These minutes reflect the business transacted at the December 8, 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 10:44 a.m. Members of the Board present were:

Dallas P. Tonsager, Board Chairman & Chief Executive Officer
Jeffery S. Hall, Member
Kenneth A. Spearman, Member (by telephone)

The above named constitute the full Board.

Chairman Tonsager recognized Mr. Spearman’s service as prior FCA Board Chairman and CEO. Chairman Tonsager directed that his statement be attached to the minutes. (A copy is attached as Exhibit A.)

Mr. Spearman thanked Chairman Tonsager and congratulated him as being designated Chairman and asked that his statement be attached to the minutes. (A copy is attached as Exhibit B.)

Others present at the meeting included Charles Rawls, General Counsel; Dale Aultman, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and four members of the general public. (A list of staff attendees is attached as Exhibit C.)
The Secretary read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

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

Mr. Hall moved to adopt the Agenda as published.

Mr. Spearman 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. Spearman 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 November 10, 2016 Regular Board Meeting  
(BM-8-DEC-16-01)

Mr. Hall moved to approve the minutes for the November 10, 2016, FCA Regular Board Meeting.

Mr. Spearman 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-DEC-16-01)

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

Quarterly Report on Economic Conditions and FCS Conditions


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 F.)

Semi-Annual Report on Office of Examination Operations


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 G.)

Closed Session

The Board Chairman noted that this was a Closed Session and ensured that members of the public and nonessential FCA and FCSIC staff were not in the room so the Board could meet with Office of Examination staff in Closed Session.

Board Chairman Tonsager convened the closed session of the meeting at 10:09 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.

The Board Chairman 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 H.)
Members of the Board present were:

Dallas P. Tonsager, Board Chairman & Chief Executive Officer
Jeffery S. Hall, Board Member
Kenneth A. Spearman, Board Member (by telephone)

The above named constitute 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 Examination Quarterly Report**

Robert Coleman and Roger Paulsen of the Office of Examination presented the update on OE Supervisory and Oversight Activities.

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. Spearman 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 10:44 a.m.
NOTATIONAL VOTE ACTIONS

There were two notational vote action approved by the FCA Board from November 10, 2016, through December 7, 2016 as follows:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Action Date</th>
<th>Voting Results</th>
<th>Subject</th>
</tr>
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<tbody>
<tr>
<td>NV 16-22</td>
<td>11/17/2016</td>
<td>Approved</td>
<td>Farm Credit System Building Association Budget and Assessments for 2017</td>
</tr>
<tr>
<td>NV 16-23</td>
<td>12/5/2016</td>
<td>Approved</td>
<td>Regulatory Treatment of Certain Securitizations</td>
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</tbody>
</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 December 8, 2016.

/s/ Dallas P. Tonsager  
Chairman & Chief Executive Officer

/s/ Dale L. Aultman  
Secretary to the Board

Approved: **January 12, 2017**
Good morning, everyone. Before we start on the meeting agenda, I’d like to take a moment to recognize Ken’s service as FCA’s Board Chairman and CEO.

In that role, Ken made a positive and valuable impact on the agency. He was responsible for ushering in the new capital rule, and for issuing guidance on internal controls and similar entities.

He promoted diversity and inclusion both here at FCA and within the Farm Credit System. In fact, under his chairmanship, the agency stepped up its recruiting of minority populations, which has resulted in a more inclusive workplace.

He also had the vision to spearhead some major organizational changes at the agency that have led to more robust IT security and a dedicated office to human resources.

He accomplished all of this while remaining the consummate professional and a steadfast colleague. We are fortunate that Ken will continue to serve on the board, and we thank him for all his years of commitment and service.
Statement
Kenneth A. Spearman, Member
Farm Credit Administration Board Meeting, December 8, 2016

Dallas, Congratulations on being designated by the President to Chair the FCA Board. I have every confidence that you will do an outstanding job of ensuring the System remains safe and sound and that it continues to serve its mission of providing constructive credit to all of America’s farmers and ranchers.

Also, I want to thank you and Jeff for your support and input that you have given me during my Chairmanship. In addition, I want to thank Bill, the Senior Staff and all the employees at FCA. It is your dedication and service that is the driving force of the agency, and who deserve much of the credit for our success.
Exhibit C
Page 1 of 2

STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
December 8, 2016

Dallas P. Tonsager, Chairman & Chief Executive Officer
Jeffery S. Hall, Board Member
Kenneth A. Spearman, Board Member (by telephone)

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PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
December 8, 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 December 8, 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 November 10, 2016

Reports
2 Quarterly Report on Economic Conditions and FCS Conditions
3 Semi-Annual Report on Office of Examination Operations

**CLOSED SESSION**

4 Office of Examination Quarterly Report

November 28, 2016

/s/ Dale L. Aultman
Date Secretary to the Board

---

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

FCA BOARD ACTION ON

Minutes for November 10, 2016 Regular Board Meeting

BM-8-DEC-16-01

Effective Date: December 8, 2016

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for November 10, 2016, Regular Board Meeting as submitted.

DATED THIS 8th DAY OF DECEMBER 2016

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board
Quarterly Report on FCS Condition

December 8, 2016

Stephen Gabriel
Hal Johnson

Exhibit F
Topics for Open Session

- Economic Conditions Affecting the FCS
- FCS Condition and Performance
Economic Conditions Affecting the Farm Credit System

Stephen Gabriel
Chief Economist
Office of Regulatory Policy
Economic growth expected to continue at sub-par pace

Consensus Forecasts (percent)

<table>
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<tr>
<th></th>
<th>Q3 2015</th>
<th>Q4 2015</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Q4 2016</th>
<th>Q1 2017</th>
<th>Q2 2017</th>
<th>Q3 2017</th>
<th>Q4 2017</th>
<th>Q1 2018</th>
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<td>0.8</td>
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<td>2.1</td>
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<td>-0.3</td>
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<td>Unemployment rate</td>
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<td>10 Yr T-Bond</td>
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<td>1.8</td>
<td>1.5</td>
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<td>2.2</td>
<td>2.3</td>
<td>2.6</td>
<td>2.7</td>
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</table>

Source: Consensus Economics, Inc.
Survey date - November 7, 2016
* % change from prior quarter, seasonally adjusted annual rate
Short-term interest rates are rising
Long-term treasuries are moving higher

Source: Board of Governors of the Federal Reserve System (US)
What’s a “normal” 10-year treasury rate?

Source: Board of Governors of the Federal Reserve System, US. Bureau of Labor Statistics
The value of the dollar is strengthening

Trade Weighted U.S. Dollar Index: Broad, Index Jan 1997=100, Weekly

Source: Board of Governors of the Federal Reserve System (US)
Farm sector developments and concerns

- USDA projecting record corn and soybean crops
- Corn and soybean exports projected to be strong this marketing year
- Continued concerns about shrinking grain and soybean profit margins and working capital
- Production growth in the protein and dairy sectors is pressuring prices and margins
- Continued weakness in Midwest farmland markets?
Real net cash farm income is reverting to the mean

Source: USDA, ERS
Will farm debt growth moderate in coming years?

Source: USDA, ERS
Lower farm income is leading to a greater debt burden

Ratio of total farm debt to net cash income

Source: USDA, ERS
Cow/calf returns are down sharply from previous two years

8-Nov-16

ESTIMATED AVERAGE COW/CALF RETURNS
(Over Cash Costs) & BEEF COW INVENTORY

$Hd Over Direct Costs

Source: Informa Economics IEG
Hog producers face negative margins through the winter

Hog Producer Margin, Cash Based

Source: Informa Economics IEG
Broiler margins should turn positive in January

Source: Informa Economics IEG
Dairy margins could see a rough patch through summer 2017

Source: Informa Economics IEG
There is continued weakness in Midwest farmland markets.
Risks to watch

- Potential deterioration in international trade environment
- Crop conditions in South America
- U.S. and global economic growth
- Interest rates
- Strength of the dollar
- Deteriorating agricultural credit quality
Questions

THANK YOU
Farm Credit System
Condition and Performance

as of
September 30, 2016

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System Growth
- Loan Portfolio Growth
- Earnings
- Capital
- FIRS
System growth continues at a modest pace in 2016

![Graph showing total FCS assets and total gross loans from Dec-12 to Sep-16.](Image)

- Total FCS Assets
- Total Gross Loans
- % change in Gross Loans (quarter-over-quarter)

Source: FCS Quarterly Information Statements
Loan growth slows as production and intermediate term lending lags

### Total Gross Loans

<table>
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<tr>
<th>% change year-to-date (through September)</th>
<th>YTD '11</th>
<th>YTD '12</th>
<th>YTD '13</th>
<th>YTD '14</th>
<th>YTD '15</th>
<th>YTD '16</th>
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<td>-2.7%</td>
<td>6.2%</td>
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<td>3.5%</td>
<td>4.5%</td>
<td>2.6%</td>
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### 2016 Loan Growth by Loan Type

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<tr>
<th>% change year-to-date (through September)</th>
<th>Total Gross Loans</th>
<th>Real Estate Mortgage [47%]</th>
<th>Production &amp; Intermediate [20%]</th>
<th>Agribusiness [15%]</th>
<th>Other [18%]</th>
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<td>2.6%</td>
<td>4.9%</td>
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### Loan Growth by District

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<th>District</th>
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<th>Sep-16</th>
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<td>AgFirst District (11%)</td>
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<td>AgriBank District (40%)</td>
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<td>CoBank District (40%)</td>
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<td>Texas District (9%)</td>
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<td>Total FCS</td>
<td>3.5%</td>
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<td>2.6%</td>
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Source: FCS Quarterly Information Statements
Portfolio loan quality remains strong but risk indicators continue to trend up

**Portfolio Credit Quality**
as of September 2016

- Nonperforming loans equaled 0.82% of System loans outstanding in the 3rd quarter
- 94.4% of System loans were classified as Acceptable as compared to 96% at yearend 2015
- Loan delinquencies were 0.21% of accruing loans
- The System’s allowance for loan losses equaled 74% of nonperforming loans
- Total capital and the allowance for loan losses represented 22.2% of System loans at quarter-end

**% of Nonperforming Loans-to-Total Loans**

Source: FCS Quarterly Information Statements
System continues to register solid financial results in 2016

System Earnings ($M)
- YTD through September -

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<td>3.41</td>
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Source: FCS Quarterly Information Statements

Net Interest Income (YTD through September)

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<th>2015</th>
<th>Inc / (Dec)</th>
<th>Inc / (Dec) due to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>7,738</td>
<td>6,948</td>
<td>790</td>
<td>114</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>(2,214)</td>
<td>(1,731)</td>
<td>(483)</td>
<td>(308)</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>5,524</td>
<td>5,217</td>
<td>307</td>
<td>(194)</td>
</tr>
</tbody>
</table>

Net Interest Spread

Rate: Earning Assets
Rate: Interest-Bearing Liabilities
Net Interest Spread
Capital and Liquidity as of September 2016

- System capital as a percentage of total assets was 16.7% compared to 16.1% at year end 2015
- Surplus as a percentage of total capital equaled 82.0%
- System liquidity equaled 177 days of coverage. Days of available liquidity for the four funding banks ranged from 144 days to 198 days.

Source: FCS Quarterly Information Statements

Restricted capital represents capital associated with the Insurance Fund.
System FIRS ratings

Composite FIRS Ratings - System Banks & Associations

- Composite FIRS ratings remain stable
- Over 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for about 1.0% of total System assets

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

➢ Challenges for agriculture:
  ▪ General economic factors – *sub-par economic growth in the U.S. and abroad, a strengthening dollar, rising interest rates*
  ▪ Farm sector concerns – *shrinking margins and cash flows concerns for grain producers, production levels pressuring prices and margins in the dairy and protein sectors, Midwest farmland values*

➢ The System is financially strong and well-capitalized

➢ Portfolio credit quality remains good but credit risk is expected to intensify as many ag producers face significant financial challenges

➢ System institutions are well-positioned for the risks facing agriculture and have significant risk-bearing capacity
Questions

THANK YOU
Semi-Annual Report on Office of Examination Operations
December 8, 2016

Hal Johnson
Office of Examination
Exhibit G
Highlights of OE Operations

- 2016 Operating Plan Objectives
- OE Budget Results
- Staffing Update
- Summary
2016 Operating Plan Objectives

- Risk Supervision & Examination Activities
  - Onsite at 71 associations (96%), all funding banks, 8 other System entities, National Cooperative Bank, and Farmer Mac
  - Issued 55 Reports of Examination and 43 Interim Activity Letters
  - 4 institutions are currently under a higher level of supervisory oversight
  - Completed Compliance Horizontal Examination activity and Cybersecurity Horizontal Examination activity
  - Issued 2015 Shared Assets Examination Results (March 2016)
2016 Operating Plan Objectives

- Risk Supervision & Examination Initiatives
  - Internal Controls – Published Audit and Review Examination Manual module including supporting documents and talking points. Completed examination of System internal controls using new workprograms. Working with ORP on proposed Booklet providing regulatory expectations.
  - Loan Portfolio Management – Published Risk Identification Examination Manual module and two supporting documents. Revised guidance on collateral risk management, chattel evaluations and verification, and credit administration.
  - Completed analyses on cash grain risk exposures and drought risk.
2016 Operating Plan Objectives

➢ Risk Supervision & Examination Initiatives (cont.)
  ▪ Other Examination Manual modules published:
    o Earnings Management
    o Allowance for Loan Losses
    o FCA Examination Process and Financial Institution Rating System

➢ Risk Supervision & Examination Informational Memorandums
  ▪ National Oversight Plan FY 2017 (issued 9/27/2016)
  ▪ Servicing Loans to Borrowers in Distressed Industries (issued 1/21/16)
  ▪ Compliance w/ Section 4.38 of the Farm Credit Act -- Affirmative Action (issued 11/06/15)
2016 Operating Plan Objectives

- **Public Mission as GSE**
  - Completed systemic risk assessment of out-of-territory lending

- **Human Capital**
  - Integrating Job Analysis results in Commissioning Program
  - Developing Post-Commission training
  - Expanded development opportunities
  - Identified recruiting and training cost-saving strategies

- **Operational Efficiency & Effectiveness**
  - Progress in Loan Database, EDGe, and leveraging technology
OE Budget Results  (Fiscal Year 2016)

Fiscal Year 2016

Travel Budget
- FY 2016 Travel Dollars Used: 104%
- FY 2016 Travel Days Used: 102%

FTEs
- Budgeted Full Year FTE's: 168.6
- Actual Full Year FTE's: 172.9
  (Over)/Under Budget: (4.3)

Actual OE spending within Operating Budget parameters

<table>
<thead>
<tr>
<th>Budget</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>$31.3</td>
<td>$31.2</td>
</tr>
</tbody>
</table>
# Staffing Update

## Total OE Staff

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning FY 2016</strong></td>
<td>169</td>
<td>169</td>
<td>0</td>
</tr>
<tr>
<td>Attrition / Retirements</td>
<td>(16)</td>
<td>(11)</td>
<td>5</td>
</tr>
<tr>
<td>Hirings</td>
<td>25</td>
<td>19</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Ending FY 2016</strong></td>
<td>178</td>
<td>177</td>
<td>(1)</td>
</tr>
</tbody>
</table>

## Commissioned Examiners

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning FY 2016</strong></td>
<td>90</td>
<td>90</td>
<td>0</td>
</tr>
<tr>
<td>Attrition / Retirements</td>
<td>(7)</td>
<td>(6)</td>
<td>1</td>
</tr>
<tr>
<td>Hirings</td>
<td>2</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>Newly Commissioned</td>
<td>8</td>
<td>5</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Ending FY 2016</strong></td>
<td>93</td>
<td>90</td>
<td>(3)</td>
</tr>
</tbody>
</table>
Summary

- Accomplished examination objectives as planned while maintaining a strong onsite risk supervision and oversight presence
- Significant guidance, communications, program activities, and risk analyses completed as part of our OE operating objectives
- Several 2016 initiatives will carry forward into 2017 including internal controls and intensifying credit and collateral risk
- Recruiting and developing staff remains a priority
- Executed OE operating objectives within approved budget parameters
Discussion

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 December 8, 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: December 8, 2016