



FCA Board Meeting

June 2016

Quarterly Report on FCS Condition

June 9, 2016

**Stephen Gabriel
Hal Johnson**





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 continues to underwhelm



Consensus Forecasts (percent)

Red indicates forecast

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
GDP growth*	0.6	3.9	2.0	1.4	0.8	2.2	2.5	2.4	2.3	2.3	2.2	2.2
CPI*	-2.9	2.4	1.4	0.8	-0.3	1.9	2.2	2.3	2.1	2.4	2.3	2.4
Unemployment rate	5.6	5.4	5.2	5.0	4.9	4.9	4.8	4.7	4.7	4.6	4.6	4.5
10 Yr T-Bond	2.0	2.4	2.0	2.2	1.8	1.9	2.1	2.3	2.5	2.6	2.7	2.9

Source: Consensus Economics, Inc.

Survey date - May 9, 2016

* % change from prior quarter, seasonally adjusted annual rate



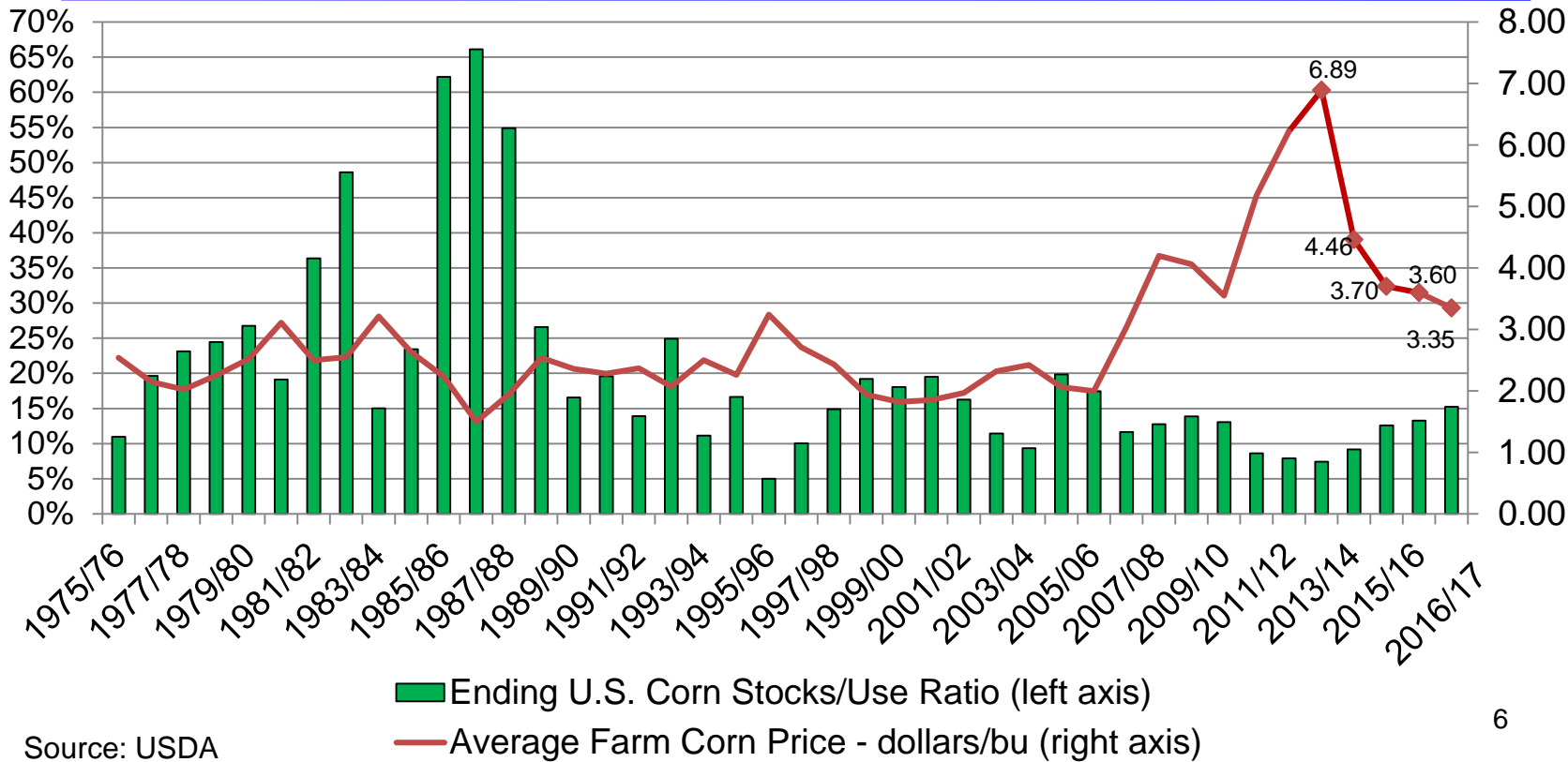
Farm sector developments and concerns



- Planting progress is generally good
- South American weather boosts soybean/corn futures
- USDA projects a record corn crop in 2016
- Production growth in the protein and dairy sectors is pressuring prices and margins
- There are signs of emerging credit problems
- Continued farmland market weakness

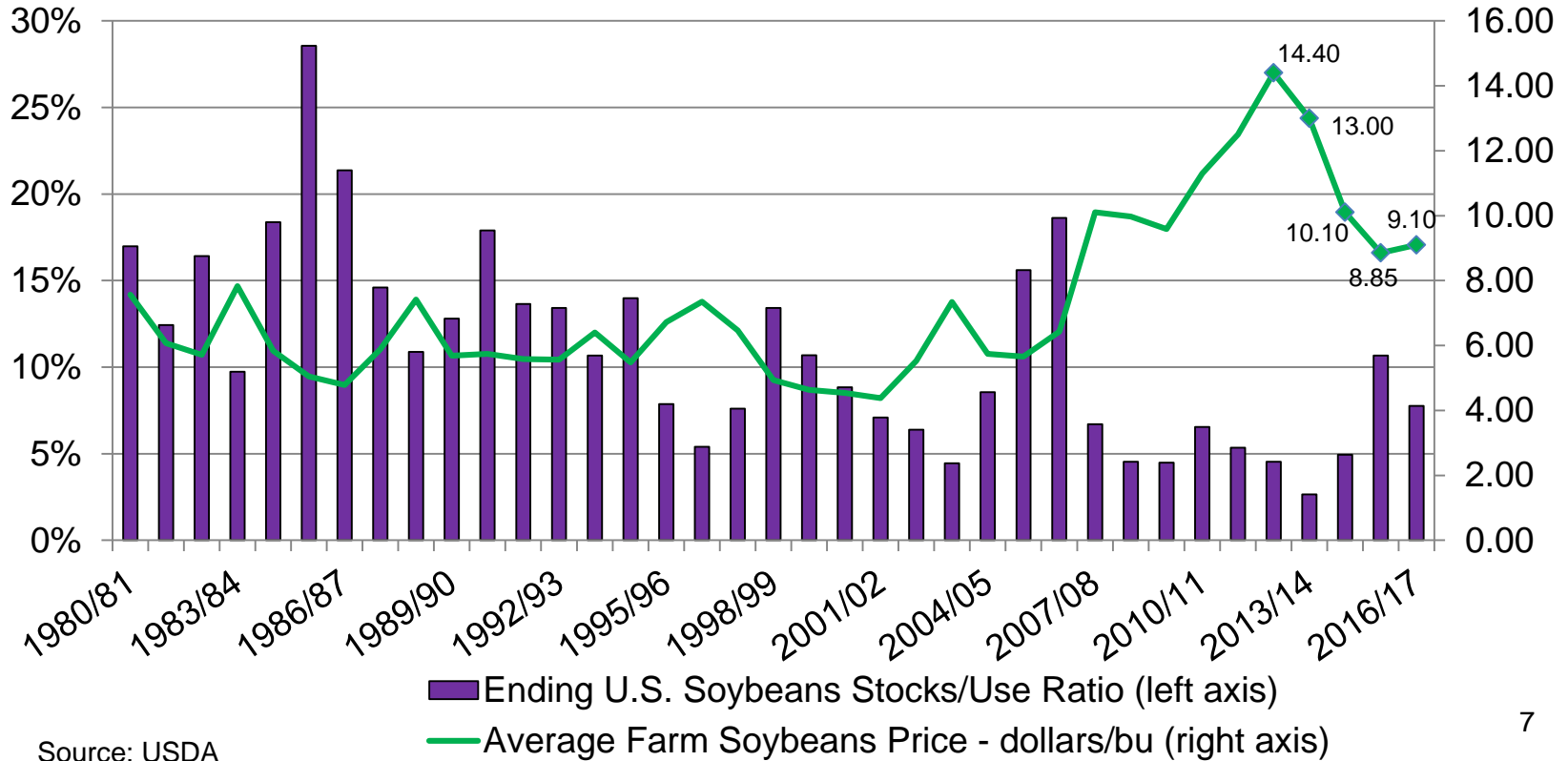


USDA projects a record corn crop and greater stocks





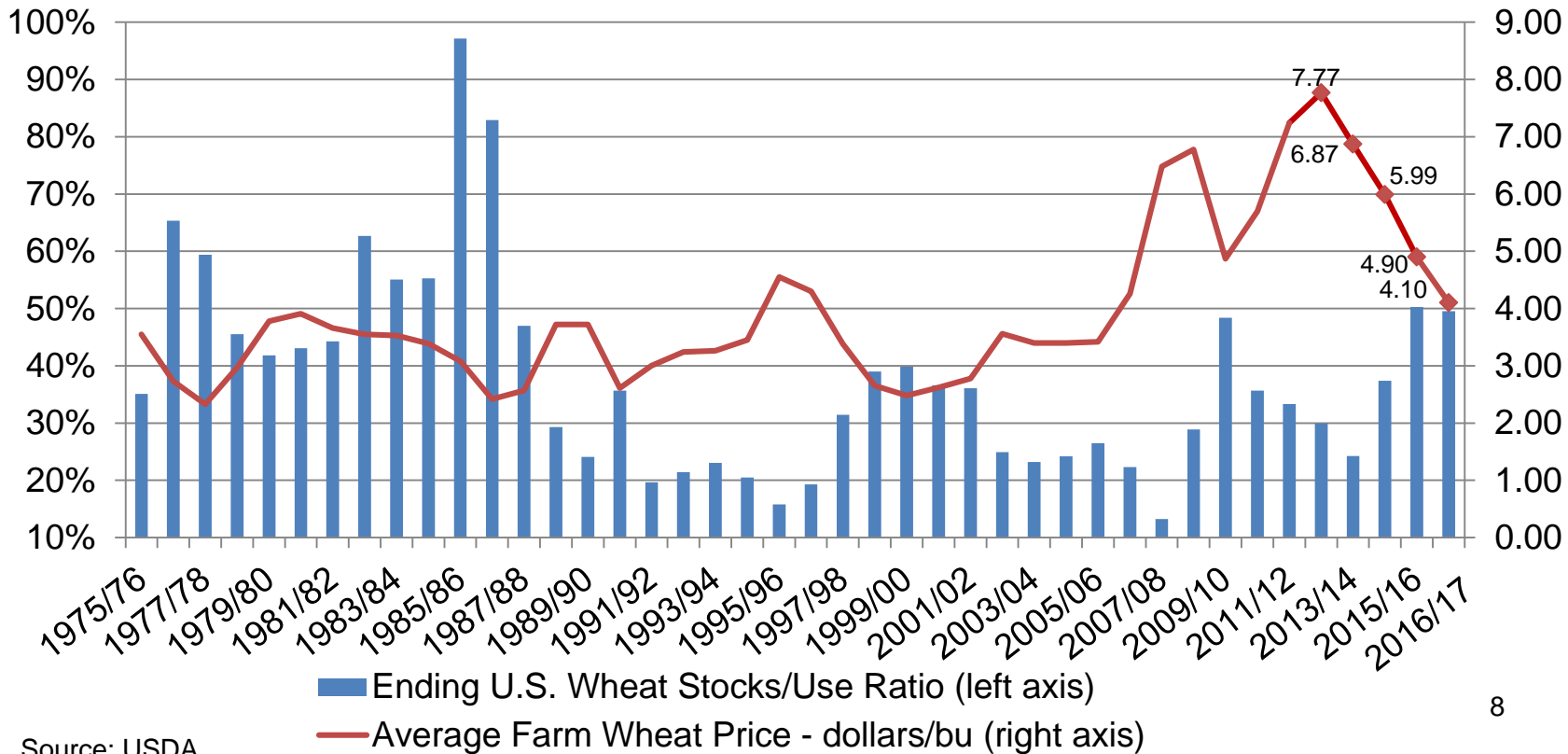
Reduced soybean plantings; more exports strengthen price prospects



Source: USDA



Large wheat supplies continue to weigh on prices



Source: USDA



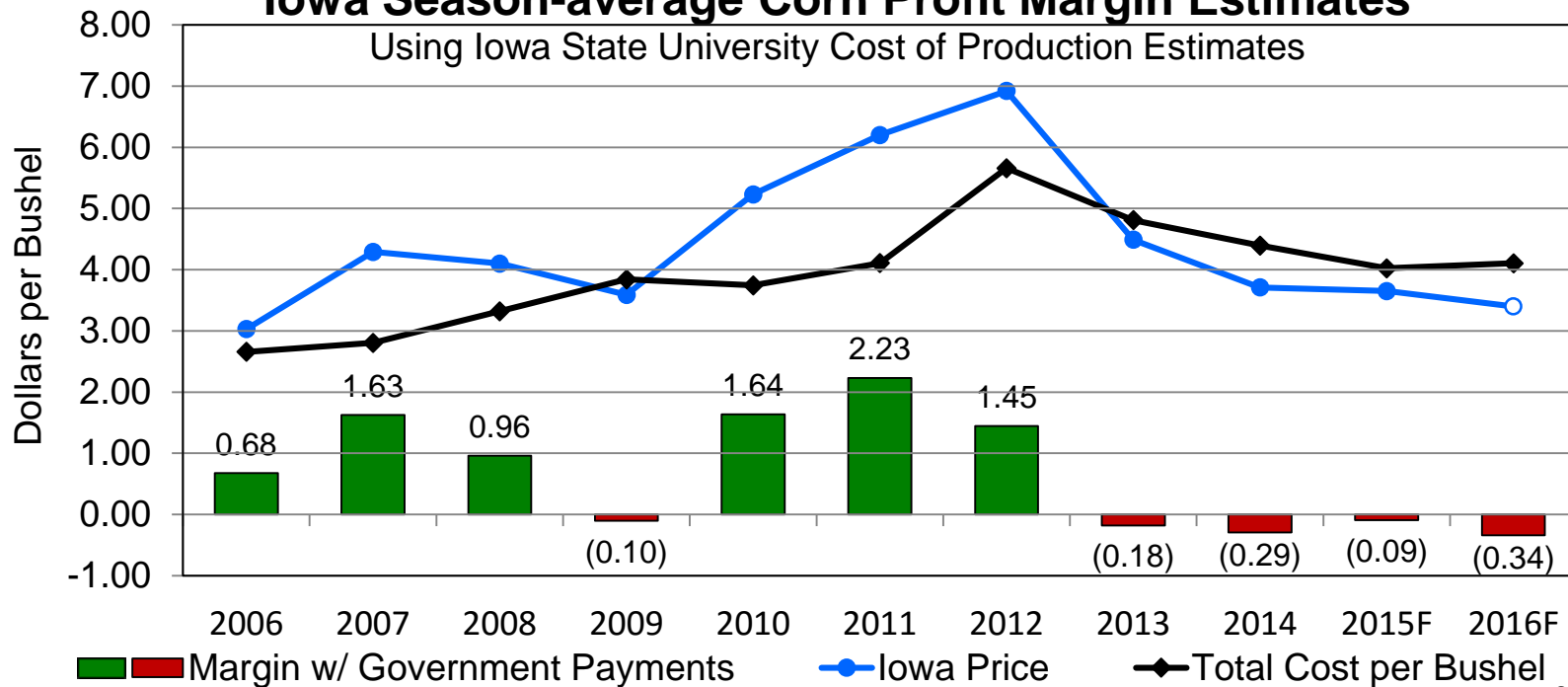
Corn profit margins face fourth year in the red



As of 5/10/16

Iowa Season-average Corn Profit Margin Estimates

Using Iowa State University Cost of Production Estimates



Source: FCA-ORP-AEPT using data from USDA and Iowa State University.

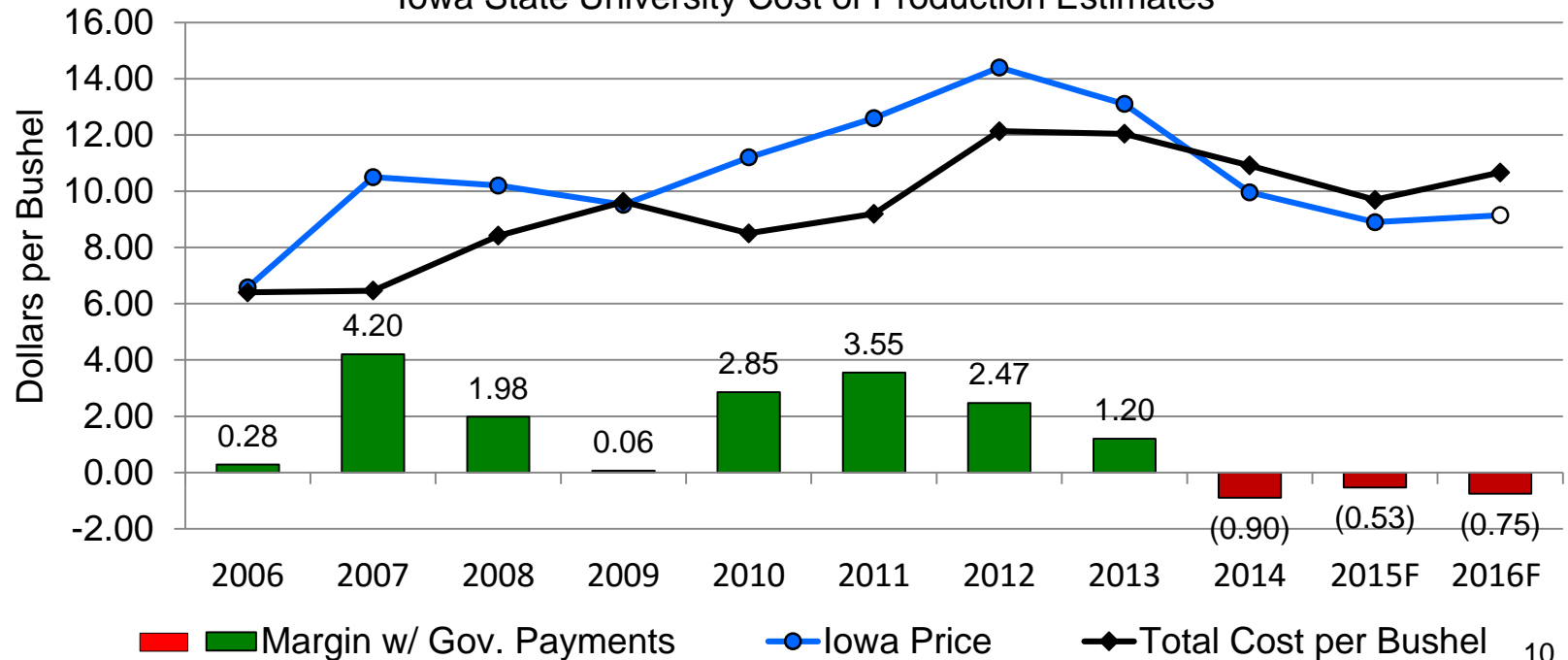


Current price outlook suggests tight margins for soybean producers

As of 5/10/16

Iowa Season-average Soybean Profit Margin Estimates

Iowa State University Cost of Production Estimates



Source: FCA-ORP-AEPT using data from USDA and Iowa State University.



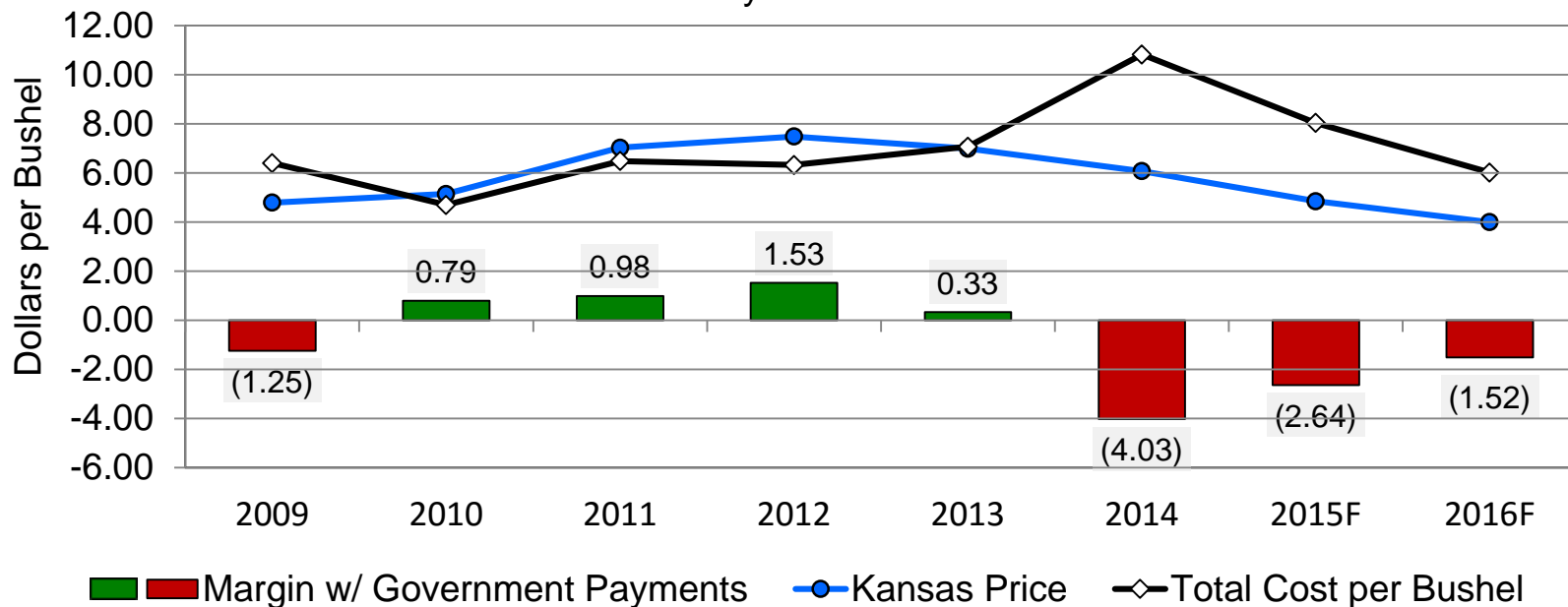
Large supplies pressure wheat prices and profit margins



As of 5/10/16

Kansas Season-average Wheat Profit Margin Estimates

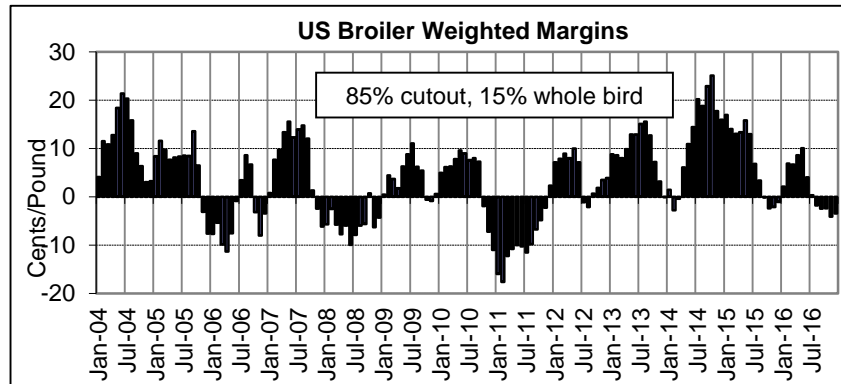
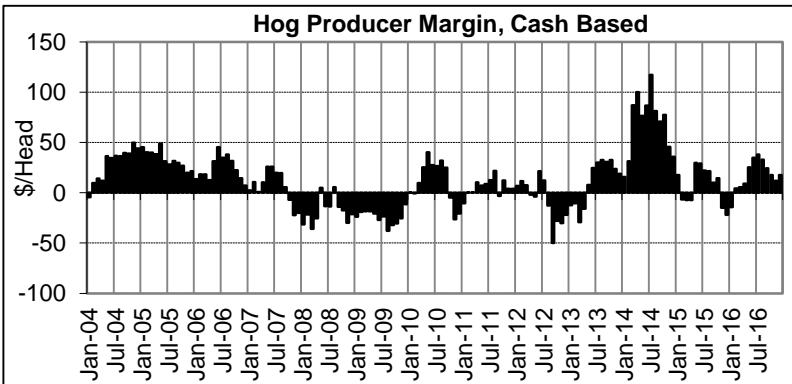
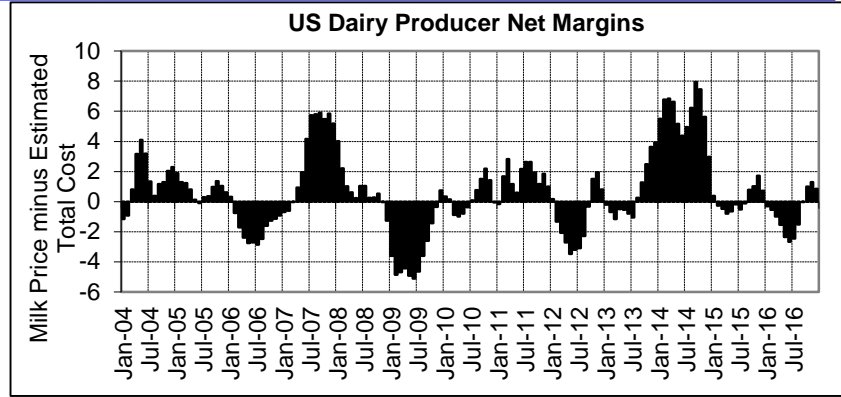
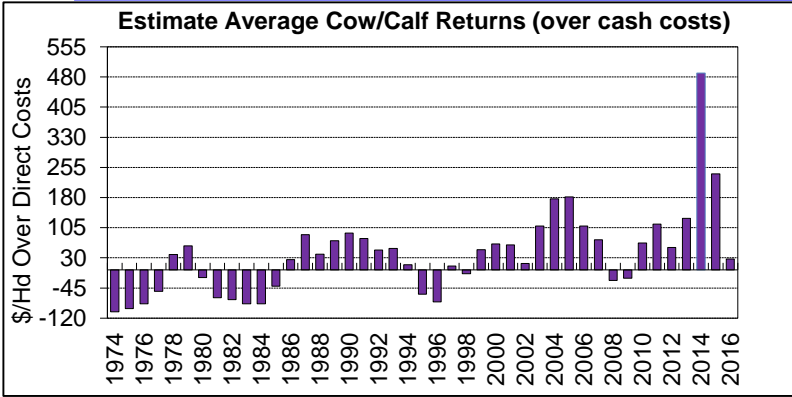
Kansas State University Cost of Production Estimates



Source: FCA/ORP/AEPT using data from USDA and Kansas State University.



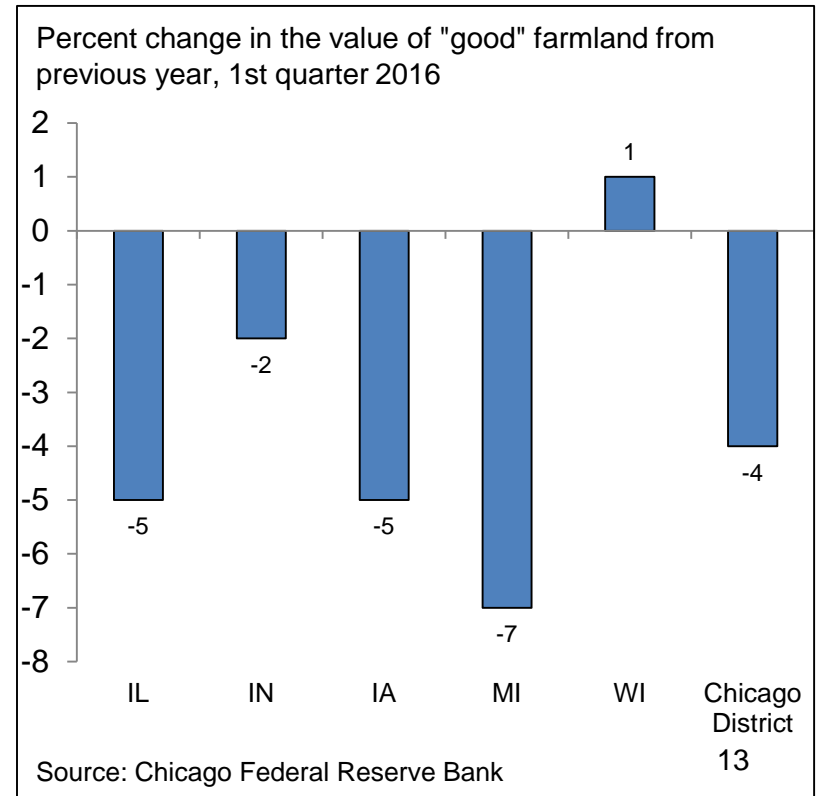
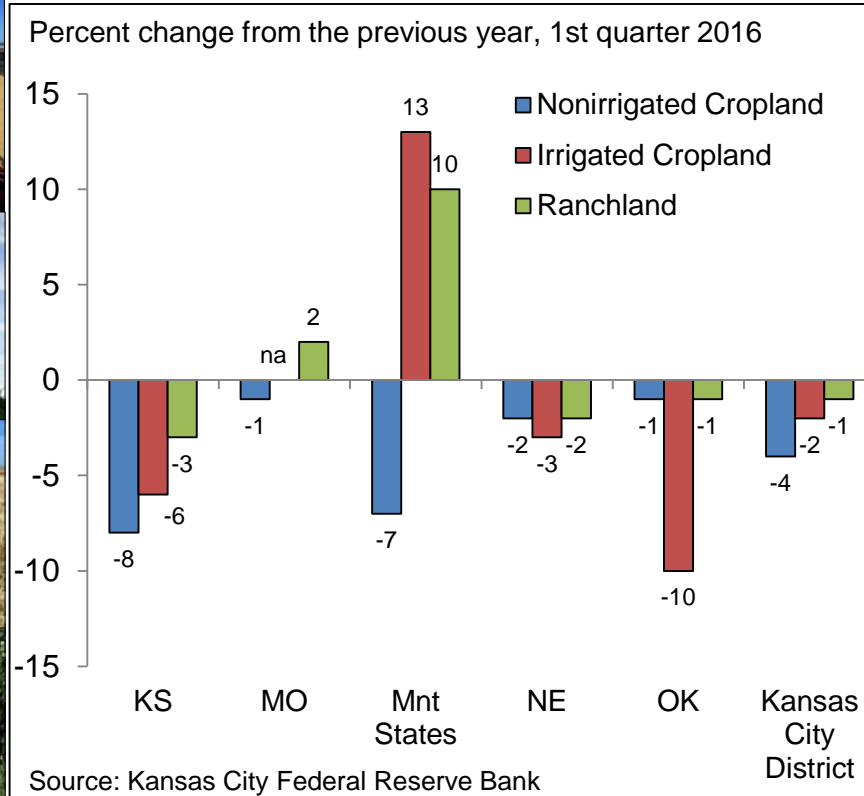
Ample production pressures protein and dairy prices and profits



Source: Informa Economics



Farmland prices continue soft in the Corn Belt and Plains

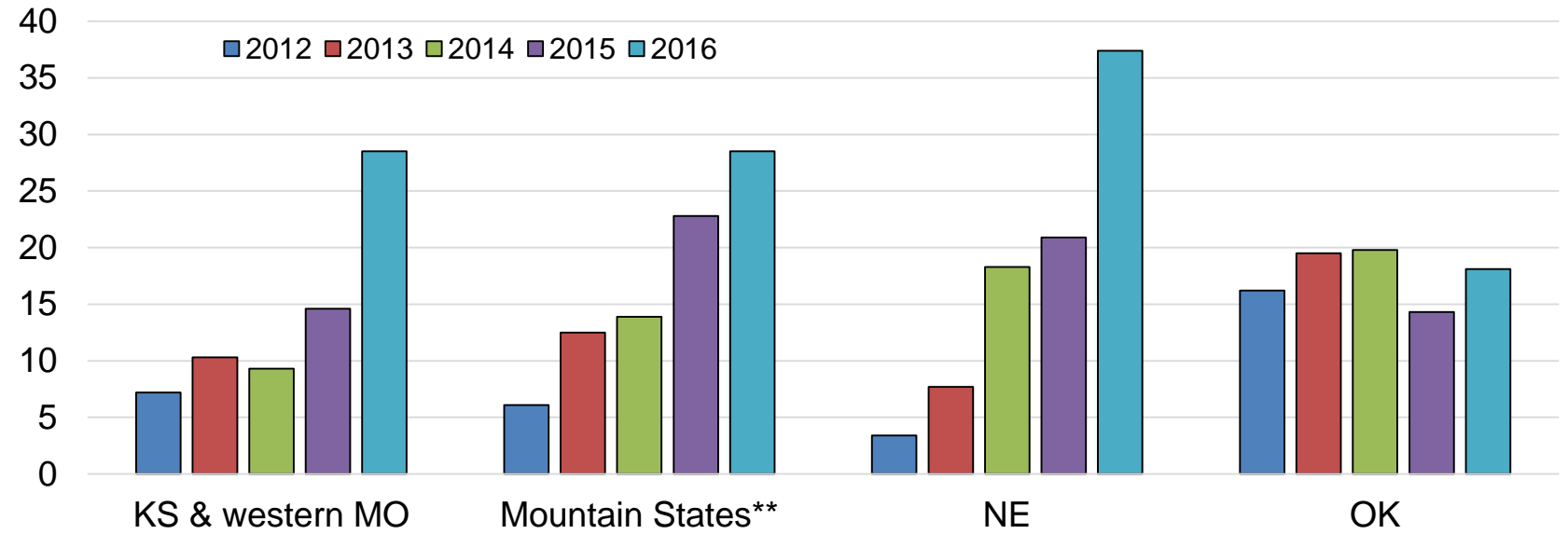




There is evidence of rising carryover debt



Borrowers with an increase in carryover debt, 1st quarter (percent*)



* Average response of banks in each region.

** Mountain States include Colorado, northern New Mexico and Wyoming.

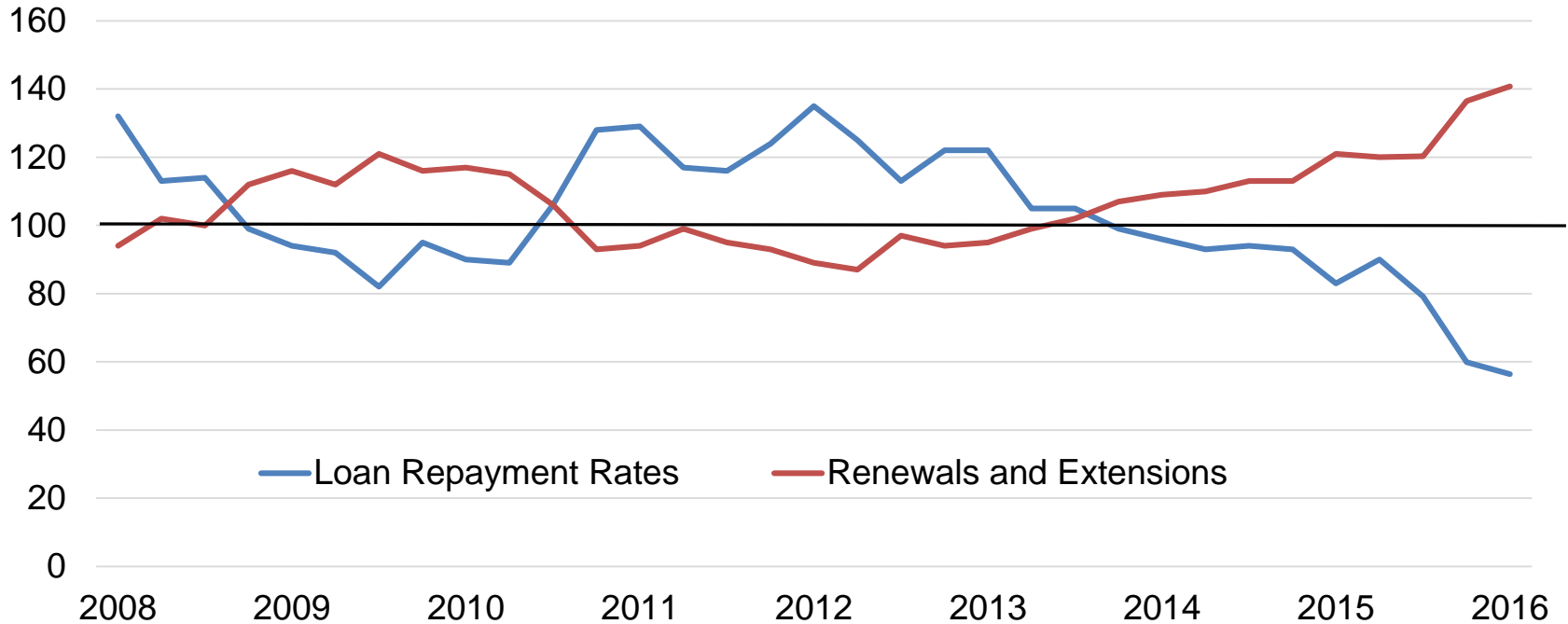
Source: Ag Credit Survey, Federal Reserve Bank of Kansas City



Commercial banks show signs of emerging credit issues



Diffusion Index



Source: Ag Credit Survey, Federal Reserve Bank of Kansas City



Risks to watch

- Growing conditions this summer
- Interest rates
- Strength of the dollar
- Deteriorating agricultural credit quality
- Market response to U.S. presidential election
- Geopolitical developments





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
March 31, 2016

Hal Johnson
Sr. Financial Analyst
Office of Examination



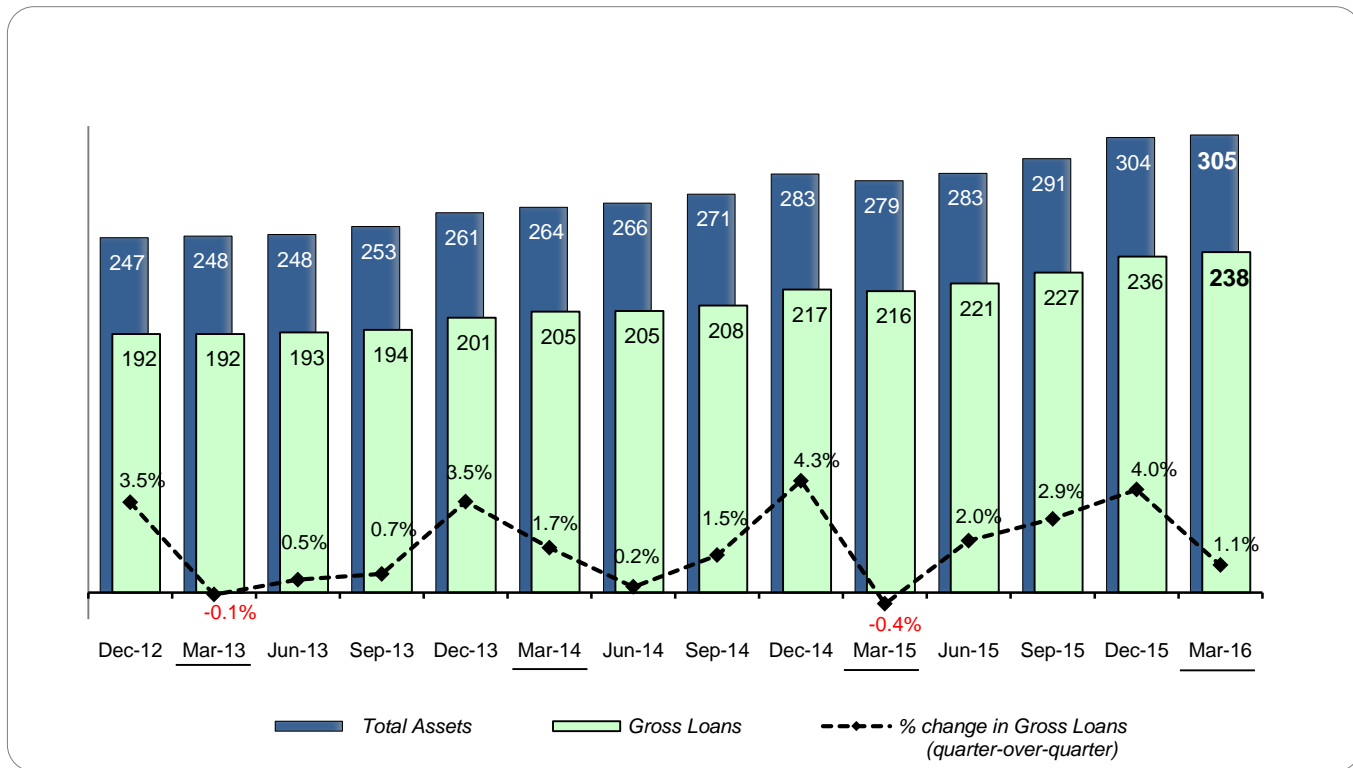
Topics

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





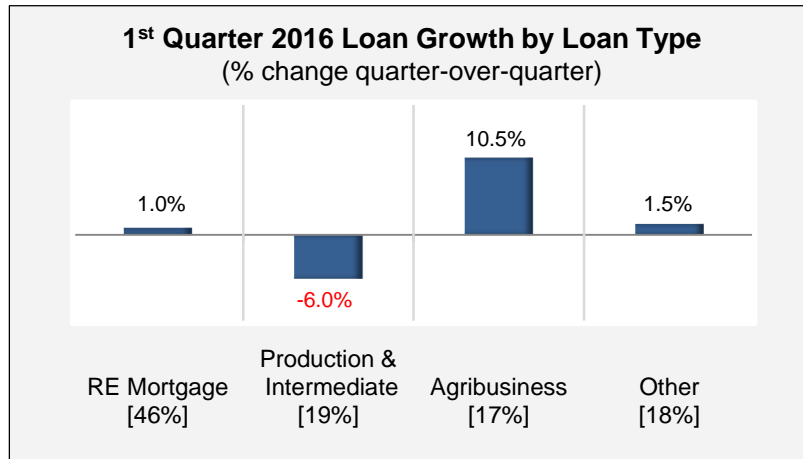
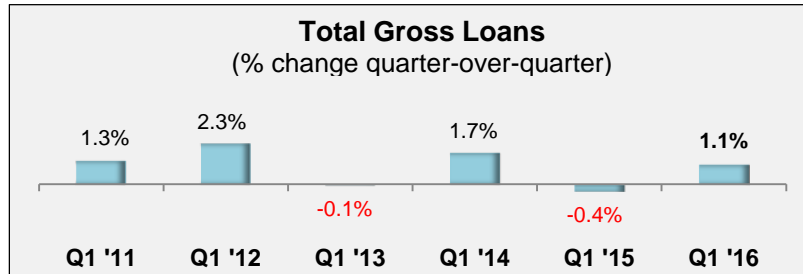
Balances inch higher in the 1st quarter



Source: FCS Quarterly Information Statements



Loan growth influenced by seasonal factors



Loan Growth by District (% change quarter-over-quarter)			
District	Mar-14	Mar-15	Mar-16
AgFirst District (11%)	-0.2%	-1.0%	0.3%
AgriBank District (39%)	-1.1%	-1.9%	0.3%
CoBank District (41%)	5.2%	0.8%	2.0%
Texas District (9%)	1.3%	1.6%	2.3%
Total System	1.7%	-0.4%	1.1%



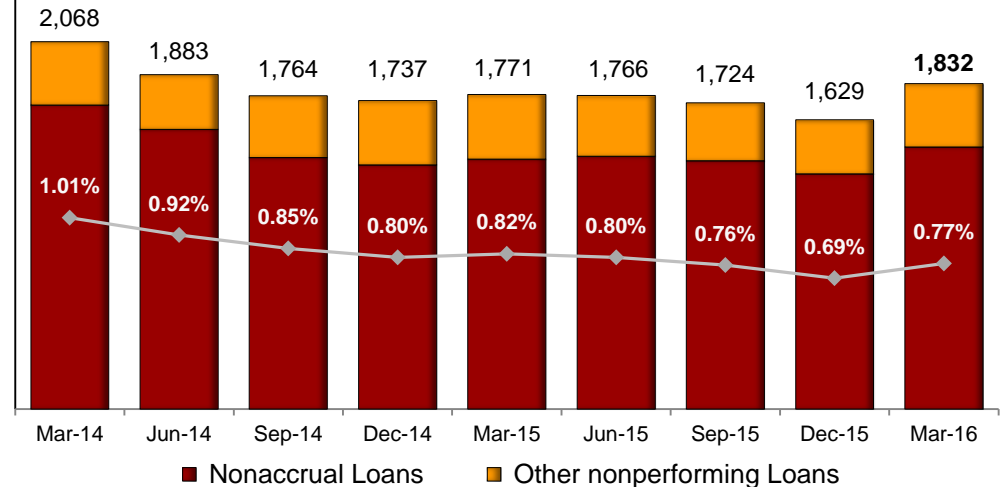
Portfolio credit quality continues to be strong; risk measures edge upwards



Portfolio Credit Quality as of March 2016

- Nonperforming loans equaled 0.77% of System loans outstanding
- Over 95% of System loans were classified as Acceptable
- Loan delinquencies were 0.32% of accruing loans
- The System's allowance for loan losses equaled 74% of nonperforming loans
- Total capital and the allowance for loan losses represented 21.6% of System loans at quarter-end

% of Nonperforming Loans-to-Total Loans

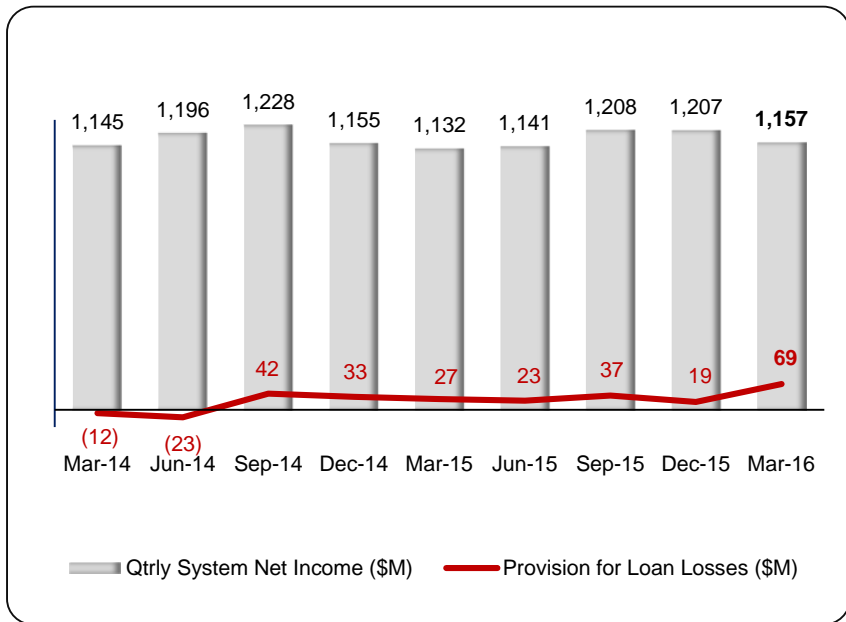




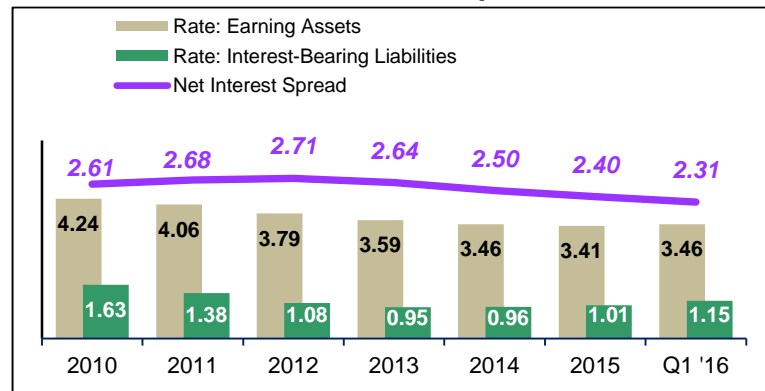
System reports solid 1st quarter financial results



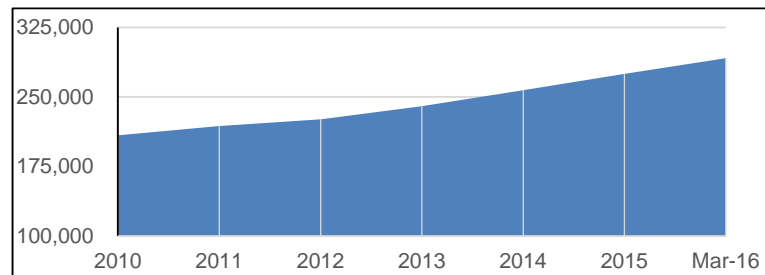
System Earnings



Net Interest Spread



Avg. Earning Assets



Source: FCS Quarterly Information Statements



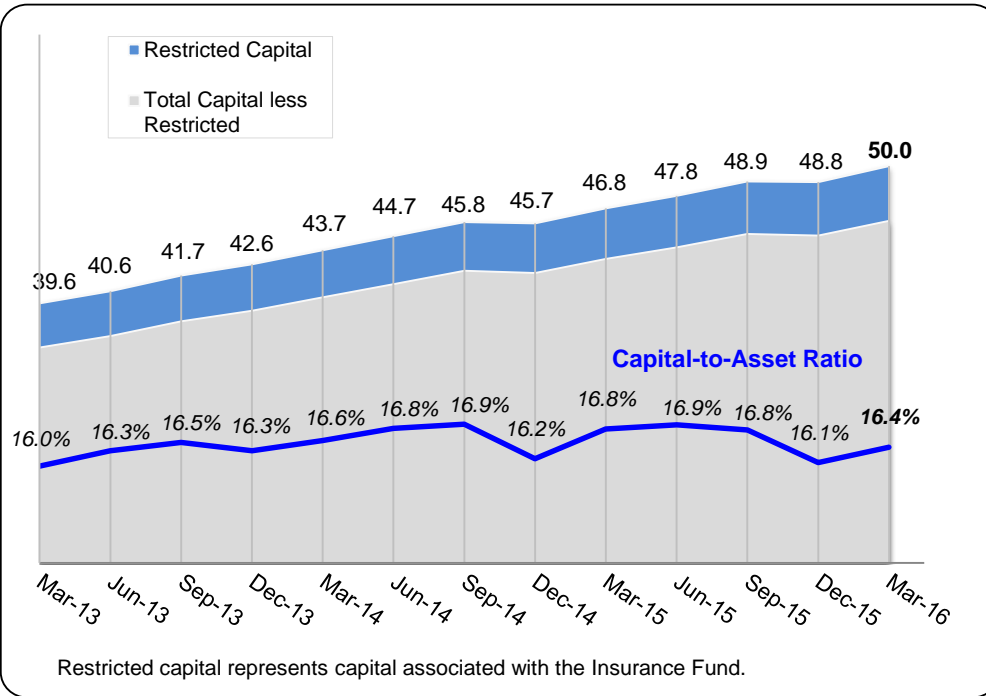
Strong earnings support continued growth in capital



Capital and Liquidity as of March 2016

- System capital as a percentage of total assets was 16.4% compared to 16.1% at year end 2015
- Surplus as a percentage of total capital equaled 82.4%
- System liquidity equaled 172 days of coverage. Days of available liquidity for the four funding banks ranged from 144 days to 216 days.

Total System Capital (\$B)

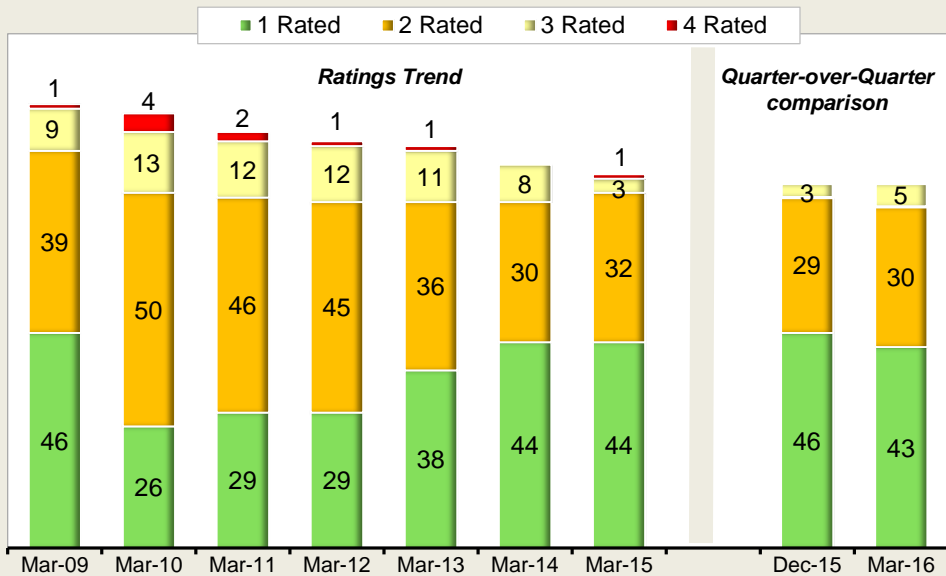




System FIRS ratings



Composite FIRS Ratings - System Banks & Associations



FIRS Ratings

- Composite FIRS ratings slip compared to the previous quarter
- 94% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for less than 1.2% of total System assets



Summary and final points

- Challenges for agriculture:
 - General economic factors – *lackluster economic growth in the U.S. and abroad, strong dollar, rising interest rates*
 - Farm sector concerns – *stress on cash grain producers, Midwest farmland values, shrinking margins for dairy and protein sectors*
- The System continues to be safe and financially sound
- Portfolio credit risk remains low but loan quality expected to deteriorate
- System institutions remain well-positioned for the current risk environment with favorable earnings and strong capital levels





Questions



THANK YOU