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

These minutes reflect the business transacted at the September 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 9:58 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 August 8, 2019 Regular Board Meeting
(BM-12-SEPT-19-01)

Mr. Hall moved to approve the minutes for the August 8, 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-SEPT-19-01)

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

Reports
Quarterly Report on
Economic Conditions and FCS Conditions


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.)

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 9:42 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 E.)

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 9:58 a.m.

**NOTATIONAL VOTE ACTIONS**

There were five notational vote actions approved by the FCA Board from August 9, 2019, through September 11, 2019 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 19-18</td>
<td>08/09/2019</td>
<td>Approved</td>
<td>Request from AgCredit, ACA to purchase bonds to be issued by a skilled nursing and rehabilitation facility in rural Wyoming</td>
</tr>
<tr>
<td>NV 19-19</td>
<td>08/16/2019</td>
<td>Approved</td>
<td>Authorize Chief Financial Officer to make an internal reallocation of funds</td>
</tr>
<tr>
<td>NV 19-20</td>
<td>08/27/2019</td>
<td>Approved</td>
<td>Appointment of David Grahn to Director of Office of Regulatory Policy</td>
</tr>
<tr>
<td>NV 19-21</td>
<td>08/27/2019</td>
<td>Approved</td>
<td>Appointment of S. Robert Coleman to Chief Operating Officer</td>
</tr>
<tr>
<td>NV 19-22</td>
<td>09/09/2019</td>
<td>Approved</td>
<td>FY 2020 Revised Budget and FY 2021 Proposed Budget</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 12, 2019.

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

/s/ Dale L. Aultman  
Secretary to the Board

Approved: October 10, 2019
### STAFF PRESENT AT THE
### FCA REGULAR BOARD MEETING
### September 12, 2019

Glen R. Smith, Board Chairman / CEO  
Jeffery S. Hall, Board Member

<table>
<thead>
<tr>
<th>OFFICE</th>
<th>OPEN SESSION</th>
<th>CLOSED SESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Office of the Board</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aultman, Dale</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kramp, Kevin</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Morris, James</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Roque-Brehm, Awilda</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Calhoun, Gaye</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>COO</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coleman, Robert</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OIT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Golley, Jerald</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OCPA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stokke, Michael</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Middleton, Russell</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OGC</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rawls, Charles</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Strickland, Joy</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OE</strong></td>
<td></td>
<td></td>
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<tr>
<td>Paulsen, Roger</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Johnson, Hal</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OIG</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laguearda, Wendy</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OSMO</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rea, Laurie</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Hudson, Bruce</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>ORP</strong></td>
<td></td>
<td></td>
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<tr>
<td>Mardock, Barry</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Shields, Dennis</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>EEOI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burlew, Thais</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>OCFO</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smith, Stephen</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Gandy, Doug</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>OAS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bell, Vonda</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Clark, Patrina</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>FCSIC</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wynn, Wade</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Morgan, Matt</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>GENERAL PUBLIC</strong></td>
<td><strong>3</strong></td>
<td><strong>N/A</strong></td>
</tr>
</tbody>
</table>
PUBLIC ANNOUNCEMENT OF MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT

Farm Credit Administration Board
Regular Meeting
September 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 September 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 August 8, 2019

Reports
2 Quarterly Report on Economic Conditions and FCS Conditions

CLOSED SESSION

Office of Examination Quarterly Report
3 August 30, 2019 /s/
Date Dale Aultman
Secretary to the Board

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

Minutes for August 8, 2019

BM-12-SEP-19-01

Effective Date: September 12, 2019

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for August 8, 2019.

DATED THIS 12th DAY OF SEPTEMBER 2019

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board
Quarterly Report on FCS Condition
September 12, 2019

Dennis A. Shields
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Macroeconomic conditions
  - Farm income and government payments
  - Farm sector debt servicing and leverage

- FCS Condition and Performance
  - System growth
  - Loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)
Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy
Slower economic growth expected for key U.S. agricultural export markets

Real gross domestic product per capita

% change
0 2 4 6 8

2018 2019F 2020F

World  U.S.  Canada  Mexico  Japan  South Korea  Europe  China

Source: USDA/ERS using data and forecasts from Global Insight, International Monetary Fund, and Oxford Economics.
Economic concerns

- Trade war triggers recession
- Uncertainty reduces business investment
- Consumer spending and slowdown in industrial production
- Inverted yield curve
- Rising consumer, business, and government debt
- Relative interest rates and impact on value of U.S. dollar
China’s retaliatory tariffs reduce (and re-direct) U.S. agricultural exports

China now accounts for only 5% of U.S. ag. exports, down from 16% in 2017

Fiscal year U.S. agricultural export value ($bil.)

Source: USDA.
Market Facilitation Program payments represent sizable support for U.S. farm sector

Ratio of estimated 2019 MFP payments to total agricultural sales by county

Impact of 2019 MFP payments

| Source: FCA analysis of USDA payment rates, acreage, production; and county sales and income from 2017 Census of Agriculture. |
|---|---|
| | Ratio of payments to sales | Ratio of payment to net cash income |
| U.S. total | 3.7% | 16.5% |
| FCS district (geographic) footprint using county estimates | | |
| AgriBank | 5.4% | 22.0% |
| Texas | 4.4% | 22.1% |
| AgFirst | 2.5% | 8.9% |
| CoBank | 1.8% | 9.9% |
Average crop margins are lifted by Market Facilitation Program payments

**Iowa soybeans**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/bu.</td>
<td>1.75</td>
<td>0.29</td>
</tr>
<tr>
<td>With MFP of $1.18 per bu.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Iowa corn**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/bu.</td>
<td>0.31</td>
<td>0.41</td>
</tr>
<tr>
<td>With MFP of $0.35 per bu.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Kansas wheat**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/bu.</td>
<td>0.86</td>
<td>-0.41</td>
</tr>
<tr>
<td>With MFP of $0.99 per bu.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: FCA using data from USDA, Iowa State University, and Kansas State University data.

Note: Includes 2018 MFP per-bushel payments of $1.65 for soybeans, $0.01 for corn, and $0.14 for wheat. The 2019 rates are estimated by dividing average per-acre payment by average state yield.
Crop insurance indemnities flow into areas with poor planting weather

Corn and soybean indemnities as a share of total liability

Indemnities as of 8/26/19

<table>
<thead>
<tr>
<th>Geographic footprint</th>
<th>$ mil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCS of America</td>
<td>$575</td>
</tr>
<tr>
<td>Compeer</td>
<td>$275</td>
</tr>
<tr>
<td>AgCountry</td>
<td>$226</td>
</tr>
<tr>
<td>Mid-America</td>
<td>$153</td>
</tr>
<tr>
<td>U.S. total</td>
<td>$1,680</td>
</tr>
</tbody>
</table>

Source: FCA analysis of USDA/RMA data.
Note: Total liability is amount equal to a complete crop loss (after deductible is incurred).
Crop prices are projected to remain weak

Source: Food & Agricultural Policy Research Institute baseline projections (assumes current policies), 8/28/19.
Livestock margins to remain near break-even

- Cow-calf producer margins to remain near break-even
- Hog producer returns to slide with uncertain prospects for exports to China
- Dairy margins to improve in late 2019, but pressure remains on high-cost producers
Expected farm income approaches “average” with help from Market Facilitation Program

Source: USDA/ERS, August 30, 2019; FCA analysis of USDA forecasts and subsequent revisions.
Caution ahead: U.S. farm sector debt-to-income remains historically high

Debt / net cash farm income

Ratio

Without MFP payments, the debt-to-income ratio in 2019 would be 3.4.

Source: USDA/ERS, August 30, 2019.
Note: Income before interest expense.
Debt-to-income ratio has deteriorated in the Midwest since 2012

Source: FCA analysis of data from 2012 and 2017 Census of Agriculture.

Note: Income before interest expense.
U.S. farm sector real estate leverage rises toward historical average

Real estate debt / real estate assets

1985 = 16.1%
1970-2018 average = 10.6%
2006 = 7.4%

2019 forecast is 10.0%.
Based on USDA’s historical forecast accuracy, the 2019 ratio could be as low as 9.0% or as high as 11.2%.

Source: USDA/ERS, August 30, 2019; FCA analysis of USDA forecasts and subsequent revisions.
Change in real estate leverage is a mixed bag across counties in the Midwest

Percentage-point change in debt-to-asset ratio from 2012 to 2017

Source: FCA analysis of data from 2012 and 2017 Census of Agriculture.
Caution ahead: Iowa land values are elevated relative to the state’s net cash income

Source: FCA analysis of USDA/NASS land values and USDA/ERS net cash farm income by state.
Concluding comments

- Unprecedented weather in 2019 is colliding with agricultural trade policy
- Trade-related payments prop up farm income in the short run
- Farm sector debt-to-income is high, but leverage is near average with room to grow as long as land values hold

Risks ahead

- Any potential price reversal from smaller 2019 U.S. crops will be affected by current trade policy environment and competitor production
- A severe global recession would reduce demand for agricultural products
- A shift toward major government payments creates a major downside risk for farm borrowers and lenders when discretionary support is discontinued
Questions

THANK YOU
Farm Credit System Condition and Performance

as of
June 30, 2019

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

▶ System growth
▶ Portfolio credit quality
▶ Earnings
▶ Capital
▶ FIRS
System reports little growth in the 1st half of 2019

Total Assets 6/30/19: $352.5 billion, +1.1% Qtr, +1.0% YTD
Gross Loans 6/30/19: $276.2 billion, +0.8% Qtr, +1.0% YTD

Loan Growth by Loan Type
% change year-to-date through June

- Total Loan Portfolio
- RE Mortgage (46%)
- Prod. & Intermediate (19%)
- Agribusiness (18%)

Source: FCS Information Statements
Credit risk rises; producers challenged by low margins and market uncertainty

Source: FCS Information Statements

Nonperforming Loans

<table>
<thead>
<tr>
<th>$2.450 billion</th>
<th>YTD Chg.</th>
<th>+ $252M or 11.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yr. over Yr.</td>
<td>+ $49M or 2.0%</td>
</tr>
</tbody>
</table>

Delinquencies (1)

<table>
<thead>
<tr>
<th>0.36%</th>
<th>YE '18</th>
<th>0.31%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q2 '18</td>
<td>0.28%</td>
</tr>
</tbody>
</table>

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

Source: FCS Information Statements
Despite some deterioration in portfolio quality, the level of credit risk is manageable.

% of Loans Classified less than Acceptable

<table>
<thead>
<tr>
<th>Category</th>
<th>Jun-19</th>
<th>Jun-18</th>
<th>Jun-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Portfolio</td>
<td>7.2</td>
<td>6.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Real Estate Mortgage</td>
<td>7.5</td>
<td>7.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Production &amp; Intermediate</td>
<td>12.0</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>5.0</td>
<td>4.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Rural Infrastructure</td>
<td>2.9</td>
<td>2.4</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements
System’s financial condition is sound

Source: FCS Information Statements
The System continues to maintain its strong capital position

Capital and Liquidity
- as of June 30, 2019 -

▶ Retained earnings as a percentage of total capital equaled 79.1% of total capital
▶ The System’s liquidity position equaled 178 days of coverage
▶ Days of available liquidity for the 4 funding banks ranged from 147 to 235 days

Source: FCS Information Statements

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

- Composite FIRS ratings reflect the System’s solid financial performance and acceptable portfolio credit quality
- Over 91% 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
Summary and final points

- Challenges for the farm economy
  - Trade policy uncertainties, slowing global economic growth, low margins, production concerns, existing stocks
- Rising credit risk underscores the significant operating difficulties facing System borrowers
- System institutions are financially sound, strongly capitalized and well-positioned to support agricultural producers
Questions

THANK YOU
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 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).

September 12, 2019
Date

/s/
Charles R. Rawls
General Counsel