



Quarterly Report on FCS Condition

April 11, 2024

Rebecca Kaiser – Economist

Brianna Tomlinson – Supervisory Examiner





Topics for Open Session

Economic Conditions Affecting the Farm Credit System

- ▶ Macroeconomic conditions
- ▶ Farm sector income and margin squeeze
- ▶ Issues shaping risk in livestock industry

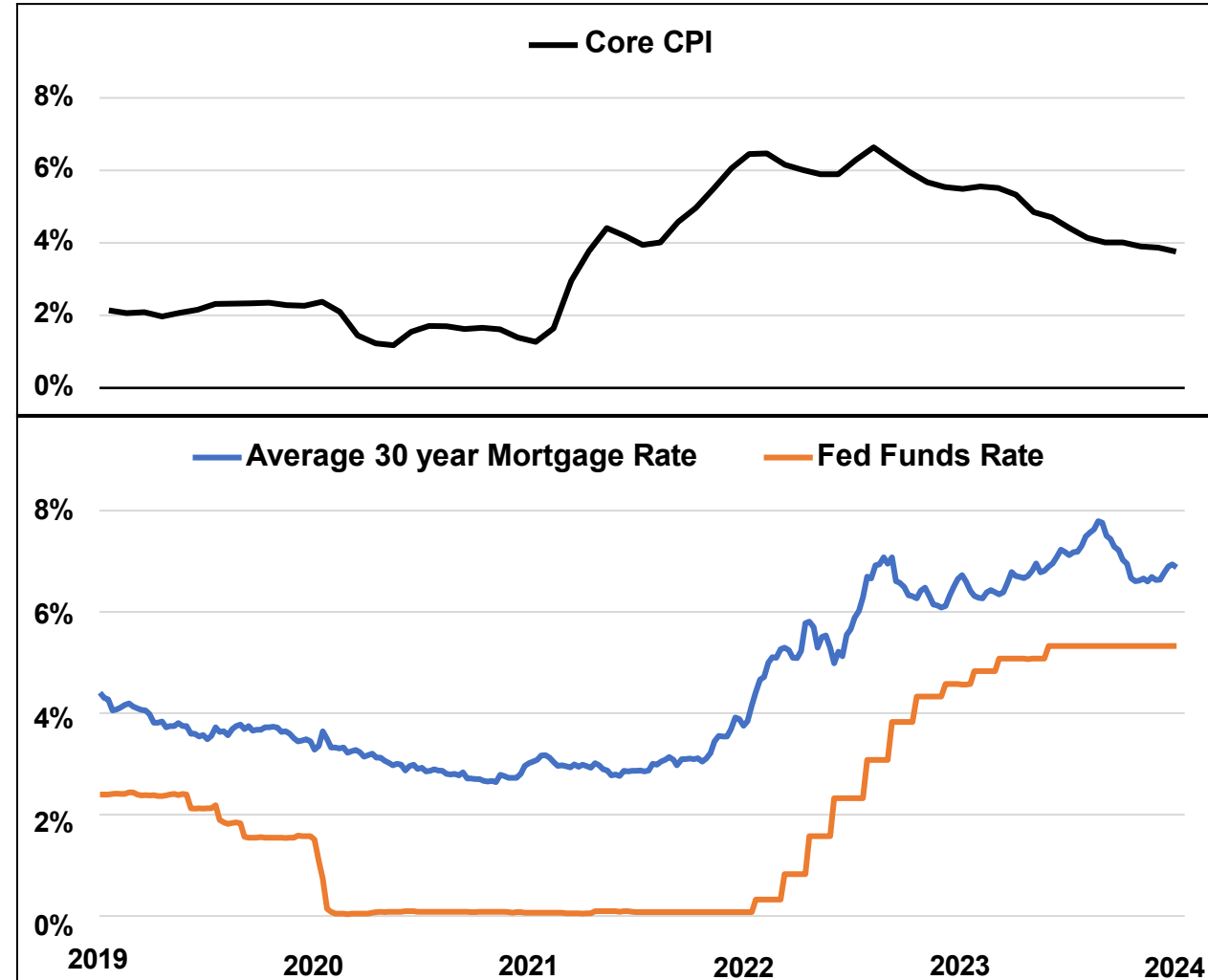
Farm Credit System Condition and Performance

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



Interest rates steady amid inflation risk

- ▶ High inflation in 2022 and 2023 led to sharp increase in interest rates aimed at bringing it down to 2%.
- ▶ The Fed has signaled possible rate cuts in 2024.
- ▶ Concerns about recession loom, but some economic indicators remain strong.

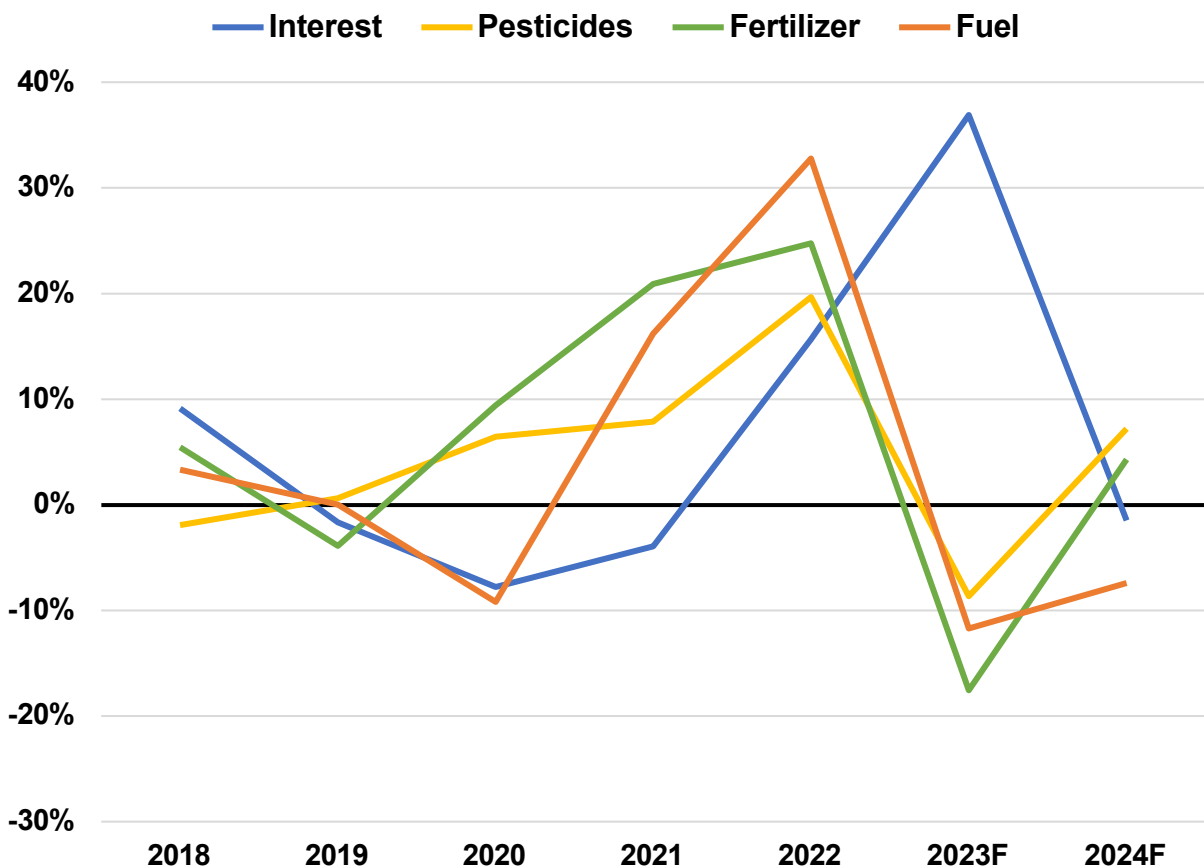


Sources: Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; Freddie Mac

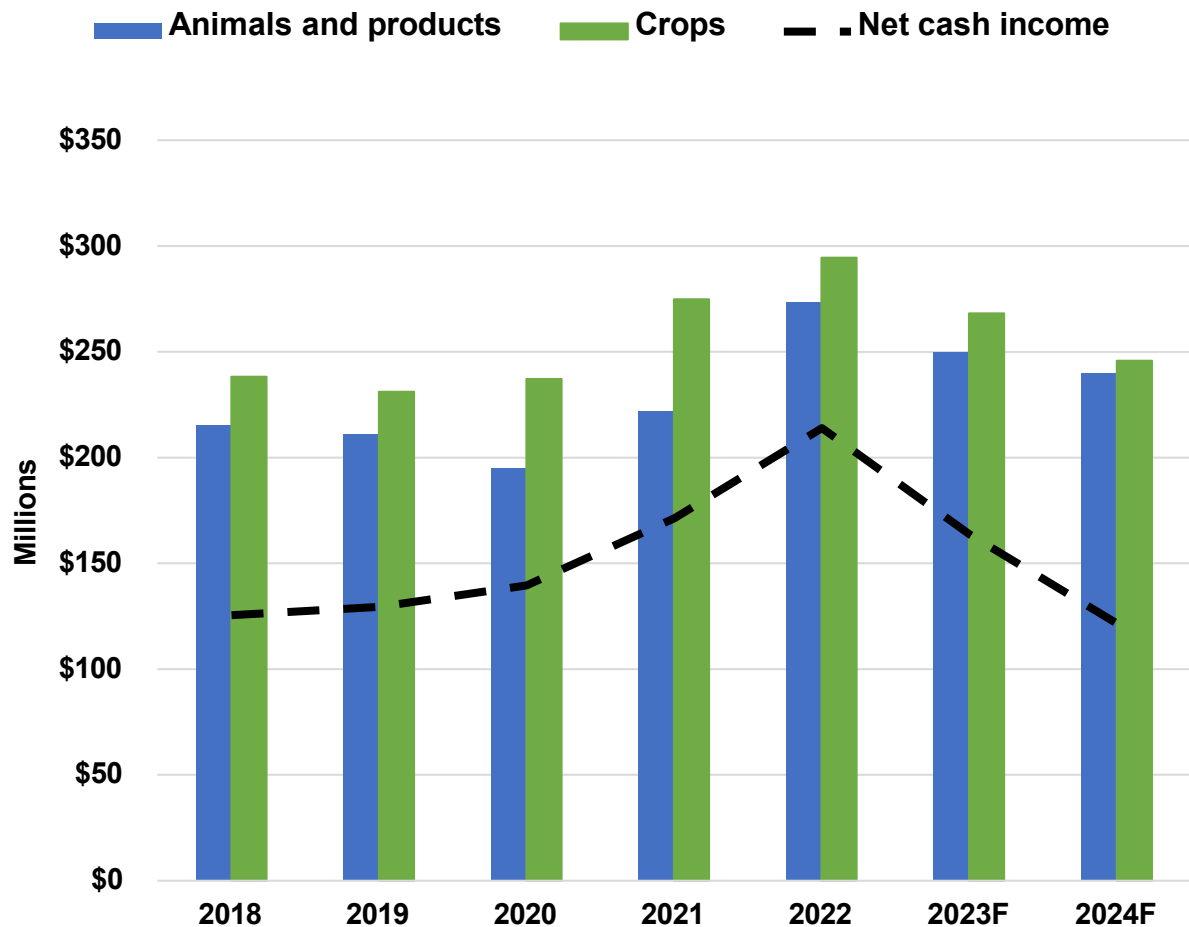


Farm income expected to drop substantially

Year-over-Year Change in Production Expenses



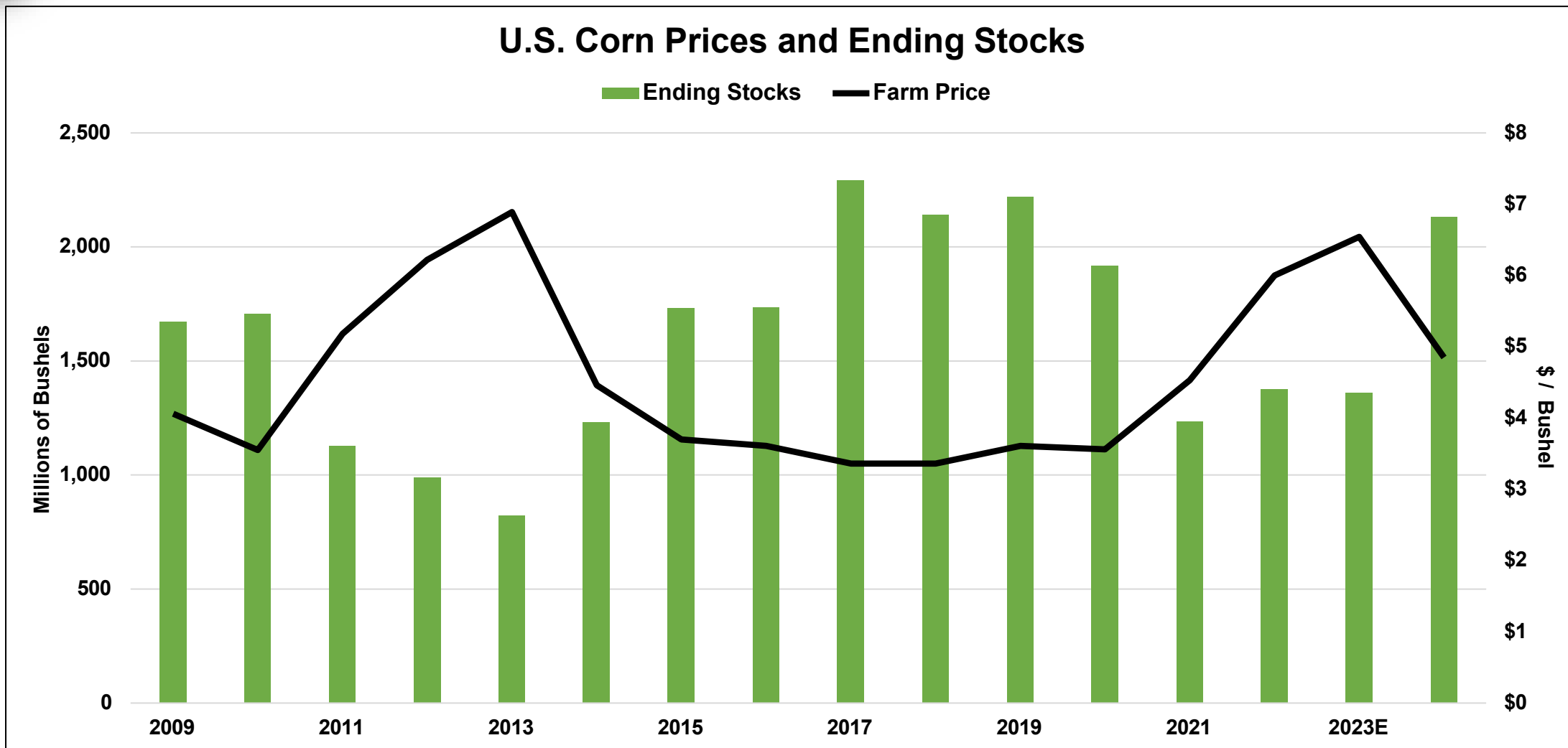
Cash Receipts and Net Cash Farm Income



Source: USDA ERS Farm Income and Wealth Statistics



Cash grain prices decline following highs in 2023



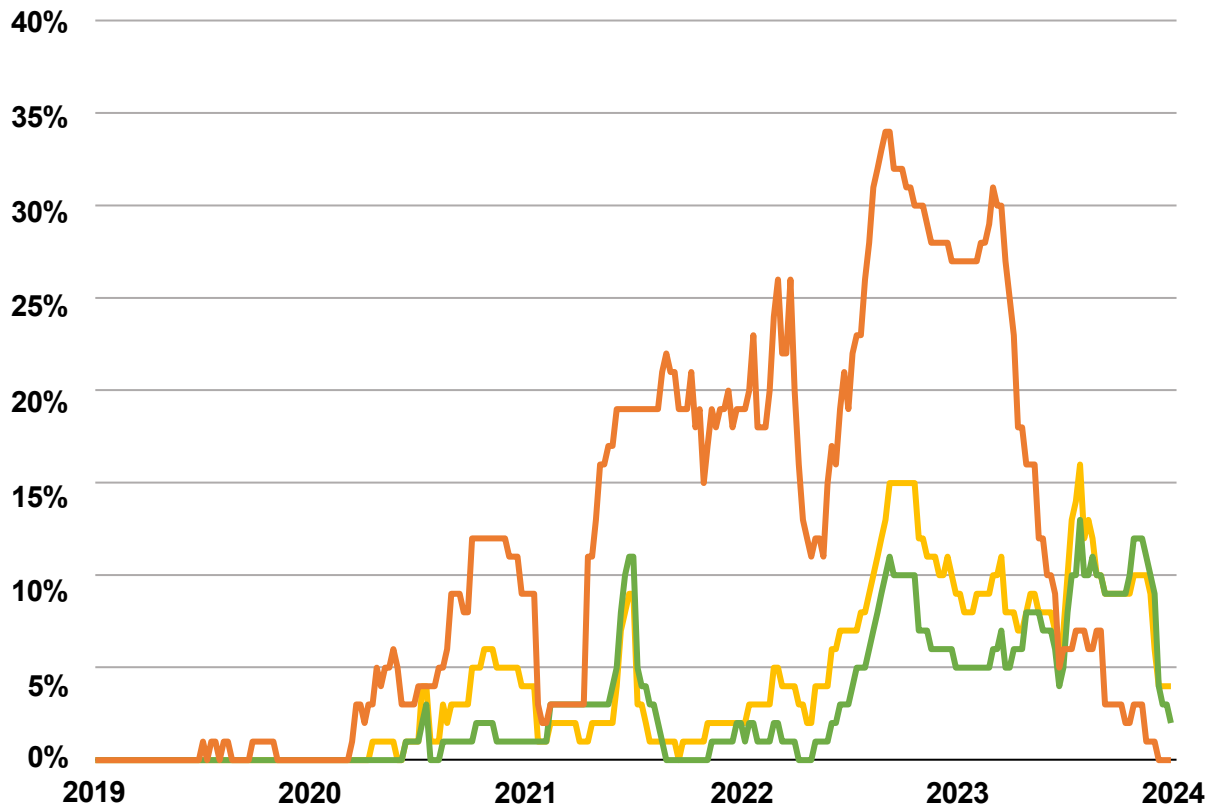
Source: USDA World Agricultural Supply and Demand Estimates
Values for 2023 are estimates and 2024 are projections.



Long-lasting drought eases across the country

Percent of Cropland in Extreme and Exceptional Drought

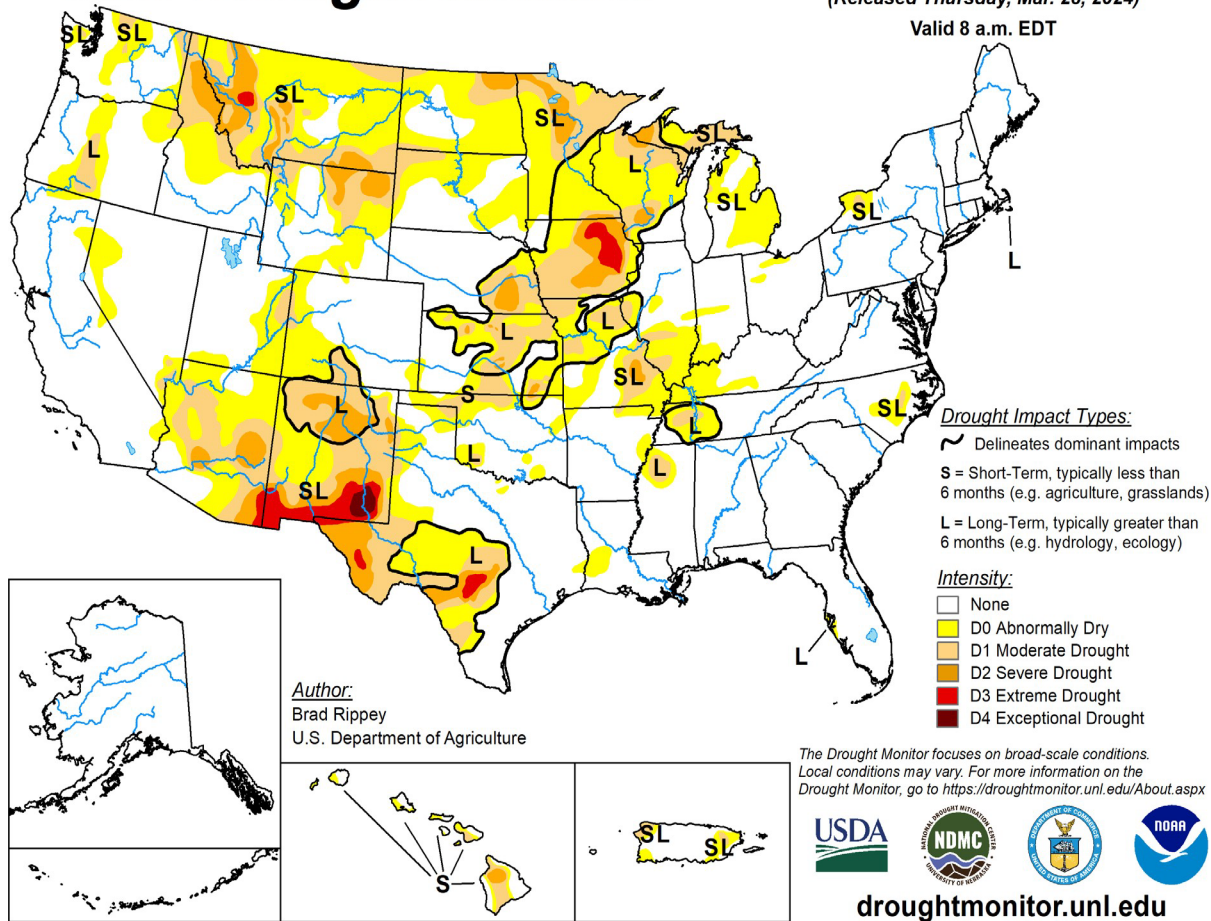
— Corn — Soybeans — Winter Wheat



Source: National Drought Mitigation Center, University of Nebraska-Lincoln

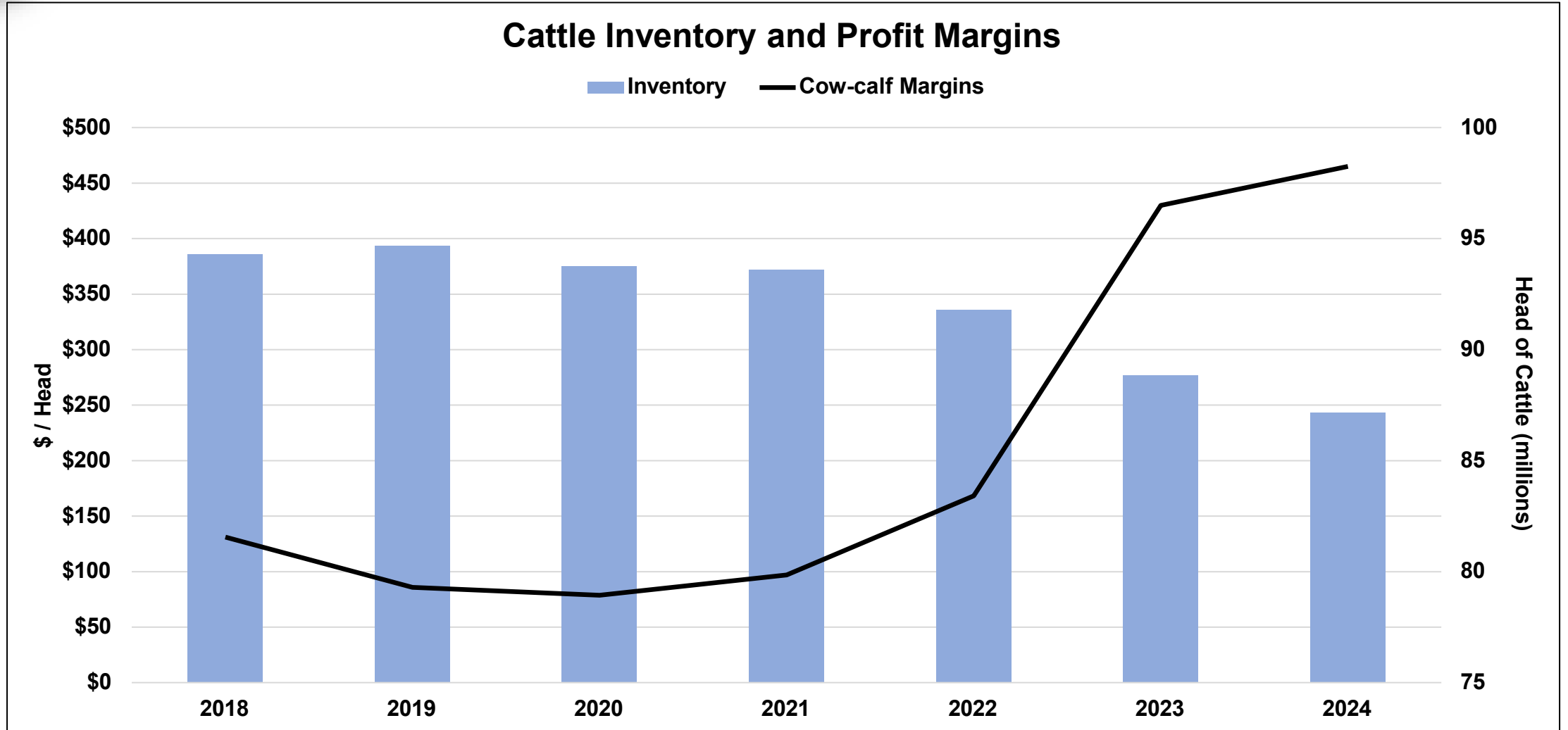
U.S. Drought Monitor

March 26, 2024
(Released Thursday, Mar. 28, 2024)
Valid 8 a.m. EDT





Cow-calf margins rise as inventory shrinks



Sources: USDA NASS January 1 Cattle Inventory; Sterling Beef Profit Tracker

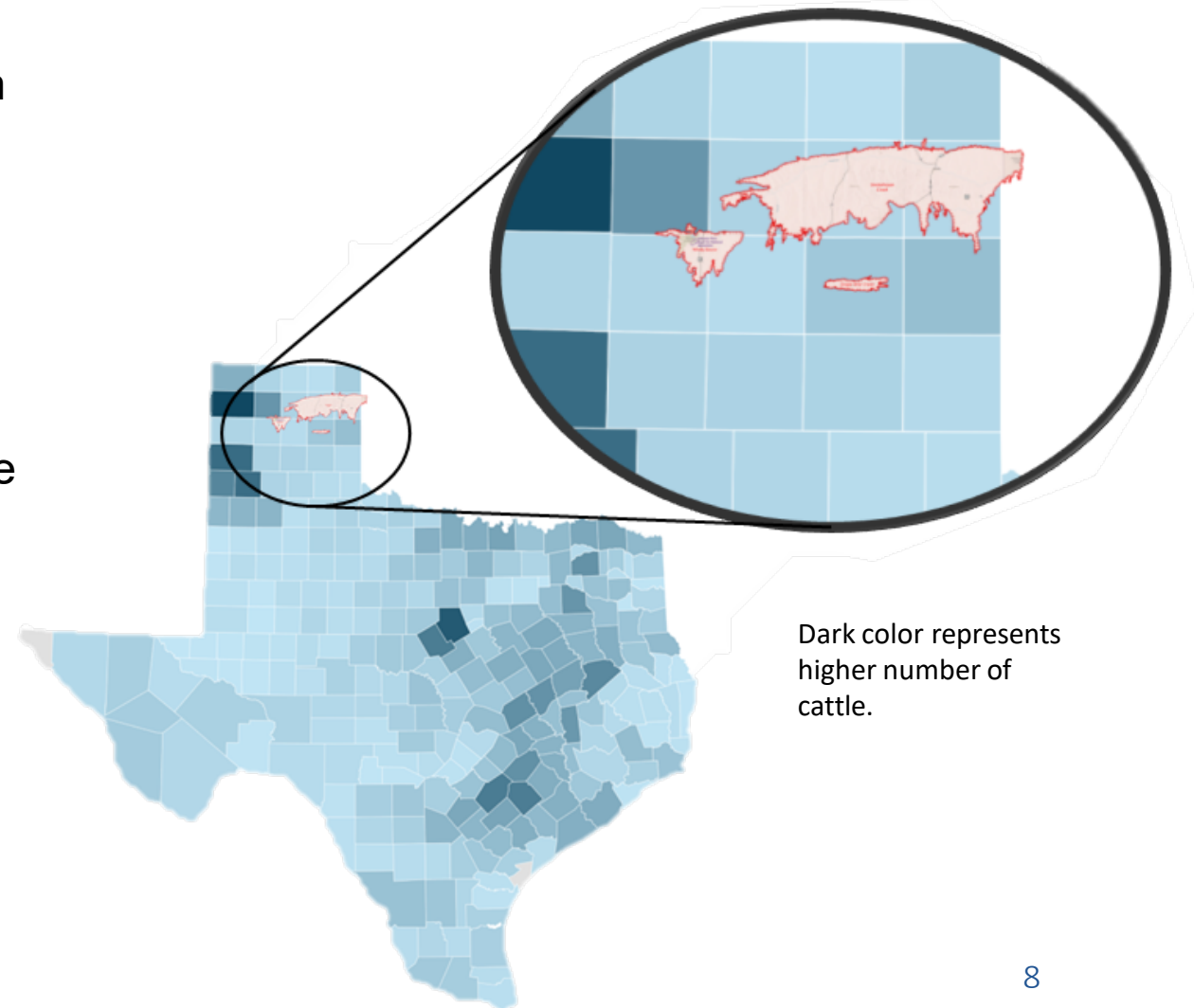


Events shaping risk to livestock industry

- ▶ Texas wildfires:
 - Texas panhandle has largest concentration of cattle in the United States.
 - Impact of fires are felt in local areas with negligible effect on national beef supplies.
- ▶ Highly Pathogenic Avian Influenza (HPAI):
 - HPAI detected in dairy cattle in multiple states and has been transmitted from cattle to humans.
 - Questions about how virus moves through and across herds.
 - Egg operation in Texas tested positive.

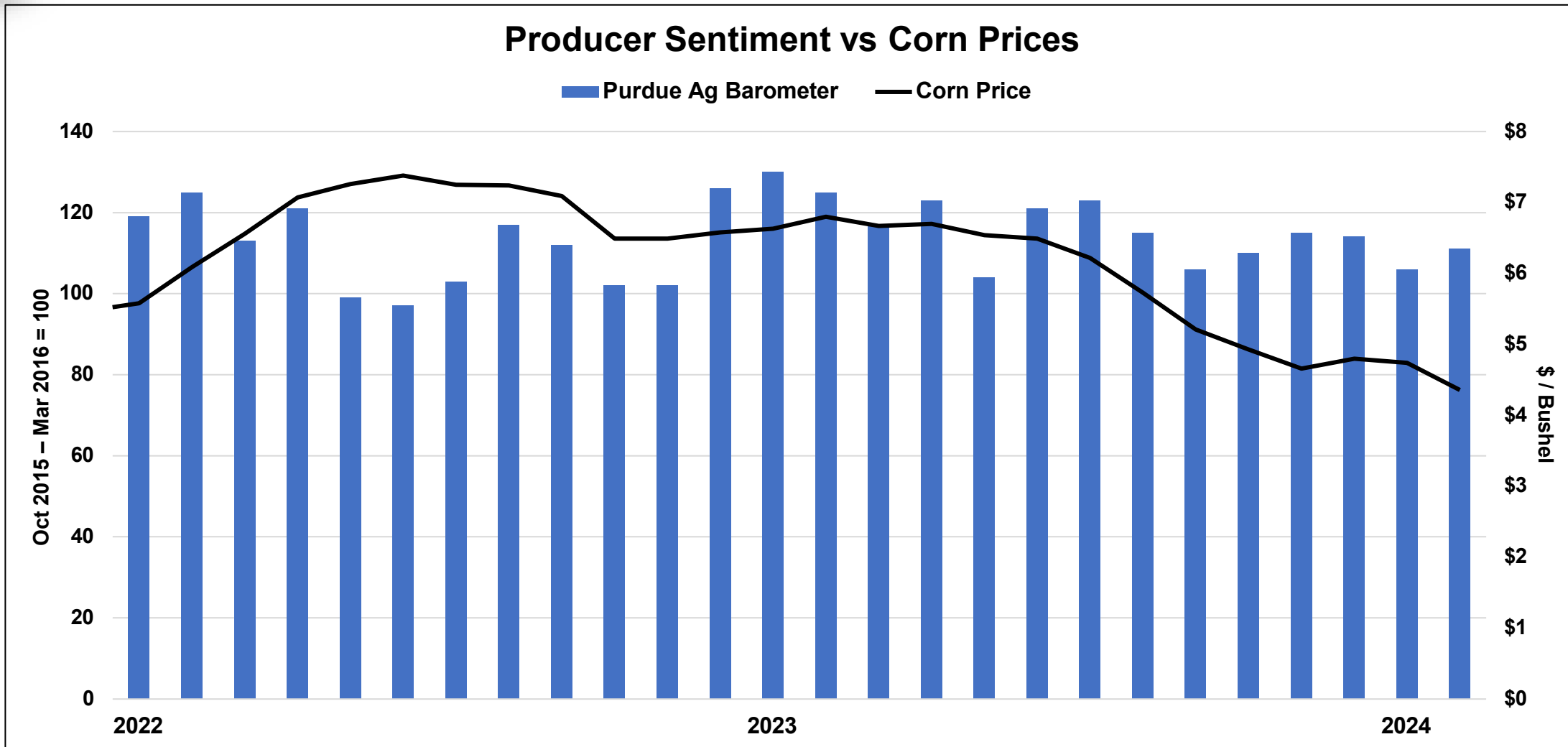
Sources: USDA NASS Census of Agriculture, 2022;
Incident Information System, inciweb.wildfiles.gov

Texas Cattle Inventory and Wildfire Zone





Producer sentiment holding up better than corn prices



Sources: Purdue Center for Commercial Agriculture, Producer Survey, February 2024; USDA NASS



Questions



Farm Credit System Condition and Performance as of December 31, 2023

Brianna Tomlinson
Supervisory FCA Examiner
Office of Examination



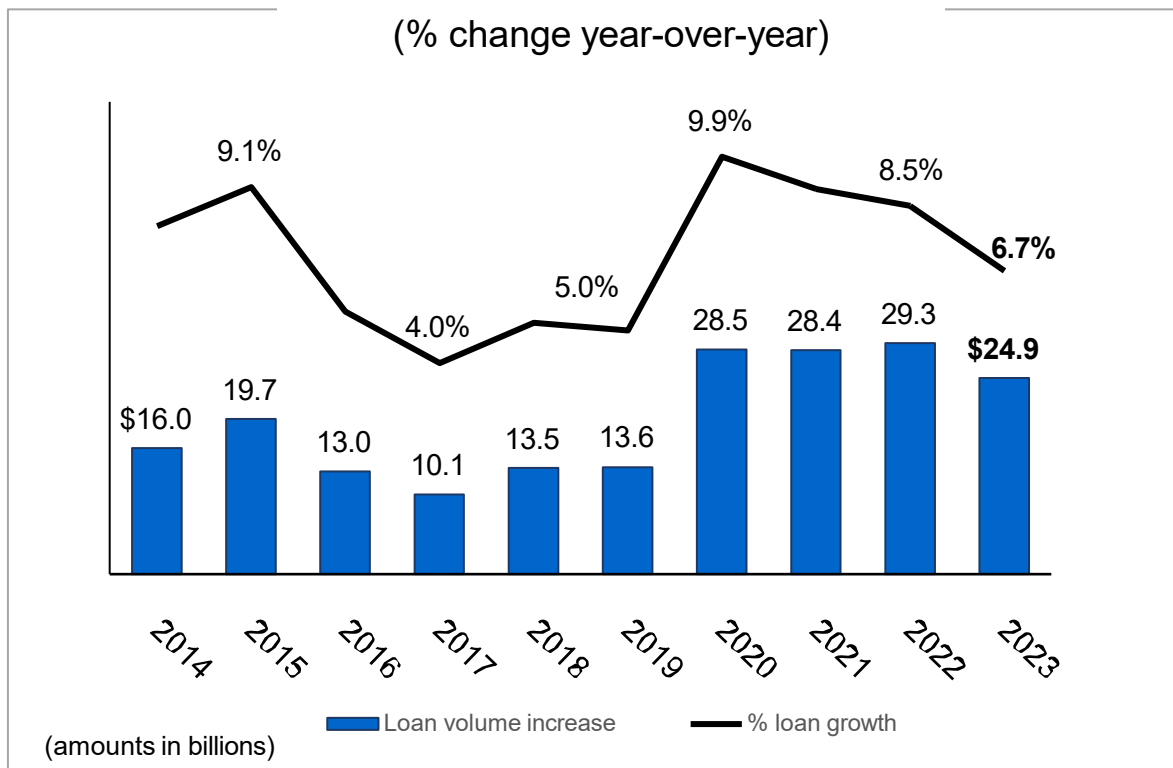


Portfolio growth slowed in 2023, but certain loan categories posted strong gains

Total Assets 12/31/23	\$507.8	+3.1% Qtr	Gross Loans 12/31/23	\$398.2	+3.4% Qtr
	billion	+6.5% 12M		billion	+6.7% 12M

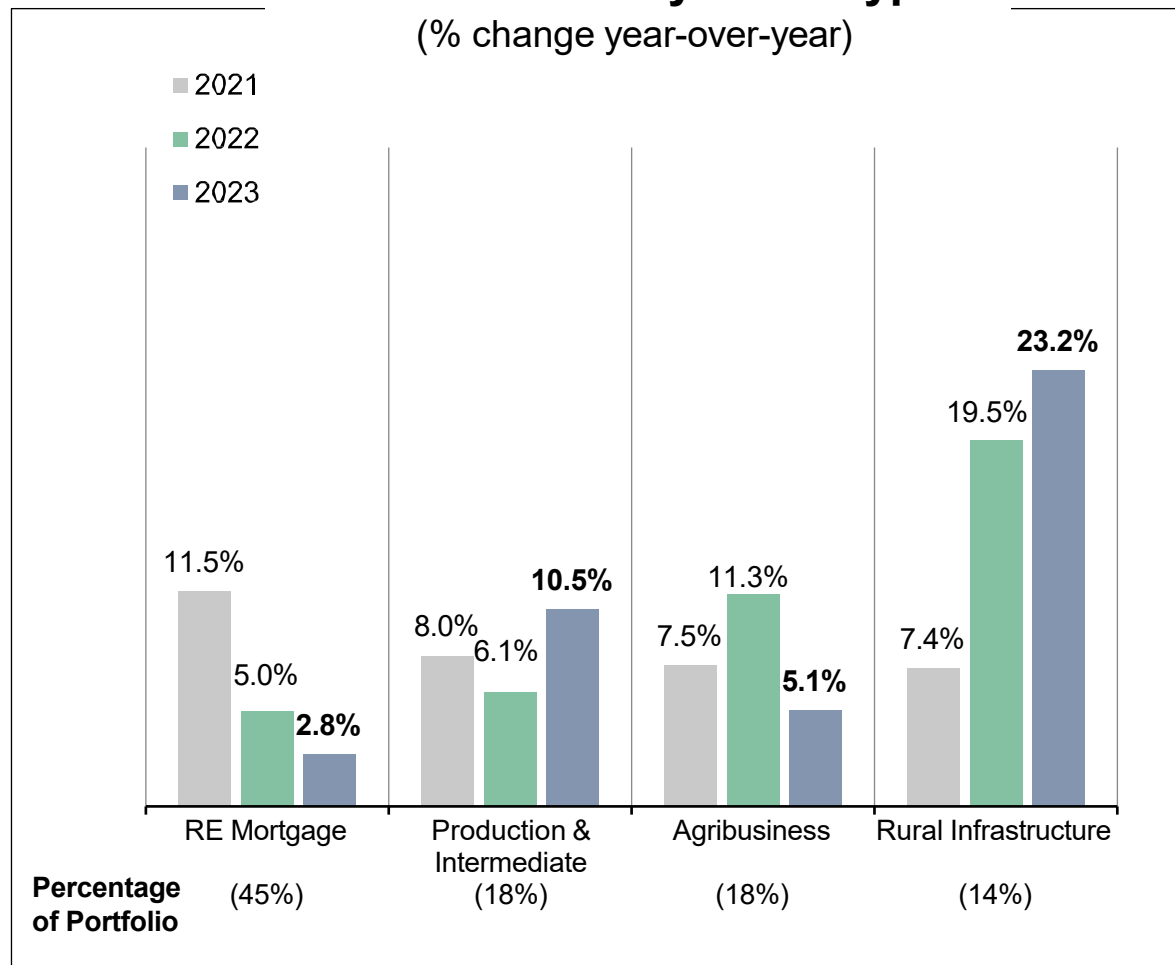
Portfolio Loan Growth

(% change year-over-year)



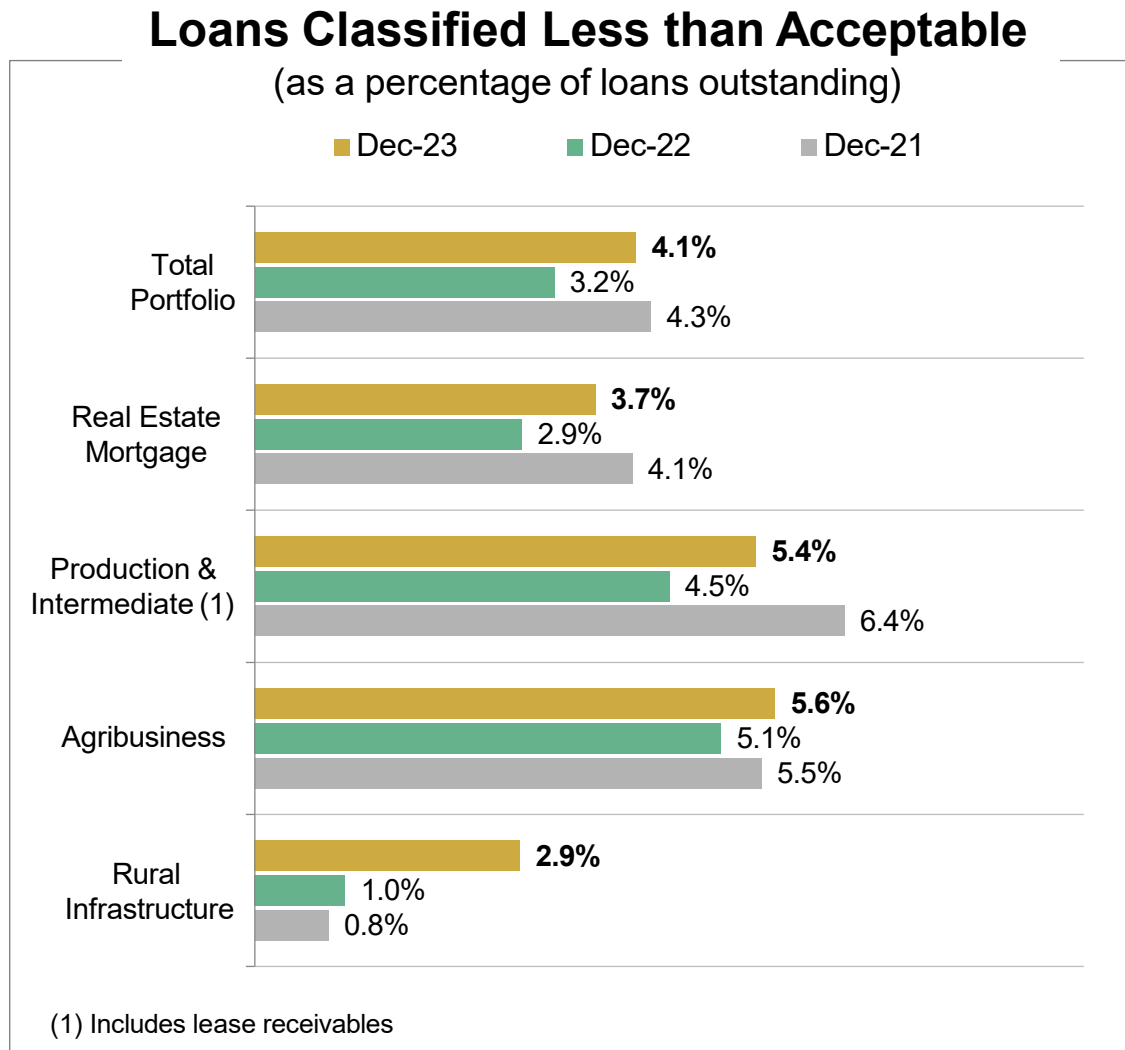
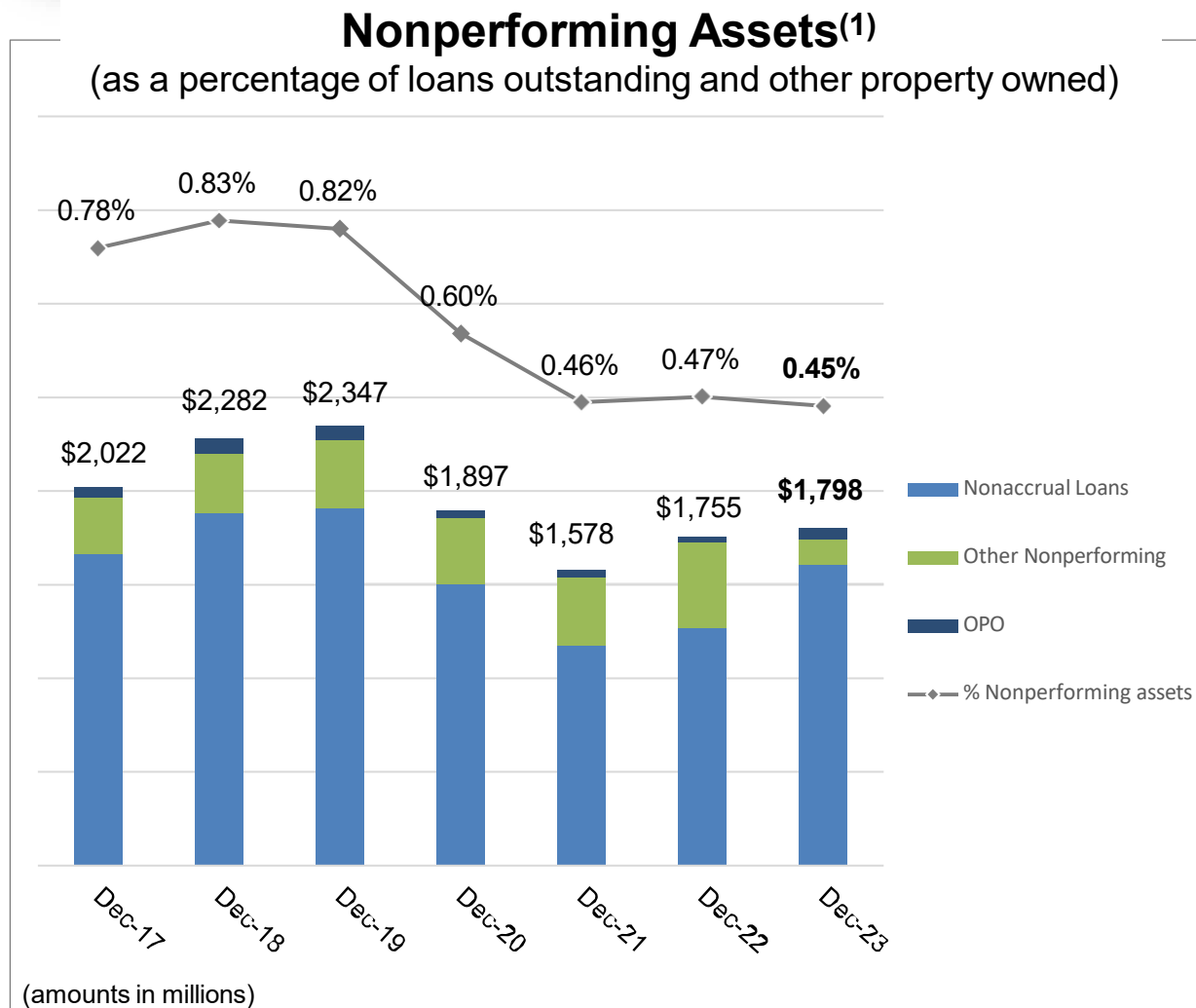
Loan Growth by Loan Type

(% change year-over-year)





Portfolio credit risk remained low, but nonaccruals and less than Acceptable loans increased in 2023

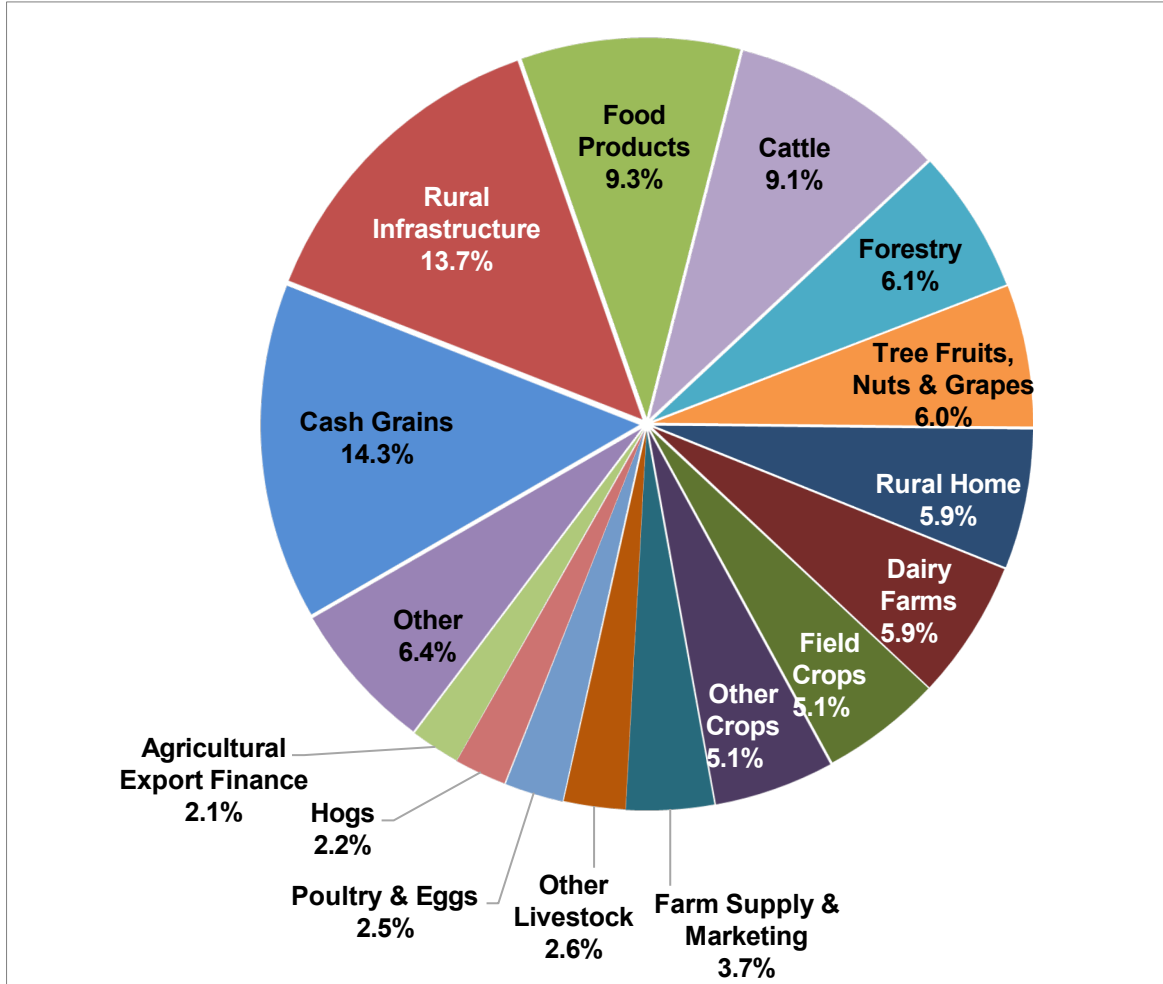


(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans



System portfolio is diversified by commodity

Loan Portfolio by Major Commodity Concentration



System Loan Portfolio (amounts in millions)	Dec-23	% of Total Portfolio	% chg. yr. over yr.
Cash Grains	57,104	14.3%	2.6%
Tree Fruits, Nuts & Grapes	23,976	6.0%	2.9%
Field Crops	20,351	5.1%	4.7%
Other Crop Production	20,474	5.1%	5.9%
Total Crop Production	121,905	30.6%	3.5%
Cattle	36,364	9.1%	9.2%
Dairy Farms	23,410	5.9%	6.3%
Poultry & Eggs	9,884	2.5%	3.8%
Hogs	8,645	2.2%	2.8%
Other Livestock	10,180	2.6%	3.5%
Total Animal Production	88,483	22.2%	6.5%
Rural Infrastructure	54,457	13.7%	23.2%
Food Products	37,104	9.3%	14.6%
Rural Home Loans	23,541	5.9%	5.4%
Forestry	24,111	6.1%	12.4%
Farm Supply & Marketing	14,627	3.7%	(8.4%)
Agricultural export finance	8,418	2.1%	(16.4%)
Other	25,530	6.4%	(1.9%)
Total	398,176	100.0%	6.7%

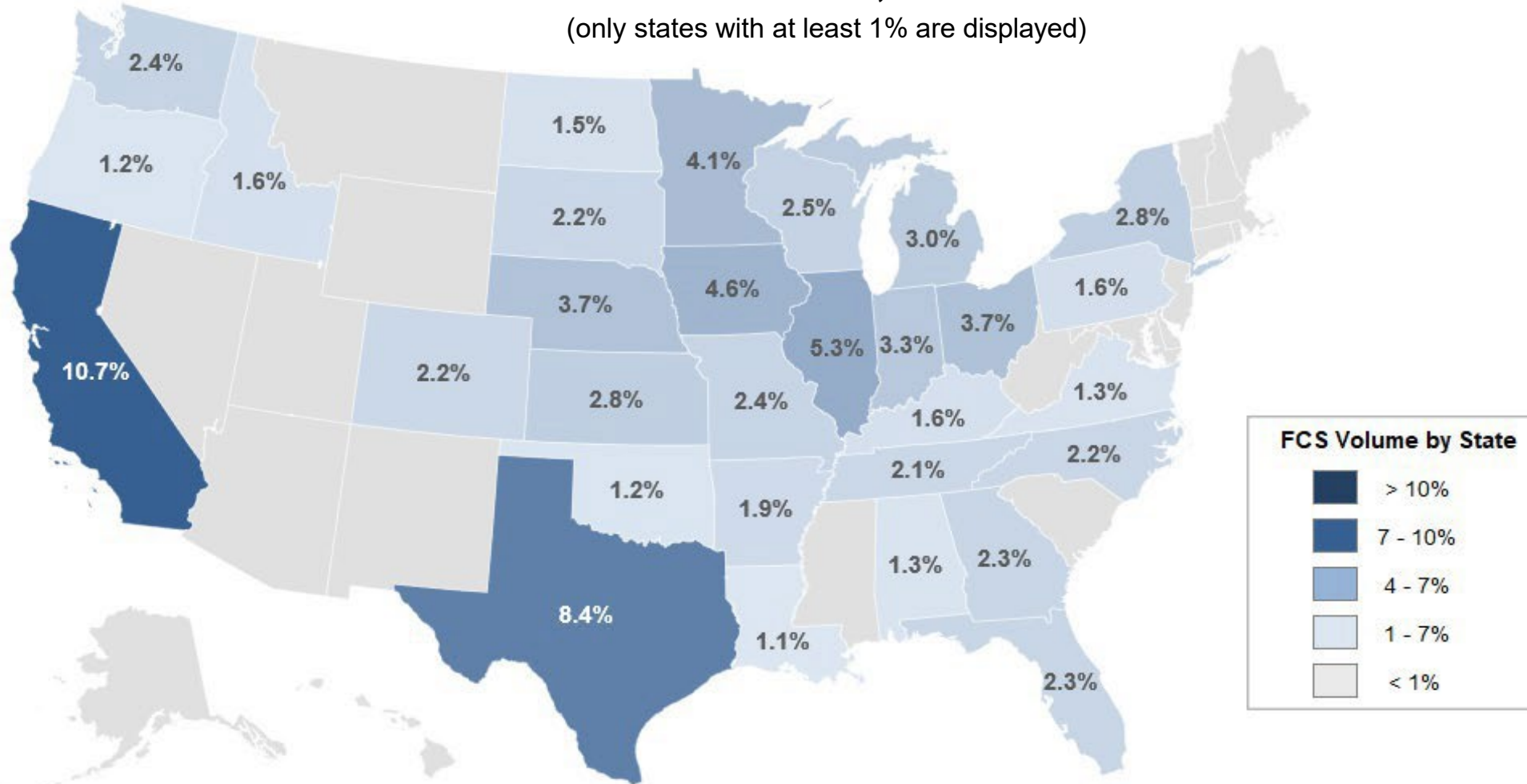
Source: Federal Farm Credit Banks Funding Corporation Information Statements



Portfolio volume is geographically dispersed

Percentage of System Loan Volume by State as of Dec. 31, 2023

(only states with at least 1% are displayed)

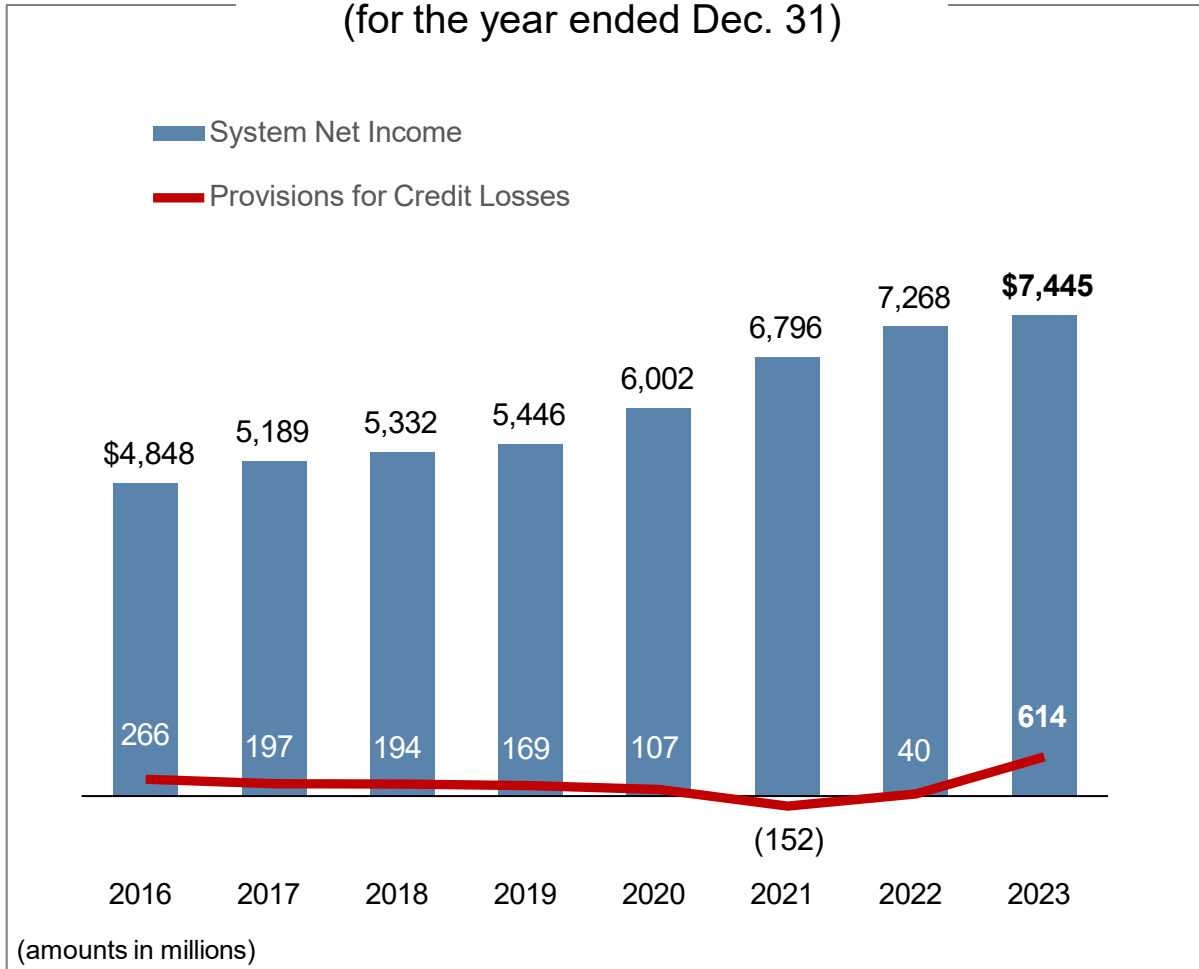


Source: Federal Farm Credit Banks Funding Corporation Information Statements

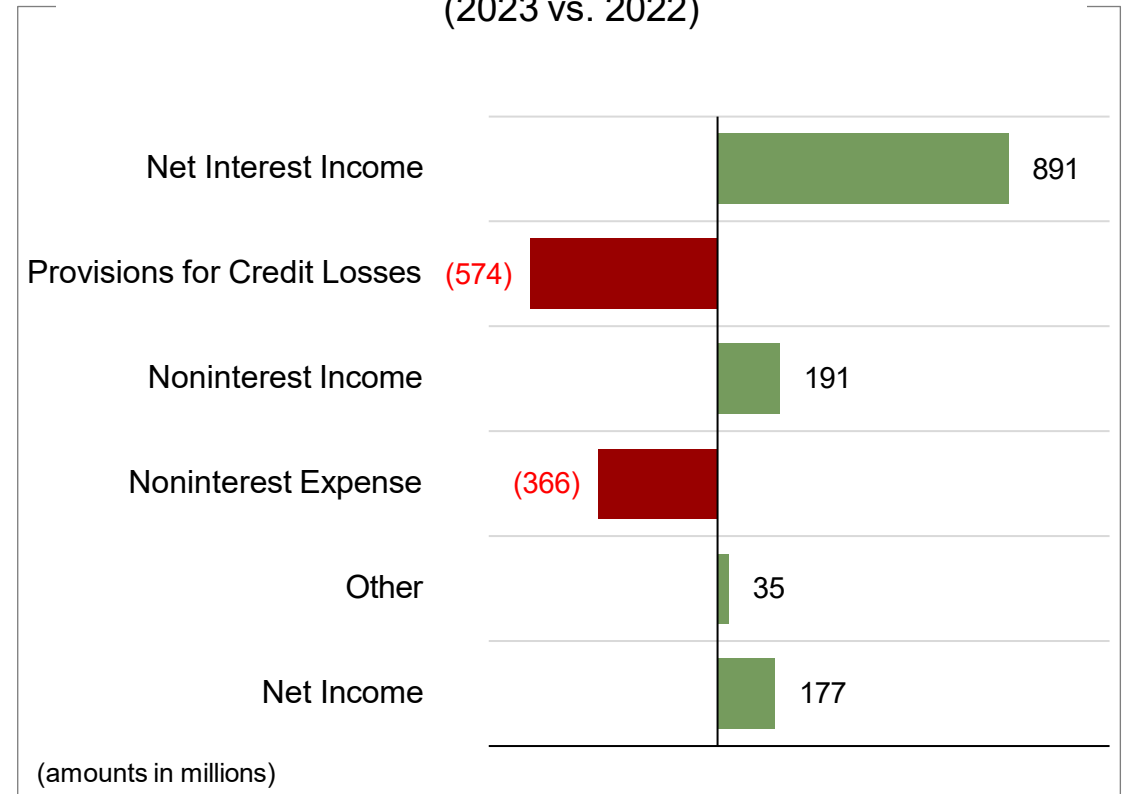


System reported increased earnings, but provisions for credit losses were higher

System Net Income
(for the year ended Dec. 31)



Changes in key components of net income
(2023 vs. 2022)



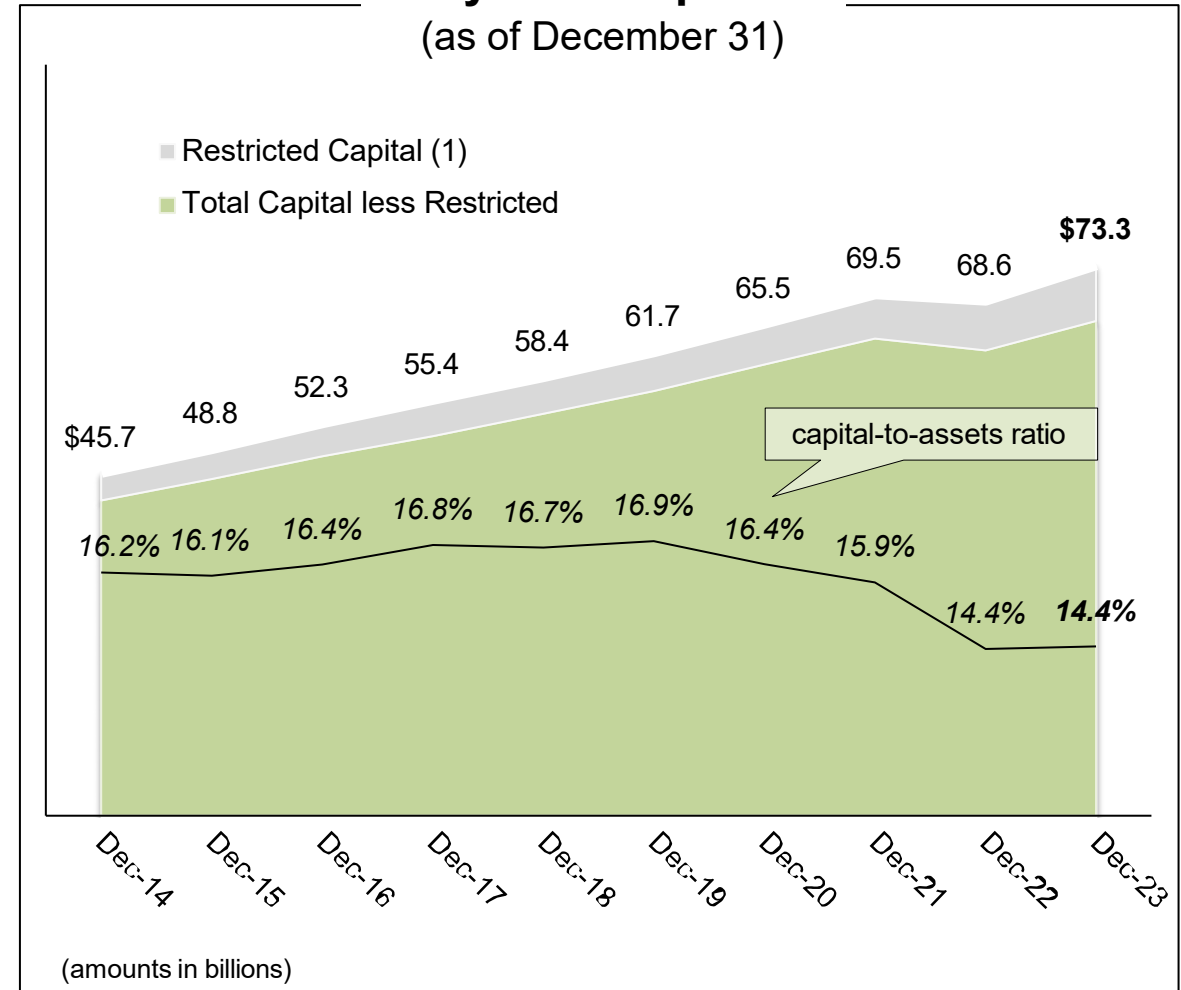
Source: Federal Farm Credit Banks Funding Corporation Information Statements



System capital and liquidity levels are strong

- ▶ For 2023, System capital increased \$4.7 billion or 6.9% year-over-year.
- ▶ The System's capital-to-assets ratio at year-end was 14.4%, unchanged from a year ago.
- ▶ Total regulatory capital ratios were sound
 - Banks: 13.4% to 16.0%
 - Associations: 12.5% to 33.4%.
- ▶ Days of liquidity for the 4 funding banks ranged from 161 to 219 days.
- ▶ As of December 31, accumulated other comprehensive loss (AOCL) equaled \$4.5 billion, down from \$5.5 billion a year ago.

System Capital
(as of December 31)



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



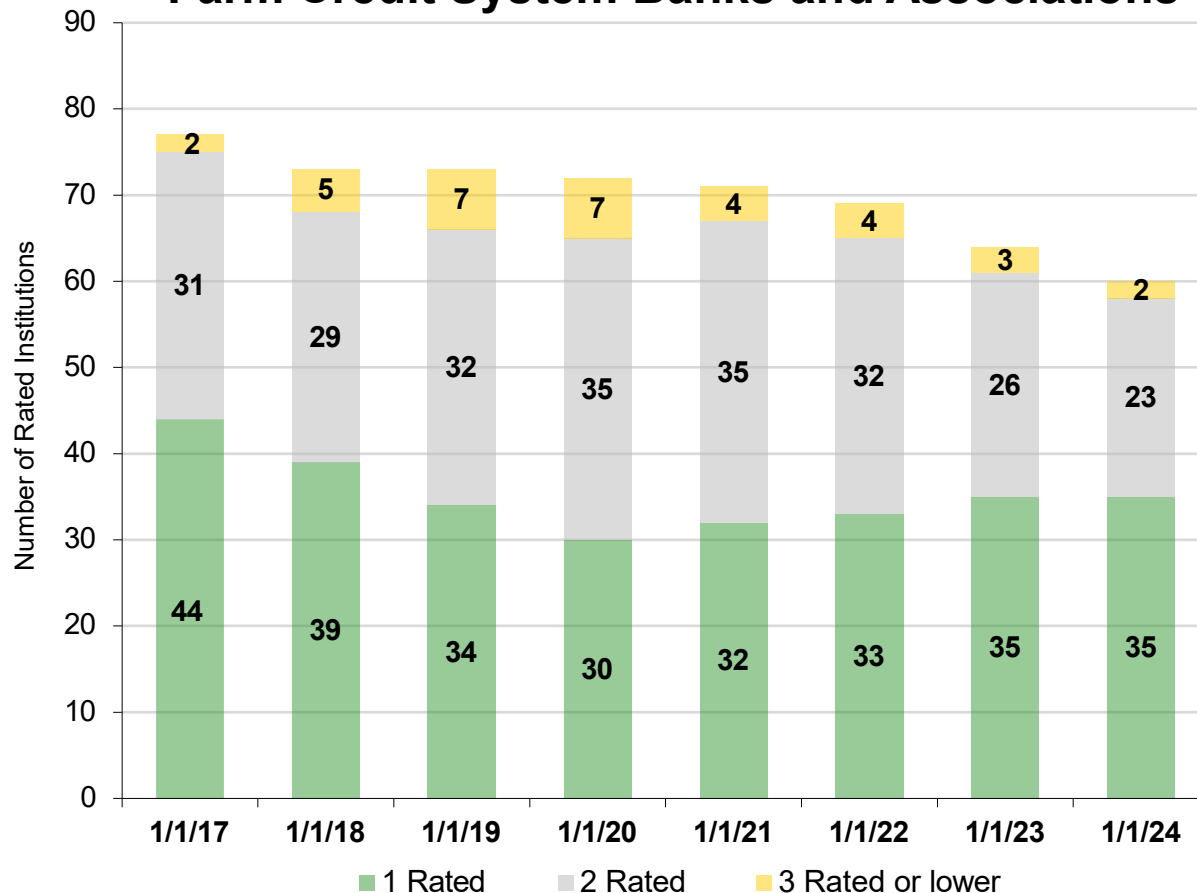
Composite FIRS ratings are strong

Composite FIRS Ratings

(based on 12/31/23 financial reporting)

- ▶ Composite FIRS ratings reflect the System's sound financial condition.
- ▶ Over 96% of System banks and associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower hold less than 1% of System assets.

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Risks we are monitoring

We anticipate a more challenging operating environment for both borrowers and System institutions moving forward:

- Declining net farm income and margin compression (especially for cash grains) resulting from lower commodity prices
- Increased stress in certain industry segments including swine, dairy, tree nuts, and poultry
- Higher interest rates during a period of declining liquidity and increased reliance on operating lines
- The impact of lower profit margins and higher interest rates on real property values
- Other concerns – weather, avian influenza, and increased global tensions