MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
February 8, 2018

These minutes reflect the business transacted at the February 8, 2018, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act, 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 10:18 a.m. Members of the Board present were:

Dallas P. Tonsager, Chairman and Chief Executive Officer
Jeffery S. Hall, Member
Glen R. Smith, Member

The above named constitute the full Board.

Others present included Charles Rawls, General Counsel; Dale Aultman, Secretary to the Board; staff of the FCA and the Farm Credit System Insurance Corporation; and one member of the general public. (A list of staff attendees is attached as Exhibit A.)

Board Chairman Tonsager welcomed Mr. Smith’s new Executive Assistant Jim Morris to the meeting.

The Secretary read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

Board Chairman Tonsager reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Hall moved to adopt the Agenda as published.

Mr. Smith seconded the motion.

There being no further discussion, Board Chairman Tonsager called the question.

The Secretary polled the Board Members and the motion carried unanimously.
Mr. Smith noted that the Agenda did include portions of the meeting that should be closed to the public as permitted by the Government in the Sunshine Act and therefore moved that the meeting be closed at that point.

Mr. Hall seconded the motion.

There being no further discussion, Board Chairman Tonsager called the question.

The Secretary polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for January 11, 2018
(BM-8-FEB-18-01)

Mr. Hall moved to approve the minutes for the January 11, 2018, FCA Regular Board Meeting.

Mr. Smith seconded the motion.

There being no further discussion, Board Chairman Tonsager called the question.

The Secretary polled the Board Members and the motion carried unanimously. (BM-8-FEB-18-01)

(A copy of the official “Board Action Item” is attached as Exhibit C.)

Report

Cost of Production Trends for Grain and Soybean Producers

Steve Gabriel, of the Office of Regulatory Policy presented the report on Cost of Production Trends for Grain and Soybean Producers.

Board Chairman Tonsager asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit D.)

CLOSED SESSION

Board Chairman Tonsager noted that this was a Closed Session and ensured that nonessential staff were not in the room so the Board could meet in Closed Session with the Office of Secondary Market Oversight.

Board Chairman Tonsager convened the closed session of the meeting at 9:43 a.m. and instructed the Secretary to activate the electronic recording device so that the proceedings of the closed session were properly recorded as required by the Government in the Sunshine Act.

Board Chairman Tonsager then instructed the General Counsel to furnish the Secretary with a certification, pursuant to 5 U.S.C. § 552b(f), that the portions of the meeting held in closed session may be properly closed to the public. (A copy of the Certification is attached hereto as Exhibit E.)
Members of the Board present were:

Dallas P. Tonsager, Chairman and Chief Executive Officer  
Jeffery S. Hall, Board Member  
Glen R. Smith, Board Member

Others present included Dale Aultman, Secretary to the Board; and Charles Rawls, General Counsel. (A list of staff attendees is attached as Exhibit A).

Report  
Office of Secondary Market Oversight Report  
Laurie Rea and Jeremy Del Moral, of the Office of Secondary Market Oversight (OSMO) presented the OSMO Periodic Report.

Board Chairman Tonsager asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

ADJOURNMENT  
There being no further business to come before the Board, Board Chairman Tonsager indicated he would entertain a motion to adjourn the meeting.

Mr. Smith moved that the meeting be adjourned.  
Mr. Hall seconded the motion.  
Board Chairman Tonsager called the question.

The Secretary polled the Board Members and the motion carried unanimously.

The meeting adjourned at 10:18 a.m.
NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from January 12, 2018, through February 7, 2018 as follows:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Action Date</th>
<th>Voting Results</th>
<th>Subject</th>
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<tbody>
<tr>
<td>NV 18-02</td>
<td>01/25/2018</td>
<td>Approved</td>
<td>Joint Proposed Rule on Margin and Capital Requirement for Covered Swap Entities</td>
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The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on February 8, 2018.

/s/                     /s/                     
Dallas P. Tonsager       Dale L. Aultman
Board Chairman and Chief Executive Officer Secretary to the Board

Approved: March 8, 2018
## STAFF PRESENT AT THE
### FCA REGULAR BOARD MEETING
#### February 8, 2018

Dallas P. Tonsager, Chairman and Chief Executive Officer
Jeffery S. Hall, Board Member
Glen R. Smith, Board Member

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<th>CLOSED SESSION</th>
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PUBLIC ANNOUNCEMENT OF MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT

Farm Credit Administration Board
Regular Meeting
February 8, 2018

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b(e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held February 8, 2018. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

For Further Information Contact: Dale L. Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: Parts of this meeting of the Board will be open to the public (limited space available), and parts will be closed to the public. Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact Dale L. Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

Approval of Minutes
1 January 11, 2018

Report
2 Cost of Production Trends for Grain and Soybean Producers

CLOSED SESSION

3 Office of Secondary Market Oversight Periodic Report

January 29, 2018
/s/

Dale L. Aultman
Secretary to the Board
FCA BOARD ACTION ON

Minutes for January 11, 2018 Regular Board Meeting

BM-8-FEB-18-01

Effective Date: February 8, 2018
Effect on Previous Action: None

THE FCA BOARD HEREBY:
Approves the minutes for January 11, 2018, Regular Board Meeting as submitted.

DATED THIS 8th DAY OF FEBRUARY 2018

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board
Cost of Production Trends for Grain and Soybean Producers

February 8, 2018

Stephen Gabriel
Chief Economist
Office of Regulatory Policy
Iowa corn producers to earn thin profits in 2017 and 2018

As of 1/12/2018

Iowa Season-average Corn Profit Margin Estimates

Source: FCA-ORP using data from USDA and Iowa State University. 2018 forecast assumes USDA baseline price and trendline yields.
Good yields helped boost Soybean producers’ profits

As of 1/12/2018

Iowa Season-average Soybean Profit Margin Estimates

Source: FCA-ORP using data from USDA and Iowa State University. 2018 forecast uses USDA Baseline prices and trendline yields.
Wheat producers face another year of red ink

As of 1/22/18  Kansas Season-average Wheat Profit Margin Estimates

Source: FCA-ORP using data from USDA and Kansas State University.
Notes: For 2014-2018F, government payment is Agriculture Risk Coverage and excludes loan deficiency payments. For 2017 and 2018, ARC payment is expected to be zero, compared with about 60 cents for Price Loss Coverage.
Illinois corn producers’ expenses concentrated in rent, fertilizer, seed

Expense Item for corn-after-soybeans production as a percent of the total

- Cash Rent: 32%
- Fertilizers: 16%
- Seed: 15%
- Pesticides: 8%
- Mach. depreciation: 8%
- Crop insurance: 3%
- Machine repair: 3%
- Hired labor: 2%
- Interest (non-land): 2%
- Fuel and oil: 2%
- Building depreciation: 2%
- Machine hire/lease: 2%
- Insurance: 1%
- Drying: 1%
- Storage: 1%
- Misc: 1%
- Utilities: 1%
- Building repair and rent: 1%
- Light vehicle: 0%

Assumes 100% of land is cash rented.

Illinois soybean farmers’ expenses concentrated in rent, seed, machinery

Expense Item for soybeans-after-corn production as a percent of the total

- Cash Rent: 43%
- Seed: 12%
- Mach. depreciation: 9%
- Pesticides: 7%
- Fertilizers: 6%
- Machine repair: 3%
- Hired labor: 3%
- Crop insurance: 2%
- Interest (non-land): 2%
- Fuel and oil: 2%
- Machine hire/lease: 2%
- Insurance: 2%
- Building depreciation: 2%
- Storage: 1%
- Misc: 1%
- Utilities: 1%
- Building repair and rent: 1%
- Drying: 1%
- Light vehicle: 0%

Assumes 100% of land is cash rented.

Kansas wheat farmers’ top costs are custom field work, rent, fertilizer

Expense item for continuous wheat production as a percent of the total

- Custom Field Operations: 46%
- Cash rent: 18%
- Fertilizers: 12%
- Labor (ex. custom field operations): 6%
- Crop insurance: 5%
- Seeds: 5%
- Fungicides: 3%
- Interest on operating capital: 2%
- Miscellaneous: 2%
- Herbicides: 2%

Source: 2018 Continuous Wheat Cost and Returns Budget, South Central Kansas, Kansas State University.

Assumes 100% of land is cash rented.
Crop sector input prices paid seem impervious to declining crop prices

Crop prices, $/bu.

Prices paid index (2011 = 100)

Crop sector - prices paid index (2011 = 100)

CORN, GRAIN - PRICE RECEIVED, MEASURED IN $ / BU
SOYBEANS - PRICE RECEIVED, MEASURED IN $ / BU
WHEAT - PRICE RECEIVED, MEASURED IN $ / BU
CROP SECTOR - PRICES PAID INDEX, 2011

Source: USDA, NASS.
Cash rent and seed prices have declined recently, but still high.

Index of Prices Paid (2011 = 100)

- **FERTILIZER**
- **CASH RENT**
- **SEEDS & PLANTS**

Source: USDA, NASS.
Most input prices continued to rise despite collapse in grain prices

<table>
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<tr>
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<th>% change in prices (2005 - 2012)</th>
<th>% change in prices (2012 - 2017)</th>
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<tbody>
<tr>
<td>WHEAT</td>
<td>-42%</td>
<td>126%</td>
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<tr>
<td>SOYBEANS</td>
<td>-33%</td>
<td>135%</td>
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<td>CORN</td>
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Source: USDA, NASS.

Percent change in crop prices measured in dollars/bu. Percent change in input prices based on index for prices paid, 2011.
Iowa corn farmers’ cost per acre is down just 14% since 2012

Source: Iowa State University.

% change in cost/bu. 2012 - 2017

- Corn: -42%
- Soybeans: -28%
Cash rents peaked in 2014 in some Midwest states; still rising in others.
Lower cash rent can be critical to the survival of some farmers.

Source: Iowa State University.
Why Have Cash Rents Not Declined More?

- Landlords didn’t share in the high returns during “fat” years – now catching up
- Many expect that commodity prices will increase in coming years
- Intense competition to rent farmland

Source: Schnitkey, G. "Illinois Farmland Rents: 2017 State Values and 2018 Outlook." farmdoc daily (7):143, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 8, 2017.
Long-term interest rates have been rising since September 2017

Source: Board of Governors of the Federal Reserve System.
Short-term interest rates have been rising since October 2015

3-Month London Interbank Offered Rate (LIBOR), based on U.S. Dollar, Percent, Weekly
3-Month Treasury Bill: Secondary Market Rate, Percent, Weekly

Source: Board of Governors of the Federal Reserve System, IBA.
Interest rates are forecast to continue to rise

Source: Federal Reserve Board, Forecasts are from Wells Fargo Securities.
Summary

- The reduction in costs/acre have lagged the decline in crop prices
- Strong yields in recent years helped support incomes
- Cash rents have been declining in some Midwestern states, but, they are declining slowly
- Fertilizer and cash rents account for most of the decline in costs per acre in several Midwestern states
- Interest rates are rising, posing a risk to land values and cash flow
Questions

THANK YOU
CERTIFICATE OF CLOSED MEETING

The General Counsel, in accordance with the Government in the Sunshine Act, 5 U.S.C. § 552b(f)(1), hereby certifies that the Farm Credit Administration Board regular meeting of February 8, 2018, was properly closed to the public on the basis of the exemption set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).

February 8, 2018
Date

/s/
Charles R. Rawls
General Counsel