



FCA Board Meeting September 2020

Quarterly Report on FCS Condition September 10, 2020

Dennis A. Shields
Hal Johnson

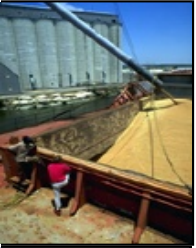
From YG 9/3/2020_4:31 p.m.





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Economic indicators during COVID-19
 - Commodities and trade
 - Agriculture sector income
- ▶ FCS Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

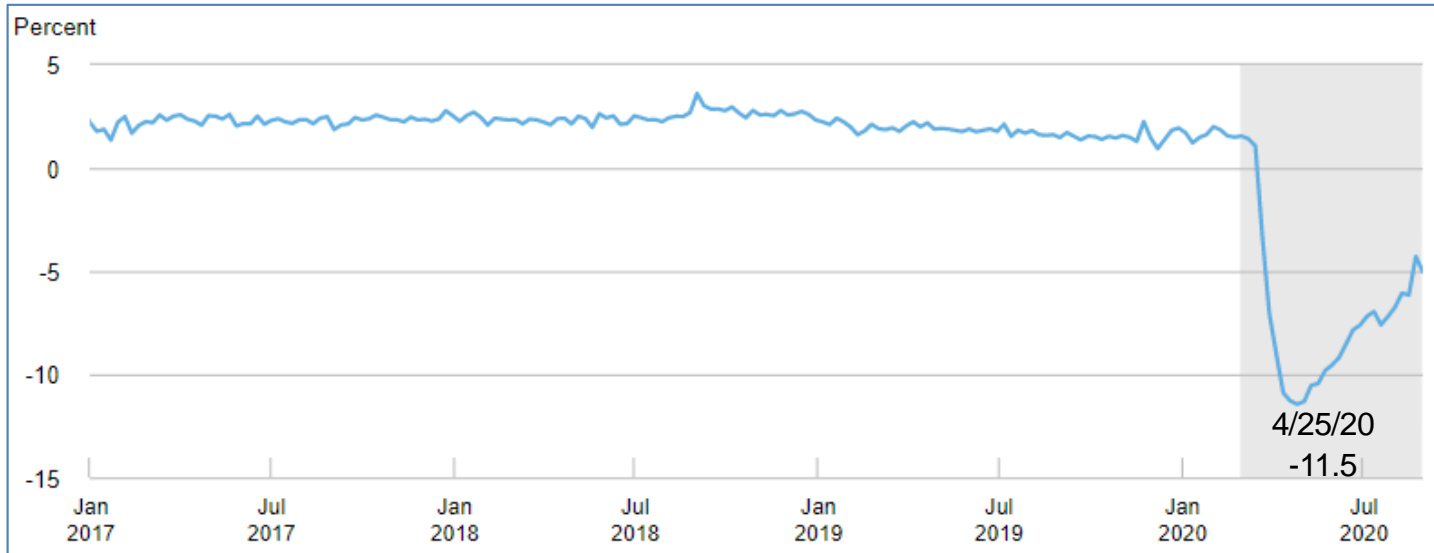
Dennis A. Shields
Chief Economist
Office of Data Analytics and Economics



U.S. economy continues recovery after steep contraction in spring



Weekly Economic Index



8/22/20	-4.3
8/29/20	-5.0

Source: Federal Reserve Bank of New York, <https://www.newyorkfed.org/research/policy/weekly-economic-index>.

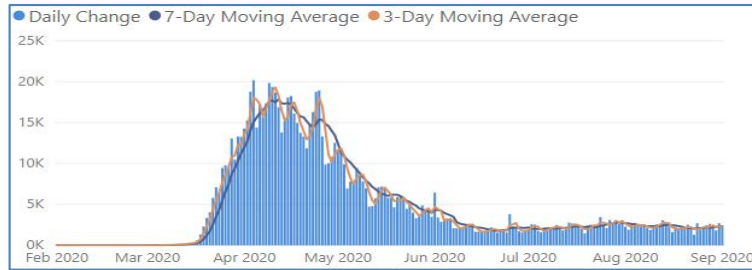
Note: The Weekly Economic Index is scaled to an annual GDP growth rate and is an index of ten daily and weekly indicators covering consumer behavior, the labor market, and production.



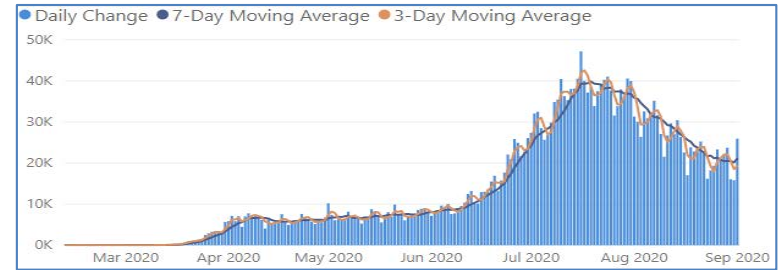
Trend in COVID-19 cases varies by U.S. region



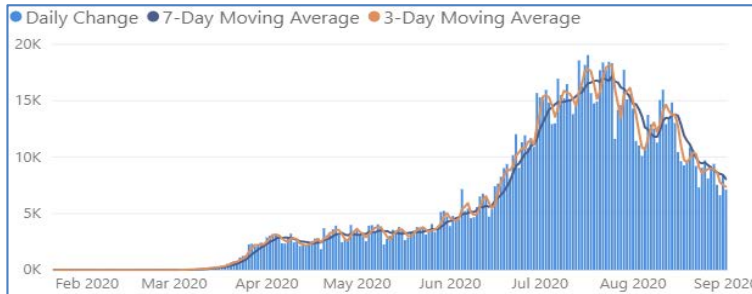
Northeast



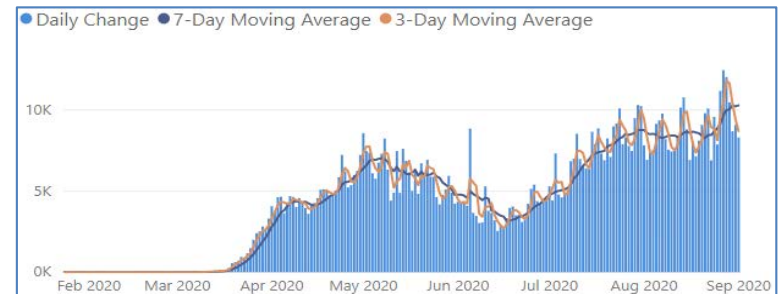
South



West



Midwest

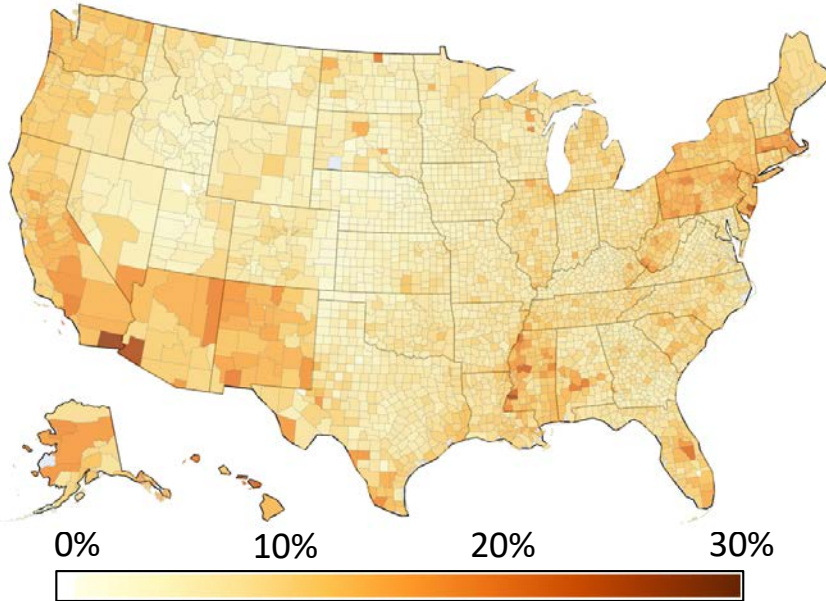


Source: Data from Johns Hopkins University Center for System Science and Engineering (as of 9/2/20).



Unemployment remains elevated in many areas of the United States

Unemployment rate by county in July 2020



	July 2019	July 2020
Employed	157.3 mil.	143.5 mil.
Unemployed	6.0 mil.	16.3 mil.
Unemployment rate	3.7%	10.2%

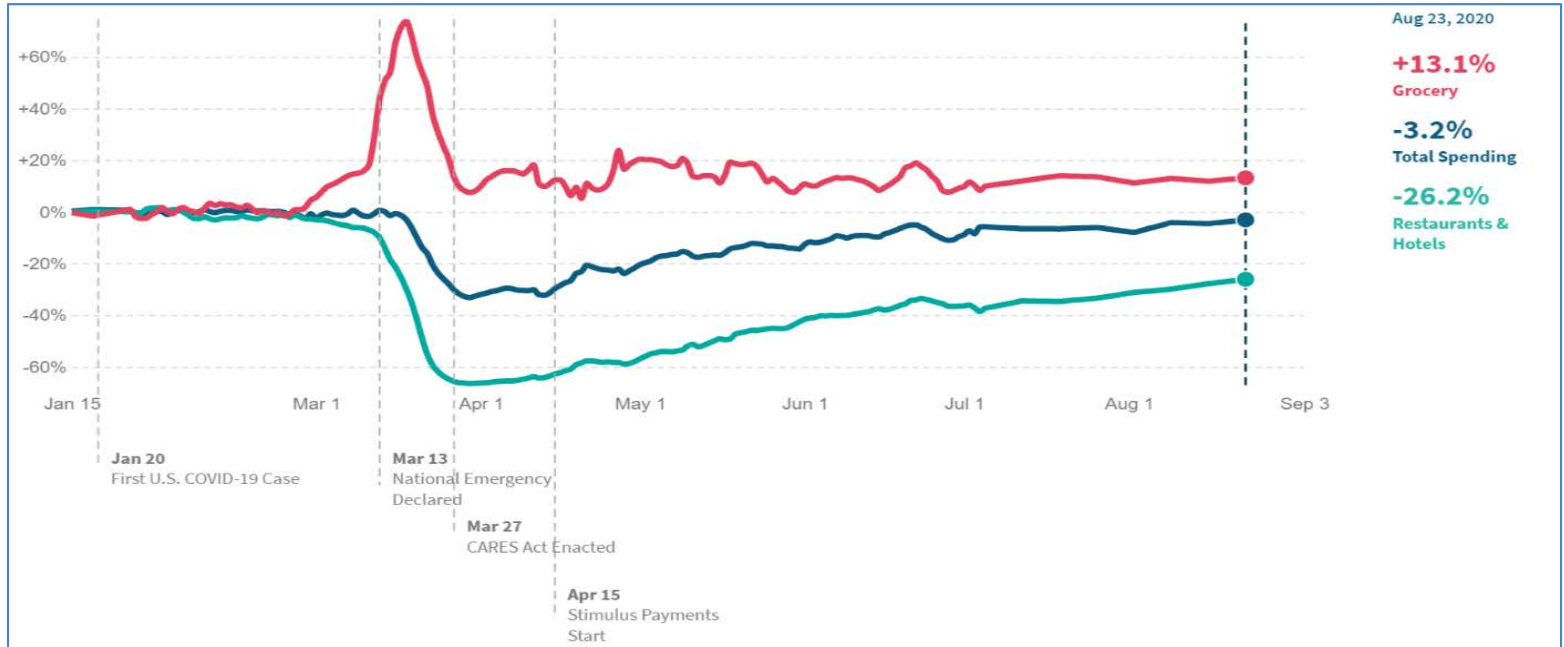


Source: FCA using data from U.S. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empsit.a.htm>.



Consumer spending has recovered some

Change in average consumer credit and debit card spending since January



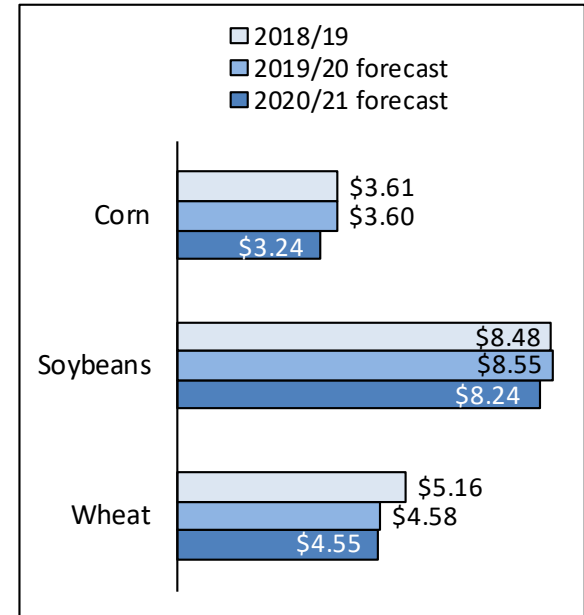
Source: www.tracktherecovery.org.



Expectations for large corn and soybean crops are tempered by poor weather in parts of the Midwest

- ▶ Farm prices for 2020 crops are forecast lower, but drought and exports have lifted markets recently.
- ▶ Price Loss Coverage payments supplement market returns when corn price < \$3.70 per bu. and soybean price < \$8.40 per bu.
- ▶ Wheat prices remain weak as large global stocks continue to overhang the market.

U.S. season-average farm price (\$/bu.)



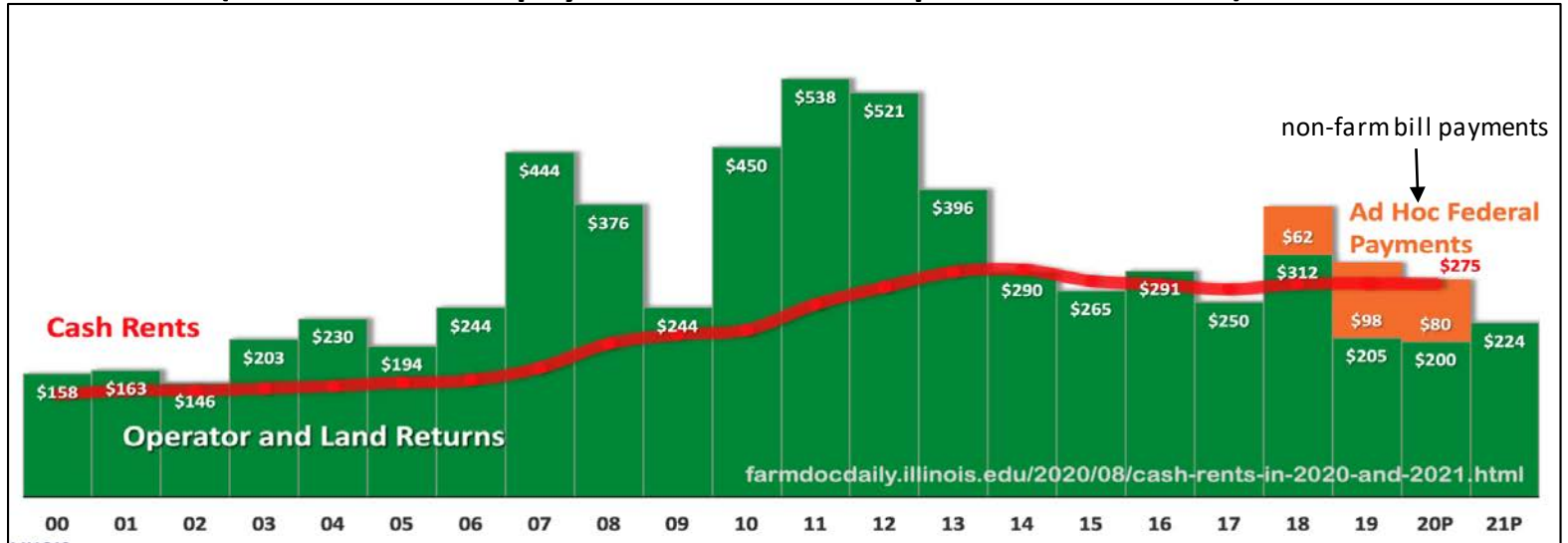
Source: FAPRI using August data.





Crop returns could fall sharply in 2021 without ad hoc federal assistance

Central Illinois operator and land returns (bars) and cash rents (line)
(assumes ad hoc payments for 2020 crop but not for 2021)



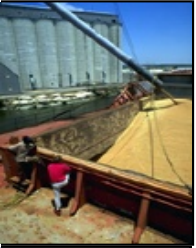
Source: farmdocdaily.illinois.edu/2020/08/cash-rents-in-2020-and-2021.html.

Note: High-productivity farmland.

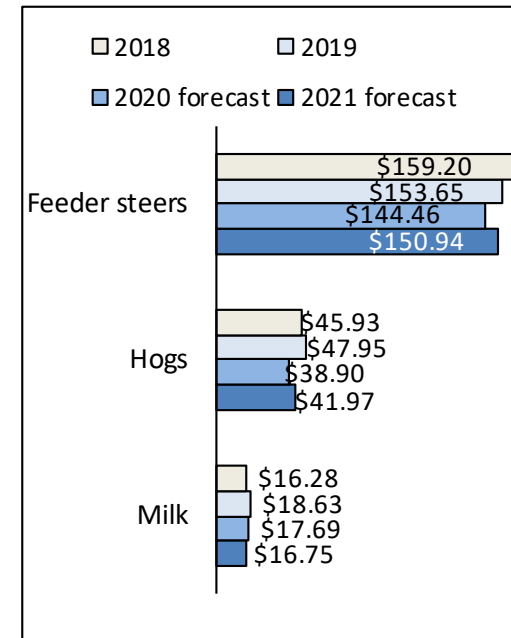


Livestock sector faces weather and price challenges following COVID-related disruptions

- ▶ For cow-calf producers, drought is pushing cows off marginal pastures; 4th quarter calf prices are expected below a year ago.
- ▶ Hog producers are expected to be unprofitable for rest of 2020 as the industry works through backlog of hogs.
- ▶ Dairy margins have been positive this summer with strong cheese demand lifting milk prices.



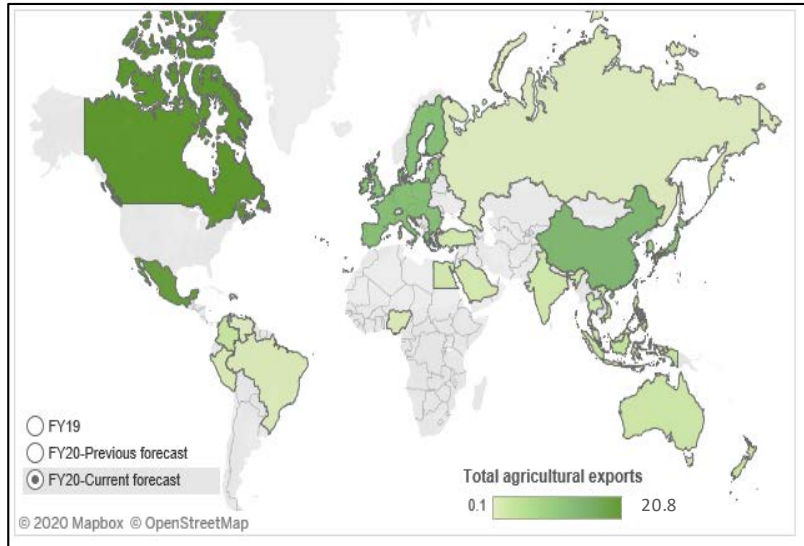
Annual prices (\$/cwt.)



Source: FAPRI using August data.



U.S. ag exports to rise in 2021 as shipments to China advance



Fiscal year U.S. agricultural exports (\$ bil.)

	2019	2020 forecast	2021 forecast
Canada	\$21.0	\$20.8	\$21.0
Mexico	\$19.0	\$19.0	\$19.3
China	\$10.1	\$14.0	\$18.5
Europe	\$13.2	\$11.7	\$11.9
Japan	\$12.1	\$11.6	\$11.8
World	\$135.5	\$135.0	\$140.5

Source: USDA/ERS.

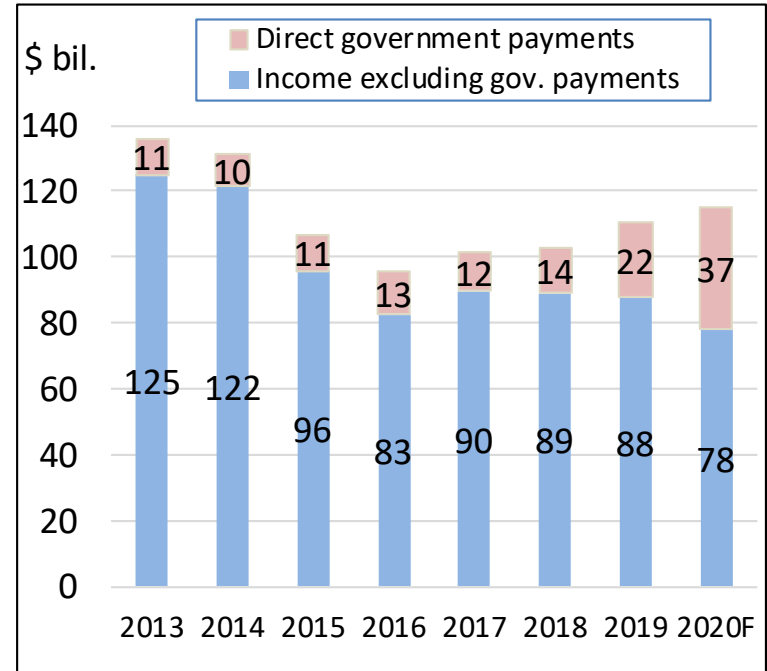
Note: Forecasts as of August 26, 2020.



Government payments continue to strengthen farm income

- ▶ Cash receipts in 2020 are forecast to decline 3.3% to \$358.3 billion.
- ▶ Cash expenses are down 1.3%, driven by lower interest expense.
- ▶ Net cash farm income is forecast to increase 4.5% to \$115.2 billion, which is above the historical inflation-adjusted average.
- ▶ Government payments account for a growing share of farm income.

Net cash farm income



Source: USDA/ERS, September 2, 2020.



Government support has been broadened to include many “non-program” commodities

- ▶ Farm program commodities: corn, soybeans, wheat, rice, cotton, peanuts, lentils, chickpeas, etc.; separate programs for milk and sugar.
- ▶ Recent ad hoc programs have expanded assistance to more commodities:
 - 2018 Market Facilitation Program (MFP)
 - ✓ 4 non-program commodities
 - 2019 MFP
 - ✓ 13 non-program commodities
 - 2020 Coronavirus Food Assistance Program (CFAP)
 - ✓ More than 125 non-program commodities
- ▶ With ad hoc payments, risk is reduced but only after-the-fact.
- ▶ Next farm bill will likely consider breadth and depth of farm support.





Concluding comments

- ▶ U.S. economic recovery is uneven as consumers and businesses adapt to challenges of COVID-19 impacts and attempt to find normalcy.
- ▶ Off-farm income prospects could be most affected in areas with largest changes in employment.
- ▶ Commodity prices and returns continue to pressure producers.
 - Major crop supplies remain plentiful; weather issues this summer have created both production losses (in some areas) but also marketing opportunities with price rallies.
 - Protein sector supplies are also plentiful; drivers include export demand and a rebound in foodservice demand.
 - For specialty crops, availability of farm workers remains a major concern.
- ▶ Substantial ad hoc government payments are helping many producers in 2020; there is no guarantee of a repeat next year.

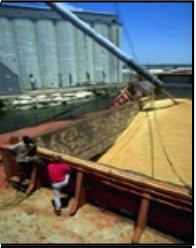




Questions



THANK YOU



Farm Credit System Condition and Performance

as of
June 30, 2020

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Portfolio credit quality
- ▶ Earnings
- ▶ Capital | Liquidity
- ▶ FIRS

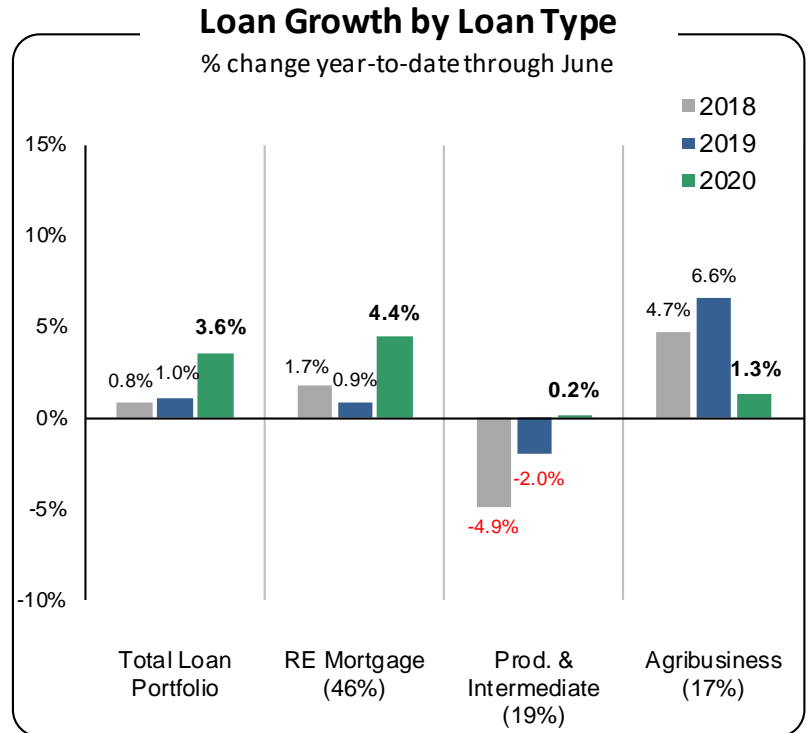
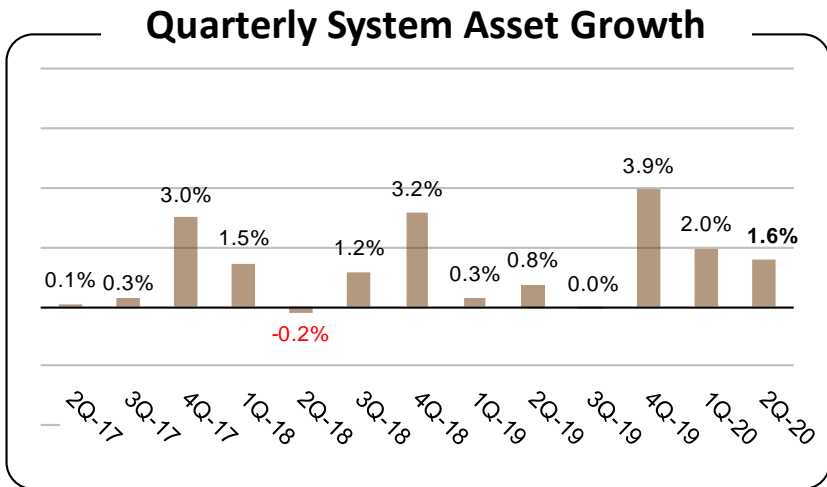




Real estate mortgage lending drives portfolio growth in the 1st half of the year



Total Assets 6/30/20	\$384.7	-0.7% Qtr	Qtr	Gross Loans 6/30/20	\$297.2	+1.6% Qtr
	billion	+5.3% YTD			billion	+3.6% YTD



Source: FCS Information Statements



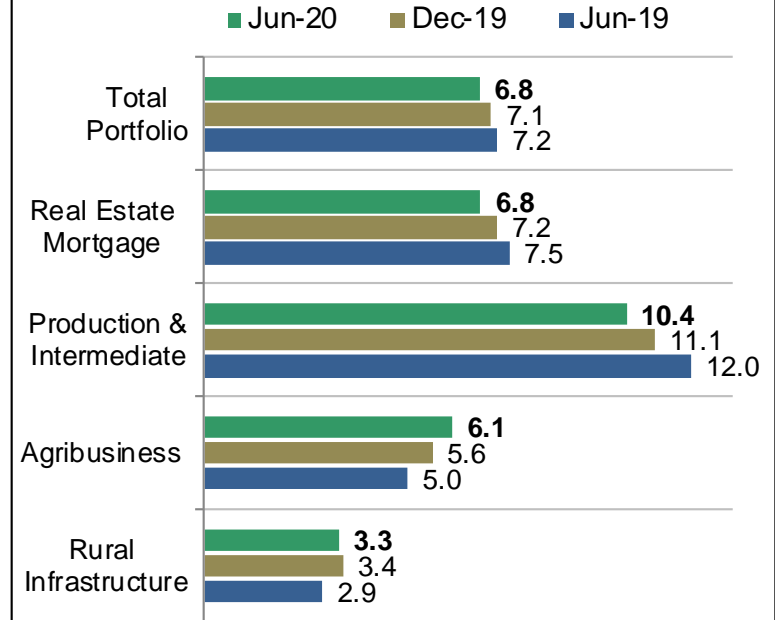
Credit risk indicators mixed; market uncertainty remains high for producers



Nonperforming Assets (6/30/20)	\$2.487 billion	YTD chg. + \$140M or +6.0%
		12 month chg. - \$43M or -1.7%
Delinquencies ⁽¹⁾ (6/30/20)	0.37%	Q4 '19 0.32%
		Q2 '19 0.36%

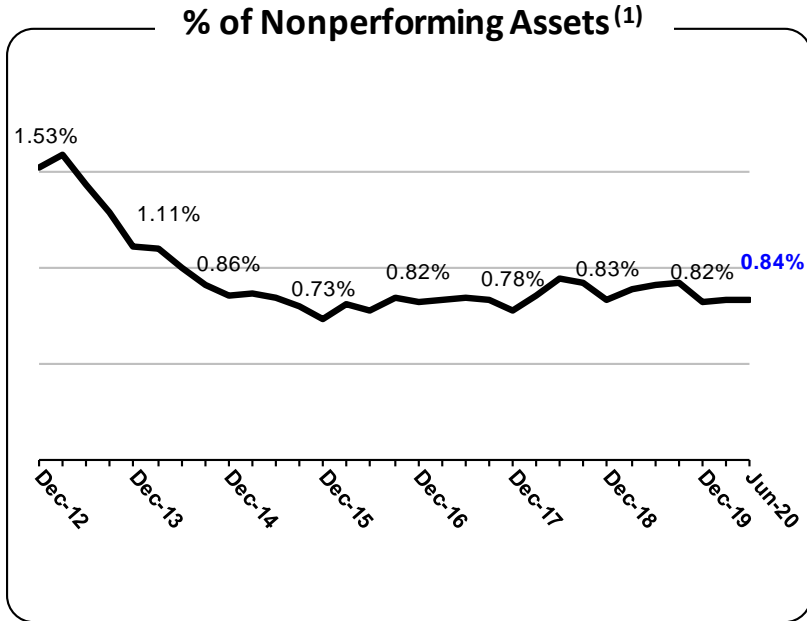
(1) accruing loans 30 days or more past due as a % of accruing loans

% of Loans Classified less than Acceptable



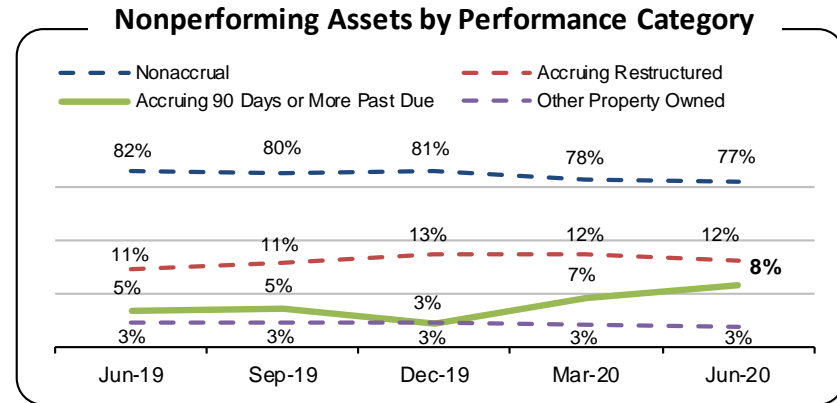
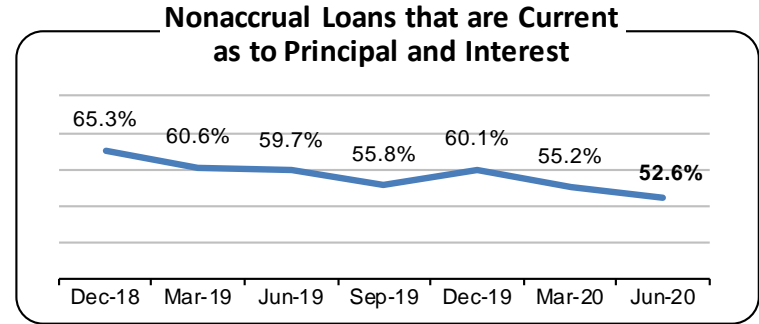


Nonperforming assets edge higher; indications of increasing portfolio stress



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

Source: FCS Information Statements



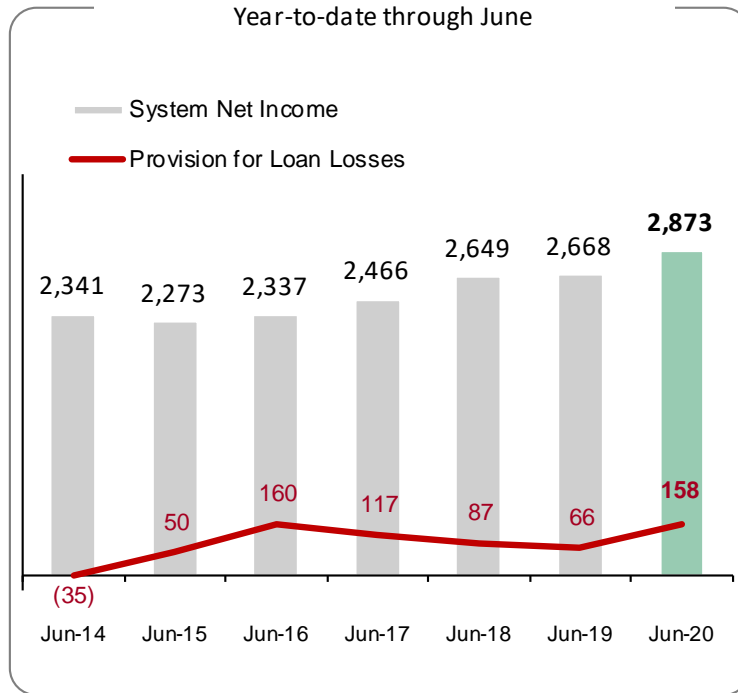


Strong earnings growth year-over-year; loan provisions rise



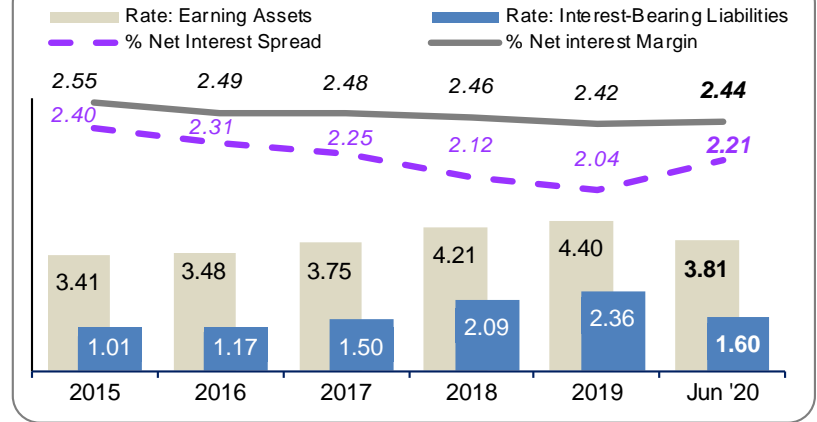
System Earnings (\$M)

Year-to-date through June



Source: FCS Information Statements

Net Interest Spread | Net Interest Margin



Rate | Volume Impact on Net Interest Income

YTD through June	Increase (decrease) due to:		
	Volume	Rate	Total
Interest Income	467	(1,167)	(700)
Interest Expense	263	(1,303)	(1,040)
Net Interest Income	204	136	340



System is financially sound and well-capitalized

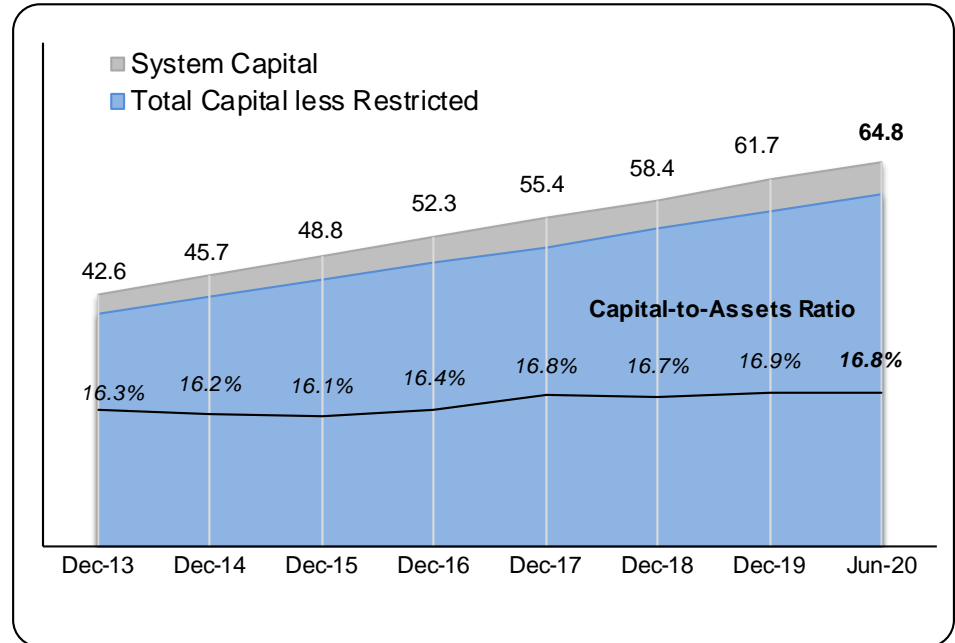
Capital and Liquidity

(as of June 30, 2020)

- ▶ Total Regulatory Capital:
Banks | 15.0% to 18.0%
Associations | 12.4% to 37.5%
- ▶ Days of available liquidity for the 4 funding banks ranged from 180 to 223 days
- ▶ Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.4% to 23.3% at a district level

Source: FCS Information Statements

Total System Capital (\$B)



Note: Restricted capital represents capital associated with the Insurance Fund.



System FIRS ratings

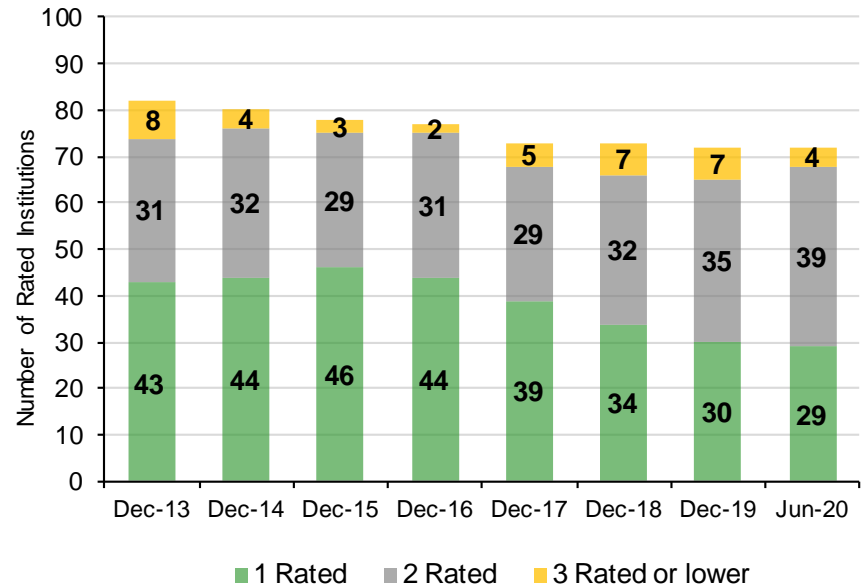
FIRS Ratings

(based on 6/30/20 financial reporting)

- ▶ Composite FIRS ratings remained steady in the 2nd 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



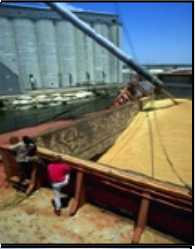
Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points



- ▶ The U.S. economy is recovering as local economies reopen, but significant uncertainty persists.
- ▶ For agricultural producers, market volatility and price concerns remain high for key crop and livestock sectors.
- ▶ The Farm Credit System remains fundamentally safe and sound.
- ▶ Although portfolio credit quality is expected to deteriorate, System institutions are strongly capitalized with significant risk-bearing capacity.
- ▶ System institutions are well-positioned to support agricultural producers and rural America.



Questions



THANK YOU