	\$360.2	+4.7%	Qtr
	billion	+12.0%	12M		billion	+11.9%	12M



Source: FCS Information Statements

Loan Growth by Loan Type % change from prior quarter



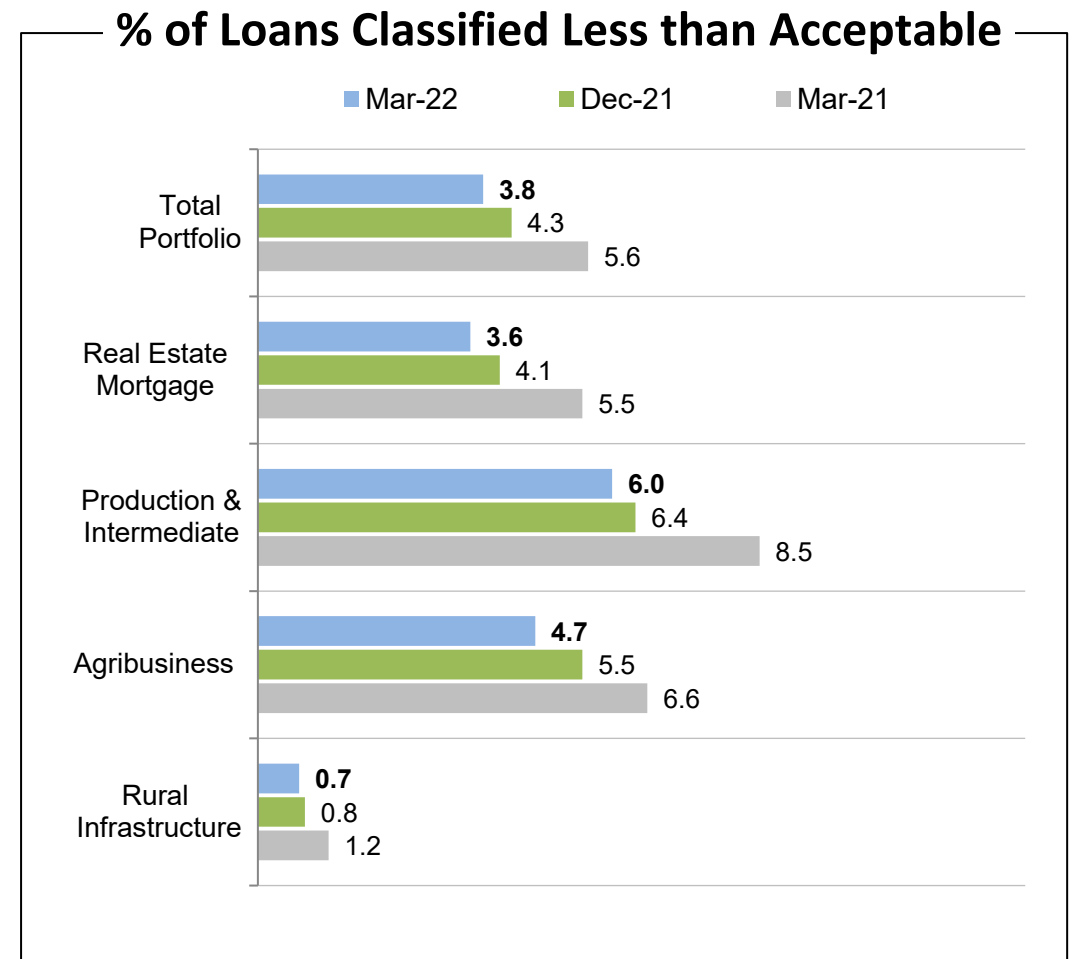


Portfolio loan quality is very good; credit risk measures remain favorable



Nonperforming Assets (3/31/22)	\$1.651 billion	Qtr chg.	+73M or 4.6%
		12 month chg.	-\$254M or -13.3%
Delinquencies ⁽¹⁾ (3/31/22)	0.29%	Q1 '21	0.31%
		Q4 '21	0.27%

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



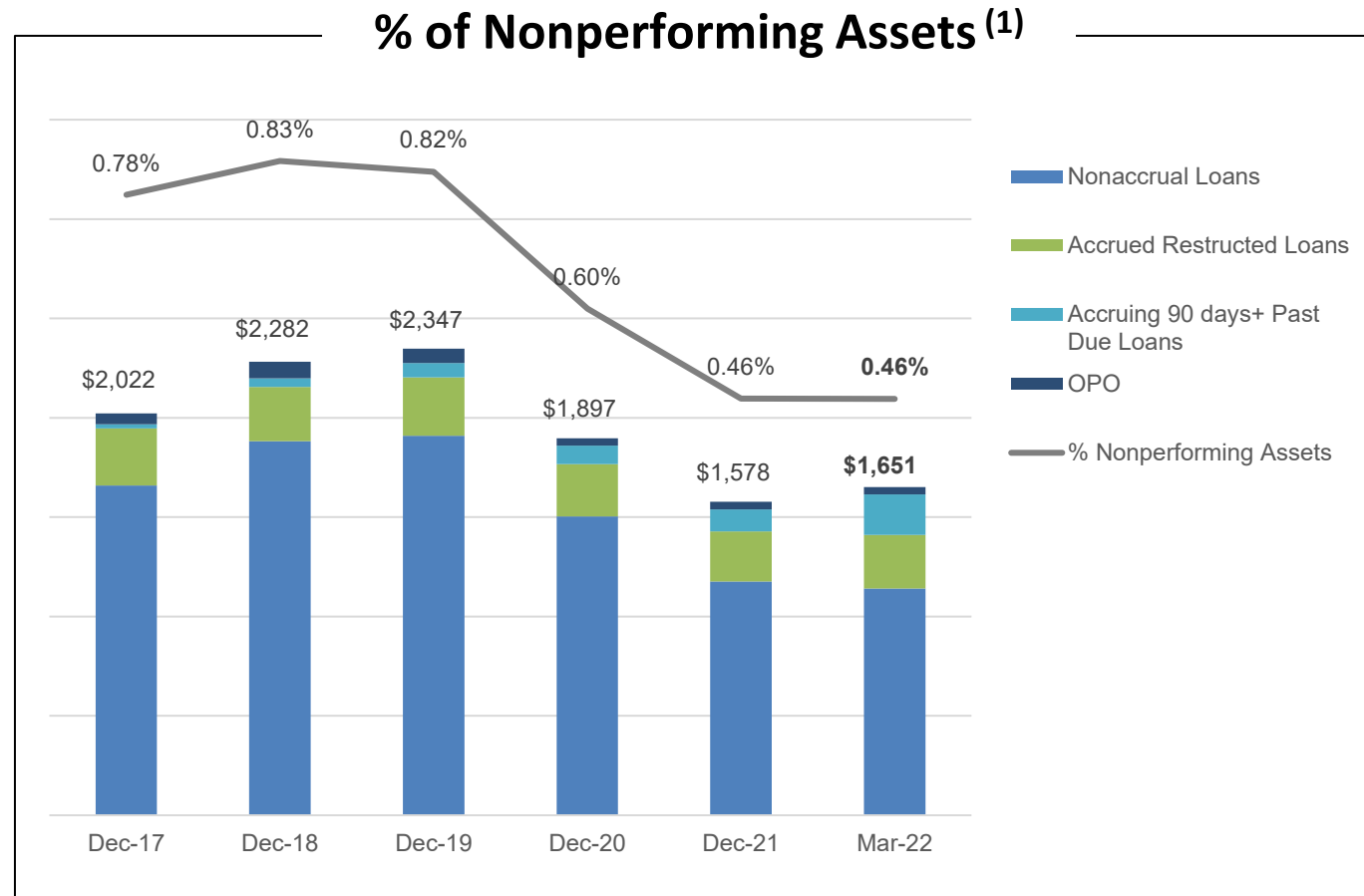
Source: FCS Information Statements



Nonperforming assets were marginally higher in the 1st quarter; overall level remains low



- ▶ Nonperforming assets were 0.46% of loans outstanding and other property owned, unchanged from year-end.
- ▶ Nonperforming assets equaled 2.40% of System capital, up from 2.27% at year-end.
- ▶ Nonaccrual loans totaled \$1.141 billion, down 3% from last quarter and 22% from a year ago.
- ▶ 64.8% of nonaccrual loans were current as to principal and interest.

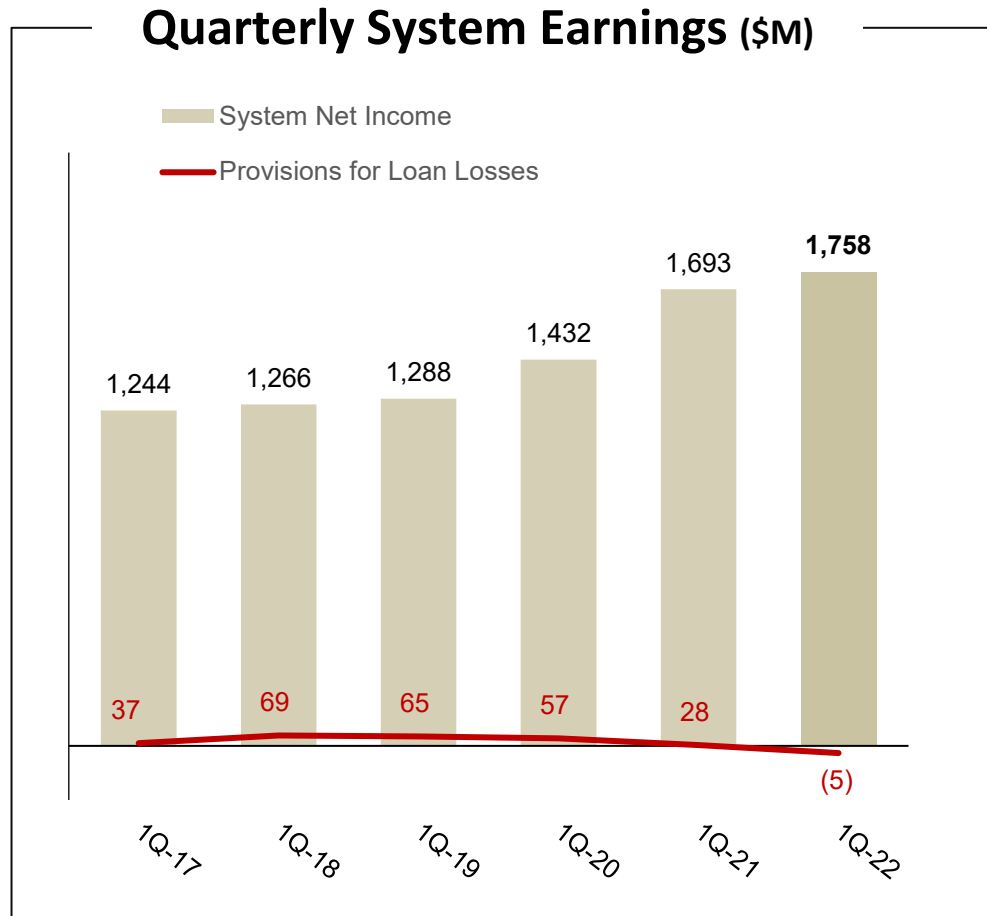


(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

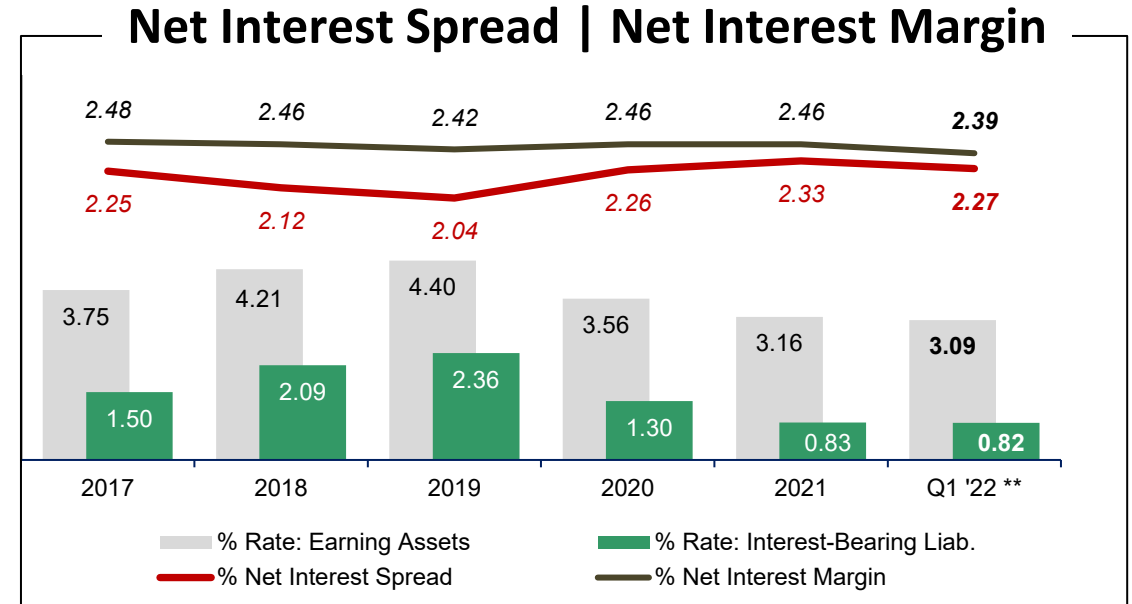
Source: FCS Information Statements



1st quarter earnings climb on strong asset growth

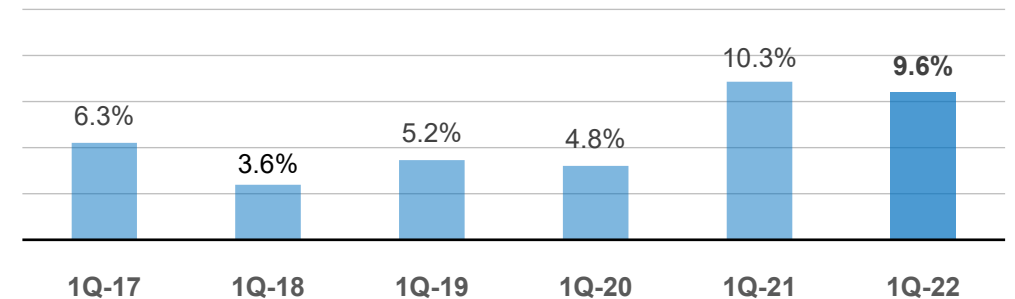


Source: FCS Information Statements



** annualized

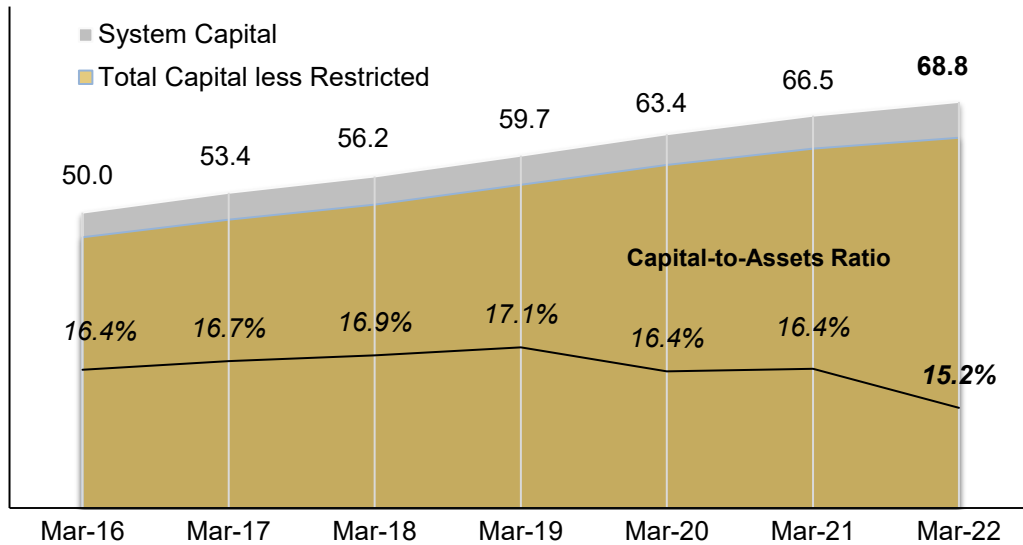
Average Earning Assets (% change from the same period a year ago)





System is strongly capitalized; capital-to-assets ratio declines

Total System Capital (\$B)



► Total Regulatory Capital levels:

- Banks: 13.6% to 17.9%
- Associations: 11.2% to 34.1%

► FIRS Capital Benchmarks

- 83% of institutions are in the benchmark 1 range
- all institutions are in the benchmark 1 or 2 range

System Capital (in millions)	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Capital-to-Assets ratio	16.9%	17.1%	16.4%	16.4%	15.2%
% YOY ⁽¹⁾ chg. Total capital	5.1%	6.3%	6.1%	5.0%	3.5%
% YOY chg. Total assets	4.0%	4.7%	11.1%	4.4%	12.0%
% YOY chg. Retained earnings	1.8%	6.0%	5.7%	5.6%	5.1%
Capital Components					
Preferred stock	3,093	3,187	3,170	3,180	3,772
Capital stock	1,870	1,928	1,889	1,989	2,073
Additional paid-in capital	3,712	3,712	3,738	3,790	4,266
Restricted capital ⁽²⁾	4,742	4,966	5,212	5,581	6,096
AOCL ⁽³⁾	(1,969)	(1,484)	(764)	(960)	(2,991)
Retained earnings	44,721	47,413	50,105	52,920	55,602
Total Capital	56,169	59,722	63,350	66,500	68,818

(1) year-over-year

(2) restricted capital represents capital associated with the FCS Insurance Fund

(3) accumulated other comprehensive income



System Composite FIRS ratings remain favorable

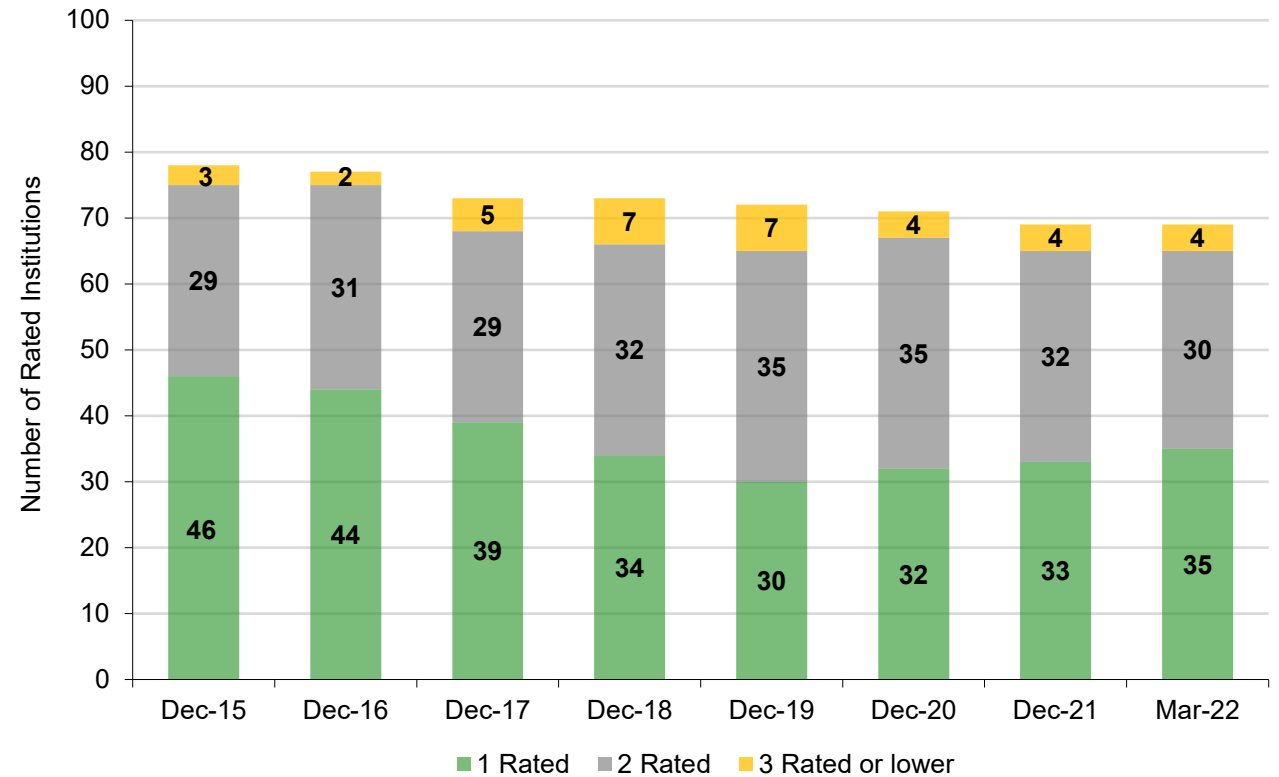


FIRS Ratings

(based on 3/31/22 financial reporting)

- ▶ Composite FIRS ratings reflect the System's strong financial condition.
- ▶ Over 94% of System Banks and Associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower account for less than 1.0% of System assets.

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ Commodity prices are strong, but producers are challenged by inflationary pressures, tight labor markets, supply chain problems, and a strong dollar.
- ▶ Drought and water availability concerns continue for the Western half of the U.S, especially for cattle producers.
- ▶ The System's portfolio continued to perform well, with continued strong loan growth and low credit risk.
- ▶ System institutions are well-positioned to meet borrower funding and liquidity needs.
- ▶ The Farm Credit System is safe and financially sound.

