MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
September 13, 2018

These minutes reflect the business transacted at the September 13, 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 10:28 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 five 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 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 meeting be closed as shown on the Agenda.
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 August 9, 2018
(BM-13-SEPT-18-01)

Mr. Hall moved to approve the minutes for the August 9, 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-13-SEPT-18-01)

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

Report
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 D.)

New Business
Final Rule: Farmer Mac Investment Eligibility
(BM-13-SEPT-18-02)


Board Chairman Tonsager opened the discussion for questions by the board.

Board Chairman Tonsager asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chairman Tonsager called for a motion on the staff’s recommendation.

Mr. Smith moved to approve the Final Rule: Mac Investment Eligibility.

Mr. Hall seconded the motion.
Board Chairman Tonsager asked if there was any further discussion.

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

The Secretary polled the Board Members and the motion carried unanimously. *(BM-13-SEPT-18-02)*

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

**Revised Bookletter: Director Election Nomination Procedures** *(BM-13-SEPT-18-03)*

Mike Wilson of the Office of Regulatory Policy, and Laura McFarland of the Office of General Counsel presented the Revised Bookletter: Director Election Nomination Procedures.

Board Chairman Tonsager opened the discussion for questions by the board.

Board Chairman Tonsager asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chairman Tonsager called for a motion on the staff’s recommendation.

Mr. Smith moved to approve the Revised Bookletter: Director Election Nomination Procedures.

Mr. Hall seconded the motion.

Board Chairman Tonsager asked if there was any further discussion.

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

The Secretary polled the Board Members and the motion carried unanimously. *(BM-13-SEPT-18-03)*

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

**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 Examination.

Board Chairman Tonsager convened the closed session of the meeting at 9:56 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 G.)

**Office of Examination Quarterly Report**

Robert Coleman and Roger Paulsen of the Office of Examination presented OE Quarterly 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. Hall** moved that the meeting be adjourned.

**Mr. Smith** seconded the motion.

**Board Chairman Tonsager** called the question.

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

The meeting adjourned at 10:28 a.m.
NOTATIONAL VOTE ACTIONS

There were three notational vote actions approved by the FCA Board from August 9, 2018, through September 12, 2018 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 18-12</td>
<td>08/21/2018</td>
<td>Approved</td>
<td>Extend effective date of subsidiary mergers of FCS Southwest, ACA; and Farm Credit West, ACA, to not later than 11/1/2021</td>
</tr>
<tr>
<td>NV 18-13</td>
<td>09/04/2018</td>
<td>Approved</td>
<td>Reissue EEO and Diversity Policy Statement #62</td>
</tr>
<tr>
<td>NV 18-14</td>
<td>09/05/2018</td>
<td>Approved</td>
<td>FCA Revised 2019 and Proposed 2020 Budgets</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 September 13, 2018.

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

/s/ Dale L. Aultman
Secretary to the Board

Approved: October 11, 2018
## STAFF PRESENT AT THE
### FCA REGULAR BOARD MEETING
#### September 13, 2018

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

<table>
<thead>
<tr>
<th>OFFICE</th>
<th>OPEN SESSION</th>
<th>CLOSED SESSION</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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<tr>
<td>Batta, Todd</td>
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<td>Kramp, Kevin</td>
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<td>Morris, James</td>
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<td>Corey, Kathryn</td>
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<td>Roque-Brehm, Awilda</td>
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<td>Calhoun, Gaye</td>
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<td>DeLancy, Toni</td>
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<td>Strickland, Joy</td>
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<td>McFarland, Laura</td>
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<td>OE</td>
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<td>Mardock, Barry</td>
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<td>Wilson, Mike</td>
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<td>Gibbs, Paul</td>
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<tr>
<td>OFFICE</td>
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<td>CLOSED SESSION</td>
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<tr>
<td>-----------</td>
<td>--------------</td>
<td>----------------</td>
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<tr>
<td>Tulman, Sarah</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Smith, Stephen</td>
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<tr>
<td>Gandy, Doug</td>
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<td>Bell, Vonda</td>
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<td>Rubin, Howard</td>
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<td>Wynn, Wade</td>
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<td><strong>GENERAL PUBLIC</strong></td>
<td><strong>5</strong></td>
<td><strong>N/A</strong></td>
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PUBLIC ANNOUNCEMENT OF MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT

Farm Credit Administration Board
Regular Meeting
September 13, 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 September 13, 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. 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 August 9, 2018

Report
2 Quarterly Report on Economic Conditions and FCS Conditions and Performance

New Business
3 Final Rule: Farmer Mac Investment Eligibility
4 Revised Bookletter: Director Election Nomination Procedures

CLOSED SESSION

5 Office of Examination Quarterly Report¹

September 4, 2018 /s/
Dale L. Aultman
Secretary to the Board

¹ Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).
Effective Date: September 13, 2018
Effect on Previous Action: None

THE FCA BOARD HEREBY:
Approves the minutes for August 9, 2018, Regular Board Meeting as submitted.

DATED THIS 13th DAY OF SEPTEMBER 2018
BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board
Quarterly Report on FCS Condition
September 13, 2018

Dennis A. Shields
Hal Johnson
Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy
Overview

- Economic growth continues to underpin agricultural demand
- Land values remain stable
- Farm cash receipts trend sideways; farm liquidity falls
- Soybean and hog prices weaken
- Trade situation still developing
- Additional farm assistance (and the Farm Bill) to arrive
Global economic growth continues in major U.S. agricultural markets

Real gross domestic product per capita

<table>
<thead>
<tr>
<th>Region</th>
<th>2015 %</th>
<th>2016 %</th>
<th>2017F %</th>
<th>2018F %</th>
<th>2019F %</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.0</td>
<td>2.1</td>
<td>6.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>1.2</td>
<td>1.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>South Korea</td>
<td>2.2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Europe</td>
<td>1.6</td>
<td></td>
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</table>

Source: USDA/ERS using data and forecasts from Global Insight, International Monetary Fund, and Oxford Economics.
Favorable trends for U.S. income, unemployment, and housing

<table>
<thead>
<tr>
<th>U.S. real disposable personal income</th>
<th>Unemployment rate</th>
<th>Housing starts</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change</td>
<td>%</td>
<td>mil. units</td>
</tr>
<tr>
<td>2016 1.7</td>
<td>4.9</td>
<td>1.18</td>
</tr>
<tr>
<td>2017 2.6</td>
<td>4.4</td>
<td>1.21</td>
</tr>
<tr>
<td>2018F 2.8</td>
<td>3.9</td>
<td>1.29</td>
</tr>
<tr>
<td>2019F 2.2</td>
<td>3.6</td>
<td>1.34</td>
</tr>
</tbody>
</table>

Source: Consensus Economics, Inc.
Long-term interest rates moving up

Percent, 10-year Treasury rate

Source: Federal Reserve Bank of St. Louis.
Cropland values are flat to slightly higher in 2018

- U.S. average cropland value up 1.0% in 2018
- Small increase in Corn Belt (+0.6%) and no change in Northern Plains
- Increases in most other regions

Source: USDA/NASS.
U.S. farm cash receipts decline to pre-boom levels

Cash receipts adjusted for inflation

$ billion (2018 dollars)

Source: USDA/ERS.

17
U.S. soybean stocks to rise, corn and wheat stocks to fall

Source: USDA.
U.S. soybean prices to fall in 2018/19

U.S. season-average farm prices and returns

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19F</th>
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<tbody>
<tr>
<td><strong>Soybean</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price ($/bu.)</td>
<td>9.47</td>
<td>9.35</td>
<td>8.73</td>
</tr>
<tr>
<td>Returns after variable costs ($/acre)</td>
<td>328</td>
<td>296</td>
<td>288</td>
</tr>
<tr>
<td><strong>Corn</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price ($/bu.)</td>
<td>3.36</td>
<td>3.4</td>
<td>3.62</td>
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<tr>
<td>Returns after variable costs ($/acre)</td>
<td>237</td>
<td>259</td>
<td>306</td>
</tr>
<tr>
<td><strong>Wheat</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>price ($/bu.)</td>
<td>3.89</td>
<td>4.73</td>
<td>5.12</td>
</tr>
<tr>
<td>Returns after variable costs ($/acre)</td>
<td>95</td>
<td>110</td>
<td>131</td>
</tr>
</tbody>
</table>

Source: Food & Agricultural Policy Research Institute, University of Missouri.
Cow/calf returns are near breakeven

Source: Informa Economics.
Hog returns head south

Source: Informa Economics.
Milk prices run below last year

U.S. milk price received by farmers

Source: USDA/NASS.
Trade situation creates uncertainty

- China’s retaliatory tariffs
- Negotiations with Mexico and Canada
- Trade diversion and alternative suppliers

U.S. agricultural export forecasts

FY 2018 = $144.0 billion
- China: $19.0
- Canada: $21.2
- Mexico: $19.4
- Other: $84.4

FY 2019 = $144.5 billion
- China: $12.0
- Mexico: $19.7
- Canada: $21.5
- Other: $91.3

Source: USDA, August 30, 2018.
Global soybean flows could shift

1. **China** produces few soybeans.

2. **China** is the world’s largest soybean consuming nation.

3. **Brazil, Argentina, and United States** are China’s major suppliers.

4. Other countries also purchase soybeans from South America; where would these importers find soybeans?

Source: USDA/ERS.
Typical trade flows using 2013 data for soybeans and products.
Possible impacts on California fruit and tree nuts from additional tariffs

Share of U.S. production exported to affected markets*

*Affected markets include China & Hong Kong, India, Mexico, and Turkey.

**Assumes all production exported to affected markets is absorbed by domestic or other foreign markets.

Emergency assistance for farmers affected by tariffs

USDA authorizes up to $12 billion in programs

1. Initial farm payments to arrive this fall ($4.7 billion)
   Payment rate times 50% of producer’s 2018 production, hog inventory, or historical milk production

<table>
<thead>
<tr>
<th>Product</th>
<th>Payment Rate</th>
<th>2018 Production</th>
<th>Hog Inventory</th>
<th>Milk Production</th>
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</thead>
<tbody>
<tr>
<td>Soybeans</td>
<td>$1.65 / bu.</td>
<td>$3,630 mil.</td>
<td>$277 mil.</td>
<td>$157 mil.</td>
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<tr>
<td>Hogs</td>
<td>$8 / head</td>
<td>$290 mil.</td>
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<tr>
<td>Cotton</td>
<td>$0.06 / lb.</td>
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<tr>
<td>Sorghum</td>
<td>$0.86 / bu.</td>
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<tr>
<td>Milk</td>
<td>$0.12 / cwt.</td>
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<tr>
<td>Wheat</td>
<td>$0.14 / bu.</td>
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<tr>
<td>Corn</td>
<td>$0.01 / bu.</td>
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</tr>
</tbody>
</table>

2. Commodities for nutrition programs ($1.2 billion)
   Purchases scheduled for 31 products (e.g., fruits, tree nuts, beans, meat)

3. Trade promotion ($0.2 billion)
Farm Bill heads to the finish line

- Farm safety net expected to remain intact
- Modest changes/upgrades expected for farm programs
- Modifications in early 2018
  - Improvements to margin protection program for dairy
  - Cotton returns as a “covered” commodity
  - Eliminated payment limits on certain disaster programs
Risks ahead

▶ Upward pressure on interest expenses
▶ Supply gains and demand changes
▶ Trade policy that would shift U.S. export potential to competitors
▶ Liquidity at the borrower level
Questions

THANK YOU
Farm Credit System
Condition and Performance

as of
June 30, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System Growth
- Portfolio Credit Quality
- Earnings
- Capital
- FIRS
System grows at a measured pace for the 1st 6 months of 2018

Source: FCS Information Statements
Loan portfolio risk edges up; level remains manageable

- **Nonperforming Loans**: $2.401 billion
  - Qtr chg: +192M up 8.7%
  - YTD chg: +434M up 22.1%

- **Delinquencies**: 2Q '18 0.26% | 2Q '17 0.23% | % of total accruing loans

- **Allowance for Loan Losses**: $1.666 billion
  - 69% of nonperforming loans
  - 82% of nonaccrual loans

**% of Loans Classified less than Acceptable**

- **Total Portfolio**: 2018: 6.5% 2017: 6.2% 2016: 5.3%
- **Real Estate Mortgage**: 2018: 7.0% 2017: 6.2% 2016: 4.8%
- **Production & Intermediate**: 2018: 10.6% 2017: 8.9% 2016: 10.6%
- **Agribusiness**: 2018: 4.5% 2017: 4.6% 2016: 5.2%

Source: FCS Information Statements
System is financially sound

System Earnings

Source: FCS Information Statements

Net Interest Spread

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<th>June '17</th>
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<td>2011</td>
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<td>2013</td>
<td>3.59</td>
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<td>2014</td>
<td>3.46</td>
<td>0.96</td>
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<tr>
<td>2015</td>
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<td>2016</td>
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<td>2017</td>
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<td>1.50</td>
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Net Interest Margin (YTD annualized)

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<th>Year</th>
<th>June '18</th>
<th>June '17</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.61</td>
<td>2.68</td>
</tr>
<tr>
<td>2011</td>
<td>2.71</td>
<td>2.64</td>
</tr>
<tr>
<td>2012</td>
<td>2.50</td>
<td>2.40</td>
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<tr>
<td>2013</td>
<td>2.31</td>
<td>2.25</td>
</tr>
<tr>
<td>2014</td>
<td>2.13</td>
<td>1.92</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements
Strong earnings support continued capital growth

Capital and Liquidity as of June 2018

- System capital as a percentage of total assets was 17.2% compared to 16.8% at yearend 2017 and 17.0% as of June 2017
- Retained earnings as a percentage of total capital equaled 79.8%
- System liquidity equaled 180 days of coverage. As of June 30, days of available liquidity for the four funding banks ranged from 145 to 234 days.

Source: FCS Quarterly Information Statements
System FIRS ratings

FIRS Ratings

- Composite FIRS ratings reflect the System’s solid financial performance and favorable portfolio credit quality.
- Almost 92% of System Banks and Associations have a Composite FIRS rating of 1 or 2.
- Institutions rated 3 or lower account for 2.0% of total System assets.

Source: FCA’s FIRS ratings database

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Summary and final points

▶ Risks for agriculture:
  ▪ trade uncertainties, rising interest rates, aligning production with demand, declining farm liquidity, drought in the Southwest

▶ The System is financially safe and sound

▶ Loan portfolio risk is rising as financial challenges continue for certain ag sectors, but the level remains manageable.

▶ System institutions are well-capitalized and have substantial risk-bearing capacity
Questions

THANK YOU
FCA BOARD ACTION ON

Final Rule: Farmer Mac Investment Eligibility

BM-13-SEPT-18-02

Effective Date: September 13, 2018

THE FCA BOARD HEREBY:

• Approves the Final Rule amending the non-program investment eligibility criteria for the Federal Agricultural Mortgage Corporation; and
• Authorizes staff to make any technical or grammatical changes that may be necessary for publication in the Federal Register.

DATED THIS 13th DAY OF SEPTEMBER 2018

BY ORDER OF THE BOARD

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

Revised Bookletter: Director Election Nomination Procedures

BM-13-SEPT-18-03

Effective Date: September 13, 2018


THE FCA BOARD HEREBY:

• Approves the Bookletter 043 Revised [2018] — “Guidance on Farm Credit Bank and Association Nominating Committees” containing revisions that update operational guidance on nominating committees within the Farm Credit System; and
• Authorizes staff to make any technical or grammatical changes to the Bookletter 043 Revised [2018] prior to its issuance.

DATED THIS 13th DAY OF SEPTEMBER 2018

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board
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 September 13, 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).

________/s/______________
Charles R. Rawls
General Counsel