MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
December 14, 2017

These minutes reflect the business transacted at the December 14, 2017, 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 10:26 a.m. Members of the Board present were:

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

The above named constituted the entire Board of Directors.

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

Chairman Tonsager welcomed new FCA Board Member Glen R. Smith and conducted the official swearing in for Mr. Smith.

Chairman Tonsager recognized that Office of Regulatory Policy Director Gary Van Meter will retire at the end of the month and thanked him for his service.

Chairman Tonsager then called the meeting to order.

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

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

OPEN SESSION

Approval of Minutes

Minutes for November 9, 2017
(BM-14-DEC-17-01)

Mr. Hall moved to approve the minutes for the November 9, 2017 FCA Regular Board Meeting.

Mr. Smith seconded the motion.

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

The Secretary polled the Board Members and the motion carried unanimously. (BM-14-DEC-17-01)

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

REPORTS

Quarterly Report on
Economic Conditions and Farm Credit System (FCS) Conditions

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.)

**Semi-Annual Report on Office of Examination Operations**


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 E.)

**CLOSED SESSION**

Chairman Tonsager 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 in Closed Session.

Chairman Tonsager convened the closed session of the meeting at 9:55 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.

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 F.)

Members of the Board present were:

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

The above named constituted the entire Board of Directors.

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.

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, 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.

Chairman Tonsager called the question.

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

The meeting adjourned at 10:26 a.m.

NOTATIONAL VOTE ACTIONS

There were two notational vote actions approved by the FCA Board from November 9, 2017, through December 13, 2017 as follows:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Action Date</th>
<th>Voting Results</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>NV 17-29</td>
<td>11/16/2017</td>
<td>Approved</td>
<td>Farm Credit System Building Association 2018 Budget and Assessments</td>
</tr>
<tr>
<td>NV 17-30</td>
<td>11/30/2017</td>
<td>Approved</td>
<td>The board voted not to object to Compeer Financial, ACA’s payment of cash patronage and cash dividends and its retirement of certain purchased and allocated equities. The board took this vote under a condition of the recent merger involving the association.</td>
</tr>
</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 14, 2017.

/s/ Dallas P. Tonsager
Board Chairman and Chief Executive Officer

/s/ Dale L. Aultman
Secretary to the Board

Approved: January 11, 2018
### STAFF PRESENT AT THE
### FCA REGULAR BOARD MEETING
### December 14, 2017

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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<td>Wynn, Wade</td>
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PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
December 14, 2017

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 14, 2017. 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

1 Approval of Minutes
   November 9, 2017

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

CLOSED SESSION

4 Office of Examination Quarterly Report

December 4, 2017  /s/ Dale L. Aultman
Date Secretary to the Board

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

FCA BOARD ACTION ON

Minutes for November 9, 2017 Regular Board Meeting

BM-14-DEC-17-01

Effective Date: December 14, 2017

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for November 9, 2017, Regular Board Meeting as submitted.

DATED THIS 14th DAY OF DECEMBER 2017

BY ORDER OF THE BOARD

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

December 14, 2017

Dennis Shields
Hal Johnson

Exhibit D
Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Senior Agricultural Economist
Office of Regulatory Policy
Overview

- Current favorable macroeconomic conditions
- Farm income in 2017 near historical average, but debt servicing and liquidity remain a concern
- Lower land values in Midwest and Great Plains
- Commodity outlook: large supplies, strong export competition, demand is key
- Trade agreements and farm policy under review
Global economic growth is underway in U.S. agricultural markets

7-year global expansion underpins agricultural export demand

Real gross domestic product per capita

% change

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017F</th>
<th>2018F</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td></td>
<td></td>
<td>5.9</td>
<td></td>
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<tr>
<td>U.S.</td>
<td></td>
<td>1.7</td>
<td></td>
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<td>China</td>
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<td>2.0</td>
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<tr>
<td>Canada</td>
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<td></td>
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<tr>
<td>Mexico</td>
<td></td>
<td>1.3</td>
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<tr>
<td>Japan</td>
<td></td>
<td></td>
<td>1.6</td>
<td></td>
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<td>South Korea</td>
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<td>2.6</td>
<td></td>
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<tr>
<td>Europe</td>
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<td>1.8</td>
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Source: USDA/ERS using data and forecasts from Global Insight, International Monetary Fund, and Oxford Economics.
U.S. agricultural exports rebound from 2016; “bulk” volume expands

<table>
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<tr>
<th>FY2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018F</th>
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<tr>
<td>$ billion</td>
<td>141.1</td>
<td>152.3</td>
<td>139.8</td>
<td>129.6</td>
<td>140.5</td>
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</table>

Record U.S. total exports = 152.3
Recent low = 129.6

Bulk exports
Million metric tons of wheat, rice, coarse grains, soybeans, cotton, and unmanufactured tobacco.

| | 93.5 | 134.6 | 134.8 | 142.0 | 157.2 | 149.1 |

Source: USDA/ERS Outlook for U.S. Agricultural Trade.
Favorable trends for U.S. personal income and unemployment rate

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<tr>
<th>Year</th>
<th>U.S. real disposable personal income</th>
<th>Unemployment rate</th>
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<tr>
<td></td>
<td>% change</td>
<td>%</td>
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<td>2016</td>
<td>1.4</td>
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<tr>
<td>2018F</td>
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<td>4.1</td>
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Source: Consensus Economics, Inc.
Farm input cost indicators remain mostly in check

Percent, 10-year Treasury rate

Producer price index (1979 = 100), nitrogen fertilizer

Real farm income settles on long-term average

Source: USDA/ERS.
Farm debt remains high relative to net cash income

Source: USDA/ERS.
Cropland values continue to decline in the Corn Belt and Northern Plains

- U.S. average cropland value is unchanged in 2017
- Declines in Corn Belt and Northern Plains
- Increases in most other regions

![Cropland values chart](chart.png)

Source: USDA/NASS.
Rented farmland dominates major producing areas

- Rented farmland is concentrated in several areas, including the Midwest and Great Plains
- Small declines in cash rent for 2017
- Cash renters have fewer options when facing liquidity problems

Share of farmland that is rented

Crop outlook: Farm prices for fruit and tree nuts remain elevated

- Upward trend in fruit and tree nut prices through 2014
- Volatile vegetable prices
- Labor availability/cost is a major concern

Index of prices received by growers, 2011=100

Source: USDA/NASS.
Corn and bean prices move sideways

**Corn price, $ per bushel**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017F</th>
<th>2018F</th>
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<tbody>
<tr>
<td>Price ($/bu.)</td>
<td>3.61</td>
<td>3.36</td>
<td>3.20</td>
<td><strong>3.30</strong></td>
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<td>Market return above variable cost ($/acre)</td>
<td>271</td>
<td>253</td>
<td>232</td>
<td><strong>236</strong></td>
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**Soybean price, $ per bushel**

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<td>Price ($/bu.)</td>
<td>8.95</td>
<td>9.47</td>
<td>9.30</td>
<td><strong>9.40</strong></td>
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<td>Market return above variable cost ($/acre)</td>
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<td>320</td>
<td>287</td>
<td><strong>279</strong></td>
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Sources: USDA/NASS; USDA baseline projections (crop year) released 11/28/17.
Wheat prices remain under pressure

Wheat price, $ per bushel

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<th>Year</th>
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<td>2018F</td>
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Sources: USDA/NASS; USDA baseline projections (crop year) released 11/28/17.
Calf prices rebound from 2016 lows; hog prices strengthened in mid-2017

<table>
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<tr>
<th>Calf price, $ per hundredweight</th>
<th>Hog price, $ per hundredweight</th>
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<tr>
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<td><strong>2015</strong></td>
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<td>Price ($/cwt)</td>
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<tr>
<td>Return above variable cost ($/head)</td>
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Sources: USDA/NASS; USDA baseline projections released 11/28/17; margins from Informa Economics IEG.
Milk prices stay between decade’s highs and lows

Milk price, $ per cwt

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<td>2018F</td>
<td>17.35</td>
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Sources: USDA/NASS; USDA baseline projections released 11/28/17; margins from Informa Economics IEG.
Managing farm risk: Government assistance following natural disasters

Hurricanes, floods, drought, and wildfires in 2017

- Federal crop insurance indemnity depends on coverage selected by producer
- Noninsured Crop Disaster Assistance Program (NAP) is generally available where crop insurance is not
- Disaster programs for livestock-related losses, trees and vines, and farmland rehabilitation
- Agriculture Risk Coverage revenue program has a county yield component
- Emergency loans are available in disaster counties
Farm policy review on the horizon

Farm Bill deliberations in 2018

- Possible “tweaks” to improve operation of farm programs
- Challenges to crop insurance subsidies
- Possible credit title
- Calls for more agricultural research dollars
U.S. agricultural trade policy in flux

- Administration halted U.S. participation in Trans-Pacific Partnership agreement
- New emphasis on bilateral agreements
- Renegotiation of North American Free Trade Agreement
- Some customers reportedly seeking alternative suppliers
Potential issues that could cause some pain (or gain) in 2018

- Demand for agricultural commodities
- Geopolitical risks; oil or other shocks that drive up input costs and/or adversely affect trade and farm prices
- Rise in interest rates that boosts expenses and reduces land values
- Changes in crop insurance subsidies and farm policy
- Trade policy that shifts U.S. export potential to competitors

*Low-cost U.S. producers continue to prosper*
Questions

THANK YOU
Farm Credit System Condition and Performance

as of

September 30, 2017

Hal Johnson
Senior Financial Analyst
Office of Examination
Topics

- System Growth
- Loan Portfolio
- Earnings
- Capital
- FIRS
System growth slows in 2017

Source: FCS Quarterly Information Statements
Loan balances up slightly in 2017; growth rates lag 2016 for most loan types

### 2017 Loan Growth by Loan Type

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<th>YTD '17</th>
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<tbody>
<tr>
<td>Total Gross Loans</td>
<td>4.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Real Estate Mortgage [47%]</td>
<td>2.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Production &amp; Intermediate [20%]</td>
<td>0.1%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Agribusiness [15%]</td>
<td>1.0%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Other [18%]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Loan Growth by District

<table>
<thead>
<tr>
<th>District</th>
<th>YTD-'15</th>
<th>YTD-'16</th>
<th>YTD-'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgFirst District (11%)</td>
<td>4.2%</td>
<td>3.9%</td>
<td>2.8%</td>
</tr>
<tr>
<td>AgriBank District (39%)</td>
<td>3.6%</td>
<td>3.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td>CoBank District (41%)</td>
<td>5.2%</td>
<td>1.7%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Texas District (9%)</td>
<td>6.1%</td>
<td>4.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>Total FCS</strong></td>
<td>4.5%</td>
<td>2.6%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: FCS Quarterly Information Statements
Loan quality remains favorable

Portfolio Credit Quality
as of September 2017

- Nonperforming loans equaled 0.81% of System loans outstanding
- 93.6% of System loans were classified acceptable
- Loan delinquencies were 0.22% of accruing loans
- The System’s allowance for loan losses equaled 79% of nonperforming loans
- Total capital and the allowance for loan losses was 22.7% of System loans at quarter-end

Source: FCS Quarterly Information Statements
System’s financial condition is sound; earnings stable

**Earnings**

**YTD through September 2017**

- For the 1st nine months of 2017, System net income equaled $3.7 billion, up 3.5% from the same period a year ago.
- YTD loan loss provisions remained low at $188 million, down slightly from the same period a year ago.
- Net interest spread decreased 5 basis points, primarily due to debt costs rising faster than the rate on earning assets.

*Source: FCS Quarterly Information Statements*
Stable earnings support increased capital levels

Capital and Liquidity as of September 2017

- System capital as a percentage of total assets was 17.3% compared to 16.7% at September 2016
- Retained earnings as a percentage of total capital equaled 78.5%
- System liquidity equaled 172 days of coverage. At September 30, days of available liquidity for the four funding banks ranged from 145 to 205 days

Source: FCS Quarterly Information Statements
System FIRS ratings

FIRS Ratings

- Composite FIRS ratings reflect the System’s sound financial condition and favorable portfolio credit quality
- Almost 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for less than 1.5% of total System assets

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

- Risks for agriculture:
  - Low cash grain prices, softening Midwest cropland values, rising interest rates, farm debt and income levels, agricultural trade policies, supply vs. demand for agricultural commodities

- The System is financially strong and well-capitalized

- Portfolio loan quality continues to be good, but certain agriculture sectors under stress

- System institutions are well-positioned for the current challenges facing agriculture and have substantial risk-bearing capacity
Questions

THANK YOU
Semi-Annual Report on Office of Examination Operations
December 14, 2017

Hal Johnson
Office of Examination
Highlights of OE Operations

- Operating Plan Objectives
- OE Budget Performance Results
- Staffing Update
- Summary
2017 Operating Plan Objectives

- **Risk Supervision & Examination Activities**
  - Onsite at 66 associations (90%), all funding banks, 6 other System entities, Farmer Mac, and the National Cooperative Bank
  - Issued 57 Reports of Examination and 42 Interim Activity Letters
  - 4 institutions are under a higher level of supervisory oversight
  - Completed 2017 Compliance Horizontal Examination Activity (HEA)
  - Issued in FY 2017:
    - 2016 Compliance and Cyber security HEA results
    - 2016 Shared Assets Report and
    - 2016 Loan Underwriting Standards Report
2017 Operating Plan Objectives

➢ Risk Supervision & Examination Initiatives

• New Capital Regulations
  o Issued IM on Implementation of Capital Framework with new FIRS benchmarks (November 10, 2016)
  o Updated related Examination Manual sections & workpapers
  o Issued Talking Points and provided examiner training
  o Completed systemic analysis of the new capital ratios
  o Reviewed and validated System capital ratio calculations

• Internal controls
  o Issued ICFR Talking Points (1)
  o Lending and loan servicing controls

(1) ICRF – Internal Control over Financial Reporting
2017 Operating Plan Objectives

➢ Risk Supervision & Examination Initiatives (cont.)

• Credit and collateral risk:
  o Talking Points on collateral risk, risk ID and loan servicing
  o Systemic risk analysis report and Talking Points
  o Memorandum to FCS on Attributed Customer Exposures

• Examination Manual modules
  o Information Technology & Security
  o Affirmative Action Program Plan
  o Corporate Governance
  o Criminal Referral

• Informational Memorandums
2017 Operating Plan Objectives

- Public Mission as GSE
  - Updated YBS Examination Manual module and related tools

- Human Capital
  - Integrated Job Analysis results into Commissioning Program
  - Reviewed Career Path Directive 52
  - Supported Agency human capital goal

- Operational Efficiency & Effectiveness
  - Continued focus on developing and leveraging available technology (e.g., Loan Database, EDGe, and risk project tools)
OE Budget Results (Fiscal Year 2017)

Fiscal Year 2017

- Budget: $31.5
- Actual: $31.3

Actual OE spending within Operating Budget parameters

Travel Budget
- FY 2017 Travel Dollars Used: 95.2%
- FY 2017 Travel Days Used: 89.5%

FTEs
- Budgeted Full Year FTE's: 177.8
- Actual Full Year FTE's: 175.7
(Over)/Under Budget: 2.1
# Staffing Update

## Total OE Staff

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning FY 2017</strong></td>
<td>177</td>
<td>178</td>
<td>(1)</td>
</tr>
<tr>
<td>Attrition / Retirement</td>
<td>(17)</td>
<td>(19)</td>
<td>2</td>
</tr>
<tr>
<td>Hirings</td>
<td>10</td>
<td>19</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Ending FY 2017</strong></td>
<td>170</td>
<td>178</td>
<td>(8)</td>
</tr>
</tbody>
</table>

(1) There have been 3 additional staff departures since September 30.

## Commissioned Examiners

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning FY 2017</strong></td>
<td>90</td>
<td>90</td>
<td>0</td>
</tr>
<tr>
<td>Attrition / Retirement</td>
<td>(10)</td>
<td>(8)</td>
<td>(2)</td>
</tr>
<tr>
<td>Hirings</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Newly Commissioned</td>
<td>4</td>
<td>8</td>
<td>(4)</td>
</tr>
<tr>
<td>Adjustments</td>
<td>(1)</td>
<td>0</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Ending FY 2017</strong></td>
<td>83</td>
<td>90</td>
<td>(7)</td>
</tr>
</tbody>
</table>

(2) One of the 3 additional staff departures noted above was a commissioned examiner.

(3) Three examiners were newly commissioned in October.
Summary

- Accomplished examination objectives as planned while maintaining a strong onsite risk supervision and oversight presence.

- Significant program activities, examination guidance, System communications, and risk analyses were completed as part of accomplishing our OE operating objectives.

- 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 14, 2017, 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 14, 2017