

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



**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

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 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:

Item Number	Action Date	Voting Results	Subject
NV 19-18	08/09/2019	Approved	Request from AgCredit, ACA to purchase bonds to be issued by a skilled nursing and rehabilitation facility in rural Wyoming
NV 19-19	08/16/2019	Approved	Authorize Chief Financial Officer to make an internal reallocation of funds
NV 19-20	08/27/2019	Approved	Appointment of David Grahn to Director of Office of Regulatory Policy
NV 19-21	08/27/2019	Approved	Appointment of S. Robert Coleman to Chief Operating Officer
NV 19-22	09/09/2019	Approved	FY 2020 Revised Budget and FY 2021 Proposed Budget

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

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Kramp, Kevin	X	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
Strickland, Joy	X	X
OE		
Paulsen, Roger	X	X
Johnson, Hal	X	X
OIG		
Laguarda, Wendy	X	X
OSMO		
Rea, Laurie	X	X
Hudson, Bruce	X	X
ORP		
Mardock, Barry	X	X
Shields, Dennis	X	X
EEOI		
Burlew, Thais	X	
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X
OAS		
Bell, Vonda	X	X
Clark, Patrina	X	X
FCSIC		
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
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

3 Office of Examination Quarterly Report

August 30, 2019
Date

/s/
Dale Aultman
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 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



FCA Board Meeting September 2019

Exhibit D

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

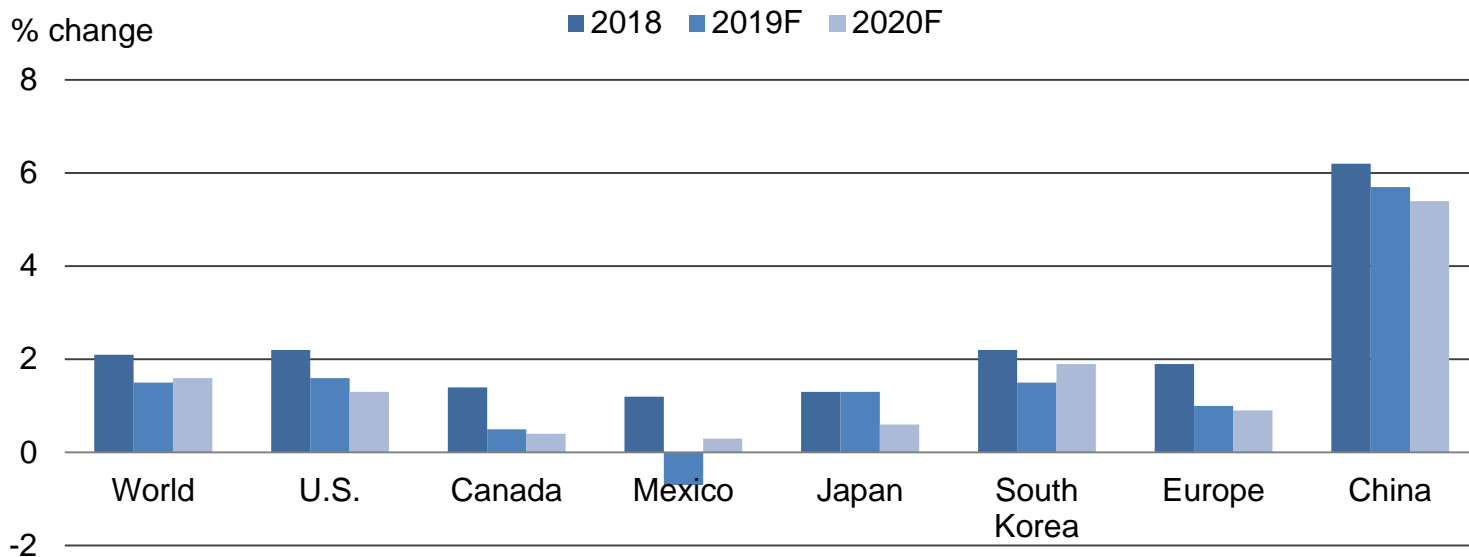
Dennis A. Shields
Chief Economist
Office of Regulatory Policy



Slower economic growth expected for key U.S. agricultural export markets



Real gross domestic product per capita



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

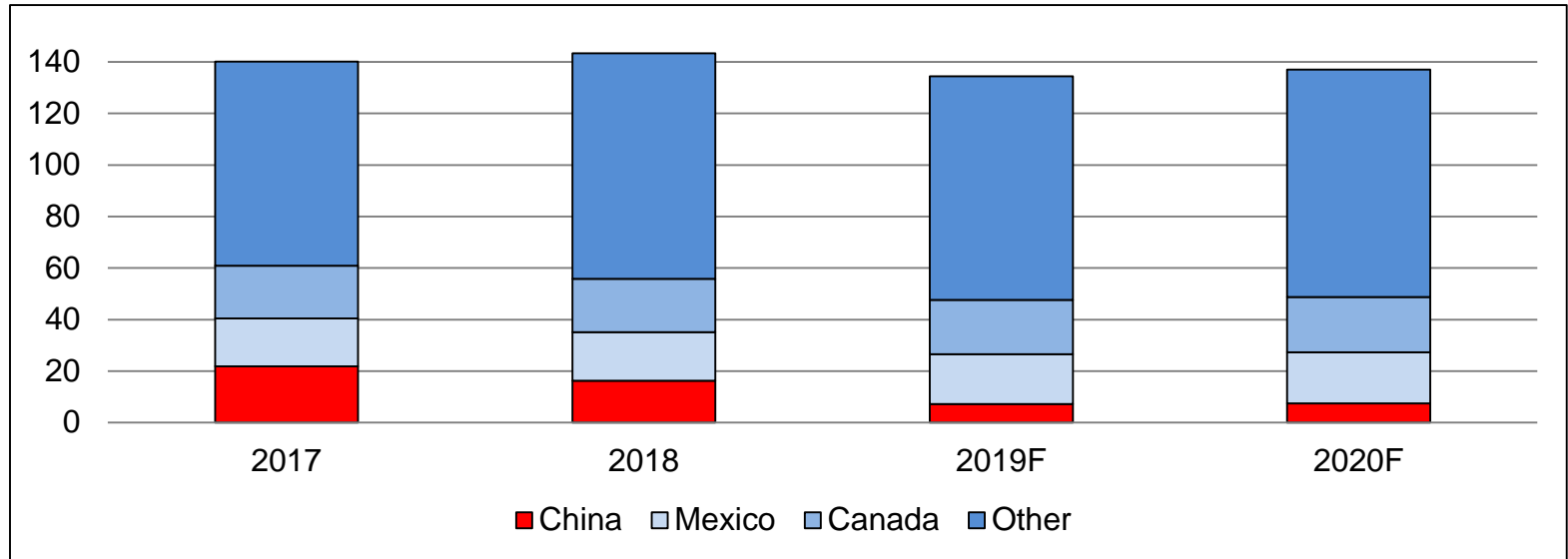




China's retaliatory tariffs reduce (and re-direct) U.S. agricultural exports

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

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

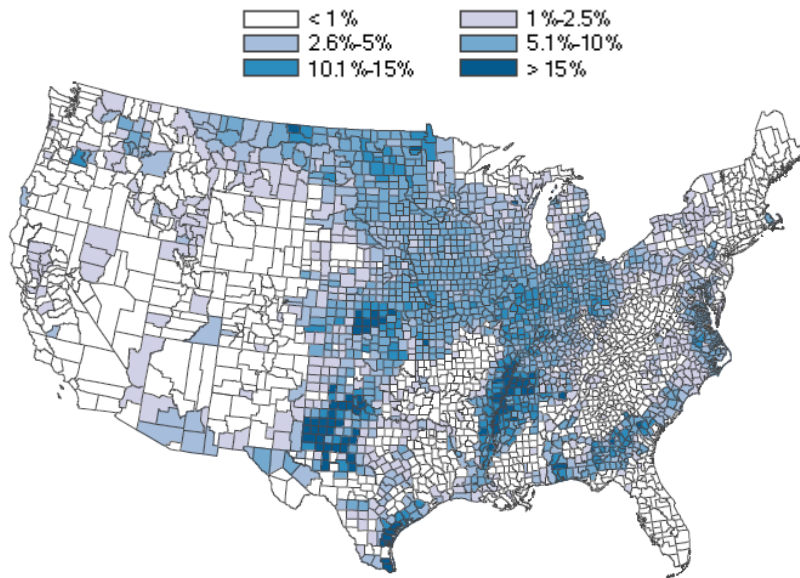


Source: USDA.



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

	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%

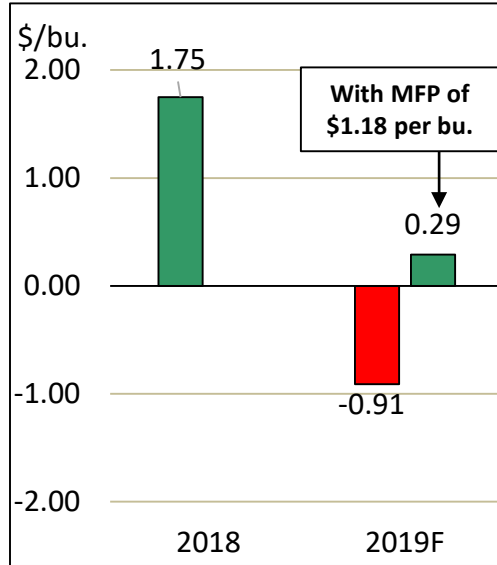
Source: FCA analysis of USDA payment rates, acreage, production; and county sales and income from 2017 Census of Agriculture.



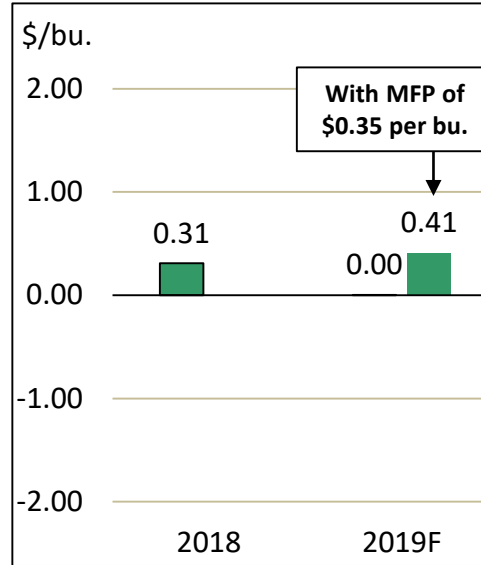
Average crop margins are lifted by Market Facilitation Program payments



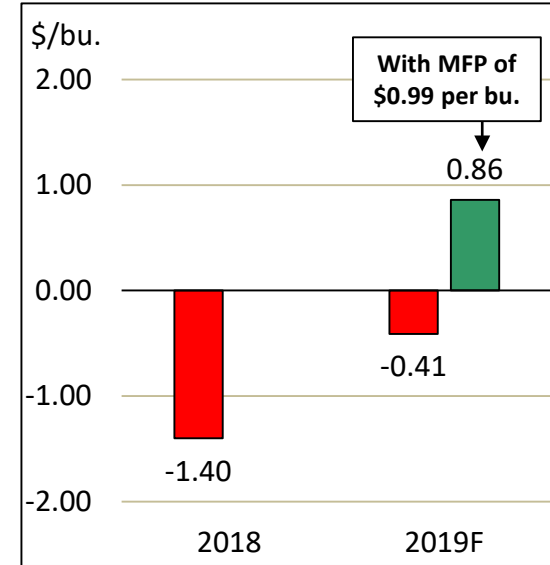
Iowa soybeans



Iowa corn



Kansas wheat



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

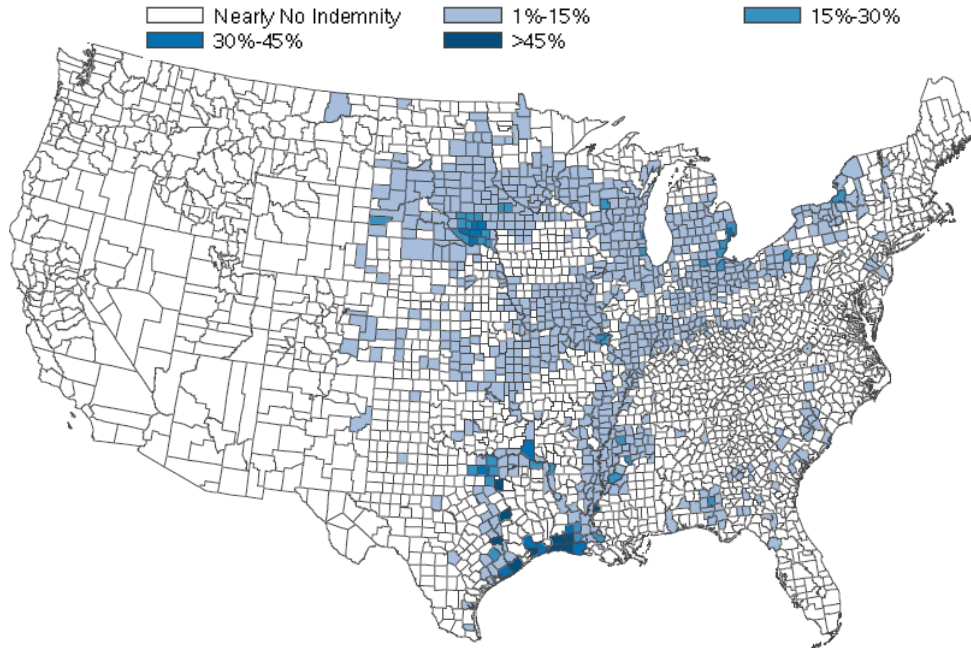
Note: Includes 2018 MFP per-bushel payments of \$1.65 for soybeans, \$0.01 for corn, and \$0.14 for wheat.

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

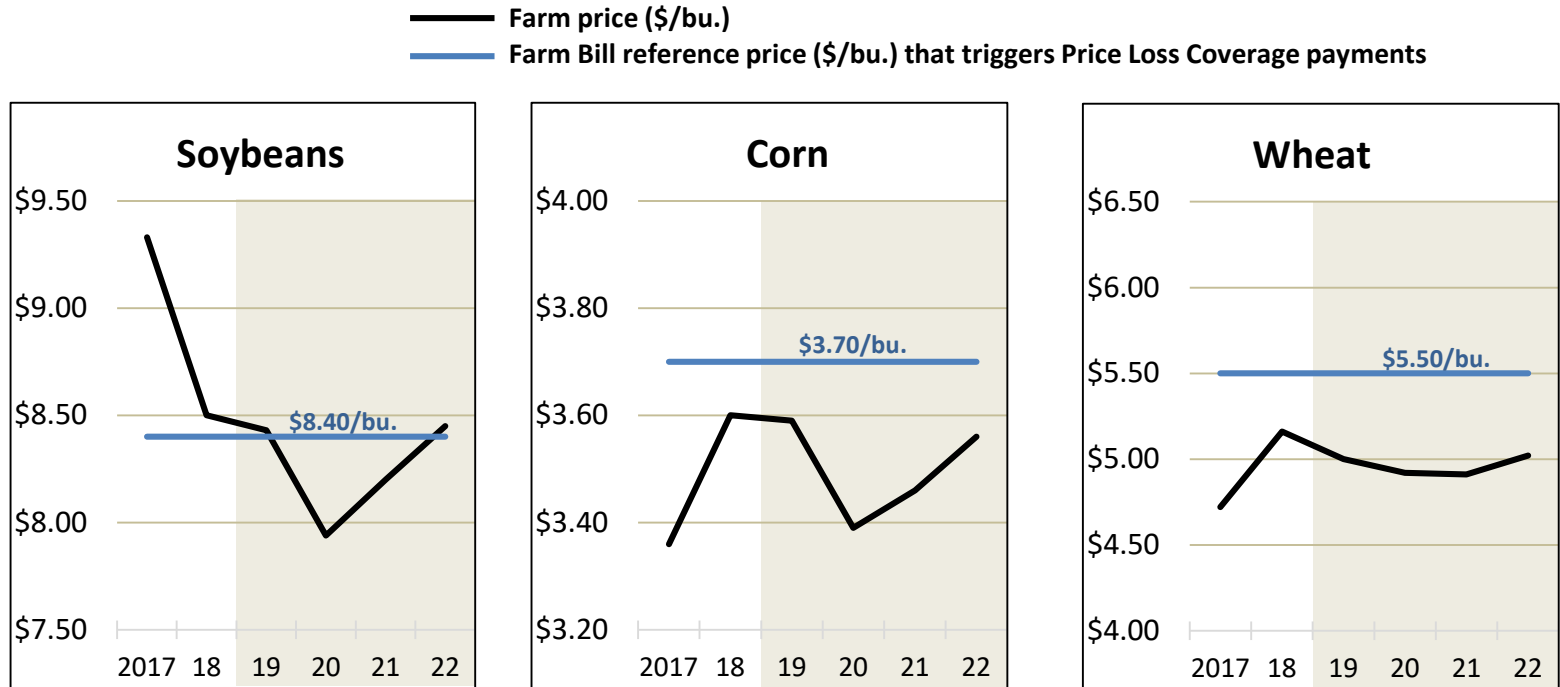
Geographic footprint	\$ mil.
FCS of America	\$575
Compeer	\$275
AgCountry	\$226
Mid-America	\$153
U.S. total	\$1,680

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

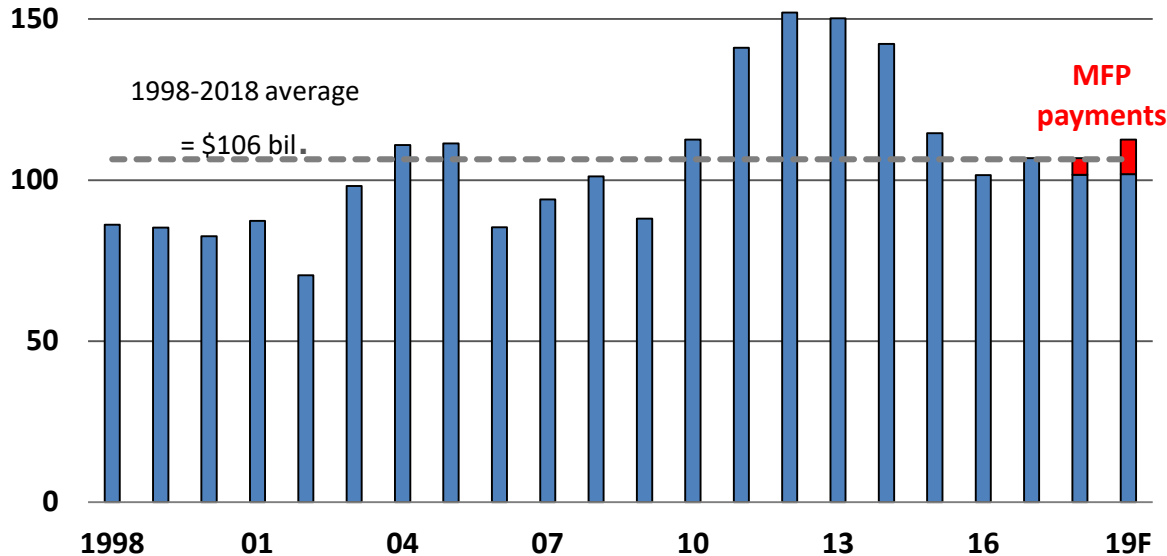




Expected farm income approaches “average” with help from Market Facilitation Program

\$ billion in
2019 dollars

U.S. net cash farm income



2019 forecast is
\$112.6 billion.

Based on USDA's
historical forecast
accuracy, it could be
as low as \$106
billion or as high as
\$127 billion.

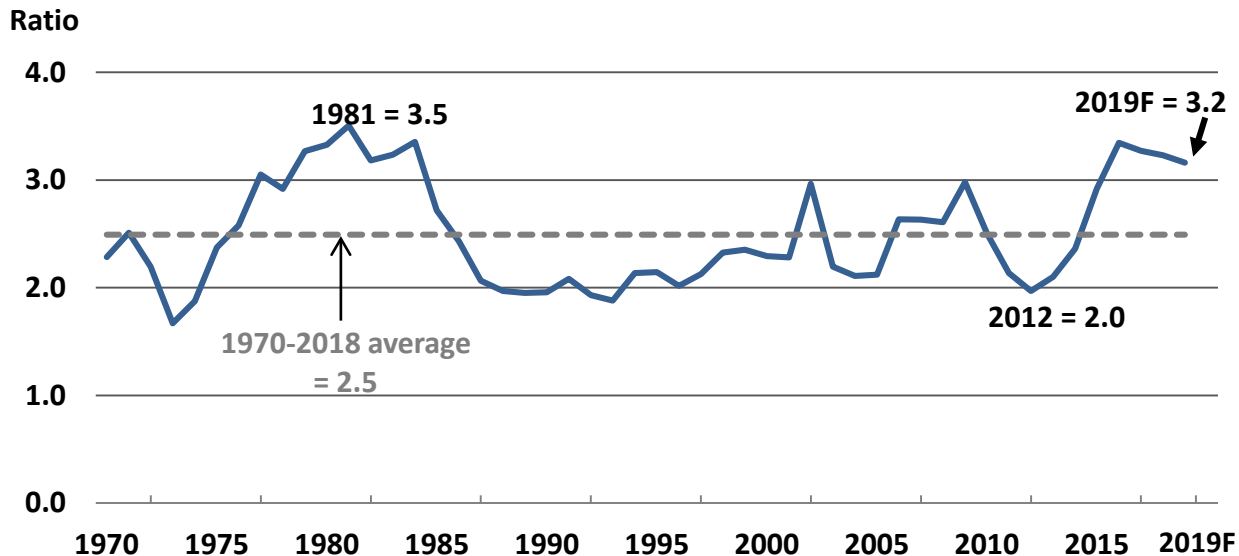
Source: USDA/ERS, August 30, 2019; FCA analysis of USDA forecasts and subsequent revisions.



Caution ahead: U.S. farm sector debt-to-income remains historically high



Debt / net cash farm income



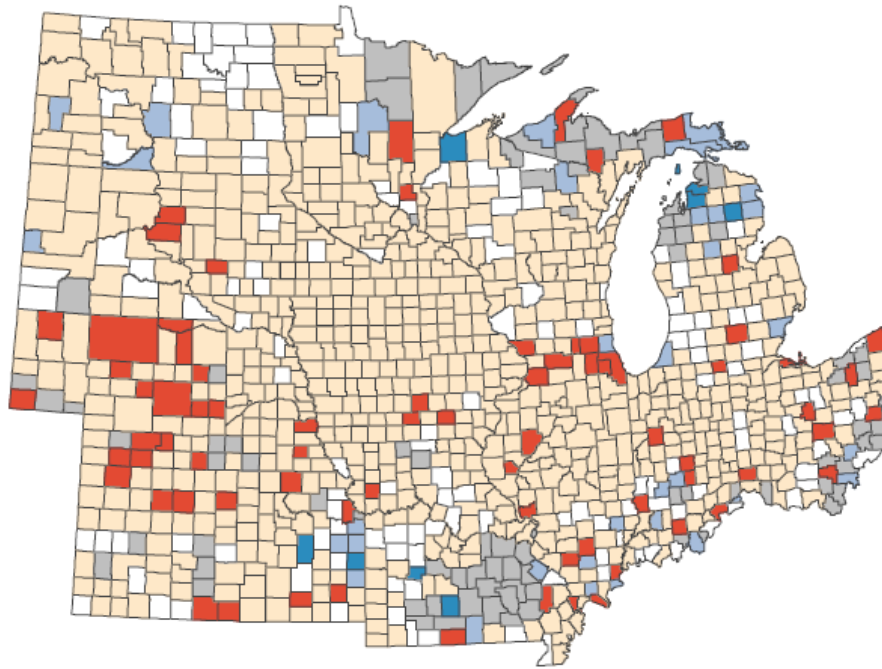
Without MFP payments, the debt-to-income ratio in 2019 would be 3.4.

Source: USDA/ERS, August 30, 2019.

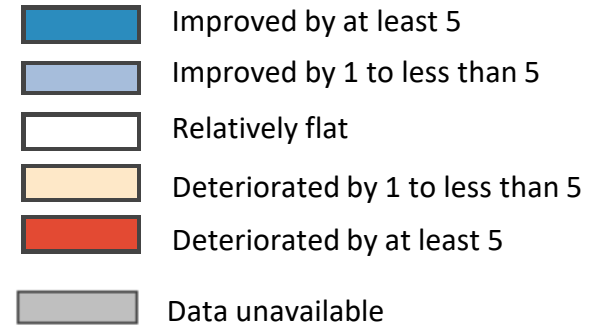
Note: Income before interest expense.



Debt-to-income ratio has deteriorated in the Midwest since 2012



Point change in county debt-to-income ratio from 2012 to 2017



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

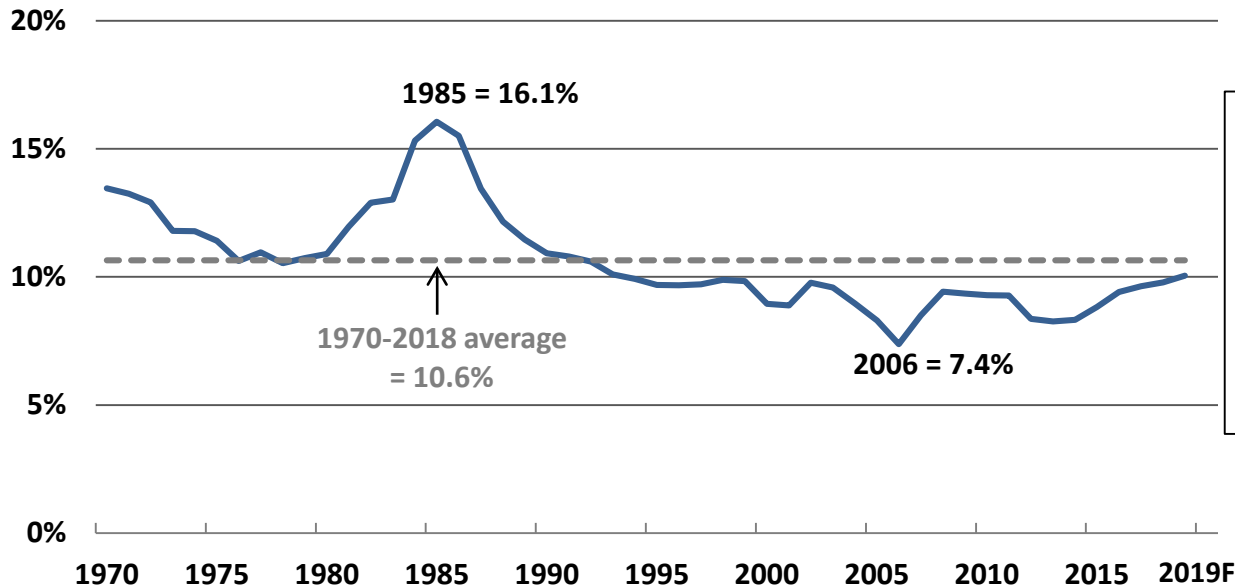
Note: Income before interest expense.



U.S. farm sector real estate leverage rises toward historical average



Real estate debt / real estate assets



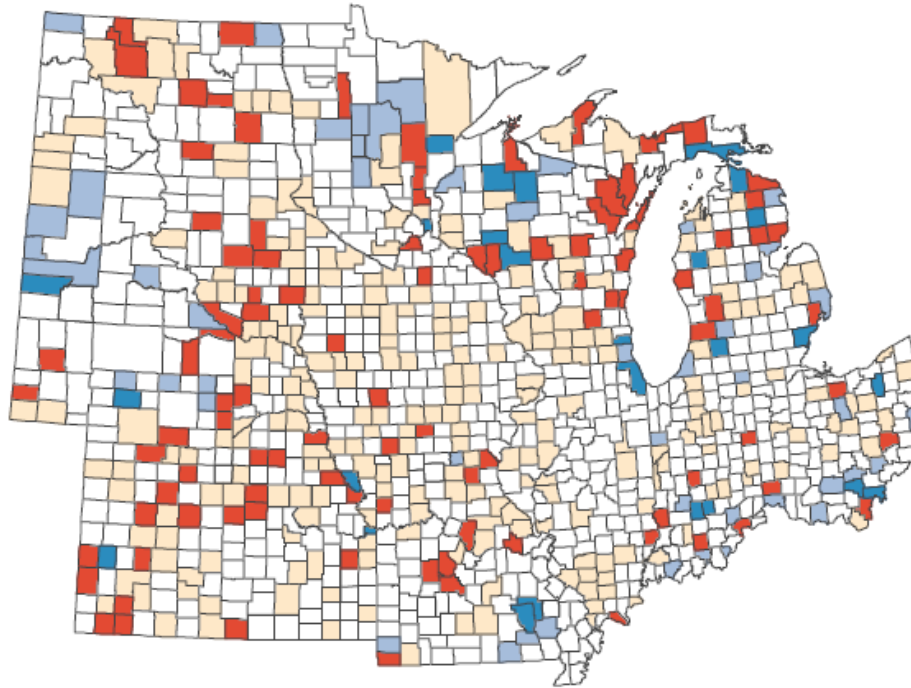
2019 forecast is 10.0%.

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



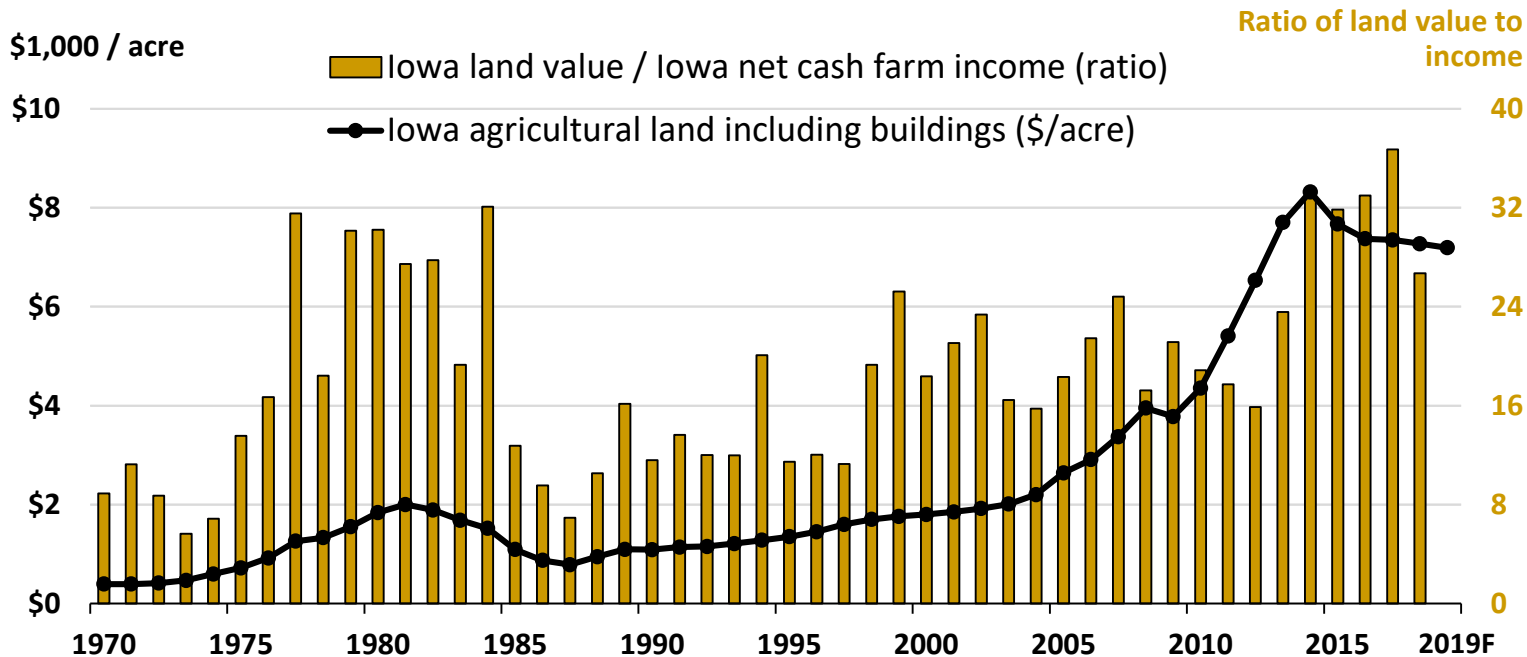
Percentage-point change in debt-to-asset ratio from 2012 to 2017



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

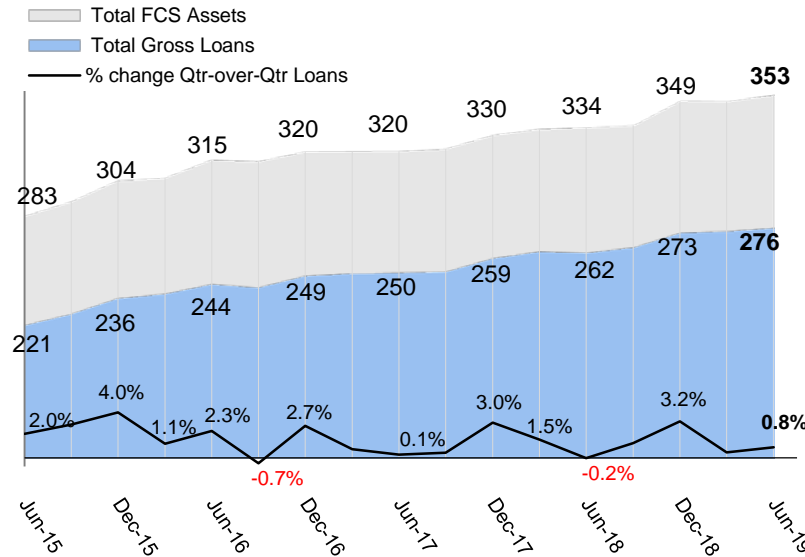




System reports little growth in the 1st half of 2019

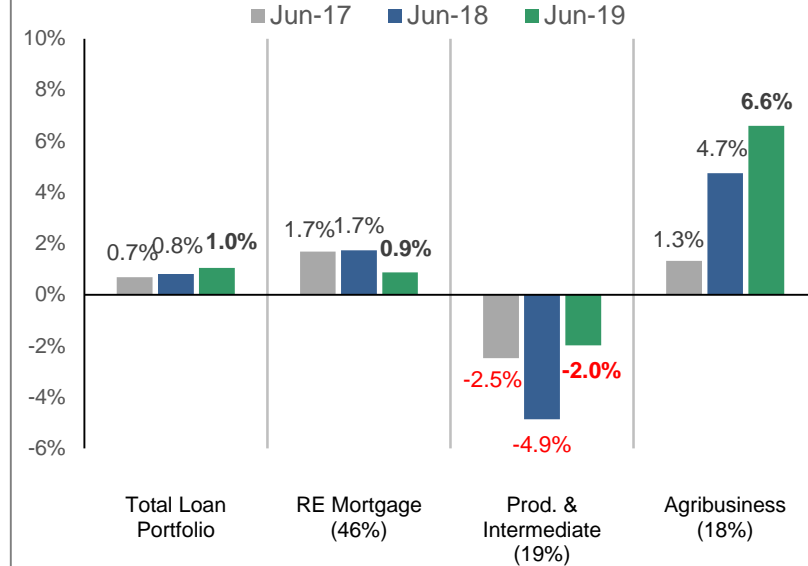


Total Assets 6/30/19	\$352.5 billion	+1.1% Qtr +1.0% YTD	Gross Loans 6/30/19	\$276.2 billion	+0.8% Qtr +1.0% YTD
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Loan Growth by Loan Type

% change year-to-date through June



Source: FCS Information Statements



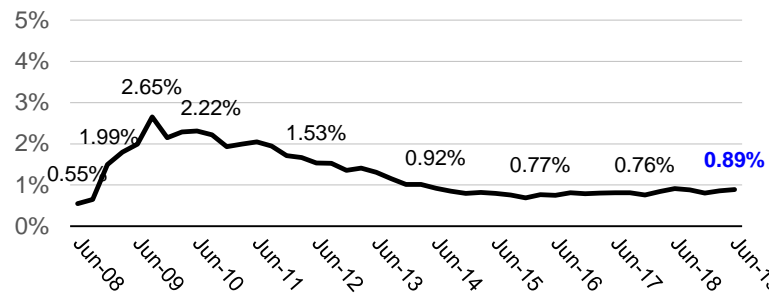
Credit risk rises; producers challenged by low margins and market uncertainty



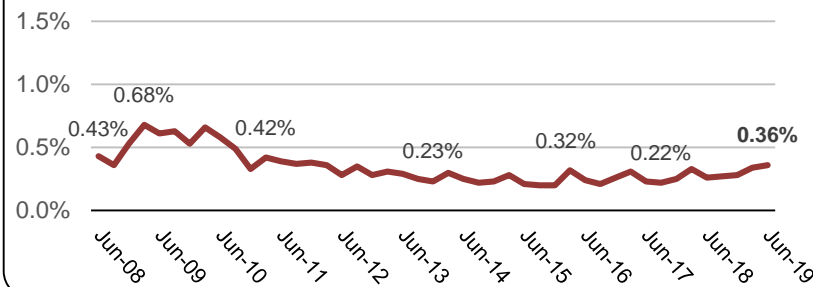
Nonperforming Loans	\$2.450 billion	YTD Chg.	+ \$252M or 11.5%
		Yr. over Yr.	+ \$49M or 2.0%
Delinquencies ⁽¹⁾	0.36%	YE '18	0.31%
		Q2 '18	0.28%

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

Nonperforming Loans as a % of Gross Loans



Delinquencies as a % of Accruing Loans

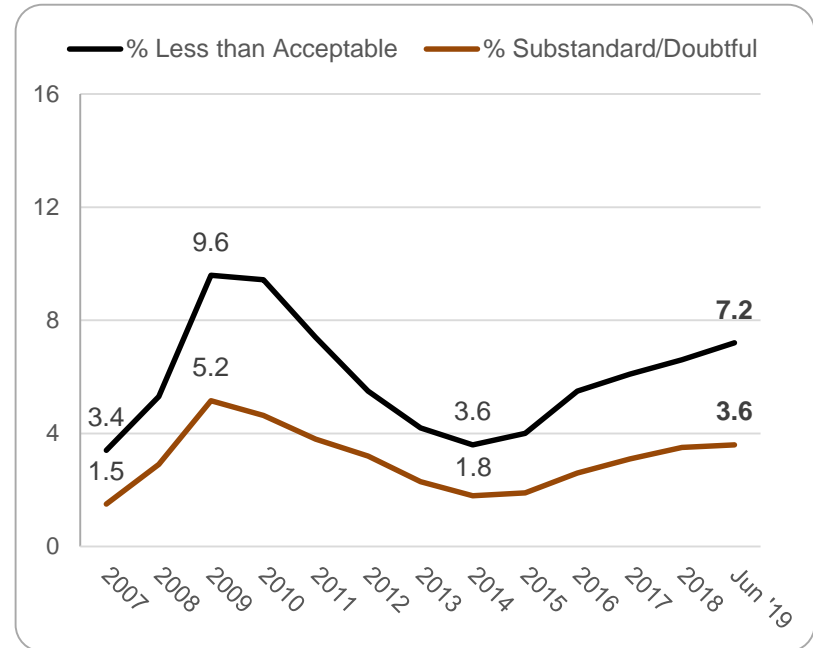
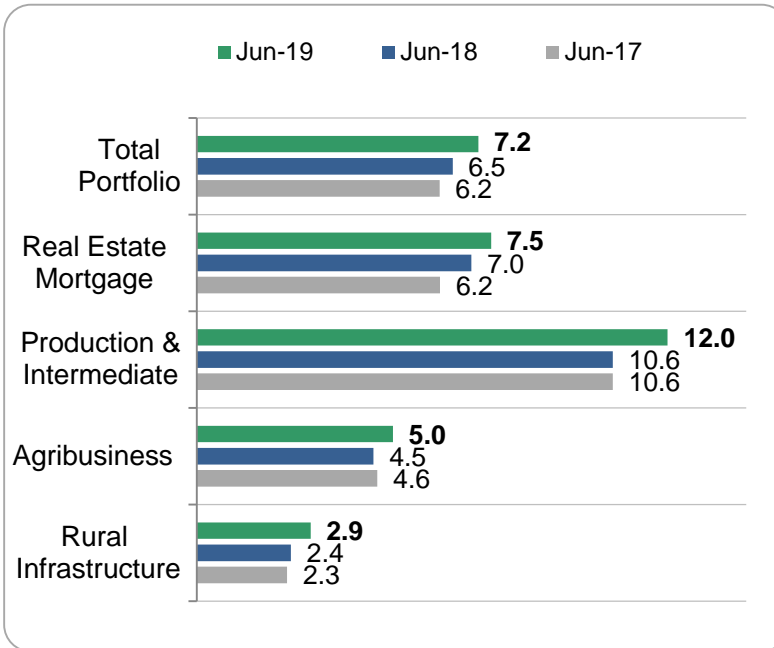


Source: FCS Information Statements



Despite some deterioration in portfolio quality, the level of credit risk is manageable

% of Loans Classified less than Acceptable



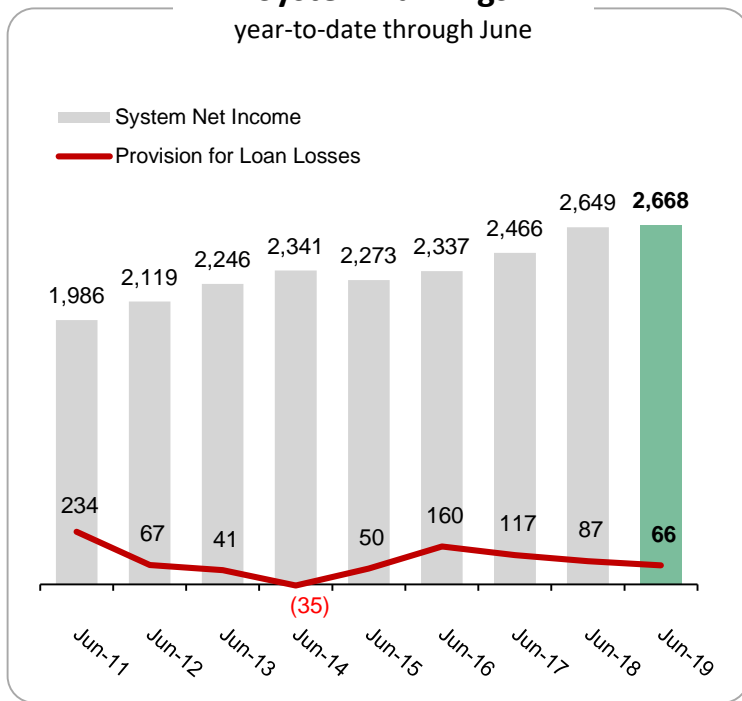
Source: FCS Information Statements



System's financial condition is sound

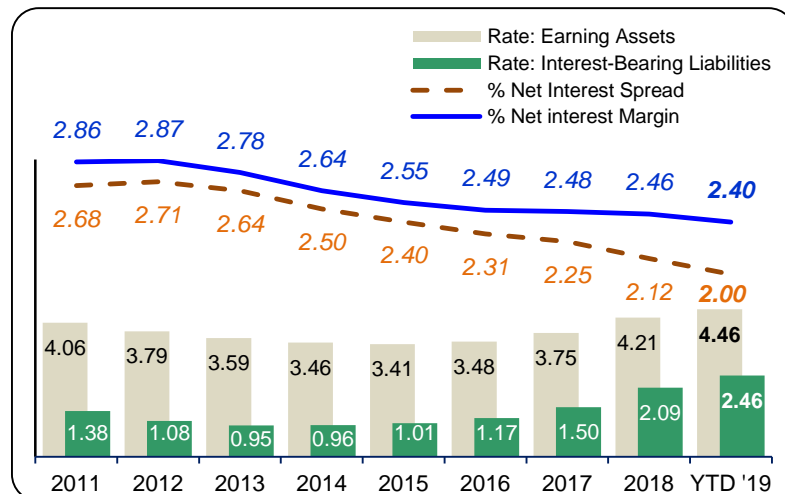


System Earnings
year-to-date through June



Source: FCS Information Statements

Net Interest Spread (YTD annualized)	Q2 '19 2.00%	Q2 '18 2.13%
Net Interest Margin (YTD annualized)	Q2 '19 2.40%	Q2 '18 2.44%



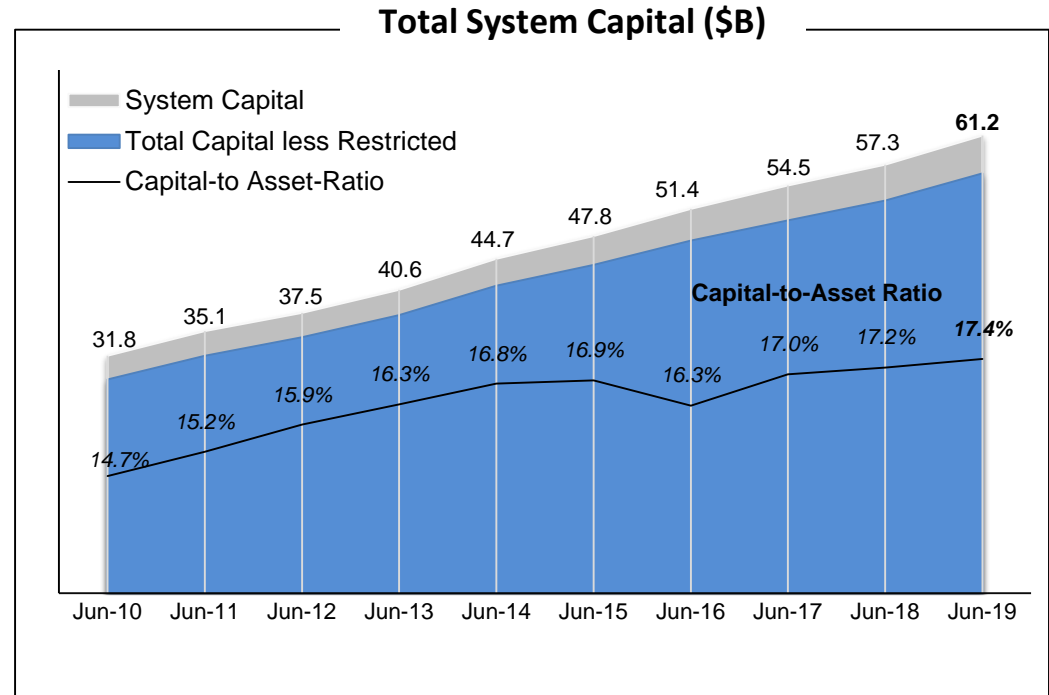


The System continues to maintain its strong capital position

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.



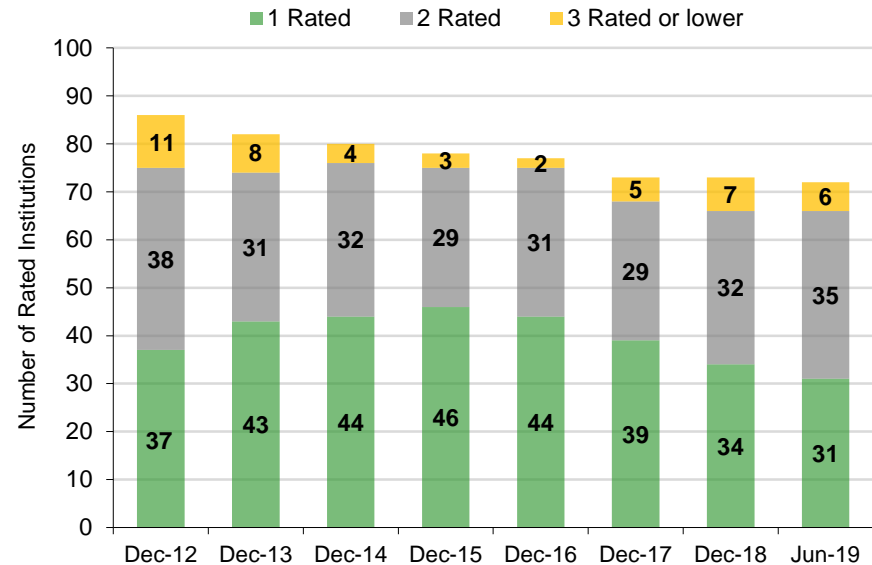
System FIRS ratings

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



Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



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

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 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