Quarterly Report on FCS Condition
December 10, 2020

Steven Koenig
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Economic conditions
  - Commodities and trade
  - Agriculture sector finance

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

Steven Koenig
Senior Agricultural Economist
Office of Data Analytics and Economics
Economic trends going into 2021

- World & U.S. economies expected to rebound in 2021 but under continuing pandemic influences and uncertainties

- World trade growth
  - China
  - Dollar value

- U.S. economy rebounds with support
  - U.S. labor markets healing
  - Consumer spending is a strength
  - Business investment rebounds
Improved prospects for major cash crops

Corn and soybean supplies tighten

* Excluding China.
China has returned to purchasing soybeans in the U.S. market in part to meet the needs of recovering hog production in the aftermath of the African Swine Fever.

U.S. soybean export commitments to China this year are expected rise to 26.8 million tons compared to 7.1 million the previous year.

Total soybean commitments to the world, including unknown destinations, more than doubled to 48.5 million tons compared to 20.9 million last year.

Source: USDA/FAS.
China’s combined grain imports are forecast at a record level in 2020/21 driven by demand for feedstuffs.

Greater imports by China are primarily driven by corn purchases.

China wheat imports of 8.0 million tons in 2020/21 are forecast at their highest level in 25 years. The demand is being driven for feed-quality wheat in the face of high price of domestic corn.

Source: USDA/FAS.
Profits for corn and soybeans but not wheat

Sources: USDA/WAOB data and FCA/ODAE.
Looking ahead: future prices offer pricing opportunities

Data source: DTN, as of 12/1/2020.
Cotton depends on trade

- U.S. stock-to-use ratio is the highest since 2007/08
- Ample world production and supplies restrain prices
- Softer demand in the pandemic
- Favorable U.S. yields and government payments help producers

Note: Upland cotton prices.
Outlook for 2021: Drought watch

Source: https://droughtmonitor.unl.edu/
Mixed picture for protein

- Tight margins for cow/calf and feeders
- Profits for dairy and hogs
- Broilers continue to see red

Looking ahead:
- Retail vs. food service marketing disruptions
- Processing changes & disruptions
- Rising feed costs
- Export growth
Dairy production and profits rise

Shaded areas is a forecast.
Source: IHS Markit.
Hog profits return...China backs off

Shaded area is a forecast.
Source: IHS Markit.

Data Source: USDA/FAS.
Broiler returns coming out of the red?

National Whole Broiler/Fryer Composite Price

Source: USDA/AMS.

U.S. Broiler Weighted Margins (85% Cutout/15% Whole)

Shaded area is a forecast.
Source: IHS Markit.
Forestry, nursery, rural housing benefit

- Home purchases and prices move higher on historically low interest rates and shift in COVID-induced demand
- Forestry products (timber and wood manufacturing) and nursery products see direct benefit from construction and remodeling boom
- Paper products see increased packaging demand from e-commerce

Data: www.macrotrends.net.
Farm finance measures signal caution

The stalwart farmland market

Historically low rates, limited land supply, rising land returns

Data sources: USDA and St. Louis Federal Reserve Bank.
Concluding comments

- Challenges in U.S. economic recovery
- Mixed outlook for major farm commodities
- Global demand uncertainties
- Future policies impacting Ag
Questions

THANK YOU
Farm Credit System
Condition and Performance

as of
September 30, 2020

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System growth
- Portfolio credit quality
- Earnings
- Capital | Liquidity
- FIRS
Strong real estate mortgage lending continued to drive portfolio loan growth

<table>
<thead>
<tr>
<th>Total Assets 9/30/20</th>
<th>$384.9 billion</th>
<th>0.1% Qtr</th>
<th>+5.4% YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loans 9/30/20</td>
<td>$301.6 billion</td>
<td>+1.5% Qtr</td>
<td>+5.1% YTD</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements

Quarterly Portfolio Loan Growth

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q-17</td>
<td>0.3%</td>
<td>3.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>4Q-17</td>
<td>1.2%</td>
<td>0.3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>1Q-18</td>
<td>3.2%</td>
<td>3.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2Q-18</td>
<td>0.0%</td>
<td>1.6%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Loan Growth by Loan Type

- Total Loan Portfolio: 2.0% (2018), 1.0% (2019), 0.6% (2020)
- RE Mortgage (47%): 5.1% (2018), 3.4% (2019), 7.5% (2020)
- Prod. & Intermediate (19%): -0.1% (2018), 1.2% (2019), 0.6% (2020)
- Agribusiness (17%): 1.7% (2018), 2.3% (2019), 0.2% (2020)

Source: FCS Information Statements
Portfolio loan quality remained stable

<table>
<thead>
<tr>
<th>Nonperforming Assets (9/30/20)</th>
<th>YTD chg.</th>
<th>12 month chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.321 billion</td>
<td>- $26M or -1.1%</td>
<td>- $228M or -8.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delinquencies (9/30/20)</th>
<th>Q4 '19</th>
<th>Q3 '19</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.28%</td>
<td>0.32%</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

(1) accruing loans 30 days or more past due as a % of accruing loans

**Source:** FCS Information Statements
Percentage of nonperforming assets edge lower as nonaccrual loans decline

(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

Source: FCS Information Statements
The System reports strong earnings; interest spread widens year-over-year

System Earnings ($M)
Year-to-date through September

<table>
<thead>
<tr>
<th>System Net Income</th>
<th>Provision for Loan Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,569</td>
<td>4,012</td>
</tr>
<tr>
<td>3,481</td>
<td>4,055</td>
</tr>
<tr>
<td>3,589</td>
<td>4,446</td>
</tr>
</tbody>
</table>

Net Interest Spread (YTD annualized)
- Sept. '18: 2.13%
- Sept. '19: 2.02%
- Sept. '20: 2.22%

Net Interest Margin (YTD annualized)
- Sept. '18: 2.45%
- Sept. '19: 2.41%
- Sept. '20: 2.45%

% increase in Average Earning Assets
(compared to the same period a year ago)
- Sep-13: 6.3%
- Sep-14: 7.0%
- Sep-15: 6.4%
- Sep-16: 9.8%
- Sep-17: 4.1%
- Sep-18: 4.2%
- Sep-19: 5.2%
- Sep-20: 7.2%

Source: FCS Information Statements
The System is strongly capitalized

**Capital and Liquidity**
(as of September 30, 2020)

- **Total Regulatory Capital:**
  - Banks | 15.8% to 18.5%
  - Associations | 12.0% to 37.4%

- Days of liquidity for the four funding banks ranged from 168 to 218 days

- Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.7% to 23.7% at a combined district level

Source: FCS Information Statements

Note: Restricted capital represents capital associated with the Insurance Fund.
System FIRS ratings

**FIRS Ratings**  
( based on 9/30/20 financial reporting )

- Composite FIRS ratings remained steady in the 3rd quarter
- Almost 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower account for about 1.0% of System assets

<table>
<thead>
<tr>
<th></th>
<th>1 Rated</th>
<th>2 Rated</th>
<th>3 Rated or lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-13</td>
<td>43</td>
<td>39</td>
<td>10</td>
</tr>
<tr>
<td>Dec-14</td>
<td>44</td>
<td>34</td>
<td>10</td>
</tr>
<tr>
<td>Dec-15</td>
<td>46</td>
<td>35</td>
<td>10</td>
</tr>
<tr>
<td>Dec-16</td>
<td>44</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Dec-17</td>
<td>39</td>
<td>30</td>
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</tr>
<tr>
<td>Dec-18</td>
<td>32</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Dec-19</td>
<td>35</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Sep-20</td>
<td>30</td>
<td>30</td>
<td>10</td>
</tr>
</tbody>
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Source: FCA’s FIRS ratings database
Summary and final points

▶ U.S. economic activity rebounded sharply in the 3rd quarter.
▶ Prospects have improved for the major cash crops, but challenges remain for the livestock sector.
▶ System portfolio loan quality has been stable, but the risk environment for agriculture remains elevated.
▶ The Farm Credit System remains fundamentally safe and financially sound.
▶ System institutions are strongly capitalized and are well-positioned to support agricultural producers and rural America.
Questions

THANK YOU