



# FCA Board Meeting September 2022

Tab 2

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## Quarterly Report on FCS Condition September 8, 2022

**Yuri Katrinic**  
**Hal Johnson**





# Topics for Open Session

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- ▶ 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)





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# Economic Conditions Affecting the Farm Credit System

**Yuri Katrinic**

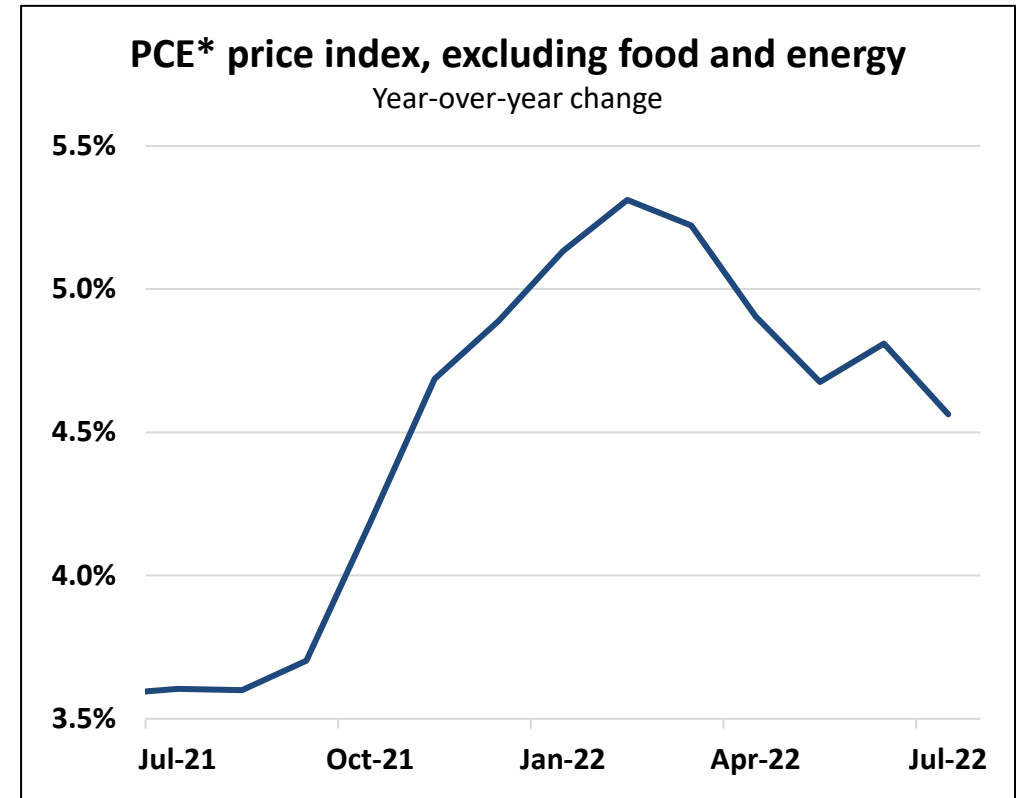
**Senior Economist**

**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.

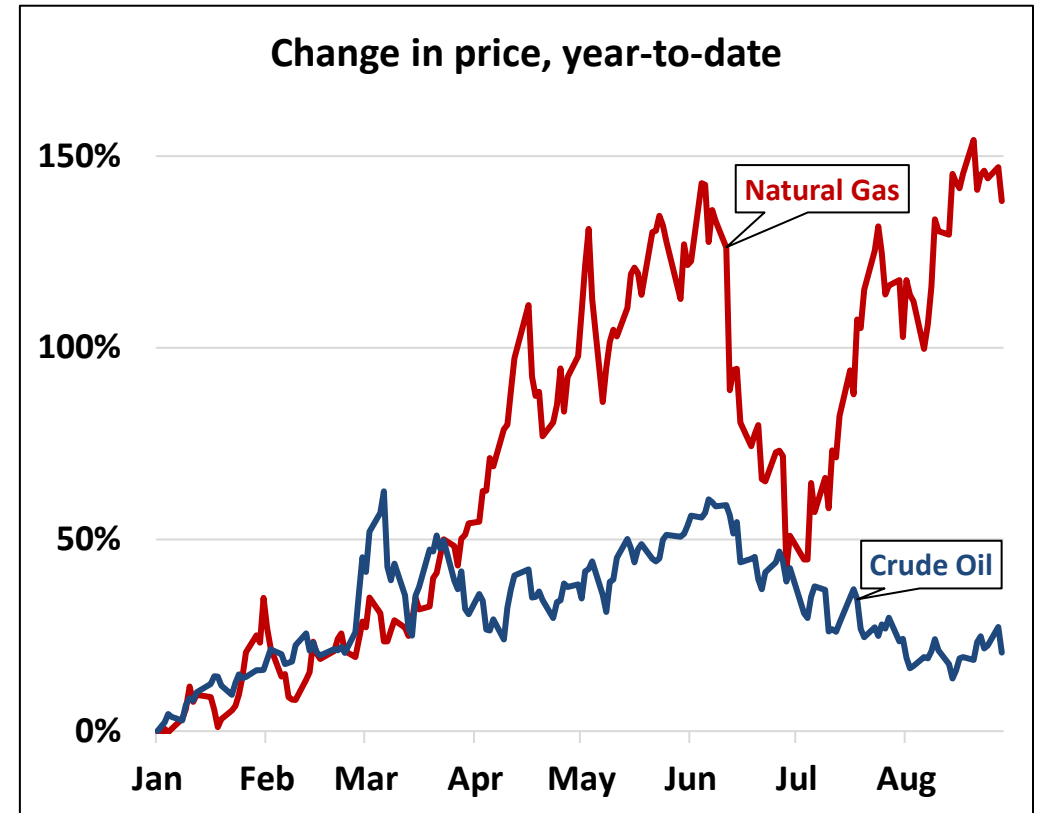


\*Personal Consumption Expenditures  
Source: [Bureau of Economic Analysis](#)



# 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.



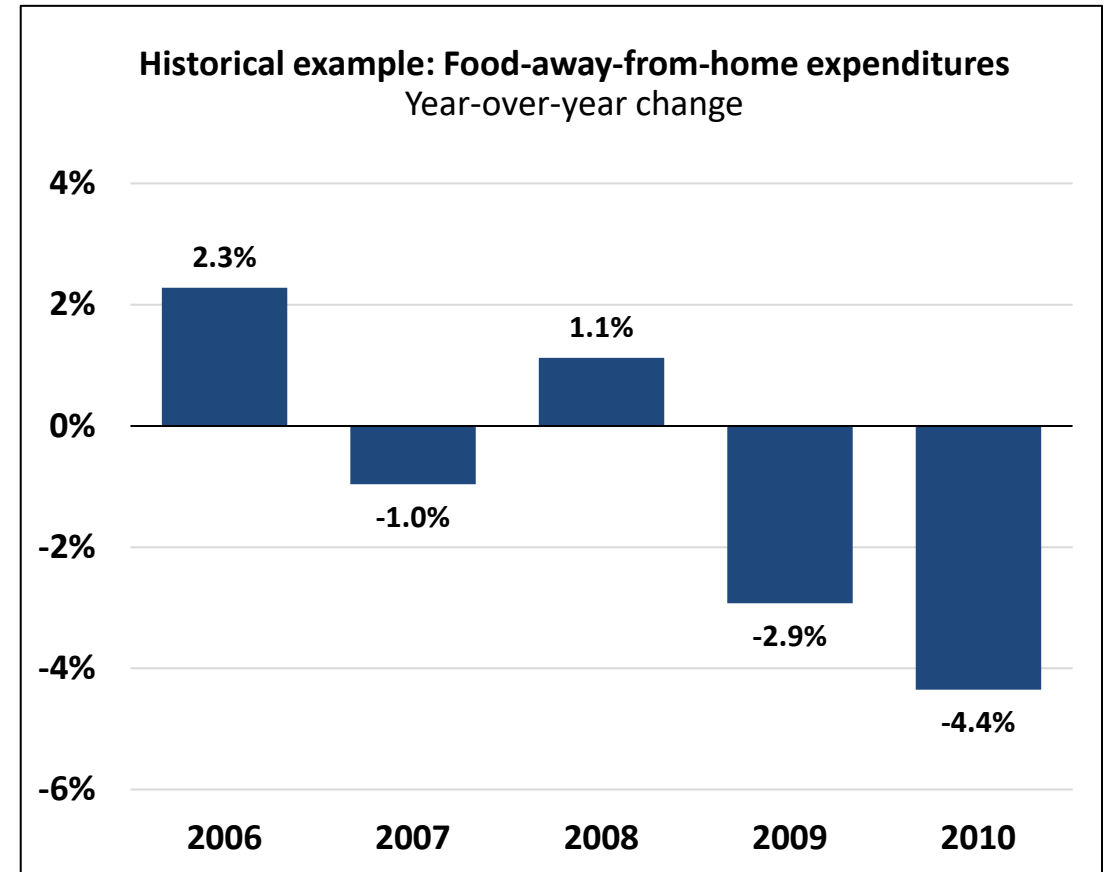
Source: [New York Mercantile Exchange](#)





# What to look for in food and agriculture amid economic challenges

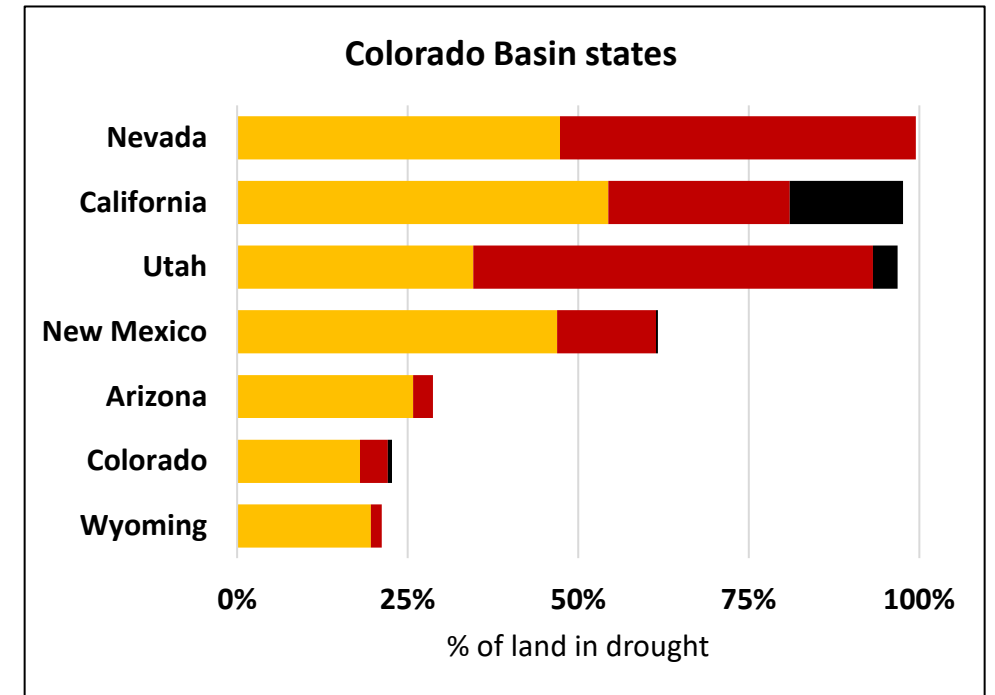
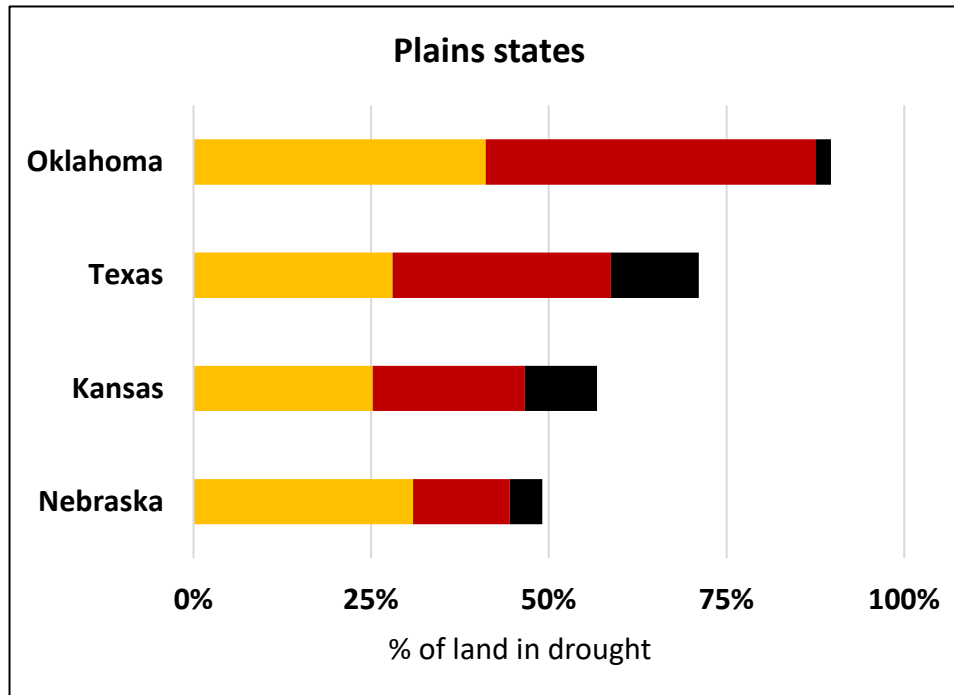
- ▶ CPI for food up 10.9% in the past year.
- ▶ Consumers could move away from dining out and high-value products if their wages do not keep pace.
- ▶ Export impacts due to weak global economy and strong dollar.



Source: [BLS - retrieved from FRED](#)



# Drought continues to affect producers in the Plains and Southwest



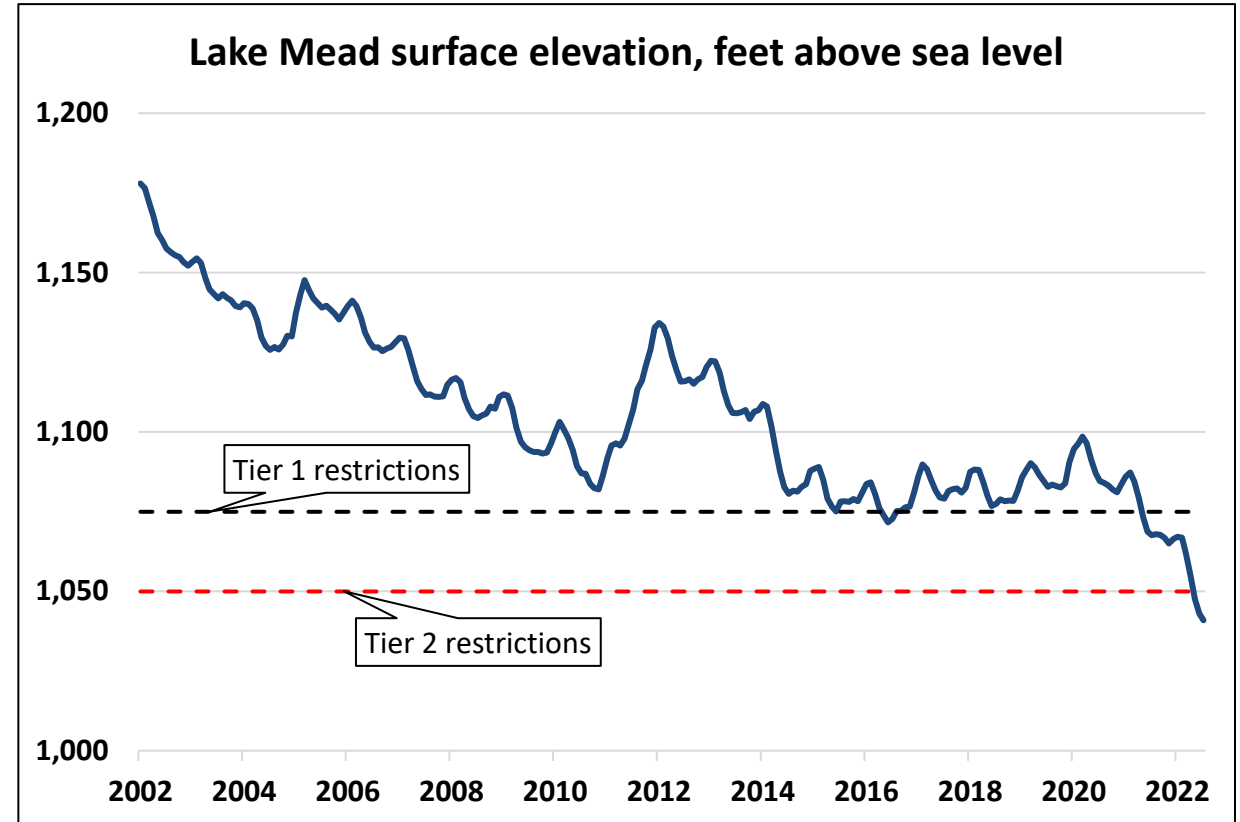
Source: [Current Map | U.S. Drought Monitor \(unl.edu\)](http://Current Map | U.S. Drought Monitor (unl.edu))



# 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%

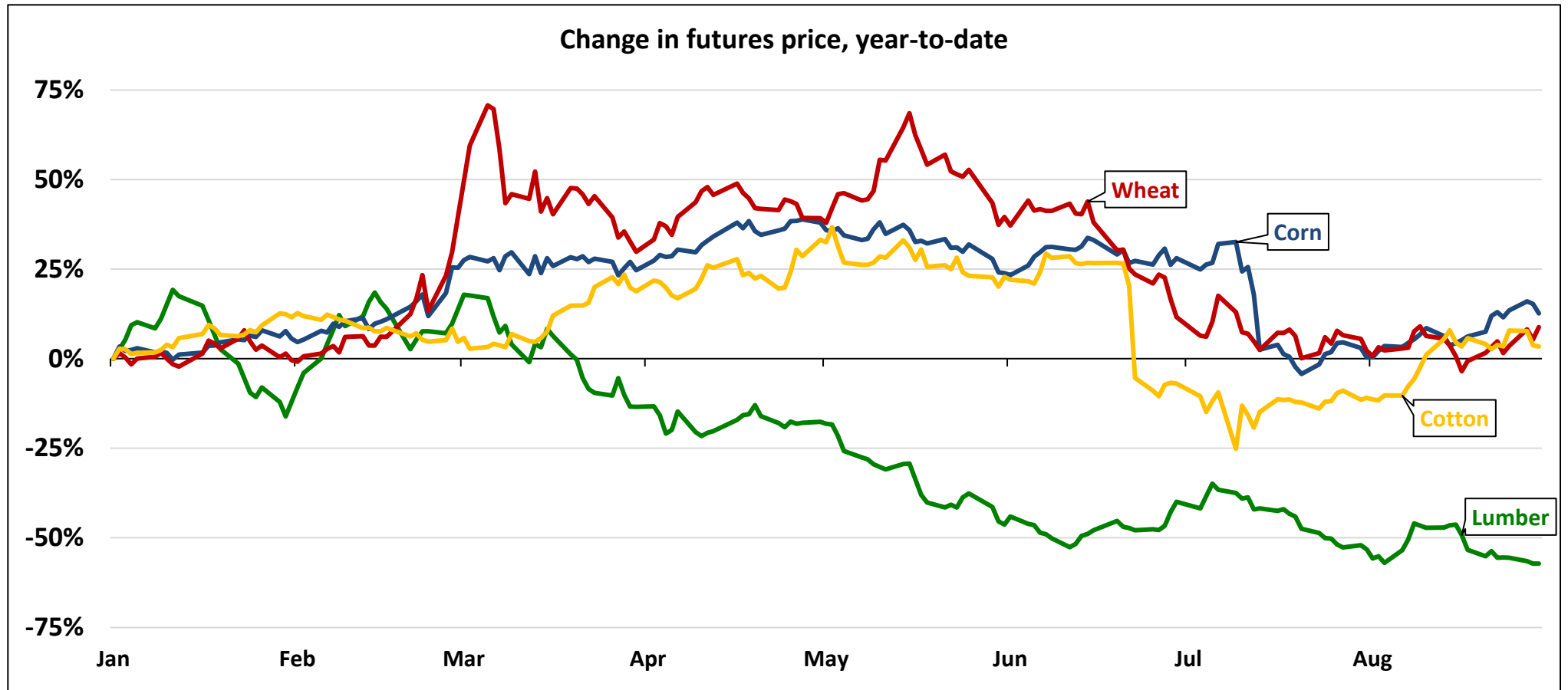


Source: [Bureau of Reclamation](#), [Census Bureau](#)





# Economic risks and drought contribute to erratic commodity markets

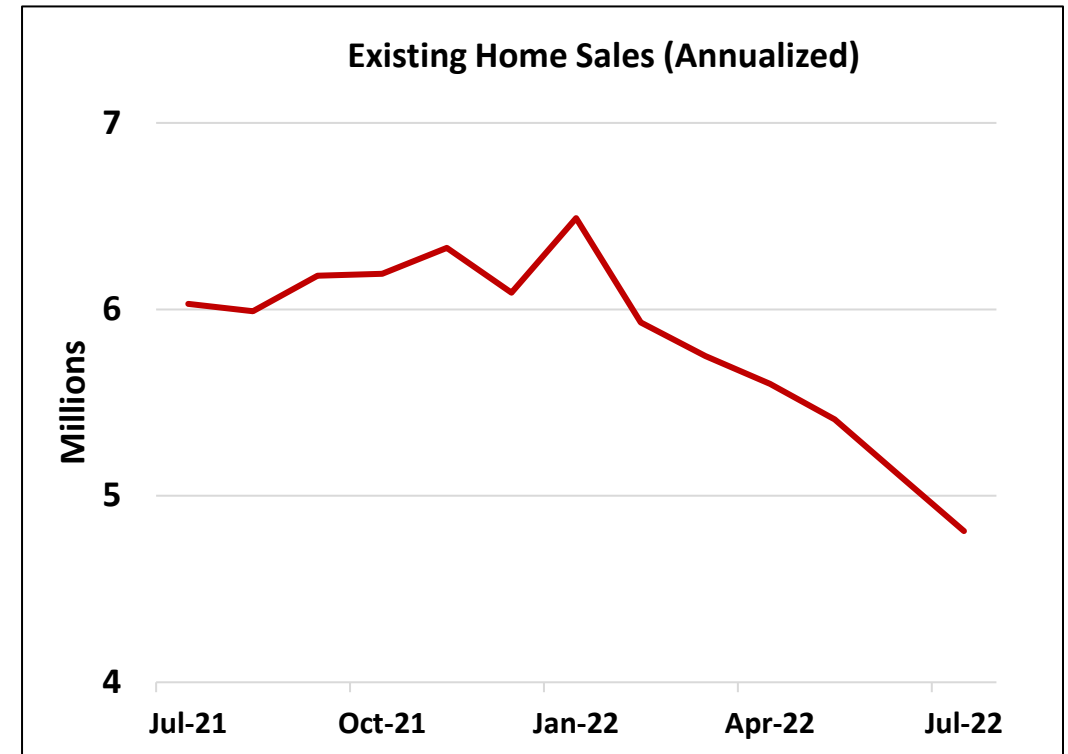


Source: [Intercontinental Exchange](#), [Chicago Board of Trade](#), [CME Group](#)



# 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

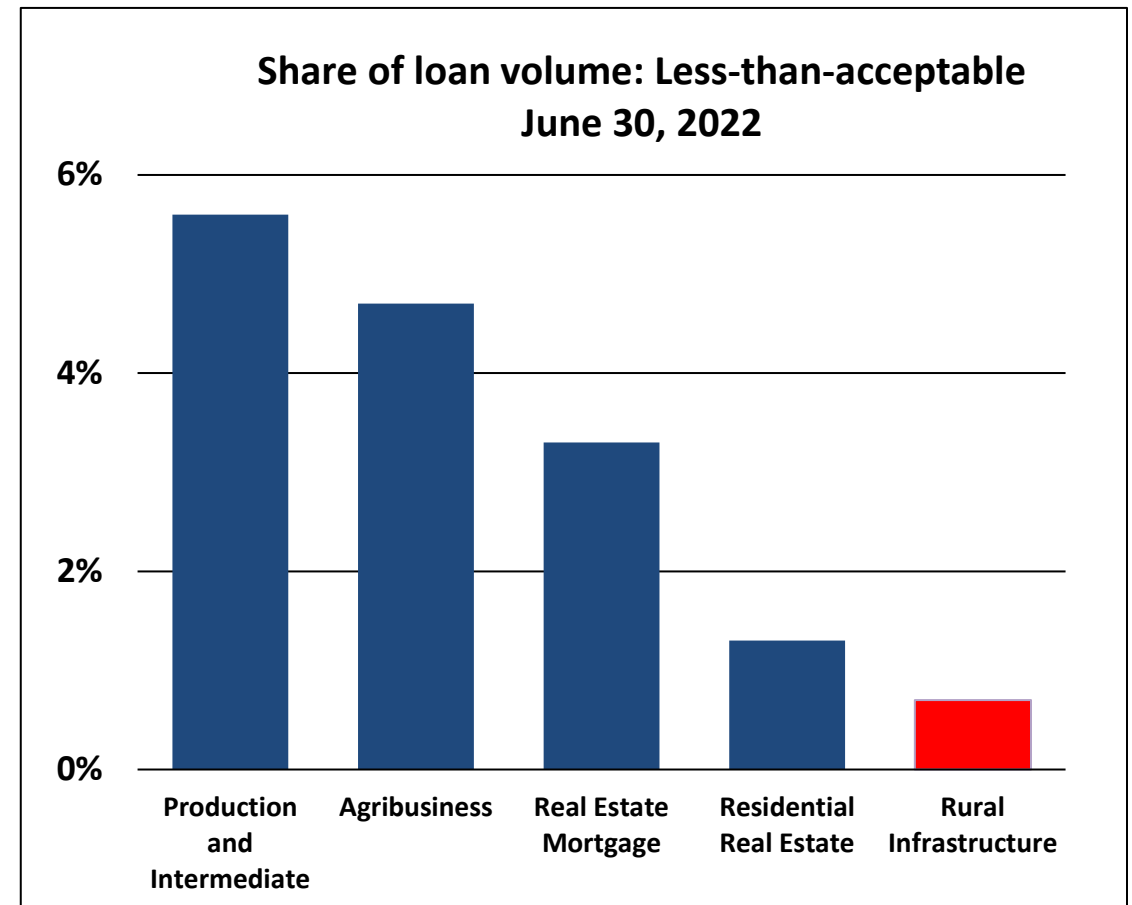


Source: [National Association of Realtors](#)



# Rural infrastructure in the System

- ▶ 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





# 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

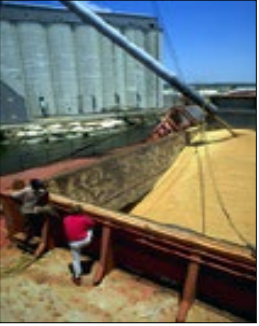


Source: [EIA - U.S. Battery Storage Market Trends](#)



# Questions

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**THANK YOU**





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# Farm Credit System Condition and Performance

as of  
June 30, 2022

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



# Topics

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

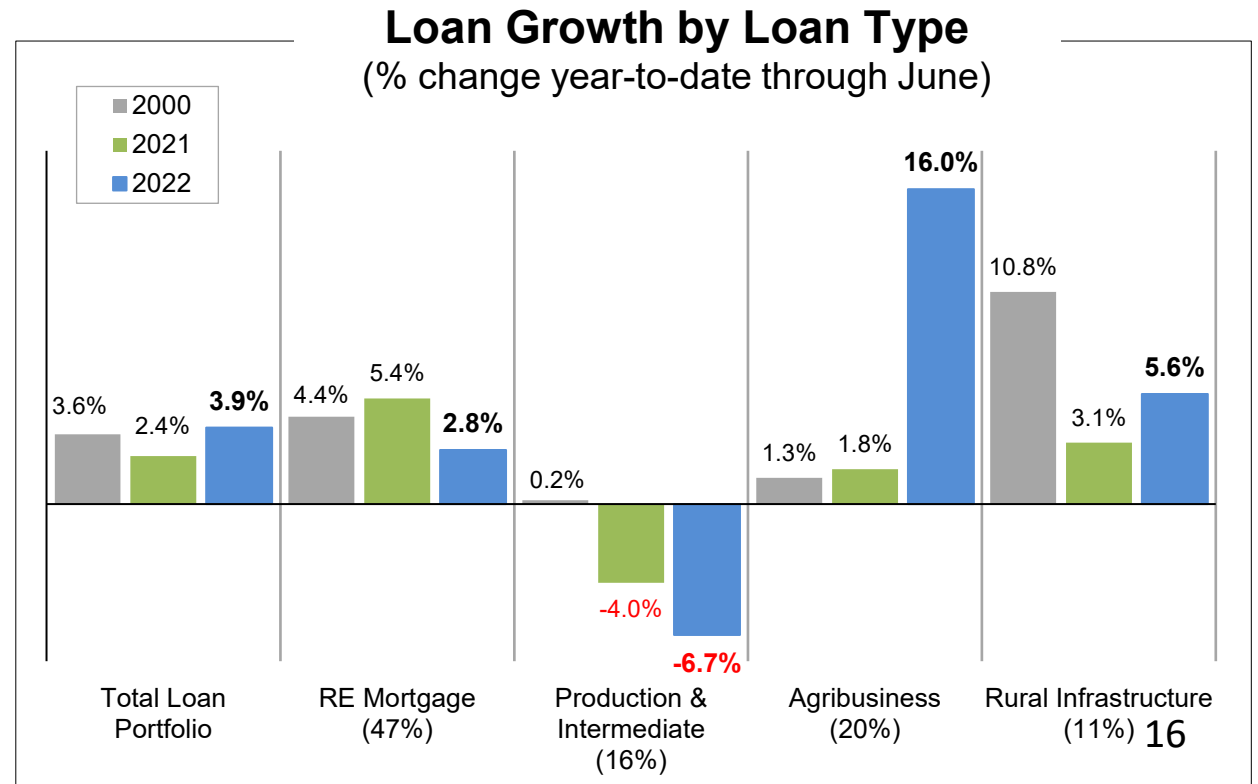




# The System experienced continued loan growth

- ▶ 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.

<b>Total Assets</b> 6/30/22	<b>\$456.3</b> billion	+0.7% Qtr	<b>Gross Loans</b> 6/30/22	<b>\$357.3</b> billion	-0.8% Qtr
		+4.7% YTD			+3.9% YTD
		+11.9% 12M			+10.6% 12M



Source: Federal Farm Credit Banks Funding Corporation Information Statements



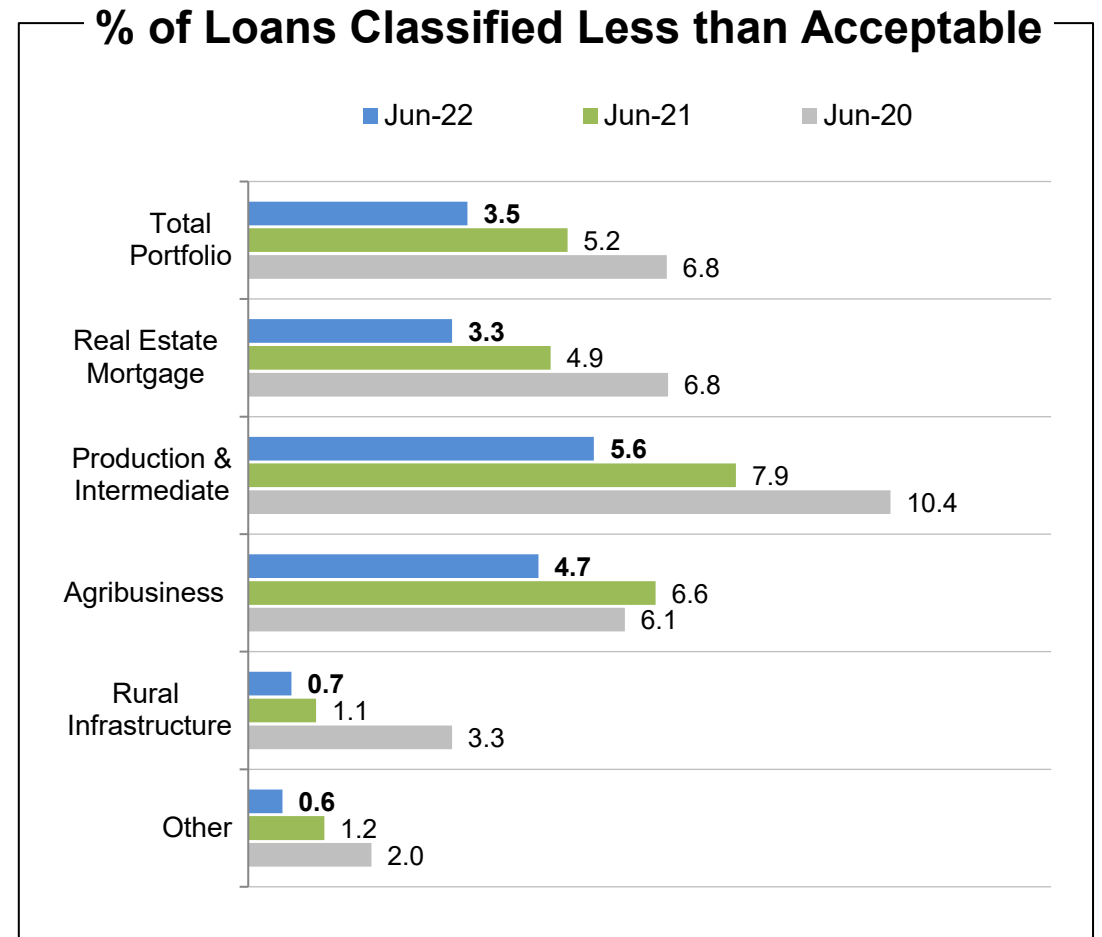


# System loans continued to perform well



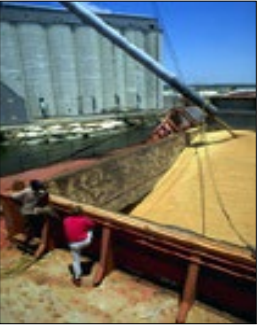
<b>Nonperforming Assets</b> (6/30/22)	<b>\$1.769</b> billion	<b>Qtr chg.</b> +118M or 7.1%
		<b>YTD chg.</b> +191M or 12.1%
		<b>12 month chg.</b> - \$92M or -4.9%
<b>Delinquencies <sup>(1)</sup></b> (6/30/22)	<b>0.26%</b>	<b>Q2 '21</b> 0.24%
		<b>Q4 '21</b> 0.27%

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

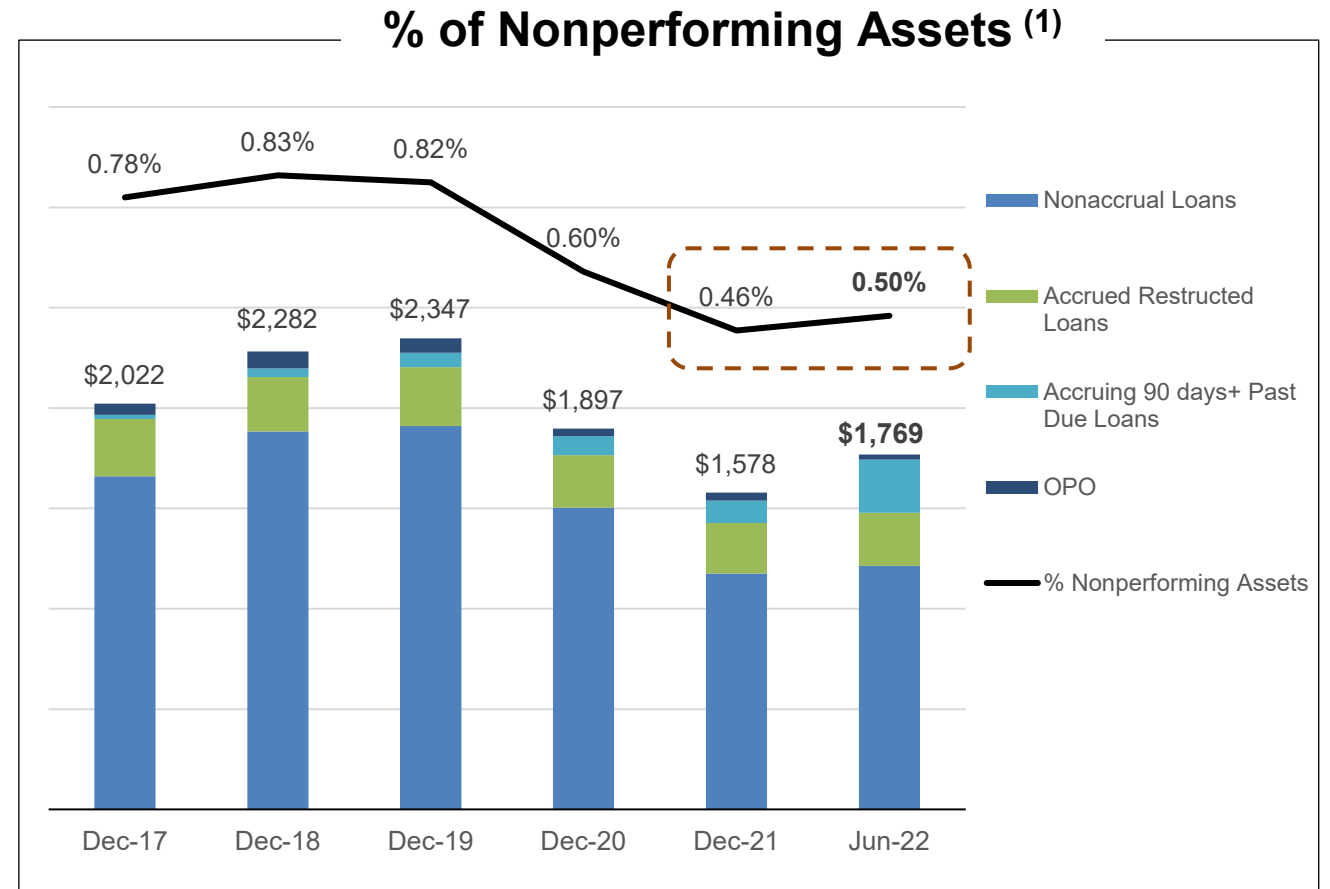




# Nonperforming assets edged higher, but remain low



- ▶ 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.

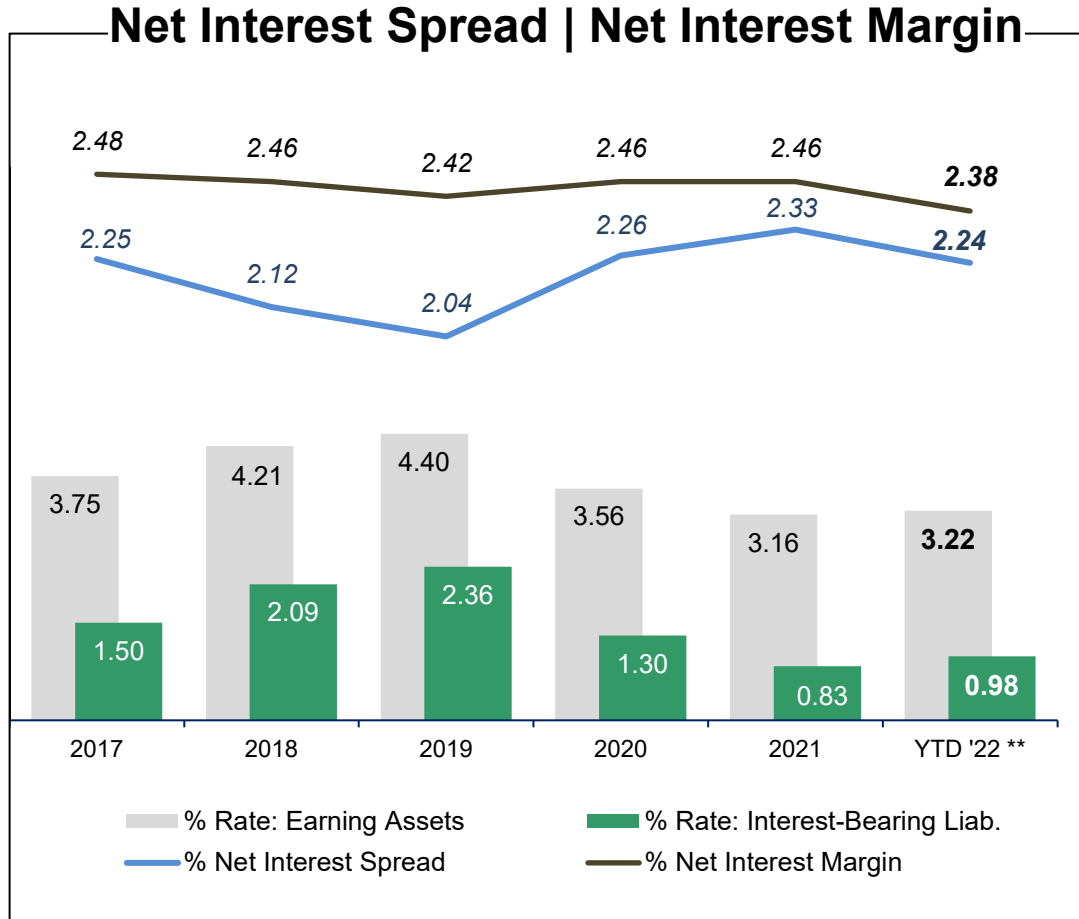


(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

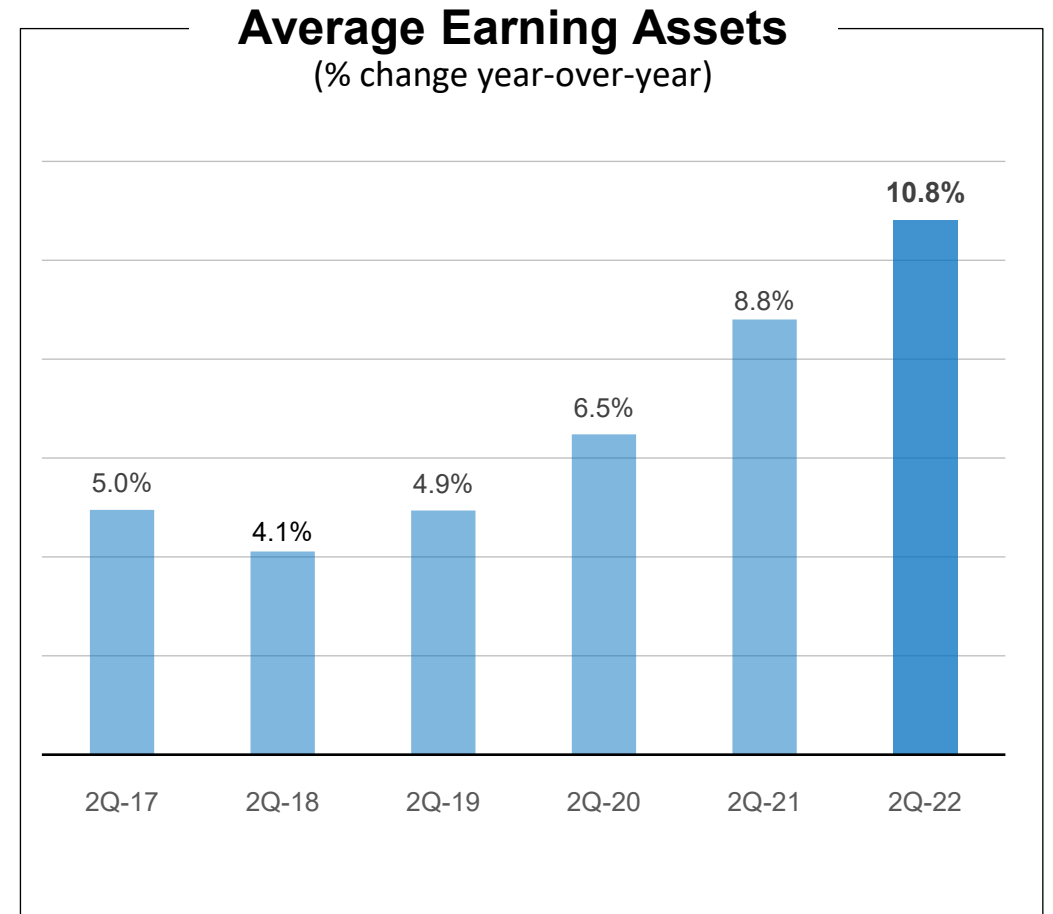




# Spreads declined on higher funding costs; average earning assets up sharply on strong loan growth



\*\* annualized

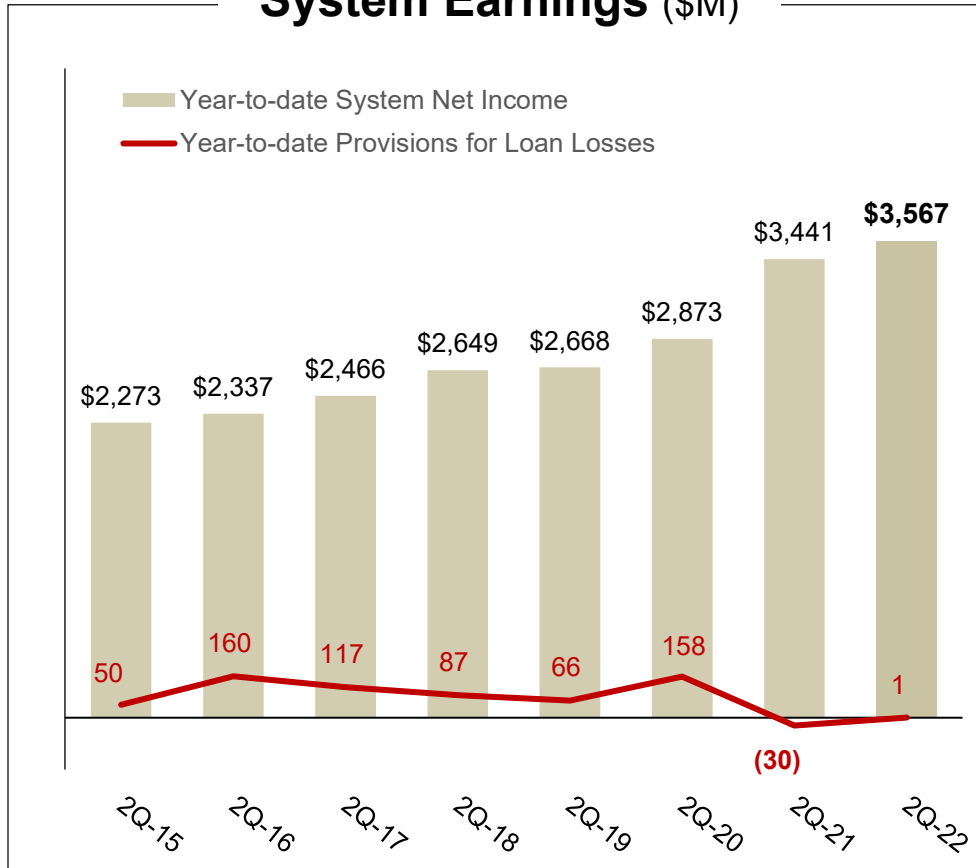




# System earnings up year-over-year

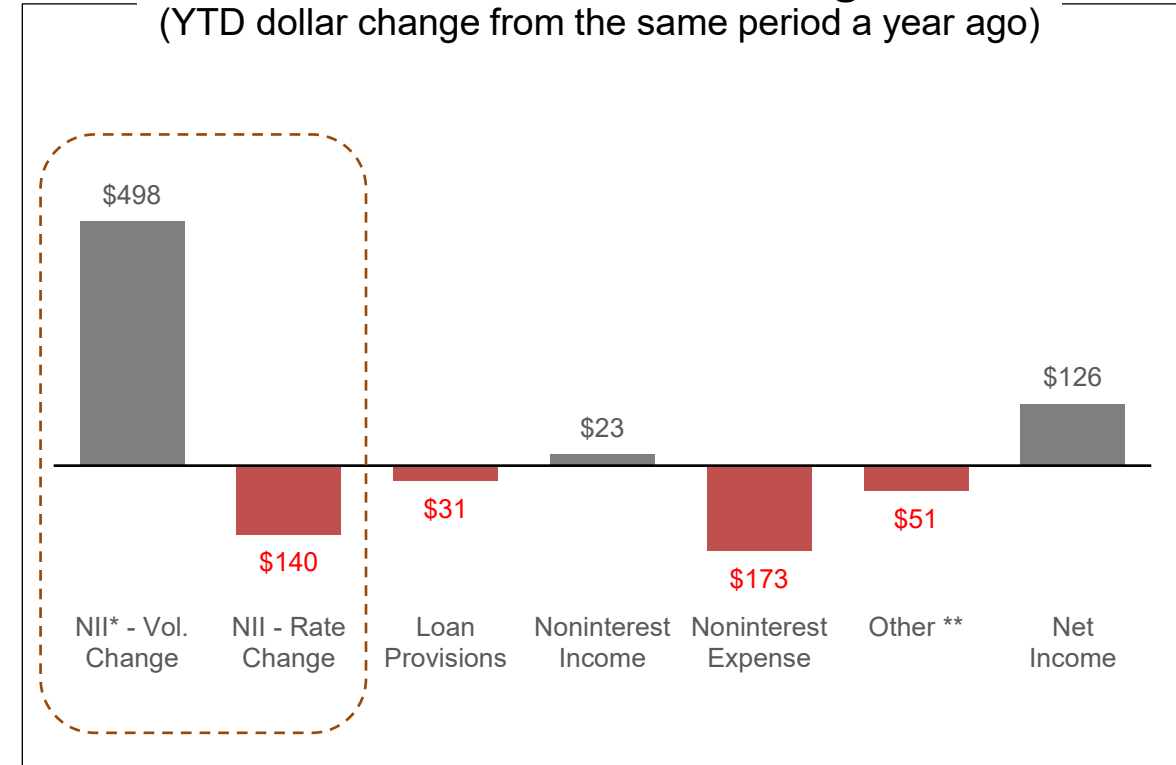


## System Earnings (\$M)



## Income Statement Changes

(YTD dollar change from the same period a year ago)

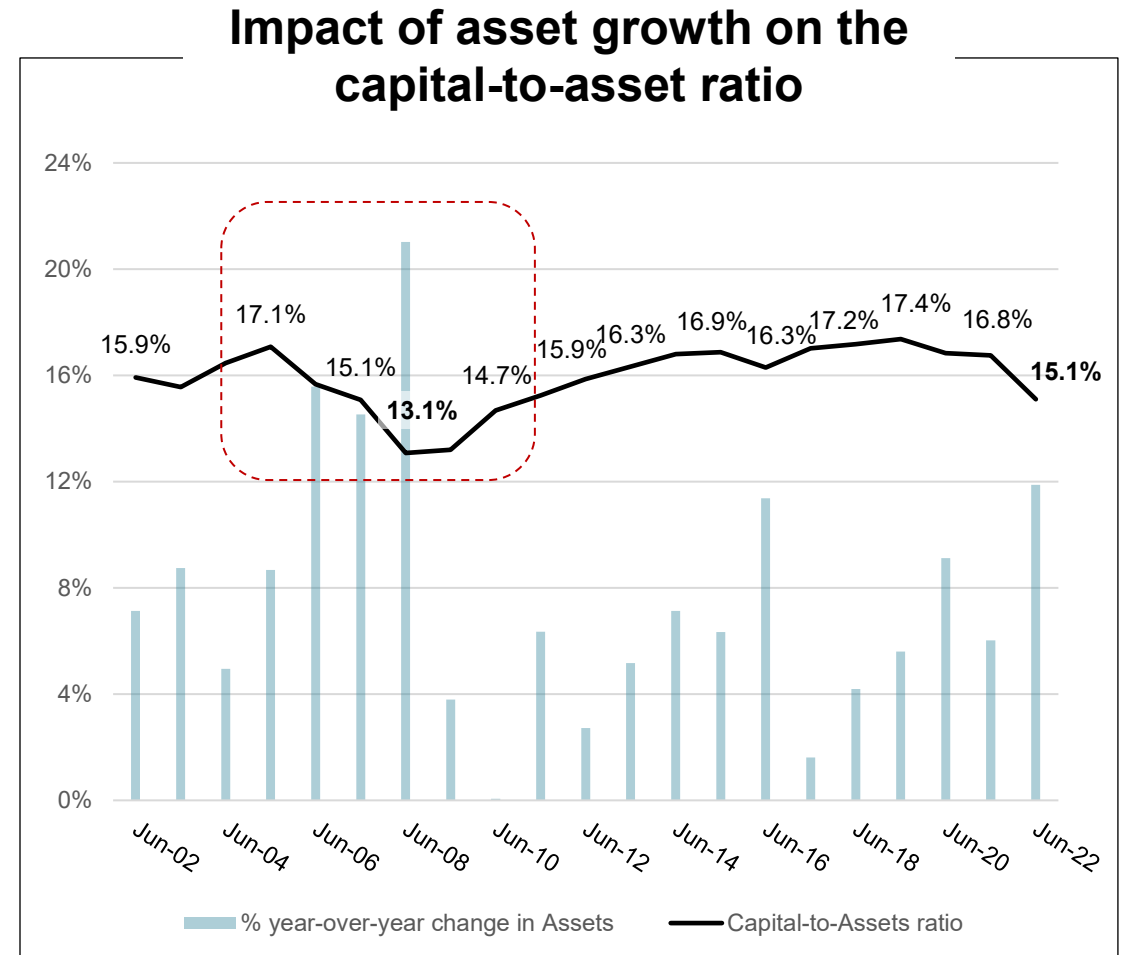
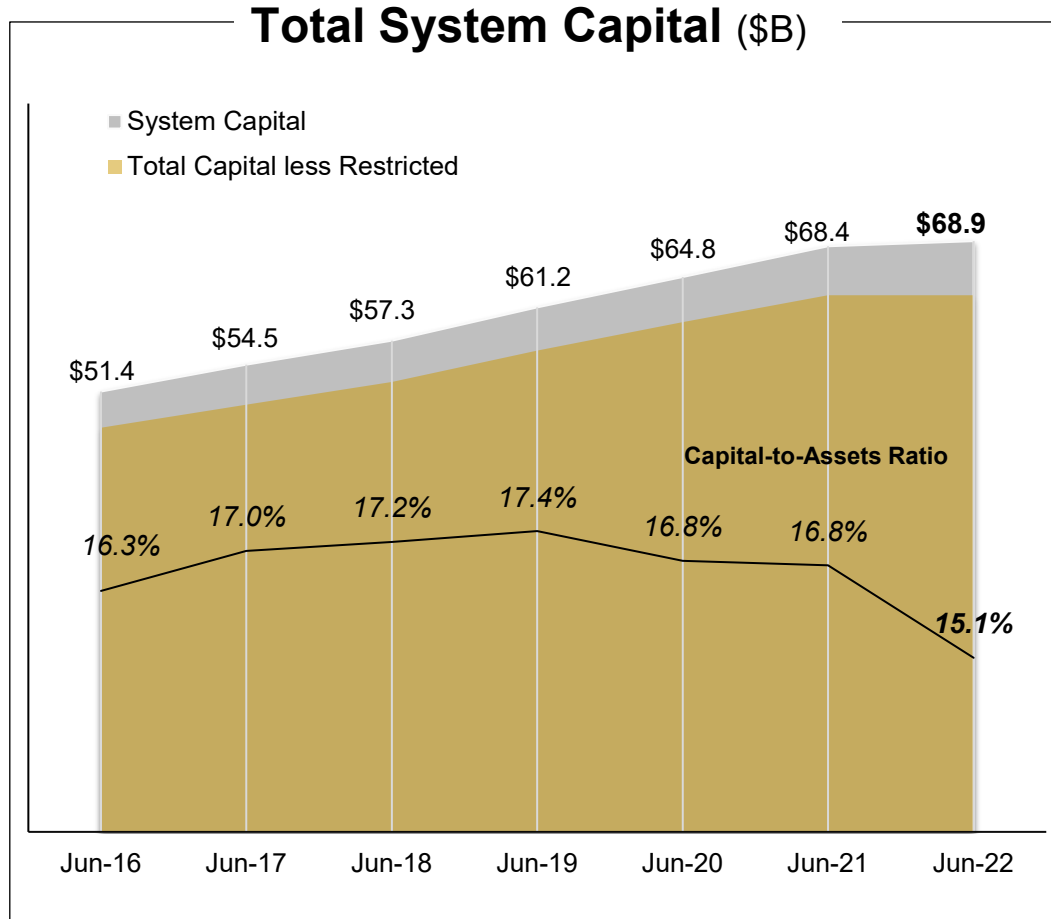


\*NII - net interest income

\*\* Includes taxes and net gains/losses on other transactions



# System is well-capitalized; capital-to-asset ratio declined on strong asset growth





# Composite FIRS ratings remained strong

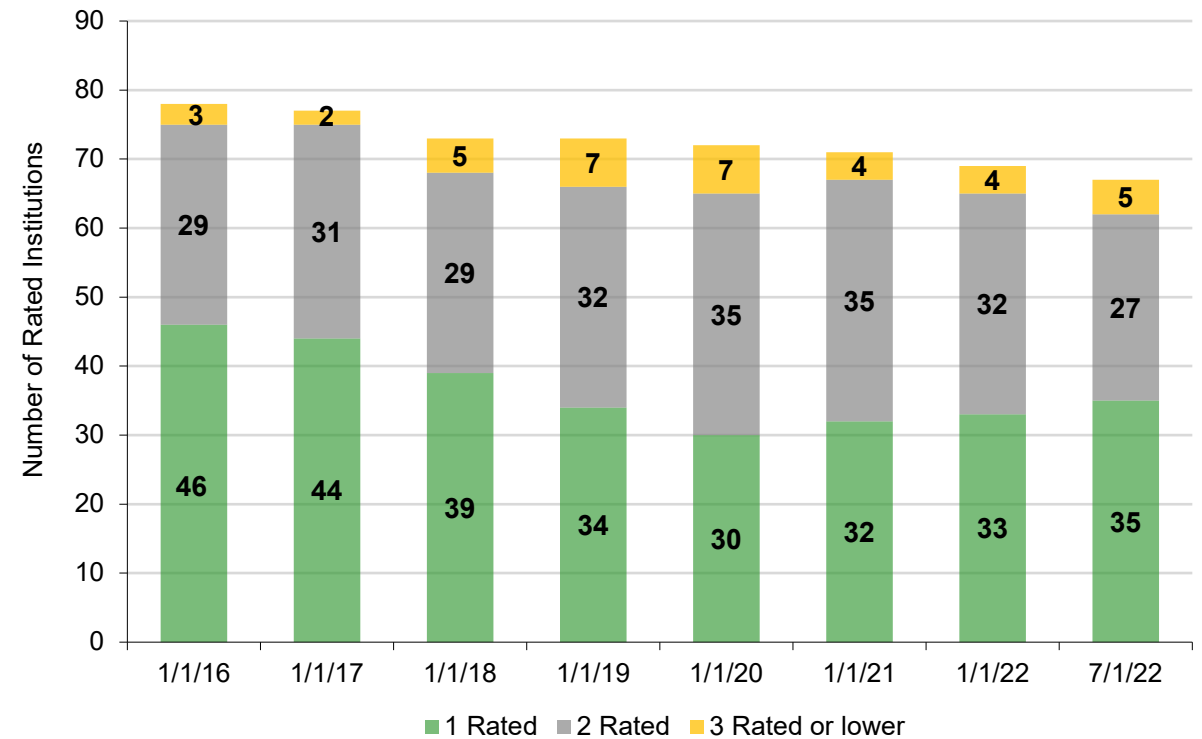


## FIRS Ratings

( 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.

## Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



# Summary and final points

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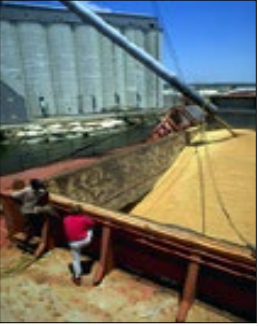
- ▶ The challenge facing the U.S. economy is balancing economic growth with efforts to lower inflation.
- ▶ Input price risk remains a major concern for producers.
- ▶ Drought persists in the Western U.S.; water availability a longer-term issue for ag producers, especially in the Southwest.
- ▶ The System 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

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**THANK YOU**