

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



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
April 16, 2020**

These minutes reflect the business transacted at the April 16, 2020, 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 virtual Board meeting was held beginning at 9:00 a.m. and concluding at 10:27 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 five members of the general public. (A list of staff attendees is attached as Exhibit A.)

Chairman Smith announced that this meeting of the Board is a virtual meeting, and everyone is teleworking due to the COVID 19 pandemic.

Chairman Smith asked the Secretary to the Board to conduct a roll call and to address a few technical and protocol items.

The **Secretary** conducted a roll call and addressed technical and protocol items.

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 March 12, 2020 Regular Board Meeting (BM-16-APR-20-01)

Mr. Hall moved to approve the minutes for the March 12, 2020, 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-16-APR-20-01)**

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

Reports

Quarterly Report on Economic Conditions and FCS Conditions 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 Conditions 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.)

Chairman Smith noted the FCA's recent regulatory pause in light of COVID-19 and then asked **David Grahn** (Director of the Office of Regulatory Policy) and **Roger Paulsen** (Chief Examiner) to describe Farm Credit System Institution's participation in the Small Business Administration's Paycheck Protection Program. They highlighted the number of System Institutions' participation rates and the program volume in use by System borrowers. In addition, they discussed special FCA guidance to the System in the form of informational memorandums and Examination Staff's communications with System Institutions.

CLOSED SESSION

Chairman Smith noted that this was a Closed Session and asked Office of Information Technology (OIT) staff to disconnect the outside visitors, and asked FCA and FCSIC staffers to leave the virtual meeting if they do not normally observe the closed session.

Chairman Smith convened the closed session of the meeting at 9:48 a.m. and instructed **OIT** to start recording 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.

The **OIT Staffer** confirmed that the recording had started.

The **Secretary** noted the start time of the closed session, called the roll, and confirmed he had the **General Counsel** certification.

(A copy of the Certification is attached hereto as Exhibit E.)

Office of Examination Quarterly Report

Roger Paulsen of the **Office of Examination** presented the OE Quarterly Report as well as a special supplemental report on COVID-19 and Farm Credit System Institutions' response.

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 10:27 a.m.

NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from March 12, 2020, through April 15, 2020 as follows:

| Item Number | Action Date | Voting Results | Subject |
|-------------|-------------|----------------|--|
| NV 20-07 | 4/9/2020 | Approved | Regulatory Pause on Recent FCA Rulemakings |

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
April 16, 2020**

Glen R. Smith, Board Chairman / CEO

Jeffery S. Hall, Board Member

| OFFICE | OPEN SESSION | CLOSED SESSION |
|----------------------------|-----------------|-------------------|
| Office of the Board | | |
| Aultman, Dale | X | X |
| Donner, Mary Alice | X | X |
| Morris, James | X | X |
| Roque-Brehm, Awilda | X | |
| Calhoun, Gaye | X | |
| COO | | |
| Coleman, Robert | X | X |
| OIT | | |
| Golley, Jerald | X | X |
| Matos, Ricardo | X | X |
| Versace, Jerry | X | X |
| OCPA | | |
| Stokke, Michael | X | X |
| OGC | | |
| Rawls, Charles | X | X |
| Kramp, Kevin | X | X |
| OE | | |
| Paulsen, Roger | X | X |
| Schumacher, Ryan | X | X |
| Johnson, Hal | X | X |
| Waldron, Ashley | X | X |
| ODAE | | |
| D'Antoni, Jeremy | X | X |
| Shields, Dennis | X | X |
| OIG | | |
| Laguarda, Wendy | X | X |
| Miller, Kevin | X | X |
| OSMO | | |
| Rea, Laurie | X | X |
| ORP | | |
| Grahn, David | X | X |
| OCFO | | |
| Smith, Stephen | X | X |
| Gandy, Doug | X | X |
| OAS | | |
| Bell, Vonda | X | X |
| | | |
| | | |
| | | |

| OFFICE | OPEN SESSION | CLOSED SESSION |
|-----------------------|-------------------------|---------------------------|
| FCSIC | | |
| Rubin, Howard | X | X |
| Powalski, Lynn | X | X |
| Grimaldi, Andrew | X | X |
| Wynn, Wade | X | X |
| GENERAL PUBLIC | 5 | 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
April 16, 2020**

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 16, 2020, from 9:00 a.m. until such time as the Board may conclude its business. *Note: Because of the COVID-19 pandemic, we will conduct the board meeting virtually. If you would like to observe the open portion of the virtual meeting, see instructions below for board meeting visitors.*

Attendance: To observe the open portion of the virtual meeting, go to FCA.gov, select "Newsroom," then "Events." There you will find a description of the meeting and a link to "Instructions for board meeting visitors." See SUPPLEMENTARY INFORMATION for further information about attendance requests.

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, and parts will be closed. If you wish to observe the open portion, follow the instructions above in the "Attendance" section at least 24 hours before the meeting. 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 as follows:

OPEN SESSION

Approval of Minutes

- 1 March 12, 2020

Reports

- 2 Quarterly Report on Economic Conditions and FCS Condition and Performance

CLOSED SESSION

- 3 Office of Examination Quarterly Report¹

Dale Aultman
Secretary to the Board

April 9, 2020
Date

¹ Closed session is 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 March 12, 2020

BM-16-APR-20-01

Effective Date: April 16, 2020

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for March 12, 2020.

DATED THIS 16th DAY OF APRIL 2020

BY ORDER OF THE BOARD

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



FCA Board Meeting April 2020

Exhibit D

Quarterly Report on FCS Condition April 16, 2020

Dennis A. Shields
Hal Johnson





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Economic upheaval with COVID-19
 - Commodity market volatility
 - Government response for agriculture sector
- ▶ 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. economic activity has plunged

- ▶ Effects of the pandemic became visible in the week ending March 21, with an unprecedented number of unemployment insurance claims, a sharp decline in consumer confidence, and a more modest decline in steel production.
- ▶ An offsetting surge in retail sales occurred as consumers flooded stores to stock up.



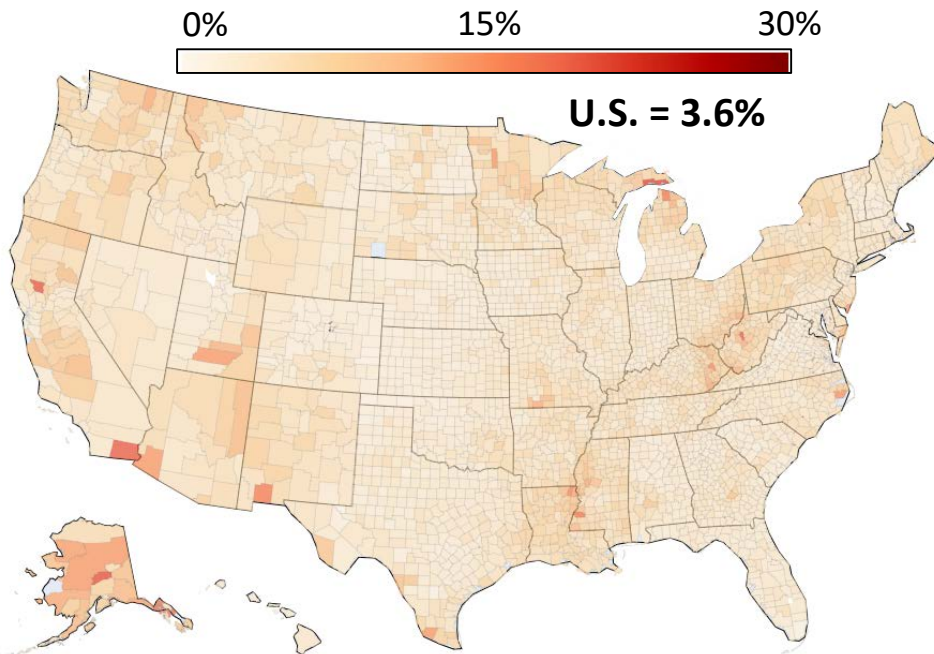
Source: "Monitoring Real Activity in Real Time: The Weekly Economic Index," Federal Reserve Bank of New York *Liberty Street Economics*, March 30, 2020 ([link](#)).



Unemployment was low across the country before insurance claims skyrocketed

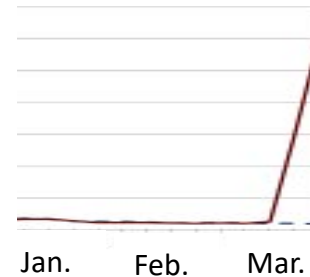


Unemployment rate by county as of January 2020



Unemployment insurance claims

Week ending: 3/21 = 3.3 mil.
3/28 = 6.9 mil.
4/04 = 6.6 mil.



March figures to be revised

Employed = 155.8 mil.

Unemployed = 7.1 mil.

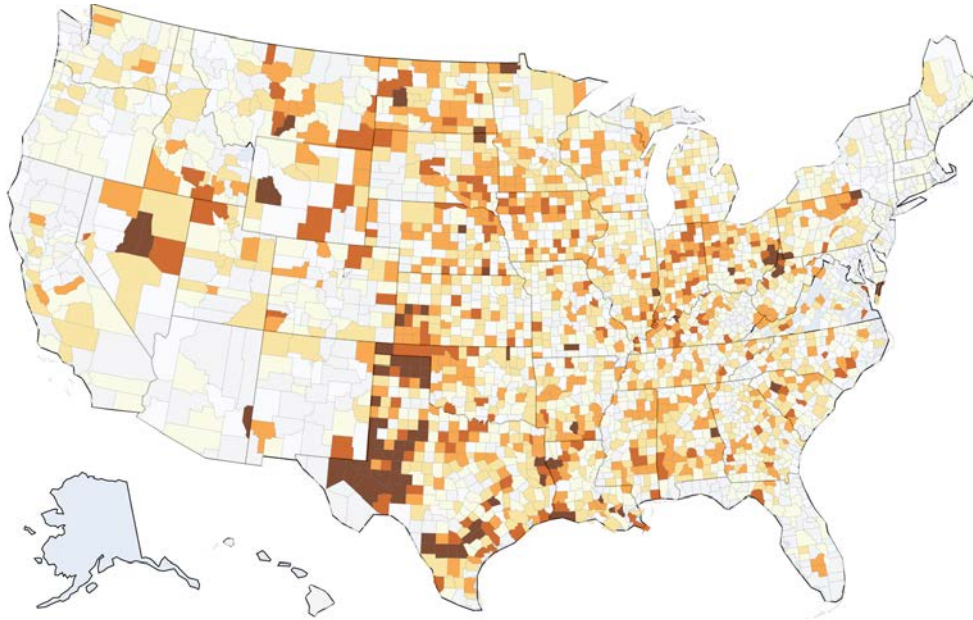
Unemployment rate = 4.4%

Source: FCA analysis of U.S. Bureau of Labor Statistics unemployment rate data; unemployment insurance claims from <https://www.dol.gov/ui/data.pdf>.



Goods-producing industries are important in local economies

Percent of 2018 GDP from goods-producing industries by county



| Selected FCS geographic footprint | For each territory, goods-producing share of GDP (%) |
|-----------------------------------|--|
| Capital FC | 47.0% |
| FCS of America | 34.2% |
| Mid-America | 31.8% |
| Amer. AgCredit | 30.4% |
| Compeer | 28.4% |
| Northwest FCS | 25.0% |
| U.S. total | 17.8% |

Source: FCA analysis of data from Bureau of Economic Analysis, Gross Domestic Product: Private Goods-Producing Industries.

Notes: Latest data available; "goods" equals agriculture, forestry, fishing, and hunting; mining (oil and gas); construction; and manufacturing.

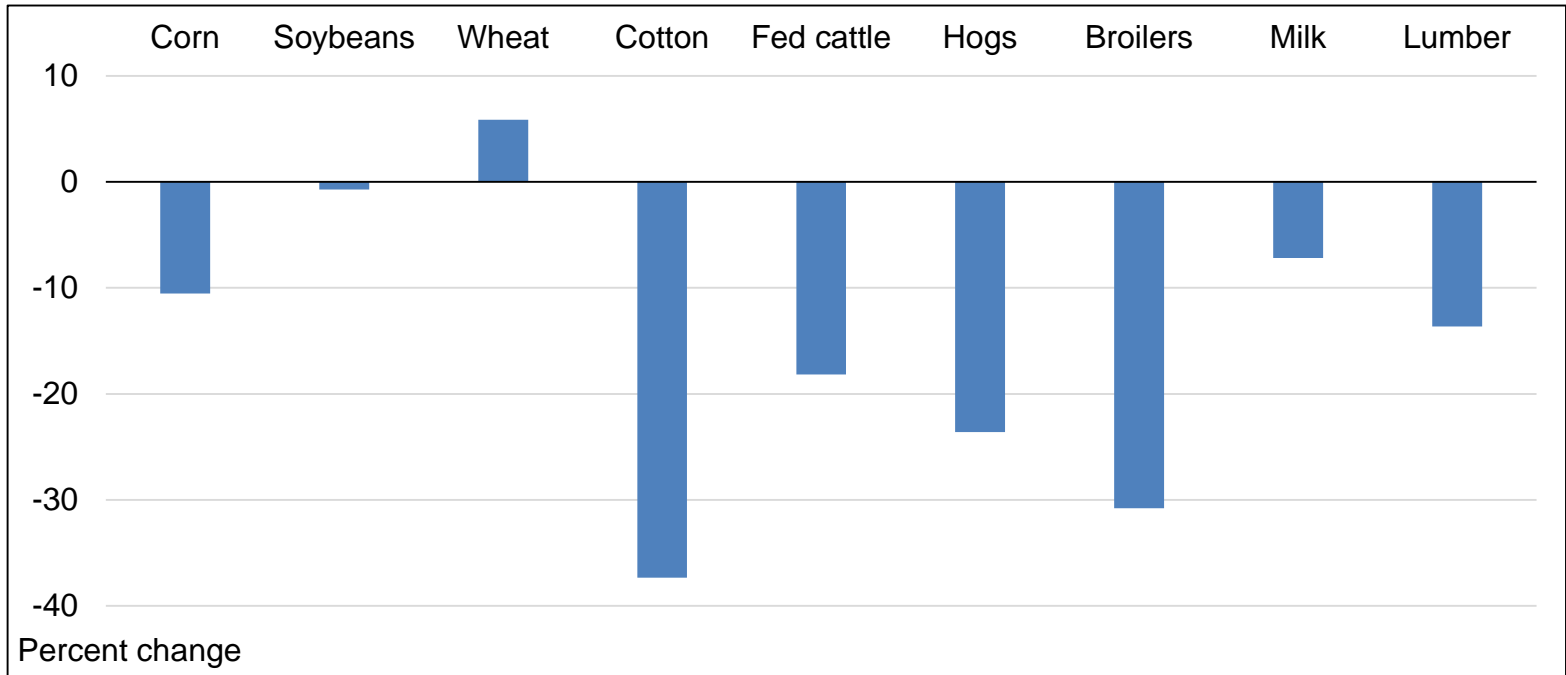




Commodity prices are below year-earlier levels (except wheat)



Prices in early April relative to a year ago



Source: MGEX and USDA (cash prices) and CME (futures) as of April 3.

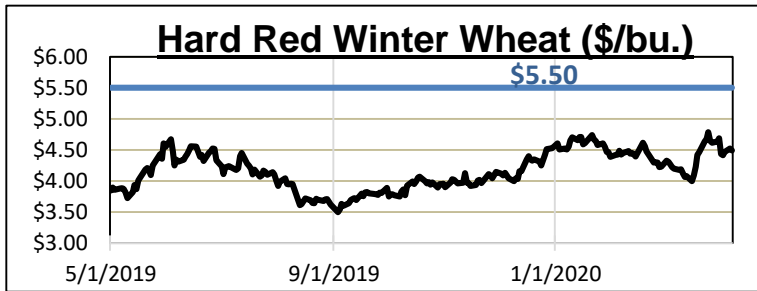
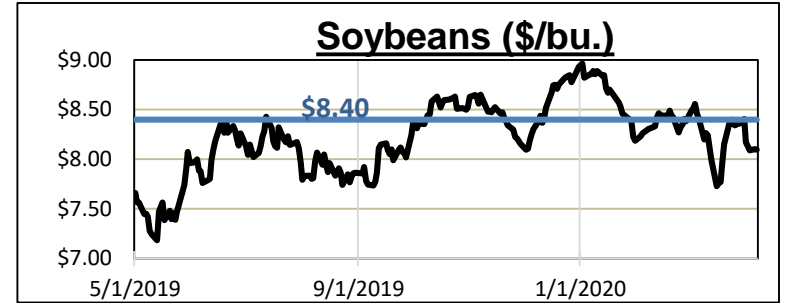
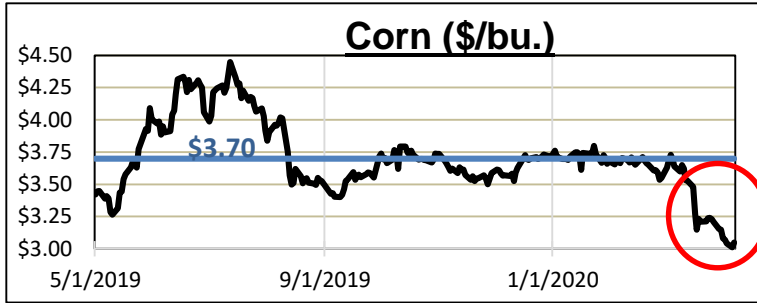
Note: Cash bid/prices for commodities except futures for milk (May class III) and lumber (May).



Corn bids collapse with demise of ethanol prices; soybeans and wheat bids remain volatile



— Elevator daily cash bids (national index)
— Farm Bill reference price that triggers Price Loss Coverage payments using season-avg. farm price



Lower fertilizer and fuel prices will partially offset lower market returns.

Source: MGEX elevator daily cash bids.



Livestock producers brace for declining demand



- ▶ Across all parts of the livestock marketing chain, declining prices reflect both loss of demand and developments in plant slowdowns or even closures related to COVID-19.
- ▶ Declining beef and fed cattle prices are pressuring feedlot margins and resulting in dwindling calf receipts.
- ▶ Hog prices increased in mid-March on a retail demand surge, generating positive producer margins, but then food service demand collapsed.
- ▶ Milk futures have plunged more than 30 percent since late 2019; a decline in cheese and butter prices will have a major negative impact on producer margins.
- ▶ While poultry integrators were likely able to stay above breakeven during March, many operators are experiencing depleted foodservice demand that is pushing margins into the red.
- ▶ The food system is being tested by extreme conditions.



Forestry sector faces significant pressure

- ▶ Lumber futures have plummeted, and mills are dramatically dialing back production of two-by-fours, plywood and other building materials.
- ▶ Sector weakness is only partially offset by the strong demand for pulp, which is used to make toilet paper, cardboard boxes and other products.

Lumber futures, softwood 2x4s measured in \$ per 1,000 board feet



Source: CME Group.





Government assistance for farmers

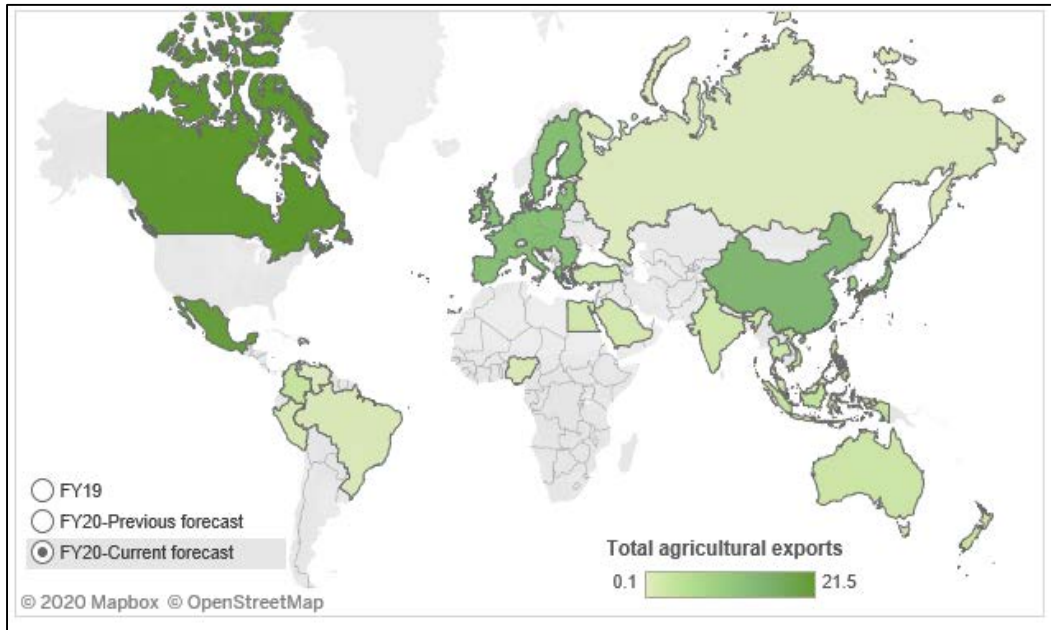
- ▶ Price Loss Coverage program provides some downside price protection – some program crops are better protected than others.
- ▶ Loan deficiency payments started for cotton on 3/20/20.
- ▶ Crop insurance guarantees also provide some price protection:
 - corn = \$ 3.88 per bushel,
 - soybeans = \$9.17,
 - hard red winter wheat = \$4.35, and
 - hard red spring wheat = \$5.56.
- ▶ CARES Act added \$14 billion to the Commodity Credit Corporation funds and provided \$9.5 billion for commodity support.
- ▶ Commodities that do not receive traditional farm program support include cattle, hogs, poultry, aquaculture, forage, fruits, vegetables and tree nuts.





Export demand will be critical for U.S. agricultural prices and income

U.S. agricultural exports – fiscal year 2020 forecast (February)



| U.S. ag. exports (\$ bl.) | |
|-------------------------------|---------|
| Canada | \$21.5 |
| Mexico | \$19.8 |
| China | \$14.0 |
| Europe | \$12.9 |
| Japan | \$12.0 |
| World FY 2020 (Feb. forecast) | \$139.5 |
| World FY 2019 (actual) | \$135.5 |

Source: USDA/ERS.

Note: Forecasts as of February 20, 2020.



Concluding comments

- ▶ General economy could face a long recovery period with fewer fully-employed people, reducing off-farm income and demand.
- ▶ Depth and time period of economic loss depends on disease containment in the U.S. (and elsewhere) and subsequent consumer behavior.
- ▶ Collapse in the energy market has significantly affected agriculture (through lower prices of corn) and many other parts of the rural economy via declining employment and related business activity.
- ▶ A protracted recession will be tempered to the extent that the current (or future) fiscal stimulus is effective.





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
December 31, 2019

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Loan Portfolio
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

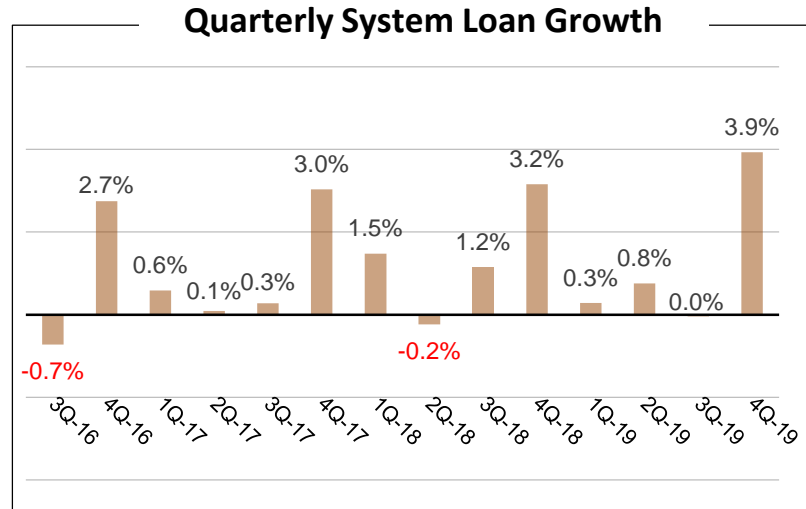




The System reported modest growth in 2019



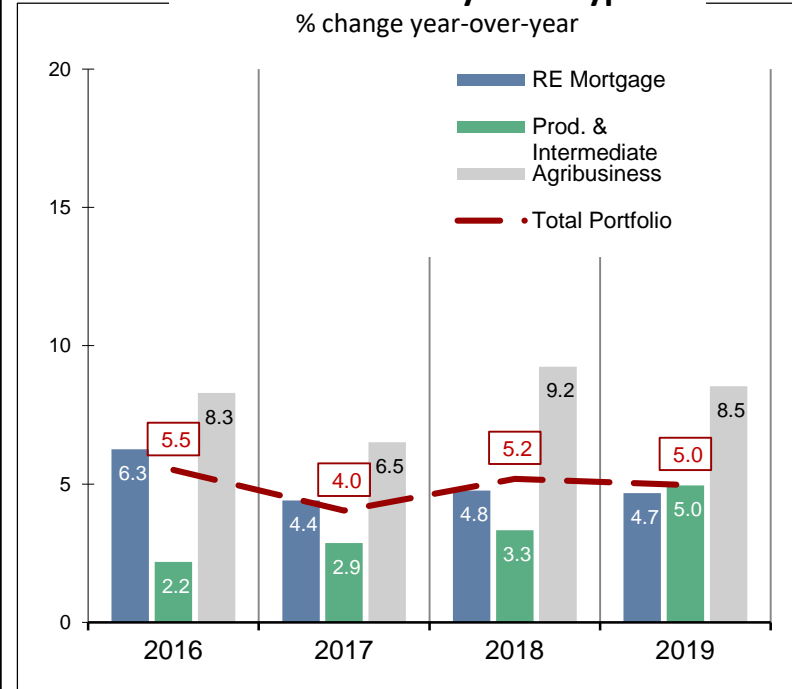
| | | | | | |
|---------------------------------|---------------------------|-----------------------|--------------------------------|---------------------------|-----------------------|
| Total Assets 12/31/19 | \$365.4 billion | +3.2% Qtr +4.7% FY | Gross Loans 12/31/19 | \$287.0 billion | +3.9% Qtr +5.0% FY |
|---------------------------------|---------------------------|-----------------------|--------------------------------|---------------------------|-----------------------|



Source: FCS Information Statements

Loan Growth by Loan Type

% change year-over-year



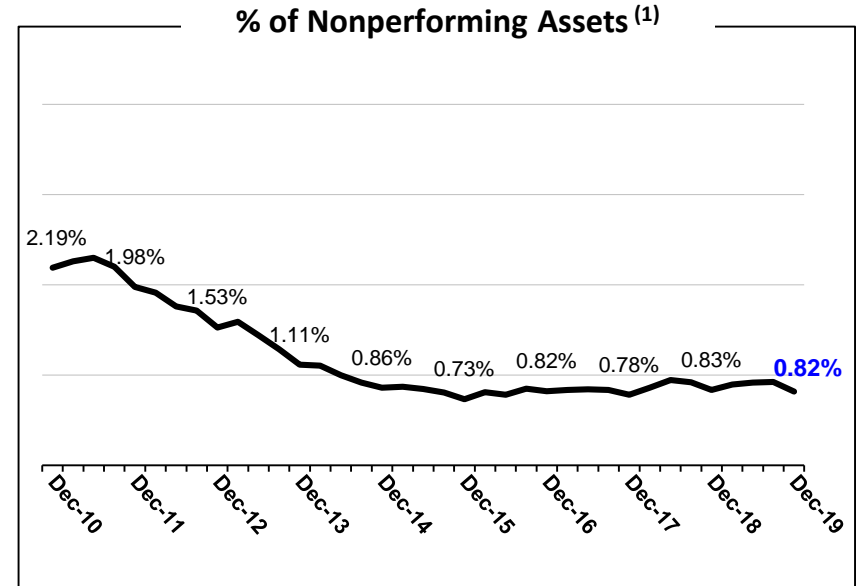


Portfolio credit risk indicators relatively stable in 2019; risk varies by region and ag sector



| | | |
|---|---------------------------|--|
| Nonperforming Assets (12/31/19) | \$2.347 billion | Qtr Chg. - \$202M or - 7.9% |
| | | 12 Month Chg. + \$65M or + 2.8% |
| Delinquencies ⁽¹⁾ (12/31/19) | 0.32% | Q3 '19 0.30% |
| | | Q4 '18 0.33% |

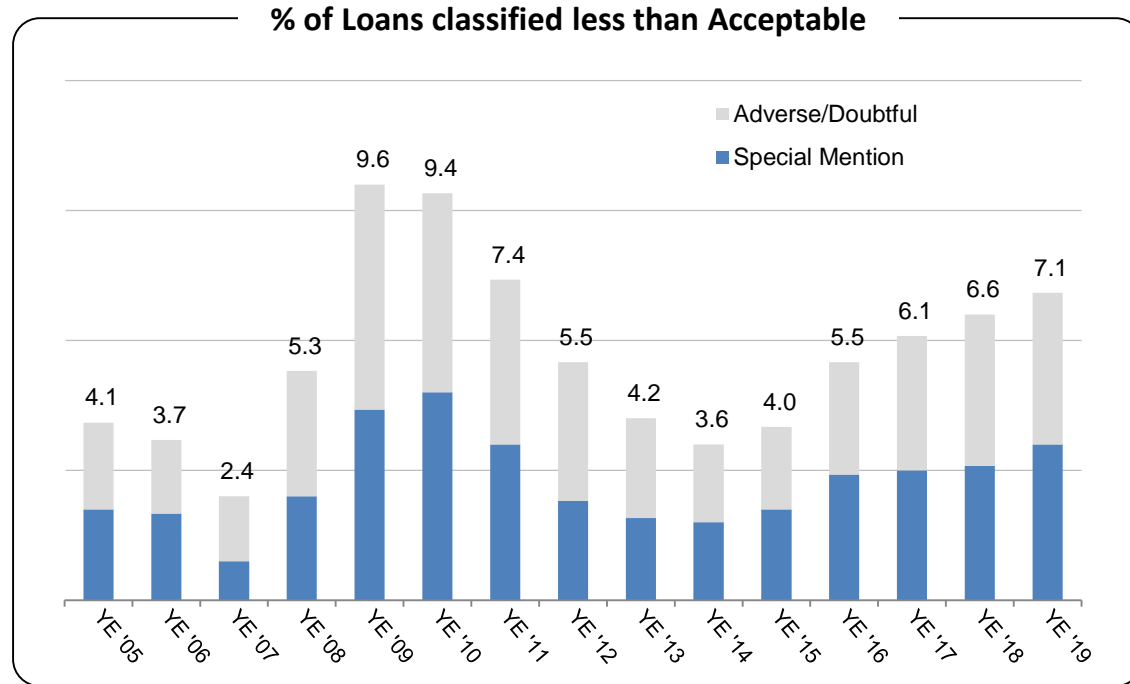
(1) accruing loans 30 days or more past due as a % of accruing loans



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



Loans classified less than Acceptable continued to trend higher in 2019

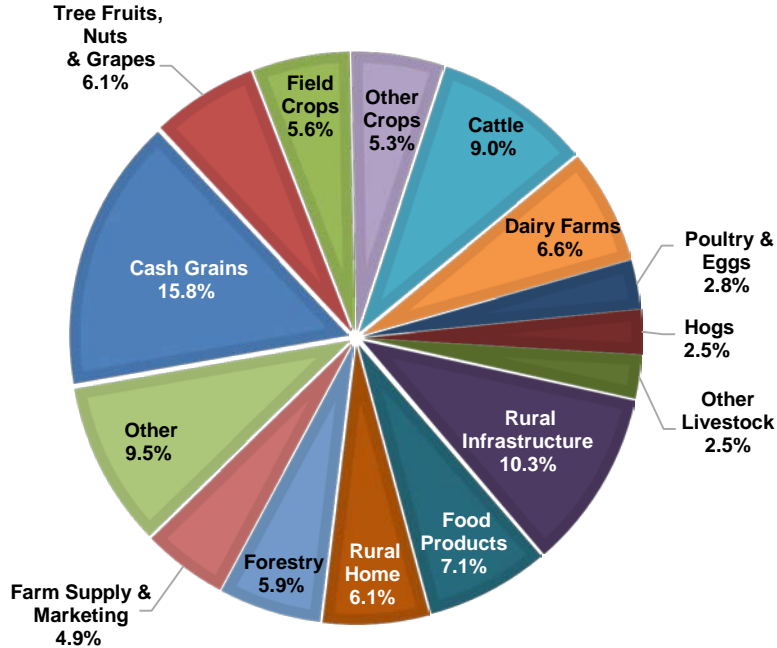


Source: FCS Information Statements



System portfolio is diversified by commodity

System Loan Portfolio by Commodity Concentration



| System Loan Portfolio (\$ in millions) | Dec-19 | % of Total Portfolio |
|--|----------------|----------------------|
| Cash Grains | 45,294 | 15.8% |
| Tree Fruits, Nuts & Grapes | 17,381 | 6.1% |
| Field Crops | 16,125 | 5.6% |
| Other Crop Production | 15,162 | 5.3% |
| Total Crop Production | 93,962 | 32.7% |
| Cattle | 25,827 | 9.0% |
| Dairy Farms | 18,818 | 6.6% |
| Poultry & Eggs | 8,022 | 2.8% |
| Hogs | 7,116 | 2.5% |
| Other Livestock | 7,300 | 2.5% |
| Total Animal Production | 67,083 | 23.4% |
| Rural Infrastructure | 29,669 | 10.3% |
| Food Products | 20,317 | 7.1% |
| Rural Home | 17,379 | 6.1% |
| Forestry | 17,065 | 5.9% |
| Farm Supply & Marketing | 14,028 | 4.9% |
| Other | 27,461 | 9.6% |
| Total | 286,964 | 100.0% |

Source: FCS Information Statement



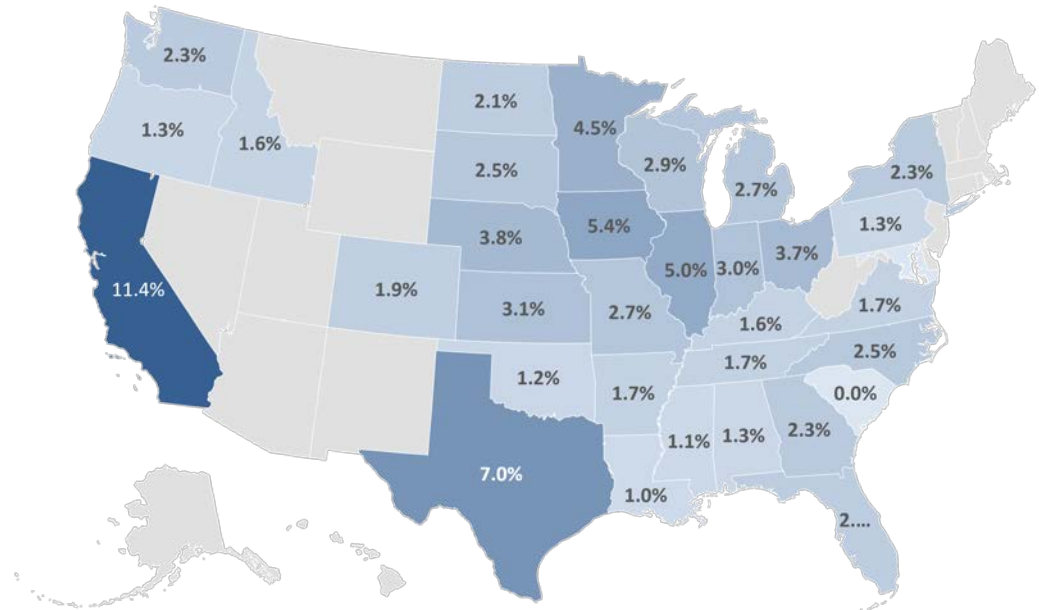
Portfolio volume is geographically distributed



% of System Loan Volume by State as of yearend 2019

(only states with at least 1% are displayed)

| Top 5 States | % of Portfolio |
|--------------|----------------|
| California | 11.4% |
| Texas | 7.0 |
| Iowa | 5.4 |
| Illinois | 5.0 |
| Minnesota | 4.5 |



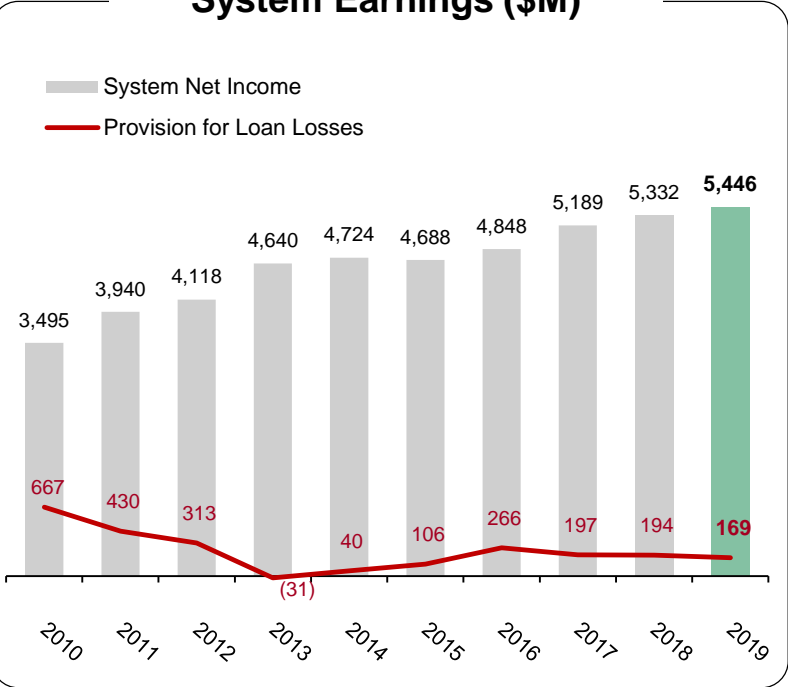
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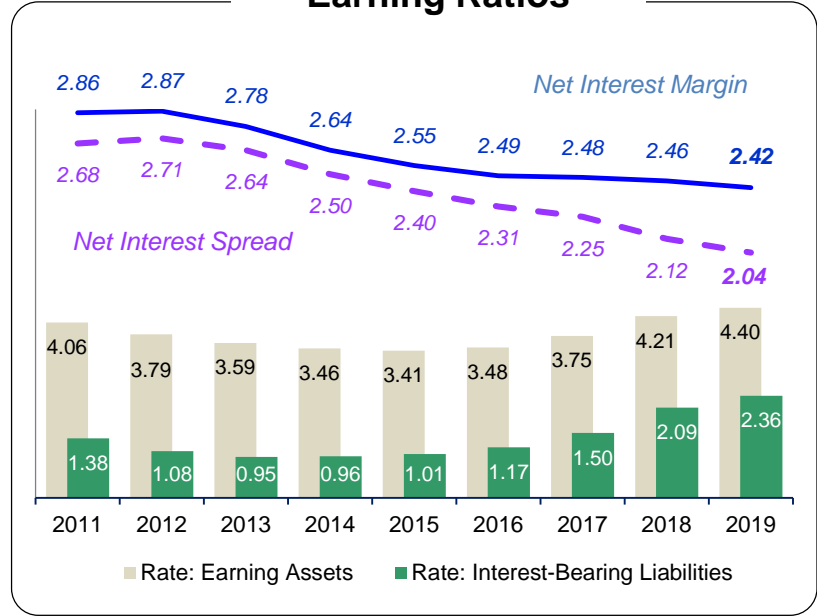
The System is financially sound



System Earnings (\$M)



Earning Ratios



Source: FCS Information Statements



The System is well-capitalized

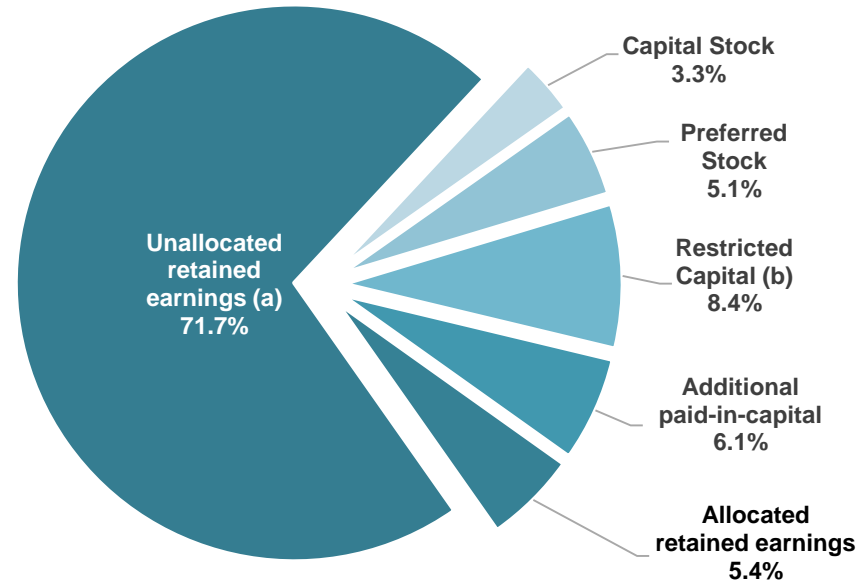
Capital and Liquidity

(as of December 31, 2019)

- ▶ Total Regulatory Capital levels:
Banks: 15.9% to 19.5%
Associations: 13.6% to 38.3%
- ▶ Days of available liquidity for the 4 funding banks ranged from 166 to 222 days
- ▶ Capital and the Allowance for Loan Losses as a % of loans for the combined districts ranged from 18.2% to 22.4%

Total System Capital: \$61.7 B

as of yearend 2019



(a) includes \$1.3B in accumulated other comprehensive loss

(b) Restricted Capital represents capital associated with the Insurance Fund

Source: FCS Information Statements



System FIRS ratings

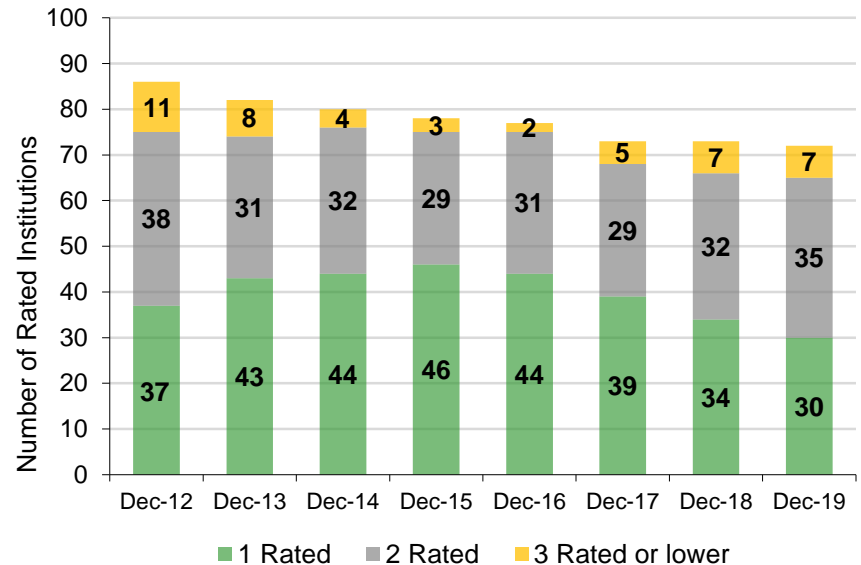


FIRS Ratings

(based on 12/31/19 financials)

- ▶ Composite FIRS ratings are a reflection of the System's strong financial position 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

- ▶ The coronavirus pandemic (COVID-19) had an immediate and unprecedented effect on communities, businesses, and markets around the world.
- ▶ The severity and duration of the ongoing health crisis and disruption in economic activity is unknown.
- ▶ The impact on the farm economy and the Farm Credit System is uncertain, but will be significant.
- ▶ The Farm Credit System is fundamentally safe and sound. System institutions are financially strong, well-capitalized, and have significant risk-bearing capacity.





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 April 16, 2020, 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).

April 16, 2020
Date

/s/
Charles R. Rawls
General Counsel