Quarterly Report on FCS Condition
September 8, 2022

Yuri Katrinic
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Macroeconomic update
  - Drought risks
  - Rural infrastructure outlook

- 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
Economic risks continue: Inflation, interest rates, and geopolitical tensions

- Inflation has plateaued with an uncertain future trajectory.
- Rising interest rates slow housing market and investment.
- Ukraine situation remains volatile, despite grain export deal.
- Risk of global energy crunch this winter.

*Personal Consumption Expenditures
Source: Bureau of Economic Analysis
Threat of global energy crunch driving price volatility for fuel and fertilizer

- European reliance on Russian natural gas drives price volatility.
- Shutdowns and low deliveries on Nord Stream pipeline ahead of winter.
- Volatility in natural gas will be reflected in fertilizer prices and production.
- Higher oil and gas prices would affect inflation and the broader economy.

Source: New York Mercantile Exchange
What to look for in food and agriculture amid economic challenges

- CPI for food up 10.9% in the past year.
- Consumers could move away from dining out and high-value products if their wages do not keep pace.
- Export impacts due to weak global economy and strong dollar.

Source: BLS - retrieved from FRED
Drought continues to affect producers in the Plains and Southwest

Source: Current Map | U.S. Drought Monitor (unl.edu)
Dwindling Colorado River reservoirs are a long-term problem for farmers in the Southwest

- Western aridification over 20 years.
- Federal shortage declaration imposed automatic cuts. More cuts likely to come.
- Agriculture accounts for 80% of water usage from Lake Mead.
- Population growth in last decade:
  - Salt Lake County, UT +15.1%
  - Clark County, NV +16.1%
  - Maricopa County, AZ +15.8%

Source: Bureau of Reclamation, Census Bureau
Economic risks and drought contribute to erratic commodity markets

<table>
<thead>
<tr>
<th>Change in futures price, year-to-date</th>
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<tbody>
<tr>
<td>Jan</td>
</tr>
<tr>
<td>-75%</td>
</tr>
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</table>

Source: Intercontinental Exchange, Chicago Board of Trade, CME Group
Housing market slowing down as mortgage interest rates rise

- Housing prices have stalled or fallen in much of the country.
- Slower pace of sales and construction.
- Impact on the broader economy.
- Implications for the System:
  - Rural home loans
  - Refinancing
  - Forestry

Source: National Association of Realtors
Infrastructure risk factors are distinct from those affecting other sectors.

Strong loan growth over the past 5 years.

Portfolio mostly consists of loans to rural utility cooperatives.
- Electricity: Distribution, Generation
- Telecommunications
- Water and Sewer

Source: Federal Farm Credit Banks Funding Corporation - Second Quarter 2022 Information Statement
Future of electricity co-ops is shaped by renewable energy and policy change

- Electricity co-ops will be using more renewables and charging more EV’s.
- Grid will have to accommodate these changes.
- Grid scale battery storage expected to double from 4.6 to 10 GW just this year.
- Inflation Reduction Act and last year’s infrastructure bill include tax credits for:
  - Co-ops, to use more renewables
  - Carbon capture technology
  - Grid scale battery storage
  - Consumers to purchase EVs
  - USDA grants and loans for rural broadband

Source: EIA - U.S. Battery Storage Market Trends
Questions

THANK YOU
Farm Credit System
Condition and Performance
as of
June 30, 2022

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System Growth
- Loan Portfolio
- Earnings
- Capital
- FIRS
The System experienced continued loan growth

- Real estate mortgage lending slows.
- Production and intermediate term loan volume drops on seasonal repayments.
- Strong commodity prices drive sharp increase in agribusiness lending.
- Year-to-date loan growth at a district level varied, ranging from 2.2% for the AgriBank district to 5.8% for Texas.

Source: Federal Farm Credit Banks Funding Corporation Information Statements
System loans continued to perform well

<table>
<thead>
<tr>
<th>Nonperforming Assets (6/30/22)</th>
<th>$1.769 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qtr chg.</td>
<td>+118M or 7.1%</td>
</tr>
<tr>
<td>YTD chg.</td>
<td>+191M or 12.1%</td>
</tr>
<tr>
<td>12 month chg.</td>
<td>- $92M or -4.9%</td>
</tr>
<tr>
<td>Delinquencies (1) (6/30/22)</td>
<td>0.26%</td>
</tr>
<tr>
<td>Q2 '21</td>
<td>0.24%</td>
</tr>
<tr>
<td>Q4 '21</td>
<td>0.27%</td>
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</tbody>
</table>

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

Source: Federal Farm Credit Banks Funding Corporation Information Statements

<table>
<thead>
<tr>
<th>% of Loans Classified Less than Acceptable</th>
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<tbody>
<tr>
<td>Jun-22</td>
</tr>
<tr>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Total Portfolio</td>
</tr>
<tr>
<td>Real Estate Mortgage</td>
</tr>
<tr>
<td>Production &amp; Intermediate</td>
</tr>
<tr>
<td>Agribusiness</td>
</tr>
<tr>
<td>Rural Infrastructure</td>
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<tr>
<td>Other</td>
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Qtr chg. = Quarter change  
YTD chg. = Year-to-date change  
12 month chg. = Twelve month change
Nonperforming assets edged higher, but remain low

- Nonperforming assets were 0.50% of loans outstanding and other property owned, up from 0.46% at year-end.
- Nonaccrual loans totaled $1.214 billion, up 3% from year-end, but down 15% from a year ago.
- 63.8% of nonaccrual loans were current as to principal and interest, compared with 63.7% at year-end.

Source: Federal Farm Credit Banks Funding Corporation Information Statements

(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)
Spreads declined on higher funding costs; average earning assets up sharply on strong loan growth

Source: Federal Farm Credit Banks Funding Corporation Information Statements

** annualized
System earnings up year-over-year

Source: Federal Farm Credit Banks Funding Corporation Information Statements
System is well-capitalized; capital-to-asset ratio declined on strong asset growth

Source: Federal Farm Credit Banks Funding Corporation Information Statements
Composite FIRS ratings remained strong

FIRS Ratings
(based on 6/30/22 financial reporting)

- Composite FIRS ratings reflect the System’s sound financial condition.
- Over 92% 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.

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

- The challenge facing the U.S. economy is balancing economic growth with efforts to lower inflation.
- Input price risk remains a major concern for producers.
- Drought persists in the Western U.S.; water availability a longer-term issue for ag producers, especially in the Southwest.
- The System reported strong financial results for the first half of 2022, including higher earnings and continued strong portfolio credit quality.
- System institutions are well-capitalized with significant risk-bearing capacity.
Questions

THANK YOU