Quarterly Report on FCS Condition
June 9, 2022

Yuri Katrinic
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Macroeconomic outlook
  - Farm equipment shortage and diesel prices
  - Grains, livestock, and timber

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

Yuri Katrinic
Senior Economist
Office of Data Analytics and Economics
Growth and inflation create unclear economic outlook

- Rising interest rates, supply chain disruptions, and the war in Ukraine create a climate of economic uncertainty.

- Latest indicators:
  - 1st Quarter GDP down at 1.5% rate.
  - April consumer spending up at 0.7% rate.
  - Falling consumer confidence and sentiment.
  - Wholesale inflation is far ahead of consumer prices.
  - Slowing consumer inflation in April.

Source: FRED, Bureau of Labor Statistics, Bureau of Economic Analysis, University of Michigan
Extremely tight labor market due to very low unemployment and smaller workforce

Source: FRED, Bureau of Labor Statistics
Supply chain crunch limiting availability, raising prices of farm equipment and parts

- Supply chain and labor disruptions have led to farm equipment shortages.
- Sales down 25% and inventory down 5% compared to April last year.
- New equipment often sold out; parts and used equipment prices skyrocketing.
- Shortages likely to continue into 2023.

Source: FRED, Bureau of Labor Statistics
Association of Equipment Manufacturers
Production costs play a larger role in today’s farm equipment prices

- In 2013, tractor prices increased due to strong farm profits despite stable production costs.
- In contrast, today’s price increases also reflect rising production costs.

Rising diesel prices driven by crude oil prices, refining capacity, and exports to Europe

Source: Energy Information Administration
Continued volatility in grain markets

- War in Ukraine continues to keep commodity prices high and raises risk of food shortages and export controls.
- Drought in western plains and California impacting sorghum, winter wheat and rice.
- Wet planting conditions in Minnesota and eastern Dakotas impacting corn and spring wheat.
- Strong soybean crop expected due to favorable planting weather and farmers choosing it over corn because of lower fertilizer requirements.
Drought has caused poor pasture conditions and low hay supplies for ranchers

- Challenging cow-calf profit outlook for much of the country.
- Producers reducing herds to cope with high input costs.
- Consumers could switch to cheaper proteins in response to rising prices.

Source: https://www.usda.gov/sites/default/files/documents/AgInDrought.pdf
Highly Pathogenetic Avian Influenza pushes egg prices to record high

- Worst impacts on egg and turkey farms in Iowa and Minnesota.
- Disease moved north as wild birds migrated.
- Limited impact in the South but could happen during fall migrations.
- Better monitoring and management practices today compared to 2015 outbreak.

Demand for lumber supports high log prices for timberland owners

- Housing starts up 14.6% compared to April 2021, driving up demand and prices for lumber.
- Log prices initially lagged retail lumber prices but are catching up.
- Demand for lumber could eventually slow down with rising mortgage interest rates, housing prices, and construction costs.

Source: Washington Department of Natural Resources, US Census Bureau
Questions

THANK YOU
Farm Credit System Condition and Performance

as of
March 31, 2022

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System Growth
- Loan Portfolio
- Earnings
- Capital
- FIRS
Agribusiness lending drives 1st quarter loan growth

<table>
<thead>
<tr>
<th>Total Assets 3/31/22</th>
<th>$453.0 billion</th>
<th>+3.9% Qtr</th>
<th>+12.0% 12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loans 3/31/22</td>
<td>$360.2 billion</td>
<td>+4.7% Qtr</td>
<td>+11.9% 12M</td>
</tr>
</tbody>
</table>

Quarterly System Loan Growth

Loan Growth by Loan Type

- Total Loan Portfolio: 2.0% Q1 '20, 2.0% Q1 '21, 4.7% Q1 '22
- RE Mortgage (46%): 1.3% Q1 '20, 2.2% Q1 '21, 1.2% Q1 '22
- Prod. & Intermediate (16%): 0.4% Q1 '20, 0.8% Q1 '21, -6.1% Q1 '22
- Agribusiness (22%): 0.8% Q1 '20, 0.8% Q1 '21, -8.8% Q1 '22

Source: FCS Information Statements
Portfolio loan quality is very good; credit risk measures remain favorable

<table>
<thead>
<tr>
<th>Nonperforming Assets (3/31/22)</th>
<th>$1.651 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qtr chg.</td>
<td>+73M or 4.6%</td>
</tr>
<tr>
<td>12 month chg.</td>
<td>- $254M or -13.3%</td>
</tr>
<tr>
<td>Q1 '21</td>
<td>0.31%</td>
</tr>
<tr>
<td>Q4 '21</td>
<td>0.27%</td>
</tr>
</tbody>
</table>

| Delinquencies (1) (3/31/22) | 0.29% |

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

Source: FCS Information Statements
Nonperforming assets were marginally higher in the 1st quarter; overall level remains low

- Nonperforming assets were 0.46% of loans outstanding and other property owned, unchanged from year-end.
- Nonperforming assets equaled 2.40% of System capital, up from 2.27% at year-end.
- Nonaccrual loans totaled $1.141 billion, down 3% from last quarter and 22% from a year ago.
- 64.8% of nonaccrual loans were current as to principal and interest.

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

Source: FCS Information Statements
1st quarter earnings climb on strong asset growth

Quarterly System Earnings ($M)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>System Net Income</th>
<th>Provisions for Loan Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>TQ-17</td>
<td>1,244</td>
<td>37</td>
</tr>
<tr>
<td>TQ-18</td>
<td>1,266</td>
<td>69</td>
</tr>
<tr>
<td>TQ-19</td>
<td>1,288</td>
<td>65</td>
</tr>
<tr>
<td>TQ-20</td>
<td>1,432</td>
<td>57</td>
</tr>
<tr>
<td>TQ-21</td>
<td>1,693</td>
<td>28</td>
</tr>
<tr>
<td>TQ-22</td>
<td>1,758</td>
<td>(5)</td>
</tr>
</tbody>
</table>

Net Interest Spread | Net Interest Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Interest Spread</th>
<th>Net Interest Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2.48</td>
<td>3.75</td>
</tr>
<tr>
<td>2018</td>
<td>2.46</td>
<td>4.21</td>
</tr>
<tr>
<td>2019</td>
<td>2.42</td>
<td>4.40</td>
</tr>
<tr>
<td>2020</td>
<td>2.46</td>
<td>3.56</td>
</tr>
<tr>
<td>2021</td>
<td>2.46</td>
<td>3.16</td>
</tr>
<tr>
<td>Q1 '22 **</td>
<td>2.39</td>
<td>3.09</td>
</tr>
</tbody>
</table>

** annualized

Average Earning Assets

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q-17</td>
<td>6.3%</td>
</tr>
<tr>
<td>1Q-18</td>
<td>3.6%</td>
</tr>
<tr>
<td>1Q-19</td>
<td>5.2%</td>
</tr>
<tr>
<td>1Q-20</td>
<td>4.8%</td>
</tr>
<tr>
<td>1Q-21</td>
<td>10.3%</td>
</tr>
<tr>
<td>1Q-22</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements
System is strongly capitalized; capital-to-assets ratio declines

Total Regulatory Capital levels:
- Banks: 13.6% to 17.9%
- Associations: 11.2% to 34.1%

FIRS Capital Benchmarks
- 83% of institutions are in the benchmark 1 range
- all institutions are in the benchmark 1 or 2 range

Source: FCS Information Statement; FCA’s FIRS ratings database
System Composite FIRS ratings remain favorable

**FIRS Ratings**  
(based on 3/31/22 financial reporting)

- Composite FIRS ratings reflect the System’s strong financial condition.
- Over 94% of System Banks and Associations have a Composite FIRS rating of 1 or 2.
- Institutions rated 3 or lower account for less than 1.0% of System assets.

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

- Commodity prices are strong, but producers are challenged by inflationary pressures, tight labor markets, supply chain problems, and a strong dollar.
- Drought and water availability concerns continue for the Western half of the U.S, especially for cattle producers.
- The System’s portfolio continued to perform well, with continued strong loan growth and low credit risk.
- System institutions are well-positioned to meet borrower funding and liquidity needs.
- The Farm Credit System is safe and financially sound.