

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



**MINUTES OF THE REGULAR MEETING  
OF THE  
FARM CREDIT ADMINISTRATION BOARD  
November 14, 2019**

These minutes reflect the business transacted at the November 14, 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 9:57 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 two members of the general public. (A list of staff attendees is attached as Exhibit A.)

**Chairman Smith** recognized the new FCA Office of Data Analytics and Economics (ODAE), and welcomed **Jeremy D'Antoni** as the Acting Director of ODAE.

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 not* include any 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 entire meeting remain open.

**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 October 10, 2019 Regular Board Meeting (BM-14-NOV-19-01)**

**Mr. Hall** moved to approve the minutes for the October 10, 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-14-NOV-19-01)**

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

### **Report**

#### **Update on Credit Conditions**

**Mike Duffy** of the **Office of Examination** and **Steve Koenig** of the **Office of Data Analytics and Economics** presented an Update on Credit Conditions.

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

There were no further questions or discussion.

(A copy of the presentation is attached as Exhibit D.)

## **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 9:57 a.m.

## NOTATIONAL VOTE ACTIONS

There were four notational vote actions approved by the FCA Board from October 10, 2019, through November 13, 2019 as follows:

Item Number	Action Date	Voting Results	Subject
NV 19-25	10/10/2019	Approved	Appointment of Roger Paulsen to Chief Examiner in the Office of Examination
NV 19-26	10/10/2019	Approved	FCSBA approval to Refurbish Existing Roof of the Farm Credit Building in McLean
NV 19-27	10/21/2019	Approved	Office of Examination's Fiscal Year 2020 Oversight and Examination Plan
NV 19-28	11/05/2019	Approved	FCA Revised Organizational Chart and Creation of New Office named Office of Data Analytics and Economics with Jeremy D'Antoni as Acting Director

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on November 14, 2019.

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

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

Approved: December 12, 2019

**STAFF PRESENT AT THE  
FCA REGULAR BOARD MEETING  
November 14, 2019**

Glen R. Smith, Board Chairman / CEO

Jeffery S. Hall, Board Member

<b>OFFICE</b>	<b>OPEN SESSION</b>
<b>Office of the Board</b>	
Aultman, Dale	X
Kramp, Kevin	X
Morris, James	X
Roque-Brehm, Awilda	X
Calhoun, Gaye	X
<b>COO</b>	
Coleman, Robert	X
<b>OIT</b>	
Golley, Jerry	X
<b>OCPA</b>	
Stokke, Michael	X
Middleton, Russell	X
<b>OGC</b>	
Rawls, Charles	X
Donner, Mary Alice	X
Strickland, Joy	X
<b>OE</b>	
Paulsen, Roger	X
Duffy, Mike	X
Johnson, Hal	X
<b>OIG</b>	
Laguarda, Wendy	X
Miller, Kevin	X
<b>OSMO</b>	
Rea, Laurie	X
Hudson, Bruce	X
Greenlee, Angela	X
<b>ORP</b>	
Grahn, David	X
Mardock, Barry	X
Shields, Dennis	X
<b>ODAE</b>	
D'Antoni, Jeremy	X
Koenig, Steve	X
Shields, Dennis	X
<b>EEOI</b>	
Burlew, Thais	X
<b>OCFO</b>	
Gandy, Doug	X
Cabrera, Victoria	X

<b>OFFICE</b>	<b>OPEN SESSION</b>
<b>OAS</b>	
Bell, Vonda	X
Clark, Patrina	X
<b>FCSIC</b>	
Rubin, Howard	X
Wynn, Wade	X
<b>GENERAL PUBLIC</b>	<b>2</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  
November 14, 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 November 14, 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:** This meeting of the Board will be open to the public (limited space available). 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 October 10, 2019

**Report**

2 Update on Credit Conditions

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

\_\_\_\_\_  
November 4, 2019  
Date

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 OCTOBER 10, 2019**

**BM-14-NOV-19-01**

**Effective Date:** November 14, 2019

**Effect on Previous Action:** None

**THE FCA BOARD HEREBY:**

Approves the minutes for October 10, 2019, regular Board Meeting.

**DATED THIS 14th DAY OF NOVEMBER 2019**

**BY ORDER OF THE BOARD**

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



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# Update on Credit Conditions

## FCA Board Meeting

November 14, 2019

Mike Duffy, Credit Specialist Program Manager  
Steve Koenig, Senior Economist

Exhibit D





# Topics for discussion

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- System Credit Quality and Conditions
- Observations on Stressed Industries
  - Cash Grains
  - Dairy
  - Beef Feedlots
- Real Estate Value Trends and Observations





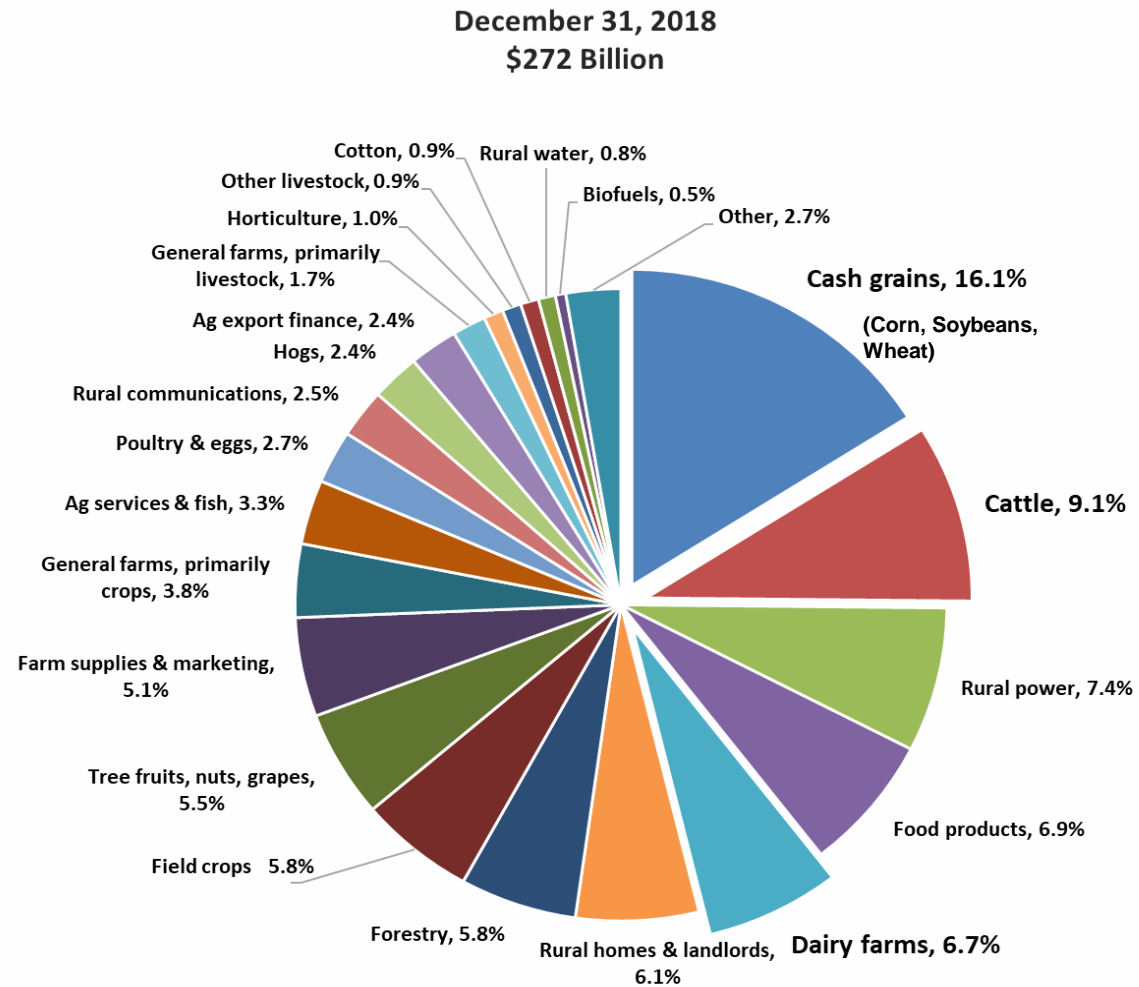
# Overview

- Prices for key commodities remain under pressure. Dairy and cash grain (Corn, Soybeans, Wheat) prices are challenging profit margins for many producers.
- System credit metrics remain favorable, in part due to industry and geographic diversification.
- System institutions are well-positioned to handle additional stress, but some are experiencing increased portfolio risk.
- Stability in real estate values has provided borrowers the ability to restructure their balance sheets or sell land to improve working capital levels, when necessary.





# Industry diversification of the System loan portfolio



Source: 2018 Annual Information Statement of the Farm Credit System.

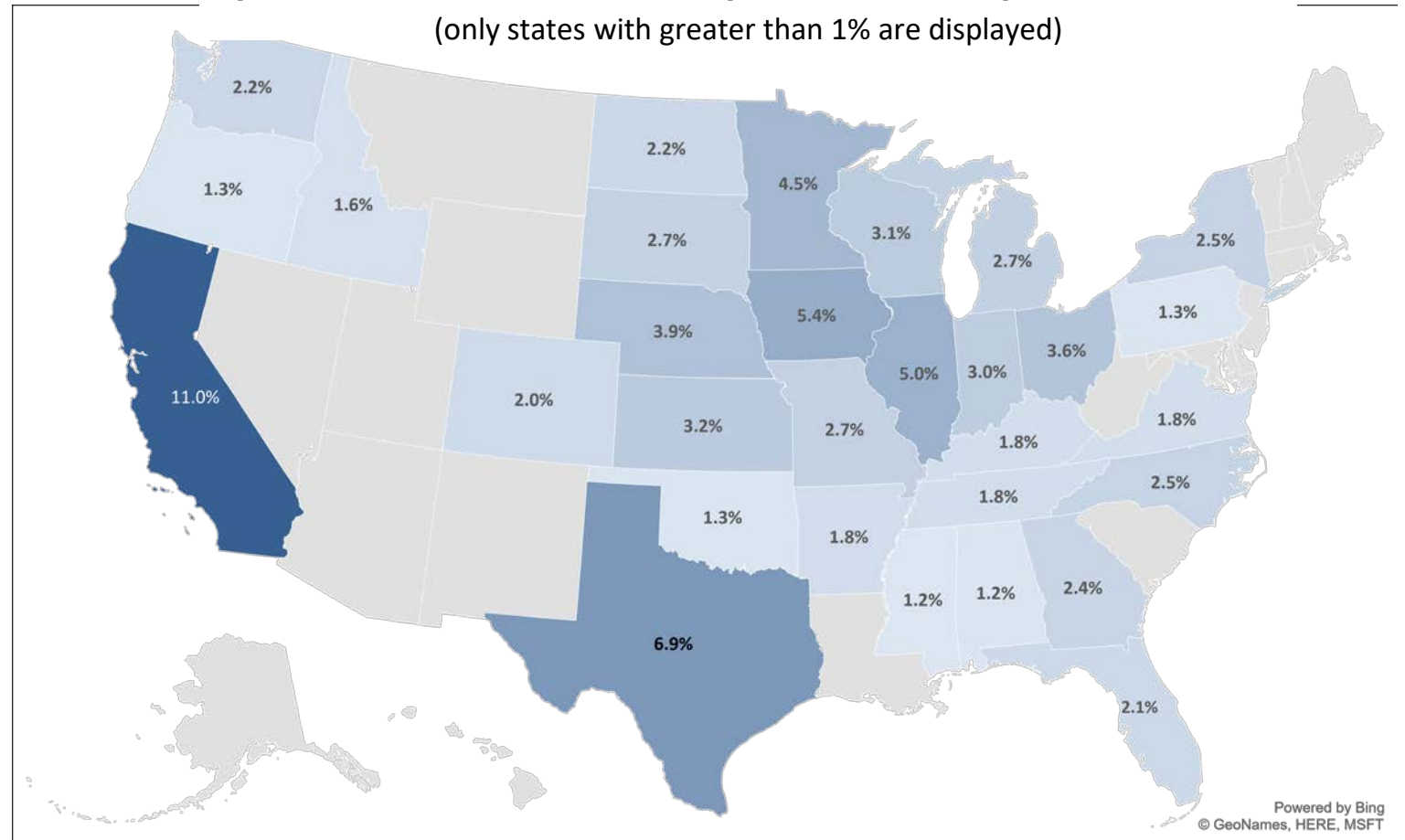


# System volume is also geographically distributed



## System Loan Portfolio by State as of yearend 2018

(only states with greater than 1% are displayed)



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

<b>Corn Belt (IA, IL, IN, MN, NE, OH)</b>	<b>25.4%</b>
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Source: FCS Information Statement

Powered by Bing  
© GeoNames, HERE, MSFT

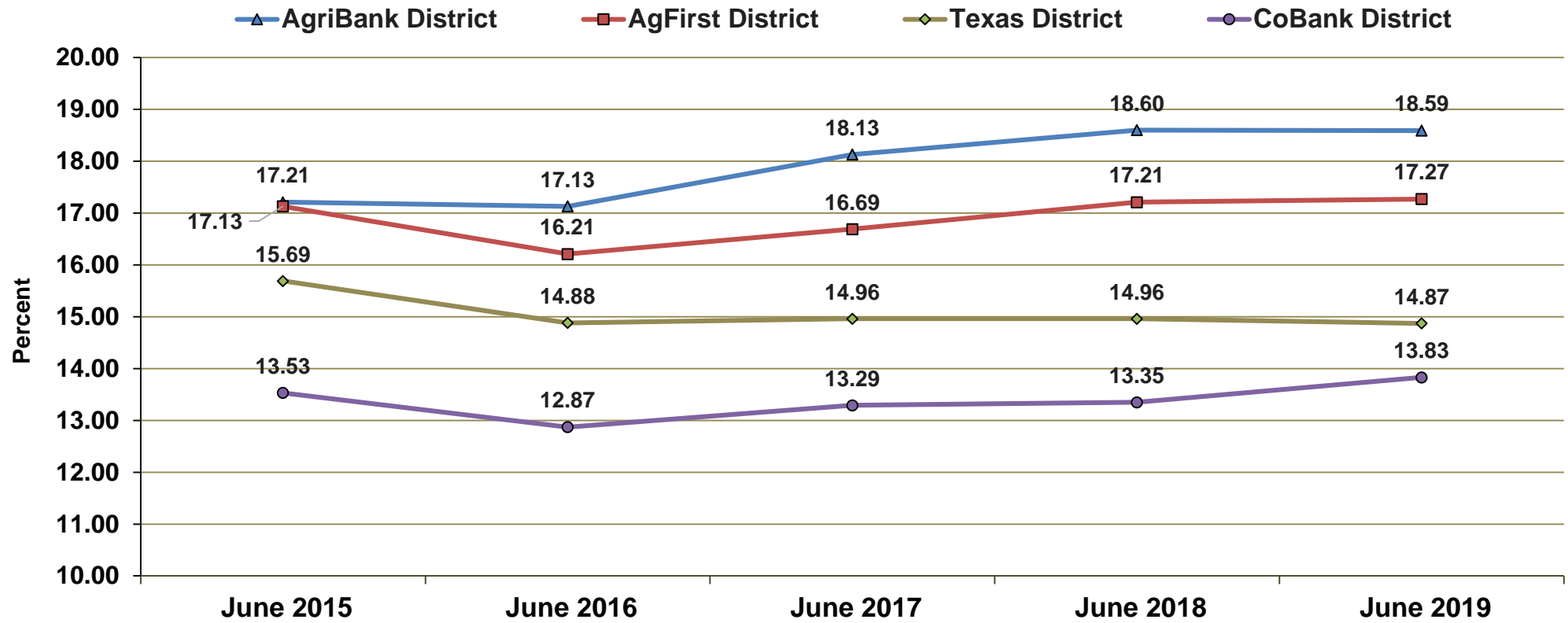




# The System has strong capital to weather risk



Capital as a percentage of Total Assets



Source: Quarterly Information Statements of the Farm Credit System.



# Observations on current credit conditions

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- Loan losses remain very low with net charge-offs comprising only 3 basis points (0.03 percent) of volume in calendar year 2018.
- Prices for most commodities remain under pressure. Dairy and cash grains remain among the most challenged. These two commodities represent about 23 percent of the System's portfolio.
- Credit quality stress within the System is regionalized and most prevalent in cash grain production areas. Of the ten states with the highest levels of Less than Acceptable loans, six states are in the Midwest and only Texas and California are outside key grain/oilseed production regions.

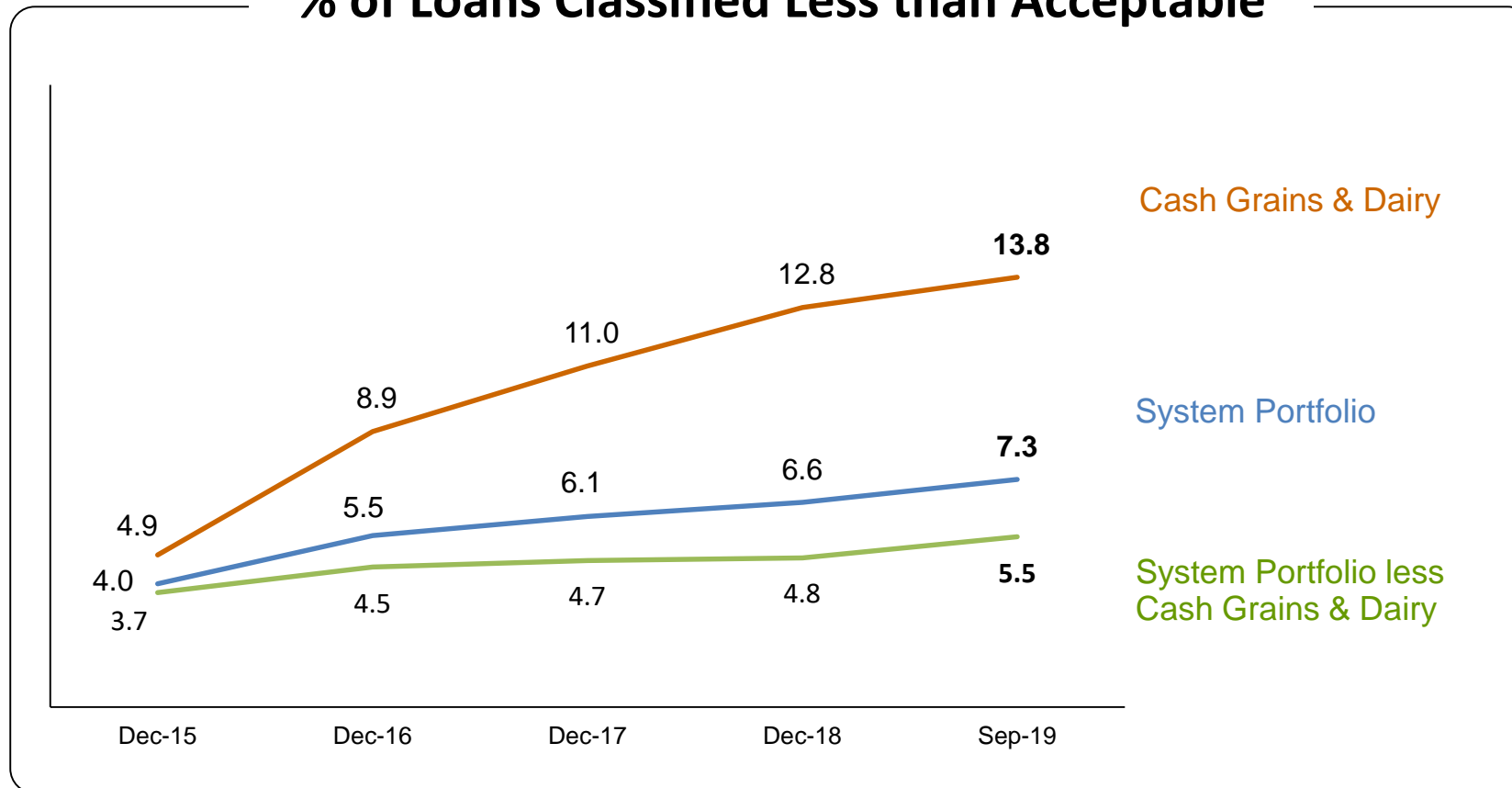




# System credit quality



## % of Loans Classified Less than Acceptable

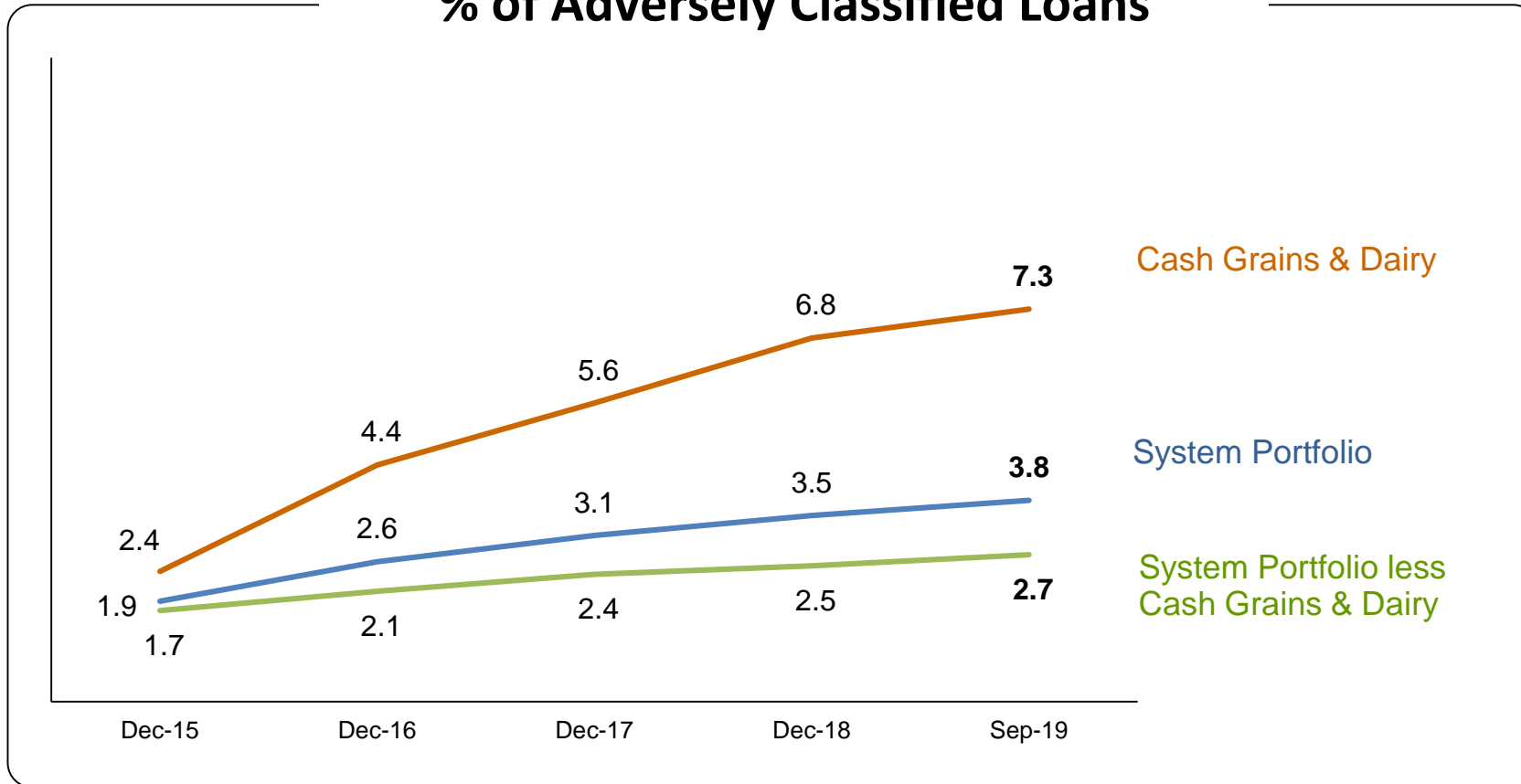




# System credit quality



## % of Adversely Classified Loans







# Observations on current credit conditions – Cash Grains

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- Cash grains represent 16 percent of the System's loan portfolio, its largest concentration. Grain prices remain significantly below the 2012 and 2013 highs resulting in reduced profitability and increased borrowing.
- Late planting and harvest are increasing uncertainty about the size of the 2019 crop, particularly in key regions of the Midwest. Prices could change significantly after harvest results are more fully known.
- Crop yields are highly variable due to weather issues which will impact local and regional income and loan quality measures.
- Risk management is critical; those who took advantage of marketing opportunities have significantly better prospects.
- Crop insurance, including prevented plant indemnities, will be significant in 2019. In addition, Market Facilitation Payments are providing much needed working capital.
- Loans to borrowers who are highly leveraged or dependent on rented land have been the most vulnerable to deterioration.





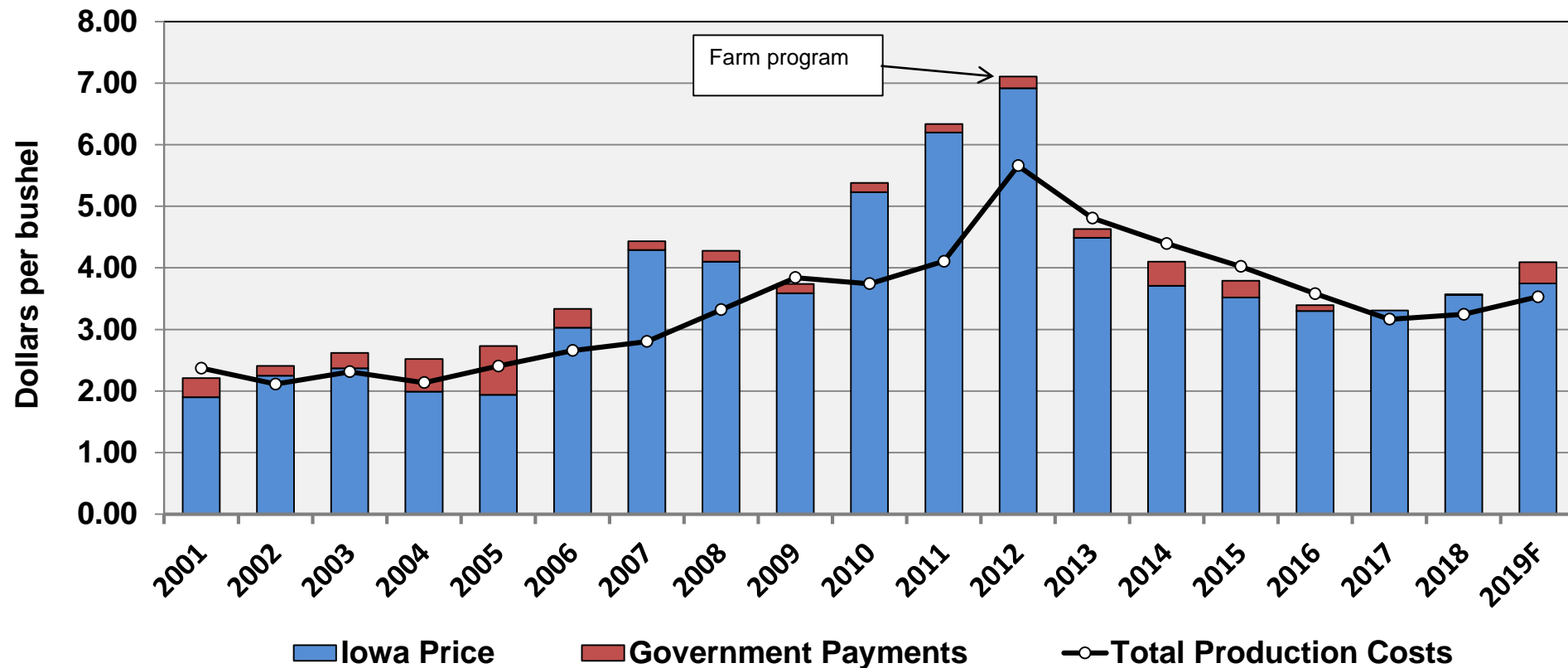
# Government payments support corn profitability



## Iowa Season-Average Corn Price and Production Cost Estimates<sup>1</sup>

As of 10/10/2019

Iowa State University Cost of Production Estimates



<sup>1</sup> Assumes MFP and ARC Program payments. Excludes any crop insurance payments made. Forecast assumes USDA yield and price projections.  
Data sources: USDA and Iowa State University.



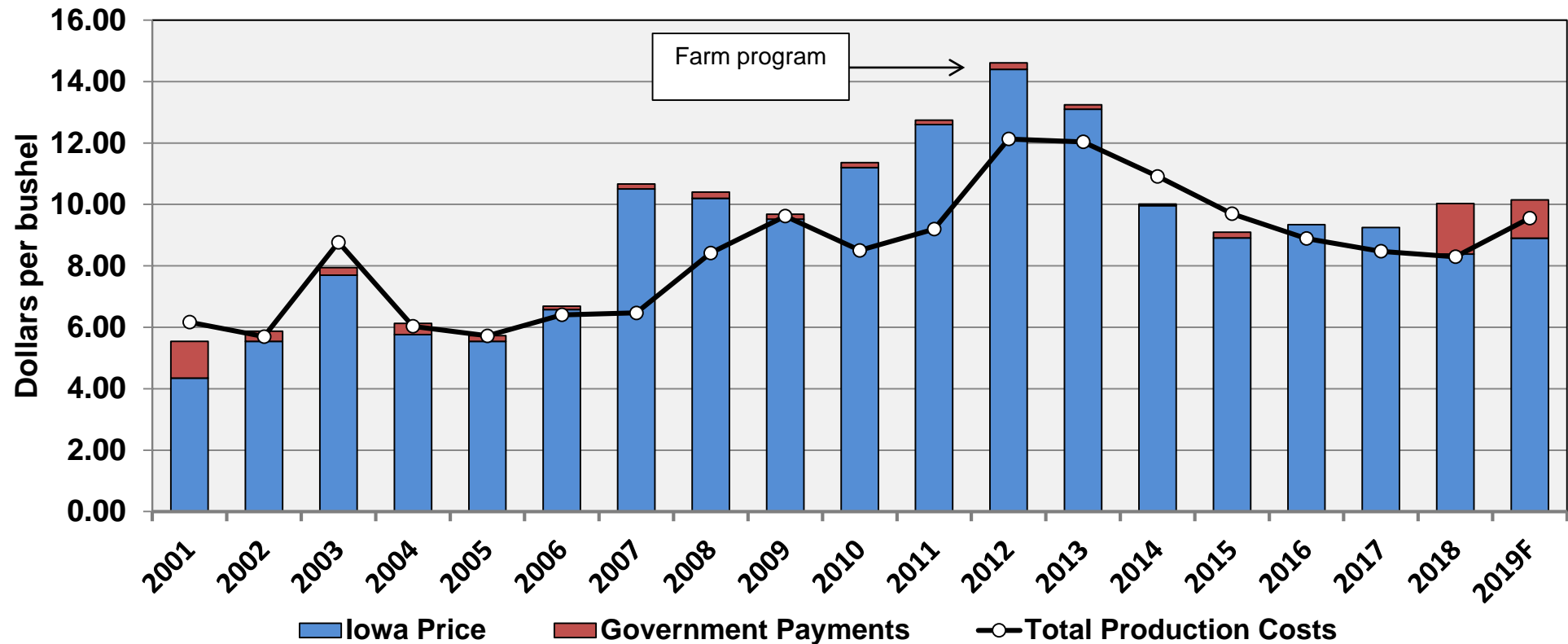
# Government payments support soybean profitability



## Iowa Season-Average Soybean Price and Production Cost Estimates<sup>1</sup>

Iowa State University Cost of Production Estimates

As of 10/10/2019



<sup>1</sup> Assumes MFP and ARC Program payments. Excludes any crop insurance payments made. Forecast assumes USDA yield and price projections. Data sources: USDA and Iowa State University.



# Impact of weather on crop revenue varies across the Corn Belt



State	Oct. 2019 Corn Yield Forecast (Bu/Acre)	Bu/Acre change from 3-year average	Revenue change (millions)
Illinois	179	↓ 23.7	↓ \$946
Minnesota	173	↓ 16.7	↓ \$475
Iowa	192	↓ 8.3	↓ \$426
Indiana	162	↓ 18.7	↓ \$357
Ohio	160	↓ 14.3	↓ \$145
Nebraska	186	↑ 2.3	↑ \$89

Data source: USDA, NASS.





# Observations on current credit conditions - Dairy

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- The dairy industry represents 7 percent of the FCS portfolio. Milk prices have been under pressure for the past several years due to large supplies resulting in significant industry stress.
- Smaller and higher-cost dairy farms remain stressed despite improvement in milk prices in 2019. Many producers are still trying to rebuild balance sheets, while others are exiting to preserve equity. This may prove difficult for those that don't have a sizable land base due to increased obsolescence of smaller and older facilities.
- Structural changes in the industry will create challenges for both producers and lenders moving forward. While recent improvements in milk prices have been positive, further consolidation is likely.

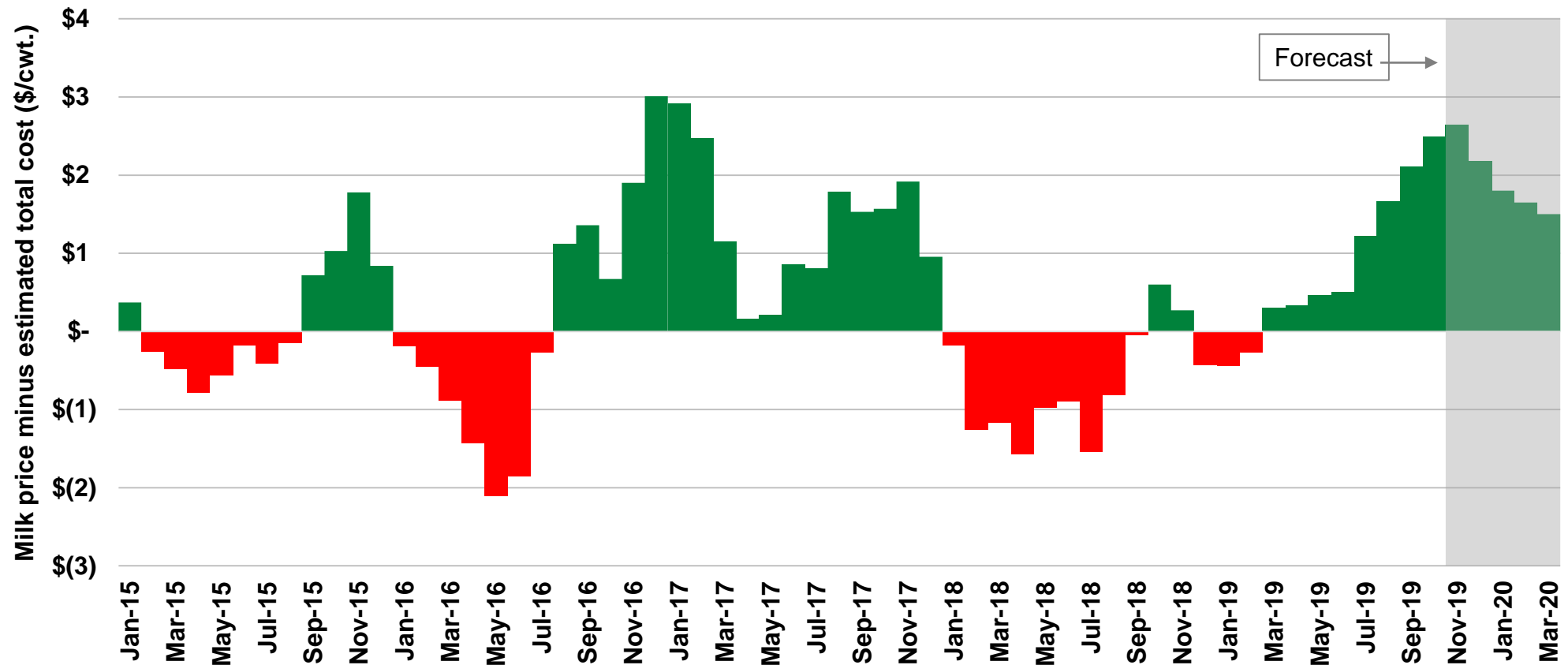




# Dairy profits return but outlook is lower



U.S. dairy producer net margin



Source: Informa Business Intelligence Inc.



# Observations on current credit conditions - Feedlots

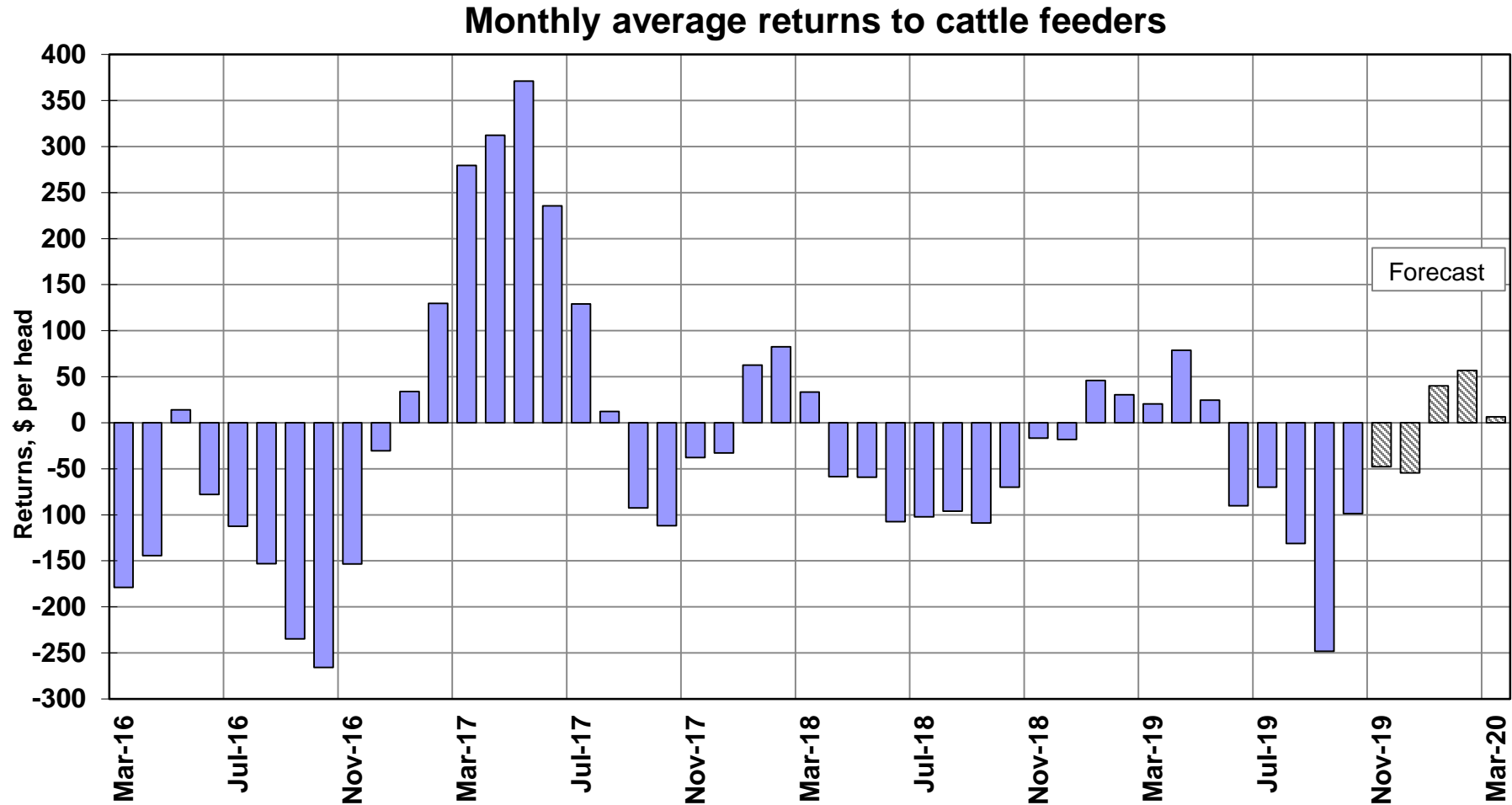
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- Beef feedlots represent a small portion of the total System portfolio, but represent significant exposures for some institutions in the Midwest and Southern Plains.
- Feedlot margins have been volatile and generally negative over the past 4 years and came under increased pressure during the past 6 months.
- Live cattle prices dropped sharply to approximately \$100/cwt after the Tyson processing plant fire in August, before beginning to recover in September.





# Cattle feeders' struggle for profits



Source: Informa Business Intelligence Inc.





# Real Estate market response

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- Farmland accounts for over 80 percent of total farm assets and hence serves as the primary source of collateral for agricultural lenders.
- Farmland values have been relatively stable, with some notable regional differences. Demand remains good for high quality cropland while marginal cropland is being discounted more heavily.
- While farmer interest and financial ability to purchase land has slowed, a limited amount of land for sale, along with solid investor demand and low interest rates, have contributed to stability in land markets.
- Stable land values have played a key role in maintaining balance sheets and providing borrowers with options. If more land was offered for sale or demand weakened, it would likely put downward pressure on land values. Balance sheets could then deteriorate, reducing borrowers' ability to restructure debt or obtain additional financing.

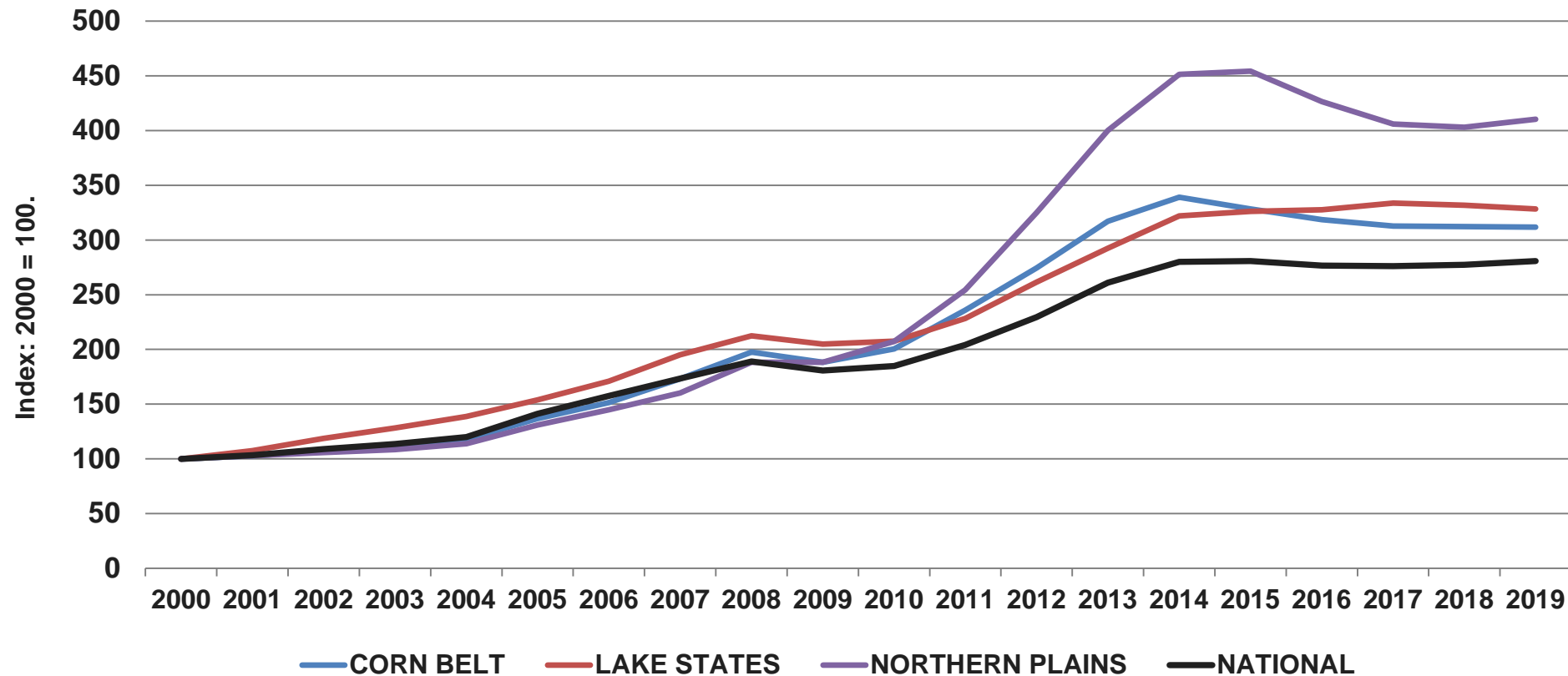




# After the run-up, cropland values have stabilized



Crop land value changes in key production regions



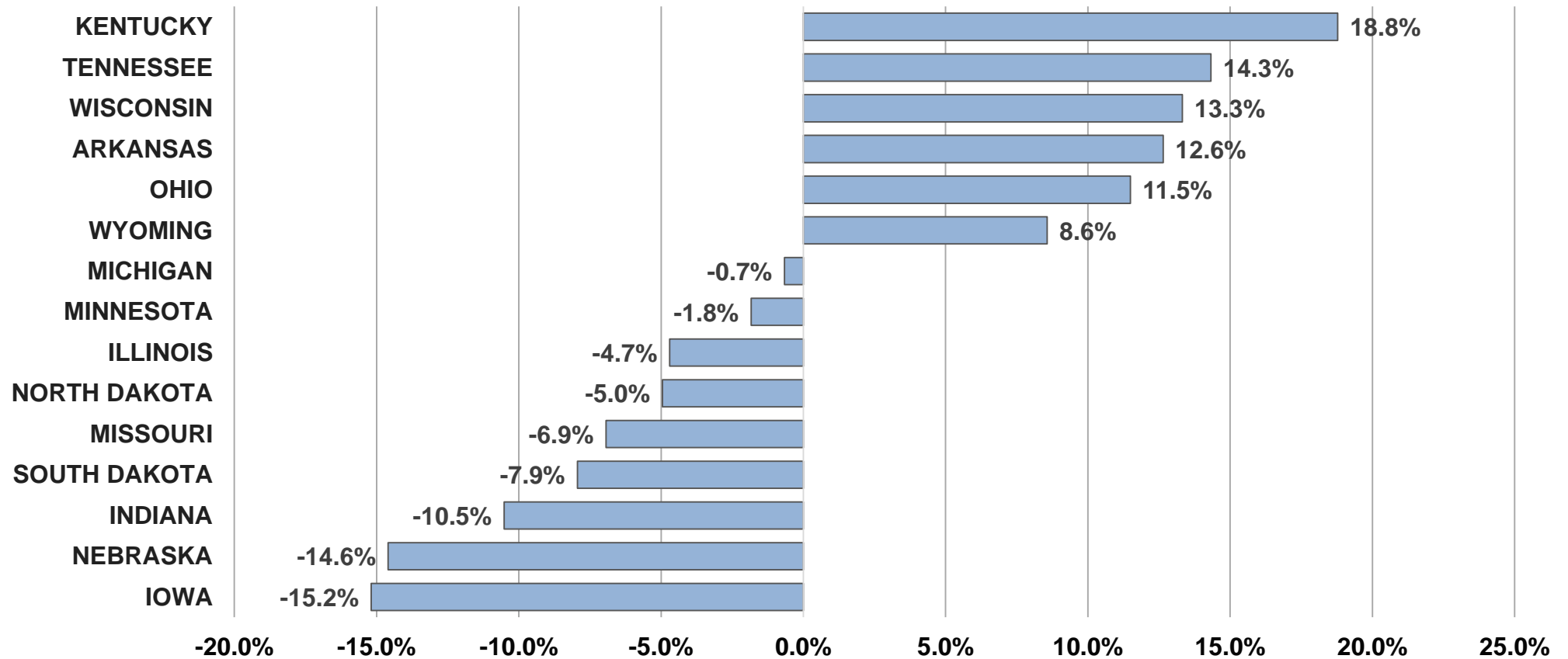
Data source: USDA, NASS.



# Change in cropland values in key states



Percent change in per acre cropland values, 2014 to 2019



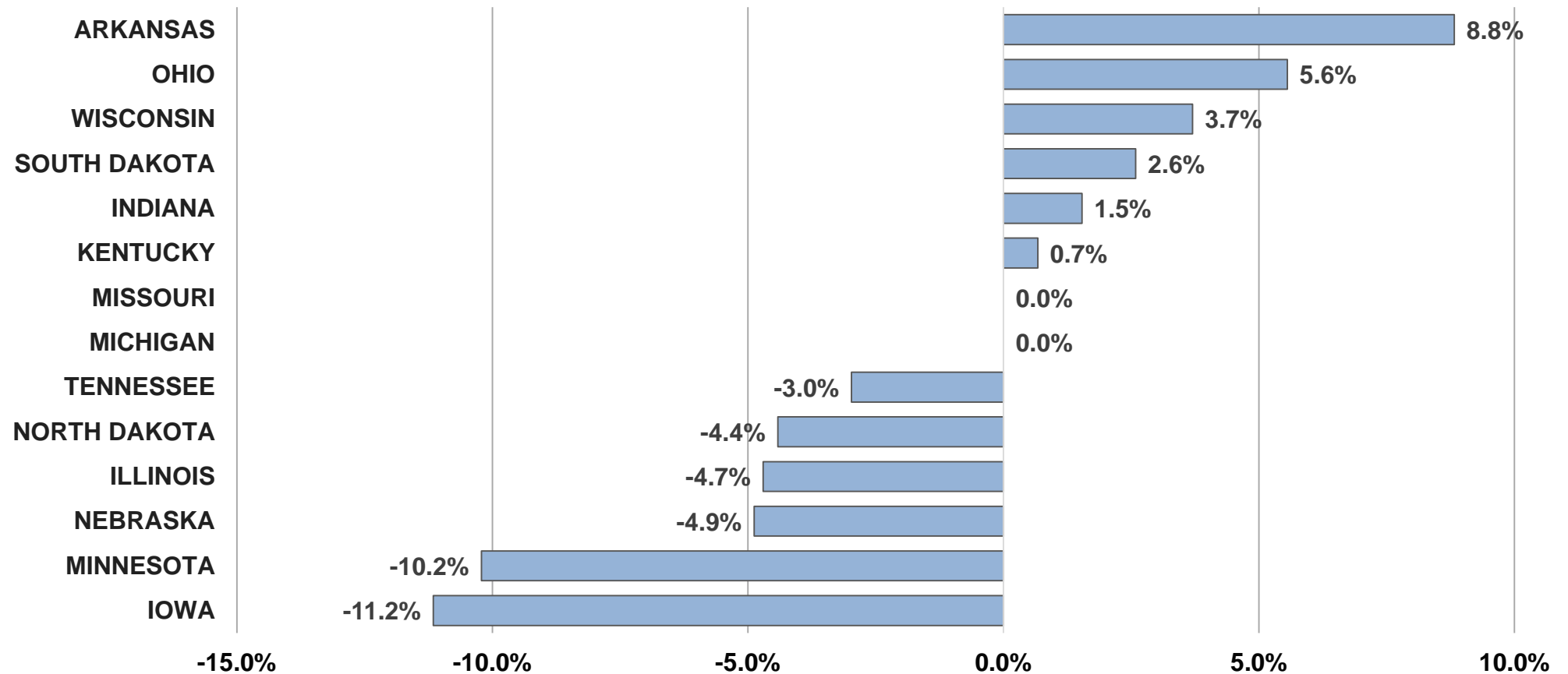
Data source: USDA, NASS.



# Change in cropland rental rates in key states



Percent change in cropland rental rates, 2014 to 2019



Data source: USDA, NASS.



# Key Takeaways

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- System credit risk measures remain favorable due in part to industry and geographic diversification.
- System institutions are well-positioned to handle additional stress, but some are experiencing increased portfolio risk.
- Risk has increased in loan portfolios with concentrations in dairy and cash grains. Loan quality for beef feedlots has also shown deterioration.
- Stability in real estate values has provided borrowers with options to address cash flow and working capital issues.







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# Questions