

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 10, 2020**

These minutes reflect the business transacted at the December 10, 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 meeting began at 9:00 a.m. and concluded at 10:34 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 14 outside visitors from other regulators, consultants, Farm Credit System institutions, and government entities. (A list of staff attendees is attached as Exhibit A.)

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

**Chairman Smith** asked everyone to say the Pledge of Allegiance with him as the Flag was displayed on the presentation screen.

**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 to address 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 November 19, 2020 Regular Board Meeting (BM-10-DEC-20-01)**

**Mr. Hall** moved to approve the minutes for the November 19, 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-10-DEC-20-01)**

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

## **Reports**

### **Quarterly Report on Economic Conditions and FCS Condition and Performance**

**Steve Koenig** 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**

**Ashley Waldron** 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.)

## **CLOSED SESSION**

**Chairman Smith** noted that this was a Closed Session and asked OIT staff to disconnect the outside visitors, and asked FCA and FCISIC staffers to leave the virtual meeting if they do not normally observe the closed session.

**Chairman Smith** asked OIT staff to ensure that outside visitors have been disconnected so the Board could meet in Closed Session with the Office of Examination.

**Chairman Smith** convened the closed session of the meeting at 10:11 a.m. and instructed **OIT Staff** 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 Staff** confirmed that the recording has started.

The **Secretary** noted the start time of the closed session and called the roll. (Attendees are shown on Exhibit A.)

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

## **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 10:34 a.m.

### NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from November 20, 2020, through December 9, 2020 as follows:

Item Number	Action Date	Voting Results	Subject
NV 20-32	12/04/2020	Approved	Amend the 12/2/2020 published and posted 12/10/2020 FCA Board meeting agenda to remove Tab 4 on "Extension of No Action until Investment Eligibility Rule's Effective Date," because the rule became effective 12/4/2020.

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 10, 2020.

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

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

Approved: January 14, 2021

**STAFF PRESENT AT THE  
FCA REGULAR BOARD MEETING  
December 10, 2020**

Glen R. Smith, Board Chairman / CEO

Jeffery S. Hall, Board Member

<b>OFFICE</b>	<b>OPEN SESSION</b>	<b>CLOSED SESSION</b>
<b>Office of the Board</b>		
Smith, Glen	X	X
Hall, Jeff	X	X
Morris, James	X	X
Donner, Mary Alice	X	X
Roque-Brehm, Awilda	X	X
Calhoun, Gaye	X	
Aultman, Dale	X	X
<b>COO</b>		
Coleman, Robert	X	X
<b>OIT</b>		
Golley, Jerald	X	X
Matos, Ricardo	X	X
Versace, Jerry	X	X
<b>OCPA</b>		
Stokke, Michael	X	X
Middleton, Russell	X	X
<b>OGC</b>		
Rawls, Charles	X	X
Kramp, Kevin	X	X
<b>OE</b>		
Paulsen, Roger	X	X
Waldron, Ashley	X	X
Johnson, Hal	X	X
<b>ODAE</b>		
D'Antoni, Jeremy	X	X
Koenig, Steve	X	
Shields, Dennis	X	X
<b>OIG</b>		
Laguarda, Wendy	X	X
Miller, Kevin	X	X
<b>OSMO</b>		
Rea, Laurie	X	X
Hudson, Bruce	X	X
Thomas, Elu	X	X
<b>ORP</b>		
Grahn, David	X	X
<b>OCFO</b>		
Smith, Stephen	X	X
Gandy, Doug	X	X

OFFICE	OPEN SESSION	CLOSED SESSION
<b>OAS</b>		
Bell, Vonda	X	X
Clark, Patrina	X	X
<b>FCSIC</b>		
Rubin, Howard	X	X
Grimaldi, Andrew	X	X
Wynn, Wade	X	X
Powalski, Lynn	X	X
<b>GENERAL PUBLIC</b>	14	<b>N/A</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  
December 10, 2020**

**<Amended 12/4/2020>**

**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 December 10, 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](http://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 November 19, 2020

**Reports**

- 2 Quarterly Report on Economic Conditions and FCS Conditions and Performance
- 3 Semi-Annual Report on Office of Examination Operations

**CLOSED SESSION**

- 4 Office of Examination Quarterly Report<sup>1</sup>

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

December 4, 2020  
Date

<sup>1</sup> 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**

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### **FCA BOARD ACTION ON**

**Minutes for November 19, 2020**

**BM-10-DEC-20-01**

**Effective Date:** December 10, 2020

**Effect on Previous Action:** None

#### **THE FCA BOARD HEREBY:**

Approves the minutes for November 19, 2020.

**DATED THIS 10th DAY OF DECEMBER 2020**

**BY ORDER OF THE BOARD**

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





# FCA Board Meeting December 2020

Exhibit D

## Quarterly Report on FCS Condition December 10, 2020

Steven Koenig  
Hal Johnson





# Topics for Open Session

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- Economic Conditions Affecting the Farm Credit System
  - Economic conditions
  - Commodities and trade
  - Agriculture sector finance
- FCS Condition and Performance
  - System growth and loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)





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# Economic Conditions Affecting the Farm Credit System

**Steven Koenig**

**Senior Agricultural Economist  
Office of Data Analytics and Economics**



# Economic trends going into 2021

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- World & U.S. economies expected to rebound in 2021 but under continuing pandemic influences and uncertainties
- World trade growth
  - China
  - Dollar value
- U.S. economy rebounds with support
  - U.S. labor markets healing
  - Consumer spending is a strength
  - Business investment rebounds

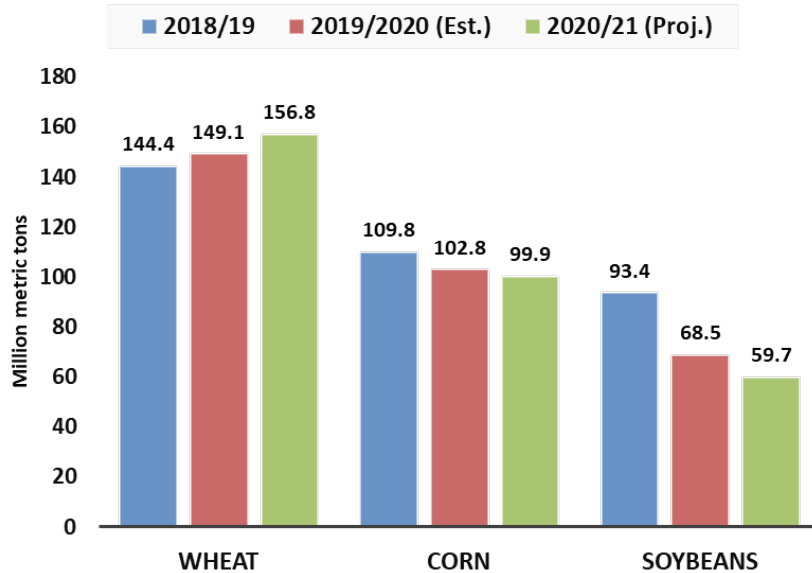




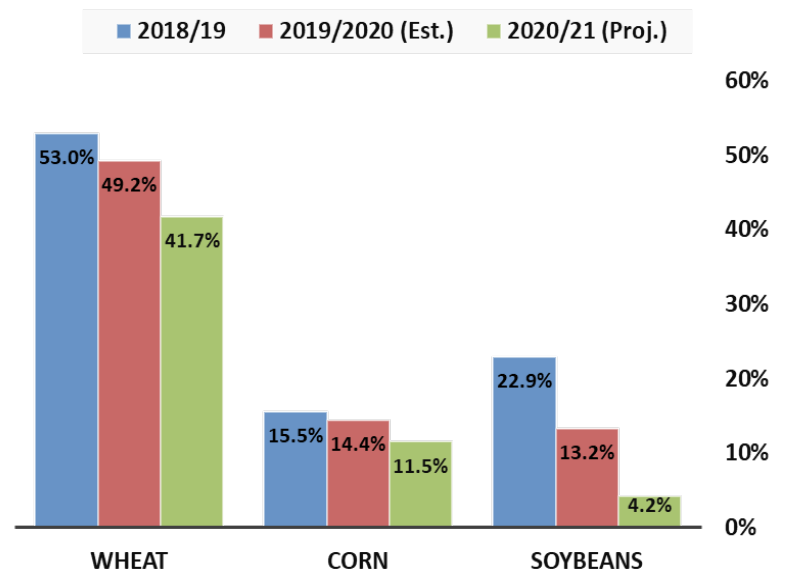
# Improved prospects for major cash crops

## Corn and soybean supplies tighten

World Ending Stocks\*



U.S. Stocks-to-Use Ratio



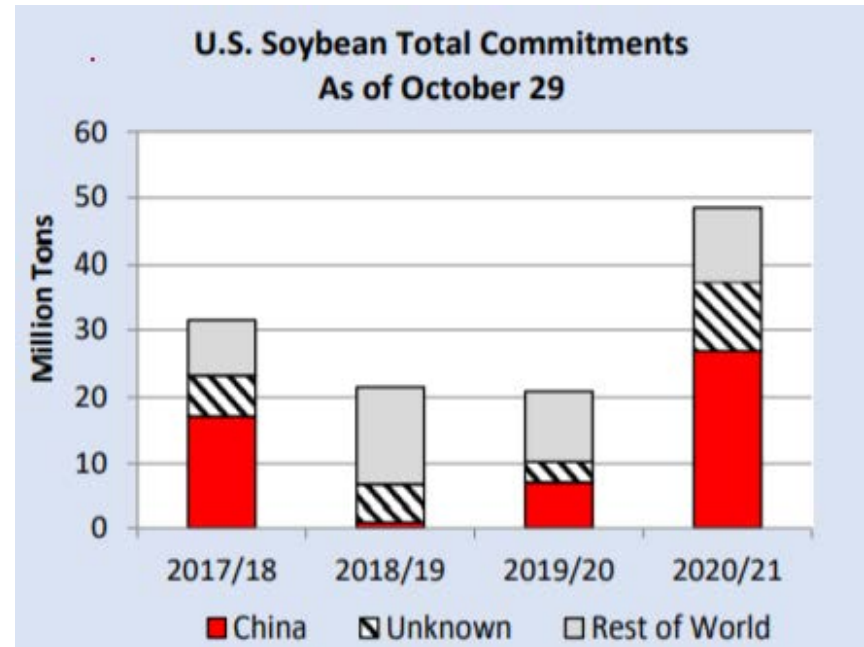
\* Excluding China.

Data source: USDA/WAOB, November 10, 2020.



# China returns to the market

- China has returned to purchasing soybeans in the U.S. market in part to meet the needs of recovering hog production in the aftermath of the African Swine Fever.
- U.S. soybean export commitments to China this year are expected rise to 26.8 million tons compared to 7.1 million the previous year.
- Total soybean commitments to the world, including unknown destinations, more than doubled to 48.5 million tons compared to 20.9 million last year.



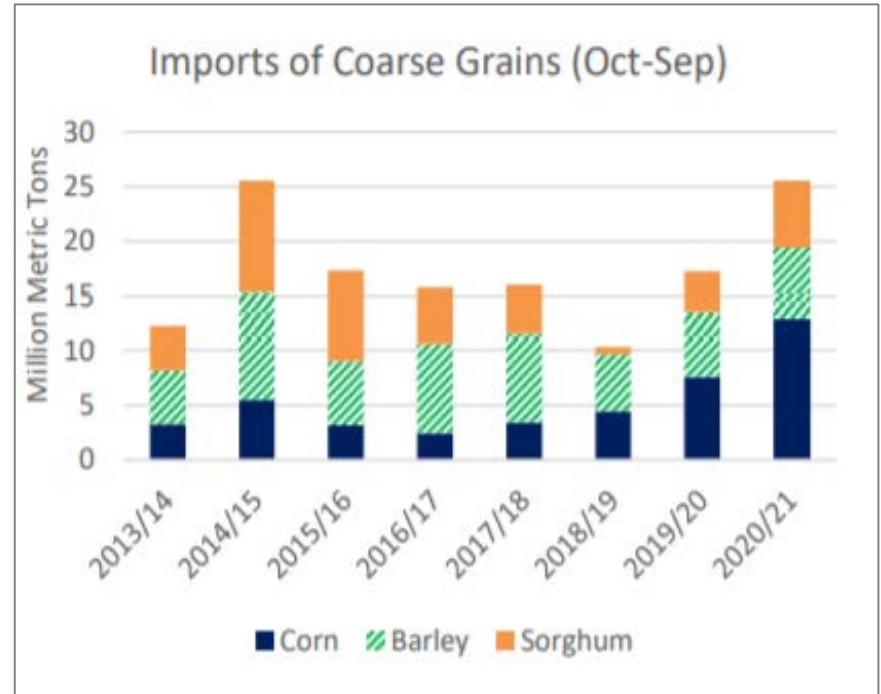
Source: USDA/FAS.





# China returns to the market

- China's combined grain imports are forecast at a record level in 2020/21 driven by demand for feedstuffs.
- Greater imports by China are primarily driven by corn purchases.
- China wheat imports of 8.0 million tons in 2020/21 are forecast at their highest level in 25 years. The demand is being driven for feed-quality wheat in the face of high price of domestic corn.

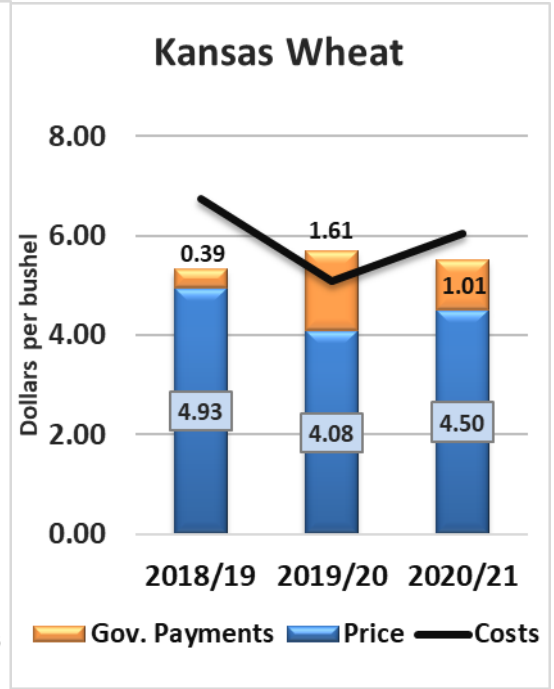
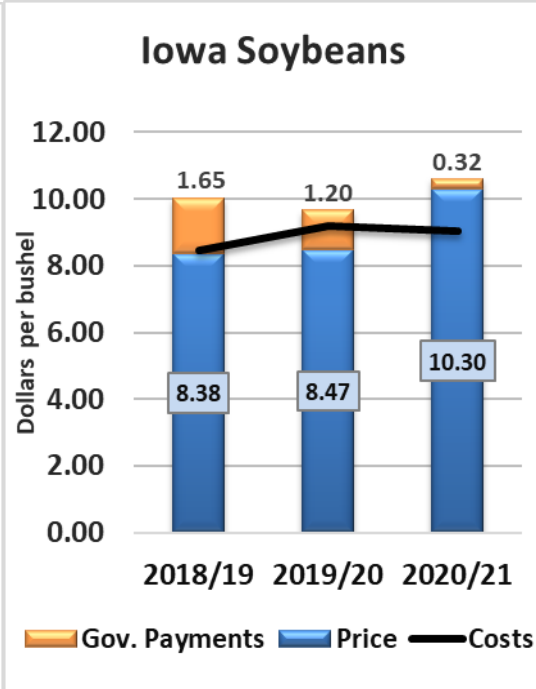
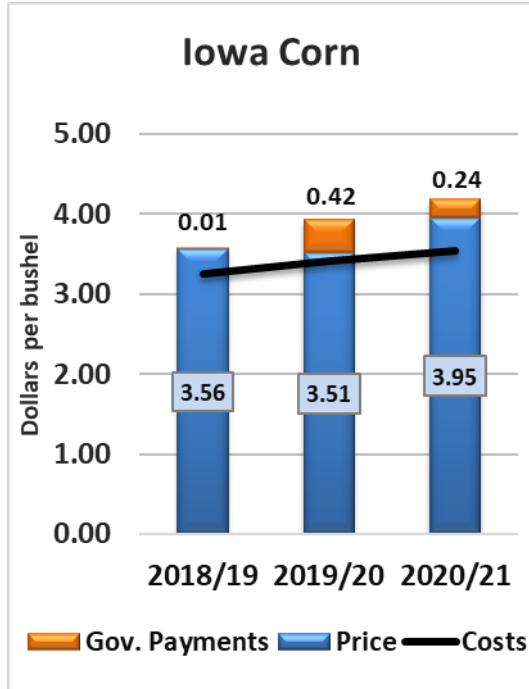


Source: USDA/FAS.





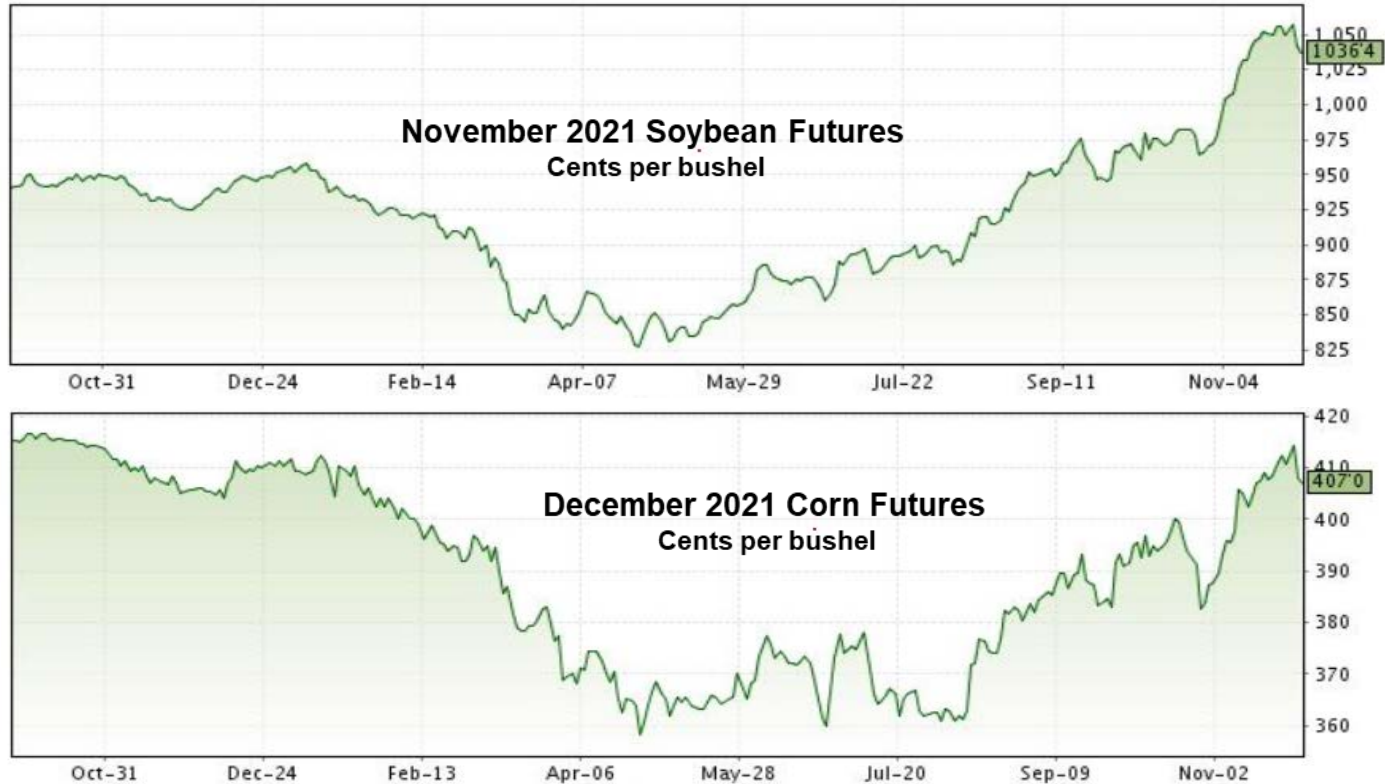
# Profits for corn and soybeans but not wheat







# Looking ahead: future prices offer pricing opportunities

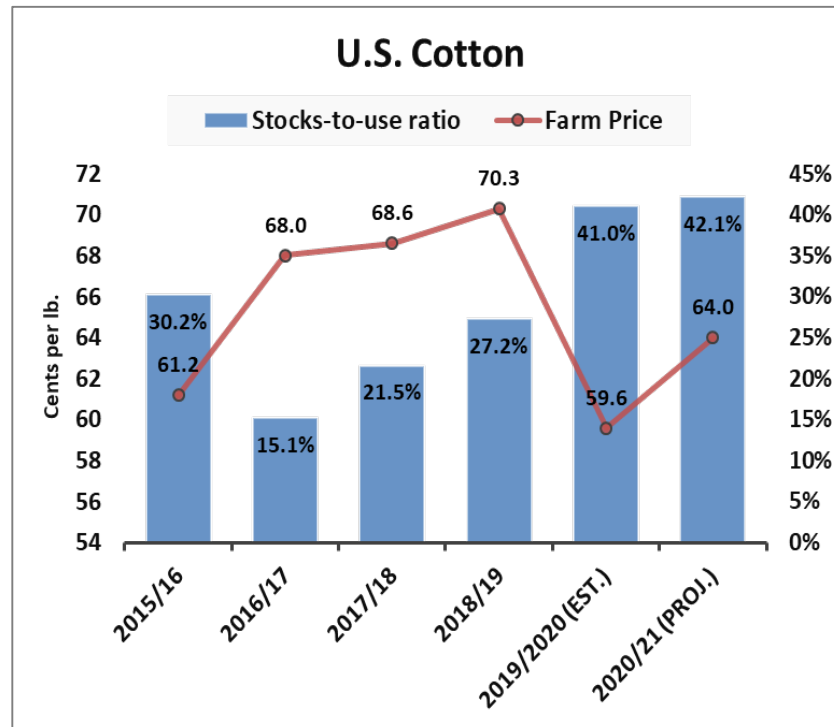


Data source: DTN, as of 12/1/2020.



# Cotton depends on trade

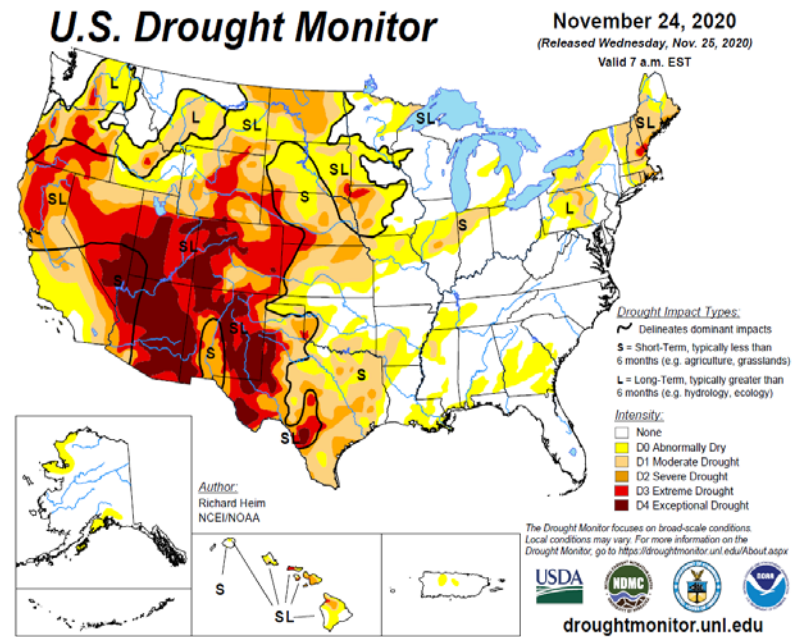
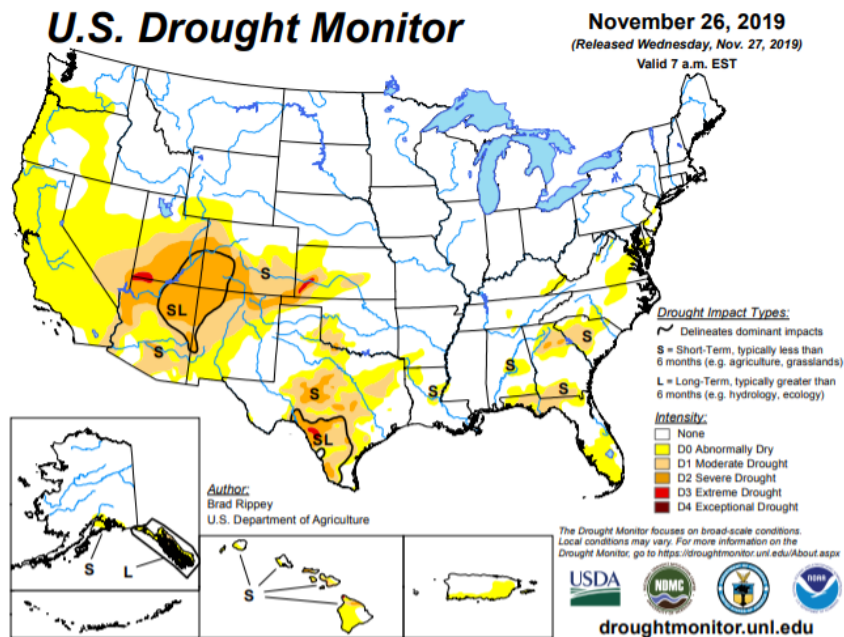
- U.S. stock-to-use ratio is the highest since 2007/08
- Ample world production and supplies restrain prices
- Softer demand in the pandemic
- Favorable U.S. yields and government payments help producers



Note: Upland cotton prices.  
Data source: USDA/WAOB, November 10, 2020.



# Outlook for 2021: Drought watch





# Mixed picture for protein

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- Tight margins for cow/calf and feeders
- Profits for dairy and hogs
- Broilers continue to see red
- Looking ahead:
  - Retail vs. food service marketing disruptions
  - Processing changes & disruptions
  - Rising feed costs
  - Export growth

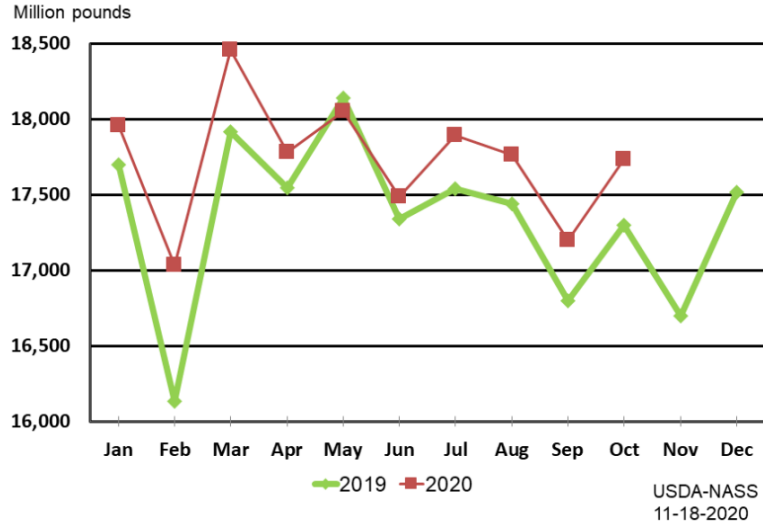




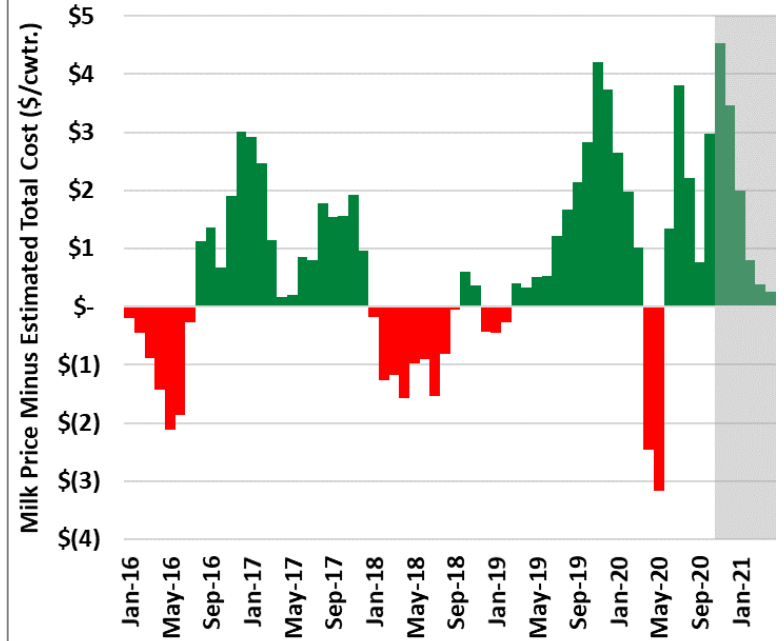
# Dairy production and profits rise



## Monthly Milk Production – 24 Selected States



## U.S. Dairy Producer Net Margin



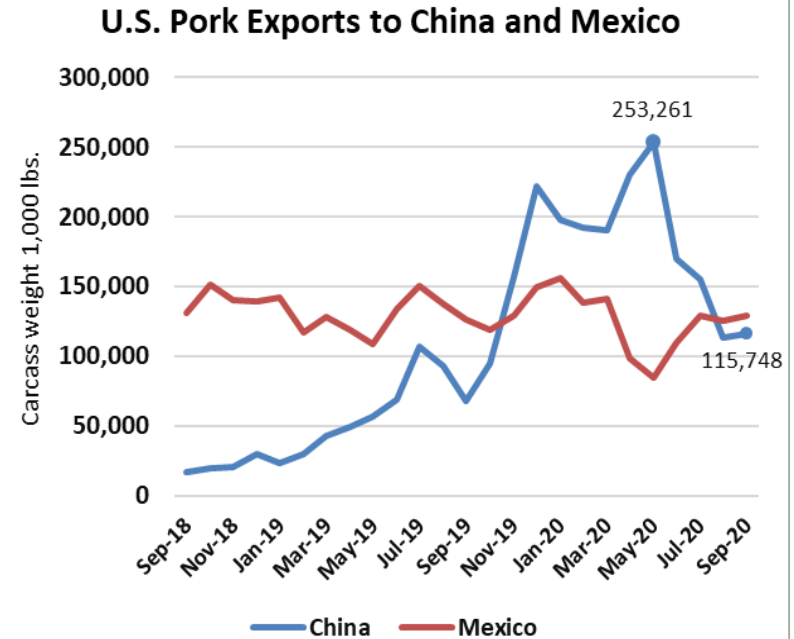
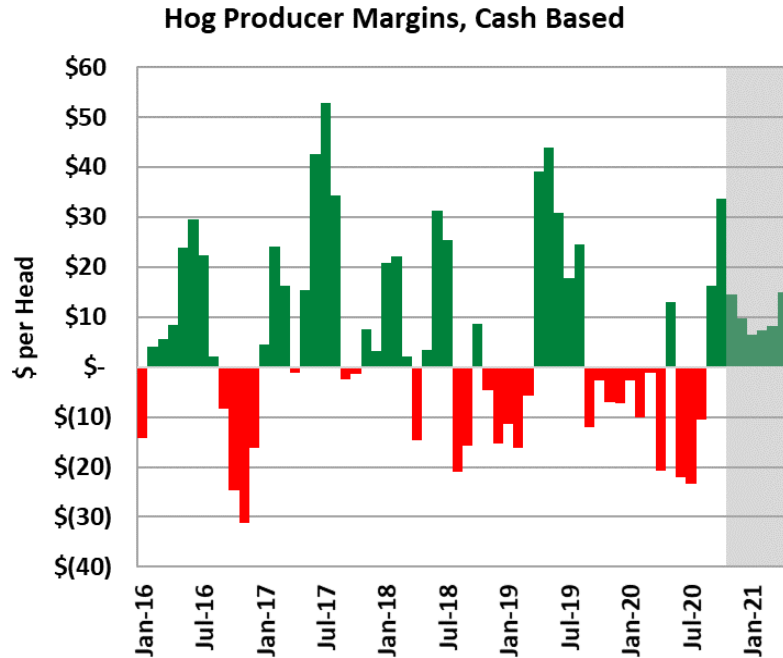
Shaded areas is a forecast.

Source: IHS Markit.





# Hog profits return...China backs off



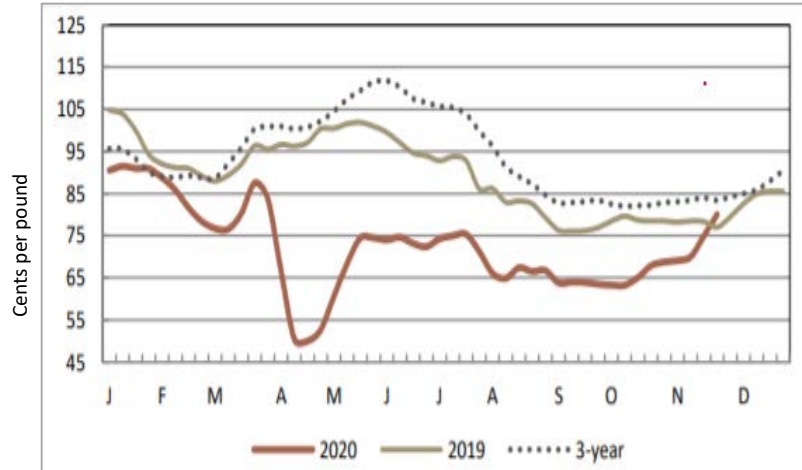
Data Source: USDA/FAS.



# Broiler returns coming out of the red?

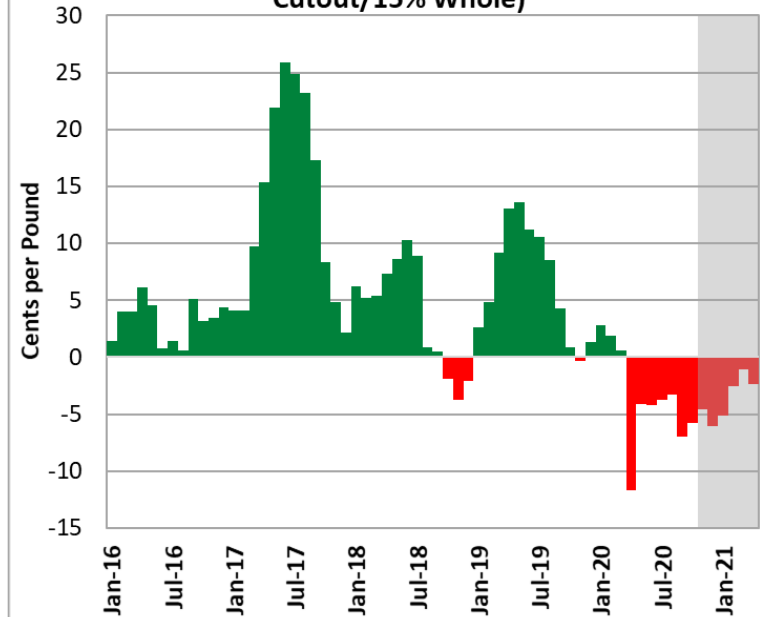


National Whole Broiler/Fryer Composite Price



Source: USDA/AMS.

U.S. Broiler Weighted Margins (85% Cutout/15% Whole)



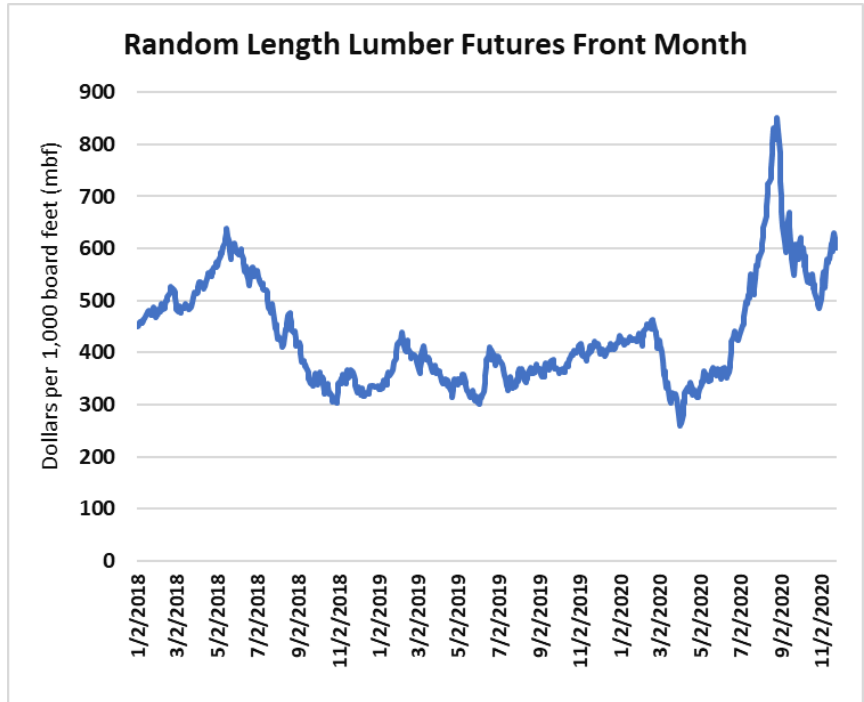
Shaded area is a forecast.

Source: IHS Markit.



# Forestry, nursery, rural housing benefit

- Home purchases and prices move higher on historically low interest rates and shift in COVID-induced demand
- Forestry products (timber and wood manufacturing) and nursery products see direct benefit from construction and remodeling boom
- Paper products see increased packaging demand from e-commerce

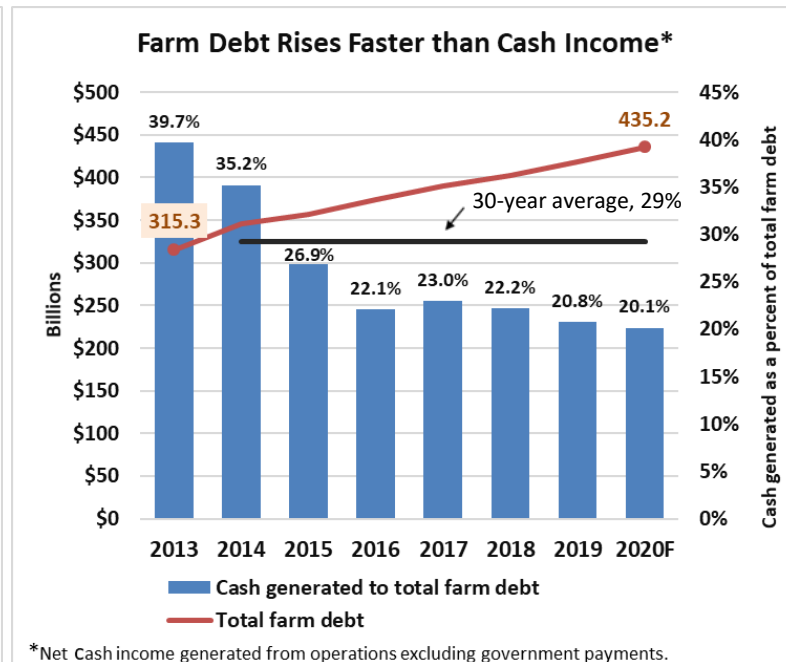
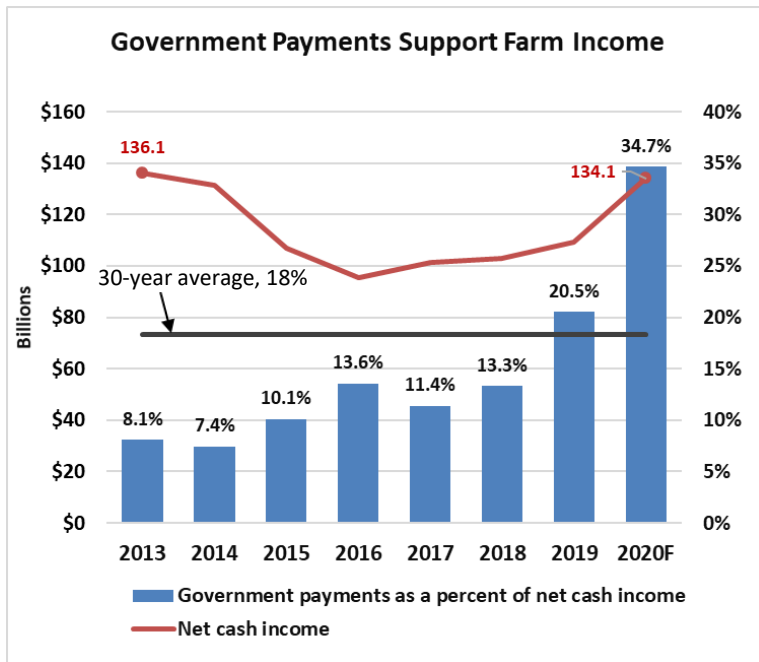


Data: [www.macrotrends.net](http://www.macrotrends.net).





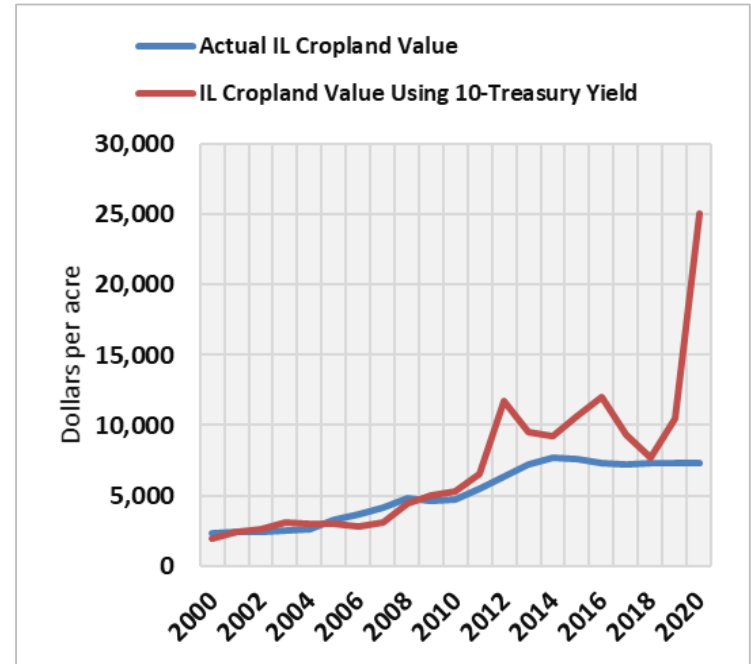
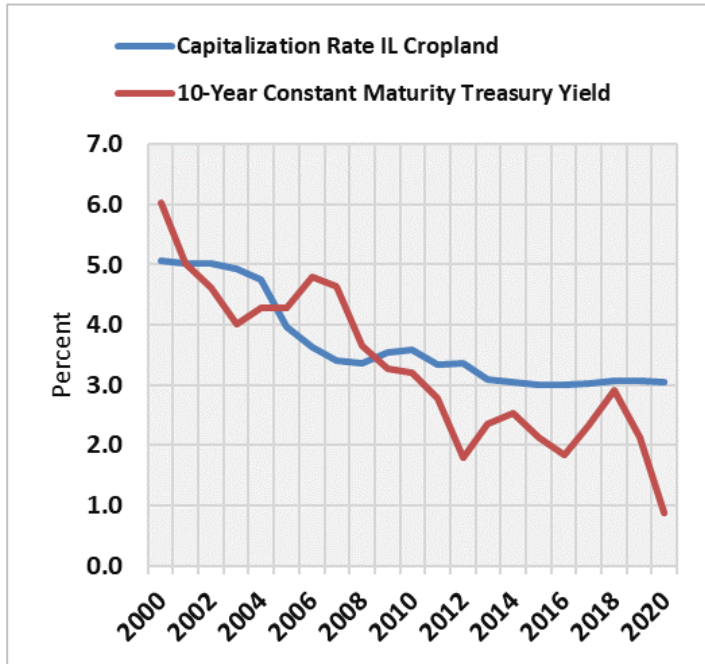
# Farm finance measures signal caution





# The stalwart farmland market

## Historically low rates, limited land supply, rising land returns



Data sources : USDA and St. Louis Federal Reserve Bank.



# Concluding comments

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- Challenges in U.S. economic recovery
- Mixed outlook for major farm commodities
- Global demand uncertainties
- Future policies impacting Ag





# Questions

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**THANK YOU**



# Farm Credit System Condition and Performance

as of  
September 30, 2020

**Hal Johnson**  
Sr. Financial Analyst  
Office of Examination



# Topics

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

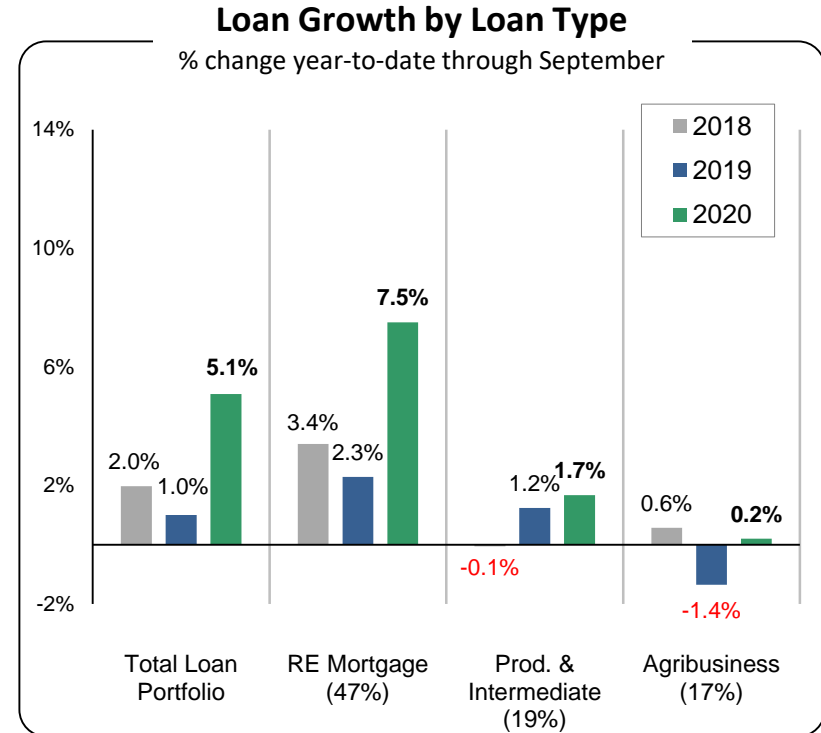
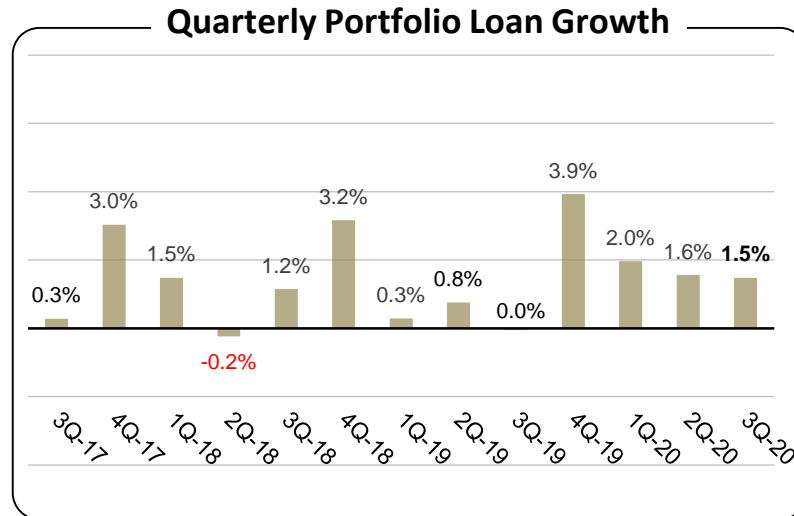




# Strong real estate mortgage lending continued to drive portfolio loan growth



<b>Total Assets</b> 9/30/20	<b>\$384.9</b> billion	<b>0.1%</b> +5.4% Qtr YTD
<b>Gross Loans</b> 9/30/20	<b>\$301.6</b> billion	<b>+1.5%</b> +5.1% Qtr YTD



Source: FCS Information Statements





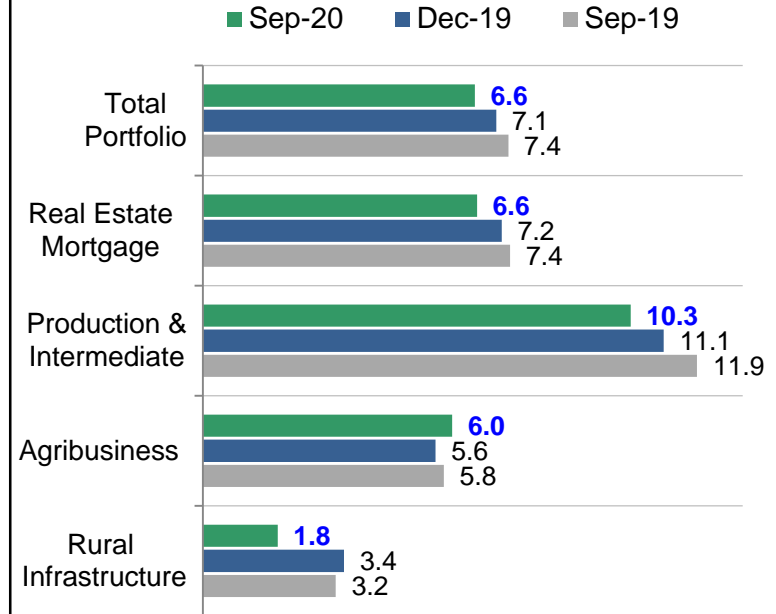
# Portfolio loan quality remained stable



<b>Nonperforming Assets</b> (9/30/20)	<b>\$2.321</b> billion	YTD chg.	- \$26M or -1.1%
		12 month chg.	- \$228M or -8.9%
<b>Delinquencies <sup>(1)</sup></b> (9/30/20)	<b>0.28%</b>	Q4 '19	0.32%
		Q3 '19	0.30%

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

## % of Loans Classified less than Acceptable



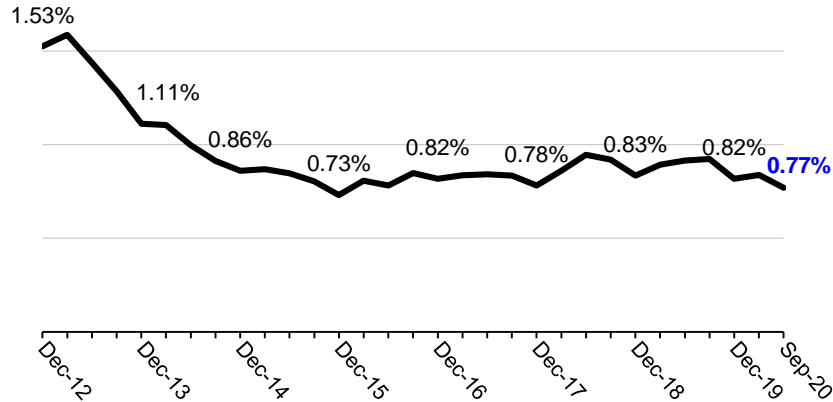




# Percentage of nonperforming assets edge lower as nonaccrual loans decline

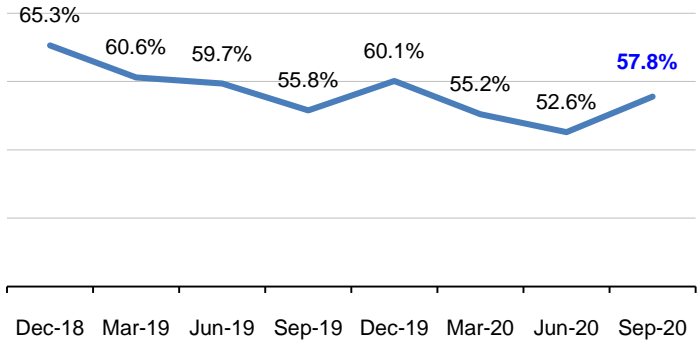


% of Nonperforming Assets <sup>(1)</sup>



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

Nonaccrual Loans that are current as to Principal and Interest



Source: FCS Information Statements

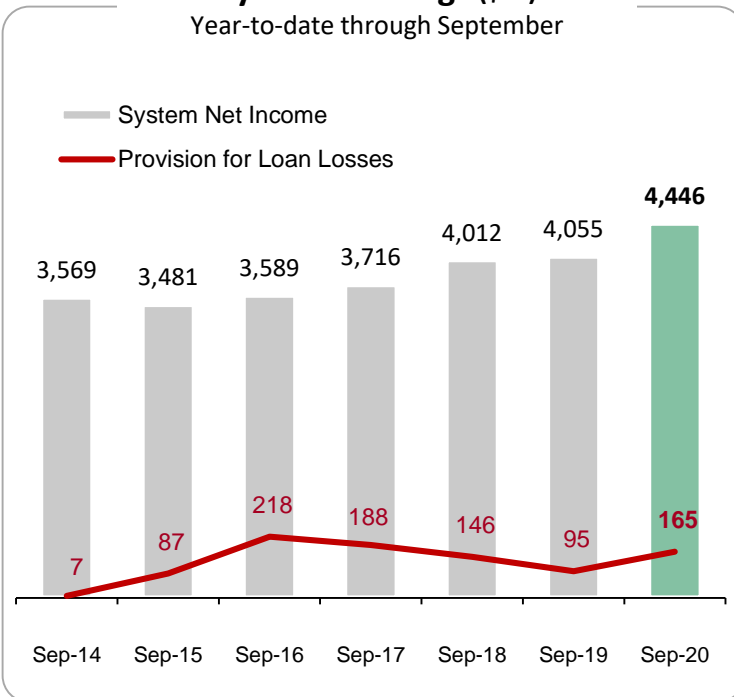


# The System reports strong earnings; interest spread widens year-over-year



## System Earnings (\$M)

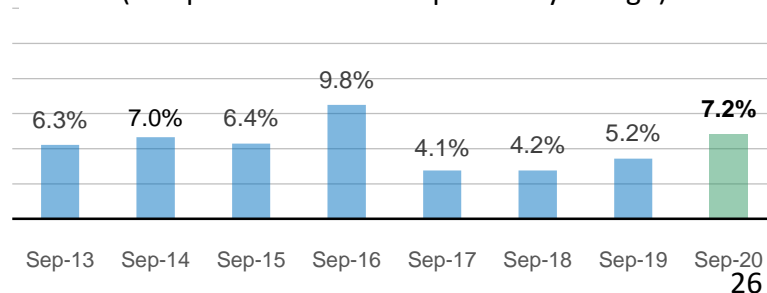
Year-to-date through September



Source: FCS Information Statements

	Sep. '18	Sep. '19	Sep '20
Net Interest Spread (YTD annualized)	2.13%	2.02%	2.22%
Net Interest Margin (YTD annualized)	2.45%	2.41%	2.45%

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





# The System is strongly capitalized

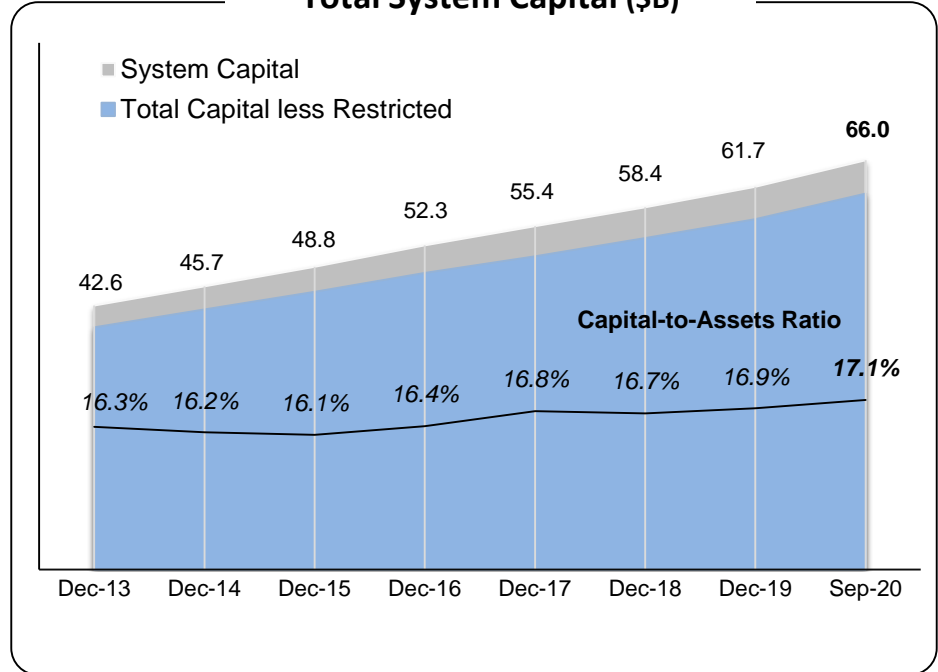
## Capital and Liquidity

( as of September 30, 2020 )

- ▶ Total Regulatory Capital:  
Banks | 15.8% to 18.5%  
Associations | 12.0% to 37.4%
- ▶ Days of liquidity for the four funding banks ranged from 168 to 218 days
- ▶ Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.7% to 23.7% at a combined district level

Source: FCS Information Statements

## Total System Capital (\$B)



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



# System FIRS ratings

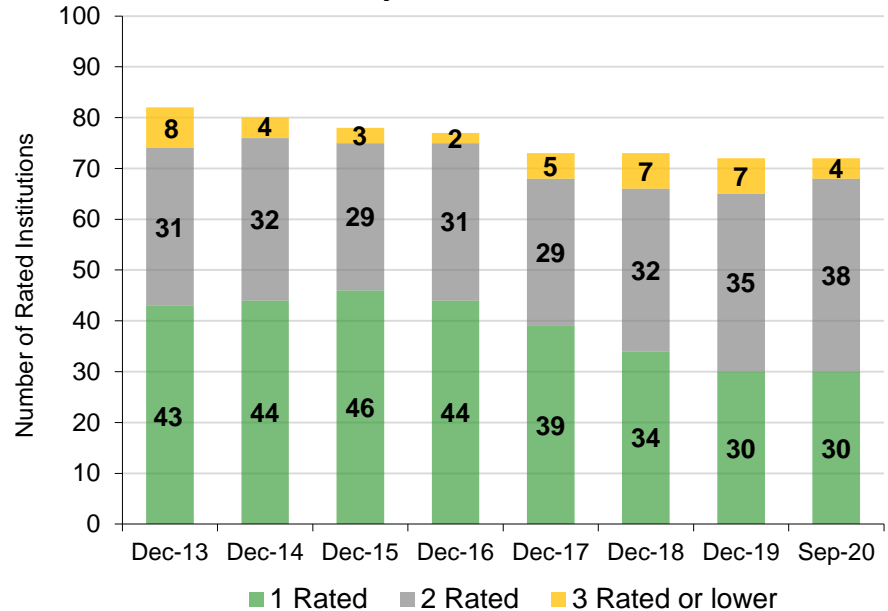
## FIRS Ratings

( based on 9/30/20 financial reporting )

- ▶ Composite FIRS ratings remained steady in the 3<sup>rd</sup> quarter
- ▶ Almost 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower account for about 1.0% of System assets



**Composite FIRS Ratings**  
**Farm Credit System Banks and Associations**



Source: FCA's FIRS ratings database



# Summary and final points

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- ▶ U.S. economic activity rebounded sharply in the 3<sup>rd</sup> quarter.
- ▶ Prospects have improved for the major cash crops, but challenges remain for the livestock sector.
- ▶ System portfolio loan quality has been stable, but the risk environment for agriculture remains elevated.
- ▶ The Farm Credit System remains fundamentally safe and financially sound.
- ▶ System institutions are strongly capitalized and are well-positioned to support agricultural producers and rural America.





# Questions

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**THANK YOU**



# FCA Board Meeting December 2020

Exhibit E

## Semi-Annual Report on Office of Examination Operations December 10, 2020

**Ashley Waldron**  
Director of Operations  
Office of Examination





# OE Operations | Focus Areas

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- ▶ Operating Plan Objectives
  - Risk Supervision and Examination Activities
  - Operational Efficiency and Effectiveness
  - Human Capital Update
- ▶ Summary







# Risk Supervision & Examination Activities



## System Profile as of 9/30/20

### 72 Lending Institutions

#### 4 Funding Banks

Asset Size from \$27B to \$148B

#### 68 Associations

Asset Size from \$55M to \$33B

**\$384.9**  
billion

Total Assets

**\$301.6**  
billion

Gross Loans

**\$4.4**  
billion

YTD Earnings

## FCS Institution Activities and Guidance

(Fiscal Year ended 9/30/2020)

- ▶ Conducted examination and oversight activities at all 4 funding banks, 68 associations (100%), and 10 other entities
- ▶ Issued 54 Reports of Examination and 27 Interim Activity Letters
  - Three institutions are currently under a higher level of supervisory oversight
- ▶ Communications and Guidance Activities
  - Internal/external communications
  - External meetings and conferences
  - Examination manual updates



# Supervision & Examination Initiatives

## 2020 NOP Risk Topics and Strategies:

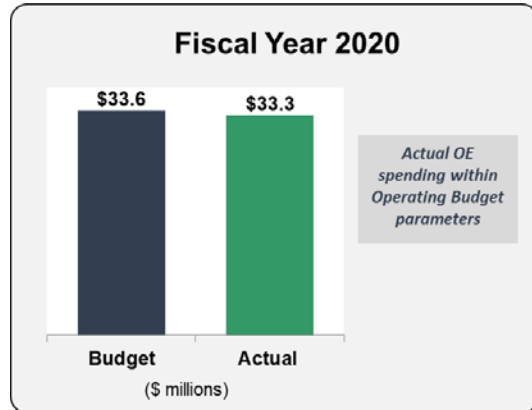
- ▶ **Credit | Lending Controls (focus on COVID-19 impact)**
  - Assessed institutions' risk identification and lending controls
  - Continued focus on stressed sectors (dairy and protein)
  - Monitored real estate values, particularly in the Midwest
- ▶ **Internal Audit | Governing the Third Line of Defense**
  - Completed risk assessment of institutions' internal audit programs
  - Evaluated board and audit committee engagement and oversight
- ▶ **Operational Risk | Cybersecurity and Emerging Threats**
  - Reviewed institutions' IT security controls
  - Emphasized business continuity in view of COVID-19





# Operational Efficiency & Effectiveness

- ▶ Examination tools | Ongoing technology initiatives
  - EDGe and Management Reporting
  - FCS Loan Database and Tools
  - Data Analytics
- ▶ OE budget results (Fiscal Year ended 9/30/2020)



## FTEs

Projected Fiscal Yr.	177.0
Planned Fiscal Yr.	184.8
Under plan	-7.8



# Human Capital Update

- ▶ Hiring, developing, and retaining Associate Examiners
- ▶ Post-Commission training
- ▶ Staff development opportunities
- ▶ Staffing

**Total OE Staff**

	Planned	Actual	Variance
<b>Beginning FY 2020</b>	<b>184</b>	<b>172</b>	<b>(12)</b>
Attrition   Retirement	(16)	(11)	5
Hiring	16	21	5
<b>Ending FY 2020</b>	<b>184</b>	<b>182</b>	<b>(2)</b>

**Commissioned Examiners**

	Planned	Actual	Variance
<b>Beginning FY 2020</b>	<b>93</b>	<b>94</b>	<b>1</b>
Attrition   Retirement <sup>1</sup>	(7)	(4)	3
Newly Commissioned	19	6	(13)
<b>Ending FY 2020</b>	<b>105</b>	<b>96</b>	<b>(9)</b>

<sup>1</sup> Actual attrition includes one commissioned examiner moving into Senior Management.



# Summary

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- ▶ Conditions required some modifications in examination approach, staff development, and recruiting
- ▶ Accomplished our 2020 Operating Plan objectives
- ▶ OE maintains sufficient highly skilled staff to accomplish our mission





# Discussion

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**THANK YOU**

Farm Credit Administration

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### **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 10, 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).

December 10, 2020  
Date

/s/  
Charles R. Rawls  
General Counsel