

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
June 12, 2014**

These minutes reflect the business transacted at the June 12, 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 11:09 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 six 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 May 8, 2014
(BM-12-JUN-14-01)**

Mr. Spearman moved to approve the minutes for May 8, 2014, FCA Regular Board Meeting.

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-12-JUN-14-01)**

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

New Business

Investment Eligibility – Proposed Rule
(BM-12-JUN-14-02)

Tim Nerdahl of the Office of Regulatory Policy and **Jennifer Cohn** and **Richard Katz** of the Office of General Counsel presented the Investment Eligibility – 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 Investment Eligibility – Proposed Rule.

Mr. Strom moved that the Board approve staff's recommendation to approve the Investment Eligibility – 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-12-JUN-14-02)**

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

REPORTS

Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance: 2013 Results

Steve Koenig and **Chris Wilson** of the Office of Regulatory Policy presented the Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance: 2013 Results.

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.)

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.

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.)

Semi-Annual Report on Office of Examination Operations

Hal Johnson of the Office of Examination presented the Semi-Annual Report on Office of Examination 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 G.)

Before convening the closed session, **Board Chair Long Thompson** announced a 10 minute break, without objection.

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.

Board Chair Long Thompson convened the closed session of the meeting at 10:42 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 H.)

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).

Office of Examination Quarterly Report

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 11:09 a.m.

NOTATIONAL VOTE ACTIONS

There were three notational vote actions approved by the FCA Board from May 9, 2014, through June 11, 2014 as follows:

Item Number	Action Date	Voting Results	Subject
NV 14-12	06/09/2014	Approved	Final Rule to Remove Non-Binding, Advisory Vote Provisions
NV 14-11	05/20/2014	Approved	Standards of Conduct Proposed Rule - Extend or Reopen Comment Period
NV 14-10	05/19/2014	Approved	Review of Significant Regulatory Actions Pursuant to Executive Order 12866

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on June 12, 2014.

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

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

Approved: **July 10, 2014**

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
June 12, 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
Corey, Kathryn	X	
Smulkstys, Inga	X	X
Calhoun, Gaye	X	
Middleton, Russell	X	X
Buccolo, Deb	X	
Johansen, Mark	X	X
COO		
Hoffman, William	X	X
OCPA		
Stokke, Mike	X	X
Yaghmour, Emily		
OSMO		
Rea, Laurie	X	X
OGC		
Rawls, Charles	X	X
Strickland, Joy	X	X
Cohn, Jennifer	X	
Katz, Richard	X	
Donner, Mary Alice	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	
Mardock, Barry	X	X
Gabriel, Steve	X	X
Koenig, Steve	X	
Nerdahl, Tim	X	
Wilson, Chris	X	
Leist, Ryan	X	
OMS		
Smith, Stephen	X	X
FCSIC		
Pfitzinger, Rick	X	X
Rubin, Howard	X	X
GENERAL PUBLIC	6	

**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
June 12, 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 June 12, 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**
 May 8, 2014
- 2 **New Business**
 Investment Eligibility – Proposed Rule
- 3 **Reports**
 Annual Report on the Farm Credit System’s Young, Beginning, and Small Farmer Mission Performance: 2013 Results
- 4 Quarterly Report on Economic Conditions and FCS Conditions
- 5 Semi-Annual Report on Office of Examination Operations

CLOSED SESSION

- 6 Office of Examination Supervisory and Oversight Activities Report¹

June 2, 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 May 8, 2014 Board Meeting

BM-12-JUN-14-01

Effective Date: June 12, 2014

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for May 8, 2014, Regular Board Meeting as submitted.

DATED THIS 12th DAY OF JUNE MAY 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
Investment Eligibility – Proposed Rule
BM-12-JUN-14-02**

Effective Date: June 12, 2014

THE FCA BOARD:

- Hereby approves the proposed rule that would amend FCA regulations at part 615 pertaining to eligible investments for Farm Credit banks and associations and make conforming changes to other regulations in parts 611 and 615; and
- Also authorizes staff to make any technical or grammatical changes that may be necessary prior to publication in the *Federal Register*.

DATED THIS 12th DAY OF JUNE 2014

BY ORDER OF THE BOARD

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



FCA's Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance: 2013 Results

**Office of Regulatory Policy
FCA Board Meeting
June 12, 2014**

**Steve Koenig, Senior Economist
Chris Wilson, Policy Analyst**

Exhibit E



Outline

- **System's YBS Mission**
- **2013 Numbers and Trends**
- **District and Association Activity**
- **YBS Survey**





The YBS Mission

- **Farm Credit Act - 1980 Amendments**
 - FCS institutions to have a program for furnishing sound, constructive credit, and related services to YBS farmers and ranchers
 - FCS banks to submit an annual report on YBS activities to FCA
 - FCA to submit an annual YBS report to Congress
- **Regulation – 614.4165 (2004)**
 - Sets minimum YBS program components and reporting and disclosure requirements for direct-lender associations
- **Revised Bookletter-040 (2007)**
 - Provides flexibility on lending opportunities for YBS farmers and ranchers
- **Bookletter-066 (2012)**
 - Provides guidance for meeting the credit and related services needs of farmers who market their agricultural products through local or regional food systems



YBS Definitions

Definitions for FCA Reporting:

- **Young Farmer:** age 35 or younger
- **Beginning Farmer:** 10 years or less farming experience
- **Small Farmer:** gross annual farm sales of \$250,000 or less

Important Data Clarifications:

- Data are reported separately for each category
- Borrowers may qualify under more than one category; one should not add Y, B, and S data together
- Dollar volumes include advances and commitments
- Counts are for loans, not borrowers



2013 YBS Results

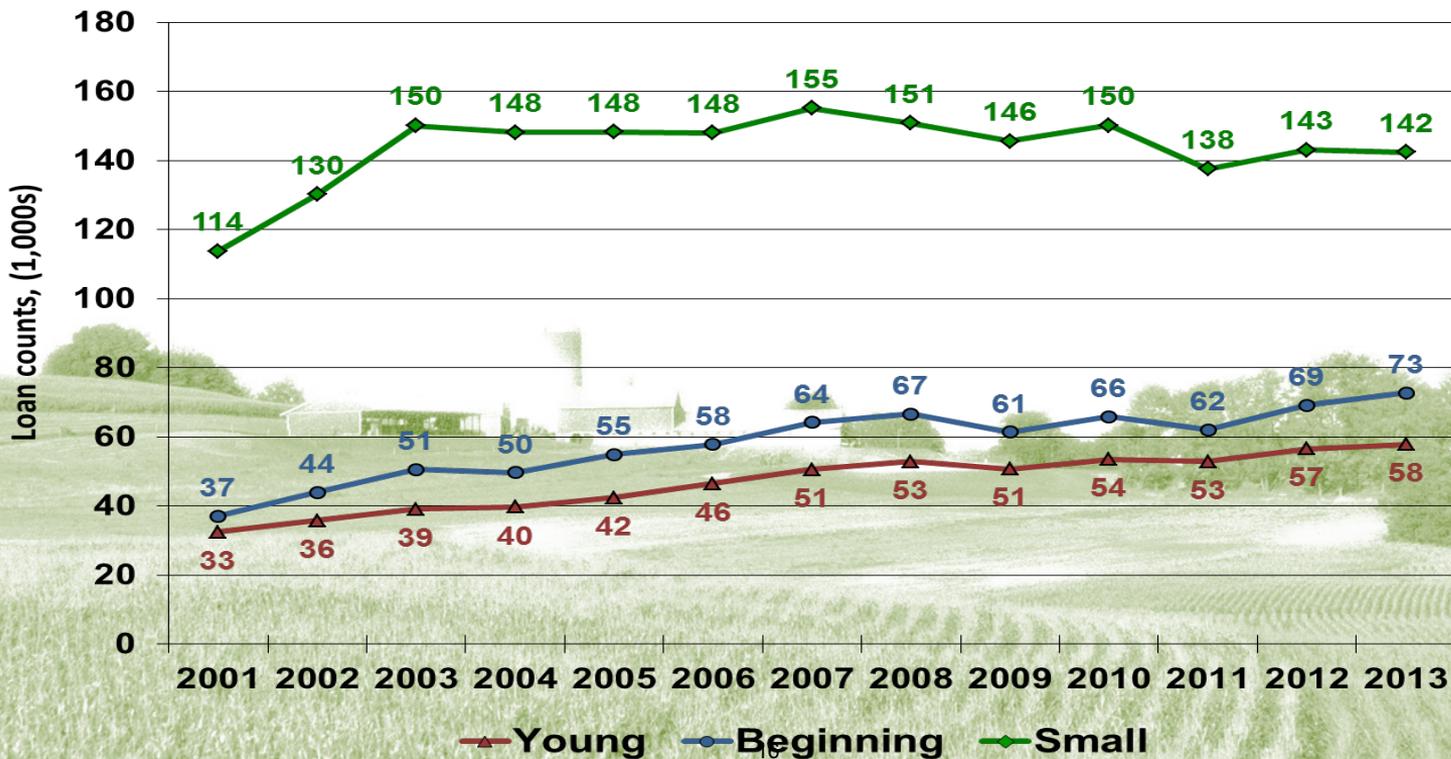
YBS Loans Outstanding As of December 31, 2013	Number of loans	Percentage of total number	Dollar volume of loans in millions*	Percentage of total volume
Young farmers/ranchers	175,583	17.8	\$23,788	11.2
Beginning farmers/ranchers	253,272	25.7	\$36,968	17.3
Small farmers/ranchers	484,745	49.3	\$44,894	21.1

YBS Loans Made During 2013 As of December 31, 2013	Number of loans	Percentage of total number	Dollar volume of loans in millions*	Percentage of total volume
Young farmers/ranchers	57,854	16.3	\$8,294	11.0
Beginning farmers/ranchers	72,662	20.5	\$10,989	14.6
Small farmers/ranchers	142,357	40.1	\$11,433	15.2

* Totals include loans, advancements, and commitments made to farmers, ranchers, and aquatic producers by the associations, and excludes rural home and Title III loans, and the Leasing Corporation activity.
 Note: Because the three (young, beginning, and small) categories are not mutually exclusive, one should not add across the categories to count total YBS lending activity.
 Sources: Annual Young, Beginning, and Small Farmer Reports submitted by each System lender through the District Banks.



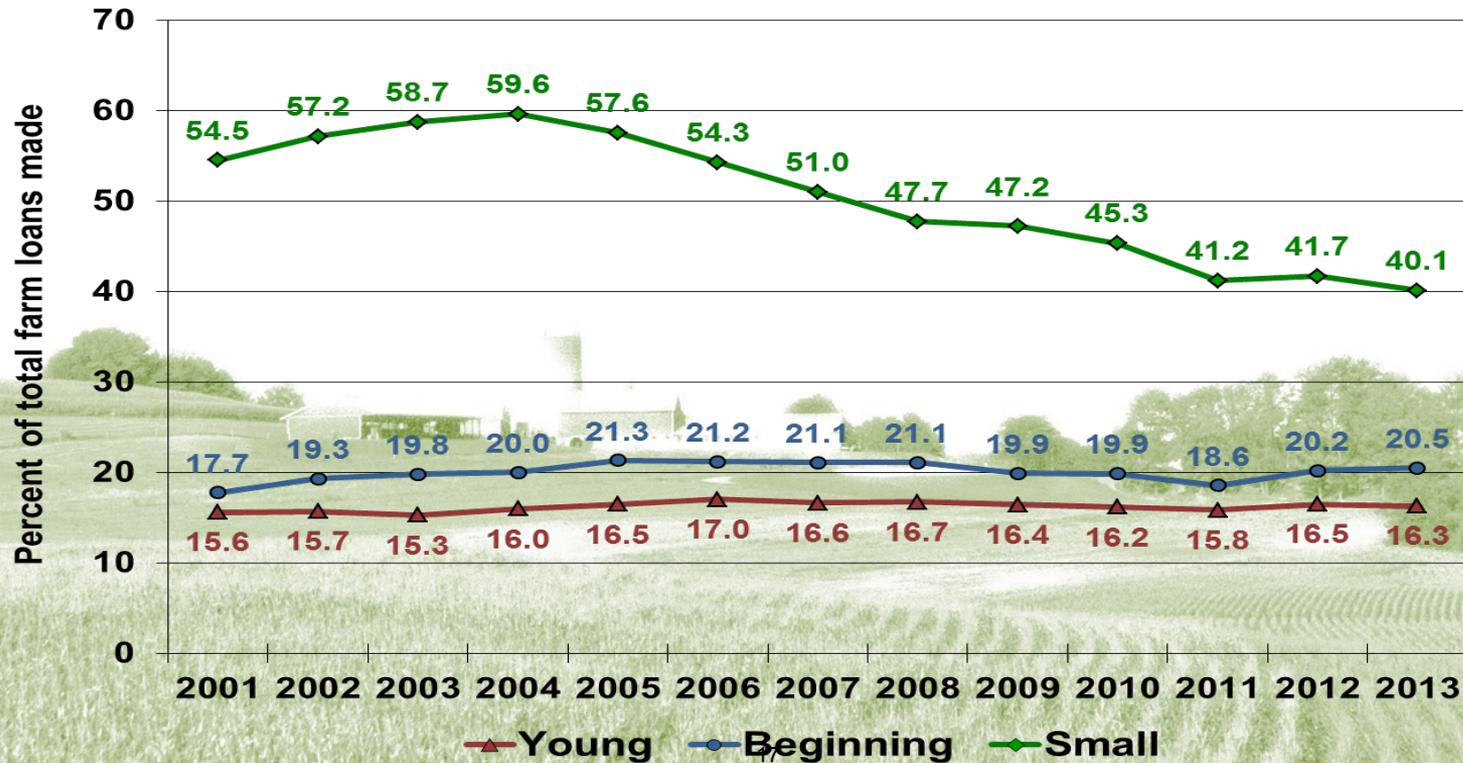
YBS New Loan Count Trends



Sources: Annual Young, Beginning, and Small Farmer Reports submitted by each System Lender through the District Banks.



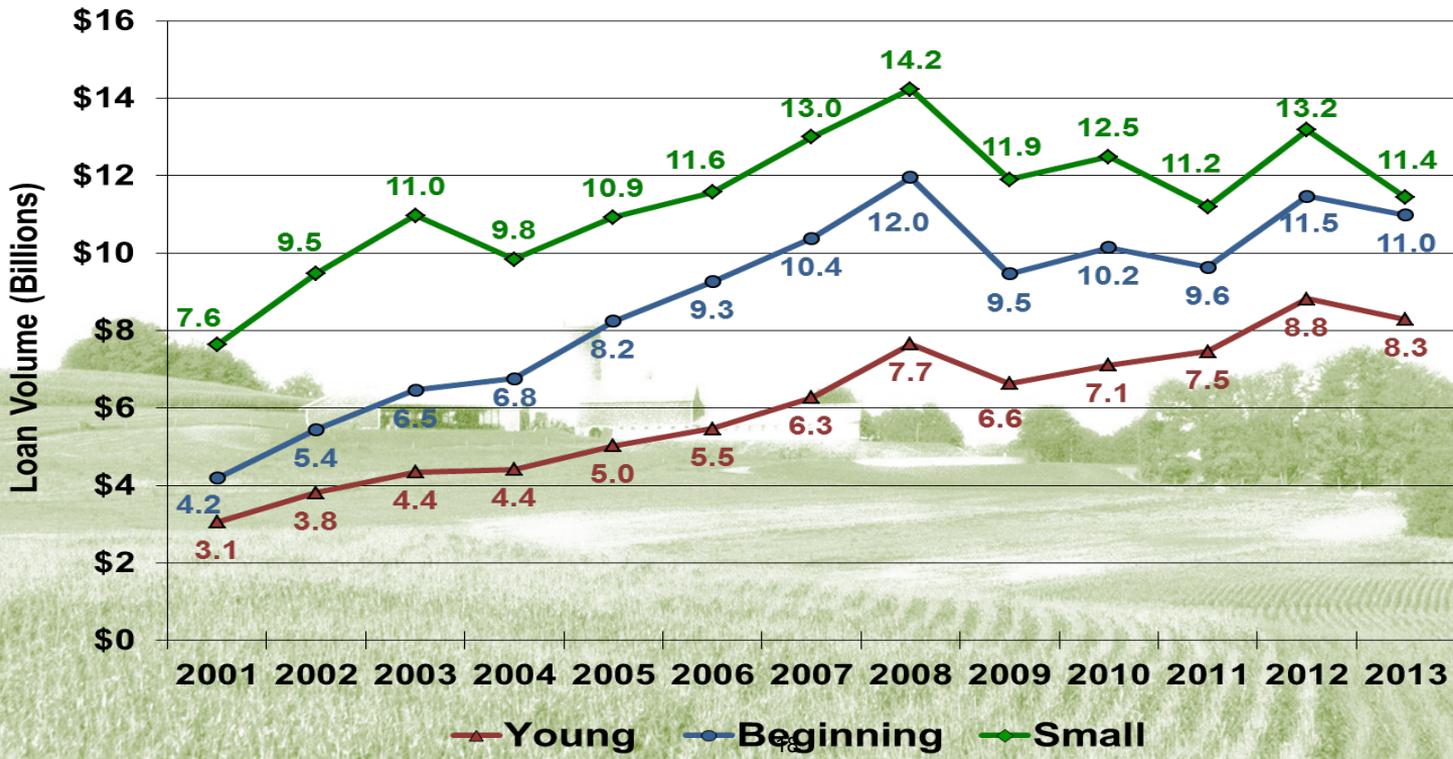
YBS Share of Total New Loan Counts



Sources: Annual Young, Beginning, and Small Farmer Reports submitted by each System Lender through the District Banks.



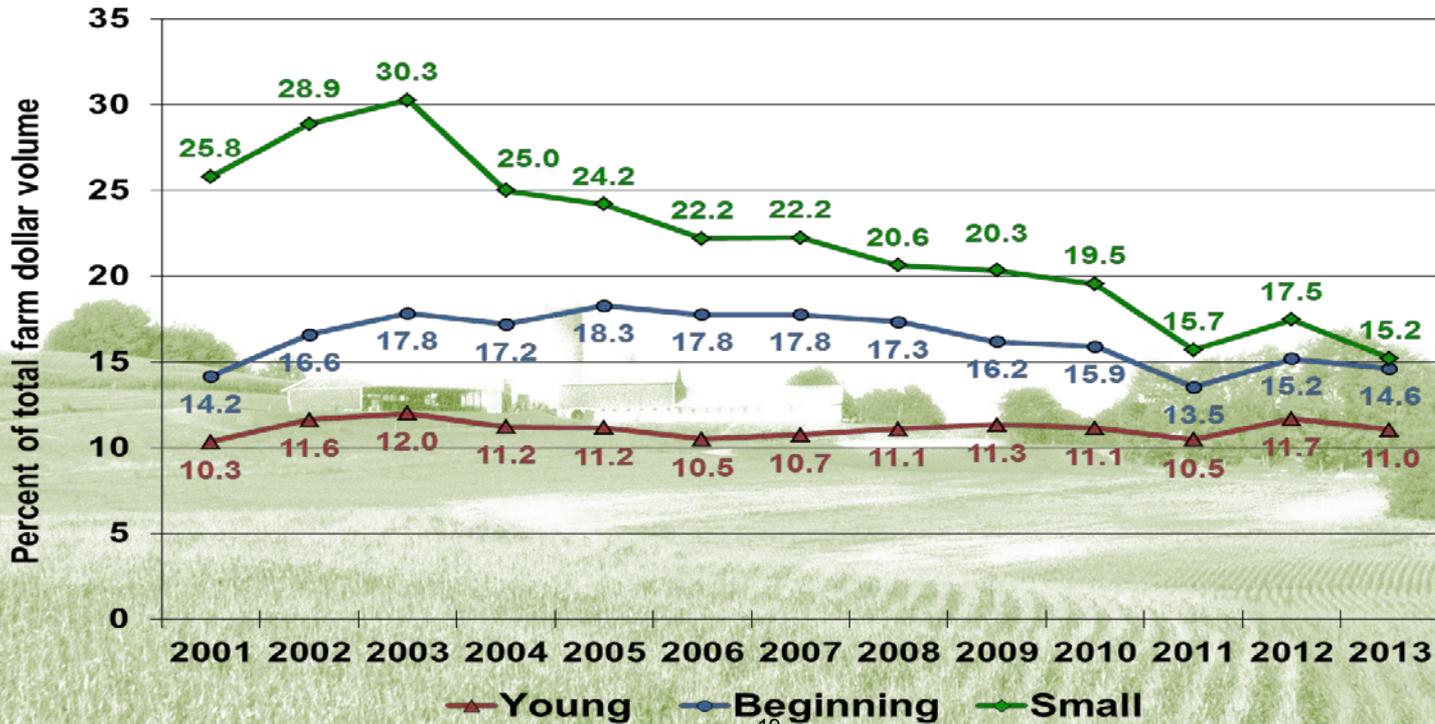
YBS New Loan Volume Trends



Sources: Annual Young, Beginning, and Small Farmer Reports submitted by each System lender through the District Banks.

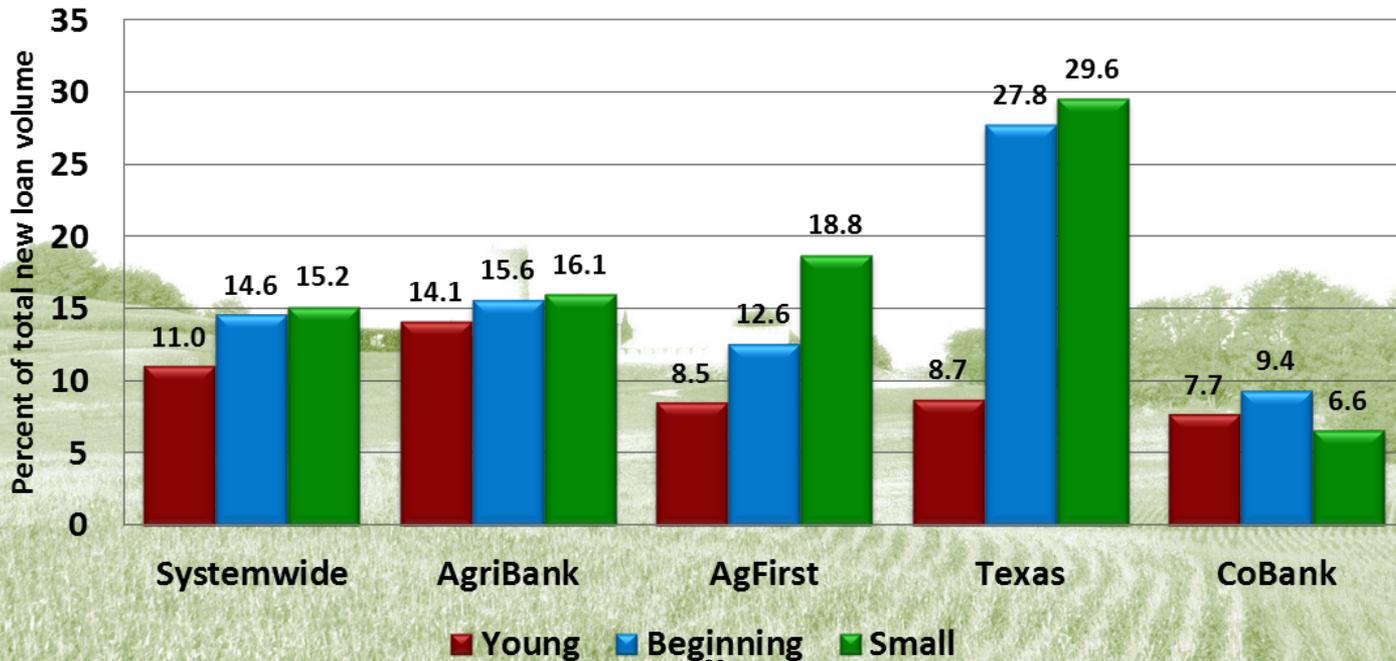


YBS Share of Total New Loan Volume





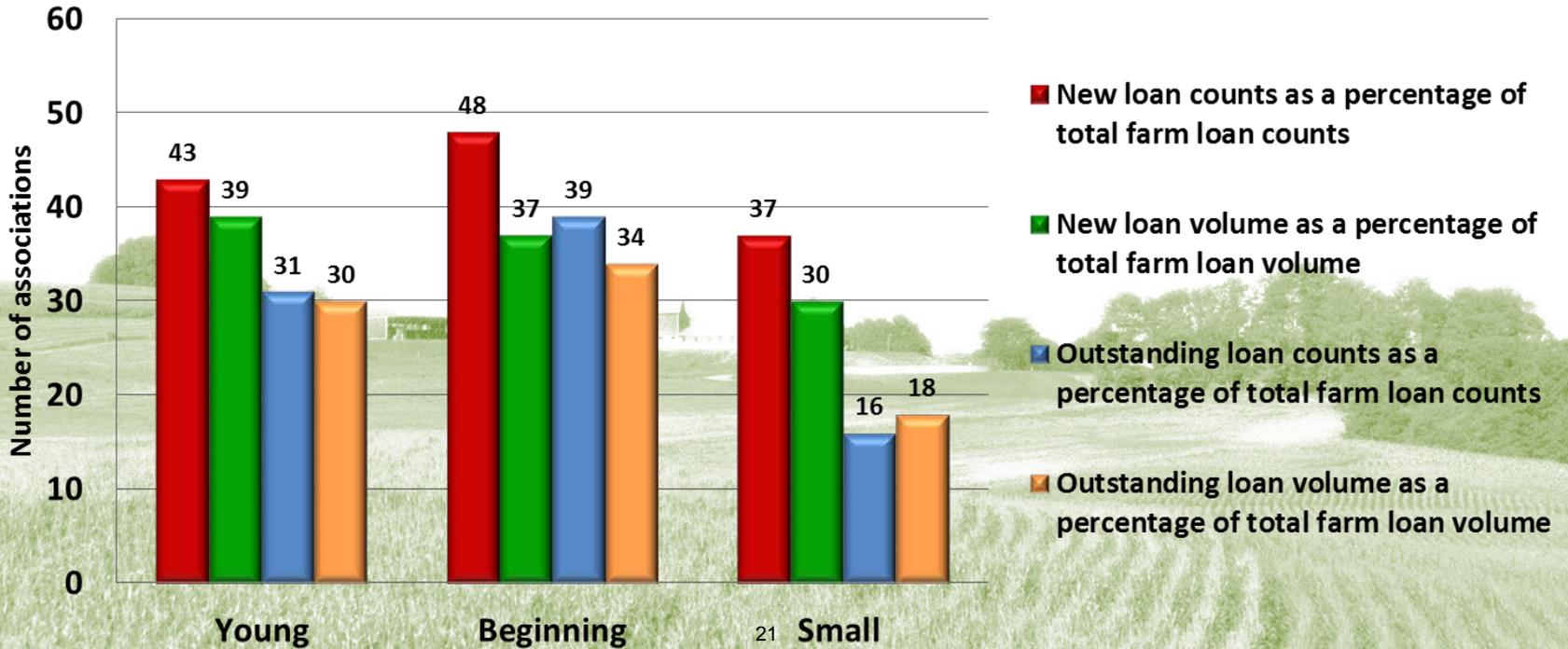
District Lending to YBS Borrowers in 2013





Association YBS Lending Growth

Associations with YBS measures that rose in 2013 relative to 2012

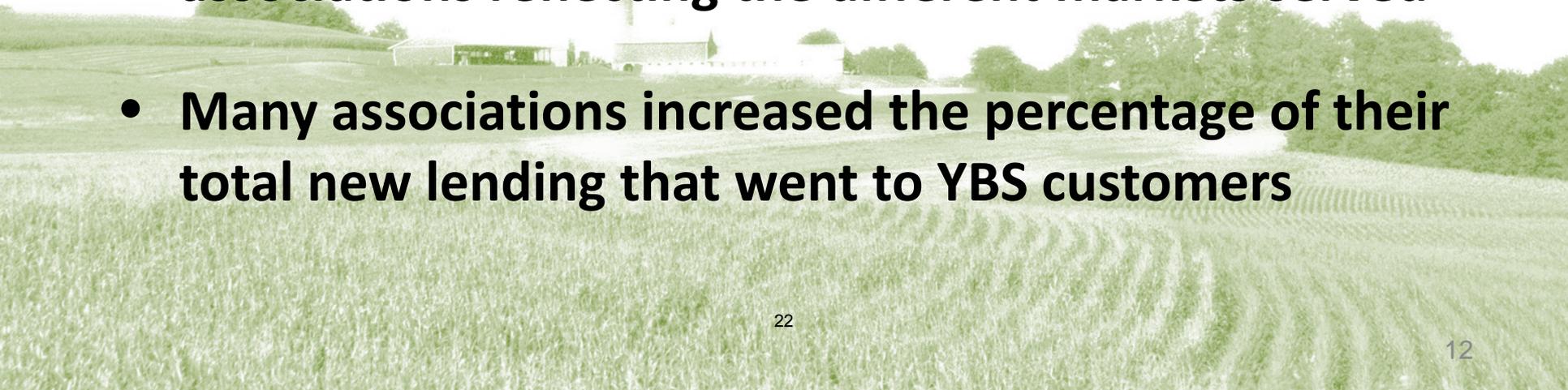


Source: Annual Young, Beginning, and Small Farmer Reports submitted by each System lender through the District Banks.



Conclusions – The Numbers

- **Recent YBS trends continued in 2013**
- **YBS performance measures vary by district and associations reflecting the different markets served**
- **Many associations increased the percentage of their total new lending that went to YBS customers**





2013 YBS Survey Results





Program Evaluation: Did Your Association Meet or Exceed Your 2013 YBS Loan Volume Goal?

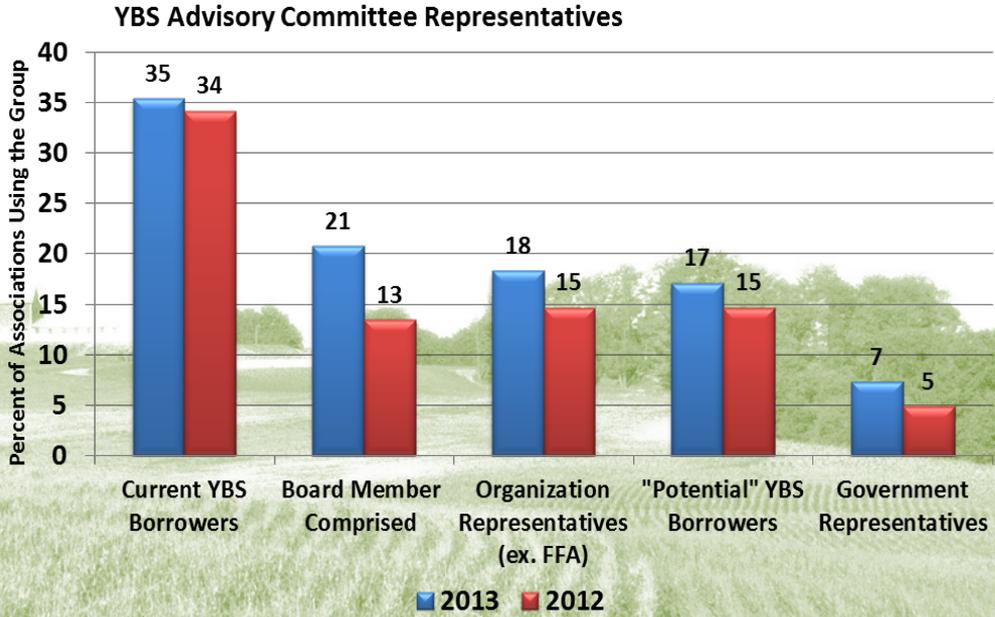
	Percent of Associations Meeting or Exceeding Their YBS Loan Volume Goals		
	2013	2012	2011
Young	68%	65%	55%
Beginning	64%	63%	65%
Small	54%	56%	48%

- Loan volume goals were used by two-thirds of the associations
- Approximately half indicated they had raised this goal relative to their 2012 goal



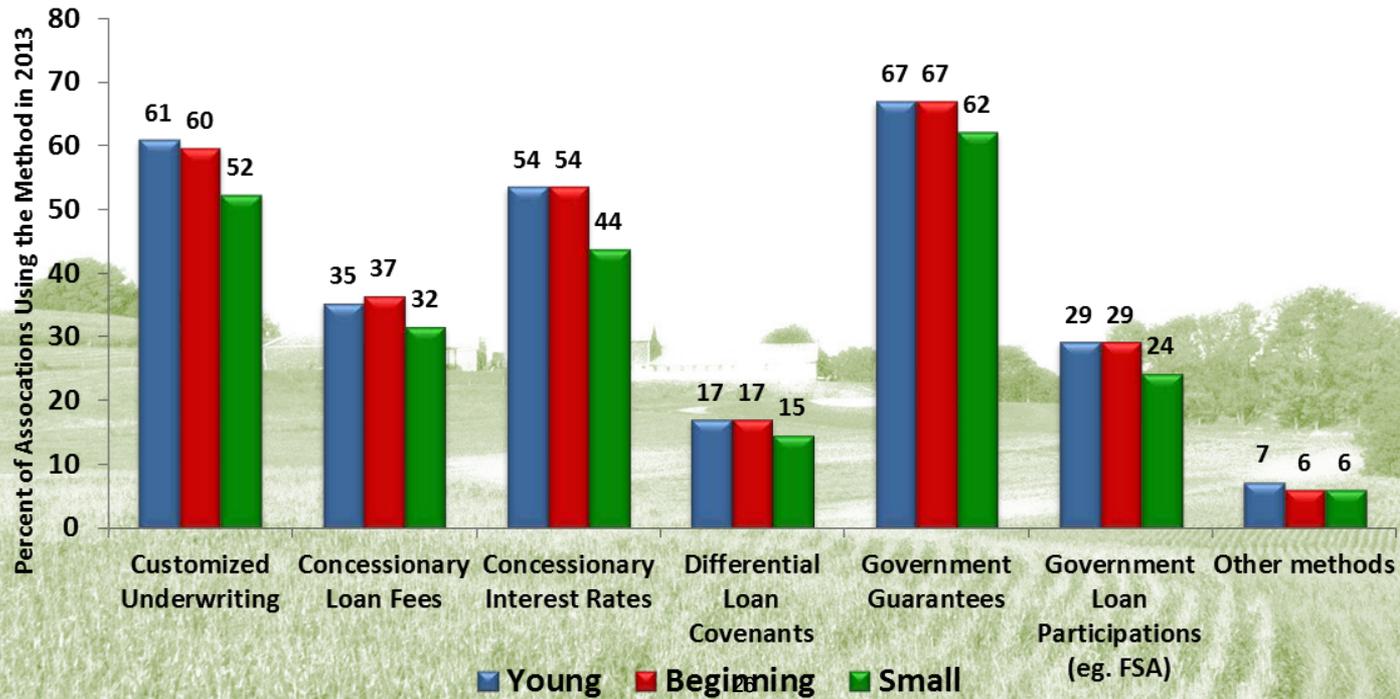
Program Management: Does Your Association Receive Input on YBS Farmer Issues from an Advisory Committee?

- **41 percent indicated “Yes”**
- **Most YBS committees provide input to their respective boards either annually or semi-annually**





Program Components: Did Your YBS Program Use One of the Following Methods to Provide Credit to YBS Farmers in 2013?



Source: 2013 YBS Survey.



Program Outreach: Identify Outside Parties or Organizations Used to Coordinate Delivery of Your YBS Program?

Ongoing YBS Coordination With:	2013
Farm Service Agency (FSA)	97.6%
Other FCS Associations	63.4%
State/Local Governments	59.8%
District Bank	53.7%
Producer Groups and Organizations	50.0%
Non-profit Organizations	42.7%
Natural Resources Conservation Service (NCRS)	37.8%
USDA Outreach Staff	29.3%
Farmer Mac	23.2%
Small Business Administration (SBA)	19.5%
Other (Primarily Extension Service)	19.5%
Commercial Lenders	17.1%
Agricultural Marketing Service (AMS)	4.9%

Source: 2013 YBS Survey.



Program Outreach: Special Initiatives Undertaken in 2013

- **One-third of the associations undertook special studies or new market research efforts to improve their understanding of the demographics and financial needs of their YBS customers.**
- **Nearly half of the associations undertook new or significantly revised outreach and/or training activities to achieve their YBS program objectives.**



Program Outreach: Common Methods or Programs to Train/Educate or Reach Out to Potential YBS Customers

- **Sponsorship of and participation in Ag events (trade shows, conferences, etc.)**
- **Cooperative efforts with FSA and county extension**
- **Social Media (Facebook, Twitter, etc.)**
- **Sponsorship of local farmers' markets**
- **Providing scholarships and grants & funding**
- **Supporting Ag leadership groups**
- **Educational programs & seminars**
- **Outreach (4-H, FFA, High Schools, and Colleges)**





Conclusions – The Survey

- **Associations showed improvement in meeting or exceeding their YBS lending goals**
- **YBS Advisory Committees saw somewhat broader representation**
- **Federal loan guarantees and customized underwriting standards continue to be the most commonly used tools in YBS programs**
- **Programs are coordinated with a variety of parties and use an assortment of methods to increase service to YBS borrowers**



FCA Board Meeting

June 2014

Quarterly Report on FCS Condition

June 12, 2014

**Stephen Gabriel
Hal Johnson**

Exhibit F





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



The economy: Recovery on track with downside risks



Consensus Forecasts (percent)*

	2013	2014	2015
GDP growth	1.9	2.5	3.1
CPI	1.5	1.8	1.9
Unemployment rate	7.4	6.4	5.9
10 Yr T-Bond (Dec '13; Aug '14; May '15)	3.0	3.0	3.5

Source: Consensus Economics, Inc.

*Survey date - May 12, 2014



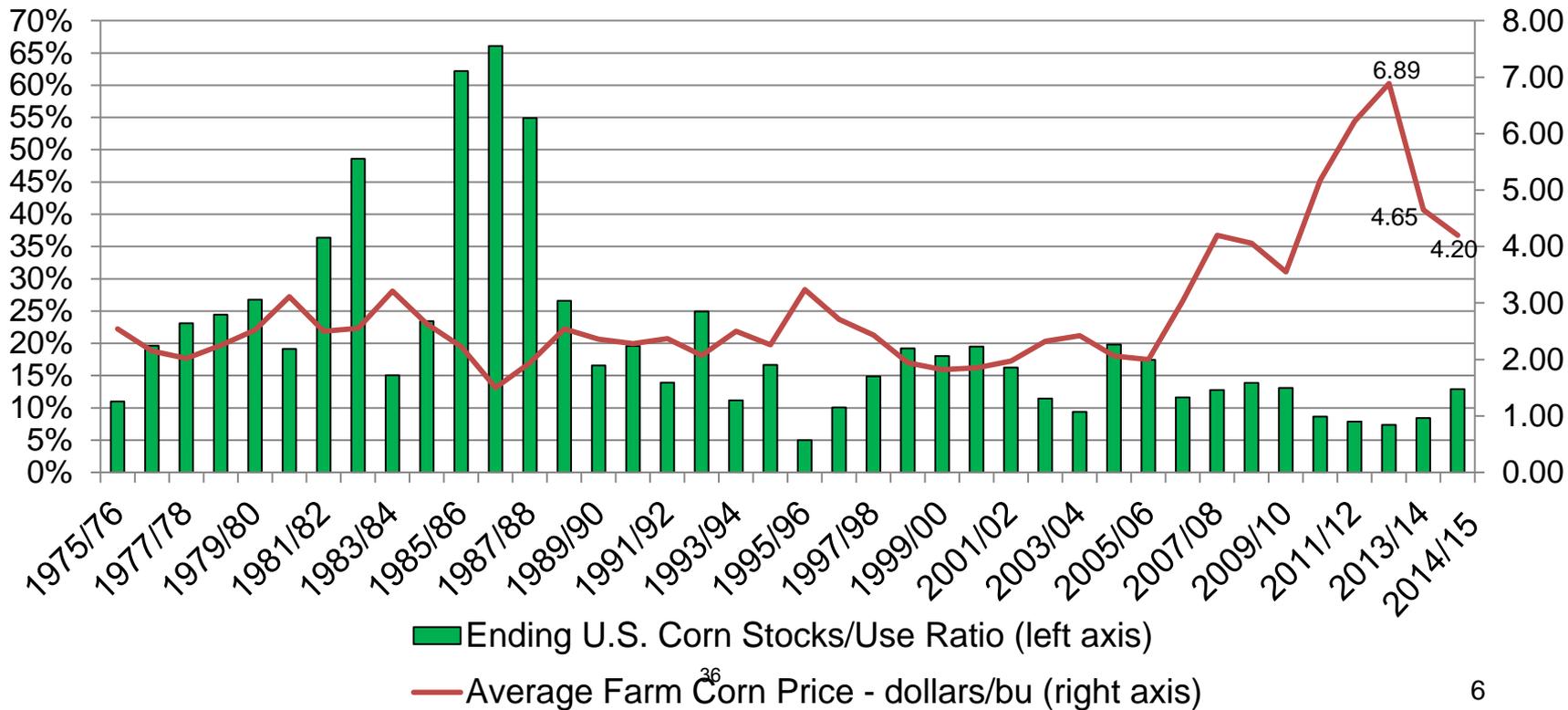
Farm sector developments and concerns

- Spring planting – slow start; rapid catch up
- Strong livestock/dairy profitability
- Crop margins are compressing
- Farmland markets are cooling
- PEDv remains on hog industry radar
- Severe drought in the West
- Tensions in the Ukraine





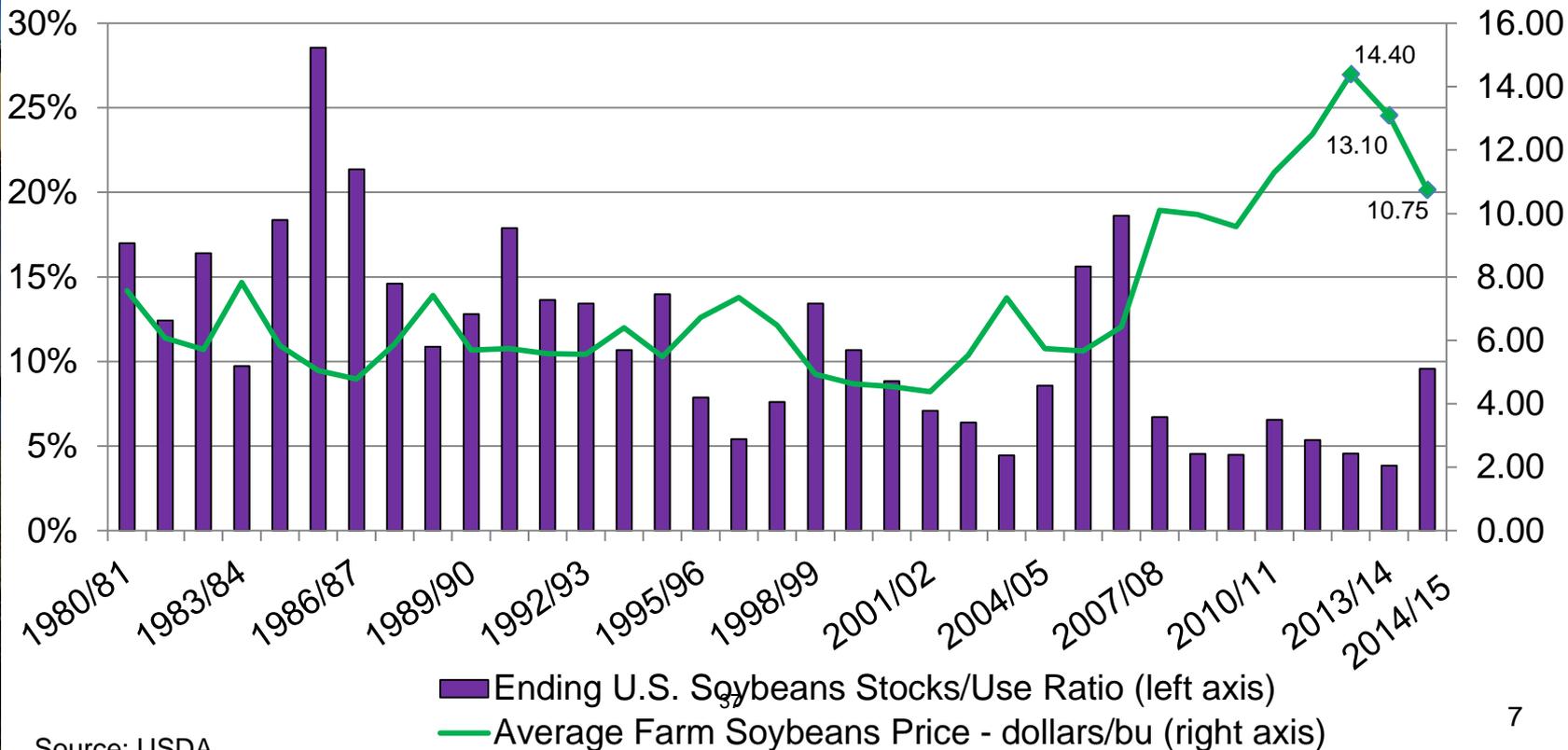
A large corn crop would push prices lower



Source: USDA



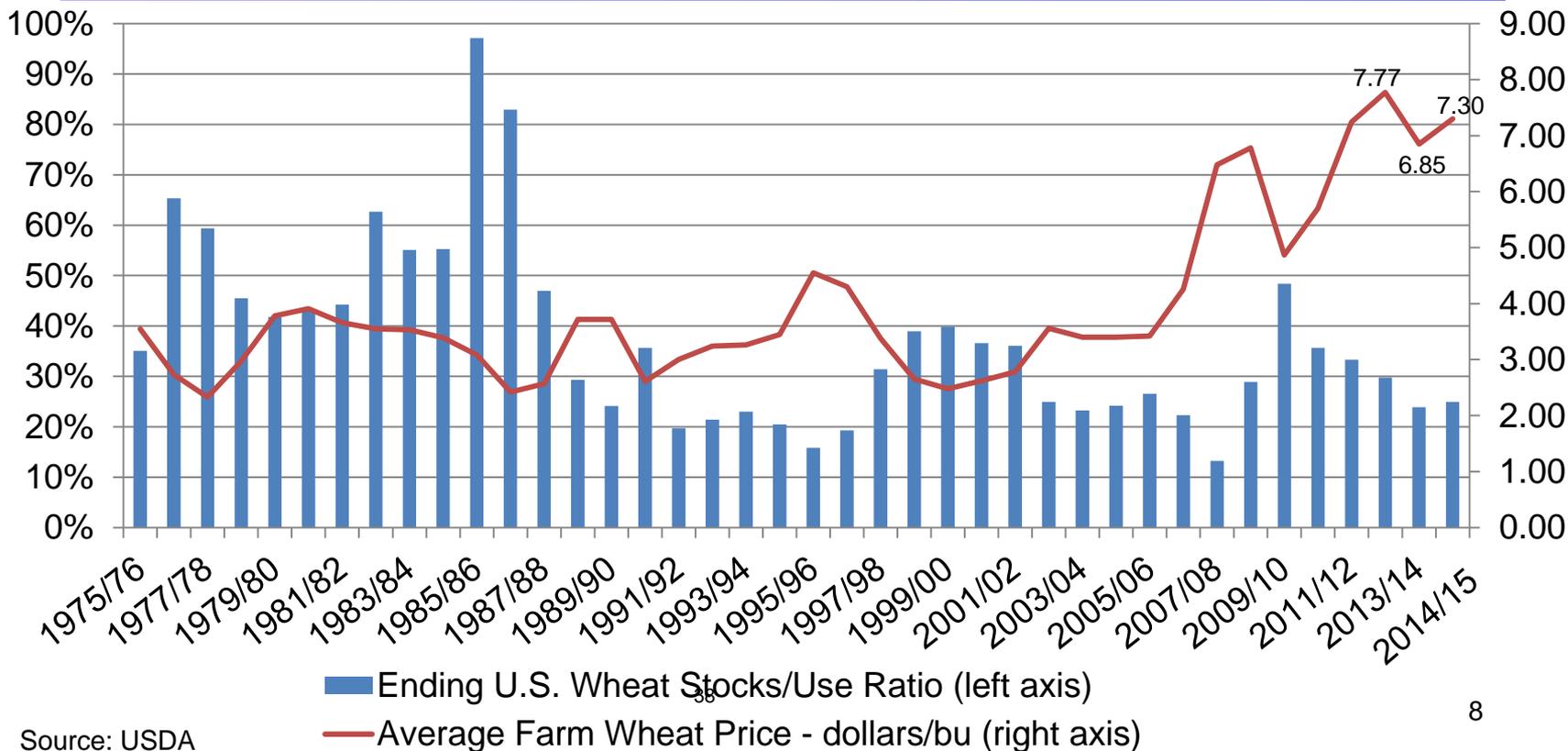
High soybean prices to boost acreage and increase supplies



Source: USDA



Weather problems curtail wheat yields sending prices higher



Source: USDA

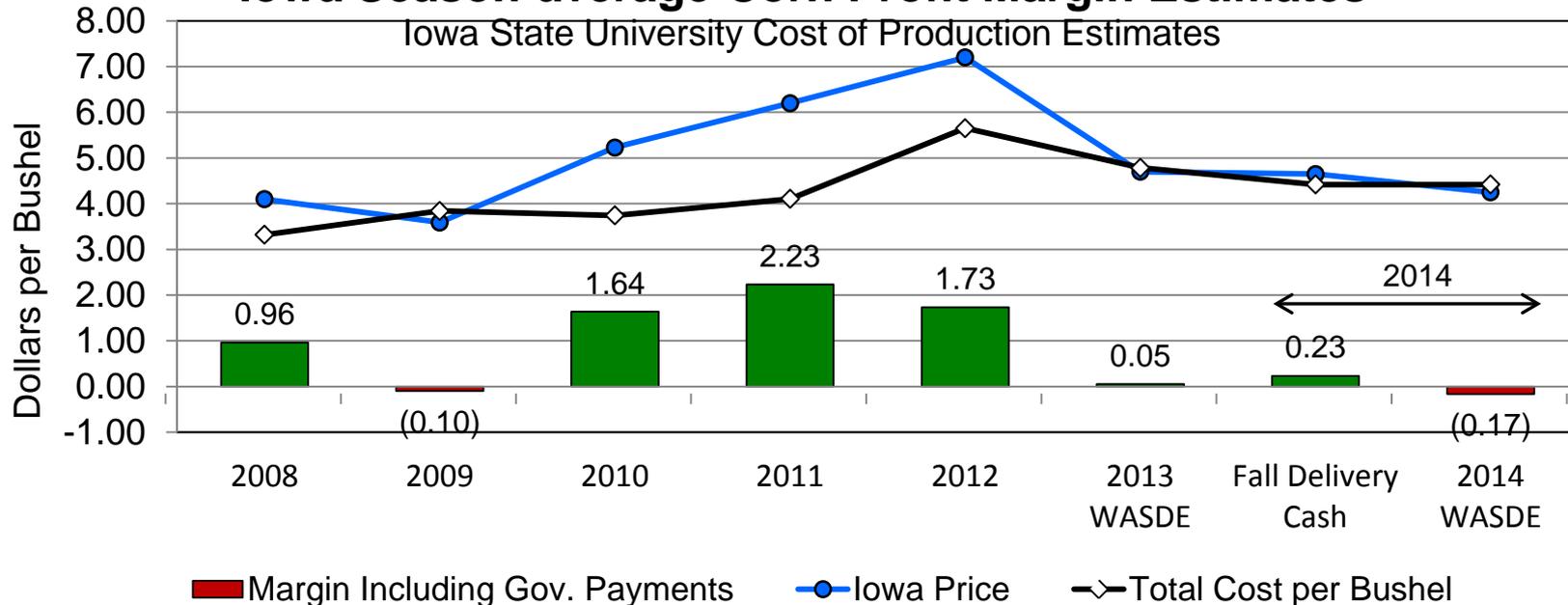


Corn producers' profit margins are tightening



As of 5/9/14

Iowa Season-average Corn Profit Margin Estimates¹



¹ 2008-2012 are the season average prices received by Iowa farmers, while the USDA/WASDE season average price estimates are adjusted for Iowa. The 2014 fall delivery cash price in Iowa is based on December futures. Margins reflect total production costs and actual state average yields, except for 2014, which reflects the 177 bushel per acre ISU budget estimate yield.



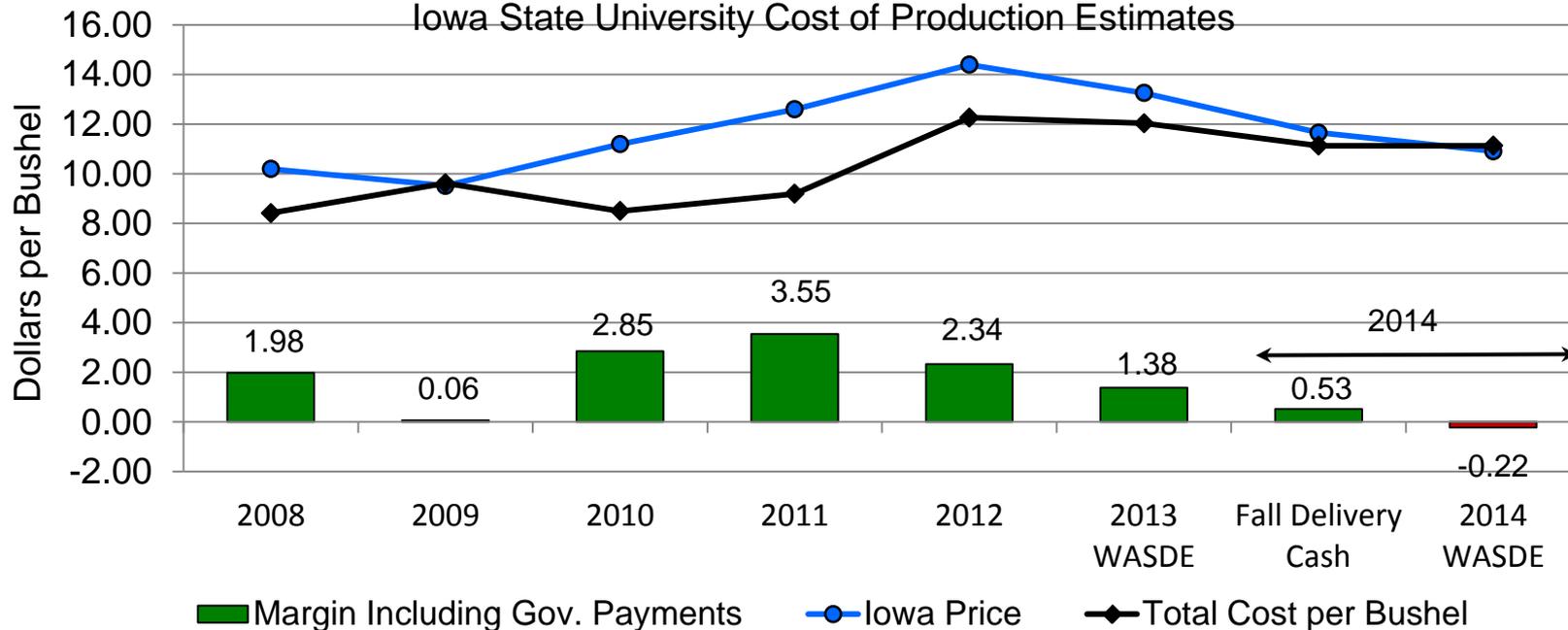
Soybean profit margins continue to decline



As of 5/09/14

Iowa Season-average Soybean Profit Margin Estimates¹

Iowa State University Cost of Production Estimates



¹ 2008-2012 are the season average prices received by Iowa farmers, while the USDA/WASDE season average price estimates are adjusted for Iowa. The 2014 fall delivery cash price in Iowa is based on November futures. Margins reflect total production costs and actual state average yields, except for 2014, which reflects the 50 bushel per acre ISU budget yield estimate.



44% of winter wheat acres are in poor condition or worse



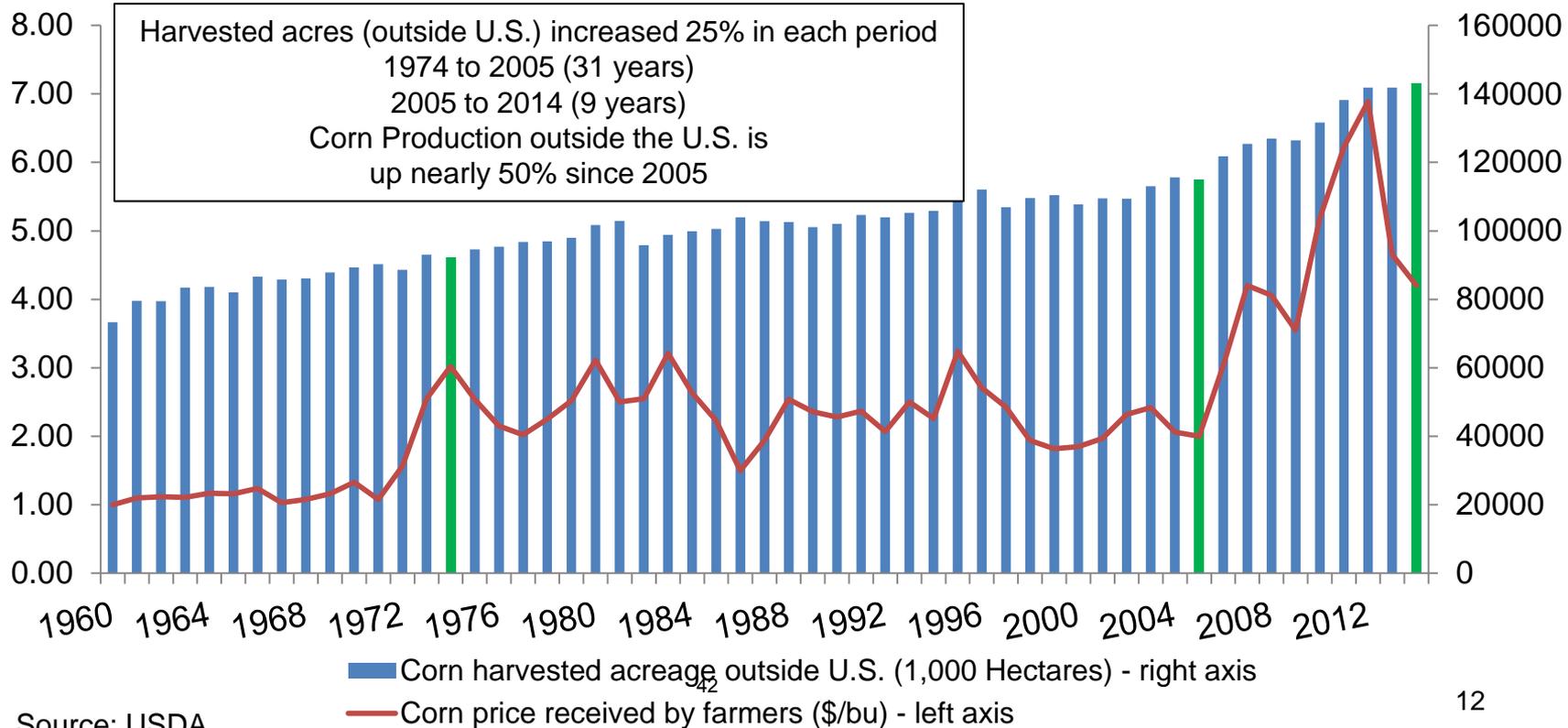
Top 10 Winter Wheat Producing States	% of 2013 Production	% of Acres in Poor or Very Poor Condition (Wk ending 6/1)
KANSAS	20.1%	62
WASHINGTON	7.2%	23
OKLAHOMA	6.6%	78
MONTANA	5.2%	7
TEXAS	4.1%	64
IDAHO	3.9%	1
MISSOURI	3.5%	10
ILLINOIS	3.5%	7
NORTH CAROLINA	3.3%	3
OREGON	3.0%	15

41

Source: USDA



High corn prices precipitated a global supply response





Farmland values are retreating in key Midwest states

Percent change in the dollar value of "good" farmland in the Chicago Federal Reserve District

	Jan 1, 2014 to April 1, 2014	April 1 2013 to April 1, 2014
Illinois	-4	0
Indiana	-4	+7
Iowa	+1	-2
Michigan	-3	-1
Wisconsin	+1	+2
Chicago District	-1	+1

Source: Federal Reserve Bank of Chicago



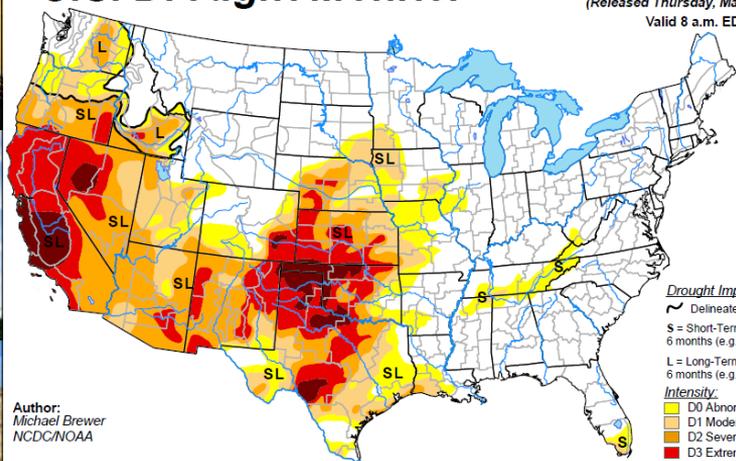


Drought conditions expected to persist through the summer



U.S. Drought Monitor

May 27, 2014
(Released Thursday, May 29, 2014)
Valid 8 a.m. EDT



Author:
Michael Brewer
NCDC/NOAA

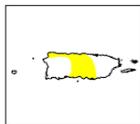
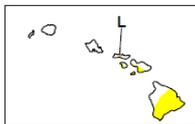
Drought Impact Types:
~ Delineates dominant impacts
S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Intensity:
D0 Abnormally Dry
D1 Moderate Drought
D2 Severe Drought
D3 Extreme Drought
D4 Exceptional Drought

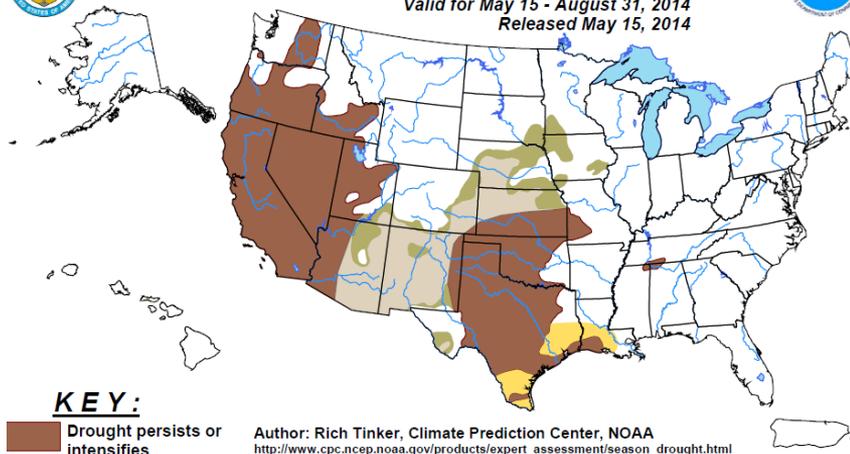
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



<http://droughtmonitor.unl.edu/>



U.S. Seasonal Drought Outlook Drought Tendency During the Valid Period Valid for May 15 - August 31, 2014 Released May 15, 2014



KEY:

- Drought persists or intensifies
- Drought remains but improves
- Drought removal likely
- Drought development likely

Author: Rich Tinker, Climate Prediction Center, NOAA
http://www.cpc.ncep.noaa.gov/products/expert_assessment/season_drought.html

Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events -- such as individual storms -- cannot be accurately forecast more than a few days in advance. Use caution for applications -- such as crops -- that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor.

NOTE: The tan area areas imply at least a 1-category improvement in the Drought Monitor intensity levels by the end of the period although drought will remain. The Green areas imply drought removal by the end of the period (D0 or none)



Preliminary CA drought analysis suggests significant losses

2014 Drought and Central Valley Agriculture Summary

Drought impact (crops only)	Loss Quantity	Normal Quantity	Percent Loss
Water delivery reduction	6.5 maf	20 maf	32.5%
Shortage after increased groundwater pumping	1.5 maf	20 maf	7.5%
Fallowed irrigated land	410,000 acres	7,000,000 acres	6%
Crop revenue loss	\$740 million	\$25 billion	3%
Revenue lost plus additional pumping cost (\$450 million)	\$1.2 billion	\$25 billion	4.8%
Central Valley economic loss	\$1.7 billion	N.A.	
Direct crop production job losses (seasonal and full time)	6,400	152,000	4.2%
Direct, indirect and induced job losses	14,500	N.A.	

maf = million acre feet

Source: Howitt, Richard, Josue Medillin-Azuara, and Jay Lund, "Preliminary 2014 Drought Economic Impact Estimates in Central Valley Agriculture," May 19, 2014.





Risks to Watch

- Midwest growing conditions
- Farmland values
- Crop producers' margin compression
- Western drought
- Long-term interest rate trends
- Economic developments in China
- Geopolitical developments





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
March 31, 2014

Hal Johnson
Office of Examination



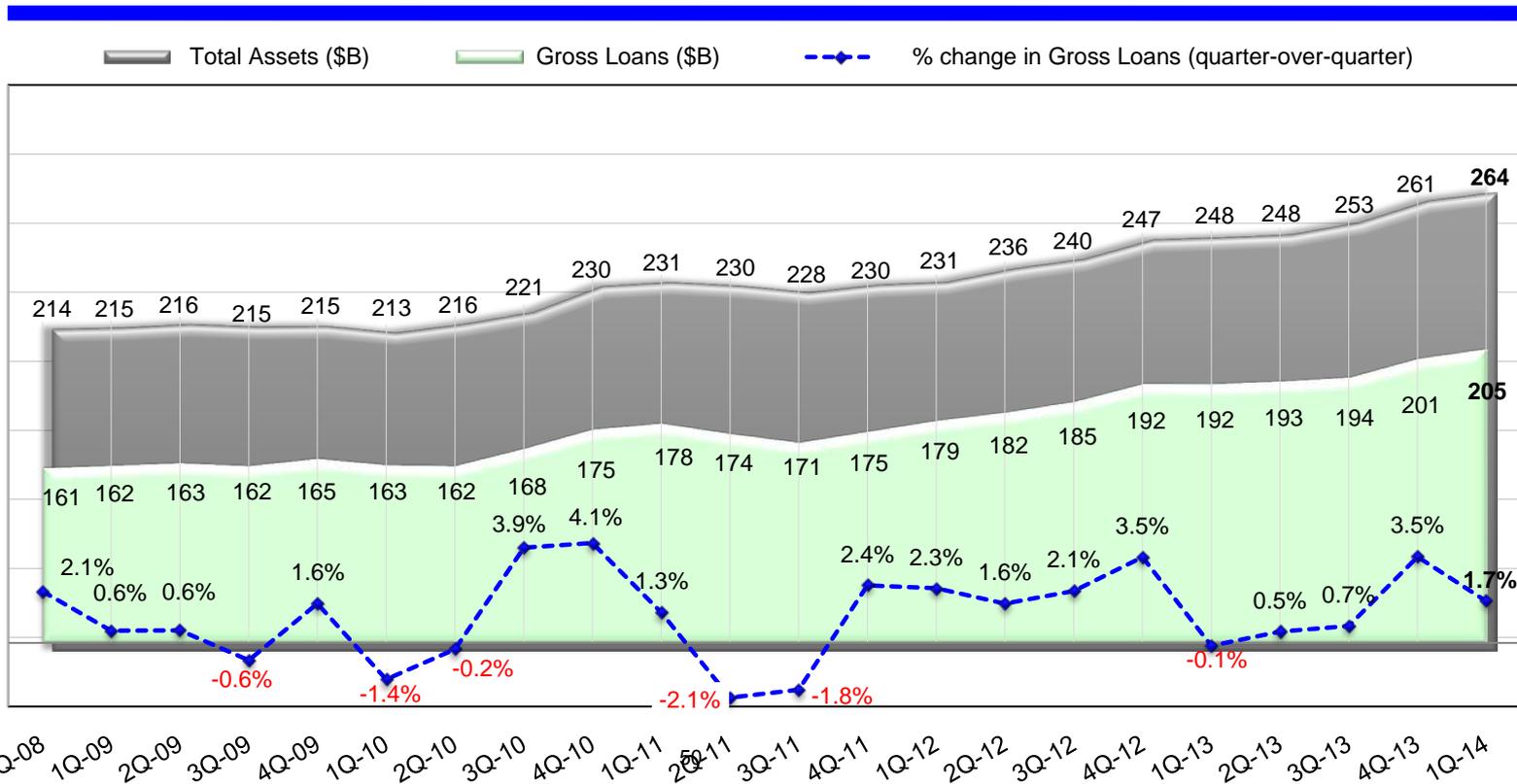
Topics

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





Modest growth to start 2014



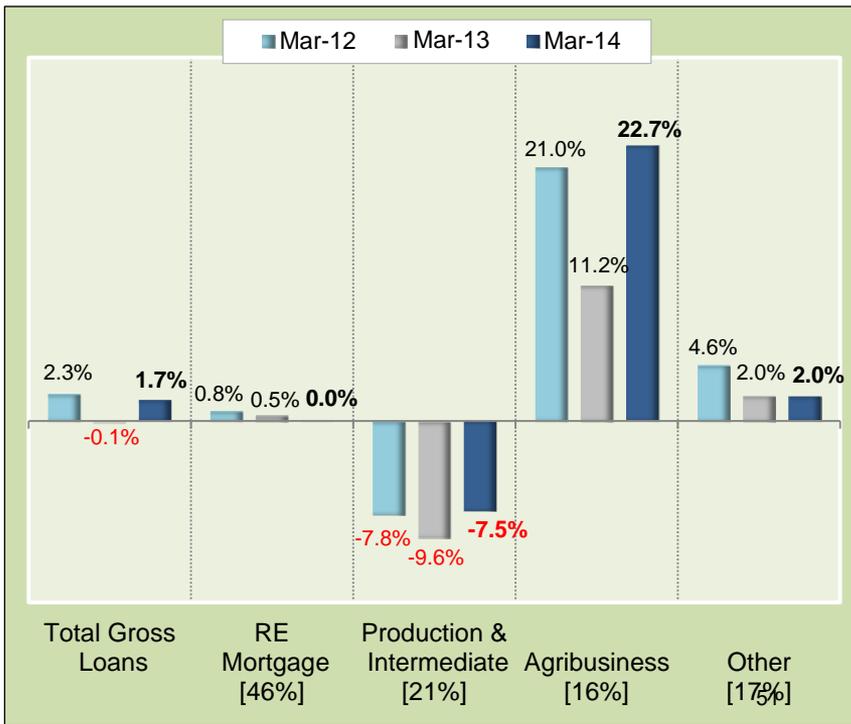
Source: FCS Quarterly Information Statements



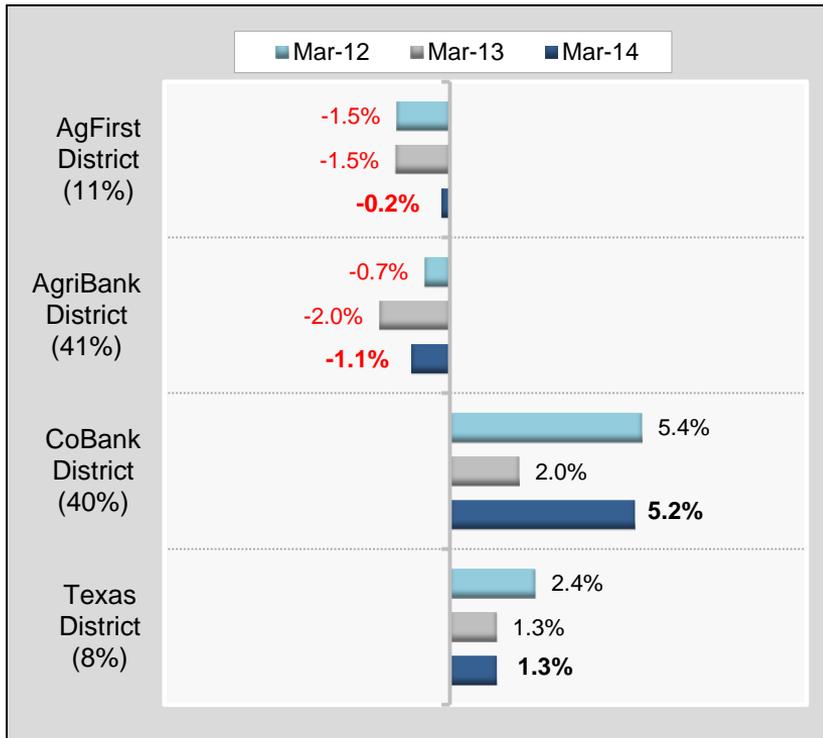
Seasonality dominant influence on loan portfolio in the 1st quarter



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



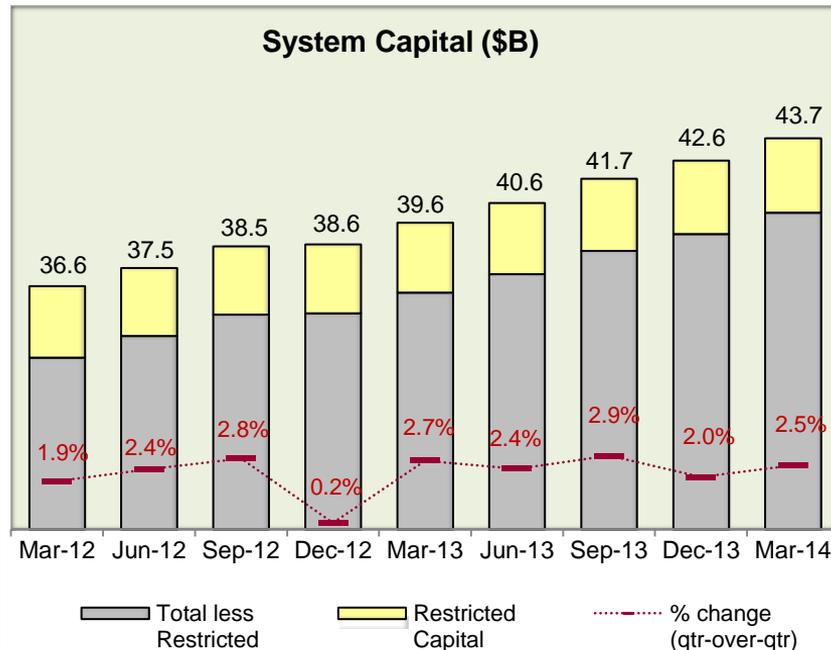
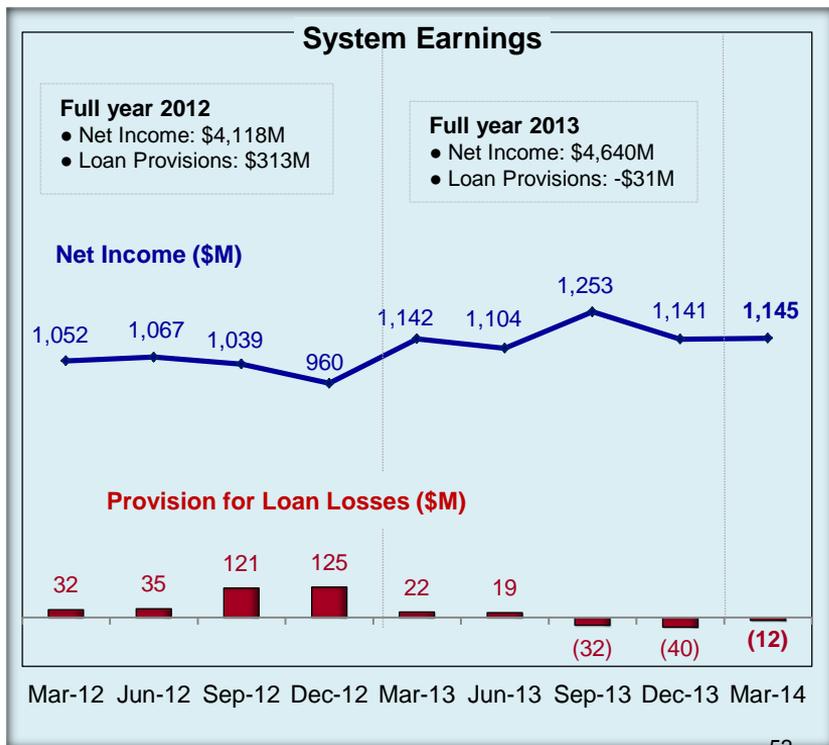
Loan Growth by District (% change quarter-over-quarter)



Source: FCS Quarterly Information Statements



System financials remain sound



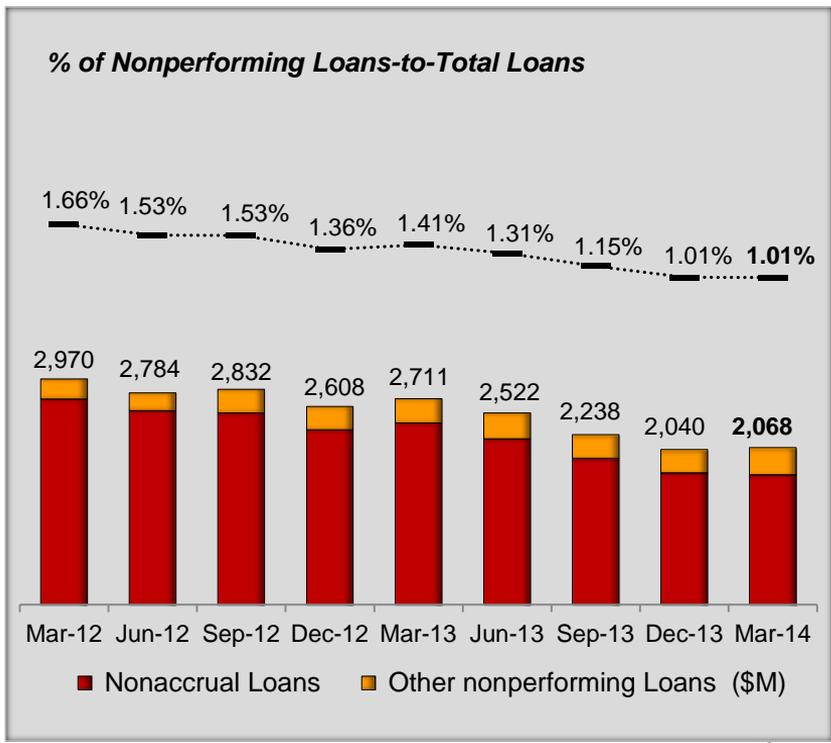
52

Source: FCS Quarterly Information Statements

Restricted capital represents capital associated with the Insurance Fund.



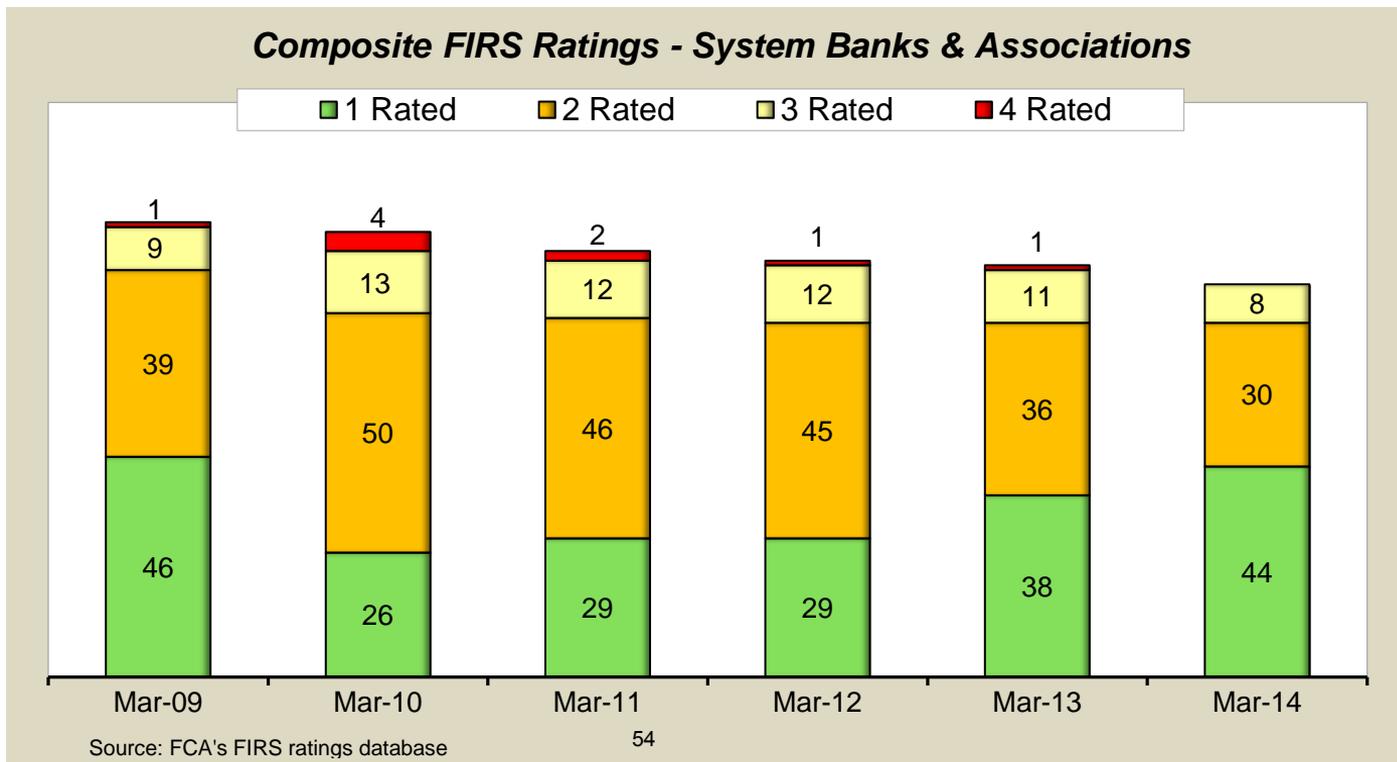
Portfolio credit quality is strong; credit measures stable



Loan Type	Loans Outstanding	% of Loans Classified as OAEM or Substandard		
	Mar-14	Mar-14	Mar-13	Mar-12
Real Estate Mortgage	94,201	4.2%	5.3%	7.5%
Production & Intermediate	42,023	6.5%	7.3%	9.7%
Agribusiness	33,431	5.0%	6.5%	8.1%
Rural Utility	20,223	1.9%	2.9%	2.3%
Other	14,685	1.6%	1.8%	2.4%
Total FCS	204,563	4.4%	5.4%	7.2%



System FIRS ratings





Summary and final points



- The risk environment for agriculture is changing:
 - Profitability is strong in the livestock/dairy sectors, but margins for crop producers are compressing,
 - Farmland values are retreating in key Midwest states,
 - Western drought remains an ongoing concern.
- The System remains financially sound, well-capitalized, has strong earnings and favorable portfolio credit quality.
- System institutions are well-positioned for the challenges facing agriculture.



Questions



THANK YOU



FCA Board Meeting

June 2014

Semi-Annual Report on Office of Examination Operations

June 12, 2014

Exhibit G

Hal Johnson
Office of Examination





Highlights of OE Operations



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



2014 Operating Plan Objectives

- Risk Supervision & Examination Activities
 - Onsite at 71% of associations, all banks, 2 other System entities, and Farmer Mac
 - Issued 37 Reports of Examination and 22 Interim Activity letters
 - 6 institutions under Enforcement and 2 institutions under Special Supervision





2014 Operating Plan Objectives

- Risk Supervision & Examination Activities (Cont.)
 - Issued Standards of Conduct:
 - Examination guidance
 - System communication summarizing findings from 2013 Standards of Conduct examination activity
 - Guidance under development:
 - Update to Loan Underwriting Standards module
 - Governance procedures





2014 Operating Plan Objectives

➤ Public Mission as GSE

- Completed 2013 Diversity and Inclusion examination activities
- Issued System communication and developed Frequently Asked Questions on Diversity and Inclusion in business planning
- Updated business plan examination guidance to include expectation on Diversity and Inclusion.





2014 Operating Plan Objectives

➤ Human Capital

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

➤ Operational Efficiency & Effectiveness

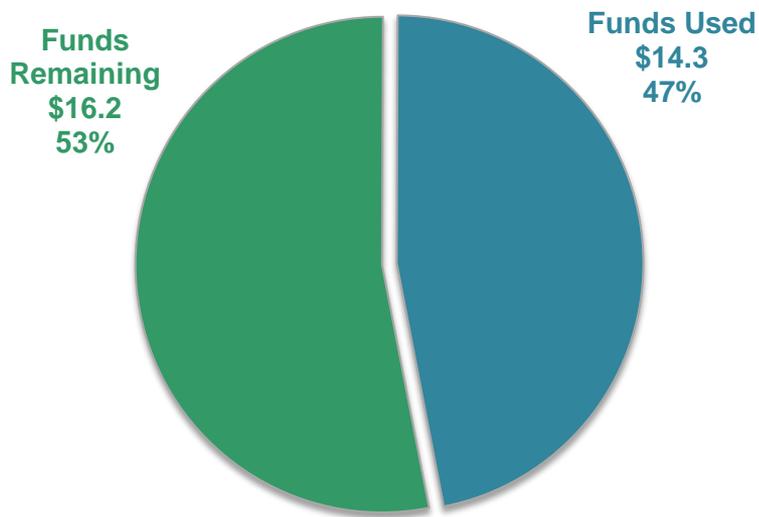
- Ongoing progress in Loan Database, EDGe, Examination Manual, and leveraging technology





OE Budget Results (Fiscal YTD thru 3/31/14)

FY 2014 OE Budget - \$30.5M



Travel

- ◆ FY 2014 Travel Budget Used 47%
- ◆ FY 2014 Travel Days Used 39%

FTEs

- ◆ Projected Full Year FTE's 165.3
- ◆ Budgeted Full Year FTE's 176.5
- Budget Variance (11.2)





Staffing Challenges Remain



Staffing Levels	Planned	Projected	Variance
Staff on Board @ start of FY 2014	173	168	(5)
Staff Attrition ⁽¹⁾	(12)	(12)	0
Projected Hirings	19	14	(5)
Staff on Board @ yearend FY 2014	180	170	(10)

(1) There have been 8 staff attritions fiscal YTD through May 2014.



Summary

- On-site presence at institutions maintained
- A small number of institutions remain under a higher level of supervision
- Continued progress on other OE Operating Plan objectives
- Actual spending is below budget
- Recruiting challenges and attrition result in staffing levels below planned levels





Discussion



THANK YOU

