



# FCA Board Meeting April 2021

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## Quarterly Report on FCS Condition April 8, 2021

**Dennis A. Shields  
Hal Johnson**





# Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
  - Trade and commodities
  - Farm sector income
  - Government policies
- ▶ FCS Condition and Performance
  - System growth and loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)





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# Economic Conditions Affecting the Farm Credit System

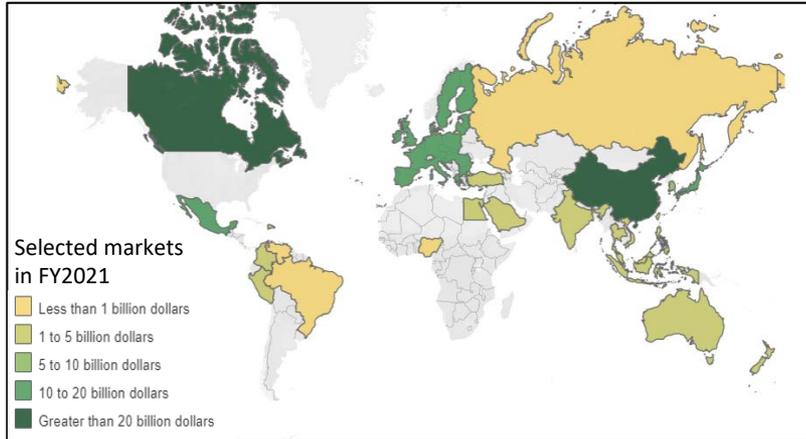
**Dennis A. Shields**

**Chief Economist**

**Office of Data Analytics and Economics**



# U.S. ag exports ramp up as shipments to China increase to record level



Source: USDA.

Note: Forecasts as of February 18, 2021.

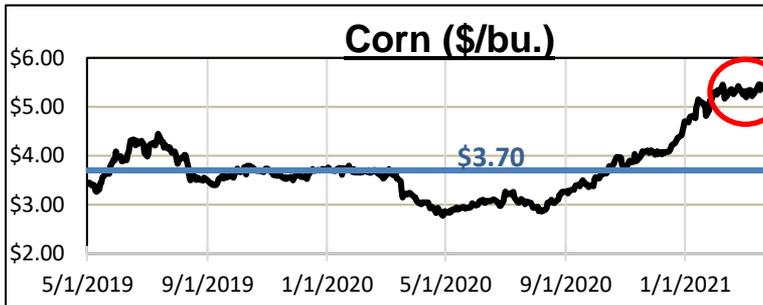
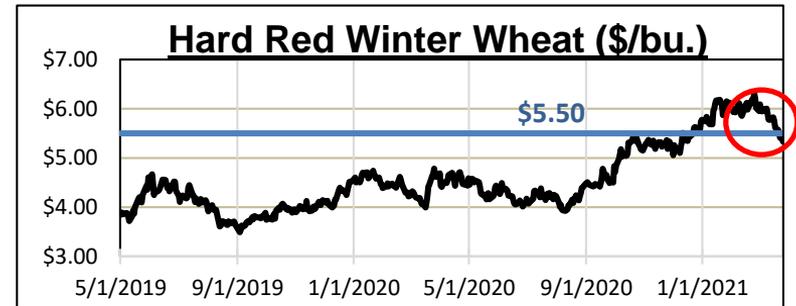
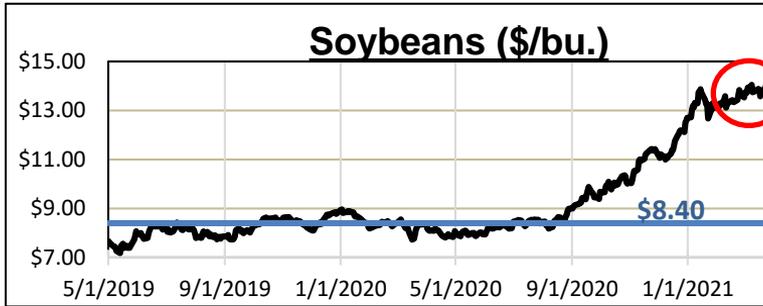
### Fiscal year U.S. ag exports (\$ bil.)

	2019	2020	2021 forecast
<b>China</b>	\$10.1	\$17.0	\$31.5
Canada	\$21.0	\$20.8	\$21.0
Mexico	\$19.0	\$18.1	\$19.5
Europe	\$13.2	\$11.7	\$11.9
Japan	\$12.1	\$11.4	\$12.4
<b>World</b>	<b>\$135.5</b>	<b>\$135.7</b>	<b>\$157.0</b>



# Crop prices remain at high levels, supporting producer margins

- Elevator daily cash bids (national index)
- Farm Bill reference price that triggers Price Loss Coverage payments using season average farm price



A distant past . . .  
low prices in June 2019, as seen  
through the elevator window.

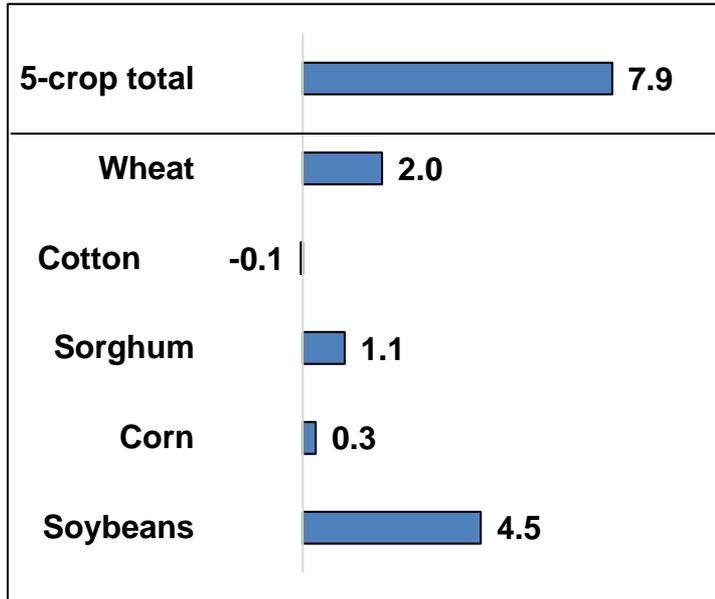
Commodity	Price 1	Price 2
WHEAT	4.07	4.11
MILO	3.41	3.64
BEANS	7.45	7.74
CORN	3.76	3.86

Source: MGEX elevator daily cash bids.



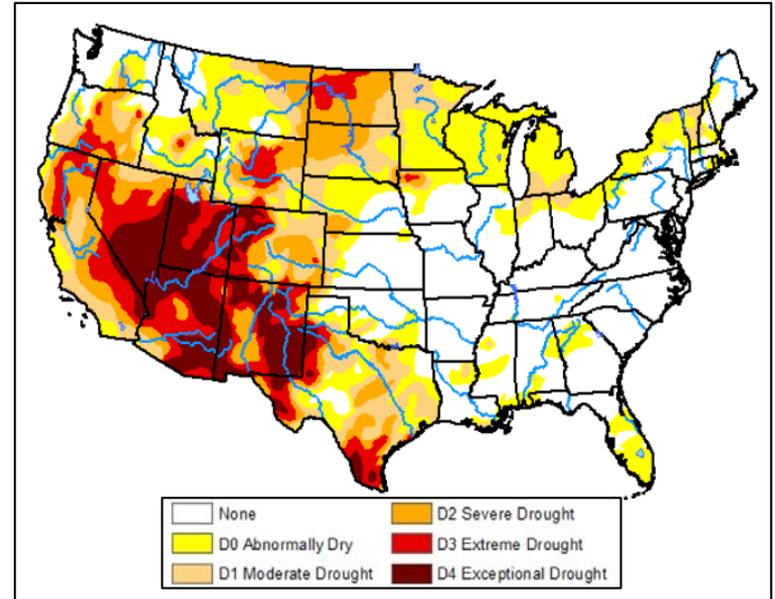
# Farmers to expand plantings in 2021; drought is a concern

## Prospective plantings: Million-acre change in 2021



Source: *Prospective Plantings*, 3/31/21, USDA/NASS.

## Drought covers much of the western U.S.



Source: [U.S. Drought Monitor](https://www.drought.gov/) released 3/25/2021.



# Livestock producers face higher feed costs

- ▶ Cow-calf margins are expected to be near breakeven in 2021; lingering drought conditions and higher feed costs remain a concern.
- ▶ Hog margins have deteriorated as feed costs increase, but lower hog inventory is supporting prices.
- ▶ Meat export demand is relatively strong.



Newborn calf with attentive cow.

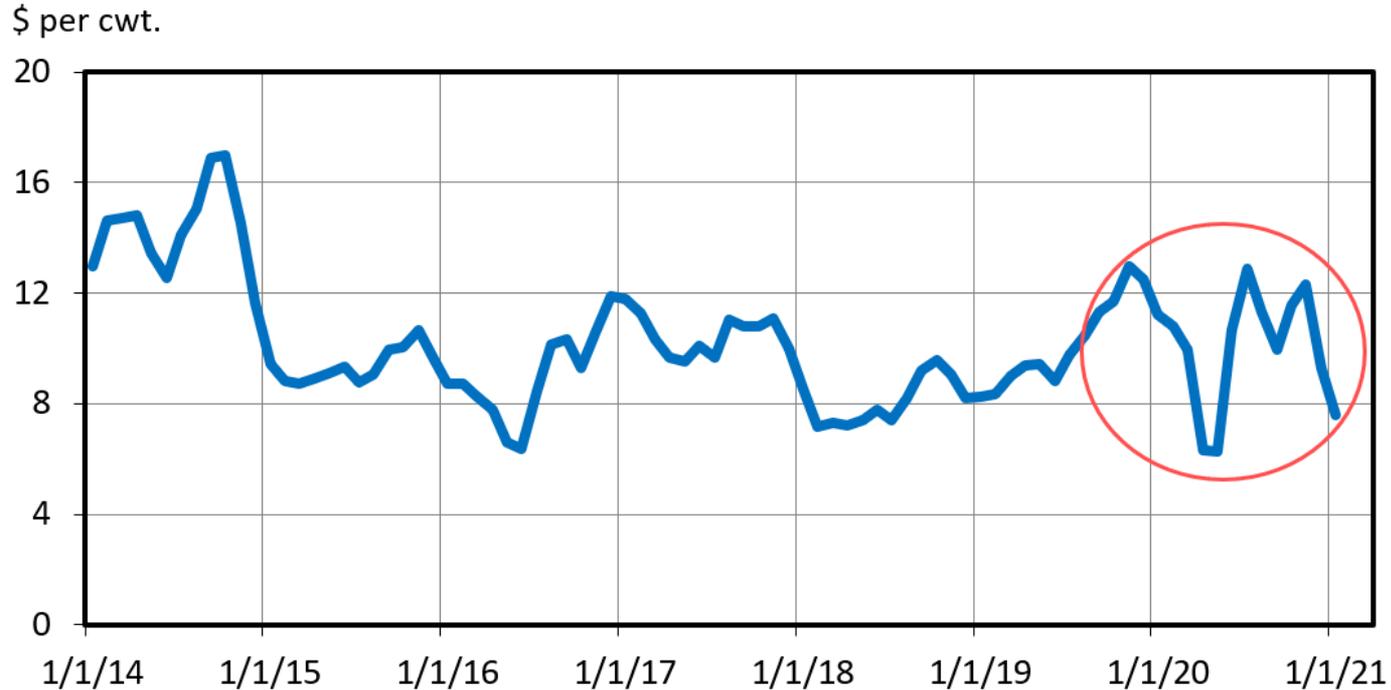




# Dairy farms challenged by income variability; returns depend on level of fixed costs



Midwest dairy income over feed costs



Source: Livestock Marketing Information Center.



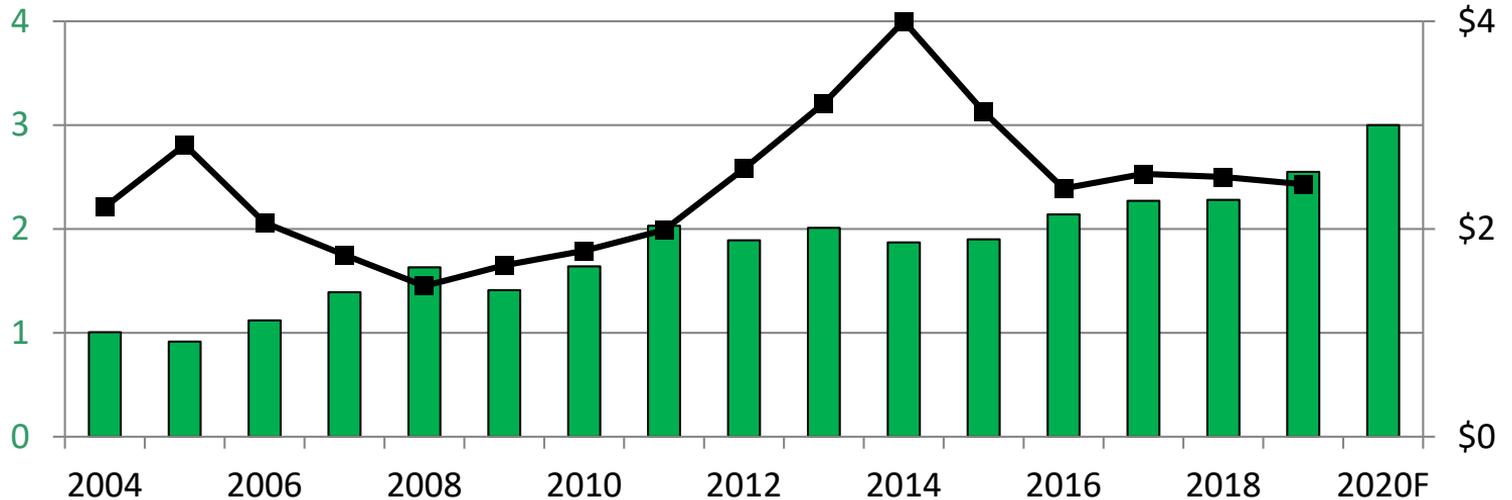
# Almond output expands; prices remain steady to lower

## U.S. almond production and average grower price

■ Production (left axis) ■ Price (right axis)

Bil. pounds

\$ per pound



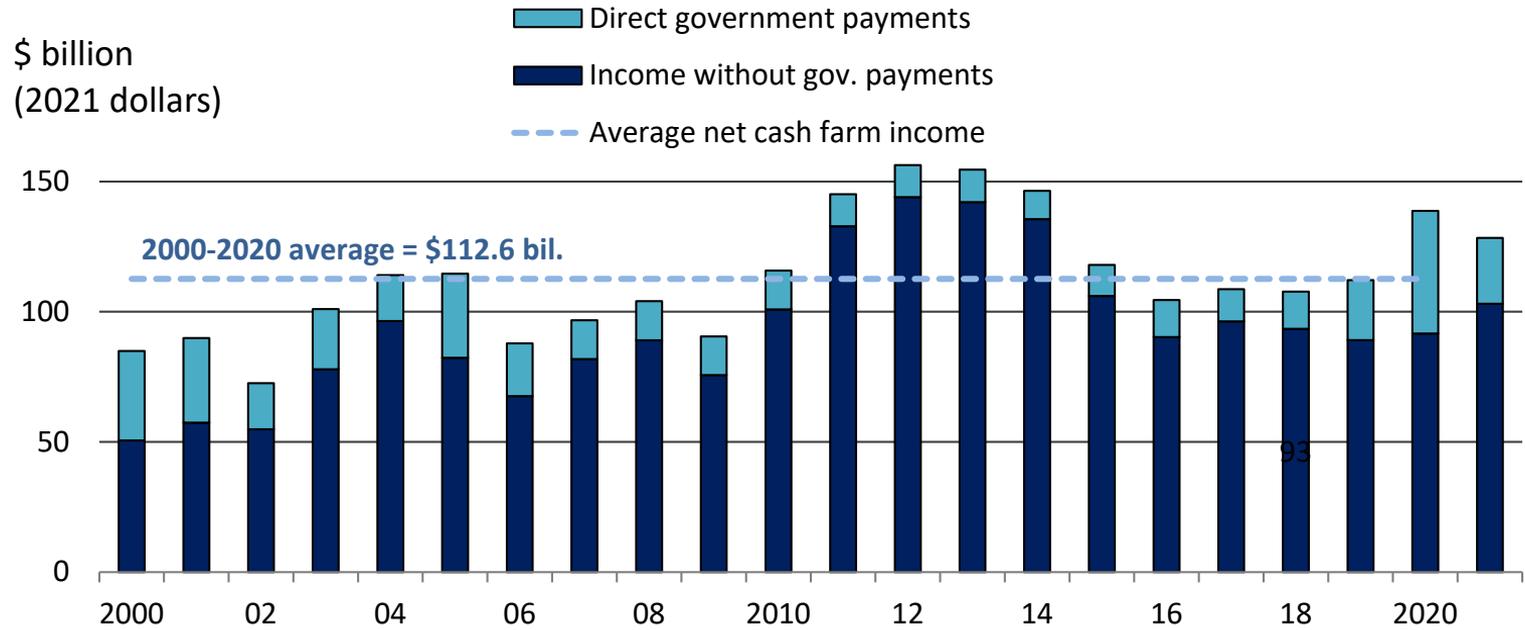
Source: USDA/NASS.



# Farm income to remain above average in 2021



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



Source: USDA/ERS, February 5, 2021.



# Farmland values are strong in early 2021

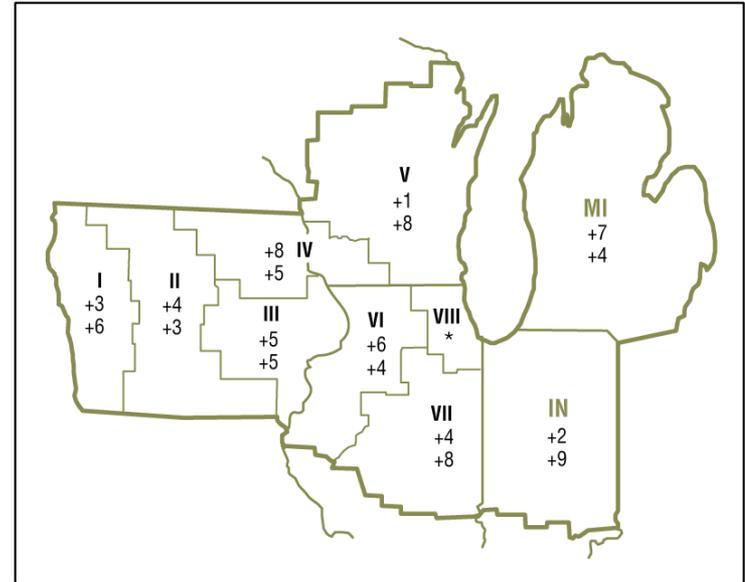
- ▶ In the Midwest, strong demand for land and not much is available for sale.
- ▶ Illinois real estate professionals expect land values up 5-10% in 2021.
- ▶ In Texas, values in fourth quarter 2020 were +4% for cropland and +10% for ranchland.



## % change in \$ value of “good” farmland

Top: Oct. 2020 to Jan. 2021

Bottom: Jan. 2020 to Jan. 2021



Source: Federal Reserve Bank of Chicago.



# Policy developments affecting farm income and risk

- ▶ Trade boom, bust, boom
- ▶ Farm Bill safety net programs
- ▶ Renewed emphasis on climate and conservation



No-till planting soybeans into corn stubble.



# Concluding comments

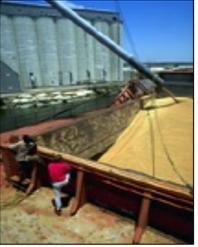
- ▶ Economic recovery is underway.
- ▶ Grain prices are at high levels, benefiting many crop producers.
- ▶ Livestock margins are tight with higher feed costs.
- ▶ Risk management will be key.
- ▶ Government assistance: depth, breadth, timeliness.





# Questions

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**THANK YOU**



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# Farm Credit System Condition and Performance

as of  
December 31, 2020

**Hal Johnson**  
Sr. Financial Analyst  
Office of Examination



# Topics

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- ▶ System growth
- ▶ Loan Portfolio
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

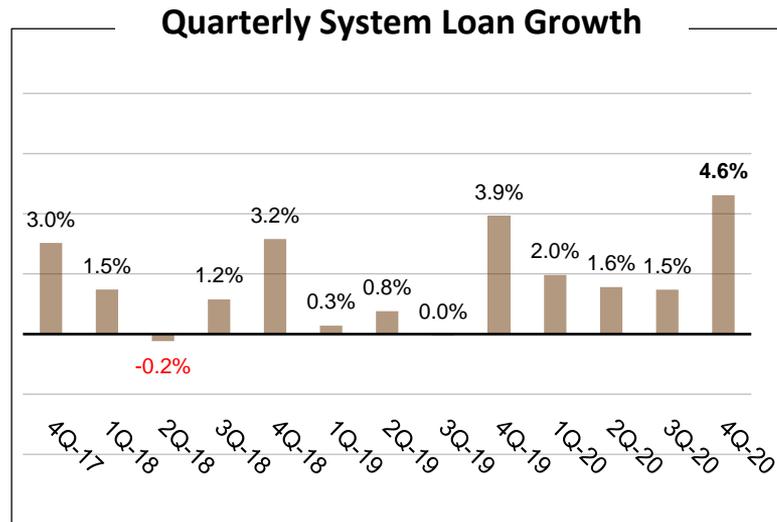




# System growth was the strongest since 2008



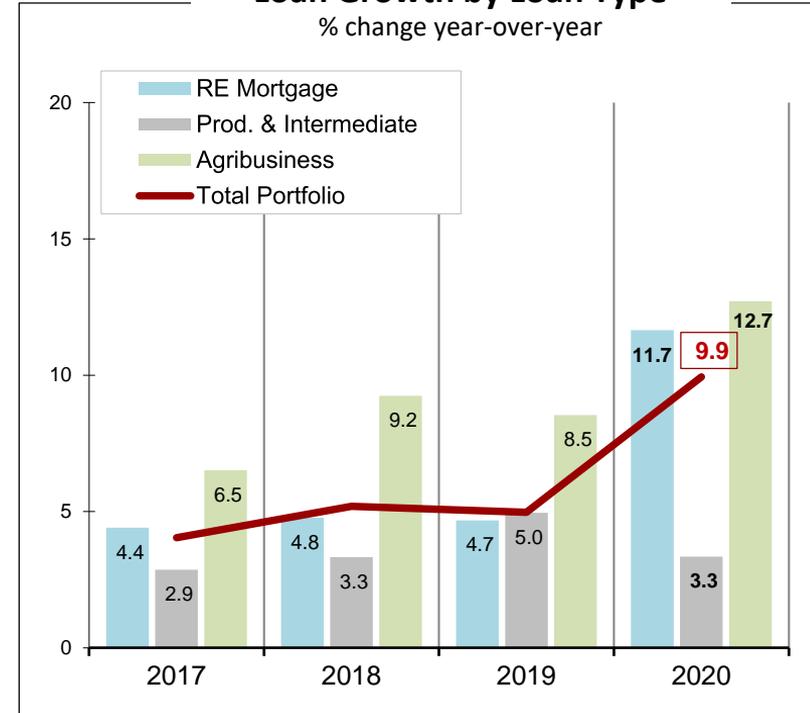
<b>Total Assets</b> 12/31/20	<b>\$400.7</b>	<b>+4.1%</b> Qtr	billion	<b>Gross Loans</b> 12/31/20	<b>\$315.5</b>	<b>+4.6%</b> Qtr	billion
		<b>+9.7%</b> FY				<b>+9.9%</b> FY	



Source: FCS Information Statements

## Loan Growth by Loan Type

% change year-over-year





# The System's loan portfolio performed well in a difficult year



- ▶ Portfolio credit quality remained sound despite the many challenges agricultural producers faced in 2020.
- ▶ Most credit risk measures improved compared to a year ago.
- ▶ Risk remains elevated for certain agricultural sectors and geographical regions.

<b>Nonperforming Assets</b> (12/31/20)	<b>\$1.897</b> billion	<b>Qtr chg.</b>	<b>- \$424M or -18.3%</b>
		<b>12 month chg.</b>	<b>- \$450M or -19.2%</b>
<b>Delinquencies <sup>(1)</sup></b> (12/31/20)	<b>0.28%</b>	<b>Q3 '20</b>	<b>0.28%</b>
		<b>YE '19</b>	<b>0.32%</b>

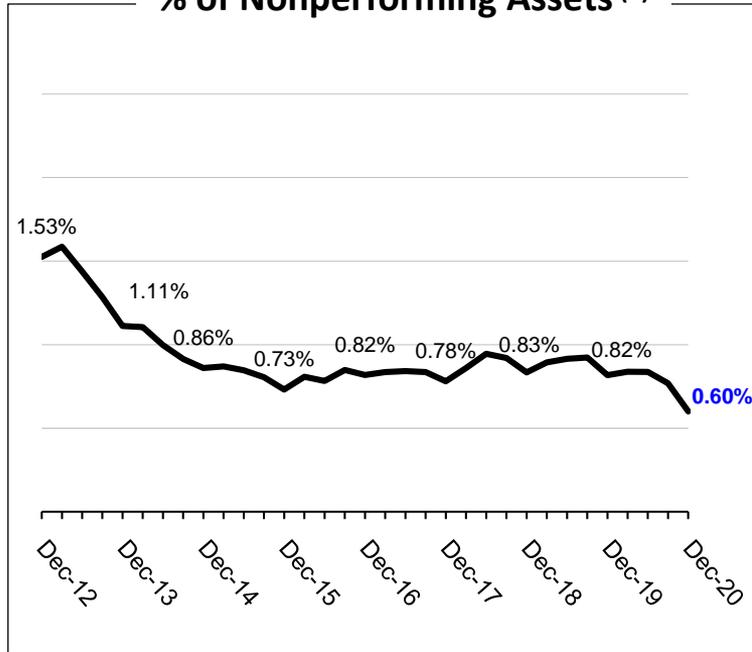
(1) accruing loans 30 days or more past due as a % of accruing loans



# Credit risk indicators trend lower in 2020; strong loan growth a factor

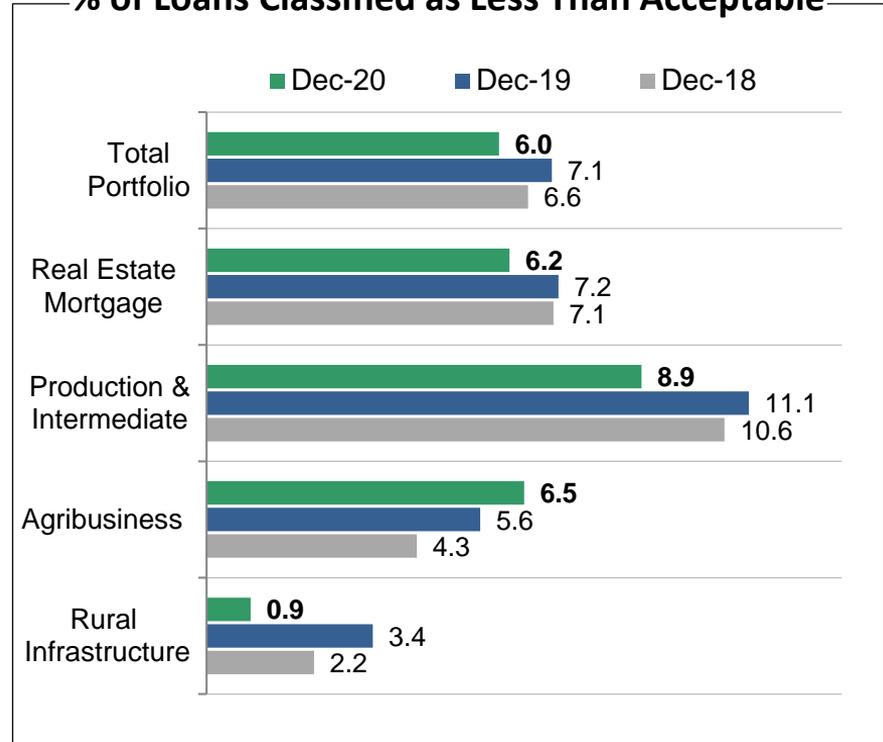


**% of Nonperforming Assets (1)**



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

**% of Loans Classified as Less Than Acceptable**

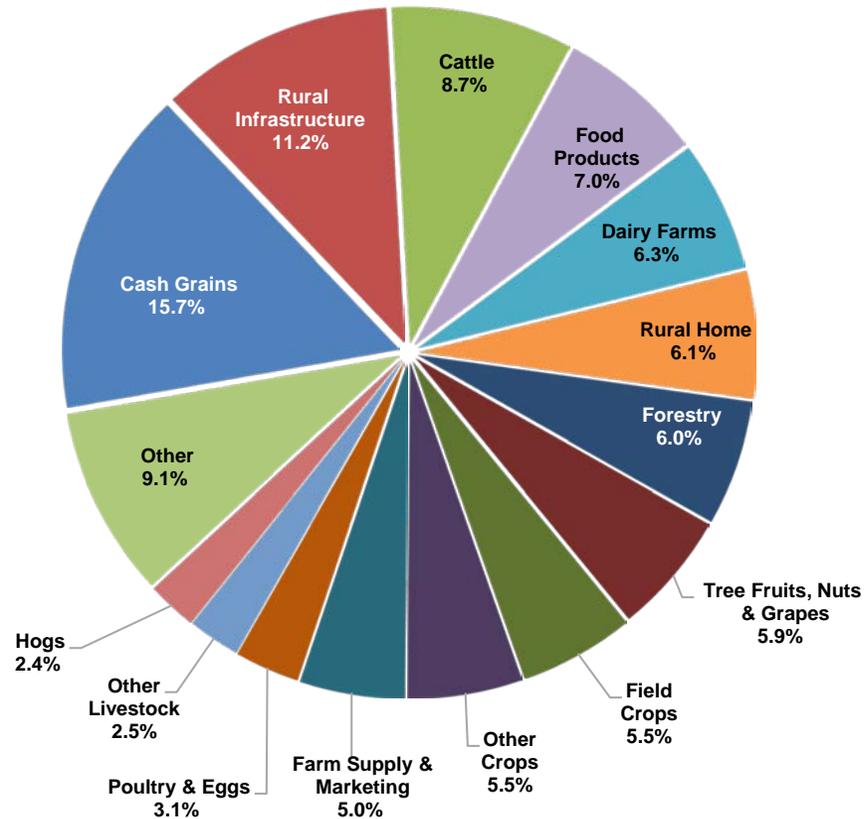


Source: FCS Information Statements



# System's portfolio is diversified by commodity

## System Loan Portfolio by Commodity Concentration



System Loan Portfolio (\$ in millions)	Dec-20	% of Total Portfolio	% chg. yr. over yr.
Cash Grains	49,475	15.7%	9.2%
Tree Fruits, Nuts & Grapes	19,145	6.1%	10.1%
Field Crops	17,367	5.5%	7.7%
Other Crop Production	16,657	5.3%	9.9%
<b>Total Crop Production</b>	<b>102,644</b>	<b>32.5%</b>	<b>9.2%</b>
Cattle	27,560	8.7%	6.7%
Dairy Farms	20,017	6.3%	6.4%
Poultry & Eggs	8,698	2.8%	8.4%
Hogs	7,476	2.4%	5.1%
Other Livestock	7,977	2.5%	9.3%
<b>Total Animal Production</b>	<b>71,728</b>	<b>22.7%</b>	<b>6.9%</b>
Rural Infrastructure	34,477	10.9%	16.2%
Food Products	24,049	7.6%	18.4%
Rural Home	19,069	6.0%	9.7%
Forestry	18,567	5.9%	8.8%
Farm Supply & Marketing	15,757	5.0%	12.3%
Other	29,199	9.3%	6.3%
<b>Total</b>	<b>315,490</b>	<b>100.0%</b>	<b>9.9%</b>

Source: FCS Information Statement



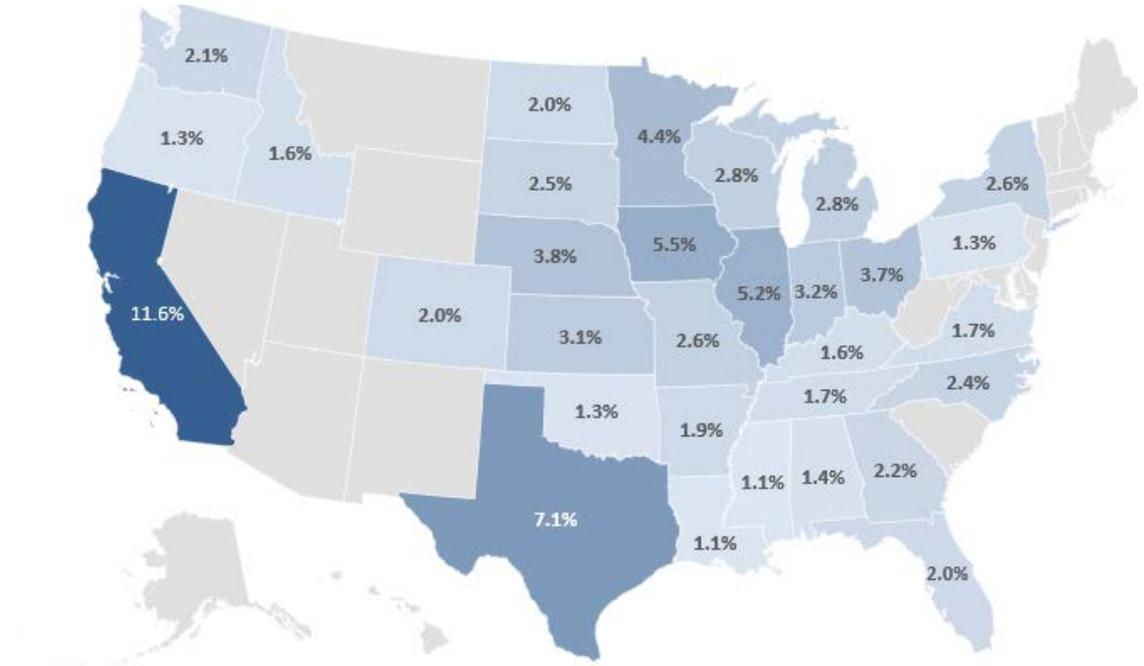
# Portfolio volume is geographically distributed



## % of System Loan Volume by State as of year-end 2020

(only states with at least 1% are displayed)

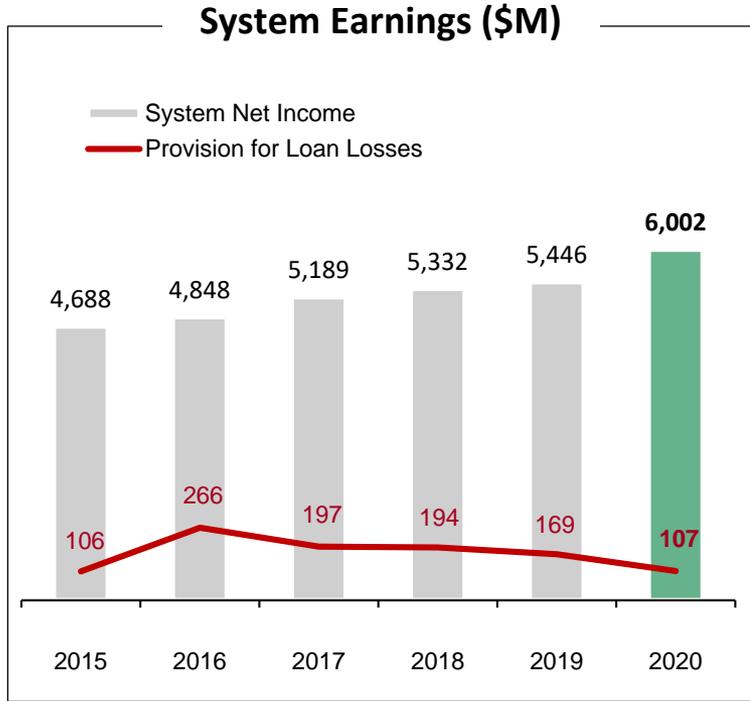
Top 5 States	% of Portfolio
California	11.6%
Texas	7.1
Iowa	5.5
Illinois	5.2
Minnesota	4.4



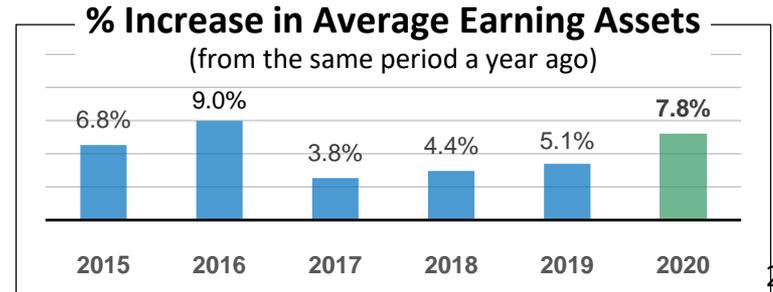
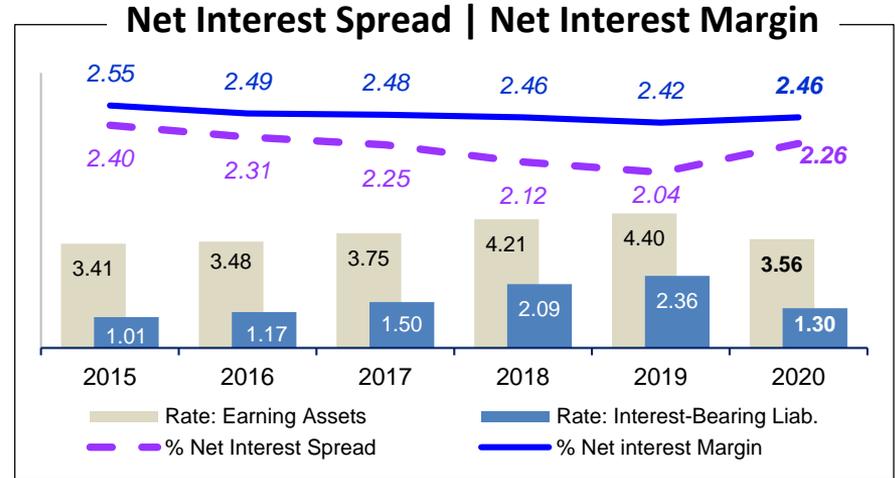
Source: FCS Information Statement



# The System reported strong earnings and improved margins in 2020



Source: FCS Information Statements





# Strong earnings supported continued capital growth

## Capital and Liquidity

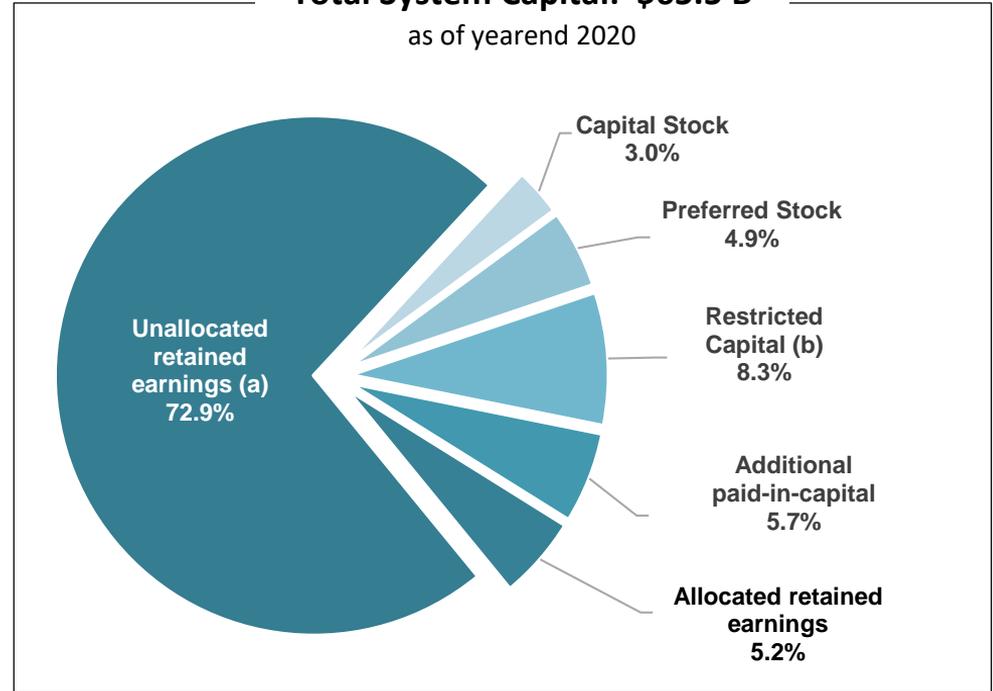
( as of December 31, 2020 )

- ▶ Total Regulatory Capital levels:  
Banks: 15.2% to 19.5%  
Associations: 11.8% to 37.6%
- ▶ Days of available liquidity for the 4 funding banks ranged from 167 to 196 days.
- ▶ Capital and the Allowance for Loan Losses as a % of loans for the combined districts ranged from 17.6% to 22.8%.

Source: FCS Information Statements

## Total System Capital: \$65.5 B

as of yearend 2020



(a) includes \$0.6B in accumulated other comprehensive loss

(b) Restricted Capital represents capital associated with the Insurance Fund



# System FIRS ratings

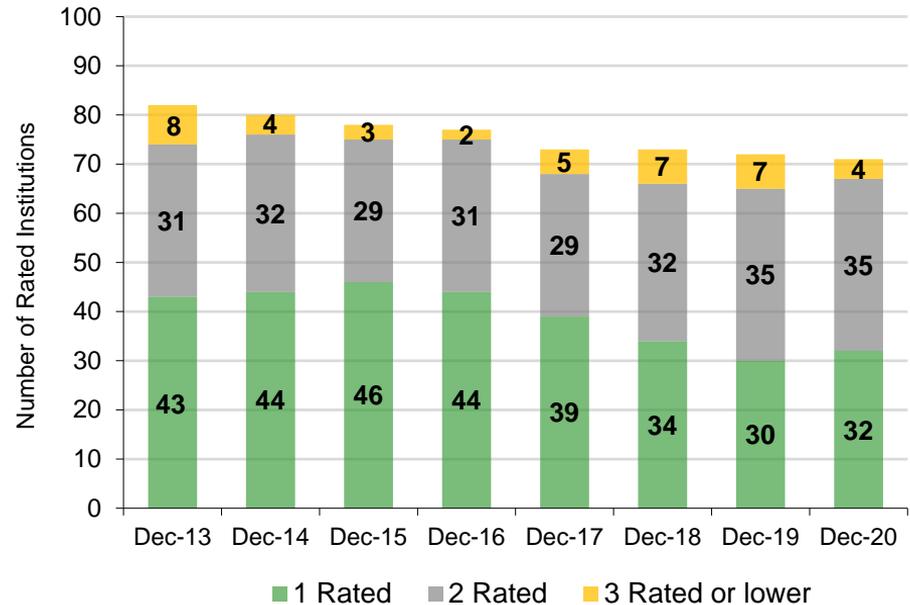


## FIRS Ratings

( based on 12/31/20 financials )

- ▶ Composite FIRS ratings reflect the System's sound condition and strong financial performance.
- ▶ Almost 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower account for less than 1.5% of System assets.

Composite FIRS Ratings  
Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



# Summary and final points

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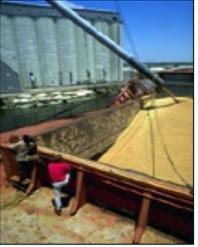
- ▶ Crop producers benefiting from robust exports and strong prices.
- ▶ Rising feed costs squeeze margins for livestock producers.
- ▶ Continuing drought in the West is a concern.
- ▶ Portfolio loan quality is sound, but risks remain elevated for certain agricultural sectors and geographic regions.
- ▶ The Farm Credit System is safe and financially strong.
- ▶ System institutions are strongly capitalized and are well-positioned to support agricultural producers and rural America.





# Questions

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**THANK YOU**