Quarterly Report on FCS Condition
December 13, 2018

Dennis A. Shields
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Macroeconomic factors
  - Farm income and commodity indicators
  - Risks ahead

- FCS Condition and Performance
  - System growth
  - Loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)
Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy
Favorable U.S. and global economic conditions continue amid concerns

**Favorable factors**
- Solid world economic growth
- Improving U.S. employment
- Consumer wage and income growth
- Moderating crude oil prices

**Concerns**
- Higher costs from labor and tariffs
- Rising consumer, business, and government debt
- Rising interest rates and stronger dollar
- Slowdown in housing
Unemployment rate remains low in all states

Unemployment rate by state (%)

Note: AK = 6.4%; HI = 2.3%; states without numbers are less than 5%.
Farm income in 2018 is supplemented by Market Facilitation Program payments

U.S. net cash farm income
(adjusted for inflation)

$ billion
(2018 dollars)

150
100
50
0

1998 2000 02 04 06 08 10 12 14 16 18


1st tranche of Market Facilitation Program payments

Corn prices stay below $4 despite tighter stocks

U.S. corn prices received by farmers

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</thead>
<tbody>
<tr>
<td>Stocks/use (%)</td>
<td>13.1</td>
<td>8.7</td>
<td>7.9</td>
<td>7.4</td>
<td>9.2</td>
<td>12.6</td>
<td>12.7</td>
<td>15.7</td>
<td>14.5</td>
<td><strong>11.5</strong></td>
</tr>
</tbody>
</table>

Note: Calendar year monthly farm prices; stocks/use ratio is crop year beginning September.
Source: USDA/NASS and USDA/WAOB, November 2018.
Soybean prices sink as stocks rise sharply

U.S. soybean prices received by farmers

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</thead>
<tbody>
<tr>
<td>Stocks/use (%)</td>
<td>4.5</td>
<td>6.6</td>
<td>5.4</td>
<td>4.5</td>
<td>2.6</td>
<td>4.9</td>
<td>5.0</td>
<td>7.2</td>
<td>10.3</td>
<td>23.3</td>
</tr>
</tbody>
</table>

Note: Calendar year monthly farm prices; stocks/use ratio is crop year beginning September.
Source: USDA/NASS and USDA/WAOB, November 2018.
Soybean bids have been below USDA’s monthly farm prices

U.S. soybean prices in 2018

Source: Minneapolis Grain Exchange, Inc. (MGEX) and USDA/NASS.
Farm liquidity approaches danger zone for high-debt grain producers

Average current ratio declines as farm debt increases

<table>
<thead>
<tr>
<th>Debt level</th>
<th>Very low</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of farms in category</td>
<td>21%</td>
<td>39%</td>
<td>28%</td>
<td>10%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: Illinois grain farms, year-end 2017.
Source: Schnitkey, G. and K. Swanson, farmdoc daily (8): 196, Univ. of Illinois, October 23, 2018.
Low milk prices and higher feed costs squeeze dairy producers

Source: Livestock Marketing Information Center using USDA data.
Cow/calf returns are projected to remain low but above breakeven

Source: Informa Economics.
Almond production expands and the grower price adjusts downward

Note: 2018 price estimate available in June 2019.
Source: USDA/NASS.
Risks ahead

- Trade (and farm) policy
- Pricing opportunities for grain and soybean producers
- Rising interest and input costs
- Changes in farmland supply and demand
- Slowdown in U.S. and global economic growth
Questions

THANK YOU
Farm Credit System
Condition and Performance

as of
September 30, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System Growth
- Portfolio Credit Quality
- Earnings
- Capital
- FIRS
System shows modest growth for the 1st nine months of 2018; primarily RE mortgage lending

<table>
<thead>
<tr>
<th>Total Assets 9/30/18</th>
<th>$335.0 billion</th>
<th>+0.3% Qtr</th>
<th>+1.7% YTD</th>
<th>Gross Loans 9/30/18</th>
<th>$263.6 billion</th>
<th>+1.1% Qtr</th>
<th>+1.9% YTD</th>
</tr>
</thead>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>09/30/16</th>
<th>09/30/17</th>
<th>09/30/18</th>
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</thead>
<tbody>
<tr>
<td>Total System Assets ($B)</td>
<td>271</td>
<td>279</td>
<td>291</td>
</tr>
<tr>
<td>Total Gross Loans ($B)</td>
<td>238</td>
<td>242</td>
<td>250</td>
</tr>
<tr>
<td>% change Qtr-over-Qtr Loans</td>
<td>-0.4%</td>
<td>2.0%</td>
<td>4.0%</td>
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</table>

Source: FCS Information Statements
Loan quality is down from a year ago; System is well-positioned for increased risk levels

Nonperforming Loans $2.347 billion

<table>
<thead>
<tr>
<th>Quarter</th>
<th>% of Loans Classified less than Acceptable</th>
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<tbody>
<tr>
<td>Sep-18</td>
<td>6.5</td>
</tr>
<tr>
<td>Sep-17</td>
<td>6.4</td>
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<tr>
<td>Sep-16</td>
<td>6.4</td>
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</tbody>
</table>

Delinquencies accruing loans ≥ 30 days past due

<table>
<thead>
<tr>
<th>Quarter</th>
<th>% of total accruing loans</th>
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<tbody>
<tr>
<td>3Q ’18</td>
<td>0.27%</td>
</tr>
<tr>
<td>YE ’17</td>
<td>0.25%</td>
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</tbody>
</table>

Allowance for Loan Losses $1.682 billion

- 69% of nonperforming assets
- 84% of nonaccrual loans

Source: FCS Information Statements
The System’s financial condition is sound; earnings are up year-over-year

System Earnings
(year-to-date through September)

| Source: FCS Information Statements |

Net Interest Spread
(YTD annualized)

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<thead>
<tr>
<th>Sept. ’18</th>
<th>Sept. ’17</th>
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<tbody>
<tr>
<td>2.13%</td>
<td>2.24%</td>
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</tbody>
</table>

Net Interest Margin
(YTD annualized)

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<tr>
<th>Sept. ’18</th>
<th>Sept. ’17</th>
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<tbody>
<tr>
<td>2.45%</td>
<td>2.47%</td>
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% increase in YTD Average Earning Assets
(compared to the same period a year ago)

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<tbody>
<tr>
<td></td>
<td>0.9%</td>
<td>1.9%</td>
<td>6.3%</td>
<td>7.0%</td>
<td>6.4%</td>
<td>9.8%</td>
<td>4.1%</td>
<td>4.2%</td>
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</table>
System is strongly capitalized

**Capital and Liquidity**

*as of September 30, 2018*

- Retained earnings as a percentage of total capital equaled 80.1% of total capital.

- The System’s liquidity position equaled 171 days of coverage.

Days of available liquidity for the 4 funding banks ranged from 144 to 226 days.

Source: FCS Information Statements

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**Total System Capital ($B)**

- **Restricted Capital**
- **Total Capital less Restricted**
- **Capital-to-Assets Ratio**

<table>
<thead>
<tr>
<th>Sep-11</th>
<th>Sep-12</th>
<th>Sep-13</th>
<th>Sep-14</th>
<th>Sep-15</th>
<th>Sep-16</th>
<th>Sep-17</th>
<th>Sep-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>35.9</td>
<td>38.5</td>
<td>41.7</td>
<td>45.8</td>
<td>48.9</td>
<td>52.4</td>
<td>55.5</td>
<td>58.2</td>
</tr>
<tr>
<td>15.8%</td>
<td>16.1%</td>
<td>16.5%</td>
<td>16.9%</td>
<td>16.8%</td>
<td>16.7%</td>
<td>17.3%</td>
<td>17.4%</td>
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Restricted capital represents capital associated with the Insurance Fund.
System FIRS ratings

FIRS Ratings

- Composite FIRS ratings reflect the System’s solid financial performance and good portfolio credit quality
- Over 93% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower account for less than 2.0% of System assets

Source: FCA’s FIRS ratings database
Summary and final points

- Challenges for agriculture:
  - General economic factors: higher interest rates; strength of the dollar; rising consumer, business, and government debt levels; labor availability and costs
  - Farm sector concerns: matching supply with demand needs; rising input costs; trade policies; pricing opportunities for grain/soybean producers

- The System is financially strong and well-capitalized

- Portfolio credit stress is higher in 2018, but System institutions are well-positioned for the challenges facing the farm economy and have significant risk-bearing capacity