

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



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
June 11, 2020**

These minutes reflect the business transacted at the June 11, 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 10:30 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 six 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 stated Sunday is Flag Day and noted the importance of honoring the Flag and 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 May 14, 2020 Regular Board Meeting (BM-11-JUN-20-01)

Mr. Hall moved to approve the minutes for the May 14, 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-11-JUN-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

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 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

Hal Johnson 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 has been disconnected so the Board could meet in Closed Session with the Office of Secondary Market Oversight.

Chairman Smith convened the closed session of the meeting at 9:48 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 10:30 a.m.

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
June 11, 2020**

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

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Smith, Glen	X	X
Hall, Jeff	X	X
Morris, James	X	X
Donner, Mary Alice	X	X
Roque-Brehm, Awilda	X	
Calhoun, Gaye	X	
Aultman, Dale	X	X
COO		
Coleman, Robert	X	X
OIT		
Golley, Jerald	X	X
Matos, Ricardo	X	X
Versace, Jerry	X	X
OCPA		
Stokke, Michael	X	X
Middleton, Russell	X	X
OGC		
Rawls, Charles	X	X
Kramp, Kevin	X	X
OE		
Paulsen, Roger	X	X
Waldron, Ashley	X	X
Johnson, Hal	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

OFFICE	OPEN SESSION	CLOSED SESSION
OAS		
Bell, Vonda	X	X
Clark, Patrina	X	X
FCSIC		
Rubin, Howard	X	X
Grimaldi, Andrew	X	X
Wynn, Wade	X	X
Morgan, Matt	X	X
Smith, Greg	X	X
GENERAL PUBLIC	6	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
June 11, 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 June 11, 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 May 14, 2020

Reports

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

CLOSED SESSION

- 4 Office of Examination Quarterly Report¹

_____/s/
Dale Aultman
Secretary to the Board

June 1, 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 May 14, 2020

BM-11-JUN-20-01

Effective Date: June 11, 2020

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for May 14, 2020.

DATED THIS 11th DAY OF JUNE 2020

BY ORDER OF THE BOARD

_____/s/
Dale Aultman
Secretary to the Board



FCA Board Meeting June 2020

Exhibit D

Quarterly Report on FCS Condition June 11, 2020

Dennis A. Shields
Hal Johnson

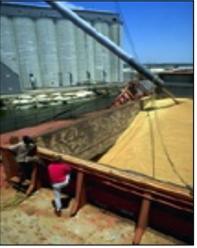




Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Economic indicators
 - Commodities and trade
 - 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

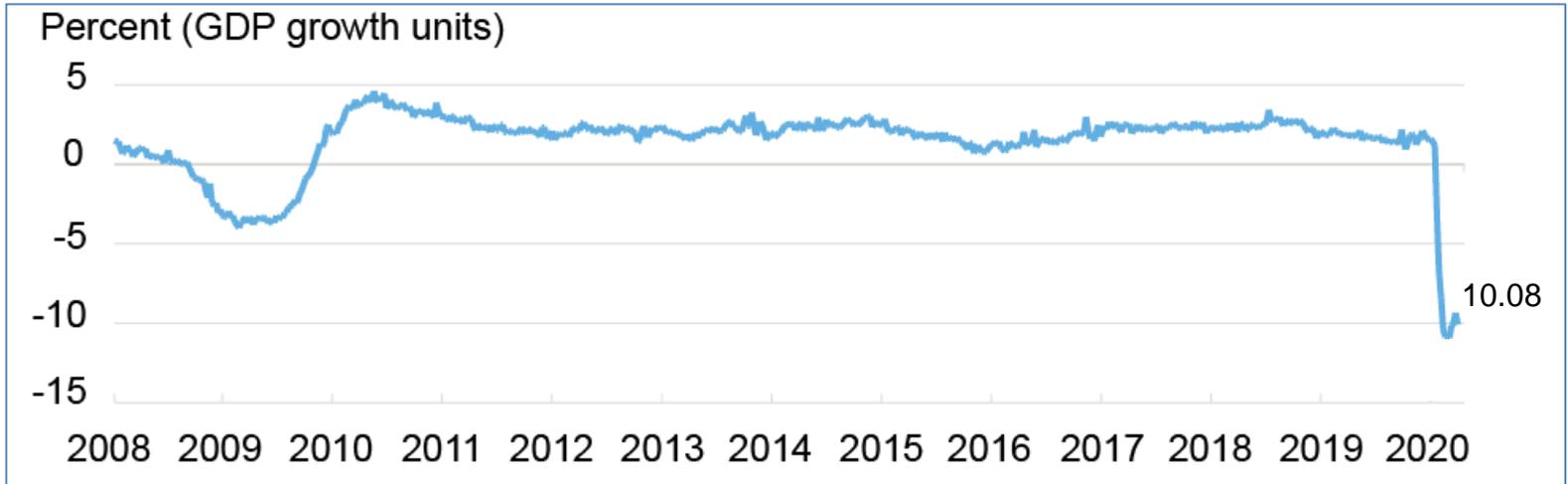
Office of Data Analytics and Economics



U.S. economy appears to turn the corner after steep contraction



Weekly Economic Index



Source: Federal Reserve Bank of New York, <https://www.newyorkfed.org/research/policy/weekly-economic-index>.



High unemployment rate edged lower in May

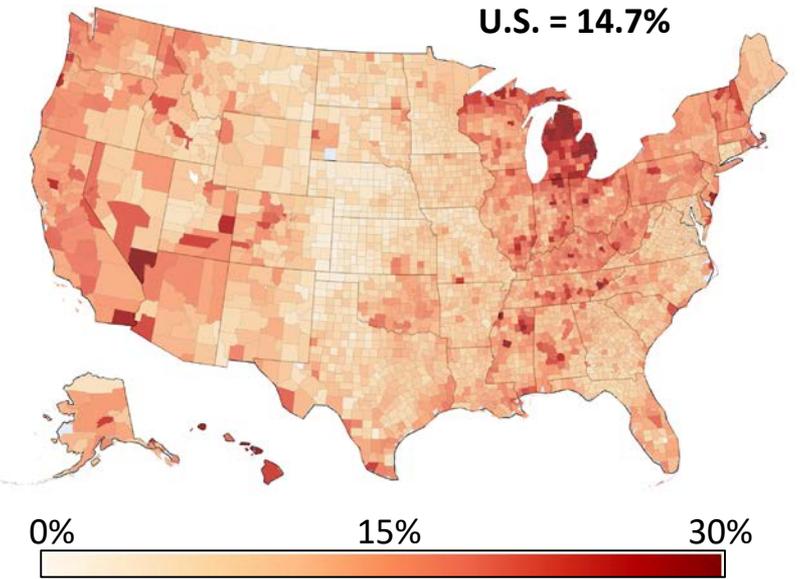


	Feb 2020	April 2020	May 2020
Employed	158.8 mil.	133.4 mil.	137.2 mil.
Unemployed	5.8 mil.	23.1 mil.	21.0 mil.
Unemploy. rate	3.5%	14.7%	13.3%

Unemployment insurance claims for 11 weeks through 5/30 were approximately 42.6 million.

Personal income in April rose 10.5% from the previous month, after falling 2.2% in March. Increases in government social benefits more than offset decreases in other sources of income.

Unemployment rate by county in April 2020



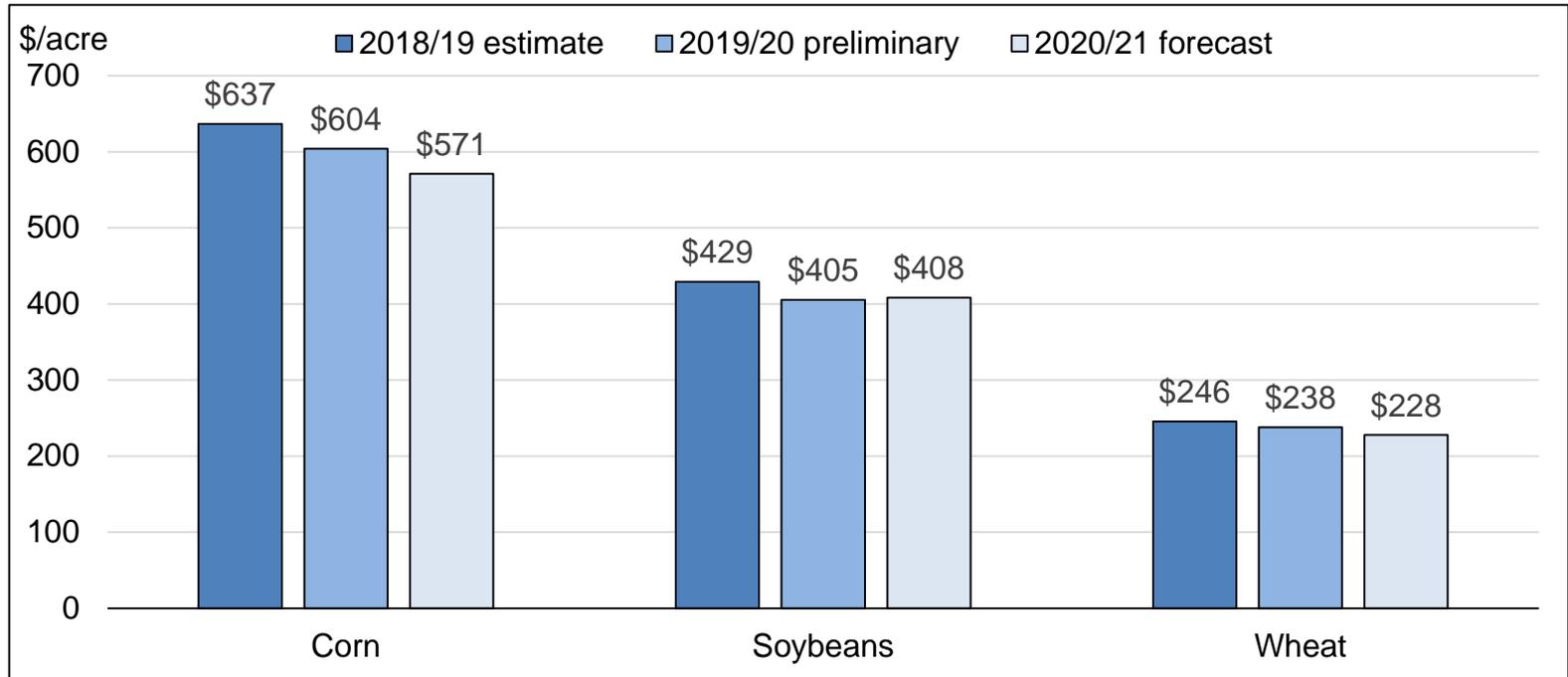
Source: FCA analysis of U.S. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empsit.a.htm>;
 insurance claims from <https://www.dol.gov/ui/data.pdf>; personal income from <https://www.bea.gov/news/2020/personal-income-and-outlays-april-2020>.



Crop returns will be under pressure in 2020/21



Market returns in \$ per acre



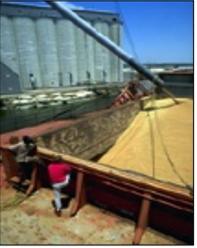
Source: Data from May 2020 WASDE, USDA.

Note: Market return equals season-average farm price times average U.S. yield.



Livestock sector contends with major processing disruption, but low corn prices help

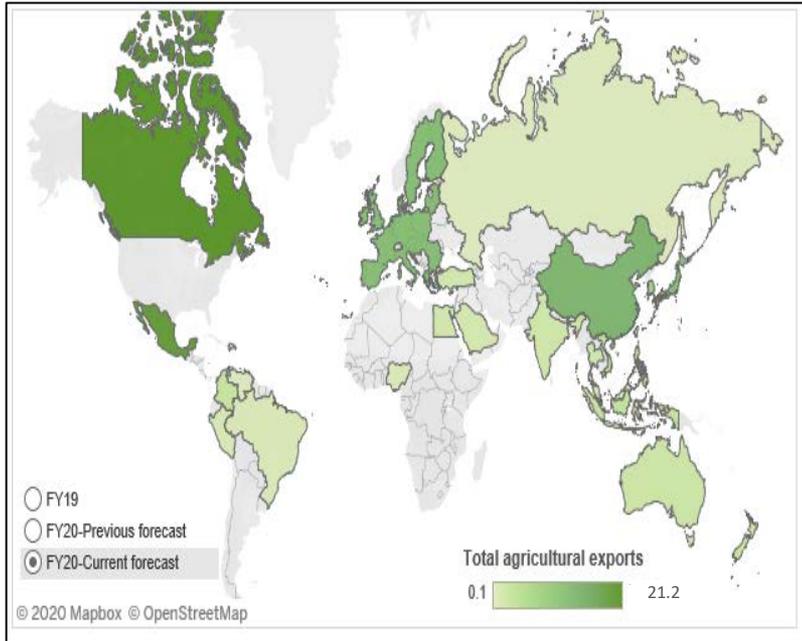
- ▶ Livestock prices have rebounded some in recent weeks, but challenges remain with processing backlogs and uncertain demand prospects.
- ▶ Cow-calf margins for 2020 will hinge on calf prices this fall (supported by low corn prices) and pasture conditions (dry in parts of the Plains and West).
- ▶ Feedlots are weathering the backlog of cattle; returns are highly mixed: hedged cattle are turning profits in June while unhedged animals are losing money.
- ▶ Hog margins were negative for every week of April, with producers losing \$20 per head. Breeding herd liquidation will reduce market hog supplies later this year.
- ▶ Dairy margins deteriorated quickly with negative returns in April and May not seen since 2009 or 2012. Margins are expected to remain in the red through at least June.
- ▶ For broilers, prices for major cuts and whole birds have generated weak margins. A low feed cost environment benefits broiler integrators.





U.S. agricultural export expectations have downshifted in the wake of COVID-19

Fiscal year U.S. agricultural exports (\$ bil.)



	2019	2020 forecast	
	Actual	Issued in February	Issued in May
Canada	\$20.9	\$21.5	\$21.2
Mexico	\$19.0	\$19.8	\$19.8
China	\$10.1	\$14.0	\$13.0
Europe	\$13.2	\$12.9	\$12.1
Japan	\$12.1	\$12.0	\$12.0
World	\$135.5	\$139.5	\$136.5

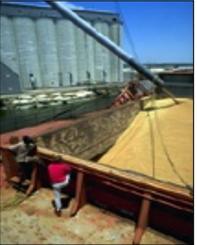
Source: USDA/ERS.

Note: Forecast as of May 29, 2020.





USDA's Coronavirus Food Assistance Program (CFAP) will bolster farm income in 2020



- ▶ CFAP delivers \$16 billion in direct payments to producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19.
- ▶ Not all producers will receive payments – based on inventory and sales in certain periods of early 2020.

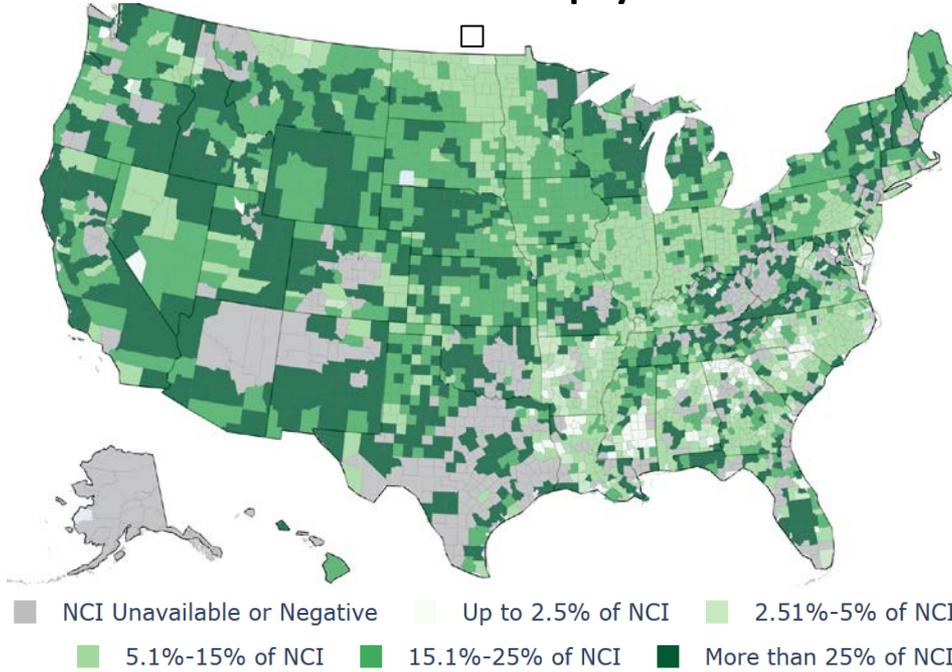
Commodity	Beef cattle	Dairy	Hogs	Non-specialty crops	Specialty crops	Other sectors
CFAP amount	\$5.1 bil.	\$2.8 bil.	\$1.6 bil.	\$3.5 bil.	\$2.4 bil.	\$0.7 bil.
Approx. % of 2019 cash receipts	7.5%	7.0%	6.9%	4.8%	3.1%	not avail.

- ▶ \$3 billion in purchases for distribution of fresh produce, dairy, and meat products through food banks and others.



CFAP payments represent sizable support for U.S. farm sector

Ratio of estimated 2020 CFAP payments to net cash income (NCI)



FCS district footprint using county estimates	Ratio of CFAP payments to net cash income
AgFirst	9%
AgriBank	16%
Texas	22%
CoBank	24%
U.S. total	18%

Source: FCA analysis of USDA national payment estimates by commodity, and USDA production, acreage, and inventory statistics; net cash income from 2017 Census of Agriculture. Note: Excludes payments to “other sectors.” 10



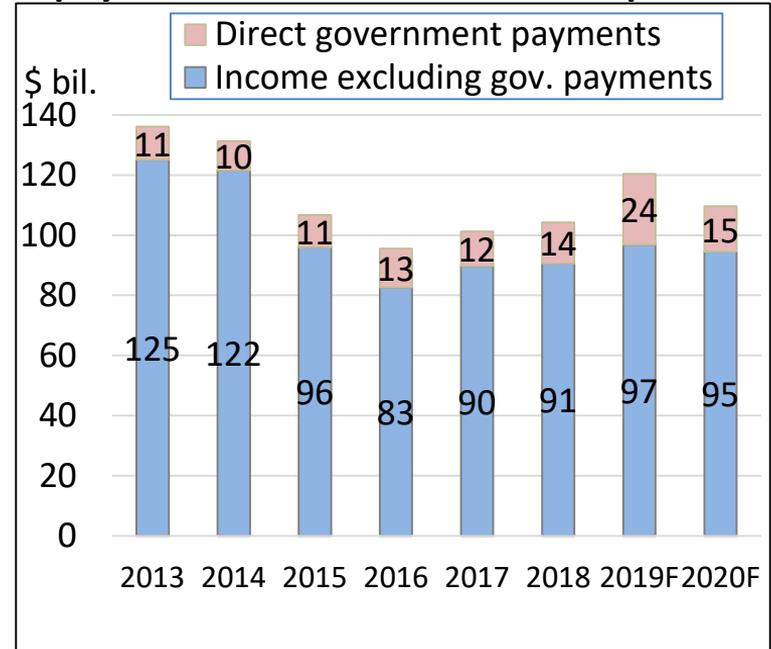


CFAP will double the amount of government payments to farm sector in 2020

- ▶ Prior to COVID-19, USDA expected \$15 billion in government payments for 2020.
- ▶ With CFAP, the farm sector will receive an additional \$16 billion in government payments.
- ▶ Net effect on total farm income will depend on impacts from reduced farm prices on cash receipts during the rest of 2020.
- ▶ A potential “Round 2” of CFAP could offset more market losses.



Net cash farm income excluding 2020 CFAP payments and COVID market impacts

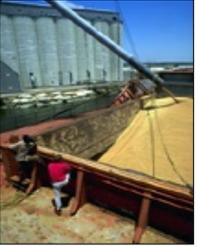


Source: USDA/ERS, February 5, 2020.



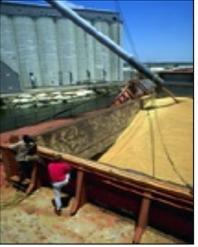
Concluding comments

- ▶ Economic recovery is underway and consumers are re-emerging; negative impacts continue for off-farm income prospects.
- ▶ Food system is adjusting and regaining its footing.
- ▶ Some commodity futures prices have returned to early March levels; notable exceptions include corn and hogs.
 - Major crop supplies remain plentiful and markets are weak; producers will continue to depend on regular farm program payments and additional assistance enacted this spring (and possibly this summer).
 - Protein sector is recovering from an epic disruption; export demand is relatively good for pork; foodservice demand is picking up.
 - For specialty crops, availability of farm workers is a concern.
- ▶ Government payments will support many producers in 2020.





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
March 31, 2020

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

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

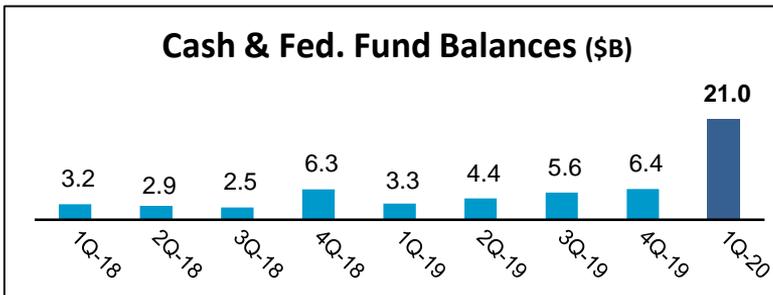
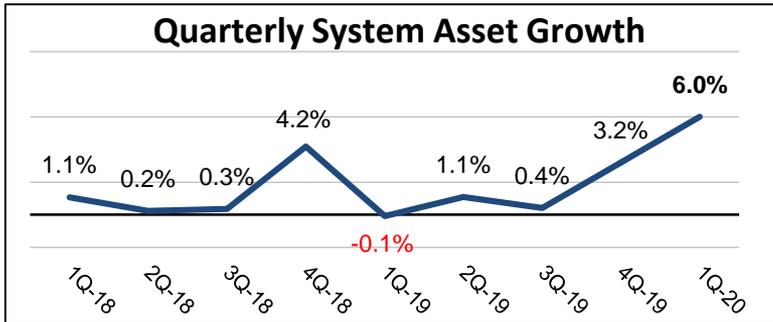




System assets grew by 6% in 1st quarter as Banks build liquidity levels

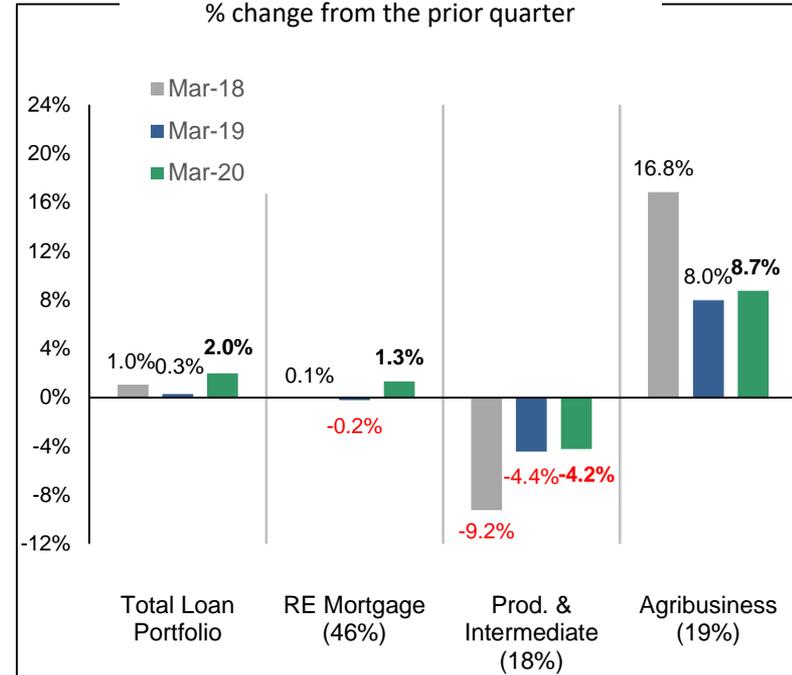


Total Assets 3/31/20	\$387.3	+6.0% Qtr
	billion	+11.1% 12M
Gross Loans 3/31/20	\$292.6	+2.0% Qtr
	billion	+6.7% 12M



Loan Growth by Loan Type

% change from the prior quarter



Source: FCS Information Statements

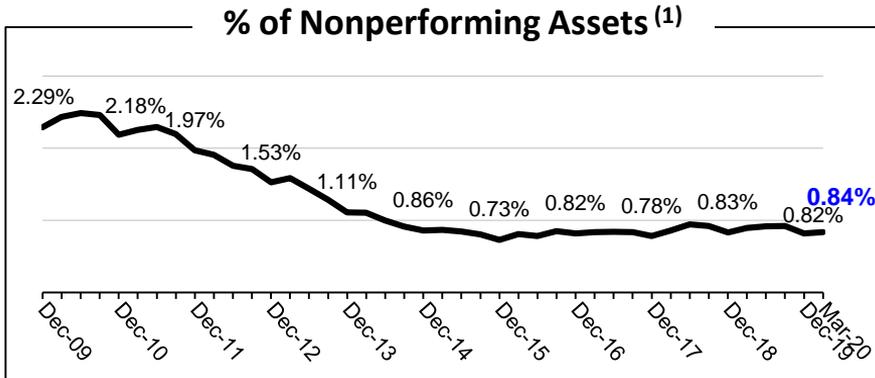


Credit risk indicators largely unchanged in the 1st quarter; COVID-19's impact not yet evident



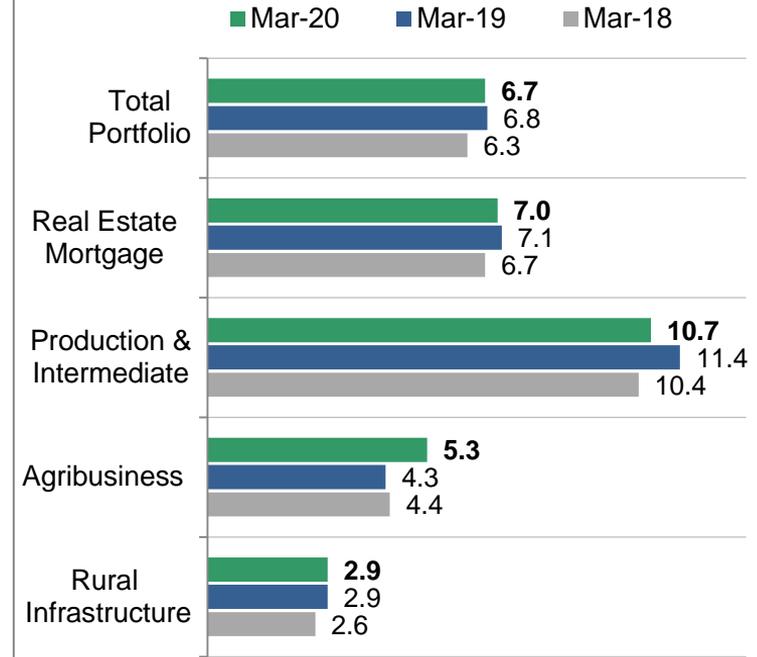
Nonperforming Assets (3/31/20)	\$2.451 billion	Qtr Chg. + \$104M or +4.4%
		12 Mnth Chg. Unchanged
Delinquencies ⁽¹⁾ (3/31/20)	0.46%	Q4 '19 0.30%
		Q1 '19 0.48%

(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)

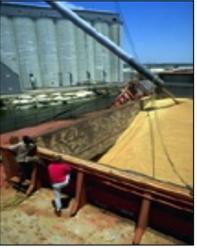
% of Loans Classified less than Acceptable



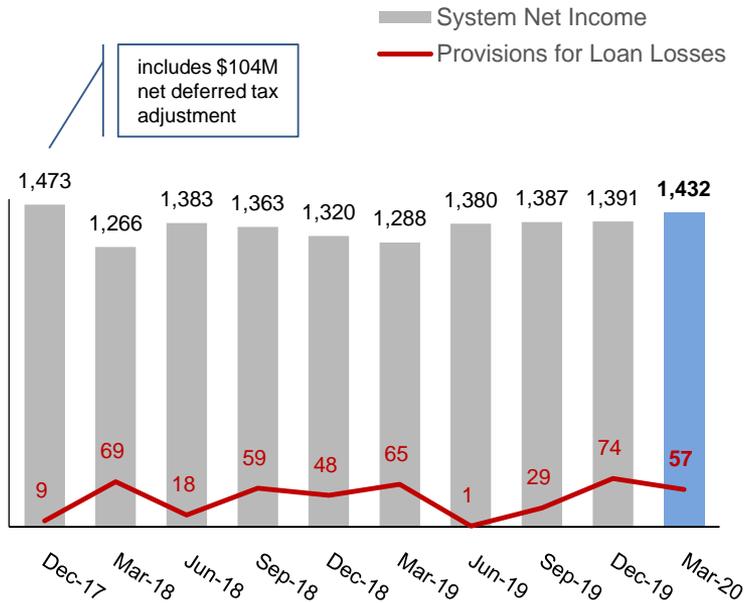
Source: FCS Information Statements



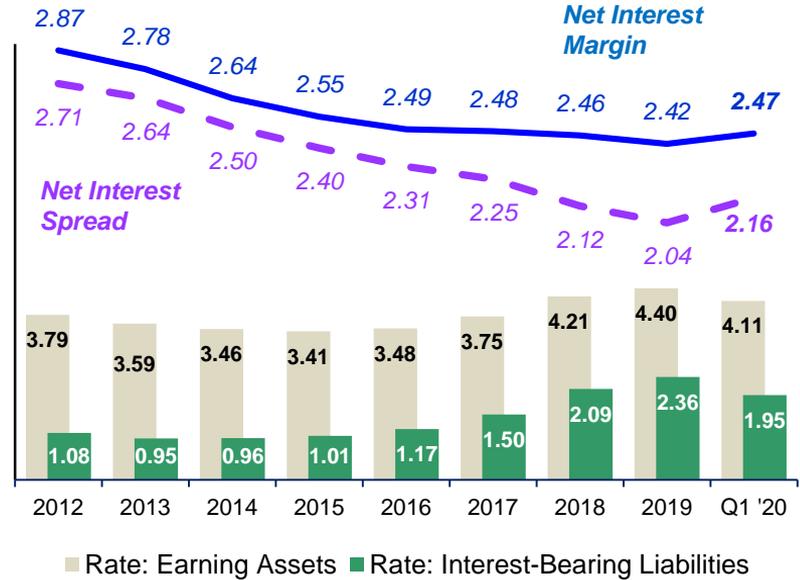
System reported strong 1st quarter earnings



Quarterly System Earnings (\$M)



Net Interest Spread | Net Interest Margin



Source: FCS Information Statements



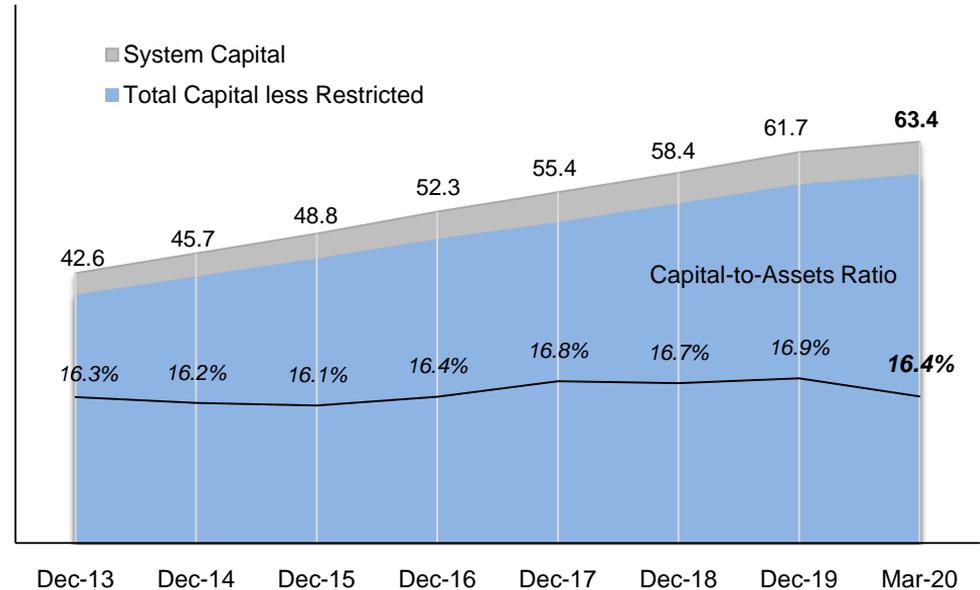
Continued capital growth; strong liquidity

Capital and Liquidity

(as of March 31, 2020)

- ▶ Total Regulatory Capital levels:
Banks | 15.2% to 18.1%
Associations | 12.6% to 38.2%
- ▶ Days of available liquidity for the 4 funding banks ranged from 163 to 240 days
- ▶ Capital and the Allowance for Loan Losses as a % of loans for the combined districts ranged from 18.1% to 22.6%

Total System Capital (\$B)



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

Source: FCS Information Statements



System FIRS ratings

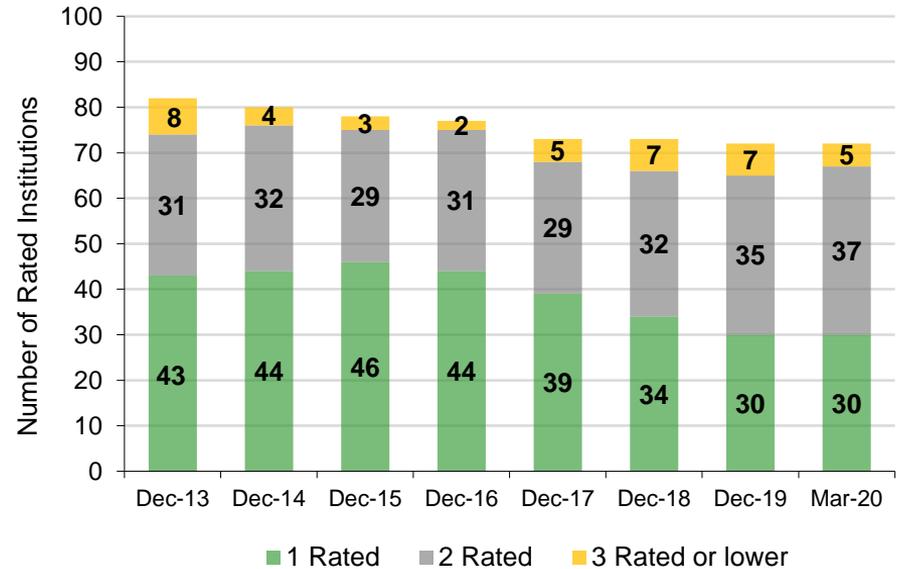


FIRS Ratings

(based on 3/31/20 financial reporting)

- ▶ 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 1.5% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



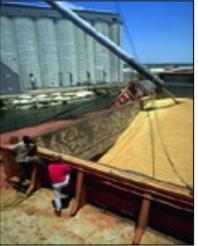
Summary and final points

- ▶ COVID-19 has had a profound and far-reaching impact on the U.S. economy.
- ▶ Agricultural producers are facing extremely challenging and volatile market conditions.
- ▶ Although the effect of current events was not yet evident in the 1st quarter, a broad range of agricultural sectors are under significant stress.
- ▶ System institutions are financially sound, strongly capitalized, and well-positioned to continue to support U.S farmers and ranchers.





Questions



THANK YOU



FCA Board Meeting June 2019

Exhibit E

Semi-Annual Report on Office of Examination Operations June 11, 2020

Hal Johnson
Sr. Financial Analyst
Office of Examination





OE Operations | Focus Areas

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

- ▶ Summary





Risk Supervision & Examination Activities



System Profile as of 3/31/20

72 Lending Institutions

4 Funding Banks

Asset Size from \$28B to \$158B

68 Associations

Asset Size from \$42M to \$31B

\$387.3
billion

Total Assets

\$292.6
billion

Gross Loans

\$1.4
billion

YTD Earnings

FCS Institution Activities and Guidance

(through 2nd quarter FY 2020)

- ▶ Conducted onsite activities at all 4 funding banks, 45 associations (66%), and 2 other entities
- ▶ Issued 25 Reports of Examination and 7 Interim Activity Letters
 - Five institutions are currently under a higher level of supervisory oversight
- ▶ Communications and Guidance Activities
 - Internal/external communications
 - External meetings and conferences
 - Examination manual updates and revisions

Source: FCS Information Statement



Supervision & Examination Initiatives

2020 NOP Risk Topics and Strategies:

- ▶ **Credit | Lending Controls**
 - Assess institutions' risk identification and lending controls
 - Continued focus on stressed sectors
 - Monitor real estate values, particularly in the Midwest
- ▶ **Internal Audit | Governing the Third Line of Defense**
 - Risk assessment of institutions' internal audit programs
 - Evaluate board and audit committee engagement and oversight
- ▶ **Operational Risk | Cybersecurity and Emerging Threats**
 - Review institutions' IT security controls against cybersecurity risks

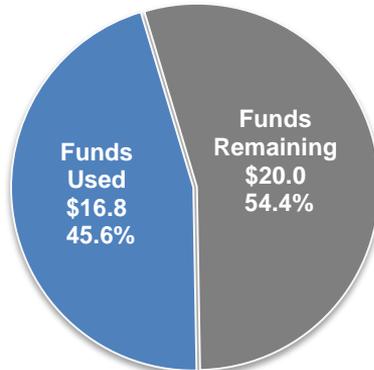




Operational Efficiency & Effectiveness

- ▶ Examination tools | Ongoing technology initiatives
 - EDGe and Management Reporting
 - FCS Loan Database and Tools
- ▶ OE Budget results (Fiscal YTD thru 3/31/20)

FY 2020 OE Budget - \$36.8M



FTEs	
Projected Fiscal Yr.	177.9
Planned Fiscal Yr.	184.8
Under plan	6.9





Human Capital Update

- ▶ Hiring, developing, and retaining Associate Examiners
- ▶ Post-Commission training
- ▶ Staff Development Opportunities
- ▶ Staffing



Total OE Staff

	Planned	Projected	Variance
Beginning FY 2020	184	172	(12)
Attrition Retirements	(16)	(7)	9
Hirings	16	17	1
Ending FY 2020	184	182	(2)

Commissioned Examiners

	Planned	Projected	Variance
Beginning FY 2020	93	94	1
Attrition Retirements	(7)	(3)	4
Newly Commissioned	19	6	(13)
Ending FY 2020	105	97	(8)



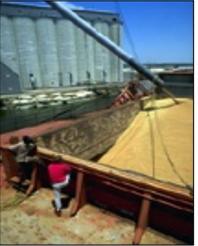
Summary

- ▶ Maintained a strong onsite risk-based examination presence through the 1st half of FY 2020
- ▶ Current conditions have required a pronounced shift in examination approach, staff development, and recruiting
- ▶ Remain focused on ensuring OE has sufficient highly skilled staff to accomplish its mission
- ▶ On target to accomplish 2020 Operating Plan objectives and meet or exceed all Agency performance measures





Discussion



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 June 11, 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).

June 11, 2020
Date

/s/
Charles R. Rawls
General Counsel