

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



**MINUTES OF THE REGULAR MEETING  
OF THE  
FARM CREDIT ADMINISTRATION BOARD  
April 9, 2019**

These minutes reflect the business transacted at the April 9, 2019, 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 10:10 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 one member 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 March 14, 2019 (BM-9-APR-19-01)

**Mr. Hall** moved to approve the minutes for the March 14, 2019, 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-9-APR-19-01)**

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

## Reports

### Quarterly Report on Economic Conditions and FCS Condition and Performance

**Dennis Shields** of the **Office of Regulatory Policy** and **Hal Johnson** of the **Office of Examination** presented the Quarterly Report on Economic Conditions and FCS Condition and Performance.

**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.)

### Farm Credit System Building Association Auditor's Report on 2018 Financial Audit

**Rick Albrecht**, President of the **Farm Credit System Building Association** and **Brynn McNeil** and **Jeremy Burgess** of **Cherry Beakert, LLP** presented the FCSBA Auditor's Report on 2018 Financial Audit.

**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 E.)

## 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 9:45 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 F.)

### 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.

## CLOSED EXECUTIVE SESSION

### Farm Credit System Building Association Auditor

**Board Chairman Tonsager** announced that the next topic on the Agenda was closed executive session pursuant to previous Board action and 5 U.S.C. § 552b(c)(2), and convened the executive session at 10:07 a.m.

**Board Chairman Tonsager** instructed all to exit except for the Board Members, Executive Assistants, the General Counsel and the Secretary to the Board so that the Board could meet with Brynn McNeil and Jeremy Burgess as approved by the Board previously.

**Board Chairman Tonsager** reminded those speaking to state their name before speaking and asked the Auditors to further discuss the audit.

**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. Smith** moved that the meeting be adjourned.

**Mr. Hall** seconded the motion.

**Board Chairman Tonsager** called the question.



**STAFF PRESENT AT THE  
FCA REGULAR BOARD MEETING  
April 9, 2019**

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

<b>OFFICE</b>	<b>OPEN SESSION</b>	<b>CLOSED SESSION</b>	<b>CLOSED EXECUTIVE SESSION</b>
<b>Office of the Board</b>			
Aultman, Dale	X	X	X
Batta, Todd	X	X	X
Kramp, Kevin	X	X	X
Morris, James	X	X	X
Lopez, Carmen	X		
Roque-Brehm, Awilda	X		
Calhoun, Gaye	X		
<b>OIT</b>			
Golley, Jerald	X	X	
<b>OCPA</b>			
Stokke, Michael	X	X	
<b>OSMO</b>			
Rea, Laurie	X	X	
<b>OGC</b>			
Rawls, Charles	X	X	X
Donner, Mary Alice	X		
Strickland, Joy	X	X	
<b>OE</b>			
Coleman, Robert	X	X	
Paulsen, Roger	X	X	
Green, Steve	X	X	
Johnson, Hal	X	X	
Anderson, Michael	X	X	
<b>OIG</b>			
Laguarda, Wendy	X	X	
<b>ORP</b>			
Van Meter, Gary	X	X	
Mardock, Barry	X	X	
Shields, Dennis	X		
Gibbs, Paul	X	X	
Moore, Jason	X	X	
Johansen, Mark	X	X	
<b>OCFO</b>			
Smith, Stephen	X	X	
Cabrera, Victoria	X		
Gandy, Doug	X	X	

<b>OFFICE</b>	<b>OPEN SESSION</b>	<b>CLOSED SESSION</b>	<b>CLOSED EXECUTIVE SESSION</b>
<b>FCSBA</b>			
Albrecht, Rick	X		
Duffy, Morgan	X		
<b>CHERRY BEAKERT, LLP</b>			
McNeil, Brynn	X		X
Burgess, Jeremy	X		X
<b>OAS</b>			
Beckmann, Michael	X	X	
<b>FCSIC</b>			
Wynn, Wade	X	X	
<b>GENERAL PUBLIC</b>	<b>3</b>	<b>N/A</b>	<b>N/A</b>

Farm Credit Administration

1501 Farm Credit Drive  
McLean, VA 22102-5090  
(703) 883-4000



**PUBLIC ANNOUNCEMENT OF  
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT**

**Farm Credit Administration Board  
Regular Meeting  
April 9, 2019**

**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 April 9, 2019. 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](mailto:VisitorRequest@FCA.gov). See SUPPLEMENTARY INFORMATION for further information about attendance requests.

**For Further Information Contact:** Dale 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](mailto: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 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 March 14, 2019

**Reports**

- 2 Quarterly Report on Economic Conditions and FCS Condition and Performance
- 3 FCSBA Auditor’s Report on 2018 Financial Audit

**Closed Session**

- 4 Office of Examination Quarterly Report
- 5 Executive Session – FCS Building Association Auditor’s Report

\_\_\_\_\_  
Date March 28, 2019

\_\_\_\_\_  
/s/  
Dale L. Aultman  
Secretary to the Board

Farm Credit Administration

1501 Farm Credit Drive  
McLean, VA 22102-5090  
(703) 883-4000

**BOARD ACTION ITEM**

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**FCA BOARD ACTION ON**

**Minutes for March 14, 2019 Regular Board Meeting**

**BM-9-APR-19-01**

**Effective Date:** April 9, 2019

**Effect on Previous Action:** None

**THE FCA BOARD HEREBY:**

Approves the minutes for March 14, 2019, Regular Board Meeting as submitted.

**DATED THIS 9th DAY OF APRIL 2019**

**BY ORDER OF THE BOARD**

\_\_\_\_\_/s/  
**Dale L. Aultman**  
**Secretary to the Board**



# FCA Board Meeting April 2019

Exhibit D

## Quarterly Report on FCS Condition April 9, 2019

Dennis A. Shields  
Hal Johnson





# Topics for Open Session

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- ▶ Economic Conditions Affecting the Farm Credit System
  - Macroeconomic factors
  - Commodity indicators and farm income prospects
  - Diversification of farm sector and risks ahead
- ▶ FCS Condition and Performance
  - System growth
  - Loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)





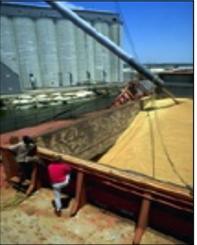
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# Economic Conditions Affecting the Farm Credit System

**Dennis A. Shields**  
Chief Economist  
Office of Regulatory Policy



# Economic factors remain favorable

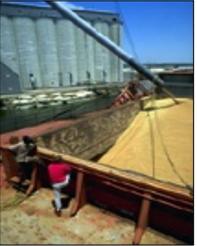


	2017	2018	2019F
U.S. real gross dom. product (change)	+2.2%	+2.9%	+2.4%
Unemployment rate	4.4%	3.9%	3.7%
10-year Treasury yield (end of year)	2.8%	2.7%	3.1%
U.S. dollar (change)	1.7% stronger	1.1% weaker	0.1% stronger
Crude oil price	\$51/barrel	\$65/barrel	\$56/barrel
Diesel fuel	\$2.65 per gal.	\$3.18 per gal.	\$3.01 per gal.

Sources: Consensus Economics, USDA/Economic Research Service, U.S. Energy Information Administration.



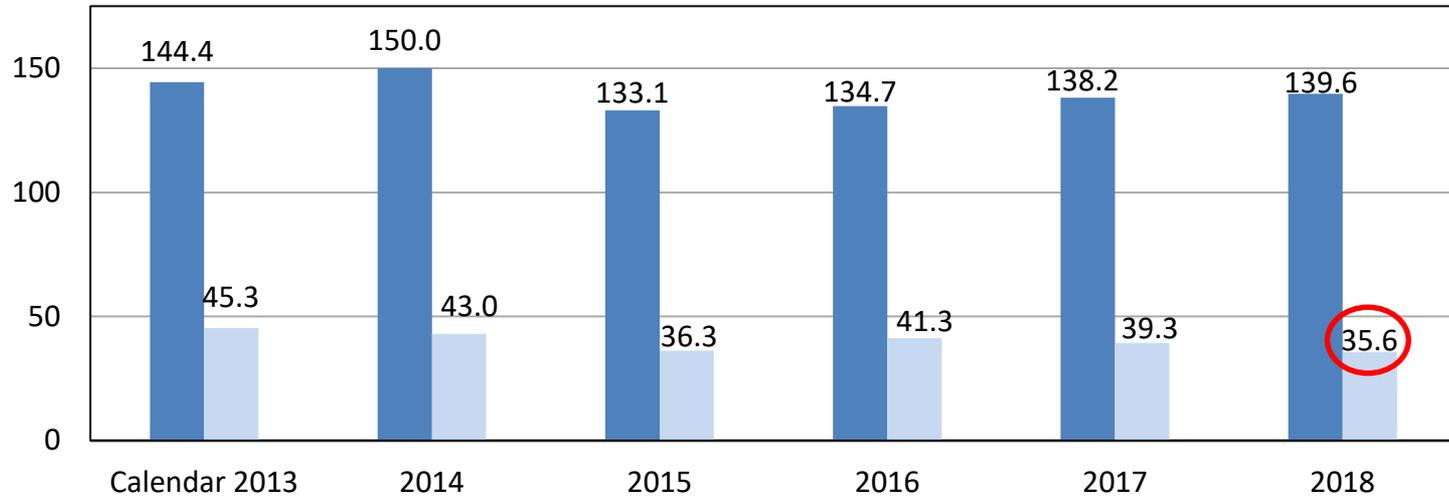
# U.S. agricultural exports increased in 2018, but final quarter was weak



## U.S. agricultural exports

\$ billion

■ Jan.-Dec. ■ Oct.-Dec.



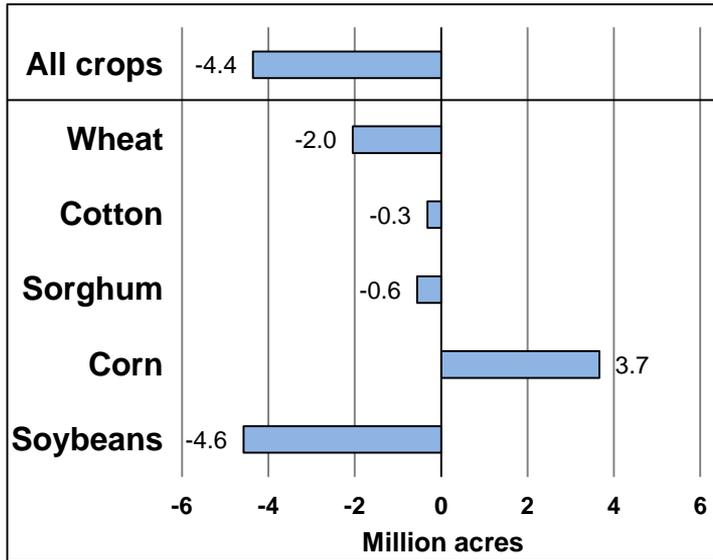
Source: USDA/FAS Global Agricultural Trade System.



# Trade impact: the market is telling farmers to plant fewer soybeans (but weather matters)

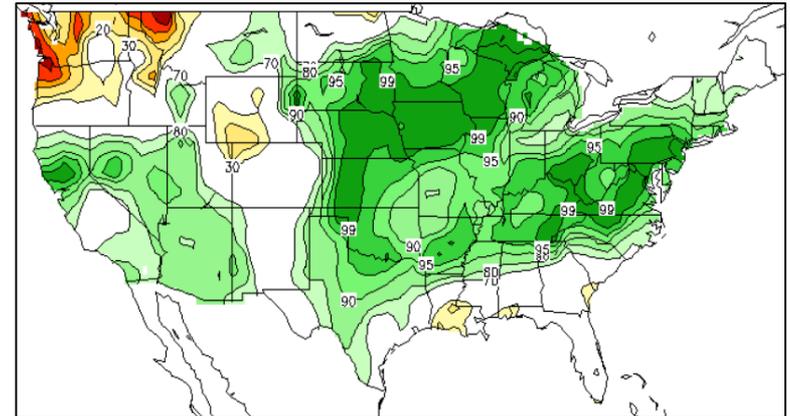


Prospective plantings:  
2019 change from 2018



Source: *Prospective Plantings*, 3/29/19, USDA/NASS.

Soil is saturated in major producing areas



Calculated soil moisture historical ranking in percentile

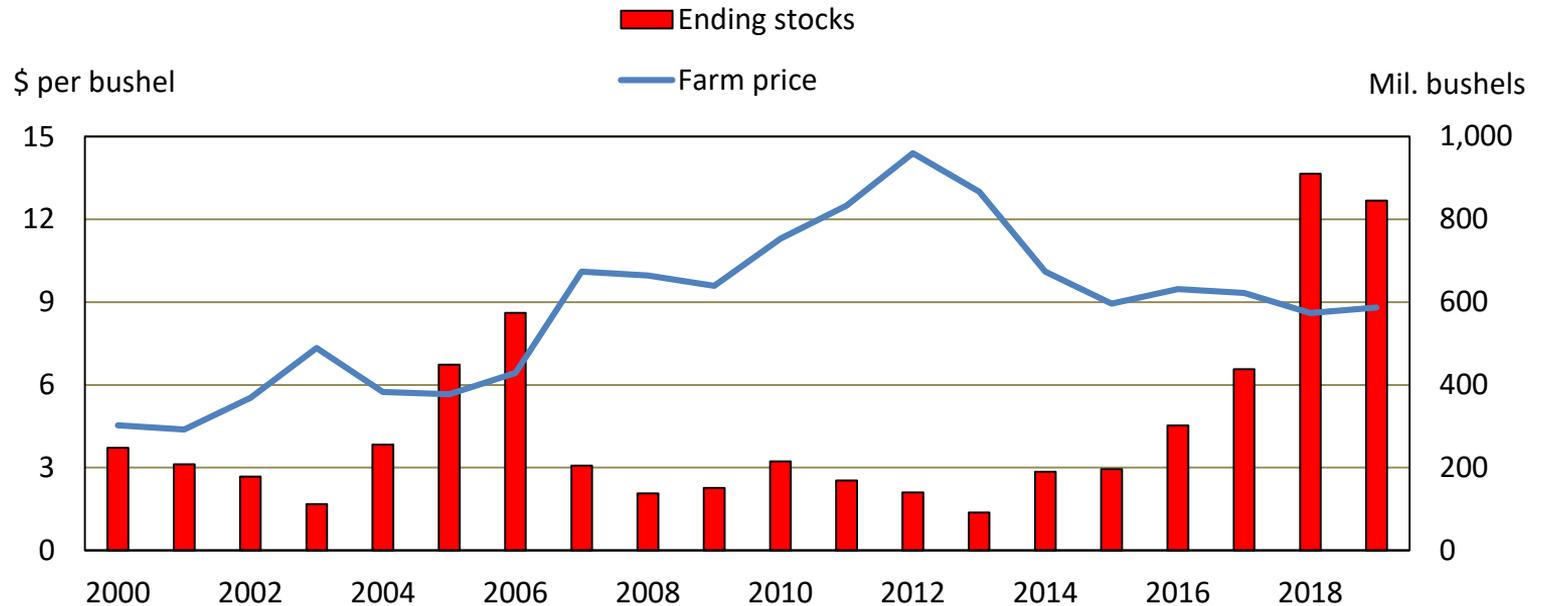


Source: NOAA/National Weather Service.



# Soybean stocks to remain high for 2019 crop year even if planted area declines

## U.S. soybean prices and ending stocks



Source: USDA.

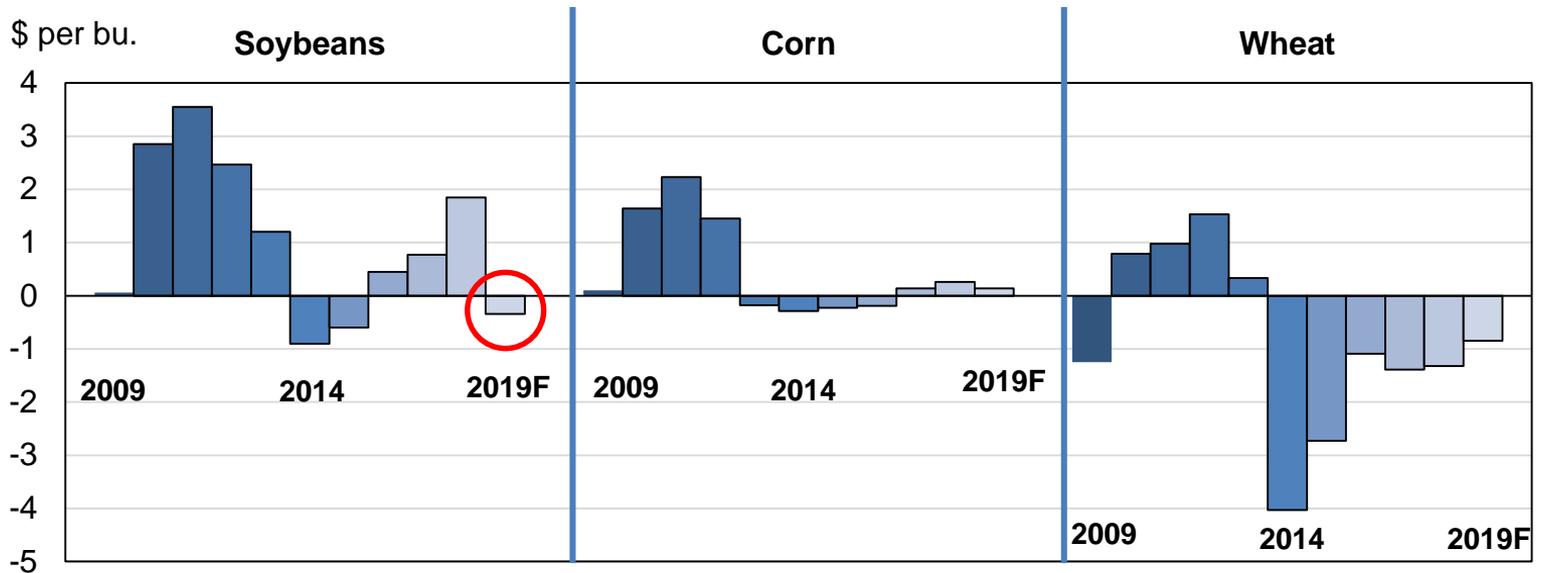




# Weak or negative crop margins put pressure on farm returns



Crop margin including government payments



Sources: FCA-ORP using data from Iowa State Univ. (soybeans and corn), Kansas State Univ. (wheat) and USDA.



# Farm prices depend on location

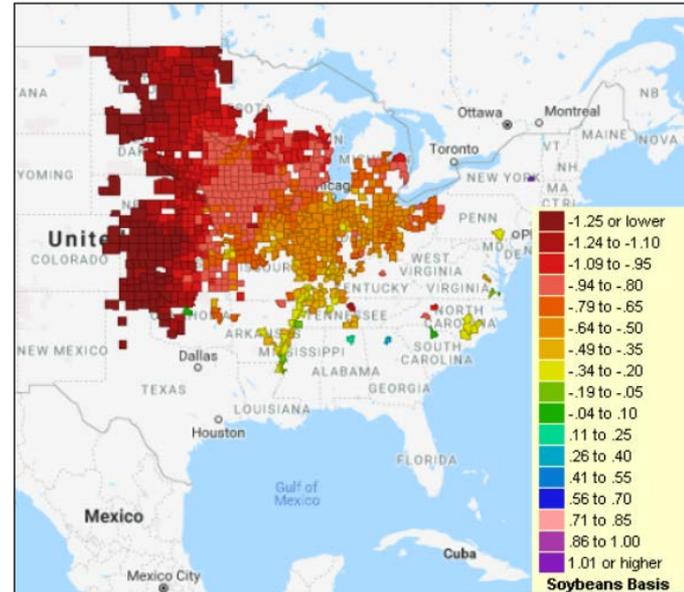


## Soybean prices in February (\$/bu.)

U.S. farm price	\$8.52
North Dakota	\$7.82
Iowa	\$8.38
Illinois	\$8.71
Ohio	\$8.86

Source: USDA/NASS (monthly farm price).

## Soybean basis (cash minus futures)



Source: <https://www.dtnpf.com/agriculture/web/agmarkets/local-grain-bids> on April 1, 2019.

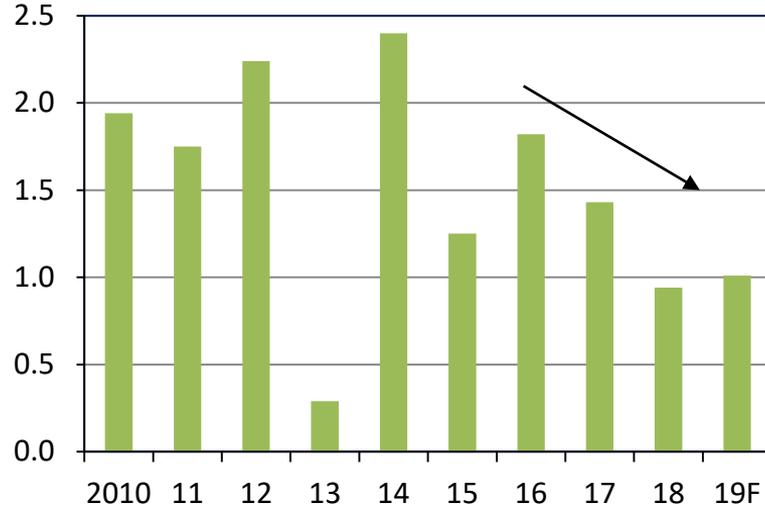


# Milk production growth slows; farm prices begin to recover



### U.S. milk production growth

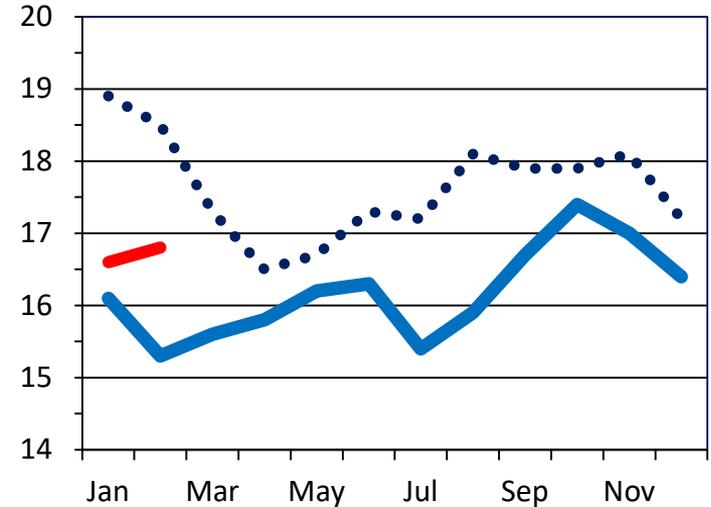
% change



### U.S. farm milk price

\$ per cwt

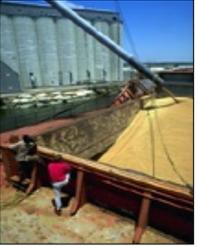
••••• 2017 — 2018 — 2019



Source: USDA.

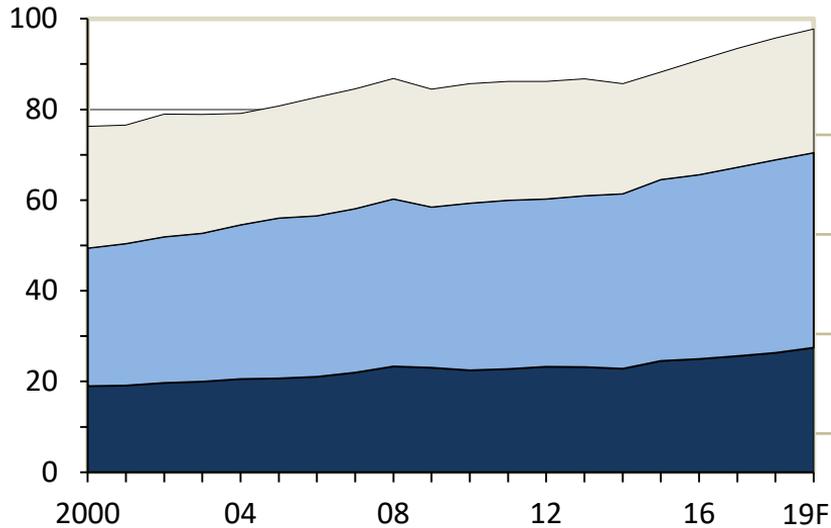


# Production growth in 2019 to slow for beef and broiler meat



## U.S. production

Billion lbs.



## % change in production

	2017	2018	2019F
Beef	+3.8	+2.6	+1.5
Broiler	+2.4	+2.2	+1.1
Pork	+2.6	+2.9	+4.2

Sources: USDA and Livestock Marketing Information Center.

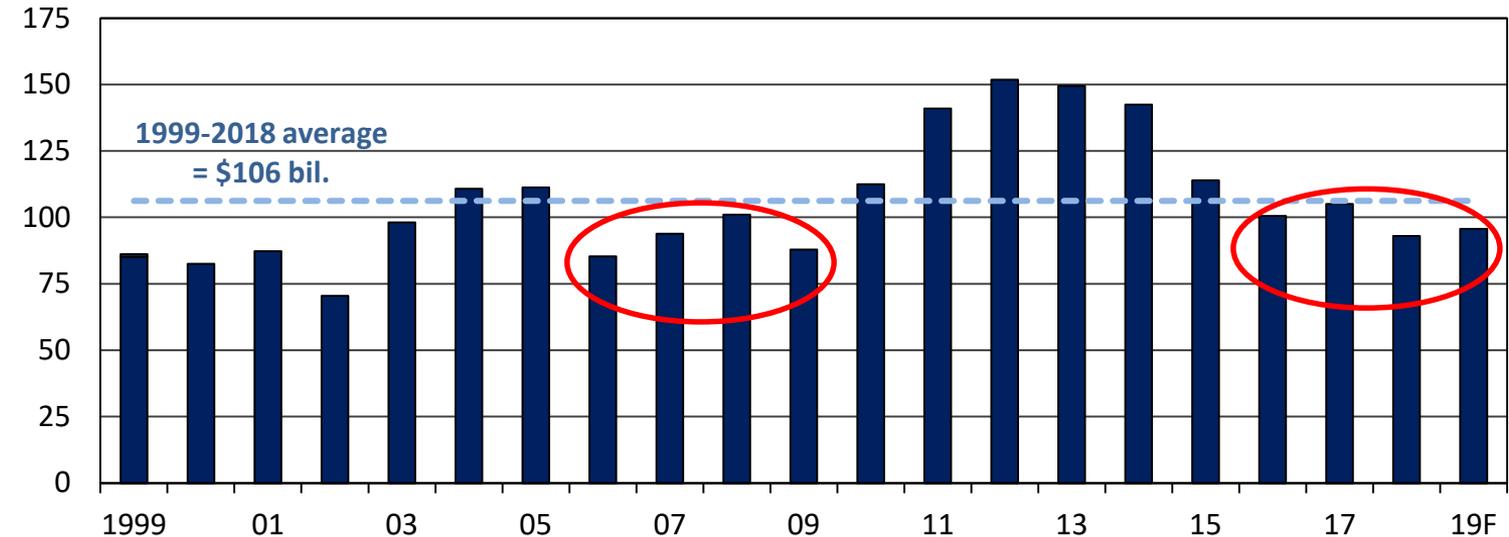


# Net cash farm income in 2019 looks like the four-year period before the boom



U.S. net cash farm income

\$ billion  
(2018 \$)

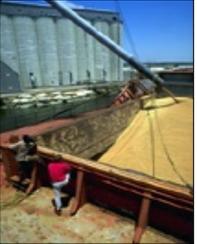


Source: USDA/ERS.



# Farmland values are mixed in early 2019

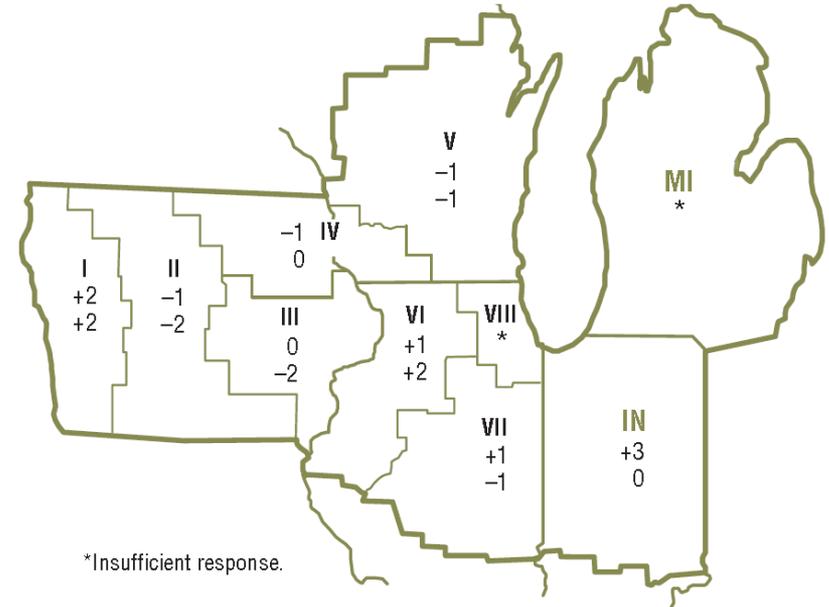
- ▶ Some markets show continued strength; modest declines in others
- ▶ Land for sale continues to be relatively modest and balanced with demand
- ▶ Surveys of lenders and real estate professionals indicate stable to somewhat lower cropland prices in 2019



## % change in \$ value of “good” farmland

Top: Oct. 2018 to Jan. 2019

Bottom: Jan. 2018 to Jan. 2019



\*Insufficient response.

Source: Federal Reserve Bank of Chicago.



# Trade and farm policy update

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- ▶ U.S.-Mexico-Canada Agreement contains small improvements over NAFTA for agriculture
- ▶ A potential agreement with China
- ▶ Farm programs for crops, dairy program upgrade, and assistance for disasters (e.g., Midwest flooding)



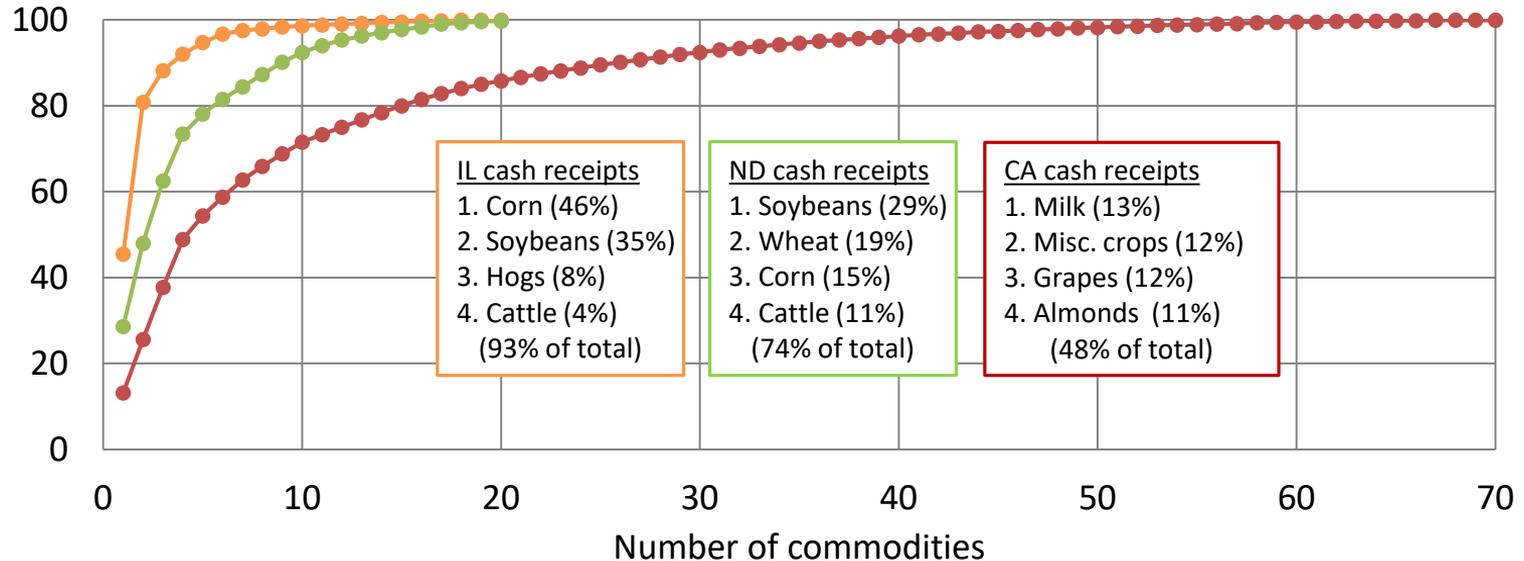


# Commodity diversification in agricultural production varies by state

The farm sector is more diversified in California than in other states

Percent of state total cash receipts

— Illinois — North Dakota — California



Source: FCA-ORP using USDA/ERS cash receipts data for 2016.

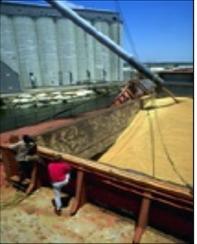


# Concluding comments

- ▶ U.S. farmers adjust to tariffs and weak/uncertain returns
  - Plantings to shift away from soybeans, but stocks remain high
  - Expansion slowdown for meat, poultry, and milk supports prices
  - Continued (and potentially severe) farm financial stress results in voluntary exits; others adapt to economic conditions; enhancing marketing and risk management skills are key
  - Farm safety net might not help much if tariff issues are not resolved

## Risks ahead

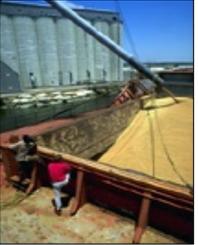
- ▶ Permanence of lifting tariffs on U.S. farm exports
- ▶ A decline in commodity prices from current levels could impact land values





# Questions

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**THANK YOU**



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# Farm Credit System Condition and Performance

as of  
December 31, 2018

**Hal Johnson**  
Sr. Financial Analyst  
Office of Examination



# Topics

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

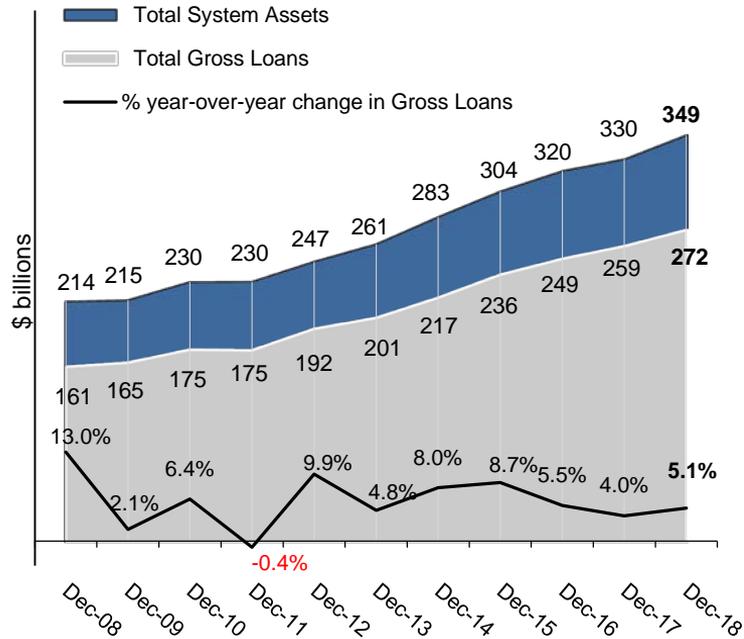




# The System continues to grow at a measured pace; growth concentrated in the 4<sup>th</sup> quarter



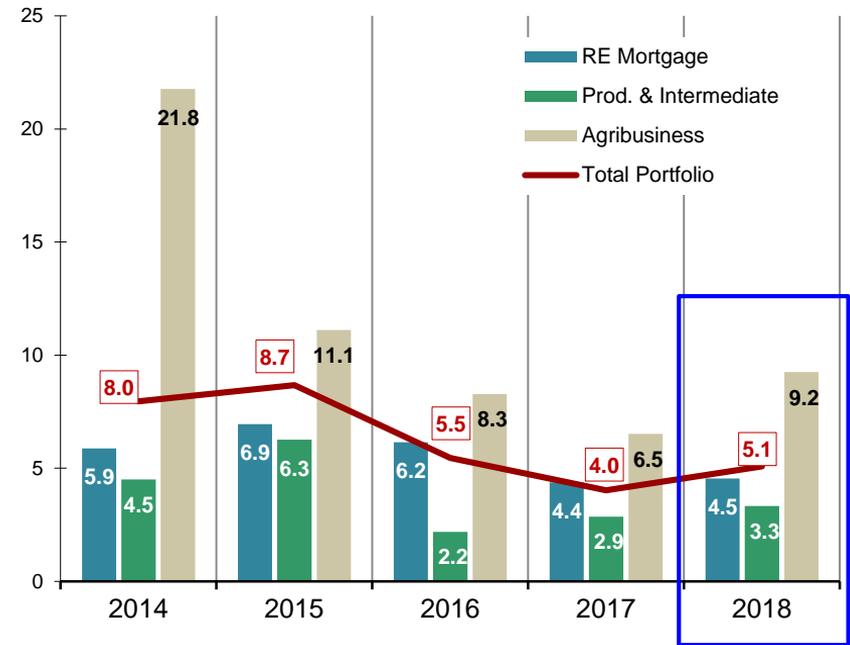
## System Growth



Source: FCS Information Statement

## Loan Growth by Loan Type

(% change year-over-year)



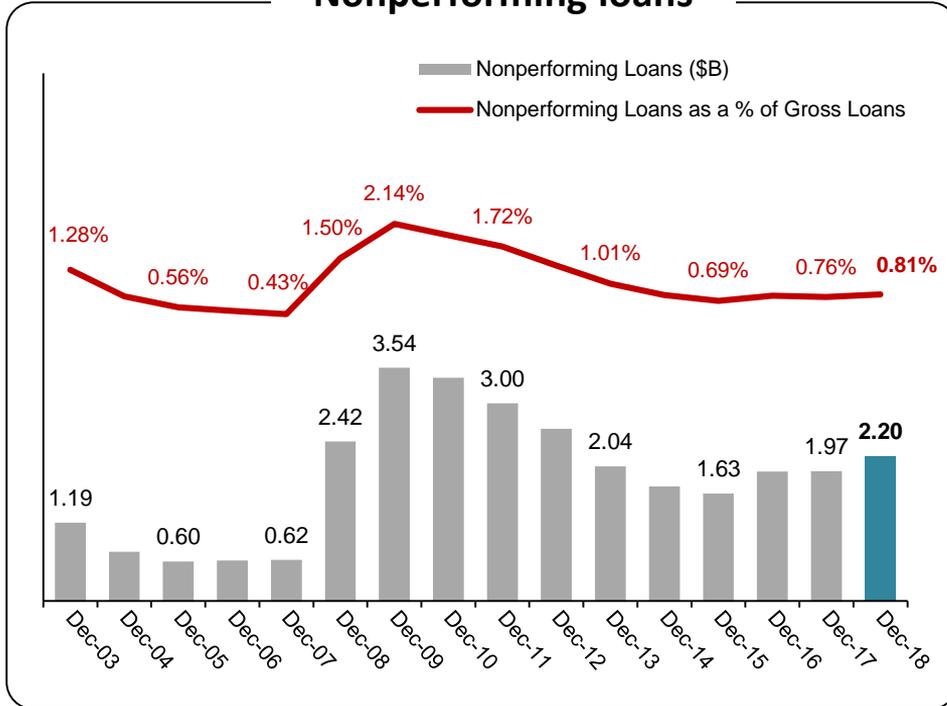
**Loan type as a % of portfolio:** RE Mortgage 46%;  
Prod. & Intermediate 20%; Agribusiness 17%.



# Portfolio credit risk edged higher in 2018

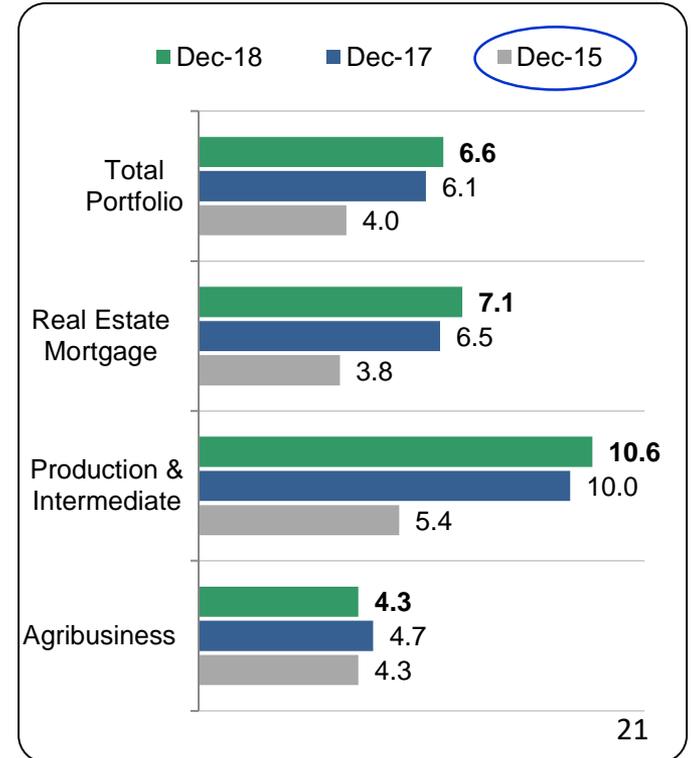


## Nonperforming loans



Source: FCS Information Statement

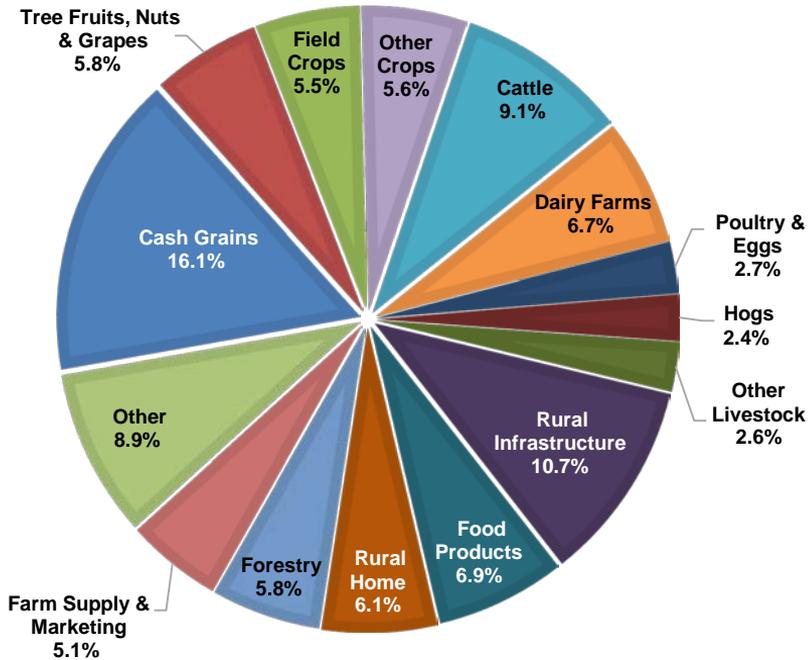
## % of Loans Classified less than Acceptable





# System portfolio is diversified by commodity

## System Loan Portfolio by Commodity Concentration



Source: FCS Information Statement

System Loan Portfolio (\$ in millions)	Dec-18	% chg. yr. over yr.
Cash Grains	43,673	1.2%
Tree Fruits, Nuts & Grapes	15,655	9.6%
Field Crops	14,936	2.9%
Other Crop Production	15,290	5.8%
Cattle	24,738	4.0%
Dairy Farms	18,139	5.5%
Poultry & Eggs	7,377	4.2%
Hogs	6,586	9.6%
Other Livestock	7,107	2.3%
Rural Infrastructure	29,160	4.3%
Food Products	18,857	4.9%
Rural Home	16,563	3.0%
Forestry	15,768	1.9%
Farm Supply & Marketing	13,773	12.4%
Other	24,322	12.4%
<b>Total Loans Outstanding</b>	<b>271,944</b>	<b>5.1%</b>



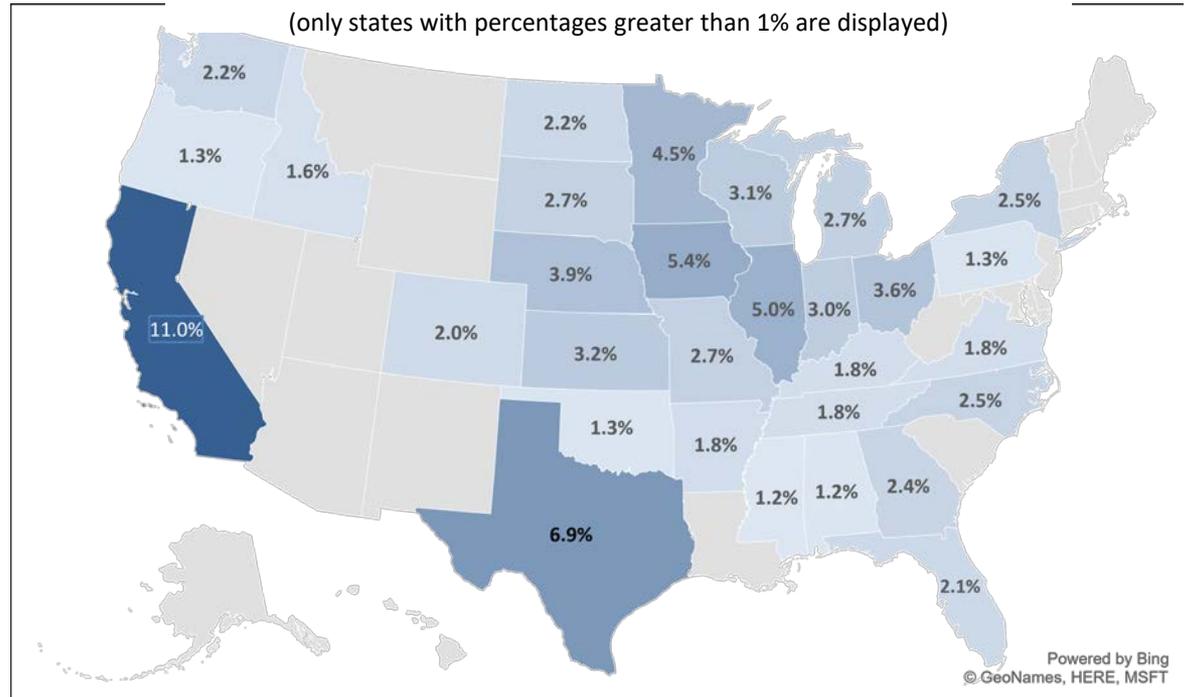
# Portfolio volume is also geographically distributed



Top 5 States	% of Portfolio
California	11.0%
Texas	6.9
Iowa	5.4
Illinois	5.0
Minnesota	4.5

## System Loan Portfolio by State as of yearend 2018

(only states with percentages greater than 1% are displayed)



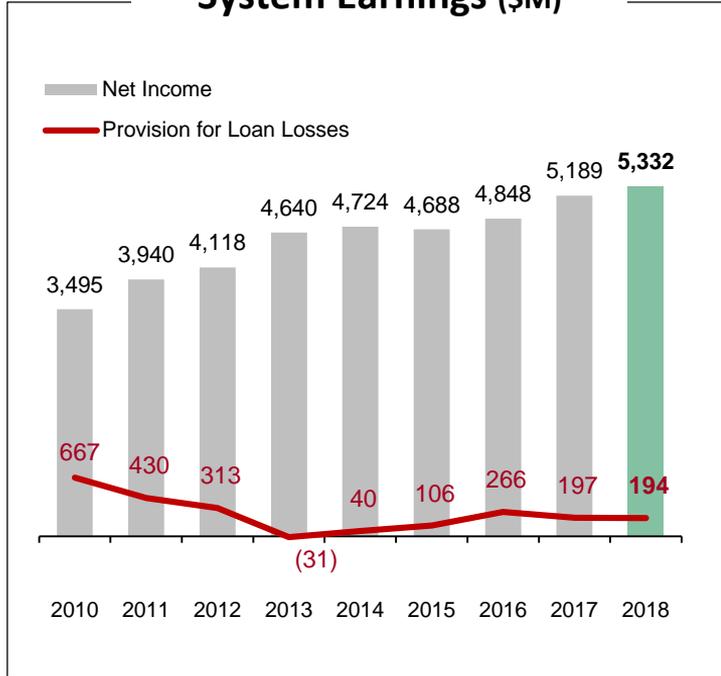
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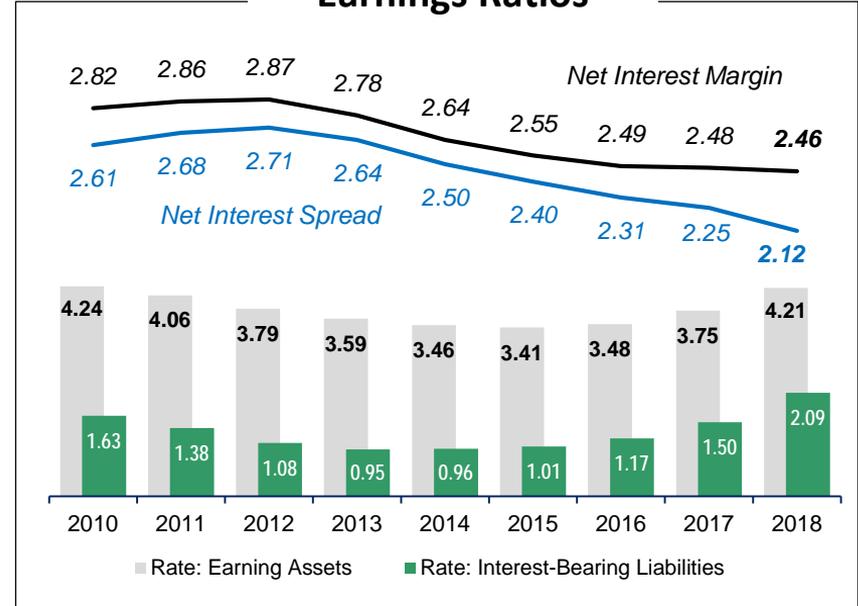
# The System is financially sound; earnings remained strong in 2018



## System Earnings (\$M)



## Earnings Ratios



Source: FCS Information Statement



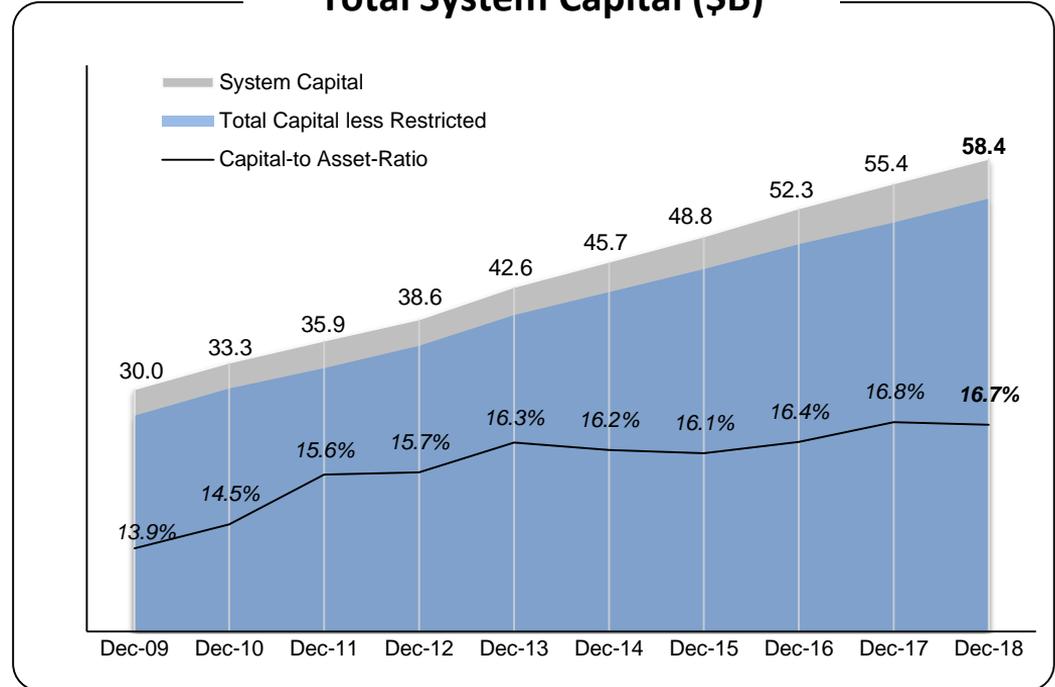
# System is well-capitalized

## Capital and Liquidity

as of December 31, 2018

- ▶ Retained earnings as a percentage of total capital equaled 79.5% of total capital
- ▶ The System's liquidity position equaled 182 days of coverage
- ▶ Days of available liquidity for the 4 funding banks ranged from 160 to 241 days

## Total System Capital (\$B)



Source: FCS Information Statement

Restricted capital represents capital associated with the Insurance Fund.



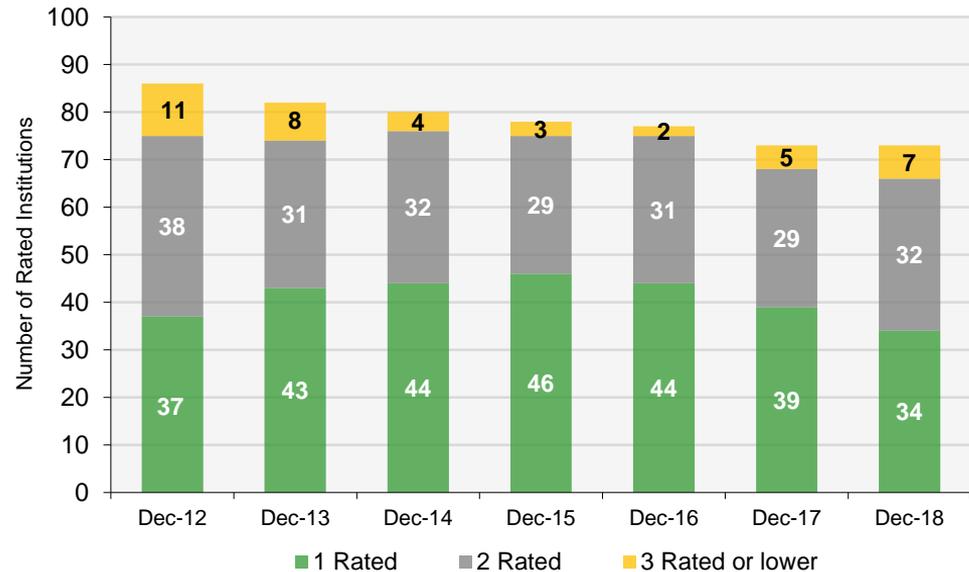
# System FIRS ratings



## FIRS Ratings

- Composite FIRS ratings reflect the System's solid financial performance and acceptable portfolio credit quality
- Over 90% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated or lower institutions account for less than 2.5% of total System assets

## Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



# Summary and final points

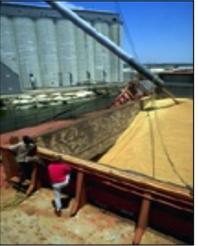


- ▶ Challenges facing agriculture:
  - U.S. economic factors are generally favorable, but tariffs, trade uncertainties and labor costs bear watching
  - Farm sector concerns include crop prices and ending stock levels, export demand, rising input costs, and deteriorating liquidity levels
- ▶ The System is financially sound and strongly capitalized
- ▶ While portfolio loan quality is acceptable, stress remains elevated for agriculture
- ▶ System institutions have significant risk-bearing capacity and are well-positioned to support agricultural producers



# Questions

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**THANK YOU**

# FCS Building Association

Report Regarding Financial Statement Audit for the Year Ended December 31, 2018

## SPEAKERS

**Brynn McNeil, Partner**  
[bmcneil@cbh.com](mailto:bmcneil@cbh.com)

**Jeremy Burgess, Manager**  
[jburgess@cbh.com](mailto:jburgess@cbh.com)

*Your guide forward*



# FCS Building Association

## Overview of Audit Results

We have completed our audit procedures related to the FCS Building Association's year ended December 31, 2018, financial statements.

Our procedures and scope were substantially consistent with our planned audit strategy, and we did not experience any significant problems during the audit process.

We issued an unmodified (clean) opinion on the Company's financial statements.

We received excellent cooperation from the Company's personnel.

# General Financial Statement Comments

- ▶ Strong Balance Sheet as of December 31, 2018
  - Cash reserve balance of \$654K
  - Current ratio of 2:1
  - Total liabilities-to-equity ratio 1:8
- ▶ Operating income of \$655k for the year ended December 31, 2018, due to special assessment for the new tenant
- ▶ No new or unusual transactions noted for fiscal year 2018
- ▶ No significant new disclosures noted for fiscal year 2018



# Areas of Focus for the 2018 Audit

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Procedures  
with respect  
to internal  
control

Leasing  
activities

Capital  
expenditures  
and repairs  
and  
maintenance

No significant  
deficiencies  
or material  
weaknesses  
identified

# Required Communications

The auditor's responsibility under generally accepted auditing standards – reasonable assurance that financial statements are materially correct

Significant accounting policies are disclosed in Note 2 of the F/S's

We have considered management judgments and accounting estimates included in the financial statements and believe them to be reasonable

There were no disagreements with management during the engagement

There were no major issues discussed with management prior to our Firm being retained

No irregularities or fraud identified as part of the audit

# Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” ASU 2016-02 is intended to improve financial reporting about leasing transactions.

The ASU affects all companies and other organizations that lease assets such as real estate, airplanes and manufacturing equipment.

The ASU will require organizations that lease assets, referred to as “Lessees,” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

# Recent Accounting Pronouncements (cont'd)

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An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements.

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months.

# Recent Accounting Pronouncements (cont'd)

Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases (i.e., operating and capital) to be recognized on the balance sheet.

Non-public companies will be required to adopt the new leasing standard for fiscal years beginning after December 15, 2019.

Farm Credit Administration

1501 Farm Credit Drive  
McLean, VA 22102-5090  
(703) 883-4000

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**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 April 9, 2019, was properly closed to the public on the basis of the exemptions set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).
- Information related solely to the internal practices of an Agency – 5 U.S.C. §552b(c)(2).

April 9, 2019  
Date

/s/  
Charles R. Rawls  
General Counsel