

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas P. Tonsager, Board Member
Jeffery S. Hall, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
April 9, 2015**

These minutes reflect the business transacted at the April 9, 2015, 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.

Before starting the meeting new FCA **Board Chairman Spearman** welcomed new Board Members Tonsager and Hall and noted that he looked forward to working with them in the future.

Board Member Tonsager thanked the **Board Chairman**, welcomed **Board Member Hall** and noted he looked forward to working on agricultural policy areas and those areas mentioned by **Chairman Spearman** in his recent communication to the Farm Credit System.

Board Member Hall thanked his fellow Board Members and highlighted his priorities to keep the Farm Credit System strong with emphasis on internal controls, capital, and diversity.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 10:22 a.m. Members of the Board present were:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas P. Tonsager, Member
Jeffery S. Hall, 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 five 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 Chairman** reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Tonsager moved to adopt the Agenda as presented.

Mr. Hall seconded the motion.

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

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

Mr. Hall 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. Tonsager seconded the motion.

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

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

OPEN SESSION

Approval of Minutes

Minutes for March 12, 2015 (BM-9-APR-15-01)

Mr. Hall moved to approve the minutes for March 12, 2015, regular board meeting.

Mr. Tonsager seconded the motion.

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

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-9-APR-15-01)**

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

REPORTS

Quarterly Report on Economic Conditions and FCS 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.

Board Chairman Spearman 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 D.)

CLOSED SESSION

The **Board Chairman** convened the closed session of the meeting at 9:50 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.

The **Board Chairman** then instructed the **General Counsel** to furnish the **Secretary** with a certification, pursuant to 5 U.S.C. § 552b(f), that the portions of the meeting held in closed session may be properly closed to the public.

(A copy of the Certification is attached hereto as Exhibit E.)

Members of the Board present were:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas P. Tonsager, Member
Jeffery S. Hall, Member

The above named constitute a quorum of the Board.

Others present included **Dale Aultman**, Secretary to the Board; **Charles Rawls**, General Counsel; **Russell Middleton**, Executive Assistant to Board Chairman Spearman; **Inga Smulkstys**, Executive Assistant to the Board Member Tonsager; and **Kevin Kramp**, Executive Assistant to Board Member Hall. (A list of staff attendees is attached hereto as Exhibit A).

OE Quarterly Report

The **Board Chairman** reminded those speaking to state their name before speaking.

Robert Coleman and **Roger Paulsen** of the Office of Examination presented the OE Quarterly Report.

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

ADJOURNMENT

There being no further business to come before the Board, **Board Chairman Spearman** indicated he would entertain a motion to adjourn the meeting.

Mr. Hall moved that the meeting be adjourned.

Mr. Tonsager seconded the motion.

Board Chairman Spearman called the question.

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

The meeting adjourned at 10:22 a.m.

NOTATIONAL VOTE ACTIONS

There were no notational vote actions approved by the FCA Board from March 13, 2015, through April 8, 2015.

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 9, 2015.

_____/s/_____
Kenneth A. Spearman
Board Chairman and Chief Executive Officer

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

Approved: **May 14, 2015**

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
April 9, 2015**

KENNETH A. SPEARMAN, Board Chairman and Chief Executive Officer
DALLAS P. TONSAGER, Board Member
JEFFERY S. HALL, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Corey, Kathryn	X	
Smulkstys, Inga	X	X
Calhoun, Gaye	X	
Middleton, Russell	X	X
Buccolo, Deb	X	
Kramp, Kevin	X	X
COO		
Hoffman, William	X	X
EEO-I		
Burlew, Thais	X	
OCPA		
Stokke, Mike	X	X
Meaux, Willy	X	X
OSMO		
Rea, Laurie	X	X
Hudson, Bruce	X	X
OGC		
Rawls, Charles	X	X
Strickland, Joy	X	X
Donner, Mary Alice	X	X

OFFICE	OPEN SESSION	CLOSED SESSION
OE		
Coleman, Robert	X	X
Paulsen, Roger	X	X
Johnson, Hal	X	X
OIG		
Dean, Elizabeth	X	X
ORP		
Van Meter, Gary	X	X
Mardock, Barry	X	X
Gabriel, Steve	X	X
Johansen, Mark	X	X
OMS		
Smith, Stephen	X	X
Fowlkes, Jerome	X	X
FCSIC		
Pfizinger, Rick	X	X
Rubin, Howard	X	X
GENERAL PUBLIC	5	

**PUBLIC ANNOUNCEMENT OF
 MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
 Farm Credit Administration Board
 Regular Meeting
 April 9, 2015**

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 9, 2015. 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. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

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. Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact 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

- 1 **Approval of Minutes**
 March 12, 2015

- 2 **Reports**
 Quarterly Report on Economic Conditions and FCS Conditions

CLOSED SESSION

- 3 Office of Examination Quarterly Report¹

 March 30, 2015
 Date

 /s/
 Dale L. Aultman
 Secretary to the Board

¹Session 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 12, 2015 Board Meeting

BM-9-APR-15-01

Effective Date: April 9, 2015

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for March 12, 2015, as submitted.

DATED THIS 9th DAY OF APRIL 2015

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting

April 2015

Quarterly Report on FCS Condition

April 9, 2015

Stephen Gabriel

Hal Johnson

Exhibit D





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



Modest economic growth expected; long-term rates to rise gradually



Consensus Forecasts (percent)

Red indicates forecast

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
GDP growth*	-2.1	4.6	5.0	2.2	2.5	3.0	3.0	3.0	2.8	2.8	2.8	2.7
CPI*	2.1	2.4	1.2	-0.9	-2.2	1.5	1.9	1.9	2.2	2.2	2.4	2.3
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.5	5.3	5.2	5.2	5.1	5.0	5.0
10 Yr T-Bond	2.7	2.5	2.4	2.2	2.1	2.2	2.5	2.7	2.9	3.1	3.3	3.5

Source: Consensus Economics, Inc.

Survey date - March 9, 2015

* % change from prior quarter, seasonally adjusted annual rate



Farm sector developments and concerns



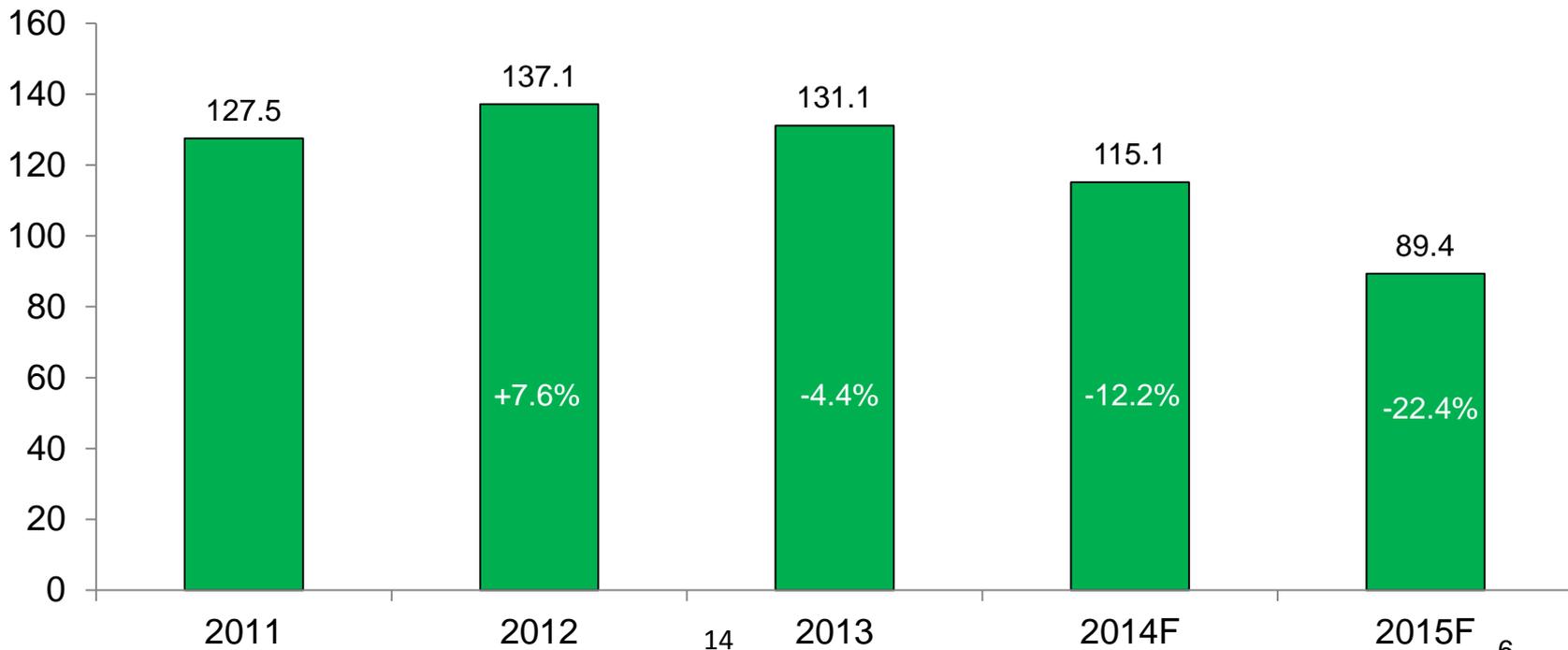
- Farm income projected to fall sharply in 2015
- Crop margins are compressing
- Farmland markets are cooling
- Strong dollar hurting exports
- Avian influenza
- Lower oil prices a net positive for agriculture
- California drought persists



Farm income to drop sharply in 2015



Farm Sector Net Cash Income (billion \$)



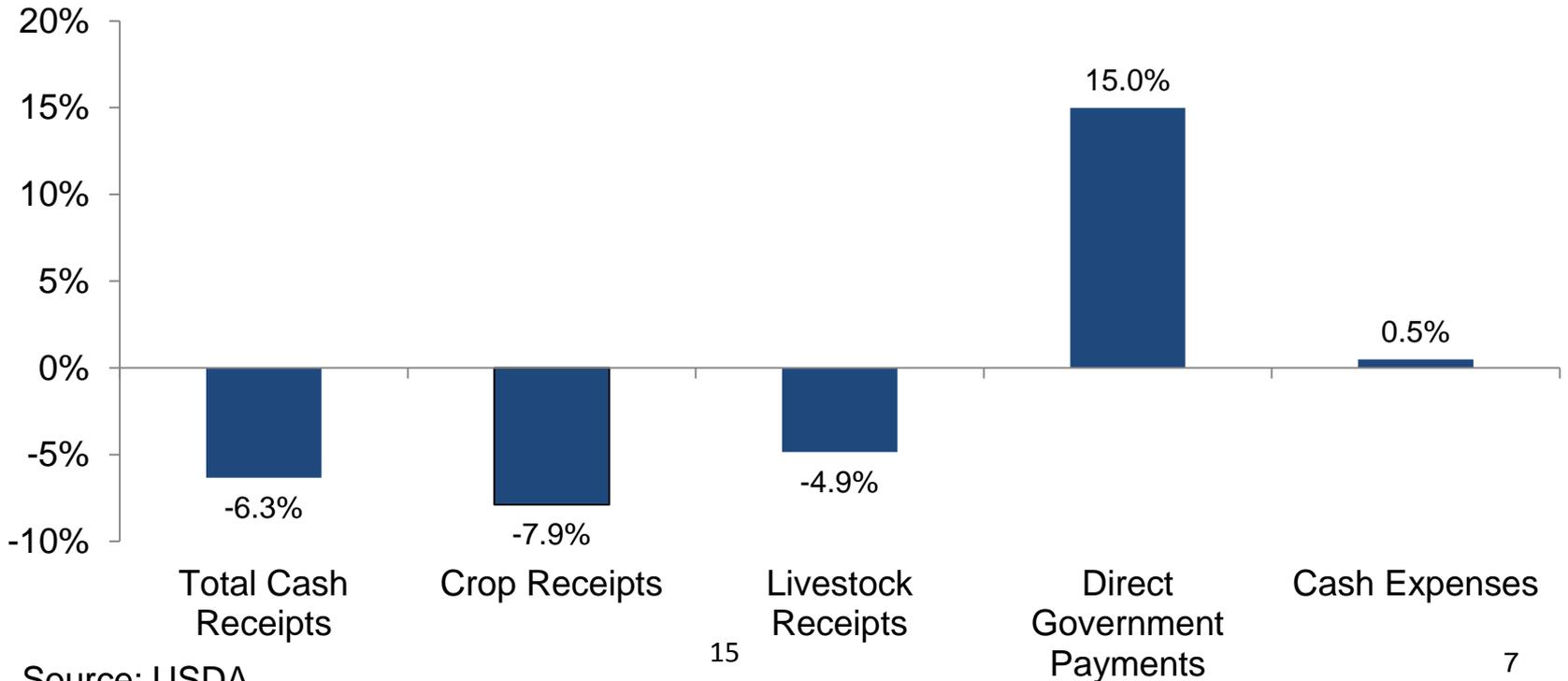
Source: USDA



Lower cash receipts for both crops and livestock hit income forecast



Percent Change in Farm Income Components (2014F to 2015F)

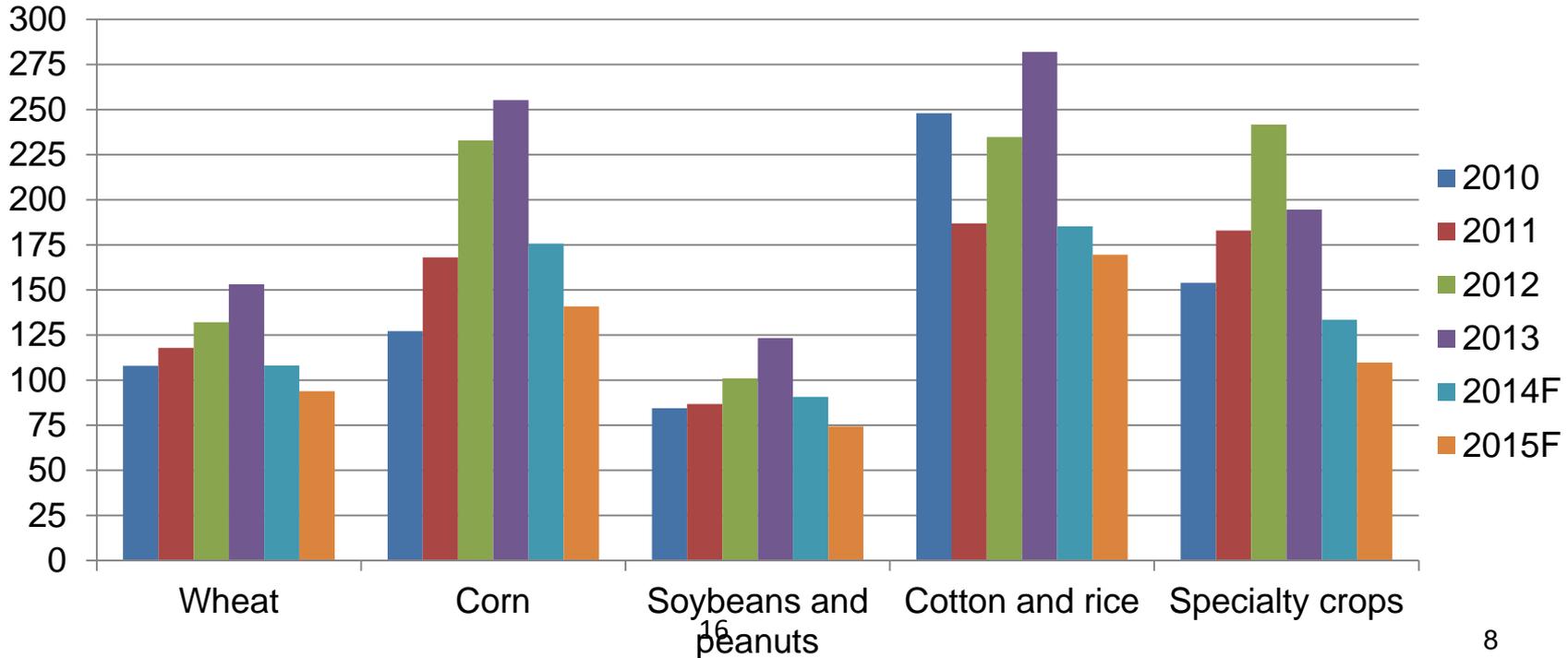




Crop producers' incomes down from highs of 2012/13



Farm business average net cash income (\$1,000)

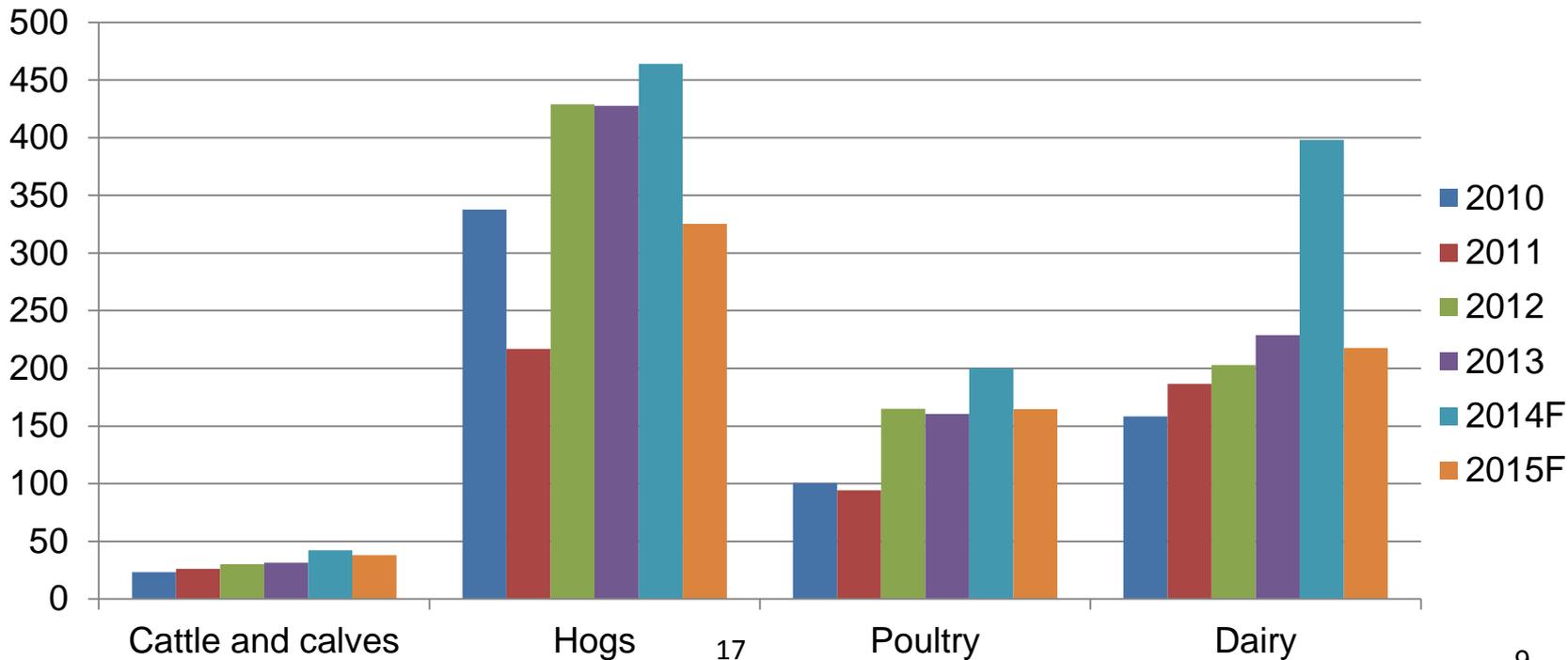


Source: USDA



Livestock and dairy income to drop after very strong 2014

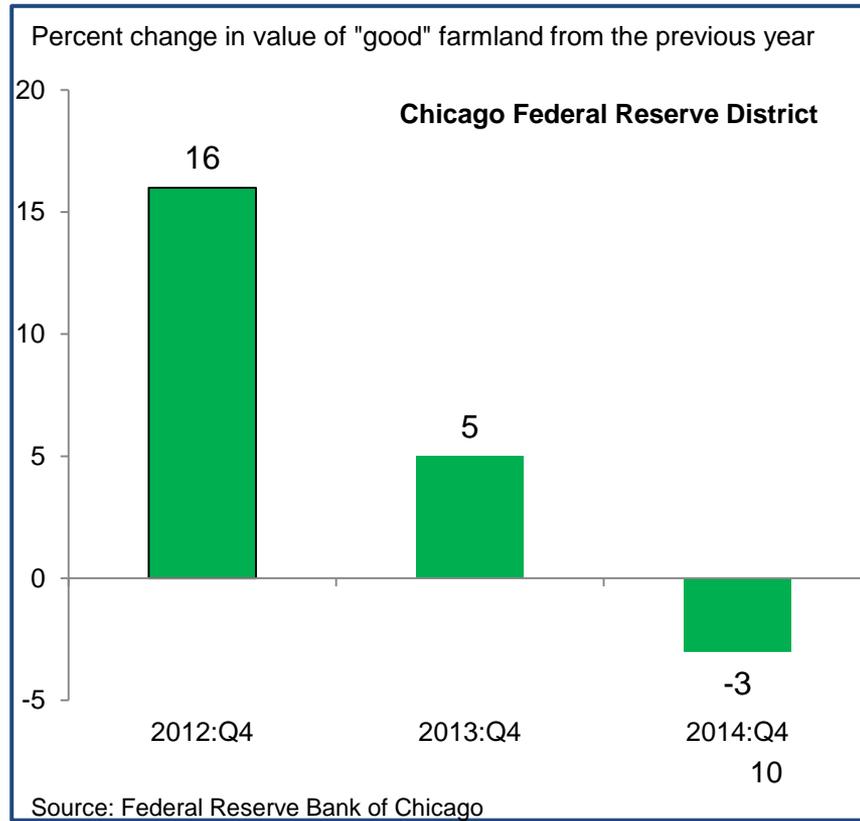
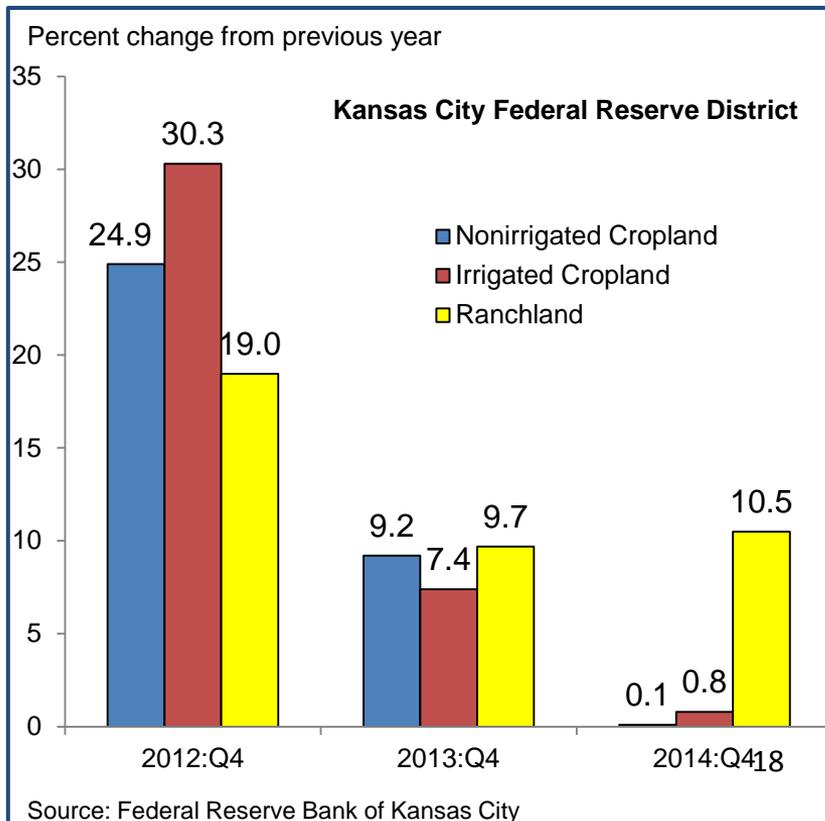
Farm business average net cash income (\$1,000)



Source: USDA

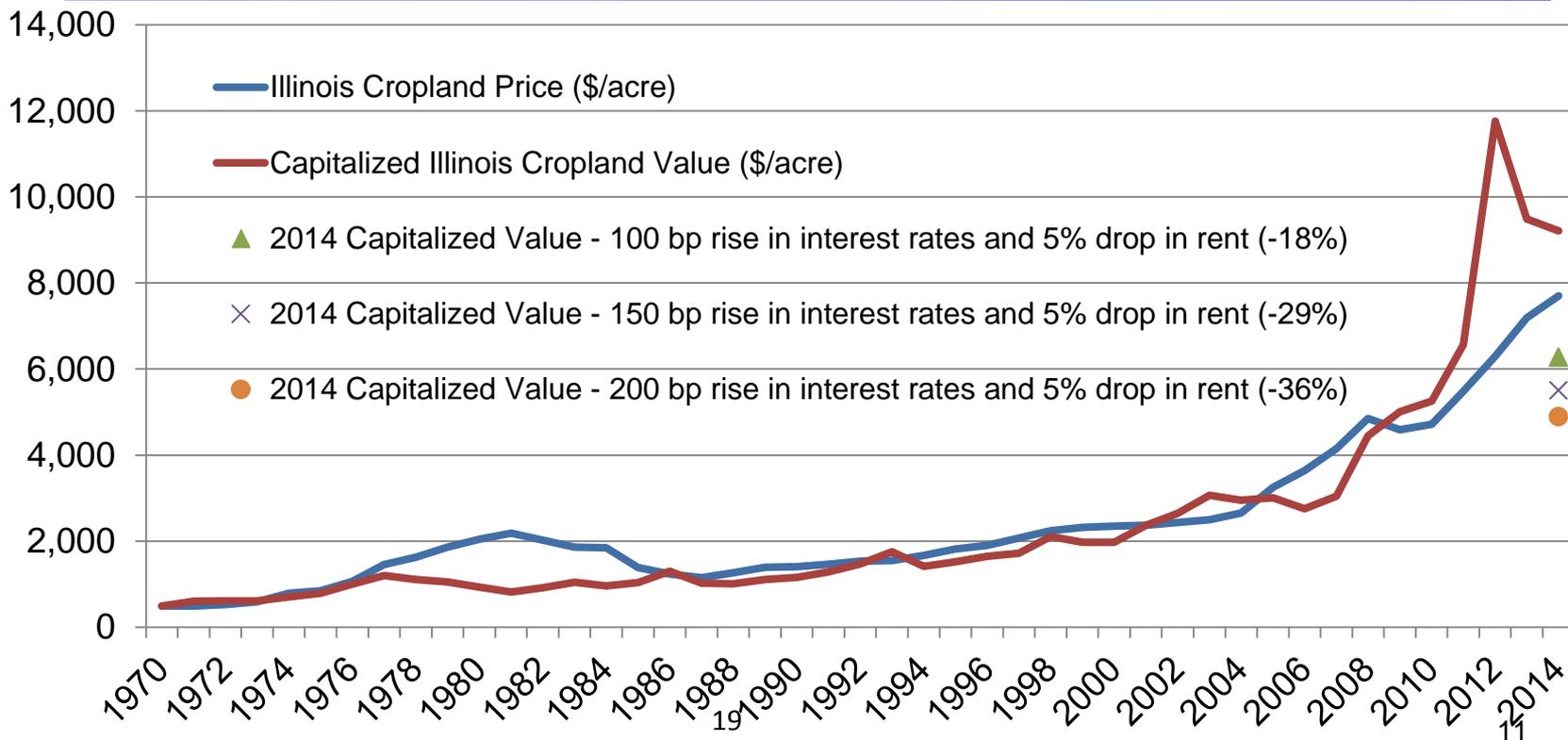


Midwest farmland market weaker in 2014





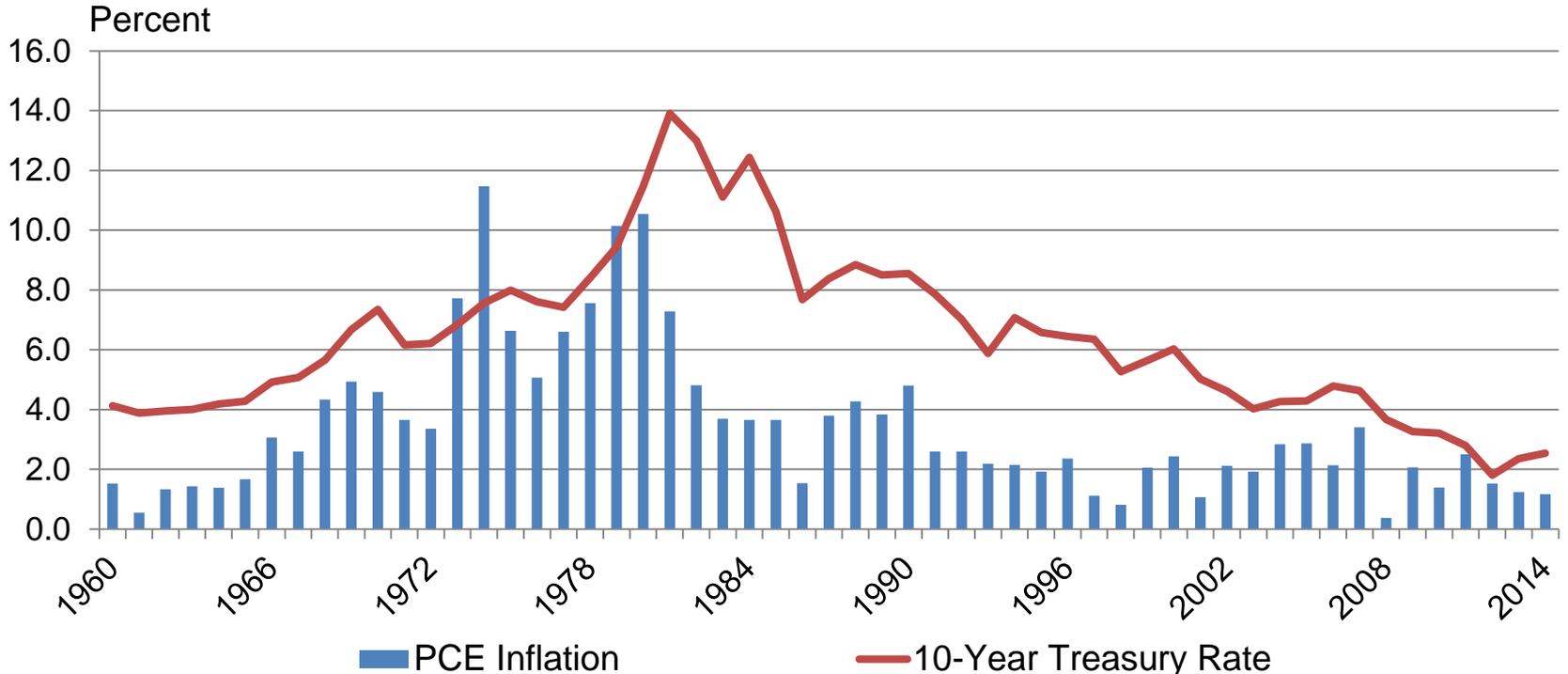
How big will the farmland price correction be?



Source: USDA, NASS; Gary Schnitkey, University of Illinois; Federal Reserve Board; FCA



Long-term interest rates are influenced by inflation expectations



20

Source: Bureau of Economic Analysis, Federal Reserve Board

12



Long-term rates could rise as the economy strengthens

- The Fed's target PCE inflation rate is 2%; it is averaging under 1% for past 12 months.
- If the economy continues to improve, inflation expectations may rise—but, lower oil prices and a strong dollar are deflationary forces.
- Higher inflation expectations will push long-term interest rates higher — 100 or 150 basis point rise would be possible.





Future farmland prices depend on interest rates and profitability



Capitalized Illinois Cropland Value (\$/acre)

2014 Value 7,700

Capitalized Value 9,213

Change in Average Illinois Cash Rent

Change in interest rates (BP)	Change in Average Illinois Cash Rent								
	0	-5%	-10%	-15%	-20%	-25%			
0	9,213	8,752	8,291	7,831	7,370	6,909			
25	8,387	7,968	7,548	7,129	6,710	6,290			
50	7,697	7,313	6,928	6,543	6,158	5,773			
75	7,112	6,757	6,401	6,046	5,690	5,334	% change from 2014 value		
100	6,610	6,280	5,949	5,619	5,288	4,958	-18%	-23%	-27%
125	6,174	5,865	5,557	5,248	4,939	4,631	-24%	-28%	-32%
150	5,792	5,502	5,213	4,923	4,634	4,344	-29%	-32%	-36%
175	5,455	5,182	4,909	4,636	4,364	4,091			
200	5,154	4,896	4,639 ₂₂	4,381	4,123	3,866			



Risks to watch

- Farmland values correction
- Cash flow squeeze for grain/soybean farmers
- California drought
- Impact of the strong dollar
- Avian influenza
- World oil markets
- Geopolitical developments





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
December 31, 2014

Hal Johnson
Sr. Financial Analyst
Office of Examination



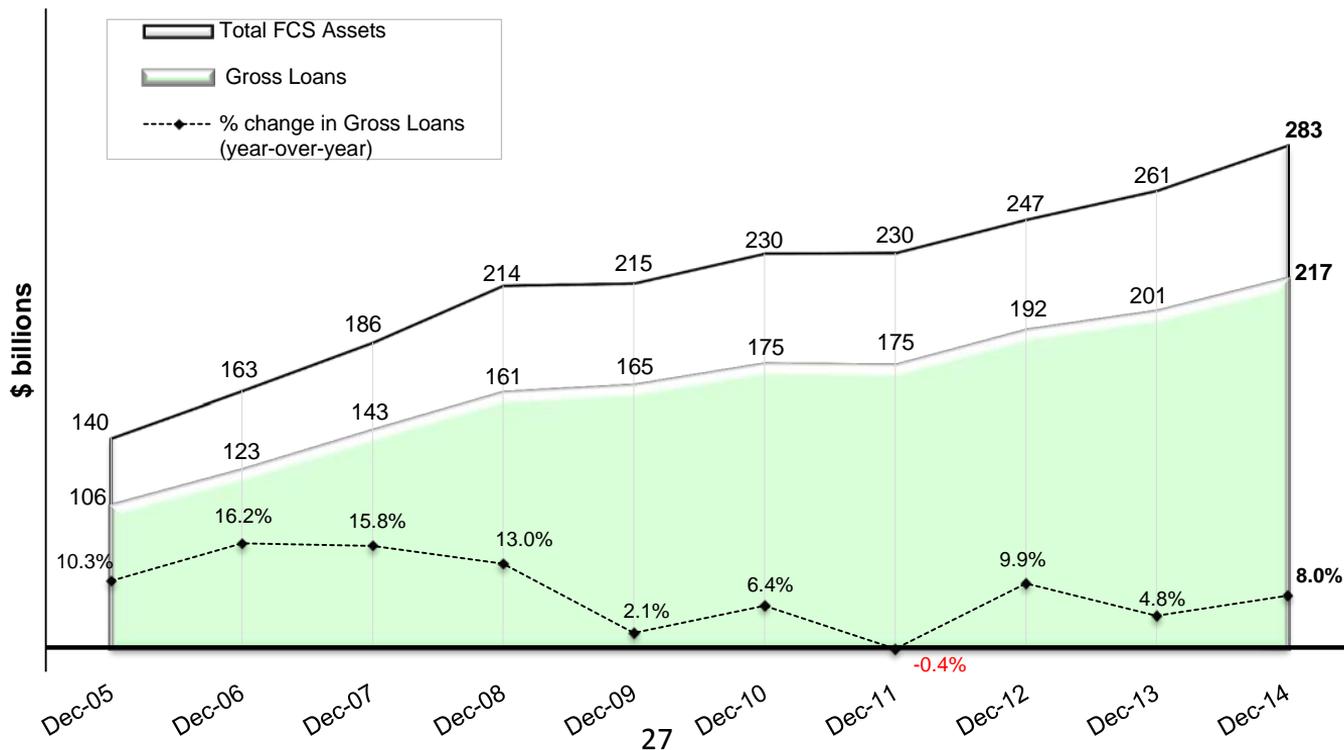
Topics

- Growth
- Loan Portfolio
 - Commodity diversification
 - Credit quality
- Earnings
- Capital
- FIRS





System growth up in 2014; driven by a strong 4th quarter



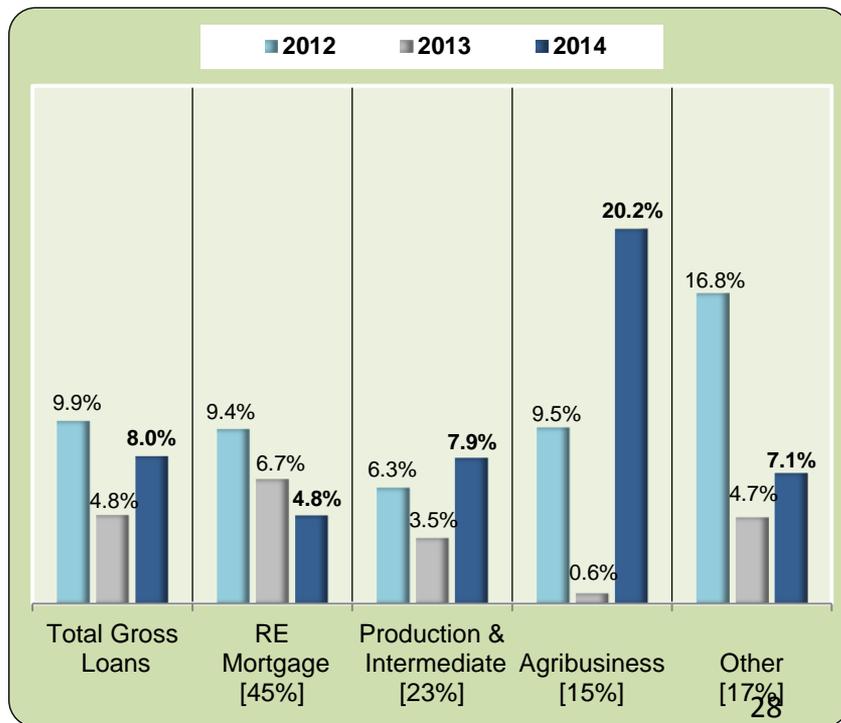
Source: FCS Annual Information Statements



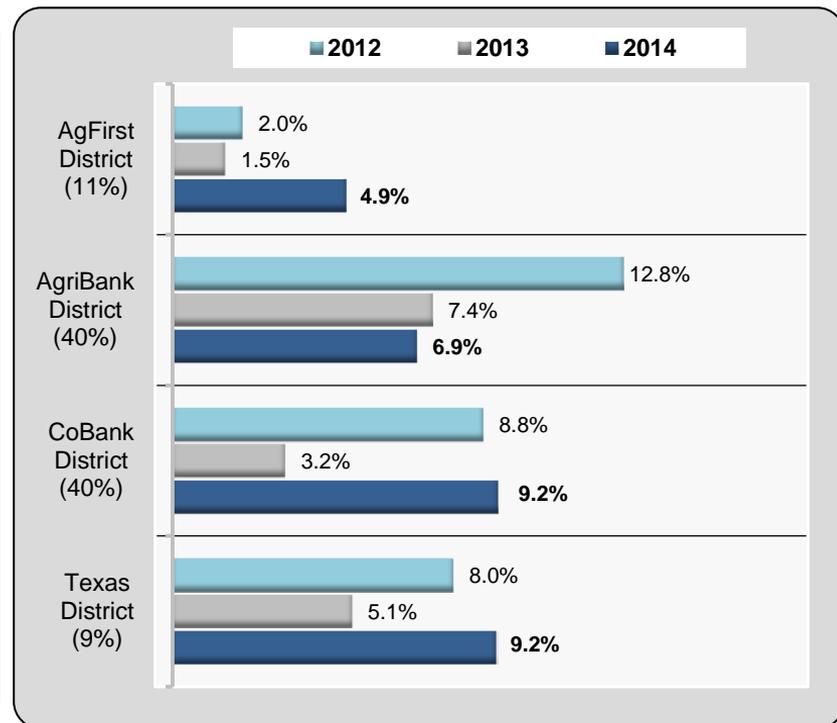
Loan growth moderate to strong across loan types and districts



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

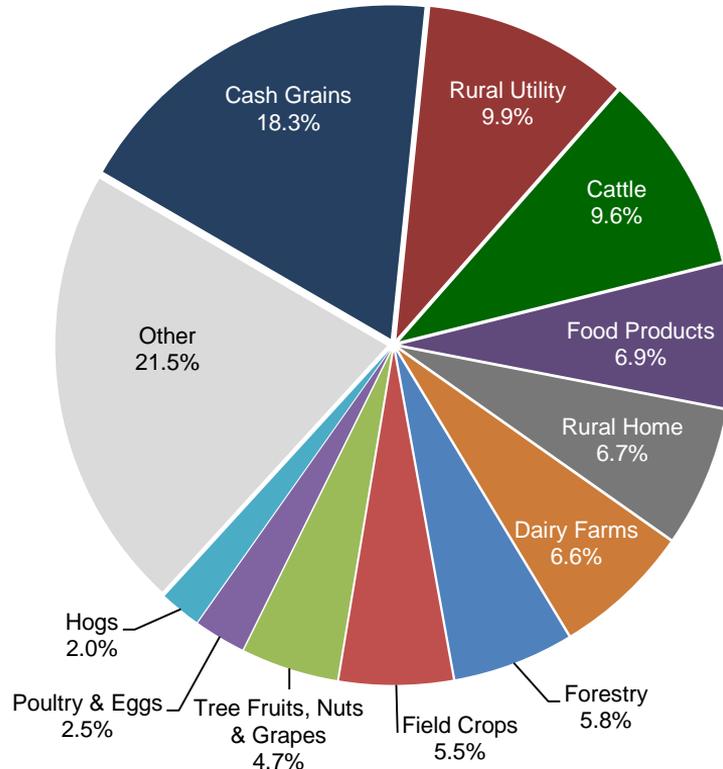


Loan Growth by District (% change year-over-year)





System's loan portfolio is well diversified within agriculture

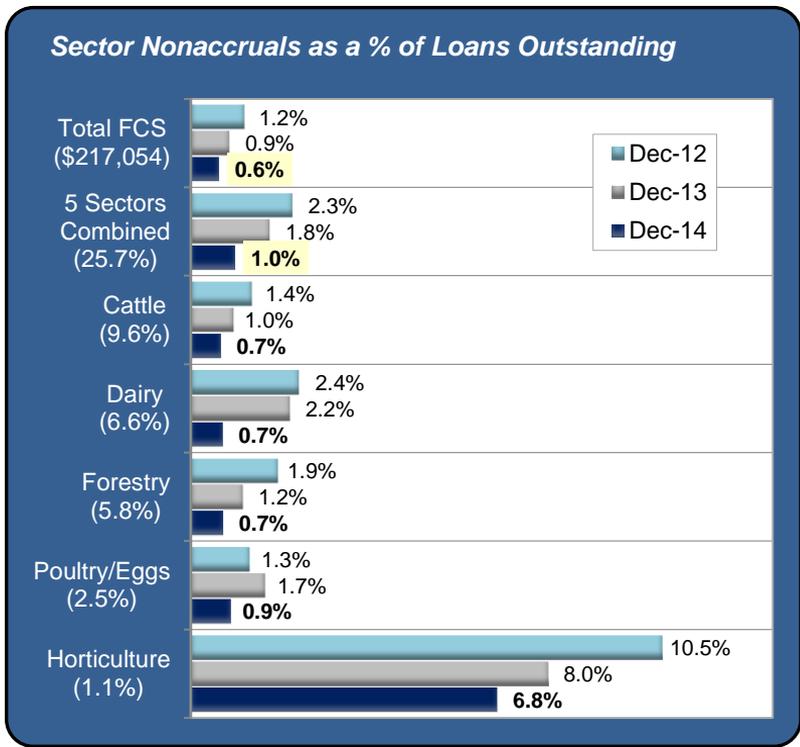
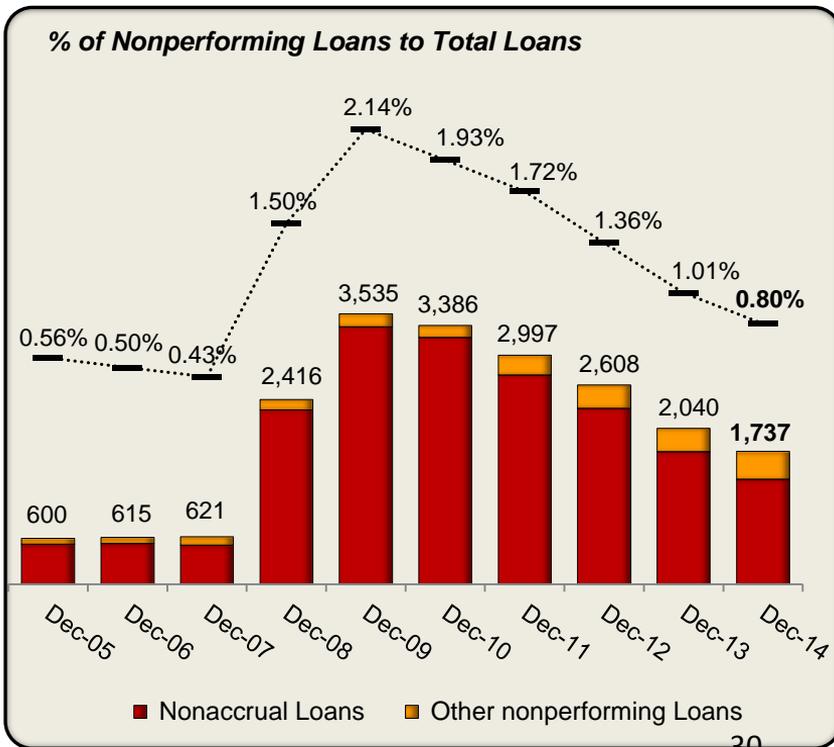


FCS Loan Portfolio	Dec-14	Dec-13	Dec-09	% Change	
				1 Year	5 Years
Cash Grains	39,779	37,560	23,552	6%	69%
Rural Utility	21,410	19,615	14,562	9%	47%
Cattle	20,909	18,513	15,884	13%	32%
Food Products	14,895	12,138	8,625	23%	73%
Rural Home	14,522	14,031	10,948	3%	33%
Dairy Farms	14,325	15,214	13,420	(6%)	7%
Forestry	12,555	12,150	10,303	3%	22%
Field Crops	11,850	11,010	9,530	8%	24%
Tree Fruits, Nuts and Grapes	10,137	9,355	11,053	8%	(8%)
Poultry & Eggs	5,453	5,183	5,505	5%	(1%)
Hogs	4,420	4,715	4,666	(6%)	(5%)
Other	46,799	41,576	36,782	13%	27%
Total	217,054	201,060	164,830	8%	32%

Source: FCS Annual Information Statements



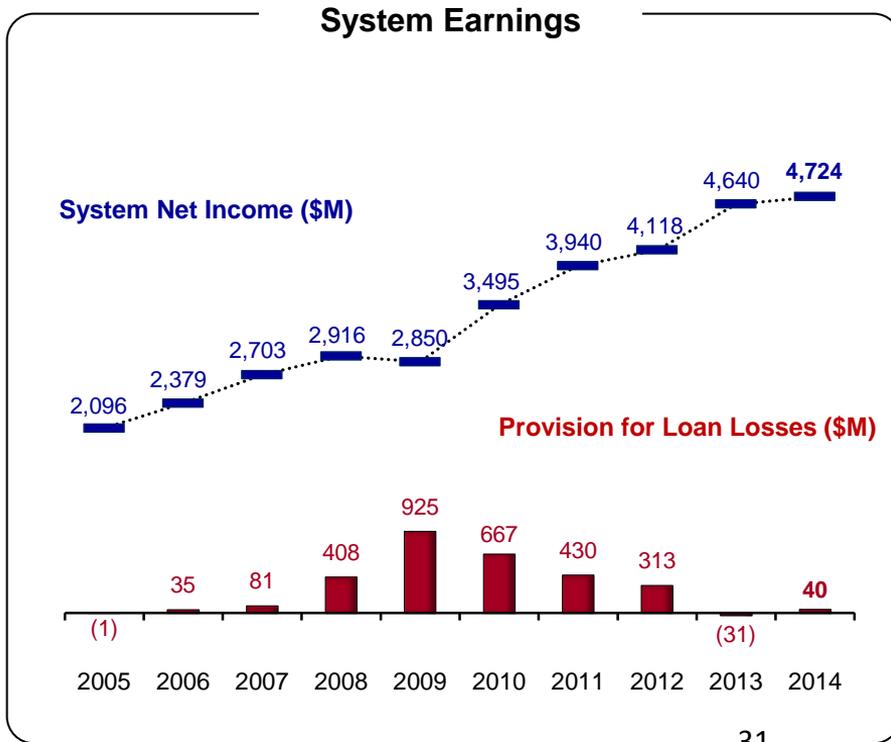
Portfolio credit quality is strong; credit indicators are still favorable



Source: FCS Annual Information Statements



System continued to report strong financial results in 2014



31

Change in Net Interest Income 2014 vs. 2013			
(in millions)	Increase (decrease) due to		
	Rate	Volume	Total
Interest Income	(308)	579	271
Interest Expense	10	131	141
Change in Net Interest Income	(318)	448	130



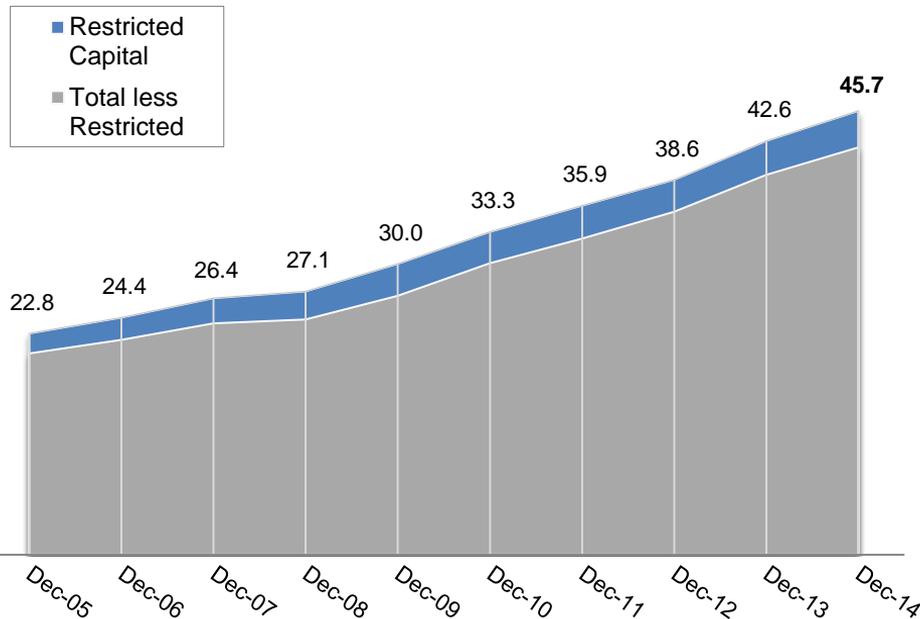
System is well-capitalized



Capital and Liquidity as of December 2014

- System capital as a percentage of total assets was 16.2% compared to 16.3% at yearend 2013
- Surplus as a percentage of total capital equaled 82.6%
- System liquidity equaled 173 days of coverage. Days of available liquidity for the four funding banks ranged from 147 days to 232 days at yearend.

System Capital (\$B)



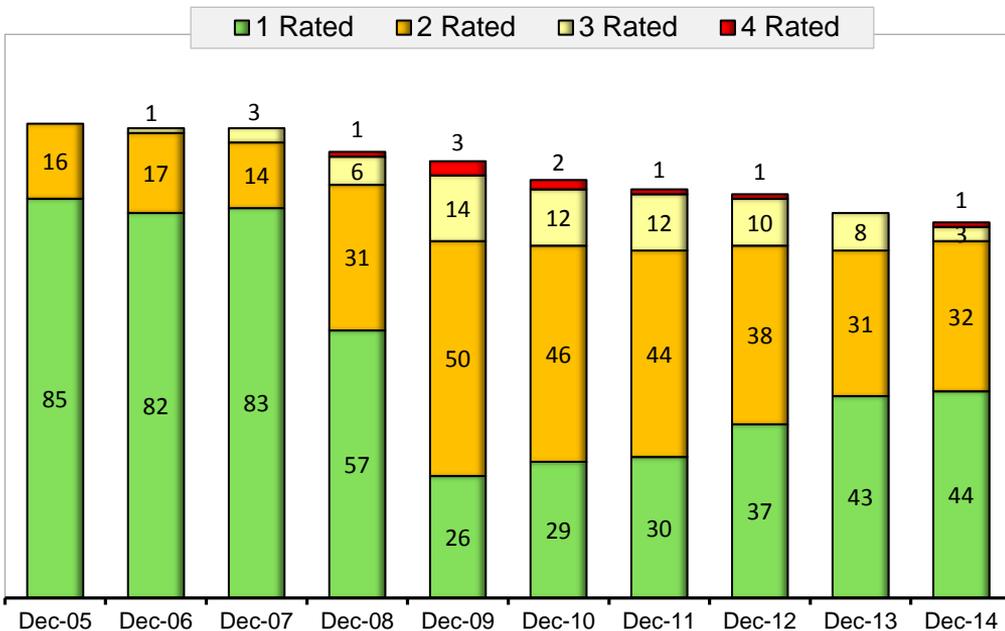
Restricted capital represents capital associated with the Insurance Fund.



System FIRS ratings



Composite FIRS Ratings - System Banks & Associations



33

Source: FCA's FIRS ratings database

FIRS Ratings

With the most recent FIRS update,

- FIRS ratings continued to improve
- 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 and 4 rated institutions account for less than 1% of total System assets



Summary and final points

- Challenges for agriculture:
 - General economic factors - strong dollar, rising interest rate environment, volatility in world oil markets
 - Farm sector concerns - farmland values, profitability outlook for crop producers, lower exports, drought in California
- The System is financially sound, well-capitalized, with solid earnings, and favorable portfolio credit quality
- System institutions are well-positioned for the current risk environment





Questions



THANK YOU

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090



CERTIFICATE OF CLOSED MEETING

The General Counsel, in accordance with the Government in the Sunshine Act, 5 U.S.C. § 552b(f)(1), hereby certifies that the Farm Credit Administration Board regular meeting of April 9, 2015, was properly closed to the public on the basis of the exemption set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).

/s/

Charles R. Rawls
General Counsel

Date: April 9, 2015