

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



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
December 12, 2019**

These minutes reflect the business transacted at the December 12, 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 10:31 a.m. Members of the Board present were:

**Glen R. Smith, Chairman and Chief Executive Officer
Jeffery S. Hall, Member**

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 three 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.

Chairman Smith 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.

Chairman Smith seconded the motion.

There being no further discussion, **Chairman Smith** called the question.

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

Mr. Hall 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.

Chairman Smith seconded the motion.

There being no further discussion, **Chairman Smith** called the question.

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

OPEN SESSION

Approval of Minutes

Minutes for November 14, 2019 Regular Board Meeting (BM-12-DEC-19-01)

Mr. Hall moved to approve the minutes for the November 14, 2019, FCA Regular Board Meeting.

Chairman Smith seconded the motion.

There being no further discussion **Chairman Smith** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-12-DEC-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 Data Analytics and Economics** and **Hal Johnson** of the **Office of Examination** presented the Quarterly Report on Economic Conditions and FCS Condition and Performance.

Chairman Smith 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

Hal Johnson of the **Office of Examination** presented the Semi-Annual Report on the Office of Examination Operations.

Chairman Smith 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.)

Informational Briefing on YBS Reporting

Jeremy D'Antoni of the **Office of Data Analytics and Economics** and **Sal Iannetta** of the **Office of Regulatory Policy** presented the Informational Briefing on YBS Reporting.

Chairman Smith asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

New Business

Proposed Rule: District Financial Reporting

Joi Neal of the **Office of Regulatory Policy** and **Laura McFarland** of the **Office of General Counsel** presented the Proposed Rule: District Financial Reporting.

Chairman Smith open the discussion for questions by the Board.

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

Chairman Smith called for a motion on the staff's recommendation.

Mr. Hall moved to approve the Proposed Rue: District Financial Reporting as recommended by staff.

Chairman Smith seconded the motion.

Chairman Smith asked if there was any further discussion.

There being no further discussion, **Chairman Smith** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-12-DEC-19-02)**

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

CLOSED SESSION

Chairman Smith 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.

Chairman Smith convened the closed session of the meeting at 10:08 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 Smith 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

Roger Paulsen of the **Office of Examination** presented OE Quarterly Report.

Chairman Smith 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 Smith** indicated he would entertain a motion to adjourn the meeting.

Mr. Hall moved that the meeting be adjourned.

Chairman Smith seconded the motion.

Chairman Smith called the question.

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

The meeting adjourned at 10:31 a.m.

NOTATIONAL VOTE ACTIONS

There were six notational vote actions approved by the FCA Board from November 14, 2019, through December 11, 2019 as follows:

Item Number	Action Date	Voting Results	Subject
NV 19-29	11/20/2019	Approved	FCS of Hawaii ACA Subsidiaries Merge with American AgCredit ACA Subsidiaries
NV 19-30	11/20/2019	Approved	FCSBA 2020 Budget and Assessments
NV 19-31	11/22/2019	Approved	Appointment of Jeremy D'Antoni to Position of Director of Data Analytics and Economics
NV 19-32	11/20/2019	Approved	FCA 2020 Compensation Program
NV 19-33	12/05/2019	Approved	Move date of April 2020 FCA Board meeting from April 9 to April 16, 2020
NV 19-34	12/10/2019	Approved	Delegation of Authority to Approve or Disapprove Association Requests, as well as extend any such existing approvals, for Regulatory Relief from the Investment Eligibility Regulation

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 12, 2019.

_____/s/
Glen R. Smith
Board Chairman and Chief Executive Officer

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

Approved: January 9, 2020

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
December 12, 2019**

Glen R. Smith, Board Chairman / CEO

Jeffery S. Hall, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Kramp, Kevin	X	
Morris, James	X	X
Roque-Brehm, Awilda	X	
Calhoun, Gaye	X	
COO		
Coleman, Robert	X	X
OIT		
Golley, Jerald	X	X
OCPA		
Stokke, Michael	X	X
Middleton, Russell	X	X
OGC		
Rawls, Charles	X	X
Donner, Mary Alice	X	
McFarland, Laura	X	
Strickland, Joy	X	X
OE		
Paulsen, Roger	X	X
Schumacher, Ryan	X	X
Johnson, Hal	X	X
Alford, Doug	X	X
OIG		
Laguarda, Wendy	X	X
Miller, Kevin	X	X
OSMO		
Rea, Laurie	X	X
Bravenec, Bill	X	X
ORP		
Grahn, David	X	X
Gibbs, Paul	X	
Mardock, Barry	X	X
Iannetta, Sal	X	
Neal, Joi	X	
EEOI		
Burlew, Thais	X	
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X

OFFICE	OPEN SESSION	CLOSED SESSION
OAS		
Bell, Vonda	X	X
Clark, Patrina	X	X
ODAE		
D'Antoni, Jeremy	X	X
Shields, Dennis	X	X
FCSIC		
Rubin, Howard	X	X
Wynn, Wade	X	X
Morgan, Matt	X	X
GENERAL PUBLIC	3	N/A

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
December 12, 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 December 12, 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. 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 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 November 14, 2019

Reports

- 2 Quarterly Report on Economic Conditions and FCS Condition and Performance
- 3 Semi-Annual Report on Office of Examination Operations
- 4 Informational Briefing on YBS Reporting

New Business

- 5 Proposed Rule: District Financial Reporting

CLOSED SESSION

- 6 Office of Examination Quarterly Report

/s/

December 2, 2019

Dale Aultman

Date

Secretary to the Board

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

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for November 14, 2019

BM-12-DEC-19-01

Effective Date: December 12, 2019

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for November 14, 2019, regular Board Meeting.

DATED THIS 12th DAY OF DECEMBER 2019

BY ORDER OF THE BOARD

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



FCA Board Meeting December 2019

Exhibit D

Quarterly Report on FCS Condition December 12, 2019

Dennis A. Shields
Hal Johnson





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Trade and farm income
 - Crop insurance indemnities
 - Farm prices and risks in 2020
- ▶ FCS Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields

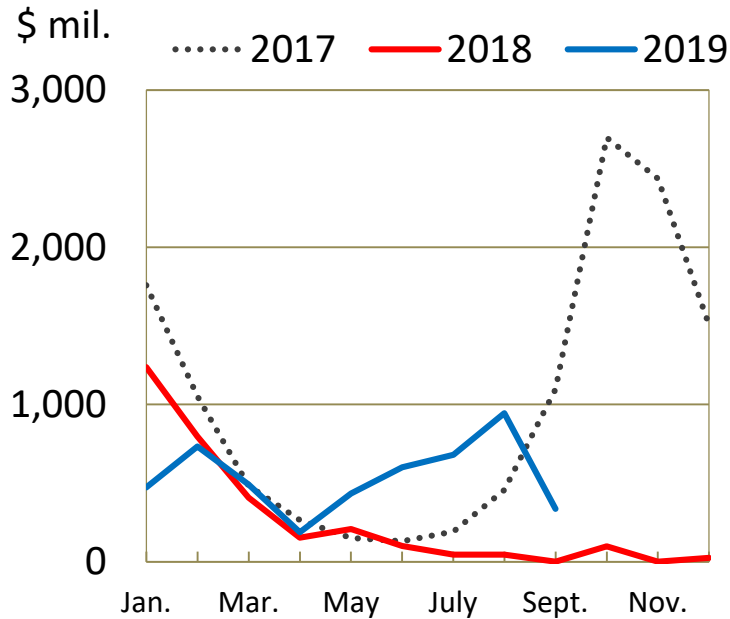
Chief Economist

Office of Data Analytics and Economics

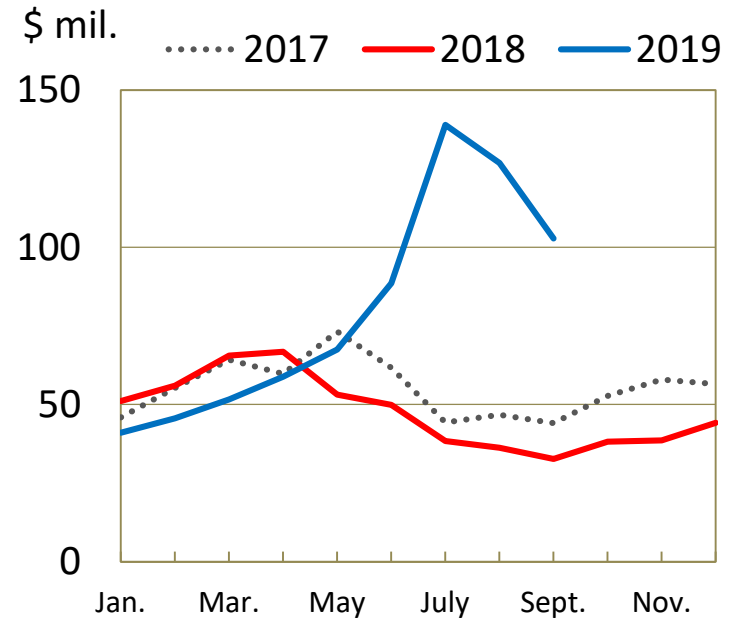


U.S. soybean exports to China try to regain traction; pork exports advance in 2019

U.S. soybean exports to China



U.S. pork exports to China



Source: USDA/FAS.

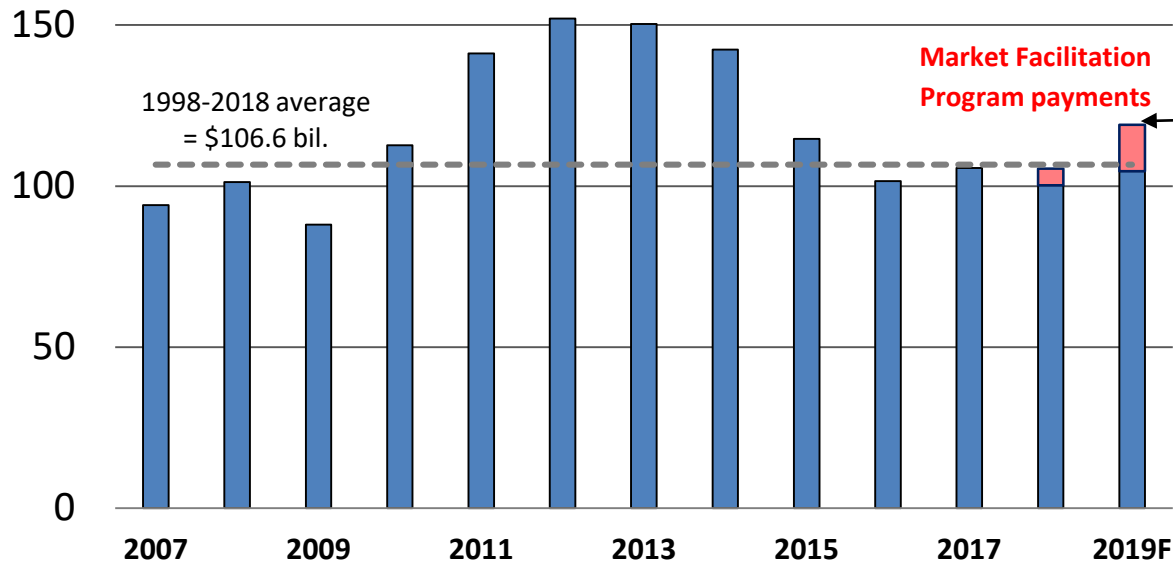


Farm income is lifted by Market Facilitation Program payments



\$ billion in
2019 dollars

U.S. net cash farm income
(includes government payments)



2019 forecast of net
cash farm income is
\$119.0 billion.

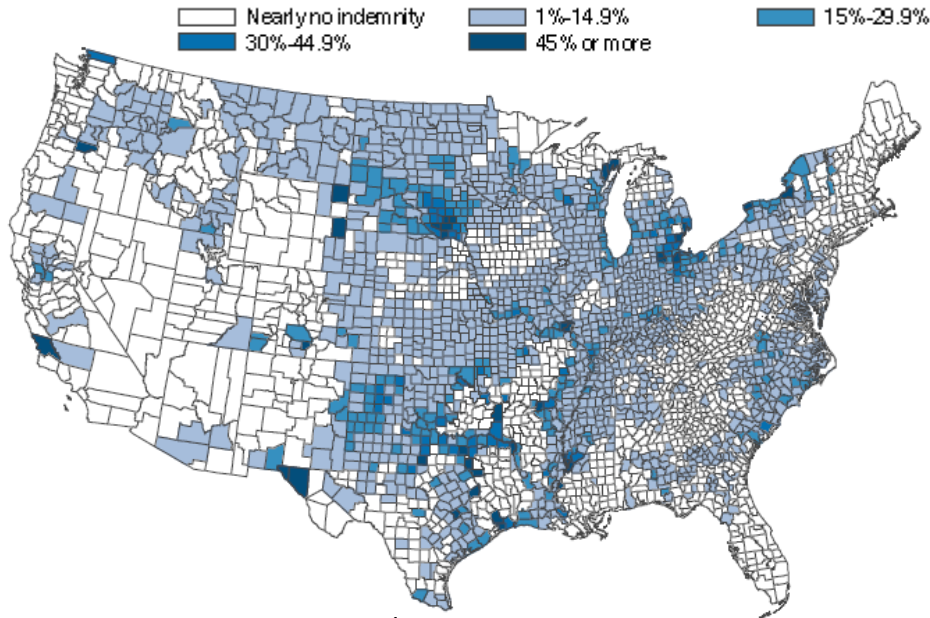
Based on USDA's
historical forecast
accuracy, farm income
could be as low as
\$115.1 billion or as high
as \$136.2 billion.

Source: USDA/ERS, November 27, 2019.



Crop insurance indemnities provide support to areas experiencing poor weather in 2019

2019 indemnities for 6 major program crops as a share of their total liability



6-crop indemnities as of 12/2/19

Selected FCS geographic footprint	Indemnities (\$ mil.)
Compeer	\$535
Mid-America	\$644
FCS of America	\$1,265
Northwest FCS	\$80
Amer. AgCredit	\$147
U.S. total	\$5,725

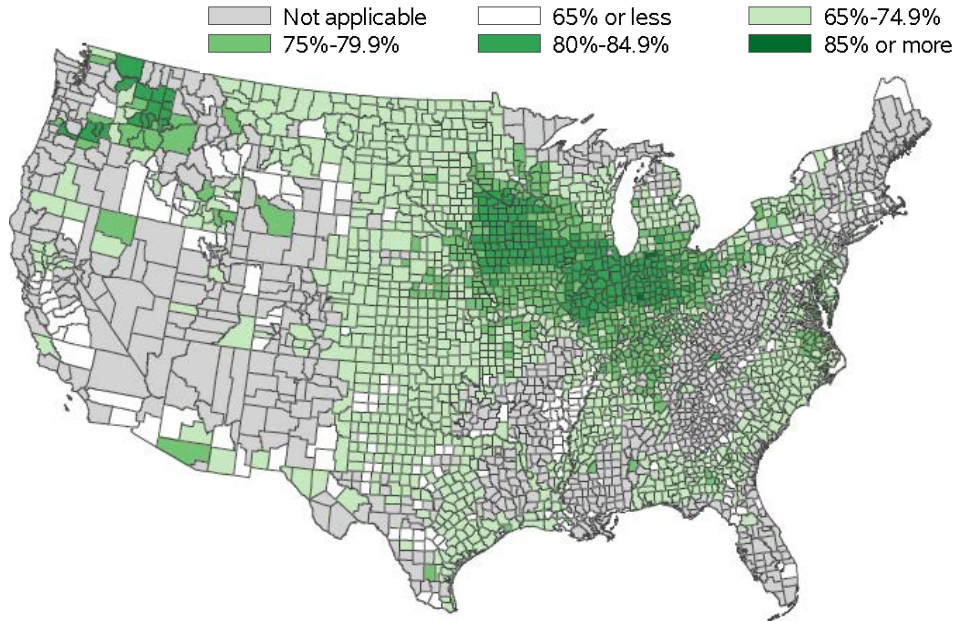
Source: FCA analysis of USDA/RMA data.

Notes: Includes corn, soybeans, wheat, sorghum, cotton, and rice. Total liability is amount equal to a complete crop loss (after deductible is incurred).



Farmers in the Corn Belt purchase relatively higher levels of crop insurance coverage

Average crop insurance coverage level in 2019 for combined corn, soybeans, wheat, sorghum, cotton, and rice



2019 crop year

Selected FCS geographic footprint	Average coverage level
Compeer	81.2%
Mid-America	80.0%
FCS of America	78.4%
Northwest FCS	78.7%
American AgCredit	71.1%
U.S. total	77.1%

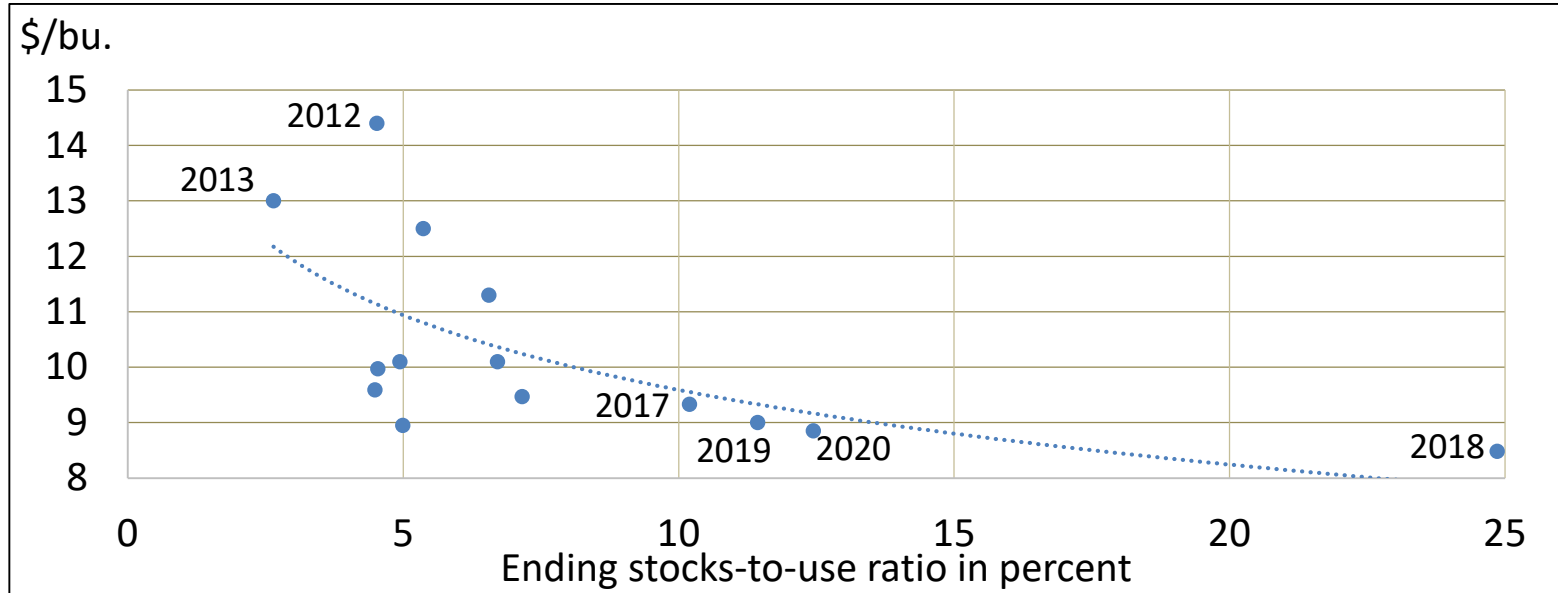
Source: FCA analysis of USDA/RMA data.

Note: Average coverage level in 2019 for 6 major program crops, weighted by crop value of insured acres. The insured absorbs the deductible (1 minus coverage %) before indemnity is paid.



For the 2020 crop year, another high soybean stocks-to-use ratio could keep a lid on prices

U.S. soybean price and stocks-to-use ratio



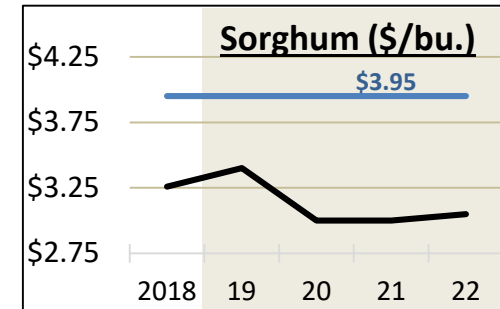
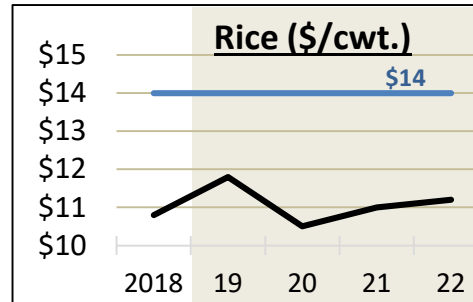
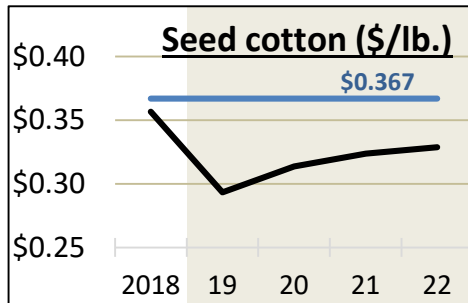
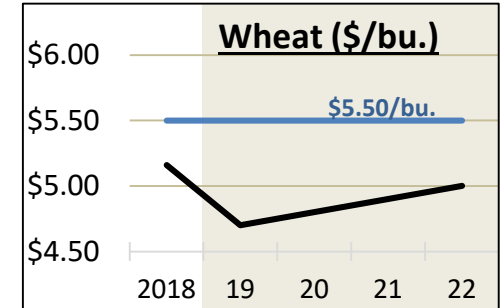
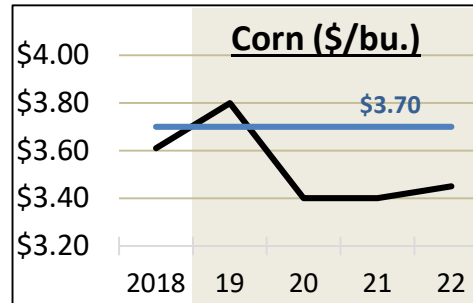
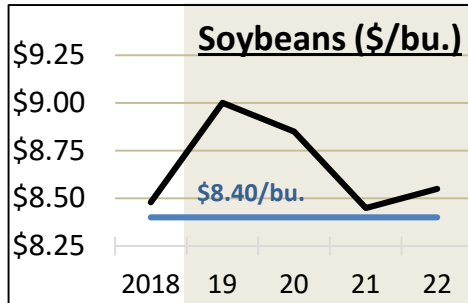
Source: FCA using USDA data (November 2019 WASDE for 2019 forecast; Baseline Projections for 2020 crop; ERS Oil Crops Yearbook for historical data).



Crop prices for the next 3 years are projected below reference prices (except soybeans)



— Farm price
— Farm Bill reference price that triggers Price Loss Coverage payments

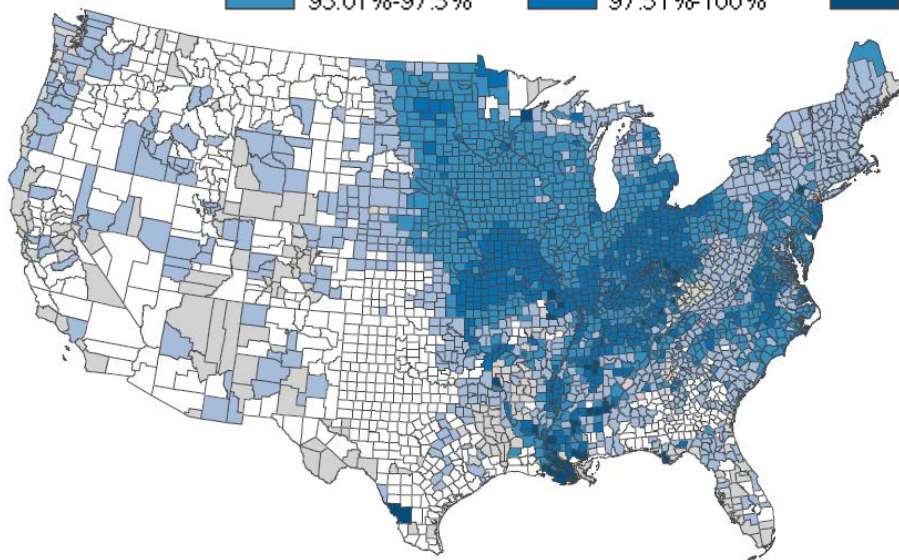
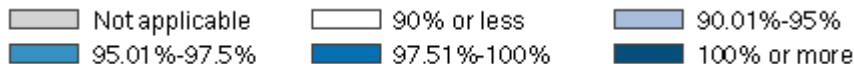


Source: USDA Baseline Projections, November 2019.



Projected price weakness (relative to reference price) varies across growing regions

2020-2022 projected farm price as percentage of Farm Bill reference price
(combined corn, soybeans, wheat, sorghum, cotton, and rice)



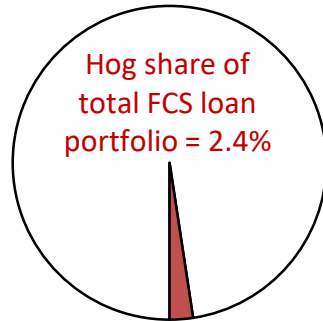
Selected FCS geographic footprint	Projected price as % of ref. price
Compeer	96.5%
Mid-America	97.5%
FCS of America	96.1%
Northwest FCS	89.4%
American AgCredit	90.2%
U.S. total	94.1%

Source: FCA analysis of USDA's November 2019 baseline prices for 2020-2022 and 2017-19 planted area by county.
Note: For each county, the 3-year average ratio (projected price/reference price) for each crop is weighted by the crop's planted area.



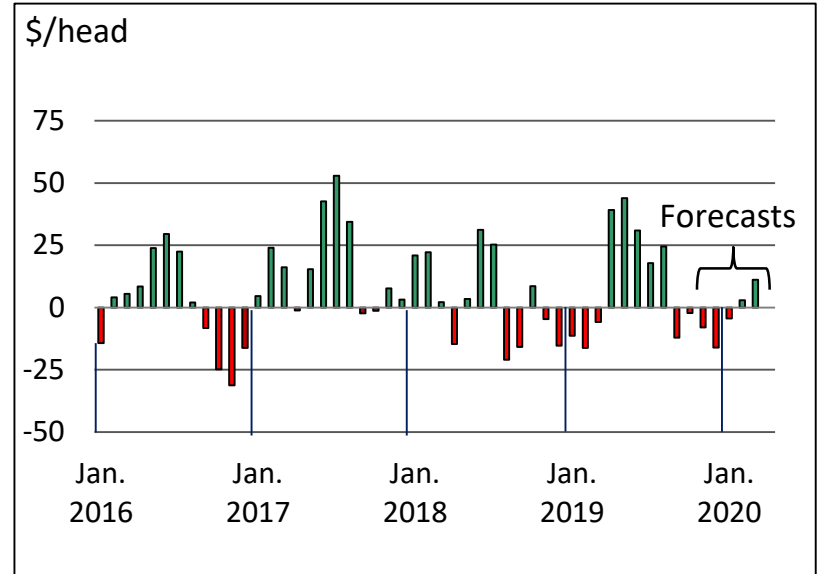
Hog producer returns are expected above break-even in early 2020, but risks remain

- ▶ U.S. supply ramps up and demand prospects brighten
- ▶ Risk posed by African swine fever approaches U.S. agriculture from different angles



Source: 2018 FCS Information Statement.

Hog margins



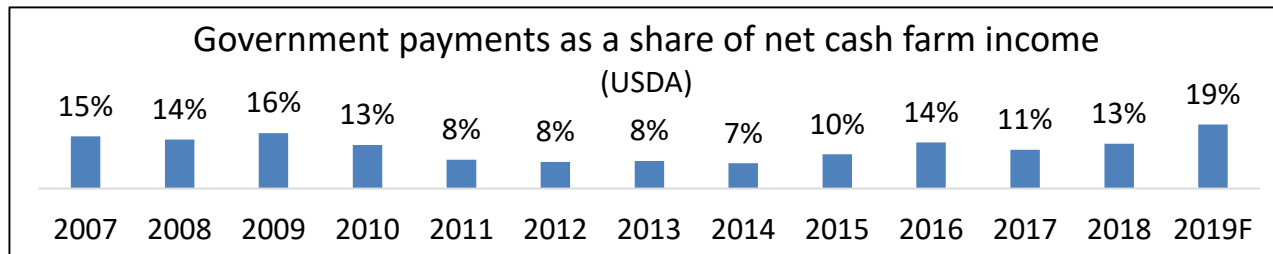
Source: IHS Markit Agribusiness.



Government assistance for farmers in 2020



- ▶ Permanent disaster programs for livestock losses
- ▶ Crop insurance addresses within-season revenue or yield risk; coverage varies by System territory
- ▶ Farm program payments provide downside protection for some commodities (but they weren't enough in 2018 and 2019)
- ▶ Tranche 3 payments from 2019 Market Facilitation Program?
- ▶ Additional assistance from the Administration or Congress?





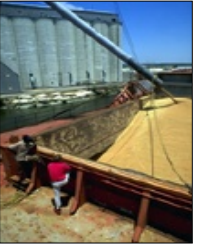
Concluding comments

- ▶ As 2020 approaches, global crop supplies remain ample, limiting attractive pricing opportunities for U.S. farmers
- ▶ Farm financial conditions become more challenging next year in the absence of stronger markets or another injection of payments
- ▶ Expected livestock/dairy returns in early 2020 are positive, but trade and disease risk remains elevated; a recession would dim prospects
- ▶ Without broader foreign trade access, U.S. agriculture could become a “residual” supplier with farm prices remaining under pressure





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
September 30, 2019

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Portfolio credit quality
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

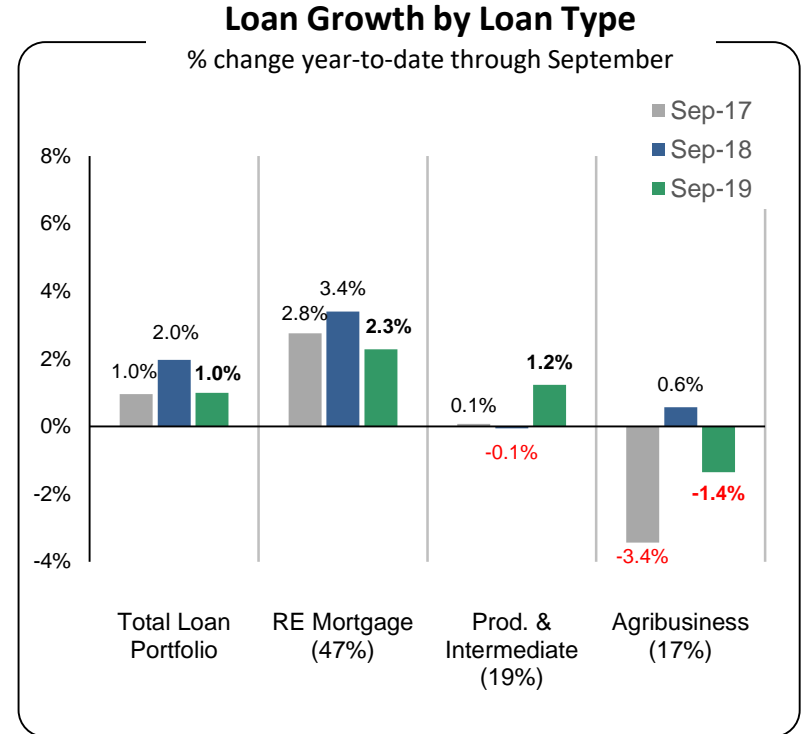
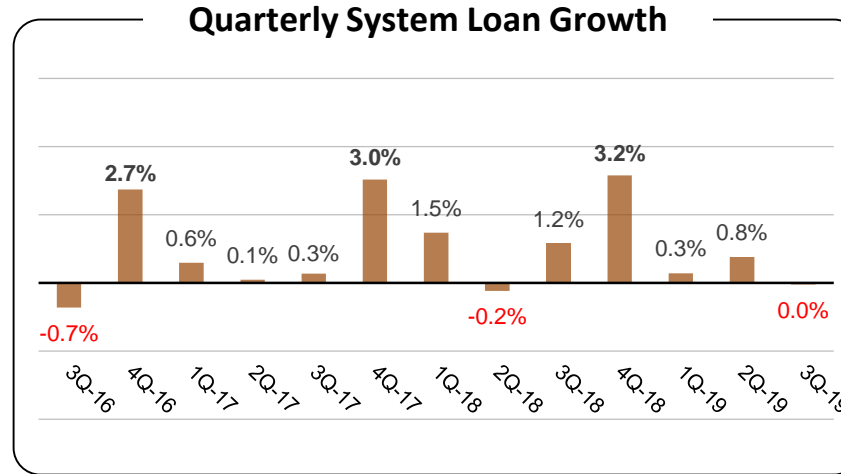




System reports little growth through the first nine months of 2019



Total Assets 9/30/19	\$354.0 billion	+0.4% Qtr +1.4% YTD	Gross Loans 9/30/19	\$276.1 billion	-0.04% Qtr +1.0% YTD
--------------------------------	---------------------------	------------------------	-------------------------------	---------------------------	-------------------------





Credit stress edges higher; risk varies by region and sector



**Nonperforming
Assets
(9/30/19)**

**\$2.549
billion**

Qtr Chg. + \$19M or 0.8%

YTD Chg. + \$267M or 11.7%

**Delinquencies ⁽¹⁾
(9/30/19)**

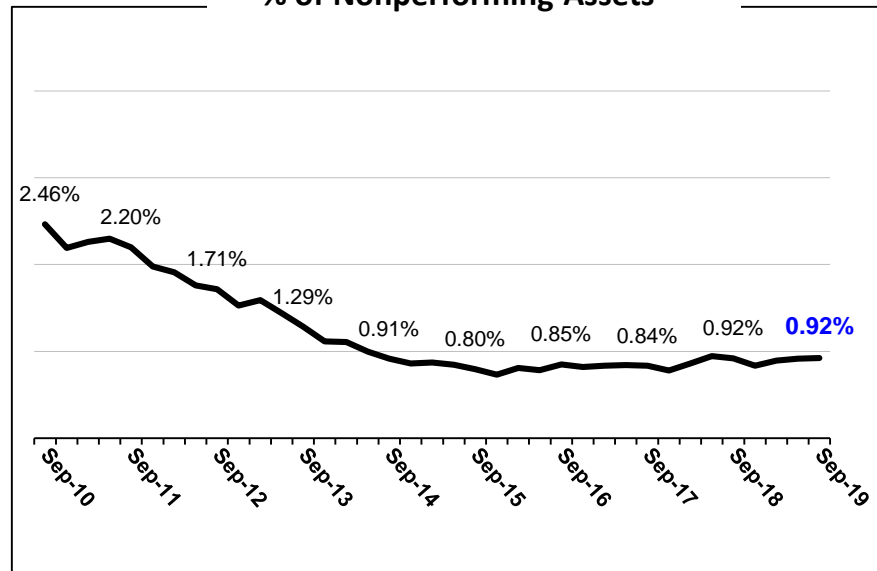
0.30%

Q2 '19 0.36%

Q3 '18 0.29%

(1) accruing loans 30 days or more past due as a % of accruing loans

% of Nonperforming Assets ⁽¹⁾



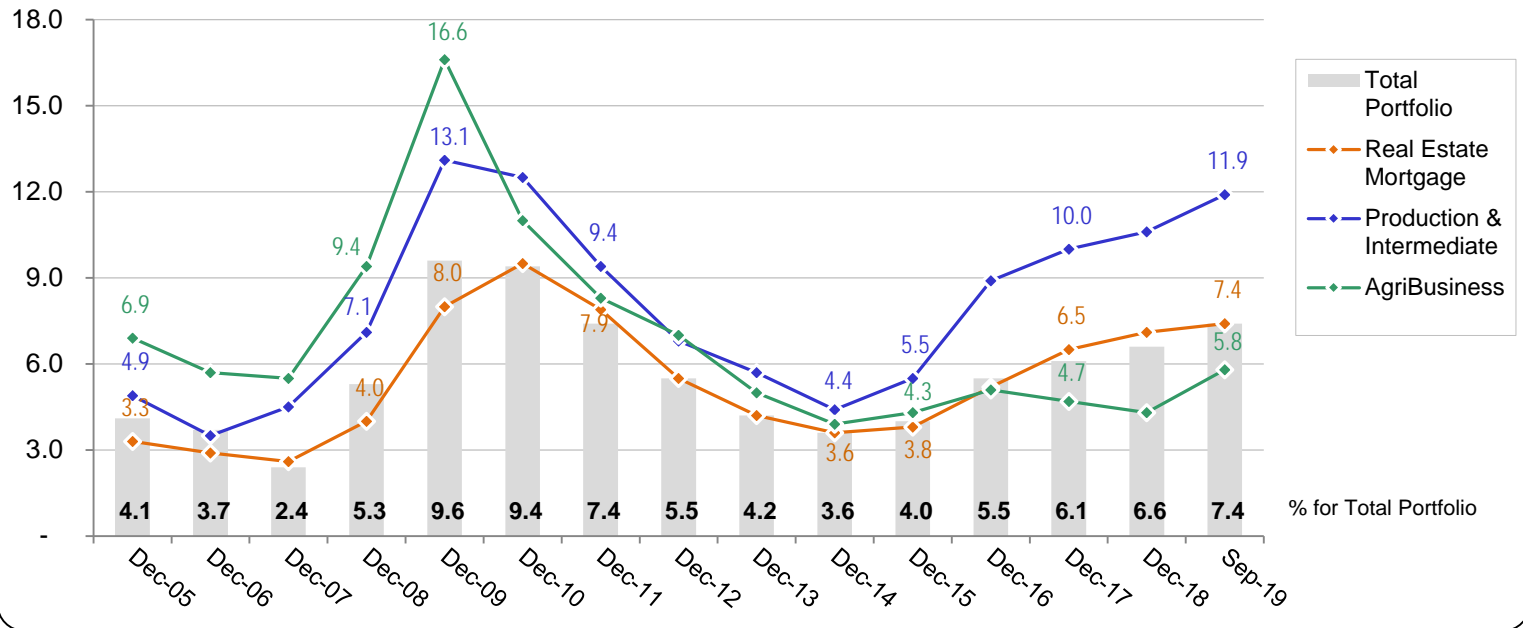
(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)



Loans classified less than Acceptable are up in 2019 for all major loan types



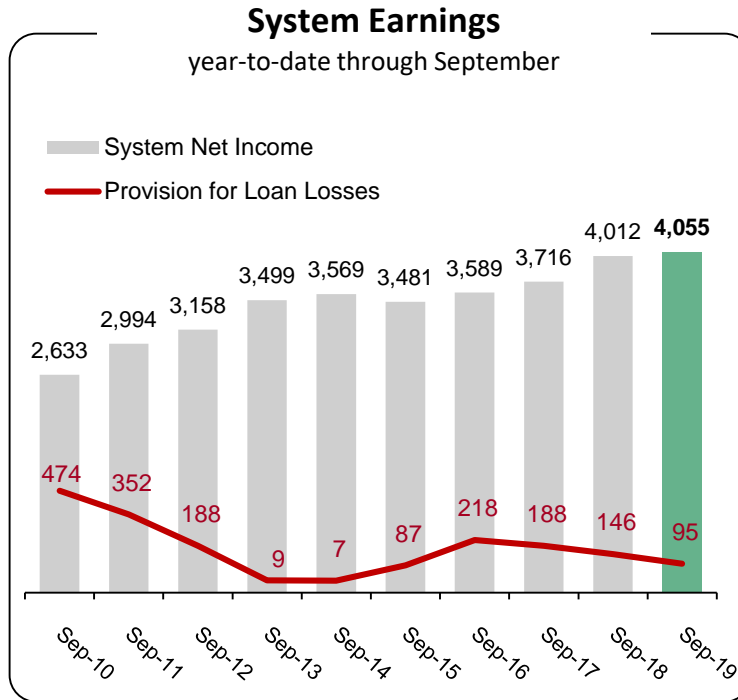
% of Loans classified less than Acceptable by Loan Type



Source: FCS Information Statements



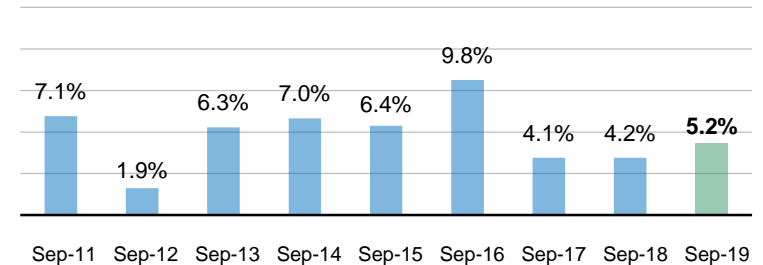
System's financial condition is sound; year-to-date earnings stable



Source: FCS Information Statements

Net Interest Spread (YTD annualized)	Q3 '19	Q2 '19	Q3 '18
	2.02%	2.00%	2.13%
Net Interest Margin (YTD annualized)	Q3 '19	Q2 '19	Q3 '18
	2.41%	2.40%	2.45%

% increase in YTD Average Earning Assets (compared to the same period a year ago)





The System is strongly capitalized

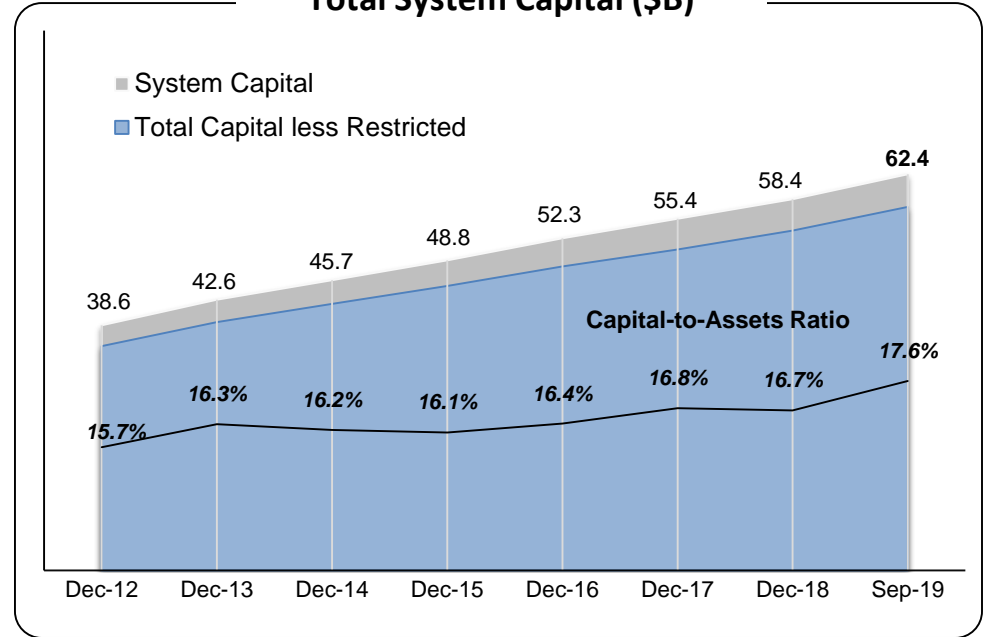
Capital and Liquidity

- as of September 30, 2019 -

- ▶ Total Regulatory Capital levels:
Banks: 16.1% to 19.1%
Associations: 13.5% to 39.5%
- ▶ The System's liquidity position equaled 177 days of coverage
- ▶ Days of available liquidity for the 4 funding banks ranged from 149 to 232 days

Source: FCS Information Statements

Total System Capital (\$B)



Note: Restricted capital represents capital associated with the Insurance Fund.



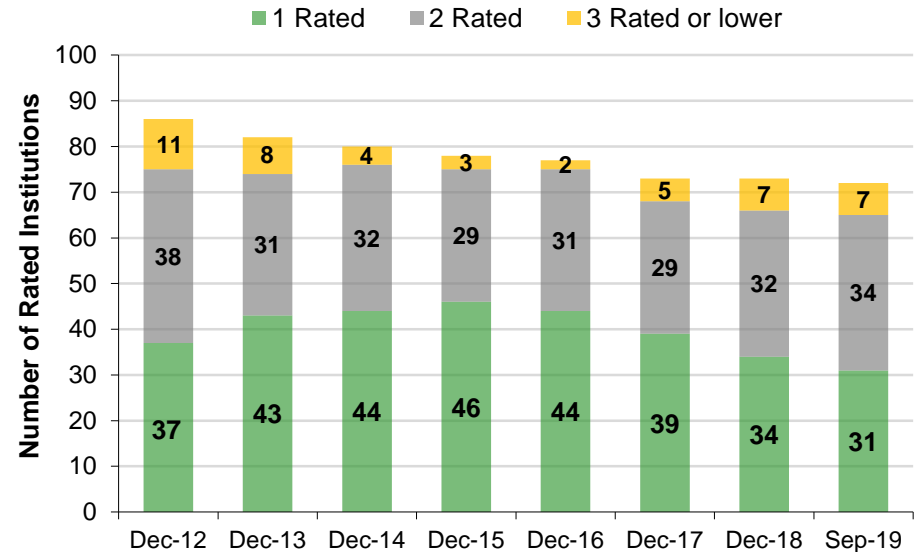
System FIRS ratings

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
- ▶ Institutions rated 3 or lower account for less than 2.5% of System assets



Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ Agricultural producers are facing tough times
 - Trade policy uncertainties, low margins, weak crop prices, large global stocks, changing markets
- ▶ Rising credit stress in the loan portfolio reflects the financial challenges confronting System borrowers
- ▶ System institutions are financially sound, well-capitalized, and have the risk-bearing capacity to respond to the credit needs of U.S. agriculture





Questions



THANK YOU



FCA Board Meeting December 2019

Exhibit E

Semi-Annual Report on Office of Examination Operations

December 12, 2019

Hal Johnson
Office of Examination





Highlights of OE Operations

- ▶ Operating Plan Areas
 - Risk Supervision and Examination
 - Operational Efficiency and Effectiveness
 - Human Capital
- ▶ Summary





Risk Supervision & Examination

System Profile as of 9/30/19

72 Lending Institutions

4 Funding Banks

Assets from \$26B to \$136B

68 Associations

Assets from \$54M to \$30B

\$354.0
billion

Total Assets

\$276.1
billion

Gross Loans

\$4.1
billion

YTD Earnings

FCS Institution Activities and Guidance

- ▶ Onsite at all 4 funding banks, 64 of 68 associations, and several other related entities
- ▶ Issued 54 Reports of Examination and 37 Interim Activity Letters
 - Five institutions are under a higher level of supervisory oversight
- ▶ Other supervision and oversight activities
 - Internal / external communications
 - Examination manual updates and revisions



Supervision & Examination Initiatives

2019 NOP Risk Topics and Strategies:

► Portfolio Risk | Navigating Rough Waters

- Credit Guidance (Risk ID & Servicing)
- Bank Oversight
- FCS Credit Scoring Systems
- Stressed Industries

► Internal Controls | Three lines of Defense

- Internal Controls (Audit)
- ICFR Horizontal Examination Activity Informational Memorandum
- Oversight Talking Points





Operational Efficiency & Effectiveness

- ▶ Examination tools / Ongoing technology initiatives
 - EDGe Phase II & III
 - FCS Loan Database and Data Mart
 - Technology use in examinations
- ▶ OE budget results

Fiscal Year 2018	Budget	Actual	Variance
Expenditures (\$M)	\$35.0	\$34.8	\$0.2 under
FTE	178.4	175.3	3.1 FTE under





Human Capital Update

- ▶ Examiner development initiatives
- ▶ Fiscal yearend staffing levels



Total OE Staff

	Planned	Actual	Variance
Beginning FY 2019	177	181	4
Attrition/Retirements	(16)	(25)	(9)
Hirings			
- Associate Examiners	15	15	0
- Mid-Career	3	0	(3)
Ending FY 2019	179	171	(8)

Commissioned Examiners

Categories	Planned	Actual	Variance
Beginning FY 2019	85	87	2
Attrition/Retirements	(6)	(3)	3
Hirings	0	0	0
Newly Commissioned	18	10	(8)
Ending FY 2019	97	94	(3)



Summary

- ▶ Achieved examination objectives as planned while maintaining a strong onsite risk supervision and oversight presence
- ▶ Completed significant program activities, communications, examiner guidance, and risk analyses as part of accomplishing OE's examination objectives
- ▶ Recruiting, training staff, and developing and retaining commissioned examiners remains a high priority
- ▶ Accomplished OE operating objectives within approved budget





Discussion



THANK YOU

Farm Credit Administration

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



FCA BOARD ACTION ON

Proposed Rule: District Financial Reporting

BM-12-DEC-19-02

Effective Date: December 12, 2019

THE FCA BOARD HEREBY:

- Approves the proposed rule that would amend regulations governing the presentation of related association financial information within a Farm Credit bank's Annual Report to Shareholders; and
- Authorizes staff to make any technical or grammatical changes that may be necessary for publication in the *Federal Register*.

DATED THIS 12th DAY OF DECEMBER 2019

BY ORDER OF THE BOARD

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

Farm Credit Administration

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



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 12, 2019, 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).

December 12, 2019
Date

/s/
Charles R. Rawls
General Counsel