

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
December 11, 2014**

These minutes reflect the business transacted at the December 11, 2014, 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 10:32 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 three 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.

Board Chair Long Thompson 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 a portion 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 November 13, 2014 Regular Board Meeting (BM-11-DEC-14-01)

Mr. Strom moved to approve the minutes for November 13, 2014 Regular Board Meeting.

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. **(BM-11-DEC-14-01)**

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

New Business

Organization, Mergers, Consolidations and Charter Amendments of Banks or Associations Proposed Rule (BM-11-DEC-14-02)

Shirley Hixson of the Office of Regulatory Policy and **Laura McFarland** of the Office of General Counsel presented the **Organization, Mergers, Consolidations and Charter Amendments of Banks or Associations, Proposed 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 proposed rule.

Mr. Strom moved that the Board approve the **Organization, Mergers, Consolidations and Charter Amendments of Banks or Associations proposed 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-DEC-14-02)**

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

Reports

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.

For the next quarterly report, **Mr. Strom** asked staff to provide information and data related to the impact of declining oil prices on agriculture.

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.)

Semi-Annual Report on Office of Examinations Operations

Hal Johnson of the Office of Examination presented the Semi-Annual Report on Office of Examinations Operations.

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.)

CLOSED SESSION

Board Chair Long Thompson announced that the next topic on the Agenda was a closed session item pursuant to previous Board action.

The **Board Chair** thanked the members of the public for attending and asked them to exit.

Board Chair Long Thompson convened the closed session of the meeting at 10:05 a.m. and instructed the **Secretary** to activate the electronic recording device so that the proceedings of the closed session were properly recorded as required by the Government in the Sunshine Act.

The **Board Chair** 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 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; and **Charles Rawls**, General Counsel. (A list of staff attendees is attached as Exhibit A).

Reports

Office of Examination Quarterly Report

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

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

There were no further questions or discussion.

The closed session ended at 10:31 a.m.

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 10:32 a.m.

NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from November 14, 2014, through December 10, 2014, as follows:

Item Number	Action Date	Voting Results	Subject
NV 14-23	11/19/2014	Approved	Farm Credit System Building Association 2015 Budget, Operating Plan, and Bank Assessments

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on December 11, 2014.

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

/s/
Dale L. Aultman
Secretary to the Board

Approved: January 8, 2015

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
December 11, 2014**

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

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Smulkstys, Inga	X	X
Corey, Kathryn	X	
Buccolo, Deb	X	
Johansen, Mark	X	X
Calhoun, Gaye	X	
Middleton, Russell	X	X
OCOO		
Hoffman, William	X	X
OCPA		
Stokke, Mike	X	X
Meaux, Willy	X	X
OSMO		
Rea, Laurie	X	X
OGC		
Rawls, Charles	X	X
Strickland, Joy	X	X
McFarland, Laura	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
Cerne, Sonya	X	X
ORP		
Van Meter, Gary	X	X
Gabriel, Steve	X	X
Hixson, Shirley	X	
Wilson, Debbie	X	X
OMS		
Smith, Stephen	X	X
Fowlkes, Jerome	X	X
FCSIC		
Rubin, Howard	X	X
Pfitzinger, Rick	X	X
EEO & Inclusion		
Burlew, Thais	X	
GENERAL PUBLIC	3	

**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
December 11, 2014**

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 December 11, 2014. 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. 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**
November 13, 2014
- 2 **New Business**
Organization, Mergers, Consolidations and Charter Amendments of Banks or Associations – Proposed Rule
- 3 **Reports**
Quarterly Report on Economic Conditions and FCS Conditions
- 4 Semi-Annual Report on Office of Examination Operations

CLOSED SESSION

- 5 Office of Examination Supervisory and Oversight Activities Report¹

December 1, 2014

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 November 13, 2014 Regular Board Meeting

BM-11-DEC-14-01

Effective Date: December 11, 2014

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for November 13, 2014, Regular Board Meeting as submitted.

DATED THIS 11th DAY OF DECEMBER 2014

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
Organization, Mergers, Consolidations and
Charter Amendments of Banks or Associations
BM-11-DEC-14-02**

Effective Date: December 11, 2014

THE FCA BOARD HEREBY:

- Approves the proposed rule that would modify FCA regulations in part 611 pertaining to the merger or consolidation of Farm Credit System banks and associations as well as make other related changes; and
- Authorizes staff to make any technical or grammatical changes that may be necessary for publication in the Federal Register.

DATED THIS 11th DAY OF DECEMBER 2014

BY ORDER OF THE BOARD

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



FCA Board Meeting

December 2014

Quarterly Report on FCS Condition

December 11, 2014

Stephen Gabriel
Hal Johnson

EXHIBIT E of December 12,
2014 FCA Board Meeting
Minutes





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

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
GDP growth*	4.5	3.5	-2.1	4.6	3.9	2.6	2.9	2.8	2.9	2.9	3.0	3.0
CPI*	2.2	1.1	1.9	3.0	1.1	0.8	1.5	1.9	2.0	2.1	2.1	2.1
Unemployment rate	7.3	7.0	6.7	6.2	6.1	5.9	5.7	5.6	5.6	5.5	5.4	5.4
10 Yr T-Bond	2.6	3.0	2.7	2.5	2.4	2.5	2.7	2.9	3.1	3.3	3.4	3.6

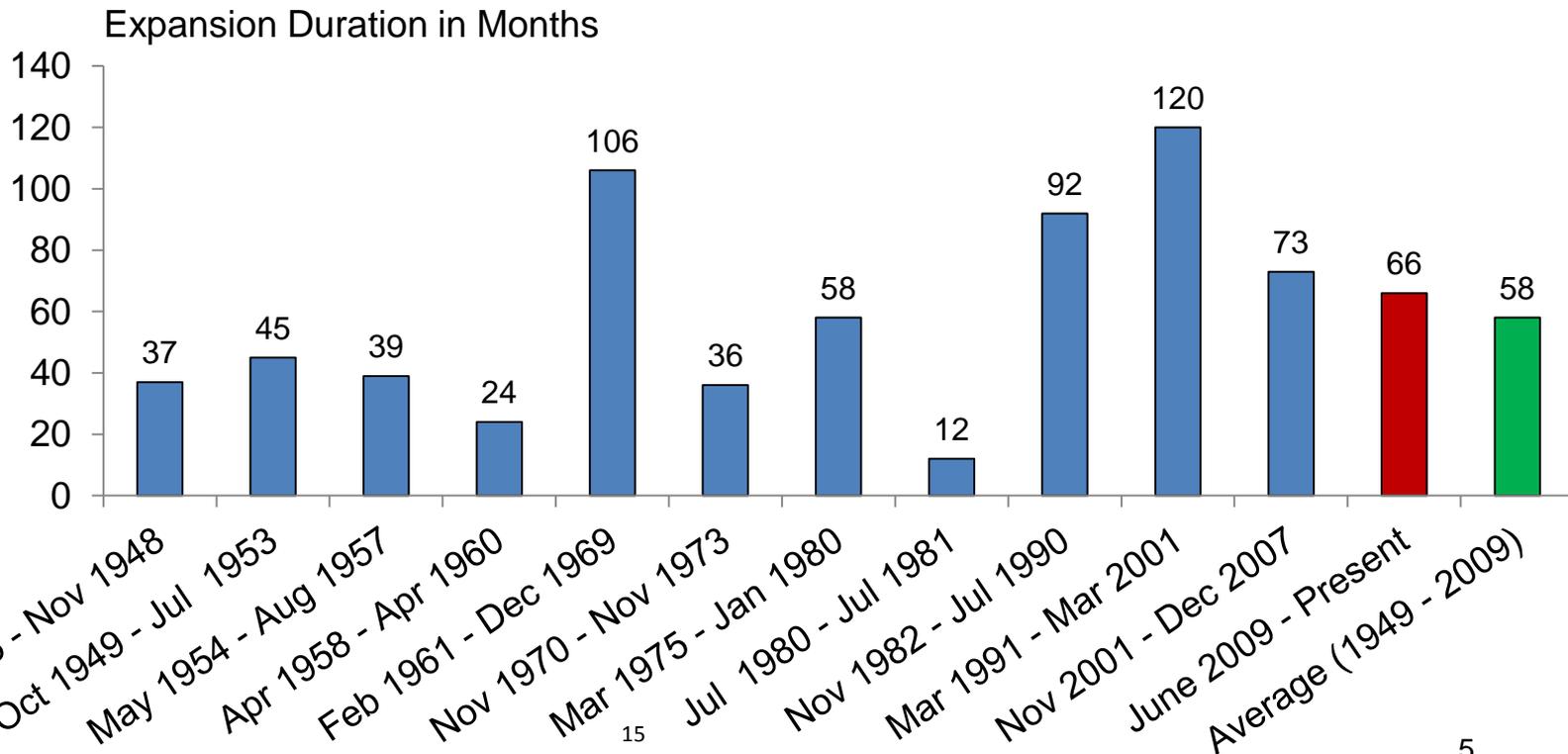
Source: Consensus Economics, Inc.

Survey date - November 10, 2014

* % change from prior quarter, seasonally adjusted annual rate



Current expansion longer than average; shorter than recent ones



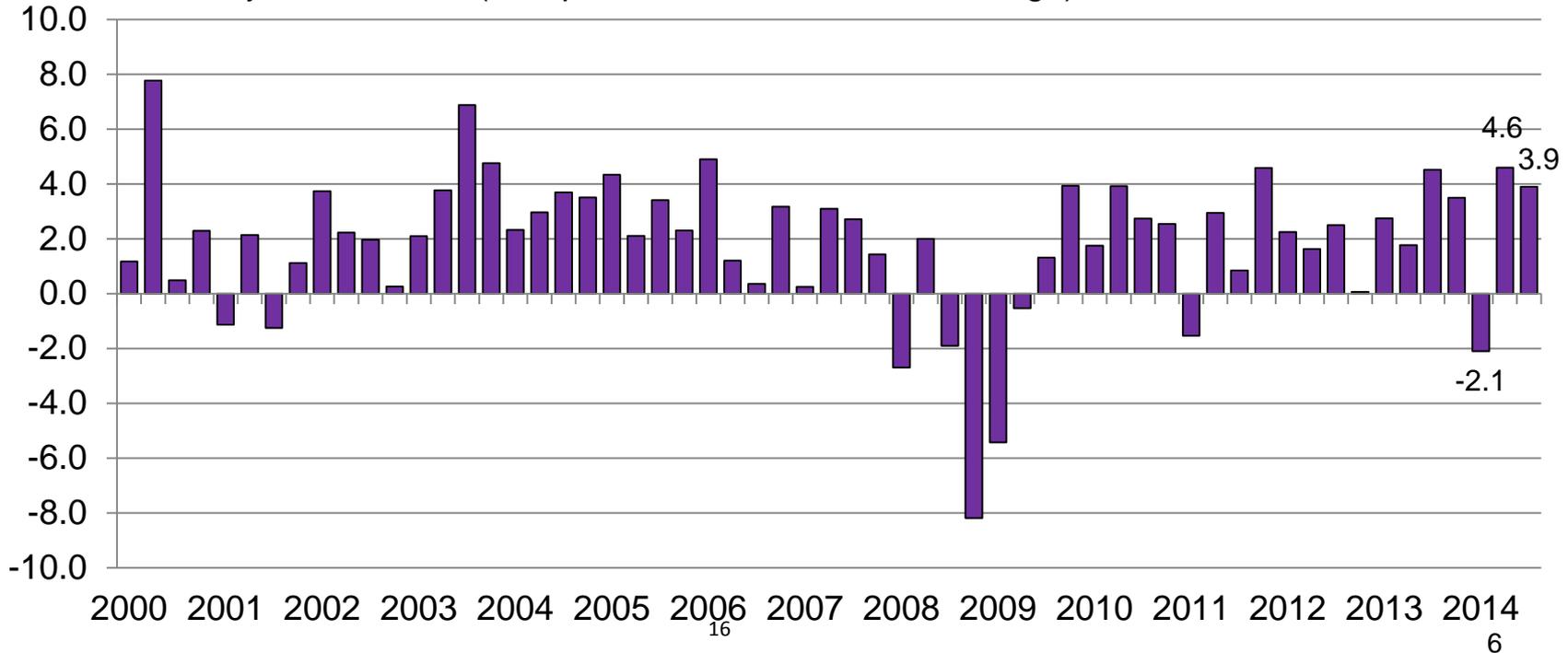
Source: National Bureau of Economic Research



Despite recent strength, the outlook is for somewhat lackluster growth



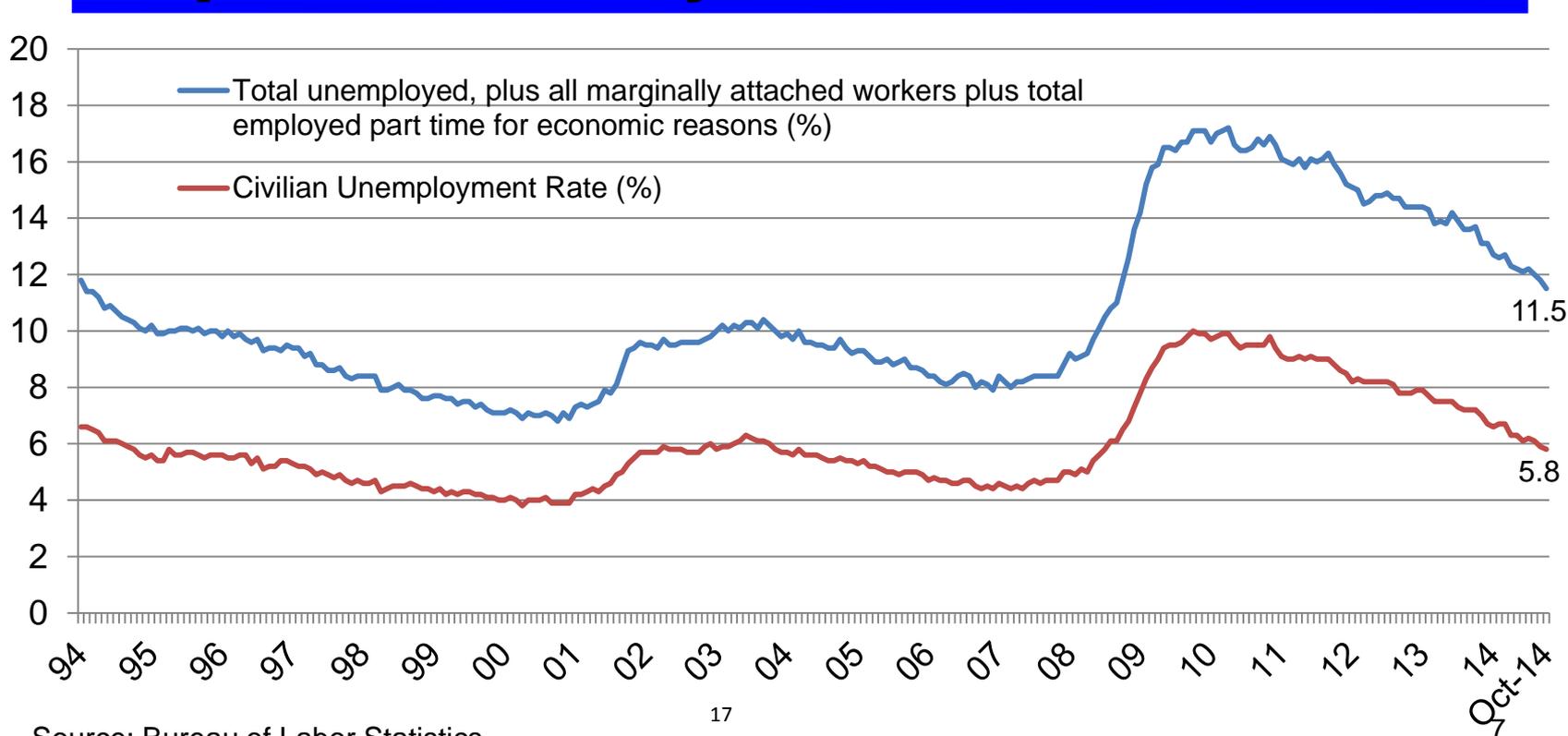
Quarterly GDP Growth (Compounded Annual Rate of Change)



Source: Bureau of Economic Analysis



Labor markets continue to improve slowly



Source: Bureau of Labor Statistics





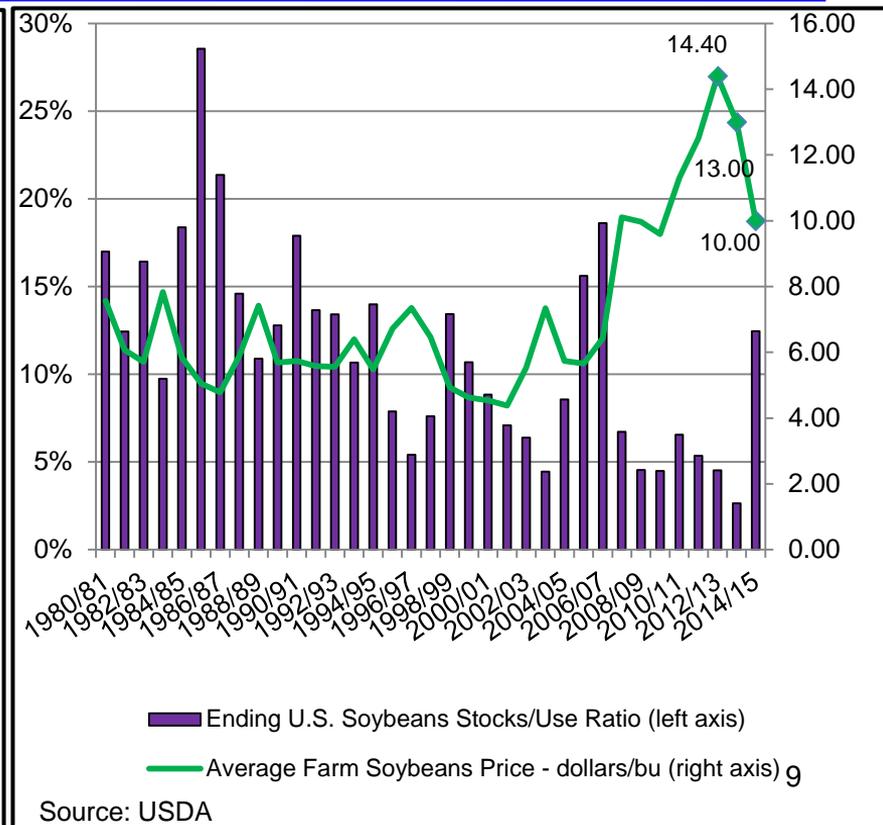
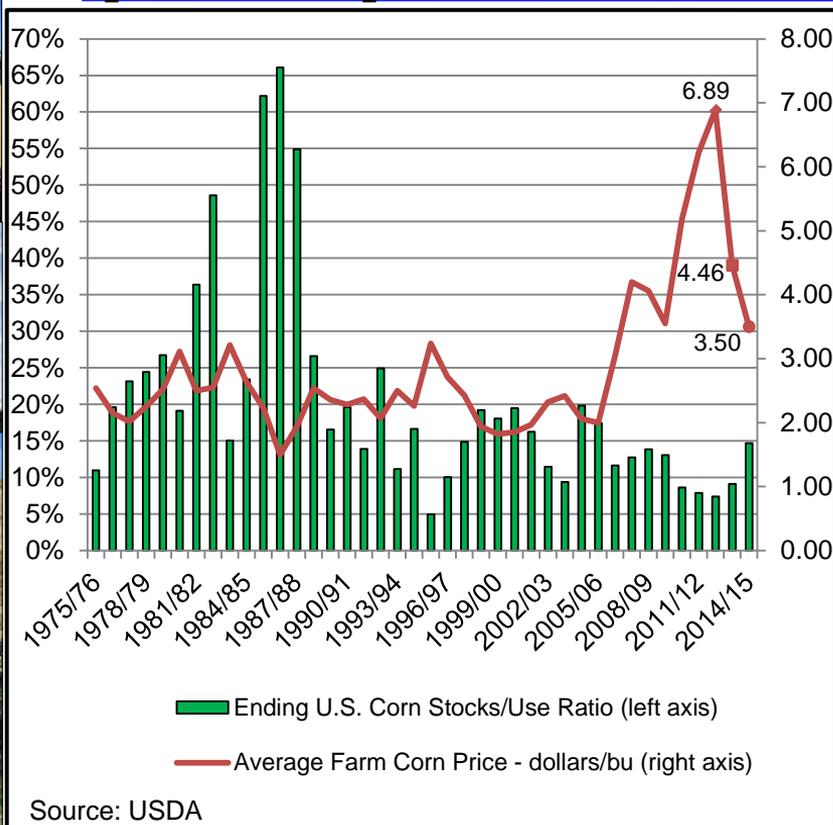
Farm sector developments and concerns



- Record corn & bean yields and production projected for 2014
- Average corn & soybean prices to fall sharply
- Crop margins are compressing
- Farmland markets are cooling
- Strong dollar hurting exports
- California drought ¹persists



Large corn and soybean crops push prices lower

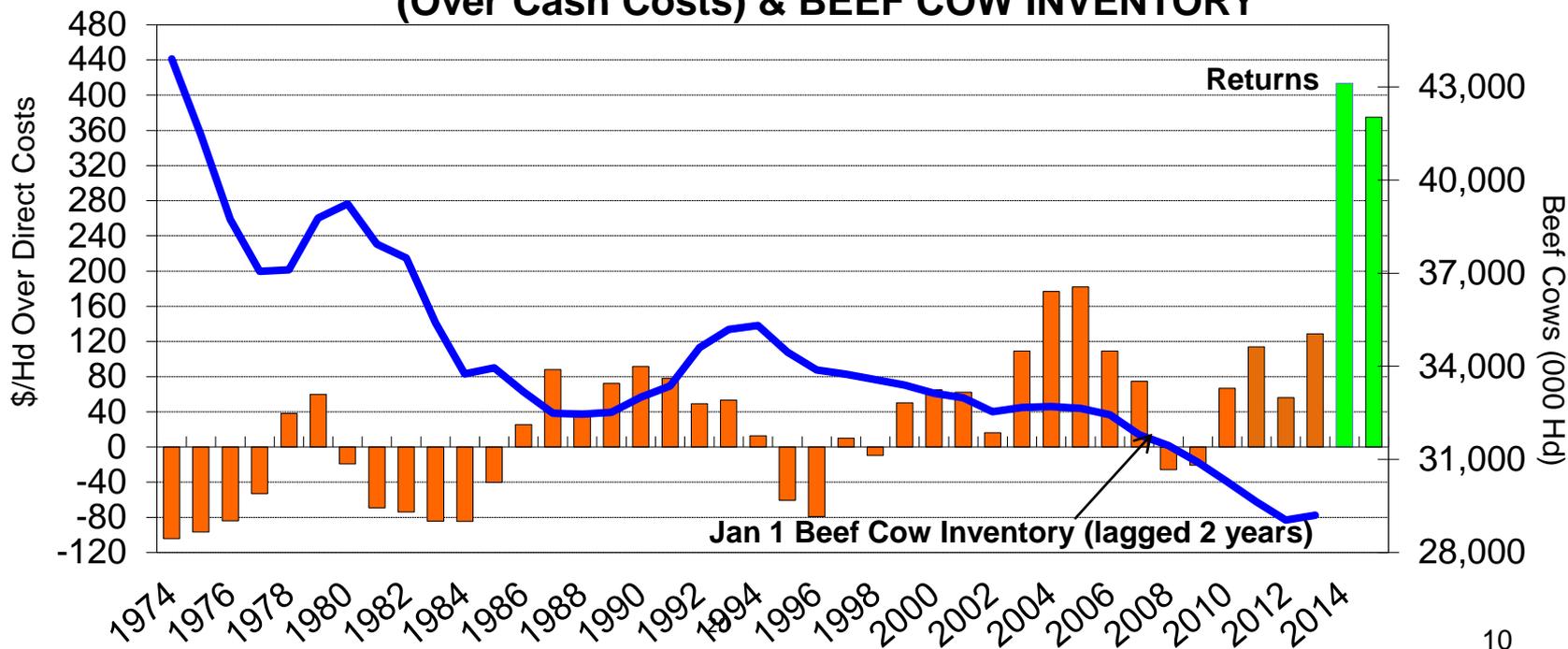




Cow-calf returns reaching unprecedented levels

12-Nov-14

ESTIMATED AVERAGE COW/CALF RETURNS (Over Cash Costs) & BEEF COW INVENTORY



Source: Informa Economics

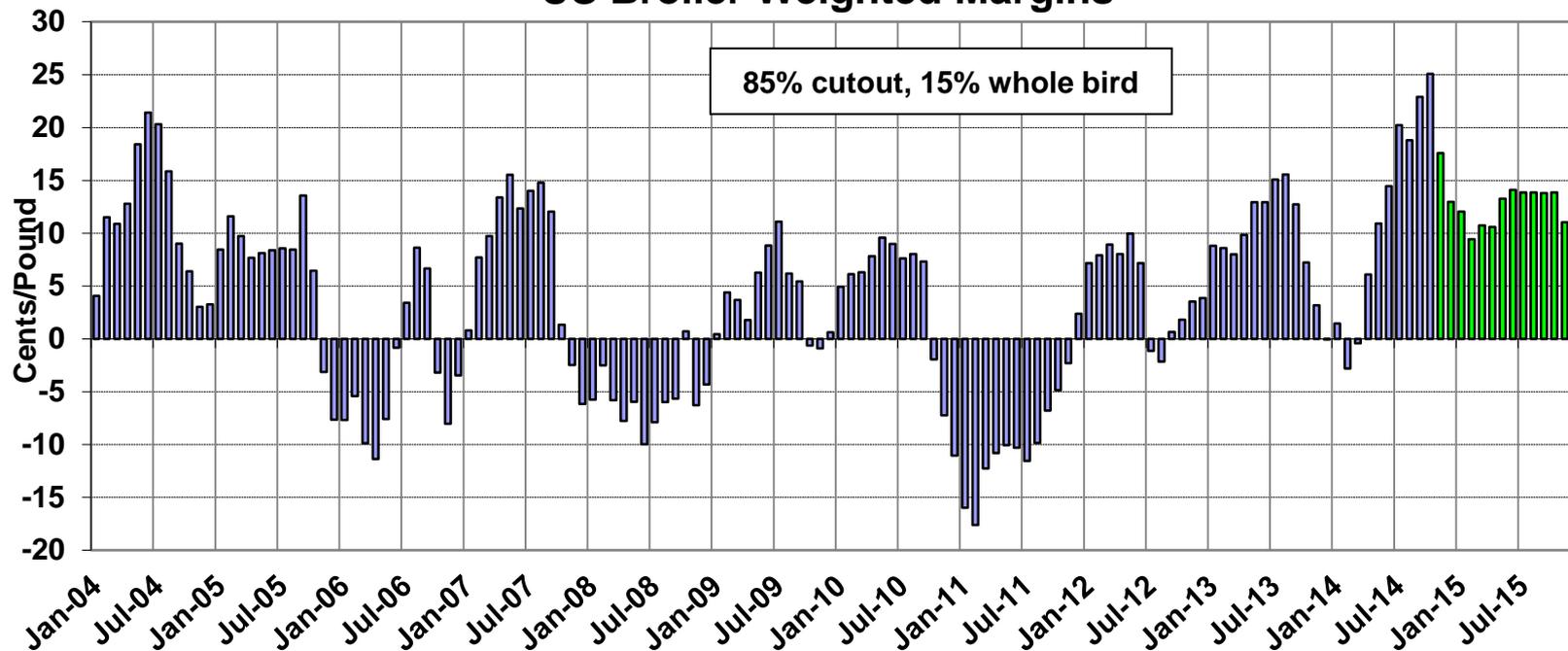


Broiler margins are expected to be strong through next year



12-Nov-14

US Broiler Weighted Margins



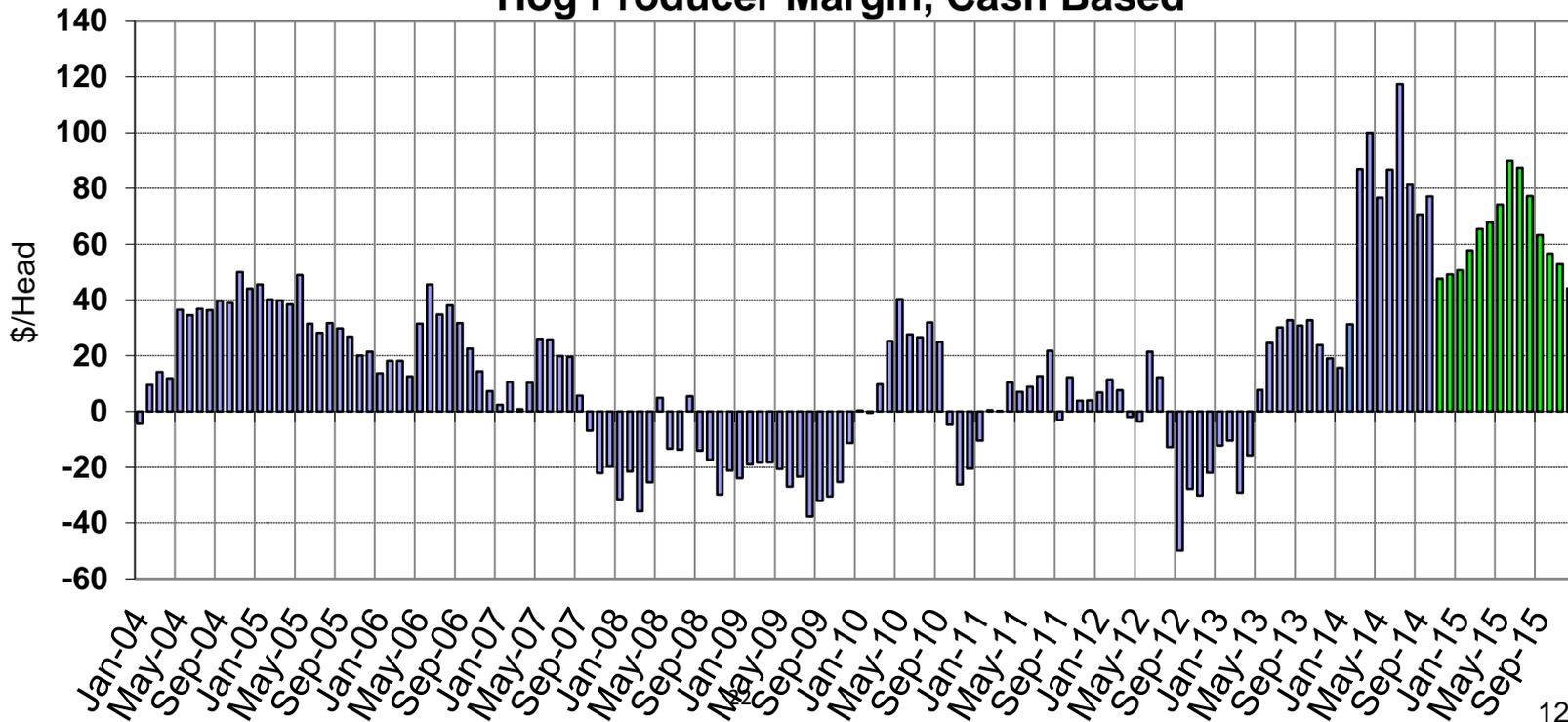


Multi-year stretch of hog producer profits is expected



12-Nov-14

Hog Producer Margin, Cash Based



Source: Informa Economics

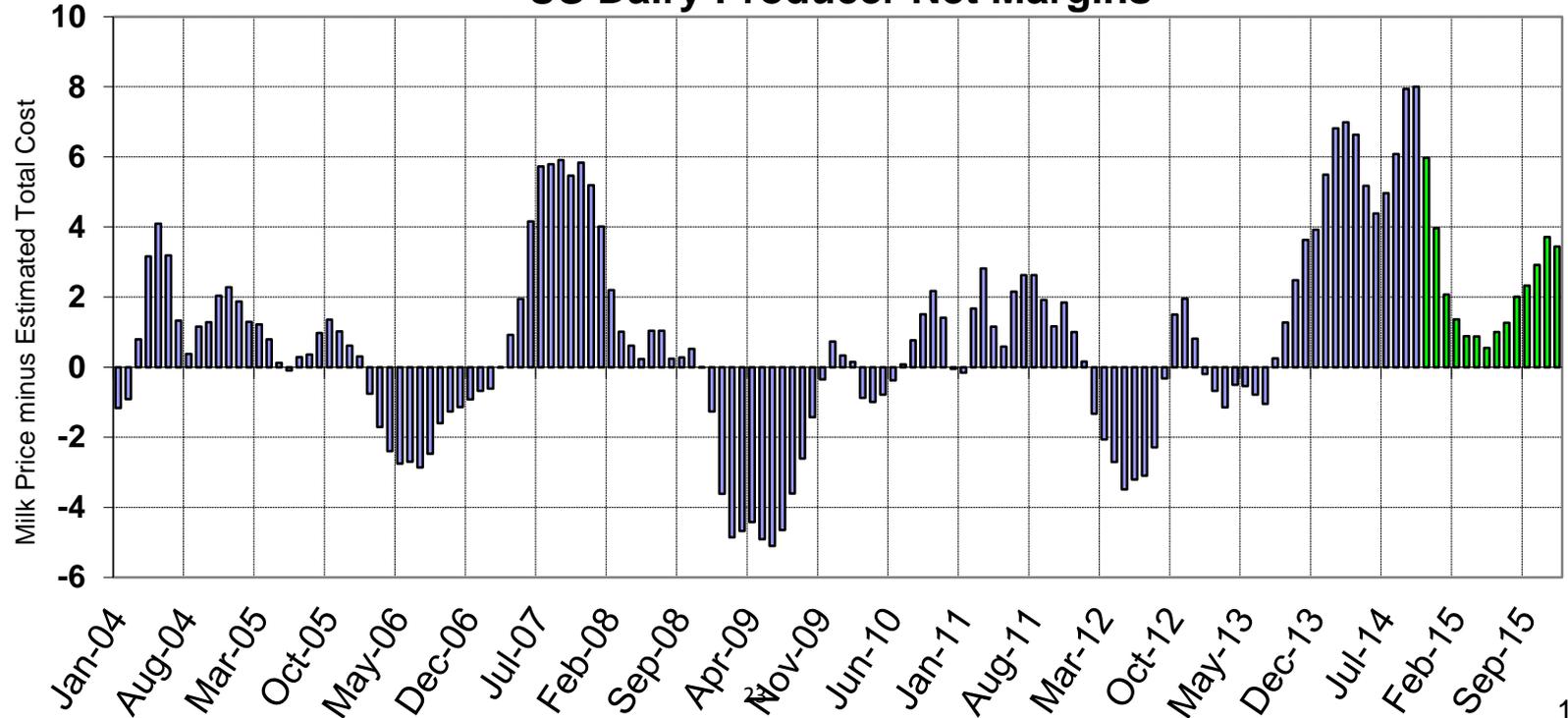


Dairy margins to stay positive while supplies add pressure this Spring



12-Nov-14

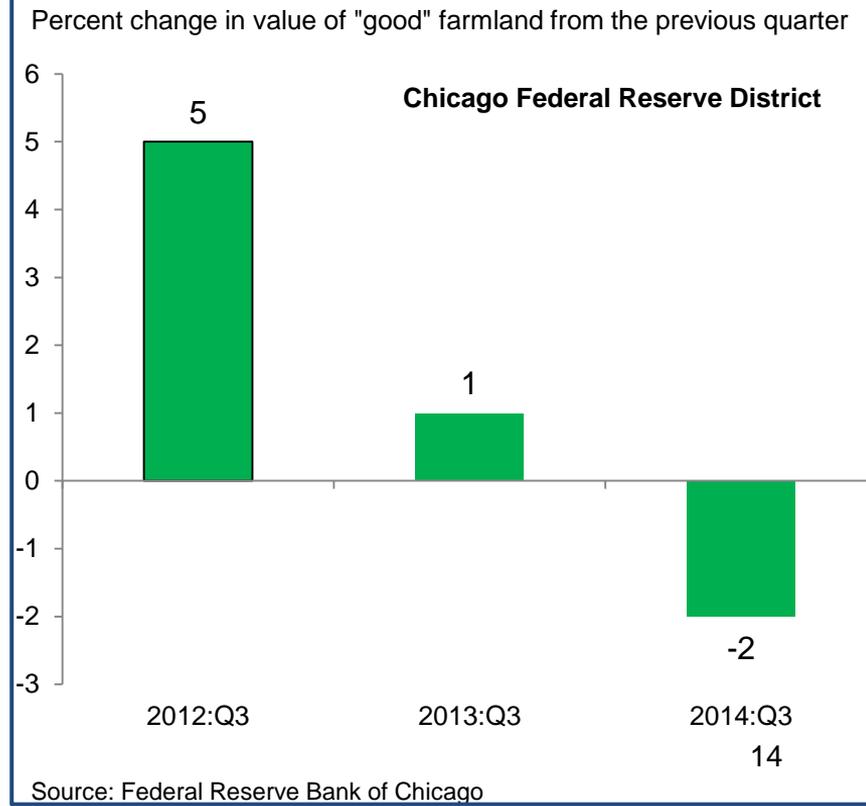
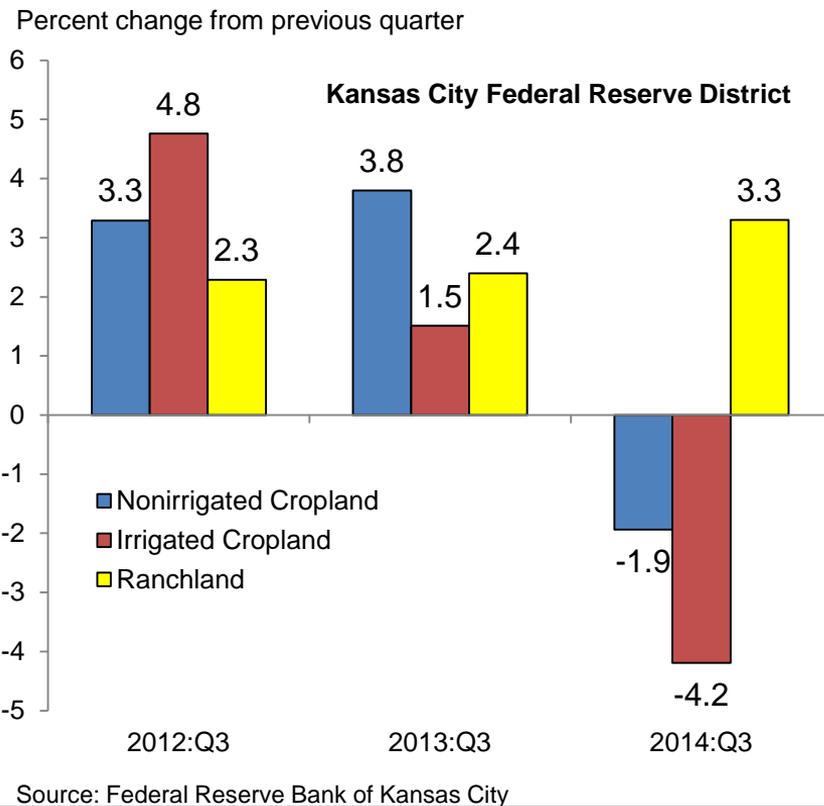
US Dairy Producer Net Margins



Source: Informa Economics



Midwest farmland values weaken in the 3rd quarter





Risks to watch

- Farmland values correction
- Cash flow squeeze for grain/soybean farmers
- California drought
- World oil markets
- Geopolitical developments





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
September 30, 2014

Hal Johnson
Office of Examination



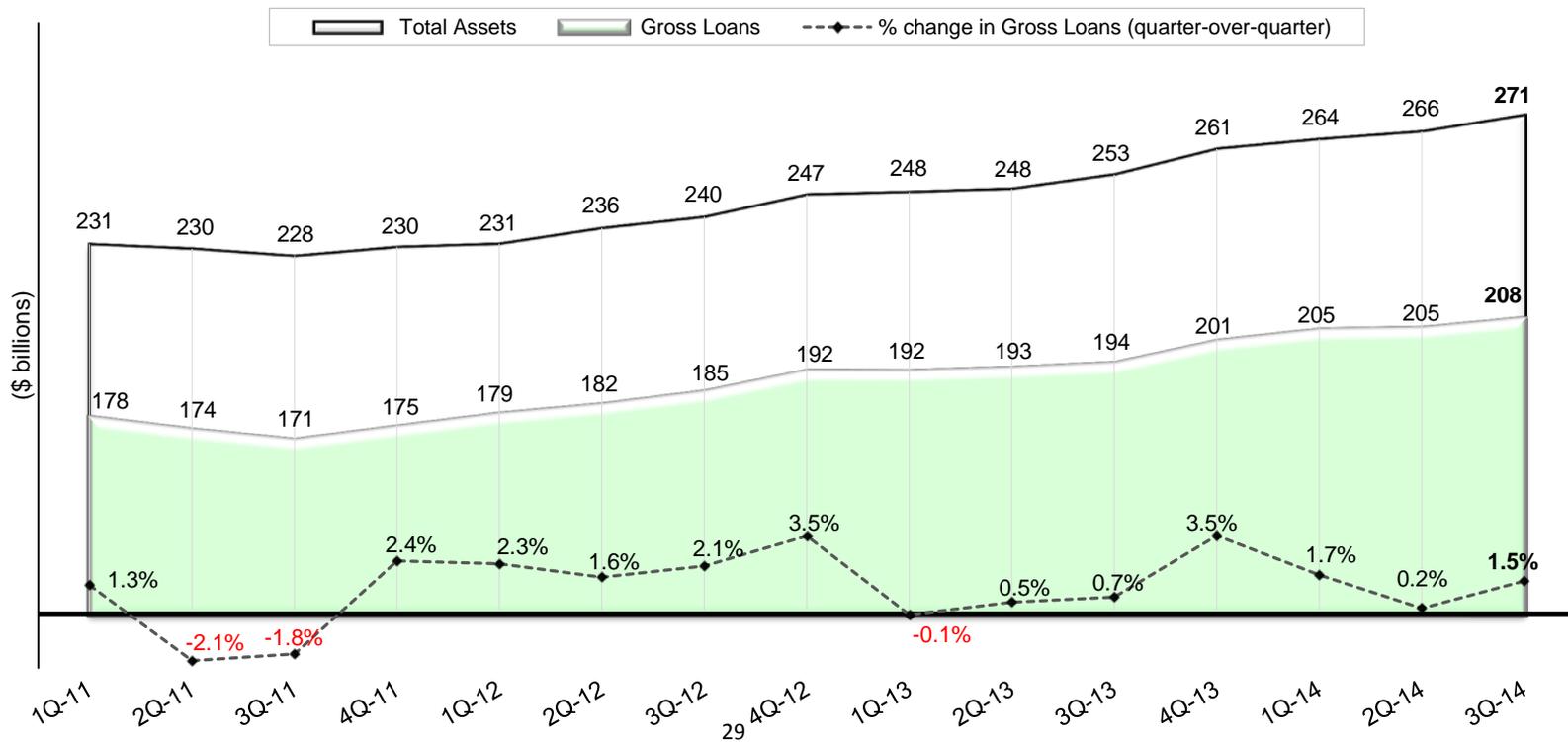
Topics

- System Growth
- Earnings / Capital
- Portfolio Credit Quality
- FIRS





System growth continues at a modest pace



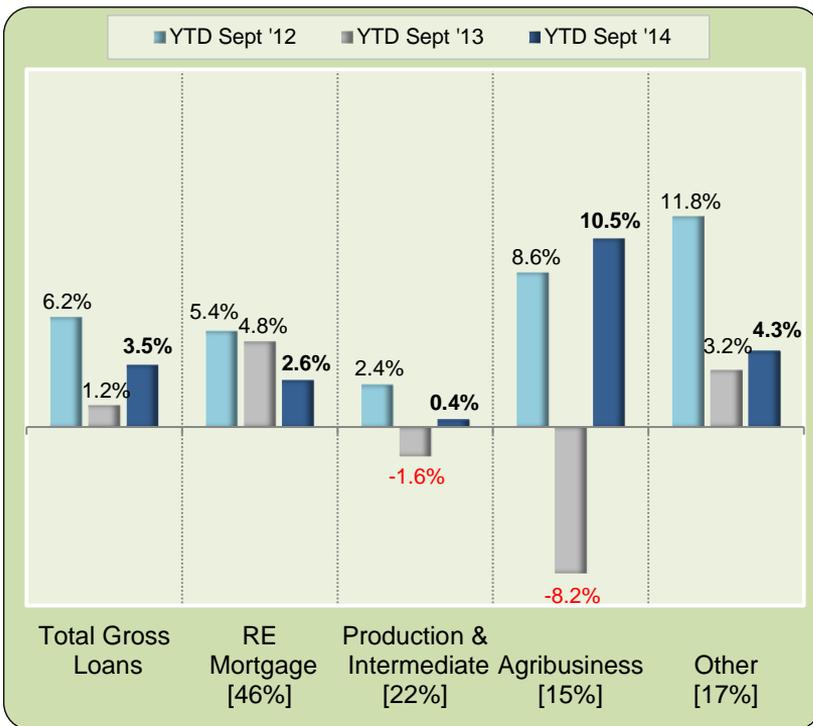
Source: FCS Quarterly Information Statements



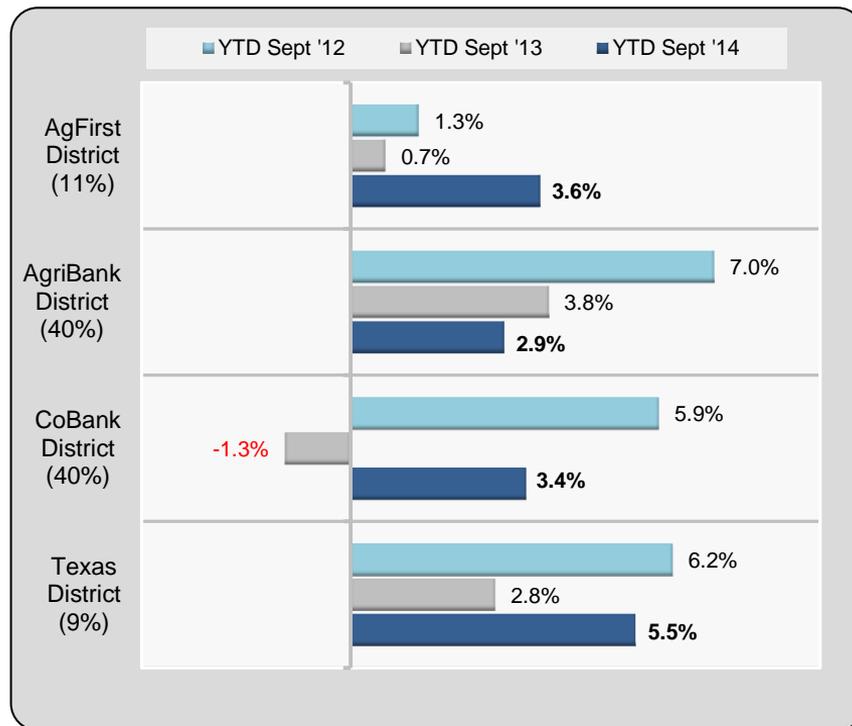
Loan growth largely due to real estate mortgage and agribusiness lending



Loan Growth by Loan Type (% change year-to-date)



Loan Growth by District (% change year-to-date)



Source: FCS Quarterly Information Statements



System reports solid results for the 3rd quarter



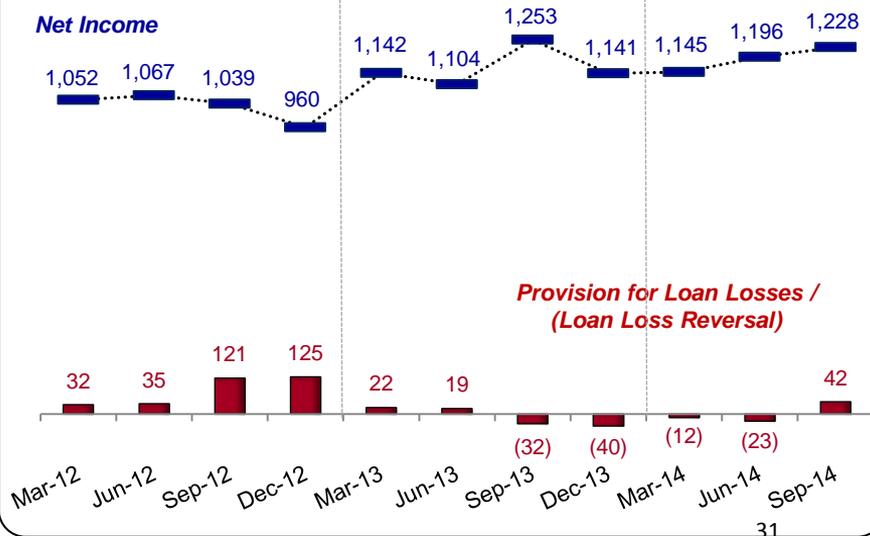
System Earnings (\$M)

YTD Sep '12
NI \$3,158M
Provisions: \$188M

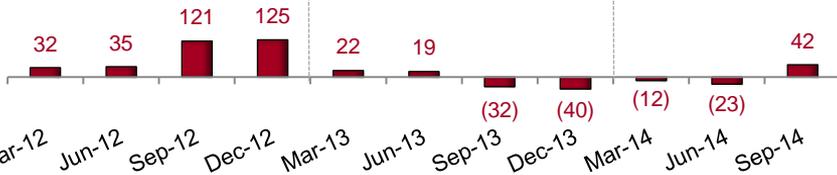
YTD Sep '13
NI: \$3,499M
Provisions: \$9M

YTD Sep '14
NI: \$3,569M
Provisions: \$7M

Net Income

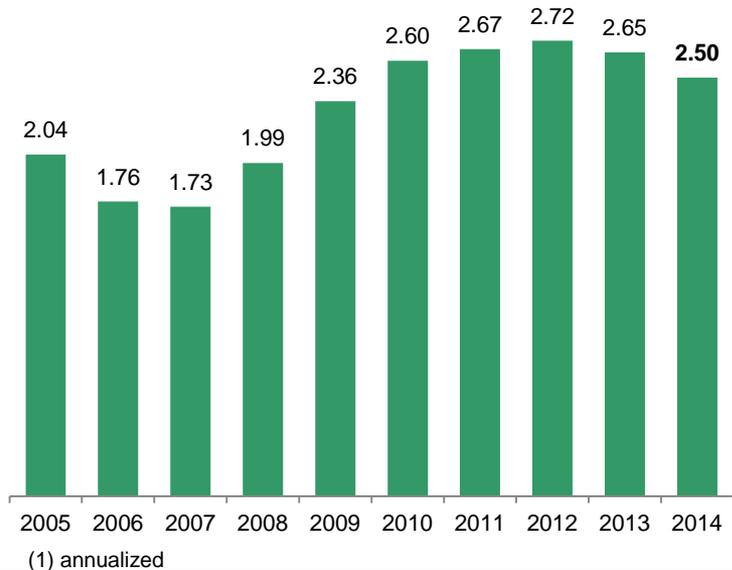


Provision for Loan Losses / (Loan Loss Reversal)



31

Net Interest Spread ⁽¹⁾ (for the 9 months ending September)



(1) annualized

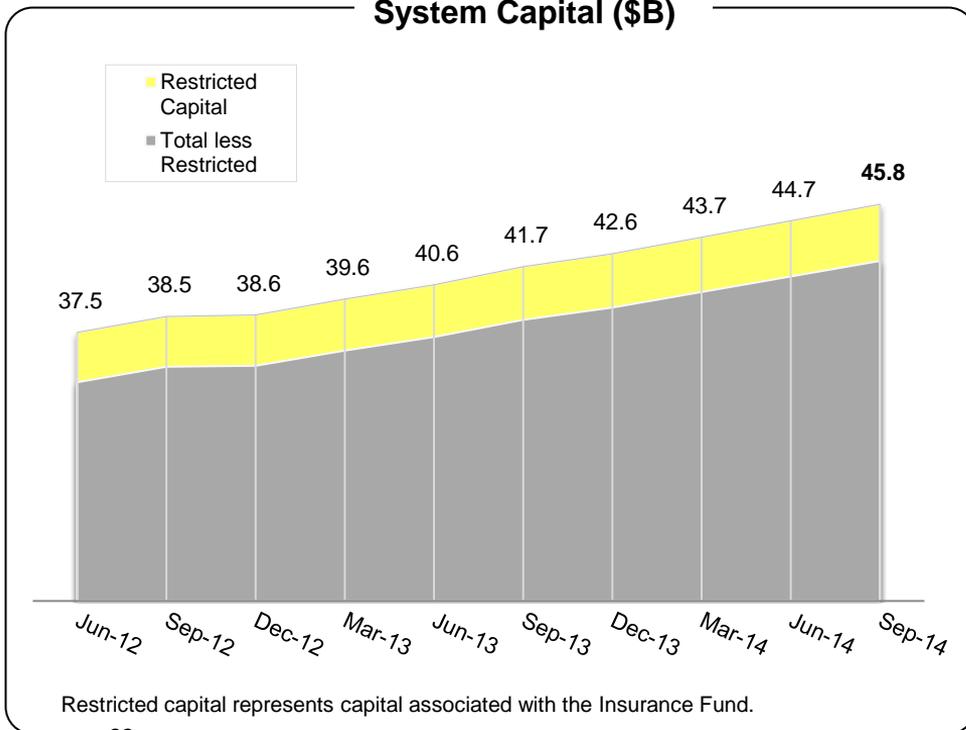


System is well-capitalized

Capital and Liquidity as of September 2014

- System capital as a percentage of total assets increased to 16.9%
- Surplus as a percentage of total capital equaled 82.0%
- System liquidity equaled 174 days of coverage. At a bank level, days of available liquidity ranged from 159 days to 238 days.

System Capital (\$B)



32



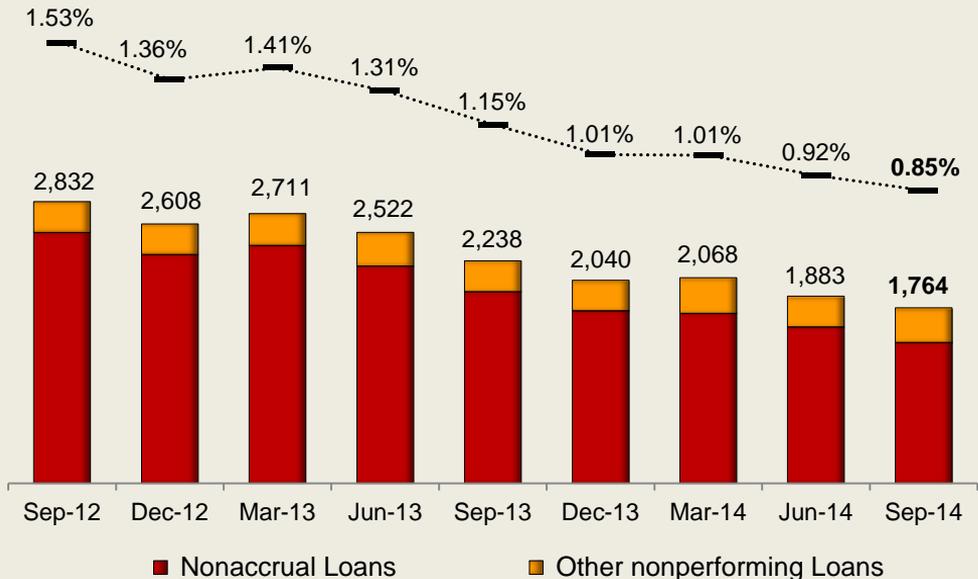
Credit measures continue to trend favorably; portfolio risk is low



Portfolio Credit Quality as of September 2014

- Nonperforming loans equaled 0.85% of System loans outstanding
- Over 96% of System loans were classified as Acceptable
- The System's allowance for loan losses equaled 67% of nonperforming loans
- Total capital and the allowance for loan losses represented 22.6% of System loans at quarter-end

% of Nonperforming Loans-to-Total Loans

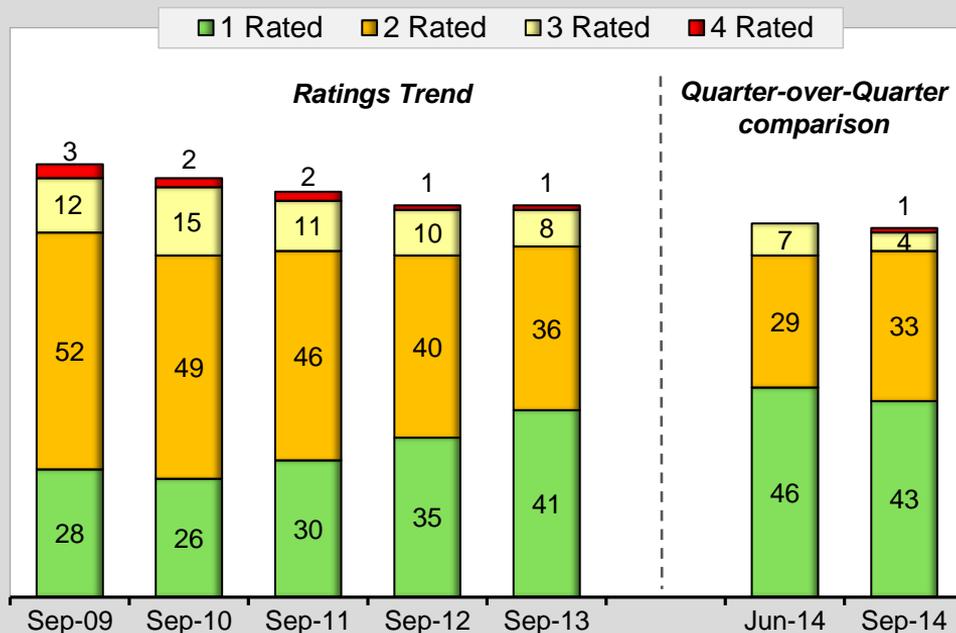




System FIRS ratings



Composite FIRS Ratings - System Banks & Associations



FIRS Ratings

With the most recent FIRS update,

- Composite ratings continue to be very good
- Over 93% 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



- Risk factors for agriculture:
 - Crop prices drop due to record production, compressing margins for producers
 - Midwest farmland values weakened in the 3rd quarter; lower crop prices will continue to put pressure on land prices
 - Drought persists 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



FCA Board Meeting

December 2014

Semi-Annual Report on Office of Examination Operations

December 11, 2014

Hal Johnson
Office of Examination

Exhibit F of FCA December 12, 2014 Board Meeting Minutes





Highlights of OE Operations

- Operating Plan Objectives
- OE Budget Performance
- Staffing Update
- Summary





2014 Operating Plan Objectives

➤ Risk Supervision & Examination Activities

- Onsite at 94% of associations, all banks, 7 other System entities, National Cooperative Bank, and Farmer Mac
- Issued 67 Reports of Examination and 54 Interim Activity Letters
- 3 institutions under Enforcement and 3 institutions under Special Supervision





2014 Operating Plan Objectives

- Risk Supervision & Examination Activities (cont.)
 - Issued Loan Underwriting Standards examination guidance (System communication is under development)
 - Issued Standards of Conduct examination guidance and System communications summarizing findings from Standards of Conduct examination activity
 - Examination guidance on Board Governance including the nominating committee process is under development





2014 Operating Plan Objectives

- Farm Credit System - Public Mission as GSE
 - Completed Business Planning Diversity and Inclusion examination activities
 - Issued System communication and developed Frequently Asked Questions on Diversity and Inclusion in business planning
 - Issued Business Planning examination guidance which incorporated expectations on Diversity and Inclusion in the planning process





2014 Operating Plan Objectives

➤ Human Capital

- Implemented new assessment questionnaire and online tests for Associate Examiner applicants
- Completed OE human capital analysis and examiner job survey analysis

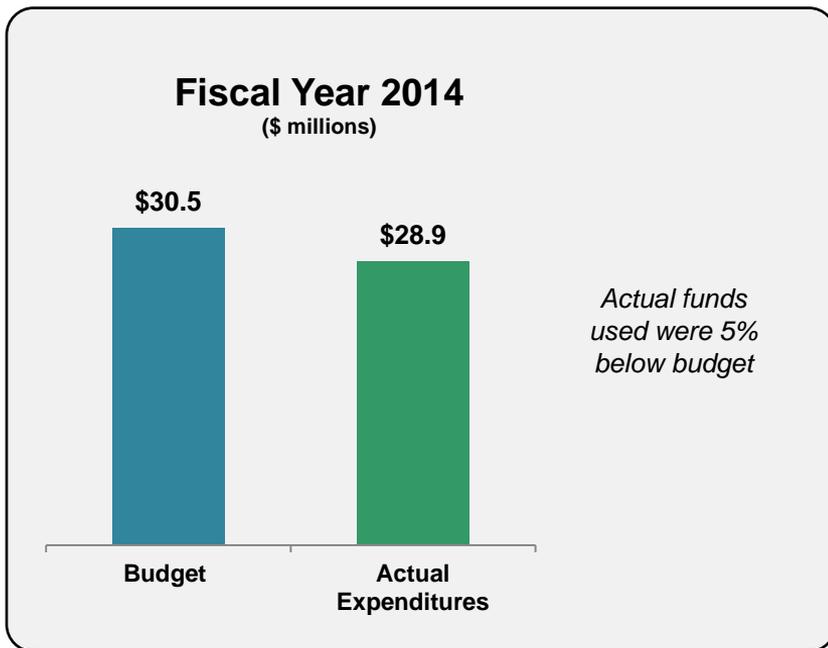
➤ Operational Efficiency & Effectiveness

- Ongoing enhancements to Loan Database, EDGe, and Examination Manual content. Continue to leverage technology





OE Budget Performance (Fiscal 2014)



Travel

- ◆ FY 2014 Travel Budget Used 90%
- ◆ FY 2014 Travel Days Used 92%

FTEs

- ◆ Budgeted Full Year FTE's 176.5
- ◆ Actual Full Year FTE's 166.9
- (Over)/Under Budget 9.6



Staffing remains a challenge



Total Staff	Planned	Actual	Variance
Beginning FY 2014	173	168	(5)
Attrition	(12)	(15)	(3)
Hirings	<u>19</u>	<u>11</u>	<u>(8)</u>
Ending FY 2014	180	164	(16)
Commissioned Examiners			
Beginning FY 2014	100	97	(3)
Attrition	(6)	(8)	(2)
Hirings	2	0	(2)
Newly Commissioned	<u>9</u>	<u>8</u>	<u>(1)</u>
Ending FY 2014	44 105	97	(8)



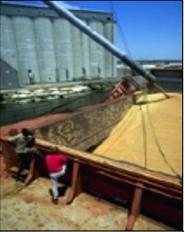
Summary

- On-site presence at institutions maintained
- A small number of institutions remain under a higher level of supervision
- Achieved OE Operating Plan objectives
- Actual spending was below budget
- Recruiting challenges and attrition resulted in staffing below planned levels





Discussion



THANK YOU

