MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
August 11, 2016

These minutes reflect the business transacted at the August 11, 2016, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act (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 10:28 a.m. Members of the Board present were:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Member
Jeffery S. Hall, Member

The above named constituted the full Board.

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

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

Mr. Tonsager moved to adopt the Agenda as published.

Mr. Hall seconded the motion.
There being no further discussion, **Board Chairman Spearman** called the question.

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

Mr. Hall 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. Tonsager seconded the motion.

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

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

**OPEN SESSION**

**Approval of Minutes**

**Minutes for July 14, 2016 Regular Board Meeting**

(BM-11-AUG-16-01)

Mr. Tonsager moved to approve the minutes for July 14, 2016, FCA Regular Board Meeting.

Mr. Hall seconded the motion.

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

The **Secretary** polled the Board Members and the motion carried unanimously. (BM-11-AUG-16-01)

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

**Reports**

**Economic Implication of Brexit**

Walter Gardiner of the Office of Regulatory Policy presented the Economic Implication of Brexit.

Board Chairman Spearman 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 Spearman noted that this was a Closed Session and ensured that members of the public and nonessential FCA staff were not in the room so the Board could meet with Office of Secondary Market Oversight (OSMO) in Closed Session.

Board Chairman Spearman convened the closed session of the meeting at 9:48 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 Spearman 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:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Member
Jeffery S. Hall, Member

The above named constituted the full Board.

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

Office of Secondary Market Oversight Quarterly Report


Board Chairman Spearman 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 Spearman indicated he would entertain a motion to adjourn the meeting.

Mr. Hall moved that the meeting be adjourned.

Mr. Tonsager seconded the motion.

Board Chairman Spearman called the question.
The Secretary polled the Board Members and the motion carried unanimously.

The meeting adjourned at 10:28 a.m.

**NOTATIONAL VOTE ACTION**

There was one notational vote action approved by the FCA Board from July 15, 2016, through August 10, 2016 as follows:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Action Date</th>
<th>Voting Results</th>
<th>Subject</th>
</tr>
</thead>
</table>

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on August 11, 2016.

/s/ Kenneth A. Spearman     /s/ Dale L. Aultman  
Board Chairman and Chief Executive Officer  Secretary to the Board

Approved *September 8, 2016*
STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
August 11, 2016

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Board Member
Jeffery S. Hall, Board Member

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<thead>
<tr>
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<th>OPEN SESSION</th>
<th>CLOSED SESSION</th>
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<td>OFFICE</td>
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<td>CLOSED SESSION</td>
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<td><strong>GENERAL PUBLIC</strong></td>
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PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
August 11, 2016

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 August 11, 2016. 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 July 14, 2016

Reports
2 Economic Implications of Brexit

CLOSED SESSION

3 Office of Secondary Market Oversight Quarterly Report1

August 1, 2016
Date

/s/
Dale L. Aultman
Secretary to the Board

1Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).
FCA BOARD ACTION ON

Minutes for July 14, 2016 Regular Board Meeting

BM-11-AUG-16-01

Effective Date: August 11, 2016

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for July 14, 2016, Regular Board Meeting as submitted.

DATED THIS 11th DAY OF AUGUST 2016

BY ORDER OF THE BOARD

____________________________________
Dale L. Aultman
Secretary to the Board
Economic Implications of Brexit

August 11, 2016

Walter Gardiner
Senior Economist
Office of Regulatory Policy
European Union becoming “disunited”

June 23, 2016: U.K. citizens vote for British exit from EU - “Brexit”
Brexit shocks global financial markets the day after the vote

- Equity markets dropped from 3% to 11% in value.
- Dow Jones industrial average fell 600 points, or 3.5%, erasing $3 trillion in value.
- S&P, Fitch and Moody’s downgraded UK debt.
- British pound depreciated by largest amount in 1 day.
- U.S. dollar appreciated against most currencies.
- Government bond yields dropped in most countries.
Dollar surged 15% against British pound but has settled around 12% higher.
Dollar increased 3.4% on euro but has recently settled to 1.5% higher.
U.S. dollar mixed against most currencies today
Bond yields drop then recover somewhat

**Government Bond Yields, 10 Year, Daily Rates, June 21 - August 2, 2016**

- **UK**: Brexit Vote June 23
- **U.S.**
- **Canada**
- **Germany**
- **Japan**

*Source: FCA-ORP from Bloomberg data.*
FCS debt yields decline on Brexit

FCS Debt Yield Curve, Selected dates before and after Brexit vote (6/23/16)

Source: FCA-FCMT from FFCBFC data.
Little change in commodity prices
UK economy to slow post-Brexit

- Loss of wealth from sharp decline in stock market
- Capital flight from the UK to safe havens like U.S.
- Depreciating pound raises cost of imports
- Consumer confidence shaken, spending reduced
- Loss of free trade with EU in 2 years
- Foreign-based companies may leave the UK
- Sovereign debt downgraded by rating agencies
UK GDP growth forecast revised down

United Kingdom - Gross Domestic Product
% change on previous year

* Average of 26-private-sector forecasts compiled by UK Treasury, July 2016.
Source: Consensus Economics Inc., Consensus Forecasts-USA, June and July 2016.
UK inflation expected to rise on higher import prices

United Kingdom - Consumer Prices

% change on previous year

Source: Consensus Economics Inc., Consensus Forecasts-USA, June and July 2016.
U.S. exports to the UK and the EU have stagnated around 2008 peak
UK: 8th largest market for U.S. agricultural and related products
Key U.S. ag exports to UK: forest products, tree nuts, fish, soybeans

Top U.S. Exports of Agricultural and Related Products to the United Kingdom, $2,981 Million Total for 2015

- $840 Forest Products 28.2%
- $305 Wine & Beer 10.2%
- $231 Distilled Spirits 7.7%
- $206 Tree Nuts 6.9%
- $158 Prepared Food 5.3%
- $130 Fish Products 4.4%
- $77 Soybeans 2.6%
- $75 Snack Foods 2.5%
- $73 Live Animals 2.4%
- $67 Fresh Vegetables 2.3%
- $817 Other 27.4%

Source: FCA-ORB from USDA Foreign Agricultural Service
U.S. ag exports to the UK expected to decline with stronger dollar
U.S. ag trade deficit with the EU likely to worsen due to strong dollar

*Note: trade data for 28 member states of EU even though some were not in EU for some years.
U.S. agriculture has significant exposure to international events

U.S. Agricultural Exports: Percentage Share of Production, 2015 or 2014/2015*

- Walnuts: 70.5%
- Cotton: 68.9%
- Almonds: 67.9%
- Nonfat Dry Milk: 46.9%
- Soybeans: 41.3%
- Wheat: 40.8%
- Grapes, Fresh: 36.4%
- Whole Milk Powder: 31.8%
- Rice: 29.2%
- Soybean Meal: 20.4%
- Apples, Fresh: 20.3%
- Pork: 16.6%
- Broilers: 13.0%
- Corn: 9.5%
- Beef and Veal: 9.5%
- Turkey: 9.4%
- Soybean oil: 5.9%
- Cheese: 4.0%
- Eggs: 2.7%
- Butter: 2.1%

* 2015 calendar year for livestock, 2014/2015 marketing year for crops.
Source: FCA-ORP from USDA, Foreign Agricultural Service PSD database.
FCS has significant concentration in commodities with large trade exposure.

<table>
<thead>
<tr>
<th>Commodity Type</th>
<th>Amount ($)</th>
<th>% of Total</th>
<th>Exports as a % of Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains and soybeans</td>
<td>41,710</td>
<td>17.7%</td>
<td>Soybeans 46.9%, wheat 41.3%, rice 31.8%, soybean meal 29.2%, corn 13.0%, soybean oil 9.4%</td>
</tr>
<tr>
<td>Cattle</td>
<td>22,347</td>
<td>9.5%</td>
<td>Beef and veal 9.5%</td>
</tr>
<tr>
<td>Dairy farms</td>
<td>15,265</td>
<td>6.5%</td>
<td>Nonfat dry milk 55.5%, whole milk powder 36.4%, cheese 5.9%, butter 2.7%</td>
</tr>
<tr>
<td>Forestry</td>
<td>14,855</td>
<td>6.3%</td>
<td>Timber products 18.1%</td>
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<tr>
<td>Tree fruits, nuts and grapes</td>
<td>11,392</td>
<td>4.8%</td>
<td>Walnuts 70.5%, almonds 67.9%, grapes 40.8%, apples 20.4%</td>
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<tr>
<td>Poultry and eggs</td>
<td>5,966</td>
<td>2.5%</td>
<td>Broilers 16.6%, turkeys 9.5%, eggs 4.0%</td>
</tr>
<tr>
<td>Hogs</td>
<td>4,963</td>
<td>2.1%</td>
<td>Pork 20.3%</td>
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<tr>
<td>Cotton</td>
<td>2,172</td>
<td>0.9%</td>
<td>Cotton 68.9%</td>
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<tr>
<td>Biofuels, primarily ethanol</td>
<td>951</td>
<td>0.4%</td>
<td>Ethanol 5.9%</td>
</tr>
</tbody>
</table>

* Exports as a % of production for livestock, dairy products, eggs and ethanol are for calendar year 2015; timber products are for 2013. Crops are on a 2014/2015 marketing year basis.

What might a prolonged period of dollar strength look like?

Real ag export-weighted dollar exchange rates and projections

Note: Exchange rates weighted by 2009-11 average total U.S. agricultural exports by country. Source: USDA, Economic Research Service (ERS) using ERS Agricultural Exchange Rate Data Set; and USDA Agricultural Projections to 2025.
U.S. ag exports would take a hit from prolonged dollar strength

Impact of extended period of dollar strengthening on 2016 USDA projections of corn exports

1Change in 2016 USDA global export volume projections in a scenario that extends the period of gradual dollar strengthening into 2019.
Breaking up is hard to do!

- Evolving political crisis in the UK and the EU
- Uncertainties about the separation process
- Volatility in global financial markets
- London’s status as the largest global financial center
- Impact on UK economy and spillover effects
- Impact on global trade and U.S. exports
Brexit exacerbates an already difficult trade situation for U.S.

- U.S. exports to and imports from UK are small (0.7% and 0.6% of U.S. GDP, respectively), but trade with world is significant (exports = 12.5% of GDP, imports = 15.3%).
- U.S. had a $763 billion trade deficit for 2015.
- Stronger dollar will further reduce U.S. exports and increase imports, expanding trade deficit.
- Earnings reduced for export-oriented U.S. companies.
- Cheaper imports will displace U.S. domestic sales.
Take Aways from Brexit

- Market volatility has declined but uncertainty over Brexit will continue to shape markets.
- Interest rate hike by the Fed is delayed.
- Continued low interest rates positive for U.S. agriculture.
- Lower U.S. ag exports puts additional downward pressure on commodity prices and farm income.
- Once UK leaves EU in 2+ years, U.S. farmers could see pick up in trade with UK.
Questions?
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 August 11, 2016, 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).

/s/ Charles R. Rawls
General Counsel

Date: August 11, 2016