Quarterly Report on FCS Condition
June 10, 2021

Steve Koenig
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Macro economy
  - Commodity markets
  - Farm economy

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

Steve Koenig
Senior Agricultural Economist
Office of Data Analytics and Economics
Rapid economic growth

- U.S. Q1 growth at historically high pace - 6.4%
- U.S. imports set monthly record of $275B in March
- April retail sales up 18% over February 2020
- Equity markets roll on to records with cryptocurrencies

Demand drivers:
- Consumers unleashed
- $5 trillion in stimulus and related policies
- Improving labor market and consumer confidence
- Historically low interest rates
Supply chains and labor markets tighten

➢ Worldwide supply chains stretched thin
  ▪ Production bottlenecks and low inventory hangovers from 2020
  ▪ Key component shortages from micro chips to plastic resins
  ▪ Distribution and shipping constraints:
    ▪ Baltic Dry Index (cost of moving by sea) reached 10-year high in April
    ▪ U.S. domestic freight expenditures index rose 6.5% in March

➢ U.S. labor markets tighten
  ▪ More job openings but smaller workforce than before pandemic
  ▪ Workforce participation restrained by government policies and other factors
  ▪ Labor shortages emerge – manufacturing, construction, trucking, and food services
  ▪ Wages and compensation rising – April wages up 5.8% from February 2020
Raw material prices rise

- Widespread commodity price increases – some to records
- Supply and demand imbalances and future expectations
- China is leading commodity importer – 45% of maritime dry-bulk market

Source: International Monetary Fund database.
Inflation rekindled?

- April CPI rose at 4.2% annual rate -- a 13 year high (6.2% for first 4 months)

- Too much money chasing too few goods
  - The median sales price of existing-homes rose 19.1% year-over-year in April to $341,600, both record highs (National Association of Relators)
  - Rising building materials costs and low inventory caused new home sales prices to jump 20% year-over-year in April (National Association of Home Builders)
  - Year-over-year April used car and truck prices up 21% in BLS data while Manheim Used Vehicle Value Index increased 52.2%

- As economy fully opens, more consumer spending will shift to services which should moderate goods price increases
Will this latest inflation be “transitory”?

- Younger generations (borrowers) have never experienced sustained rates above 4%
- Once rooted, curtailing inflation can require substantial monetary policy adjustments
- Monetary policy includes soaking up some $120 billion per month of federal stimulus

Source: St. Louis Federal Reserve Bank. Shaded areas are economic recessions.
Higher inflation leads to higher interest rates

Impact on System borrowers

- Yield curve has become steeper
- Changes in interest rates quickly impact borrowing costs on majority of System loans
- Share of loans repricing in:
  - Less than 1 year: 55.4%
  - 1 to 5 years: 24.9%
  - Over 5 years: 19.6%

Source: First Quarter 2021 Information Statement of the FCS.
Grain and oilseed prices soar on shortages

- Profitable pricing opportunities for the next two crops
- China feed grain and oilseed needs push exports to the country to records
- South American production (safrinha corn) shortfalls
- U.S. and global stocks forecast to remain tight for 2021/22
- Looking ahead on renewal fuel standards

Source: USDA-NASS and USDA-WOAB.
Farmland prices jump with crop prices

- How much have values risen?
  - Chicago Fed - 7% in 12 month
  - Iowa survey - 8% in 6 months
  - Prime land prices – 10% - 15% spikes

- Pricing factors
  - Higher grain prices
  - Government payments/stimulus
  - Limited supply on market
  - Greater investor interest
  - Low interest rates

- Outlook
  - Monetary and tax policy changes
  - 2022 rental costs expected to rise

Data source: USDA.
Higher crop input costs this spring

- Ag chemicals with large supply chain exposures to China saw reduced availability, higher shipping costs, freight delays
- Major fertilizer prices moved higher throughout this spring
- Anhydrous ammonia retail price hits $700 per ton in April for first time since 2015
- Diesel fuel costs 25% higher in April 2021 vs. April 2020
- Modest seed price increases

**Spring Fertilizer Prices**

<table>
<thead>
<tr>
<th></th>
<th>Apr 13-17 2020</th>
<th>Apr 12-16 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAP</td>
<td>410</td>
<td>509</td>
</tr>
<tr>
<td>POTASH</td>
<td>370</td>
<td>432</td>
</tr>
<tr>
<td>UREA</td>
<td>384</td>
<td>492</td>
</tr>
<tr>
<td>ANHYD</td>
<td>624</td>
<td>700</td>
</tr>
</tbody>
</table>

Source: DTN.
Higher machinery sales and prices

- Large farm tractor and combine sales rise on stronger farm incomes and government payments
- Small tractor sales rise on strong rural lifestyle demand aided by stimulus payments
- Low financing rates aids sales across all segments
- Resale prices (used) on farm equipment rose last fall into this spring

![New Farm Tractor and Combine Sales](chart1.png)

![Resale Price of Farm Tractors and Combines*](chart2.png)

*Average monthly sell price of less than 5 years old units not adjusted for hours, options, or seasonality.

Source: Association of Equipment Manufacturers.
All eyes on weather

- Stressed pastures and reduced hay production in cattle country
- With tight supplies, crop conditions here and abroad are being closely scrutinized
- Corn and bean crops off to a very good start
- Kansas wheat tour reports a record yield is coming (58 bu.)
- Western / California drought is a growing concern
California drought rerun?

Source: http://cdec.water.ca.gov/
Rising costs cloud protein outlook

- Producers and processors face higher costs:
  - Higher feed bills
  - Rising labor costs/shortages and Covid mitigation expenses
  - Processing capacities
  - Transportation costs/bottlenecks/cyberattack disruptions
  - Rising cost of capital goods

- Demand turns up – but for how long?
  - Export market growth
  - Reopening of restaurants reshapes distribution once again
  - Return of social and family gatherings and grill season
  - Stimulus payments find their way into food budgets
  - Domestic food purchases and return of school lunches
Hog and broilers prices soar with low supplies

- Exports draw down stocks
- Low cold storage stocks of pork and chicken
- Chicken sandwich wars
- Supply/production constraints

Source: USDA/AMS.
How long will protein margins hold?

Shaded areas are forecasts. Source: IHS Markit May 2021.
Cattle prices languish

- Cattle producers are not enjoying as much of a price increase relative to wholesale or retail levels.

- Packer margins moved to historically high levels in April.

- Feeder prices and feed costs present challenges under current pricing outlook.

Source: USDA/ERS
Dairy demand is soaking up higher production

- Cheese and powder milk production is up
- Strong dairy exports
- Food service and domestic demand is ramping up
- Margins expected to improve
- Headwinds for fluid milk

Shaded areas are a forecast. Source: IHS Markit.
Concluding comments

- U.S. economic rebound continues with stressed supply chains, tightening labor markets and upward pressure on prices.
- U.S. food system continues to adjust to demand shifts and supply disruptions in the post-pandemic environment.
  - Higher prices for many ag commodities
  - Higher costs for ag inputs
  - Not all outcomes are positive
- Price volatility and policy adjustments going forward.
- As always, weather here and abroad is critical.
Questions

Thank You!
Farm Credit System Condition and Performance

as of
March 31, 2021

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System growth
- Portfolio credit quality
- Earnings
- Capital | Liquidity
- FIRS
Real estate mortgage and agribusiness lending drive 1st quarter loan growth

<table>
<thead>
<tr>
<th>Total Assets 3/31/21</th>
<th>Gross Loans 3/31/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>$404.4 billion</td>
<td>$321.8 billion</td>
</tr>
<tr>
<td>+0.9% Qtr</td>
<td>+2.0% Qtr</td>
</tr>
<tr>
<td>+4.4% 12M</td>
<td>+10.0% 12M</td>
</tr>
</tbody>
</table>

### Quarterly Loan Growth

- **Q1-19**: 1.5%
- **Q2-19**: 3.2%
- **Q3-19**: 0.3%
- **Q4-19**: 0.8%
- **Q1-20**: 0.0%
- **Q2-20**: 2.0%
- **Q3-20**: 1.6%
- **Q4-20**: 1.5%
- **Q1-21**: 2.0%

### Loan Growth by Loan Type

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>% change from prior quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loan Portfolio</td>
<td>0.3%</td>
</tr>
<tr>
<td>RE Mortgage (47%)</td>
<td>1.3%</td>
</tr>
<tr>
<td>Prod. &amp; Intermediate (18%)</td>
<td>-4.4% to -4.2%</td>
</tr>
<tr>
<td>Agribusiness (18%)</td>
<td>8.0% to 10.1%</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements
Portfolio loan quality is strong; little change in 1st quarter credit measures

<table>
<thead>
<tr>
<th>Nonperforming Assets (3/31/21)</th>
<th>Qtr chg.</th>
<th>12 month chg.</th>
<th>Delinquencies (1) (3/31/21)</th>
<th>Q4 '20</th>
<th>Q1 '20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.28%</td>
<td>0.46%</td>
</tr>
<tr>
<td>$1.905 billion</td>
<td>+$8M or</td>
<td>-$546M or</td>
<td>0.31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) accruing loans 30 days or more past due as a % of accruing loans</td>
<td></td>
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</tr>
</tbody>
</table>

% of Loans Classified less than Acceptable

<table>
<thead>
<tr>
<th>Segment</th>
<th>Mar-21</th>
<th>Mar-20</th>
<th>Mar-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Portfolio</td>
<td>5.6</td>
<td>6.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Real Estate Mortgage</td>
<td>5.5</td>
<td>7.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Production &amp; Intermediate</td>
<td>8.5</td>
<td>10.7</td>
<td>10.6</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>6.6</td>
<td>5.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Rural Infrastructure</td>
<td>1.2</td>
<td>2.9</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements
The percentage of nonperforming assets decreases to the lowest level in 15 years

% of Nonperforming Assets

Nonperforming Assets ($)
Nonperforming Assets as a % of Gross Loans + OPO

OPO - Other Property Owned
Source: FCS Information Statements
Strong 1st quarter financial results

### Quarterly System Earnings ($M)

- **System Net Income**
- **Provisions for Loan Losses**

<table>
<thead>
<tr>
<th></th>
<th>1Q-14</th>
<th>1Q-15</th>
<th>1Q-16</th>
<th>1Q-17</th>
<th>1Q-18</th>
<th>1Q-19</th>
<th>1Q-20</th>
<th>1Q-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Spread (YTD annualized)</td>
<td>2.00%</td>
<td>2.16%</td>
<td>2.32%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Interest Margin (YTD annualized)</td>
<td>2.40%</td>
<td>2.47%</td>
<td>2.45%</td>
<td></td>
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</tr>
</tbody>
</table>

% increase in Average Earning Assets (compared to the same period a year ago)

<table>
<thead>
<tr>
<th>1Q-14</th>
<th>1Q-15</th>
<th>1Q-16</th>
<th>1Q-17</th>
<th>1Q-18</th>
<th>1Q-19</th>
<th>1Q-20</th>
<th>1Q-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.4%</td>
<td>6.5%</td>
<td>8.6%</td>
<td>6.3%</td>
<td>3.6%</td>
<td>5.2%</td>
<td>4.8%</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements
Continued capital growth; strong liquidity

Capital and Liquidity
(as of March 31, 2021)

- Total Regulatory Capital:
  - Banks: 14.1% to 17.5%
  - Associations: 10.9% to 36.3%
- Days of liquidity for the four funding banks ranged from 169 to 211 days
- Capital and the allowance for loan losses as a % of loans outstanding ranged from 17.3% to 22.9% 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 3/31/21 financial reporting )

- Composite FIRS ratings were largely unchanged in the 1st quarter
- Over 95% of System banks and associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower hold less than 1.0% of System assets

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

▶ U.S. economic activity rebounds strongly, but supply chain issues and inflationary pressures bear watching.
▶ Grain and oilseed prices soar but rising feed costs have hurt livestock producers.
▶ Continuing drought in the West is a major concern.
▶ System loan quality is very good, but certain sectors and geographic regions face significant challenges.
▶ The Farm Credit System is safe and financially sound. System institutions are well-positioned to support the credit needs of agricultural producers and rural America.
Questions

THANK YOU