

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Board Member
Leland A. Strom, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
April 11, 2013**

These minutes reflect the business transacted at the April 11, 2013, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act (Act), 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 10:17 a.m. Members of the Board present were:

**Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member**

The above named constitute the full Board.

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and four members of the general public. (A list of staff attendees is attached as Exhibit A.)

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

The **Board Chair** reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Spearman moved to adopt the Agenda as published.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

Mr. Strom noted that the Agenda did include portions of the meeting that should be closed to the public as permitted by the Government in the Sunshine Act and therefore moved that the meeting be closed at that point.

Mr. Spearman seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for March 14, 2013 (BM-11-APR-13-01)

Mr. Spearman moved to approve the minutes for March 14, 2013.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-11-APR-13-01)**

(A copy of the official "Board Action Item" is attached as Exhibit C.)

New Business

Adjusting Civil Money Penalties for Inflation – Final Rule (BM-11-APR-13-02)

Mike Wilson of the Office of Regulatory Policy and **Nancy Tunis** of the Office of General Counsel presented the Adjusting Civil Money Penalties for Inflation – Final Rule.

Board Chair Long Thompson opened the discussion for questions by the Board.

Board Chair Long Thompson asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chair Long Thompson called for a motion on the staff's recommendation regarding the Adjusting Civil Money Penalties for Inflation – Final Rule.

Mr. Strom moved that the Board approve staff's recommendation to approve the Adjusting Civil Money Penalties for Inflation – Final Rule.

Mr. Spearman seconded the motion.

Board Chair Long Thompson asked if there was any further discussion.

There being no further discussion, the **Board Chair** called the question.

The **Secretary** polled the Members and the motion carried unanimously. **(BM-11-APR-13-02)**

(A copy of the official "Board Action Item" is attached as Exhibit D.)

REPORTS

OE and ORP Quarterly Report on Economic Conditions and Farm Credit System Conditions

Steve Gabriel of the Office of Regulatory Policy and **Hal Johnson** of the Office of Examination presented the Quarterly Report on Economic Conditions and Farm Credit System Conditions.

In regards to slide 19 of the presentation, **Board Member Strom** requested that staff provide, at a subsequent time, additional information on Hog Sector nonaccrual loans as a percent of loans outstanding, similar to what was shown for six other loan sectors.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit E.)

Farm Credit System Building Association Auditor's Report

Rick Albrecht, President of the FCSBA and auditor **Frank Spasoff** of Cherry, Bekaert LLP provided the Farm Credit System Building Association 2012 Financial Audit Report.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit F.)

EXECUTIVE SESSION

The **Board Chair** announced that the next topics on the Agenda were topics for Executive Session and Closed Session pursuant to previous Board action and 5 U.S.C. § 552b(c) (2), (8), and (9) of the Government in the Sunshine Act.

The **Board Chair** indicated that following the Executive Session, the Board would reconvene in Closed Session.

The **Board Chair** instructed all to exit except for Board Members, Executive Assistants, the General Counsel, and the Secretary to the Board so that the Board could meet with Auditor Frank Spasoff in Executive Session as approved by the Board.

The **Board Chair** convened the Executive Session of the meeting at 9:45 a.m., and instructed the **Secretary** to activate the electronic recording device so the proceedings of the session could be properly recorded, as required by the Government in the Sunshine Act

The **Board Chair** then instructed the **General Counsel** to furnish a certification, pursuant to 5 U.S.C. § 552b(f), that the portions of the meeting held in Executive Session and Closed Session were properly closed to the public. (A copy of the Certification is attached hereto as Exhibit G.)

Members of the Board present were:

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member

The above named constitute the full Board.

Others present included **Dale Aultman**, Secretary to the Board; **Charles Rawls**, General Counsel; **Inga Smulkstys**, Executive Assistant to the Board Chair and CEO; **Howard Rubin**, Executive Assistant to Board Member Spearman; and **Russell Middleton**, Executive Assistant to Board Member Strom. (A list of staff attendees is attached hereto as Exhibit A).

Executive Session with FCSBA Auditor

The FCA Board held an Executive Session with **Frank Spasoff**, auditor from Cherry, Bekaert LLP regarding the FCSBA 2012 Financial Audit Report.

At the conclusion of the Executive Session, the **Board Chair** thanked the auditor.

The **Board Chair** then asked the Secretary to request the FCA staff waiting in the lobby to return to the Board Room.

CLOSED SESSION

The **Board Chair** noted that this was a Closed Session and ensured that members of the public and nonessential FCA and FCSIC staff were not in the room so the Board could meet with Office of Examination staff in Closed Session.

The **Board Chair** reconvened the closed session of the meeting at 9:55 a.m. and instructed the **Secretary** to activate the electronic recording device so the proceedings of the Closed Session could be properly recorded, as required by the Government in the Sunshine Act.

Members of the Board present were:

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member

The above named constitute a quorum of the Board.

Others present included **Dale Aultman**, Secretary to the Board; **Charles Rawls**, General Counsel; **Inga Smulkstys**, Executive Assistant to the Board Chair and CEO; **Howard Rubin**, Executive Assistant to Board Member Spearman; and **Russell Middleton**, Executive Assistant to Board Member Strom. (A list of staff attendees is attached hereto as Exhibit A).

OE Quarterly Report

The **Board Chair** asked to Secretary to ensure that recording continued for this portion of the meeting.

Robert Coleman and **Roger Paulsen** of the Office of Examination presented the update on OE Supervisory and Oversight Activities.

The **Board Chair** thanked the OE staff at the conclusion of their report.

ADJOURNMENT

There being no further business to come before the Board, **Board Chair Long Thompson** indicated she would entertain a motion to adjourn the meeting.

Mr. Spearman moved that the meeting be adjourned.

Mr. Strom seconded the motion.

Board Chair Long Thompson called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

The meeting adjourned at 10:17 a.m.

NOTATIONAL VOTE ACTIONS

There were no notational vote actions approved by the FCA Board from March 14, 2013, through April 10, 2013.

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on April 11, 2013.

_____/s/_____
Jill Long Thompson
Board Chair and Chief Executive Officer

_____/s/_____
Dale L. Aultman
Secretary to the Board

Approved: **May 9, 2013**

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
April 11, 2013**

JILL LONG THOMPSON, Board Chair and Chief Executive Officer
KENNETH A. SPEARMAN, Board Member
LELAND A. STROM, Board Member

OFFICE	OPEN SESSION	EXECUTIVE SESSION	CLOSED SESSION
Office of the Board			
Aultman, Dale	X	X	X
Corey, Kathryn	X		
Smulkstys, Inga	X	X	X
Calhoun, Gaye	X		
Middleton, Russell	X	X	X
Buccolo, Deb	X		
Rubin, Howard	X	X	X
COO			
Hoffman, William	X		X
OCPA			
Stokke, Mike	X		X
OSMO			
Rea, Laurie	X		X
OGC			
Rawls, Charles	X	X	X
Strickland, Joy	X		X
Tunis, Nancy	X		

OFFICE	OPEN SESSION	EXECUTIVE SESSION	CLOSED SESSION
OE			
Coleman, Robert	X		X
Paulsen, Roger	X		X
Johnson, Hal	X		X
Fennewald, Dan	X		X
OIG			
Dean, Elizabeth	X		X
ORP			
Van Meter, Gary	X		X
Mardock, Barry	X		X
Gabriel, Steve	X		X
Wilson, Debbie	X		
Wilson, Mike	X		
OMS			
Smith, Stephen	X		X
Valcour, Doug	X		
FCSIC			
Glenn, Alan	X		X
Morris, Jim	X		X
FCSBA			
Albrecht, Rick	X		
Cherry, Bekaert LLP (Auditor)			
Spasoff, Frank	X	X	
GENERAL PUBLIC	4		

**PUBLIC ANNOUNCEMENT OF
 MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
 Farm Credit Administration Board
 Regular Meeting
 April 11, 2013**

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b(e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held April 11, 2013. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090.

For Further Information Contact: Dale L. Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: Parts of this meeting of the Board will be open to the public (limited space available) and parts will be closed to the public. In order to increase the accessibility to Board meetings, persons requiring assistance should make arrangements in advance by contacting Dale L. Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

- Approval of Minutes**
- 1 March 14, 2013

- New Business**
- 2 Adjusting Civil Money Penalties for Inflation – Final Rule

- Reports**
- 3 Quarterly Report on Farm Credit System Condition
- 4 Farm Credit System Building Association Auditor’s Report on 2012 Financial Audit

EXECUTIVE SESSION

- 5 Executive Session Meeting with Auditors¹

CLOSED SESSION

- 6 Office of Examination Supervisory and Oversight Activities Report²

 March 29, 2013
 Date

 /s/
 Dale L. Aultman
 Secretary to the Board

¹Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(2).

²Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for March 14, 2013 Board Meeting

BM-11-APR-13-01

Effective Date: April 11, 2013

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for March 14, 2013, as submitted.

DATED THIS 11th DAY OF APRIL 2013

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



**FCA BOARD ACTION ON
Adjusting Civil Money Penalties for Inflation – Final Rule
BM-11-APR-13-02**

Effective Date: April 11, 2013

THE FCA BOARD:

Hereby approves the final rule revising 12 CFR 622.61 to make required statutory adjustments to FCA civil money penalties issued pursuant to:

- 1) Section 5.32 of the Farm Credit Act of 1971, as amended (Farm Credit Act), for violation of the terms of any order that has become final and was issued under section 5.25 or 5.26 of the Farm Credit Act to the maximum amount of \$2,100 per day for each violation, on or after the effective date of the final rule, and
- 2) The National Flood Insurance Reform Act of 1994, as amended by the Biggert-Waters Flood Insurance Reform Act of 2012, to \$2,000 per violation with no maximum or cap for the total CMPs that may be assessed against any single institution during any calendar year for violations of the National Flood Insurance Program, on or after the effective date of the final rule.

Finds good cause to adopt this final rule without public notice and comment because these adjustments are required by statute and revisions are ministerial, technical and noncontroversial. As such, the FCA Board has determined that public notice and an opportunity to comment are impracticable, unnecessary and contrary to the public interest pursuant to the Administrative Procedure Act.

Authorizes staff to make any technical or grammatical changes prior to publication in the Federal Register.

DATED THIS 11th DAY OF APRIL 2013

BY ORDER OF THE BOARD

_____/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting

April 2013

Exhibit E

Quarterly Report on FCS Condition

April 11, 2013

Stephen Gabriel
Hal Johnson





Topics for Open Session

- Economic Conditions Affecting the FCS
- FCS Condition and Performance





Economic Conditions Affecting the Farm Credit System

Stephen Gabriel
Chief Economist
Office of Regulatory Policy



Slow, but steady progress in economic recovery

- Household balance sheets strengthening
- Job creation continuing, but the job market still fragile
- Economic growth still slow
- Global risks abound
 - Europe – financial crisis
 - Geopolitical (Mideast, N. Korea, Iran, Syria)
 - Trades disputes – China, Russia





Another strong year expected for farm sector income in 2013

- Net farm income is forecast to increase by nearly 14% to a record \$128.2 billion
- Net cash income is forecast to decline 9% to \$123.5 billion
- Both measures of farm income are at historically high levels even after adjusting for inflation





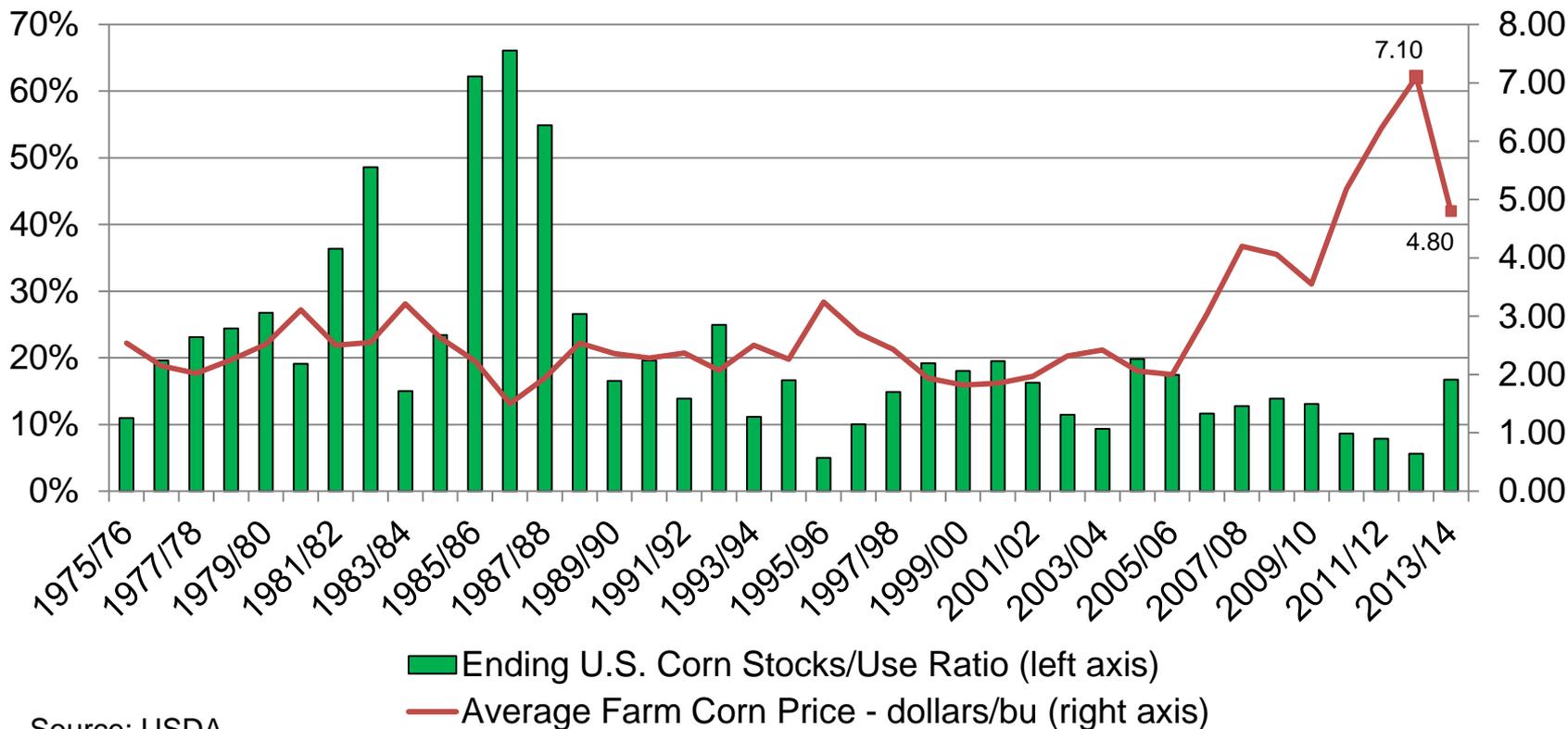
USDA projects sharply lower feed grain prices – expects bumper crop



- Projections factor in favorable weather this growing season
- Large crops in South America will also boost global supplies
- Hog and broiler producers are counting on lower feed costs going forward
- Lower corn and soybean prices could put a damper on farmland market's enthusiasm



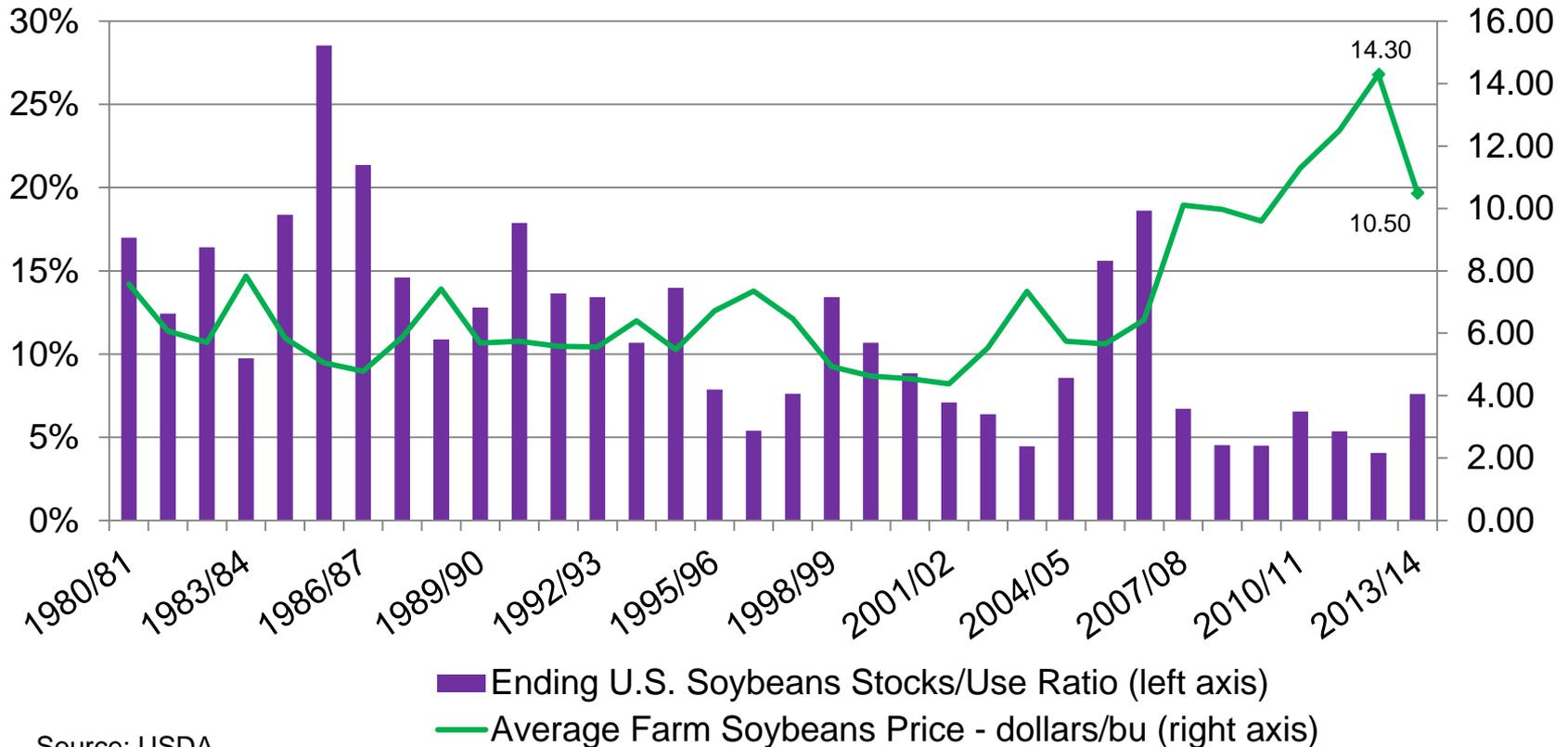
A large corn crop would bring corn prices down substantially



Source: USDA



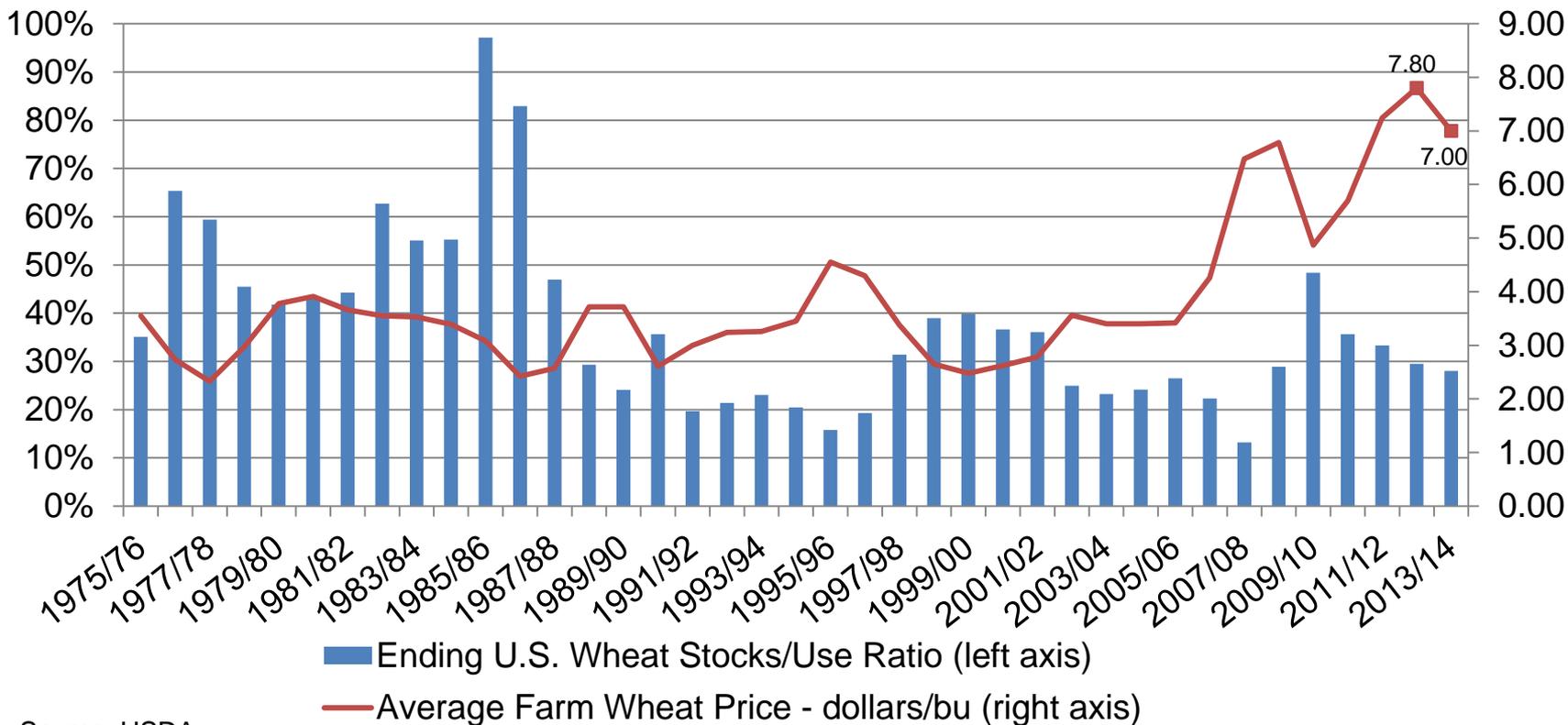
Soybean prices will also fall if the weather is favorable



Source: USDA



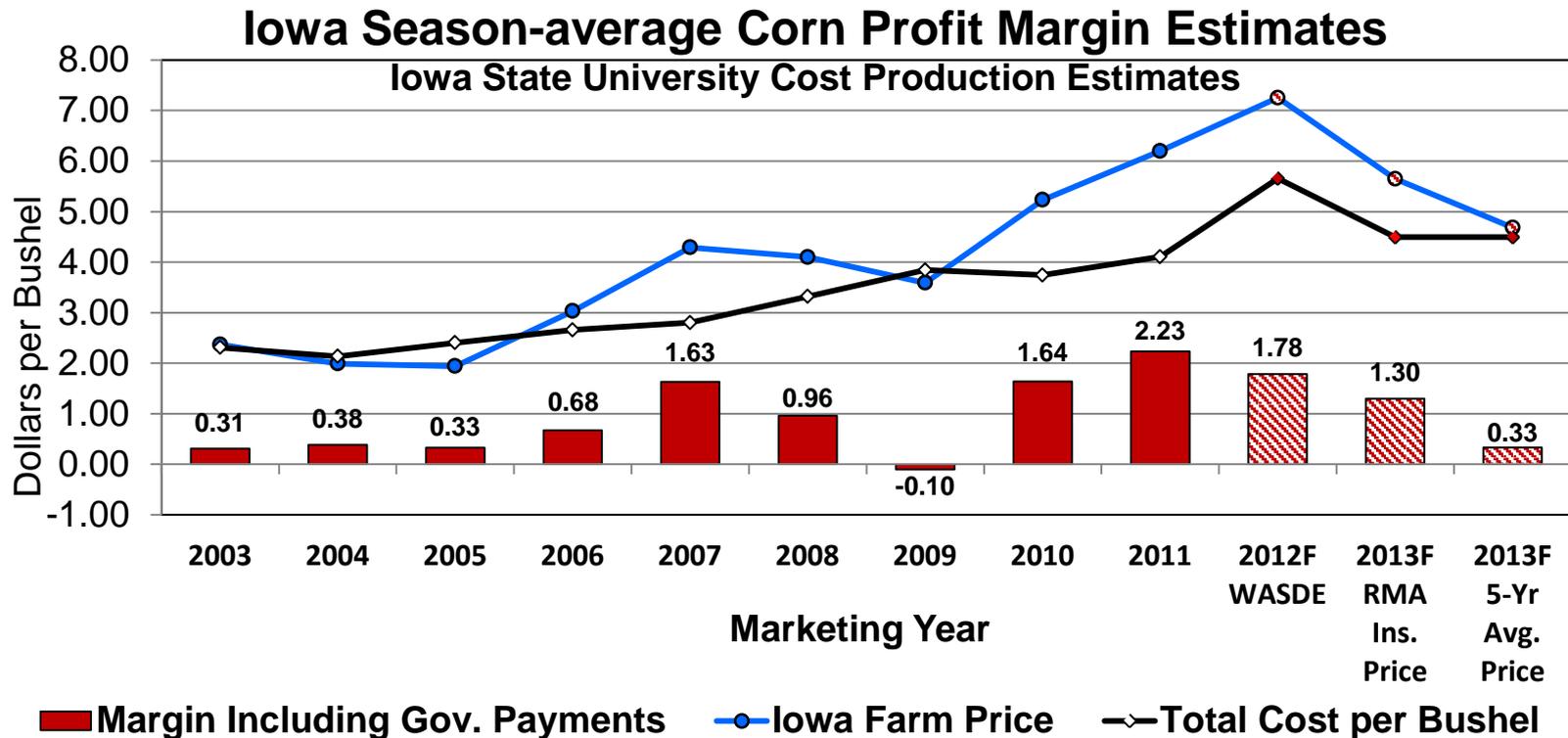
Ample supplies of wheat despite drought will lead to lower prices



Source: USDA

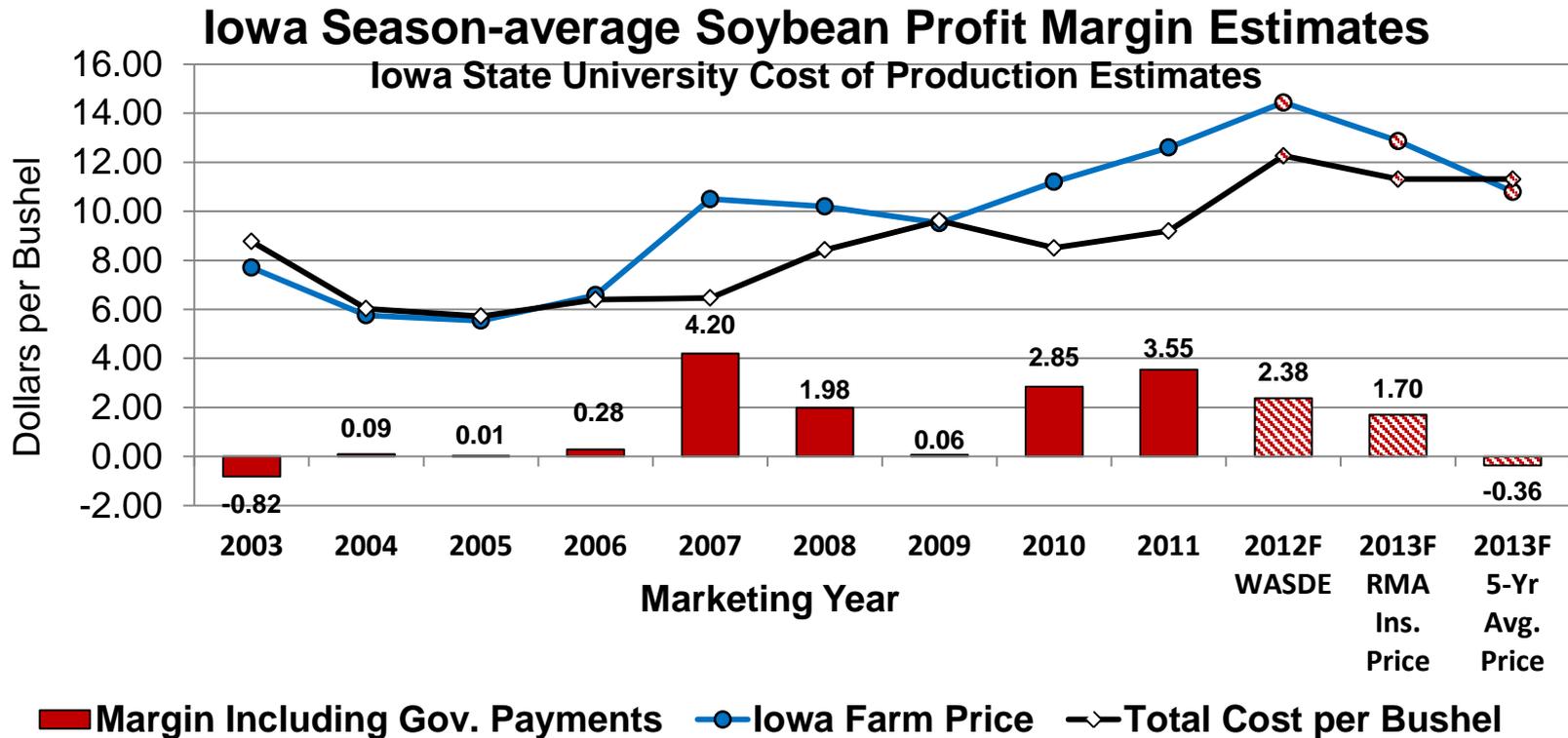


Corn producers' margins are set to decline with rebound in production





Soybean margins will fall with good weather and lower prices

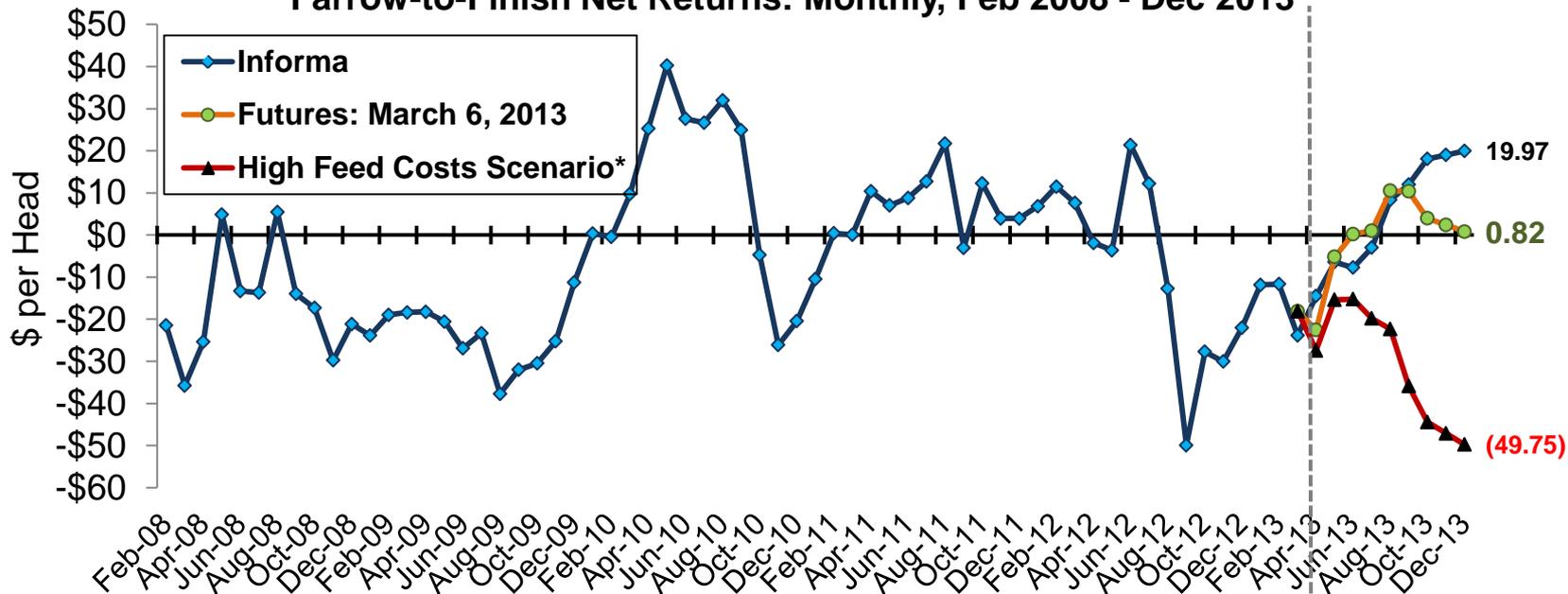




Potential hog profitability varies widely depending on feed costs



Farrow-to-Finish Net Returns: Monthly, Feb 2008 - Dec 2013



- Based on Aug. 21, 2012 futures contracts for corn and soybean meal applied to the Sep-Dec 2013 forecast period, and current futures (March 6, 2013) for hogs.

Source: FCA-ORP based on Chicago Board of Trade and Informa Economics data.



Economic watch list for 2013

- Meaningful resolution to budget impasse
- Farm Bill
- U.S. economic growth and job market
- Weather developments
- Vulnerability of protein and dairy sectors
- Farmland market
- European economic/financial crisis





Farm Credit System Condition and Performance

as of
December 31, 2012

Hal Johnson
Office of Examination



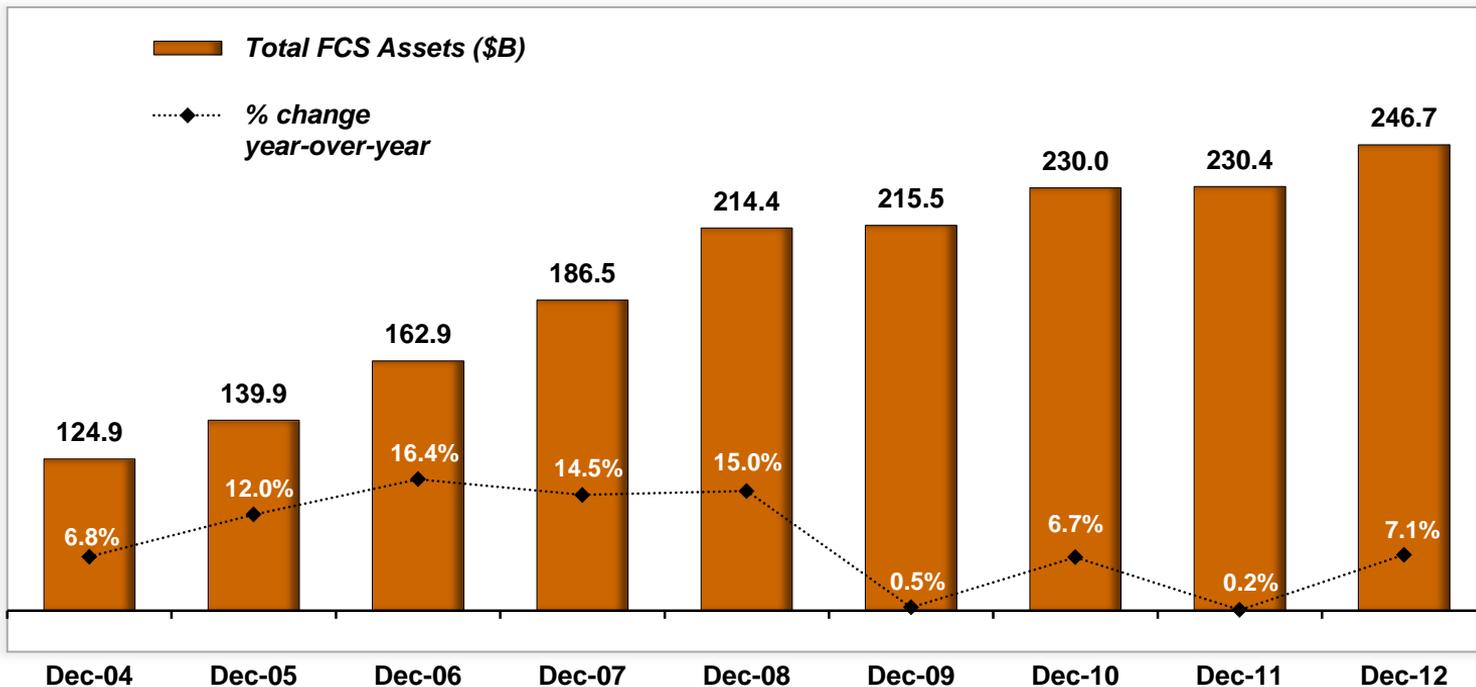
Topics

- Growth
- Earnings
- Capital
- Credit Quality
- FIRS





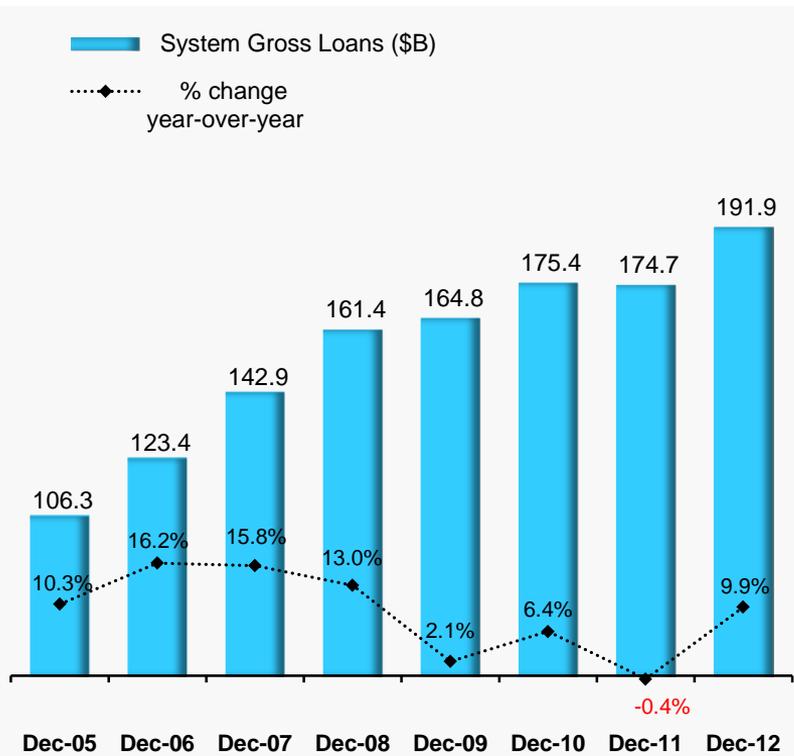
System assets up on strong loan growth



Source: FCS Annual Information Statements

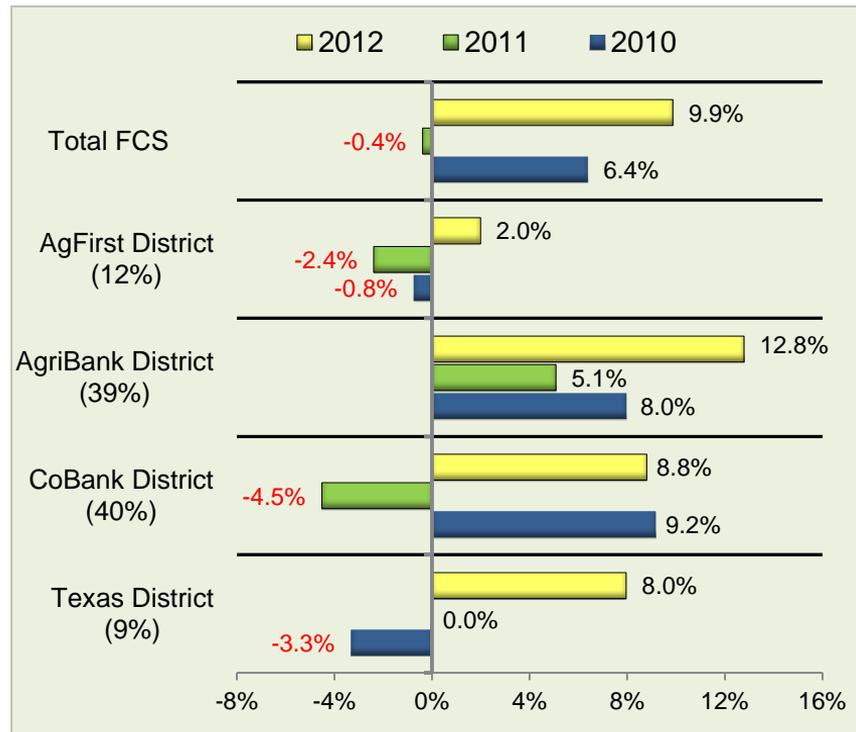


Loan growth rebounds; up 9.9% in 2012



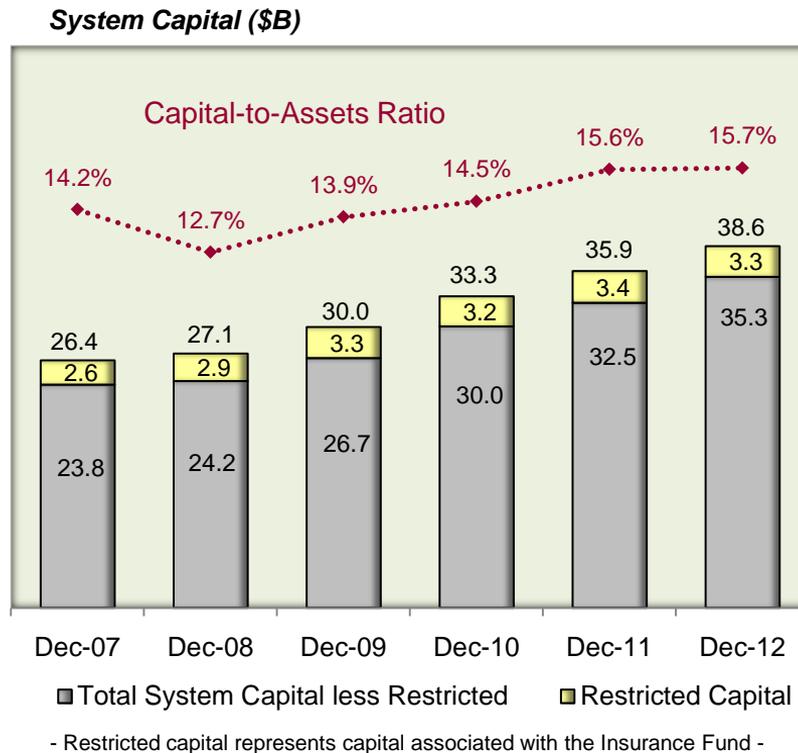
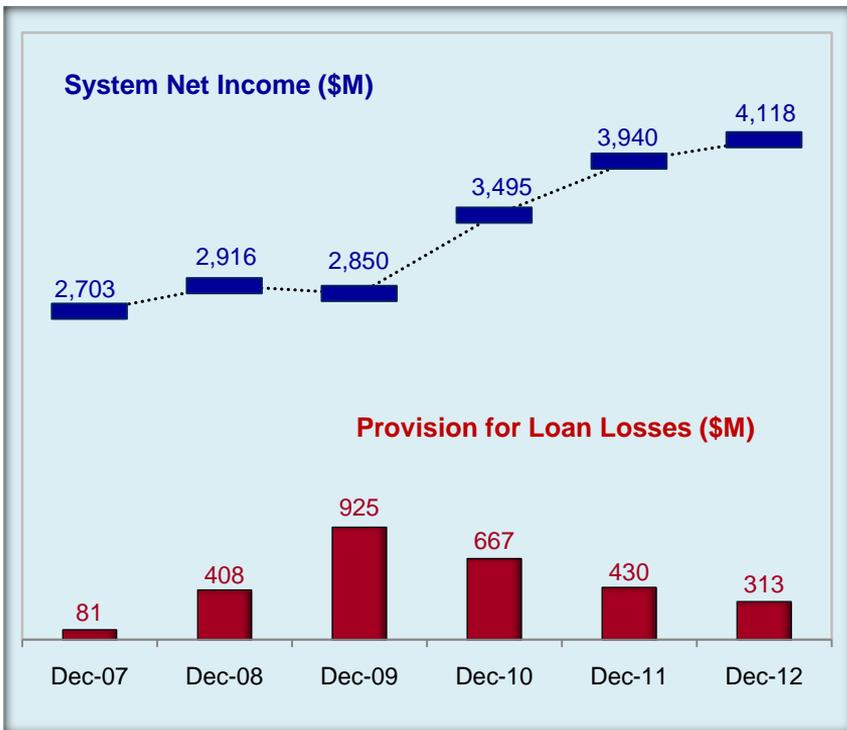
Source: FCS Annual Information Statements

Loan Growth by District (% change year-over-year)





Strong earnings drive increase in System capital



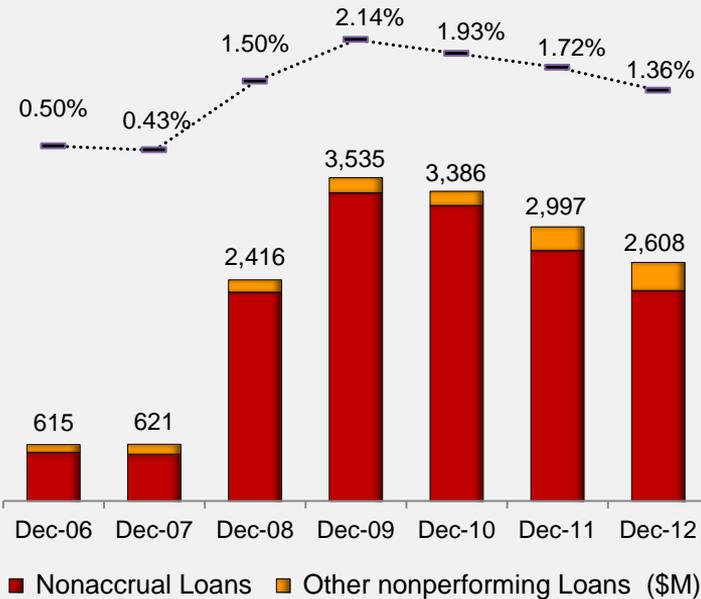
Source: FCS Annual Information Statements



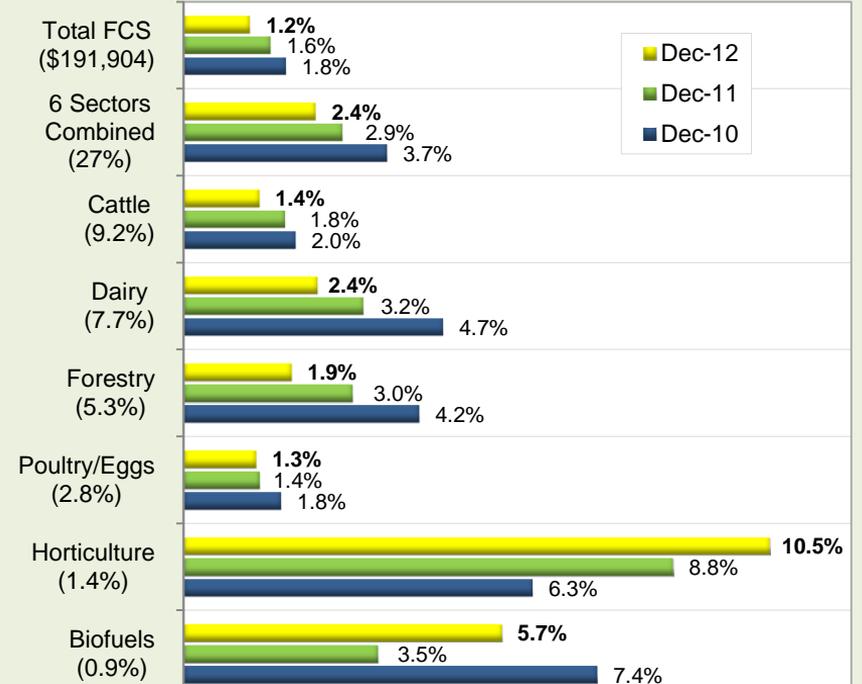
Overall trend for credit quality is positive – risk elevated for some sectors



% of Nonperforming Loans-to-Total Loans



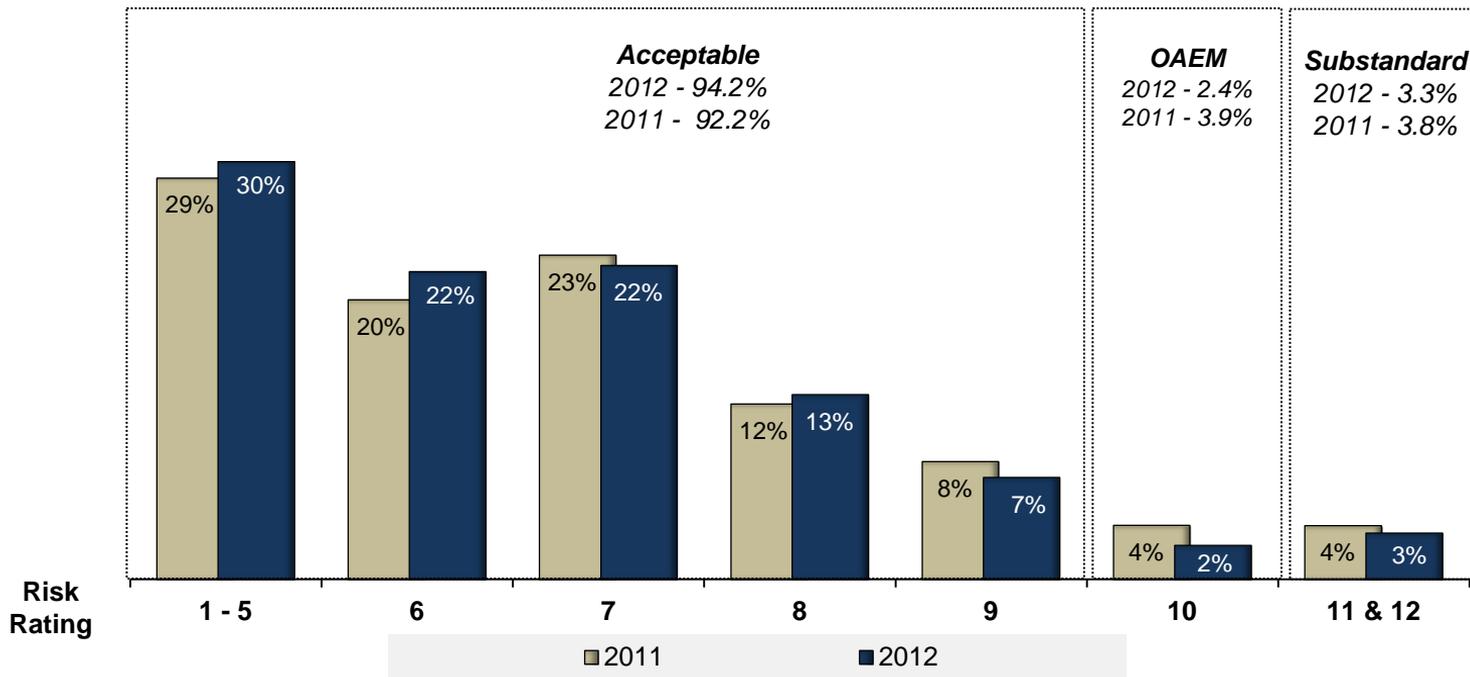
Nonaccruals as a % of Loans Outstanding



Source: FCS Annual Information Statements



Credit risk ratings – total System loans outstanding



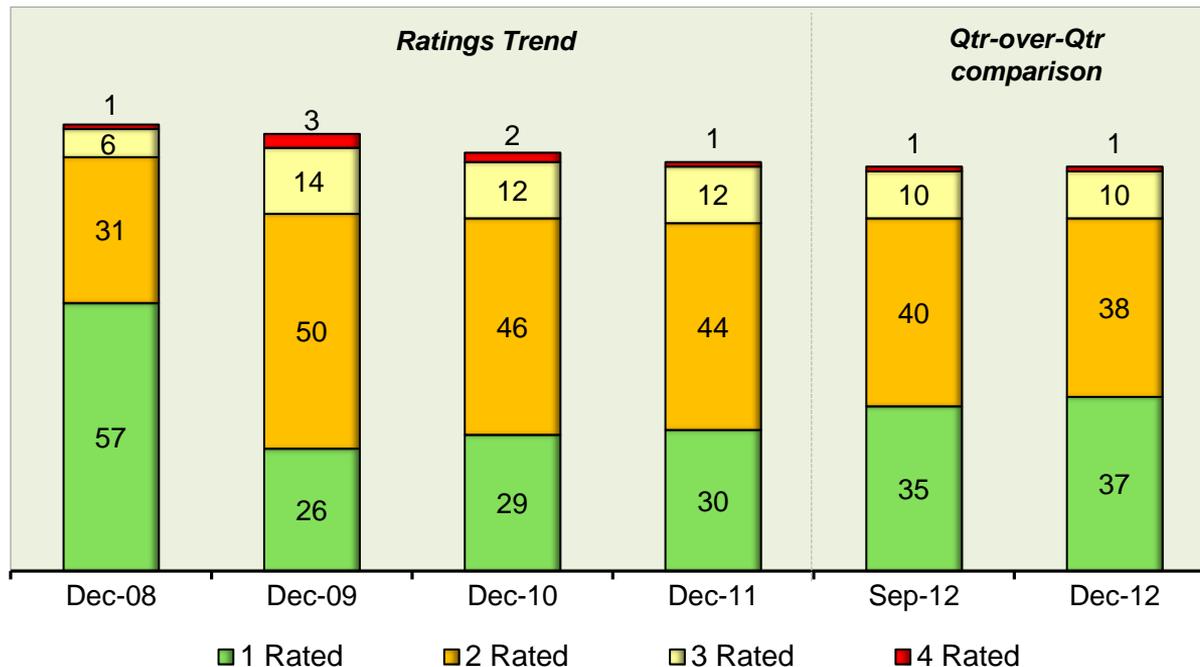
OAEM refers to Other Assets Especially Mentioned
Source: FCS Annual Information Statements



System FIRS ratings



Composite FIRS Ratings – System Banks & Associations



Source: FCA's FIRS ratings database



Summary and final points

- U.S economic recovery continues to be slow, but steady; considerable uncertainty remains
- Outlook for agriculture is favorable but weather will be a key factor. Protein, dairy & ethanol sectors at risk if feed costs remain high.
- The System remains fundamentally safe and sound
 - Well-positioned for the challenges facing agriculture
 - Portfolio credit quality steadily improving
 - System is well-capitalized and continues to generate strong earnings





Discussion



THANK YOU

Cherry Bekaert LLP

FCS Building Association Report Regarding Financial Statement Audit for the Year Ended December 31, 2012

Audit Team
Frank Spasoff, Partner

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FCS Building Association

► Overview of Audit Results

- We have completed our audit procedures related to the FCS Building Association's year ended December 31, 2012 financial statements.
- Our procedures and scope were substantially consistent with our planned audit strategy and we did not experience any significant problems during the audit process.
- We issued an unqualified (clean) opinion on the Company's financial statements (note new required format)
- We received excellent cooperation from the Company's personnel.

General Financial Statement Comments

- ▶ Strong Balance Sheet as of December 31, 2012
 - Cash reserve balance of \$1.4 million
 - Current Ratio of 7 to 1
 - Total Liabilities to Equity Ratio 1 to 30

- ▶ Operating Income for the year ended December 31, 2012

- ▶ No new or unusual transactions noted for fiscal year 2012

- ▶ No significant new disclosures noted for fiscal year 2012

Areas of Focus for the 2012 Audit

- ▶ Procedures with respect to internal control
- ▶ Leasing activities
- ▶ Capital expenditures and repairs and maintenance
- ▶ Related party transactions (FCSBA and FCA)
- ▶ We identified no significant deficiencies or material weaknesses

Required Communications

- ▶ The auditor's responsibility under generally accepted auditing standards – reasonable assurance that financial statements are materially correct
- ▶ Significant accounting policies are disclosed in Note 2 of the F/S's
- ▶ We have considered management judgments and accounting estimates included in the financial statements and believe them to be reasonable
- ▶ There were no disagreements with management during the engagement
- ▶ There were no major issues discussed with management prior to our being retained
- ▶ No irregularities or fraud identified as part of our audit

