

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 9, 2021**

These minutes reflect the business transacted at the September 9, 2021, 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 10:29 a.m.

Members of the Board present were:

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

Others present included **Clark Ogilvie**, 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 hybrid physical / virtual meeting with some personnel in the Board room (observing safety precautions), and most personnel 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 congratulated **Autumn Agans** as the new Deputy Director in the Office of Regulatory Policy and **Dan Fennewald** as the new Deputy Director in the Office of Examination.

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 August 12, 2021 Regular Board Meeting (BM-9-SEPT-21-01)

Mr. Hall moved to approve the minutes for the August 12, 2021, 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-9-SEPT-21-01)**

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

New Business

Tier 1/Tier 2 Capital Framework - Clarifying Corrections and Revisions: Final Rule (BM-9-SEPT-21-02)

Jeremy Edelstein and **Clayton Milburn** of the **Office of Regulatory Policy**, and **Jennifer Cohn** and **Becky Orlich** of the **Office of General Counsel** presented the Tier 1/Tier 2 Capital Framework - Clarifying Corrections and Revisions: Final Rule.

Chairman Smith opened the discussion for questions and comments by the Board.

Chairman Smith asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Chairman Smith called for a motion on the staff's recommendation.

Mr. Hall moved to approve the Tier 1/Tier 2 Capital Framework - Clarifying Corrections and Revisions: Final Rule as recommended by staff.

Chairman Smith seconded the motion.

Chairman Smith asked if there was any further discussion.

There being no further discussion, **Chairman Smith** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-9-SEPT-21-02)**

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

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 opened the discussion for questions and comments from the Board.

There were no further questions or comments.

(A copy of the PowerPoint presentation is attached as Exhibit E.)

CLOSED SESSION

Chairman Smith convened the closed session of the meeting at 10:08 a.m.

Chairman Smith thanked members of the public for connecting and noted that this was a Closed Session and asked **OIT staff** to disconnect the public, and asked FCA and FCISIC staffers to leave the meeting (by disconnecting or leaving the Boardroom) if they do not normally observe the Closed Session.

Chairman Smith asked **OIT staff** to confirm that the public had been disconnected so the Board could meet in Closed Session with the Office of Examination. **OIT staff** provided that confirmation.

Chairman Smith 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. **OIT staff** confirmed the recording had started.

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 **Secretary** noted the start time of the Closed Session, indicated he had the **General Counsel** certification, and called the roll. (Attendees are shown on Exhibit A.)

(A copy of the General Counsel 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 opened the discussion for questions and comments from the Board.

There were no further questions or comments.

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 10:29 a.m.

NOTATIONAL VOTE ACTIONS

There were five notational vote actions approved by the FCA Board from August 12, 2021, through September 8, 2021 as follows:

Item Number	Action Date	Voting Results	Subject
NV 21-20	08/18/2021	Approved	Investment Request from CoBank, ACB to Invest in health care center in rural Kentucky, subject to conditions.
NV 21-21	08/27/2021	Approved	Request to Extend Comment Period Advance Notice of Proposed Rulemaking – Bank Liquidity Reserves.
NV 21-22	09/02/2021	Approved	AgFirst Farm Credit Bank request to retire certain preferred stock included in its regulatory capital.
NV 21-23	08/31/2021	Approved	Annual Update and Renewal of FCA Policy Statement #62 on Equal Employment Opportunity and Diversity containing minor technical edits.
NV 21-24	09/07/2021	Approved	FCA Revised FY 2022 and Proposed FY 2023 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 9, 2021.

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

_____/s/
Dale Aultman
Secretary to the Board

Approved: October 14, 2021

ATTENDANCE LIST - FCA REGULAR BOARD MEETING
September 9, 2021

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
Calhoun, Gaye	X	
Roque-Brehm, Awilda	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
Meaux, Willy	X	X
OGC		
Ogilvie, Clark	X	X
Griffin, Ward	X	X
Cohn, Jennifer	X	
Orlich, Becky	X	
OE		
Paulsen, Roger	X	X
Fennewald, Dan	X	X
Waldron, Ashley	X	X
Johnson, Hal	X	X
ODAE		
D'Antoni, Jeremy	X	X
Koenig, Steve	X	X
Shields, Dennis	X	X
OIG		
Laguarda, Wendy	X	X
Miller, Kevin	X	X
OSMO		
Rea, Laurie	X	X
ORP		
Kramp, Kevin	X	X
Edelstein, Jeremy	X	
Milburn, Clayton	X	

OFFICE	OPEN SESSION	CLOSED SESSION
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X
OAS		
Bell, Vonda	X	X
Clark, Patrina	X	X
FCSIC		
Rubin, Howard	X	X
Grimaldi, Andrew	X	X
Wynn, Wade	X	X
Smith, Greg	X	X
Morgan, Matt	X	X

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 9, 2021

SUMMARY: Notice is hereby given, pursuant to the Government in the Sunshine Act, of the forthcoming regular meeting of the Farm Credit Administration Board.

DATE: The regular meeting of the Board will be held September 9, 2021, from 9:00 a.m. until such time as the Board may conclude its business.

ADDRESSES: *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 in SUPPLEMENTARY INFORMATION for board meeting visitors.*

FOR FURTHER INFORMATION CONTACT: Dale Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

SUPPLEMENTARY INFORMATION: Instructions for attending the virtual meeting: 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, at least 24 hours before the meeting, go to [FCA.gov](https://www.fca.gov), select "Newsroom," then "Events." There you will find a description of the meeting and a link to "Instructions for board meeting visitors." 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 August 12, 2021

New Business

- 2 Tier 1/Tier 2 Capital Framework - Clarifying Corrections and Revisions: Final Rule

Reports

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

CLOSED SESSION

- 4 Office of Examination Quarterly Report¹

_____/s/
Dale Aultman
Secretary to the Board

August 27, 2021
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 August 12, 2021

BM-9-SEPT-21-01

Effective Date: September 9, 2021

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for August 12, 2021.

DATED THIS 9th DAY OF SEPTEMBER 2021

BY ORDER OF THE BOARD

_____/s/
Dale Aultman
Secretary to the Board

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Tier 1/Tier 2 Capital Framework - Clarifying Corrections and Revisions: Final Rule

BM-9-SEPT-21-02

Effective Date: September 9, 2021

Impact on Prior Board Actions: This Board action adopts a rule that would amend the capital regulations approved by the FCA Board on March 10, 2016. The rule would also supersede some of the guidance provided in FCA Bookletter-068 that was approved by the FCA Board on December 22, 2016.

THE FCA BOARD HEREBY:

- Approves a final rule that would amend the Tier 1/Tier 2 Capital Framework rule; and
- Authorizes FCA staff to make any technical or grammatical changes to the final rule that may be necessary prior to publication in the *Federal Register*.

DATED THIS 9th DAY OF SEPTEMBER 2021

BY ORDER OF THE BOARD

_____/s/
Dale Aultman
Secretary to the Board



FCA Board Meeting September 2021

Exhibit E

Quarterly Report on FCS Condition September 9, 2021

Steve Koenig
Hal Johnson





Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
 - Macro economy
 - Commodity markets
 - Farm economy
- FCS Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Steve Koenig

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



Strong economic growth anticipated

- Historically high 6.4% GDP growth rate in the 1st half of 2021
- U.S. and rural labor markets healing
- Robust business investment and balance sheets
- High levels of government support
- July consumer confidence falls to a 10-year low and consumer spending slows

GDP Growth to Remain High?



Data source: Federal Reserve Bank of St. Louis.

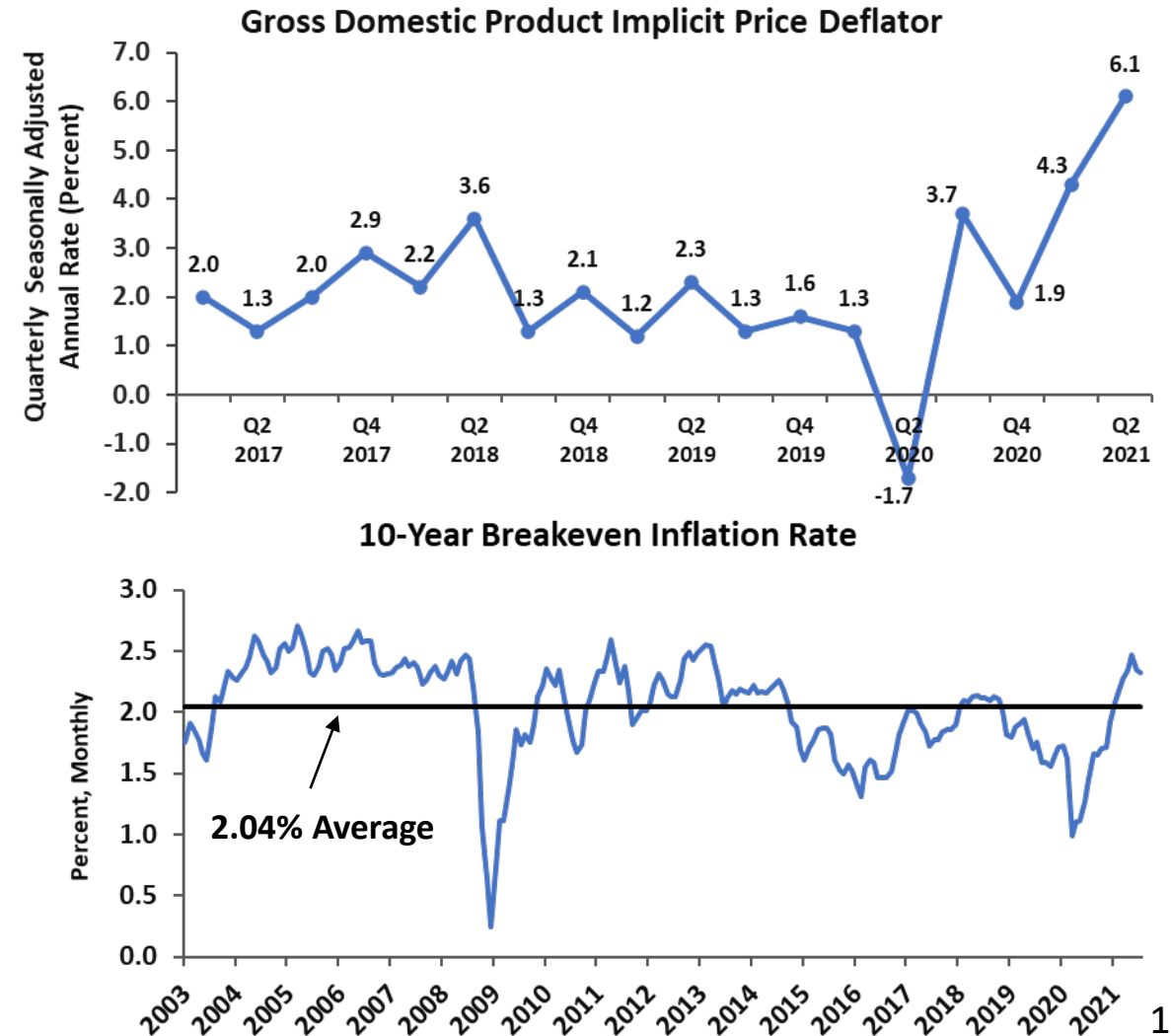


Inflation worries continue

Inflation accelerates in 1st half

- GDP Implicit Price Deflator exceeds 6% in the 2nd Quarter
- June and July CPI at 5.4%
- Debate on the “transitory” nature of inflation rages on
- 10-Year Treasury breakeven yield suggests the market anticipates more modest inflation ahead

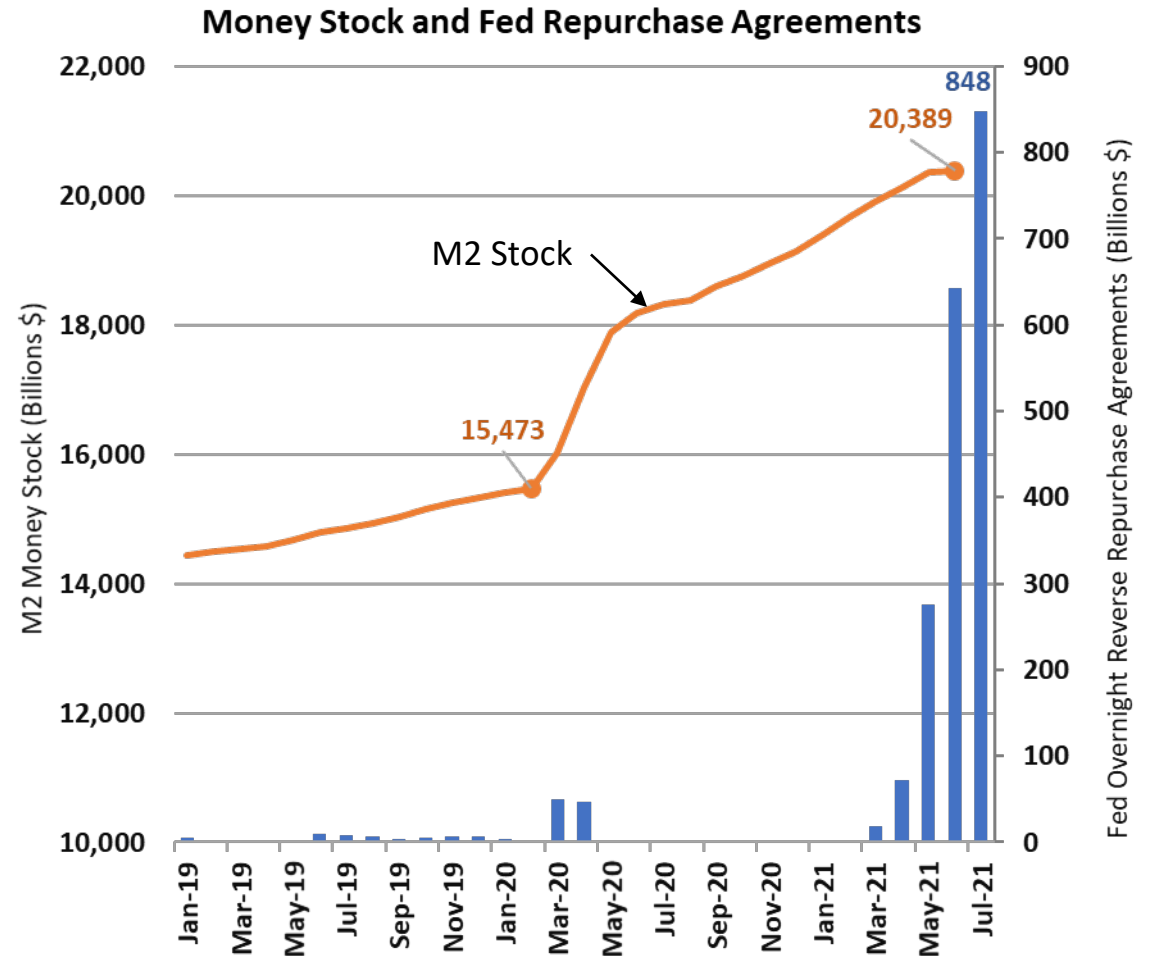
Data source: Federal Reserve Bank of St. Louis.





Central Bank response

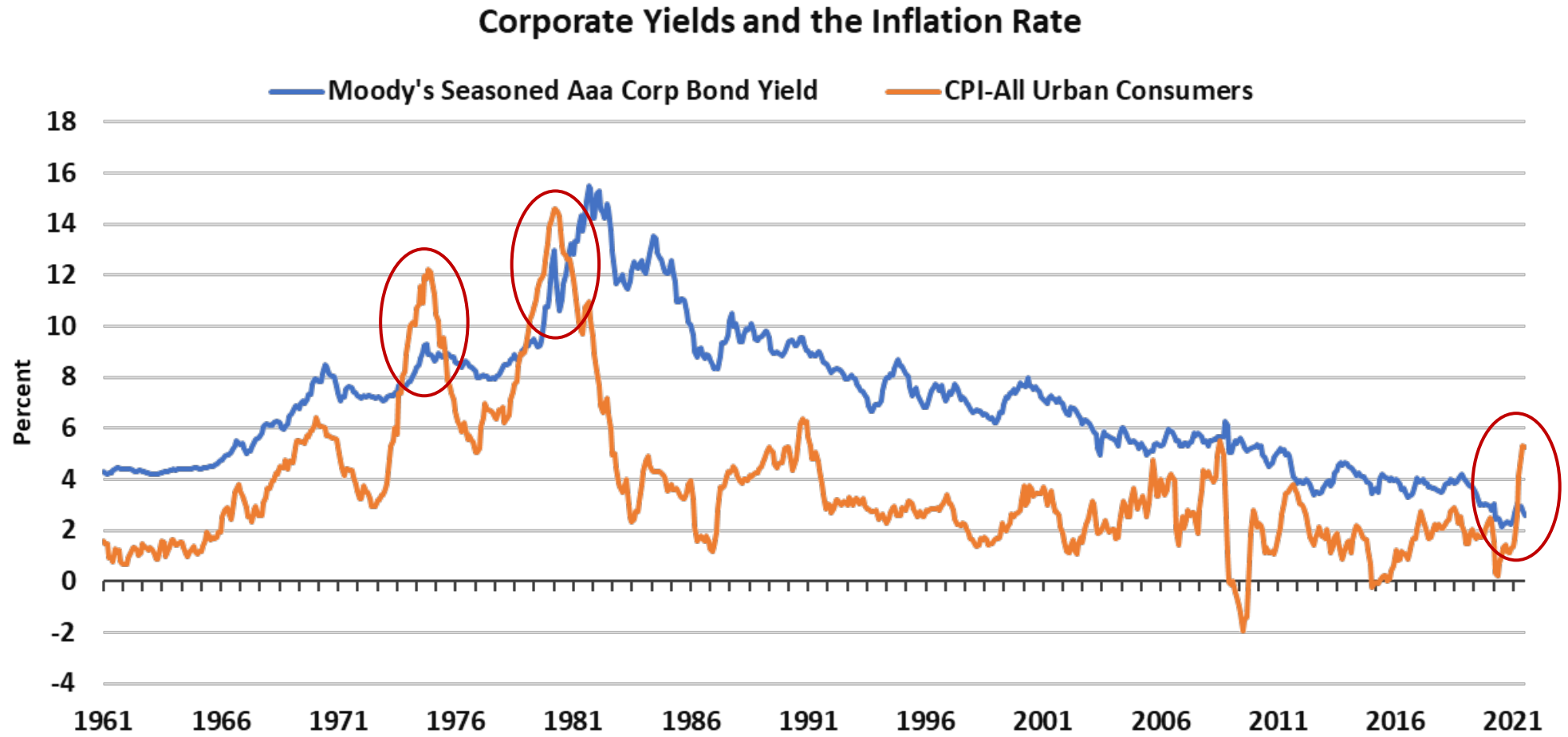
- \$5 trillion in money supply growth
- Signals it will “soon” be “tapering” its \$120 billion in monthly purchases
- Has been extensively using Overnight Reverse Repurchase Agreements since March



Data source: Federal Reserve Bank of St. Louis.



Negative real returns after 40-year absence



Data source: Federal Reserve Bank of St. Louis.

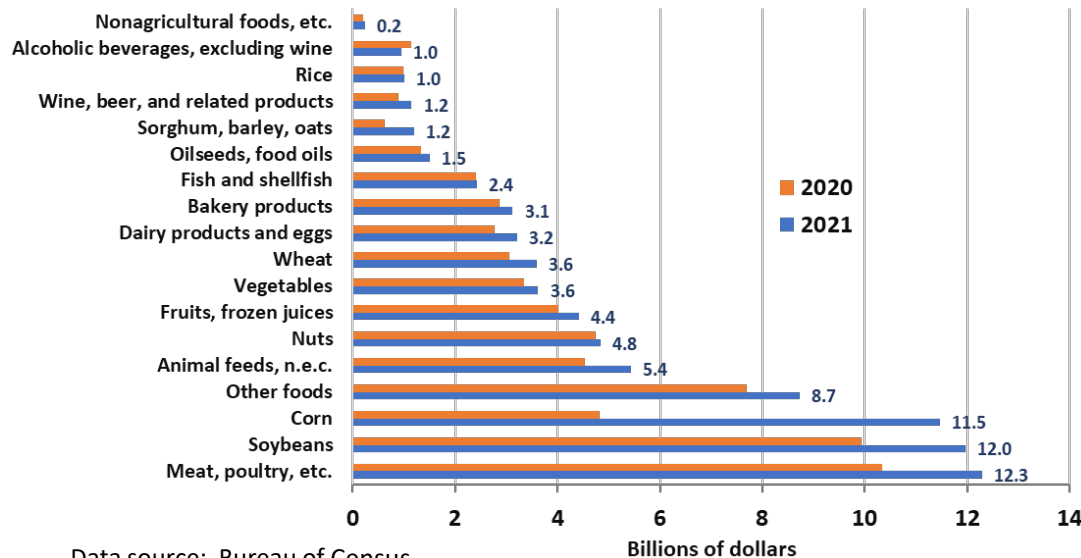


Value of agricultural exports rise in first half

- \$ volume up 24% in the first half of 2021
- Relatively stable dollar
- Exports to China are key

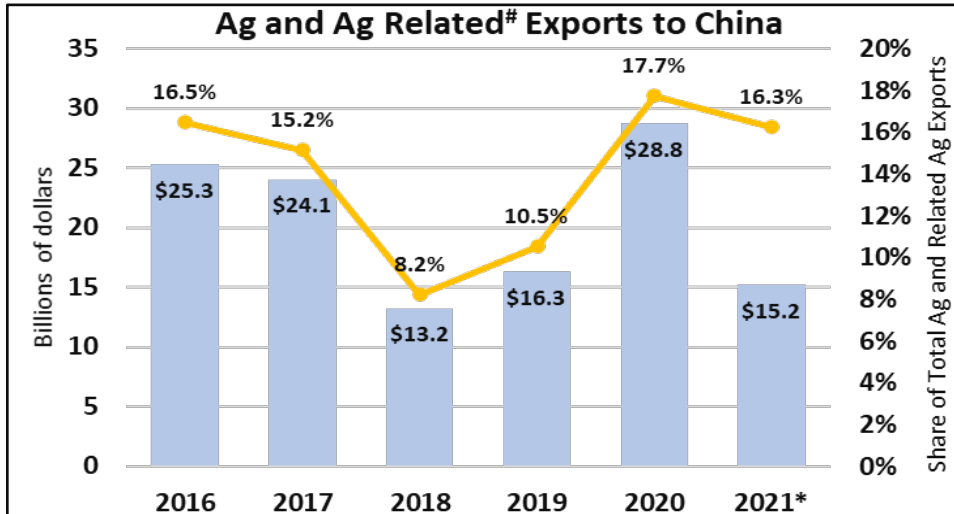


US Ag/Food Exports 1st Half of the Year



Data source: Bureau of Census.

Billions of dollars



Includes, seafood, forestry, and biofuels. * First 6 months.

U.S. Export Values to China (millions)

Top 10	Jan - Jun 2021	Jan - Jun 2020
Soybeans	\$3,566	\$1,339
Corn	\$3,320	\$61
Course Grains	\$1,160	\$471
Pork & Pork Products	\$1,086	\$1,362
Forest Products	1,012	815
Cotton	\$854	\$643
Beef & Beef Products	\$623	\$54
Wheat	\$458	\$136
Poultry Meat & Prods (exclude eggs)	\$396	\$306
Dairy Products	\$353	\$242

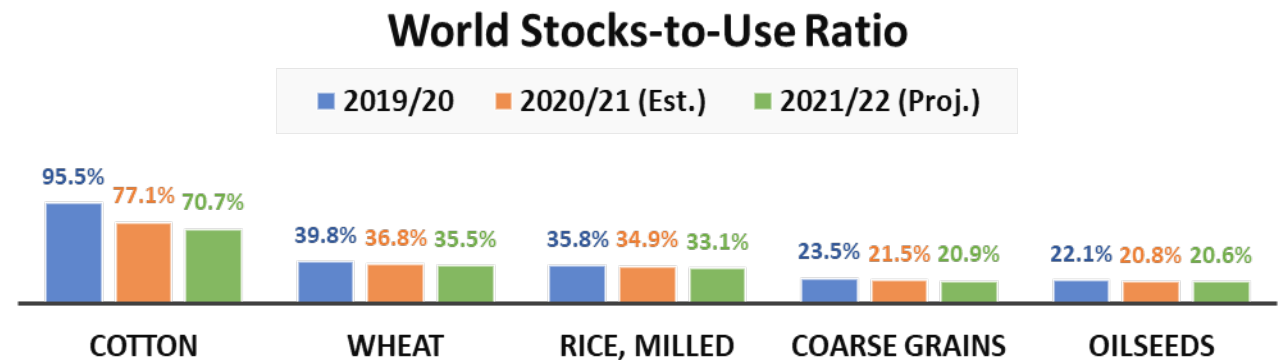
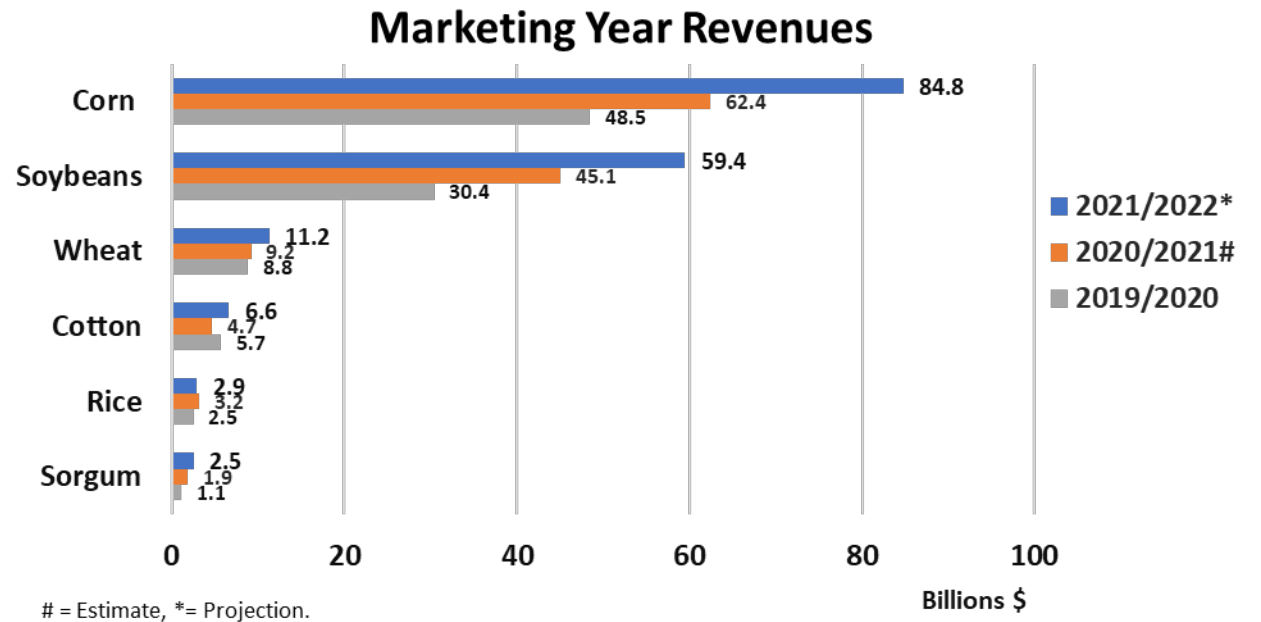


Key grain and oilseed revenues soar

- Projected 2021/22 corn and soybean revenues to rise \$55 billion over 2019/20
- Strong export and domestic demand and limited supplies should keep prices elevated
- Tight supplies forecasted

U.S. 2021/2022 Ending Stocks-to-Total Use	
Commodity	Ratio
Soybeans	3.5%
Feed grains	8.6%
Rice	15.4%
Cotton	17.1%
Wheat	30.5%

Data source: USDA/WASDE, August 12, 2021.



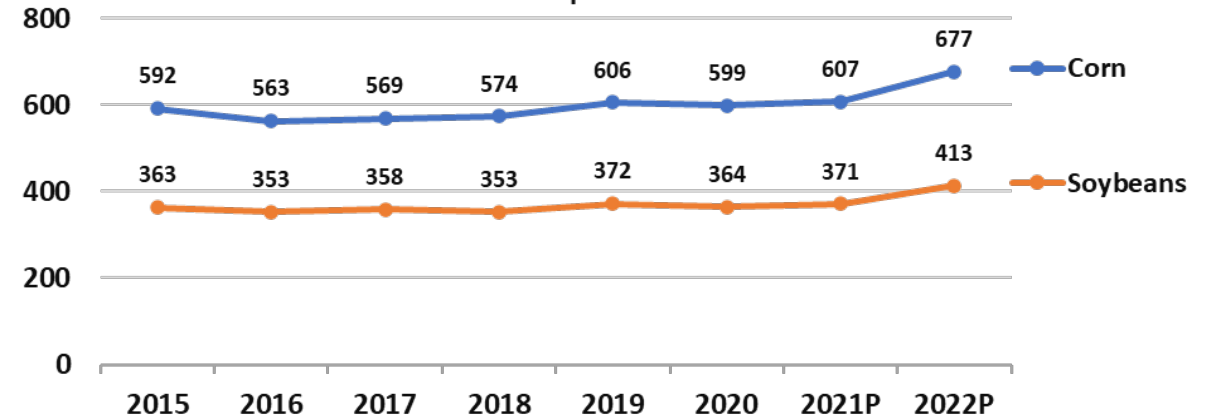


Higher costs to erode crop revenue gains

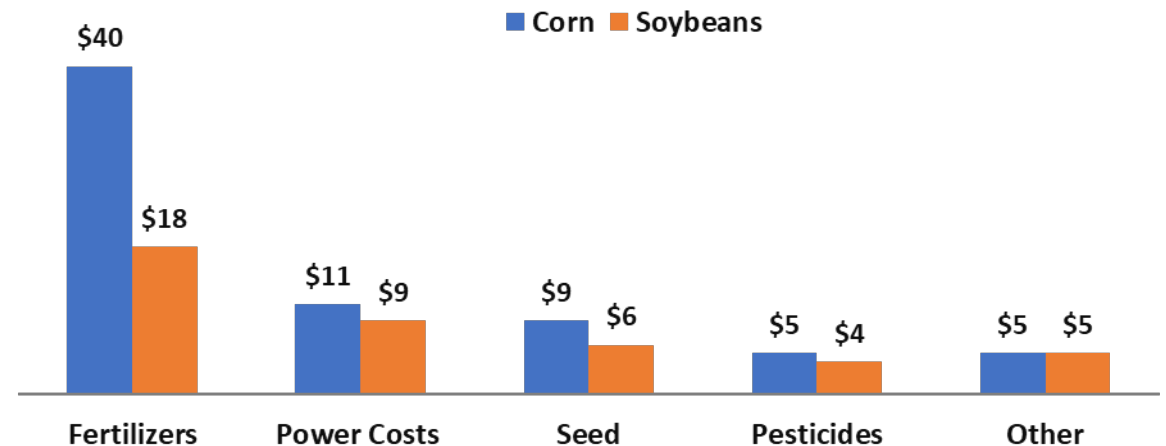
- Illinois input costs forecasted to rise sharply in 2022
- Higher fertilizer expenses to be the biggest cost driver
- Land costs (rental costs) should also rise significantly
- Any lowering of revenues would translate into thinner margins for next year's crop

Source: University of Illinois.

Central Illinois Non-Land Production Costs
Dollars per acre



2022 Central Illinois Production Cost Increases Per Acre





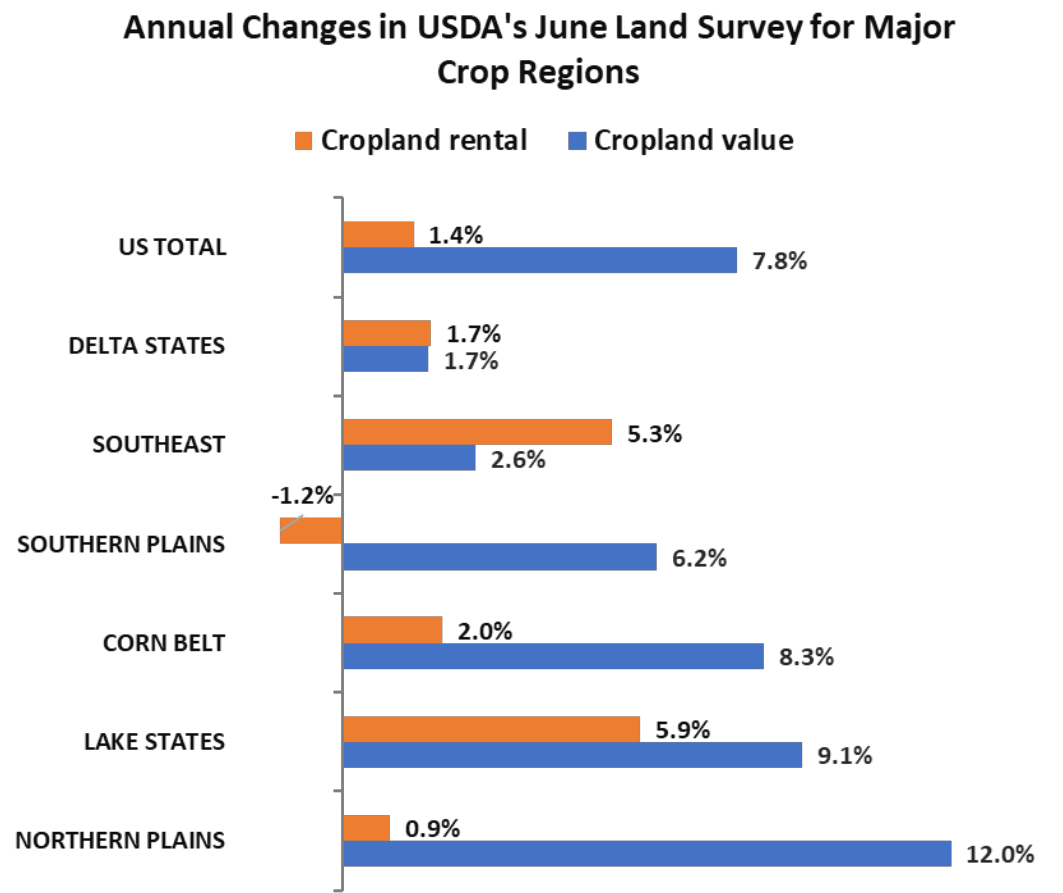
Stronger crop revenues fires up land markets



- Cropland: \$4,420 per acre up 7.8%
- Pastureland: \$1,480 per acre up 5.7%
- Rental rate increases lag land value increases
- Midwest banker surveys and others suggest stronger price increases

Year-over-year changes in the second quarter of 2021				
Federal Reserve District Survey	Cropland Value*	Cropland Rental Rates*	Ranch Pastureland Value	Pasture Rental Rates
Annual Percent				
Chicago	14	-	-	-
Kansas City	11	7	11	1
Minneapolis	16	9	13	6
*Nonirrigated				

Data sources: District Federal Reserve Banks and USDA.





Land markets reflect financial conditions

➤ Land market drivers

- Higher crop revenues
- Large government payments
- Negative real borrowing rates
- Inflation fears and nonfarmer interest
- Limited supply of land on the market
- Stronger farm financial footing

➤ Farm Financial Indicators

- Land prices push farm assets higher
- Strong farm income
- Improving credit quality
- Rising farm debt





Drought damage piles up

Estimated Production cuts vs. 2020

➤ Northern Plains

- Spring wheat – 41%
- Durum wheat – 50%
- Montana barley – 54%
- North Dakota dry edible beans – 46%
- South Dakota alfalfa hay – 50%

➤ Western States

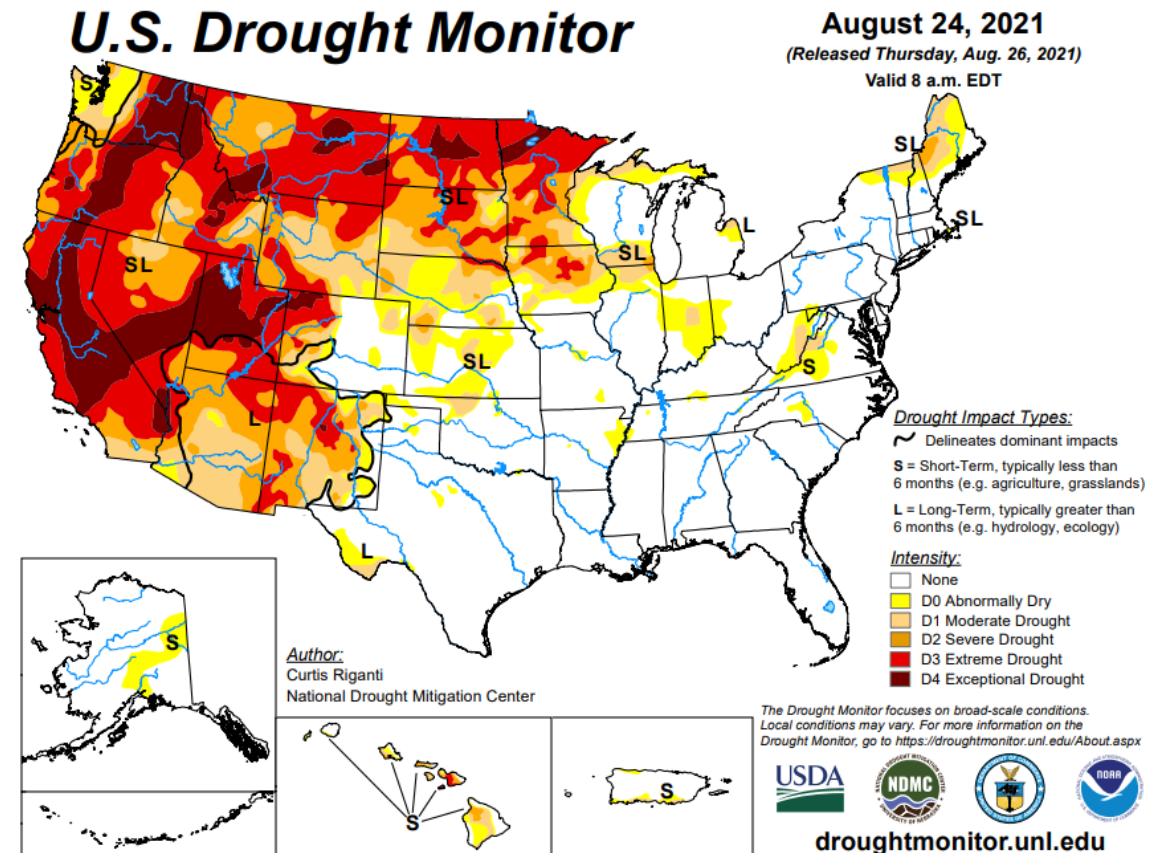
- Washington winter wheat – 44%
- Washington pears – 20%
- California almonds – 10%

➤ Pasture rated “Poor to Very Poor”

- 10 states > than 60% on 8/23/21

WY, UT, SD, ND, NV, MN, MT, WA, OR, ID

Source: USDA.

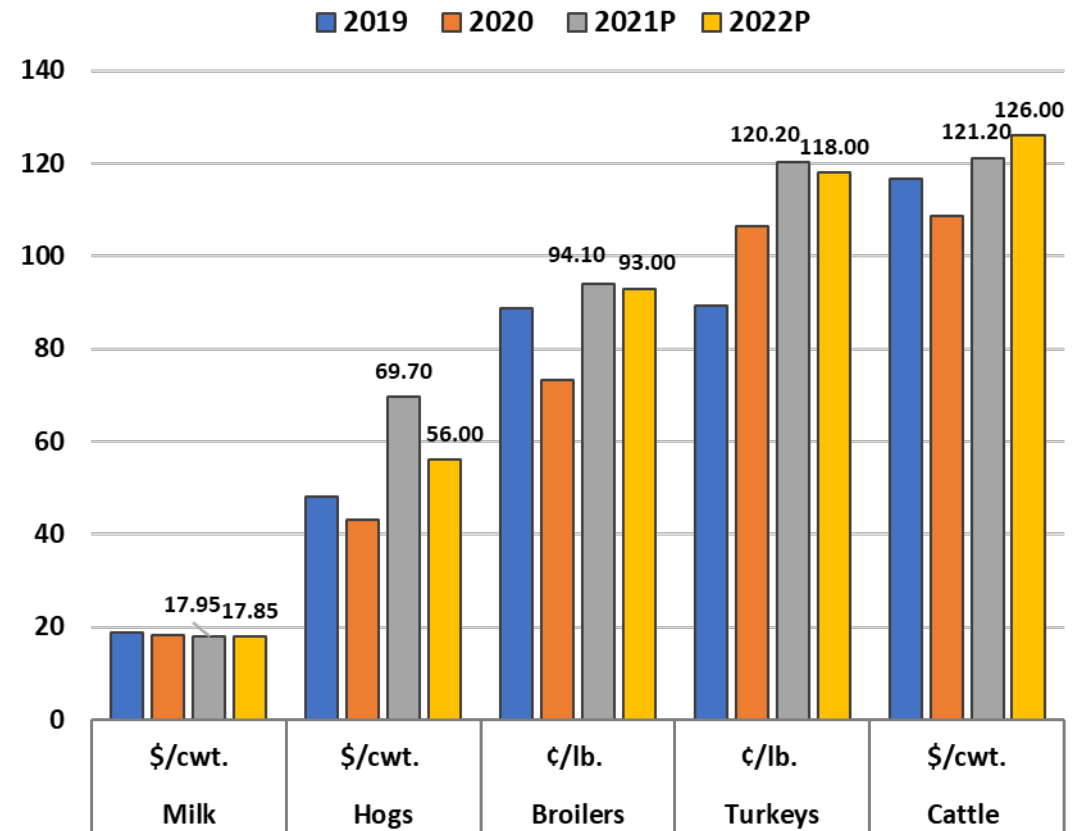




Outlook for proteins

- USDA's 2022 forecast calls for modest increases in cattle prices but lower hog prices
- With exception of milk, prices are forecast to be above 2019 or 2020 levels
- Except for dairy, near-term producer margins are generally favorable
- Higher production costs are likely to erode 2022 gains

USDA Price Outlook



Data source: USDA/WASDE August 2021.

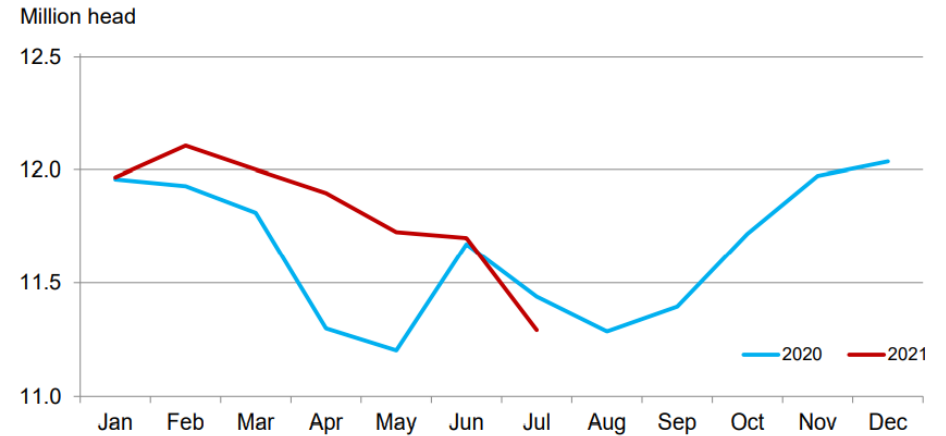


Improving cattle outlook

- Cattle numbers are declining, aided by herd liquidations from drought
- Tighter cattle supplies and robust consumer demand lift packer bids
- Retail beef prices are approaching new highs, making pork and chicken more attractively priced
- Feedlot profitability is being hampered by higher feeder cattle costs and higher feed costs

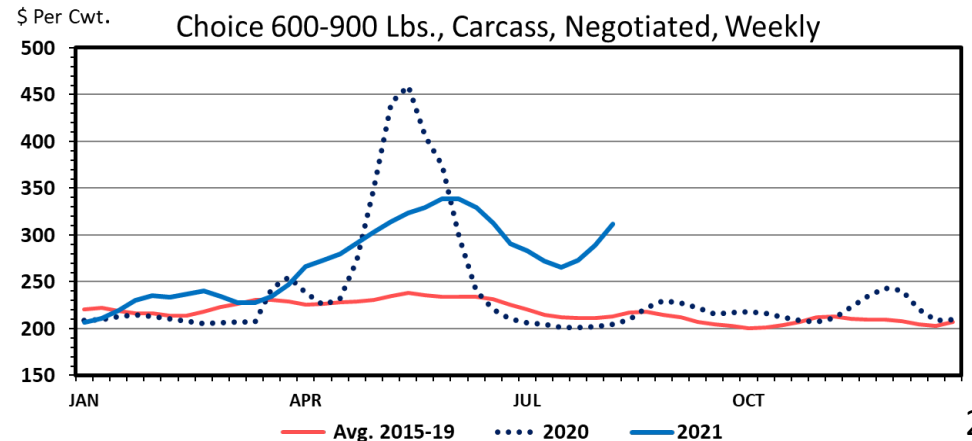
Source: USDA & Livestock Marketing Information Center.

Cattle on Feed Inventory on 1,000+ Capacity Feedlots – United States



Source: USDA.

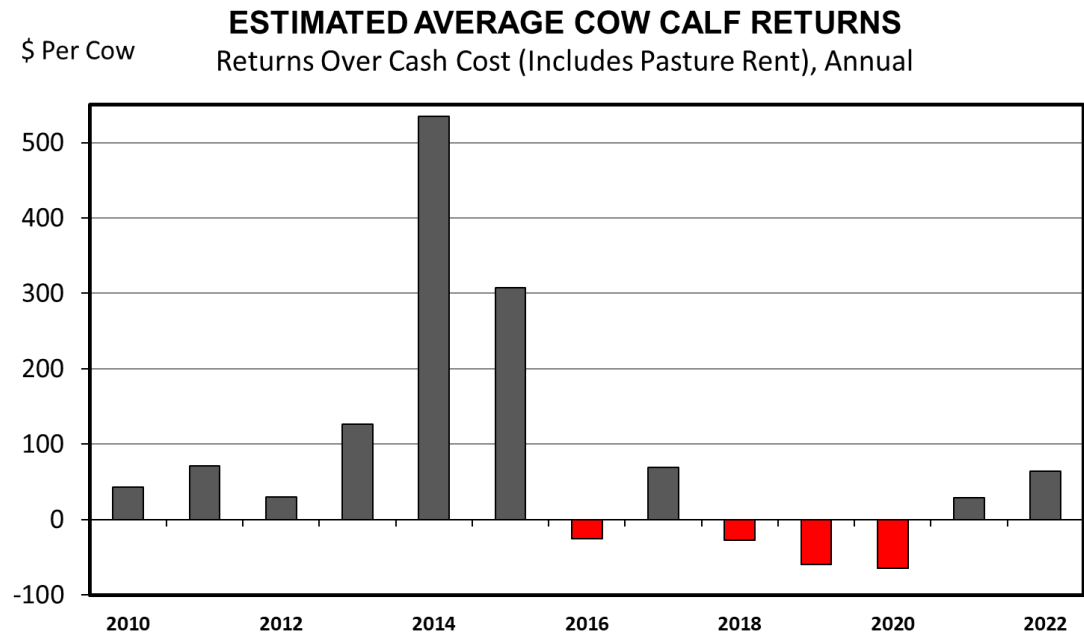
BOXED BEEF CUTOUT VALUE





Higher returns predicated for cow-calf producers

- 1/3 of total cattle inventory is in drought areas – West and Northern Plains
- Poor pastures and high hay costs in those regions to accelerate cow slaughter rates
- Higher cow-calf returns are predicated on higher calf prices due to the constraints on supply resulting from herd liquidations
- This cattle cycle could generate calf prices that outpace those in 2015 if the liquidation continues at the current pace



Source: USDA & Livestock Marketing Information Center.

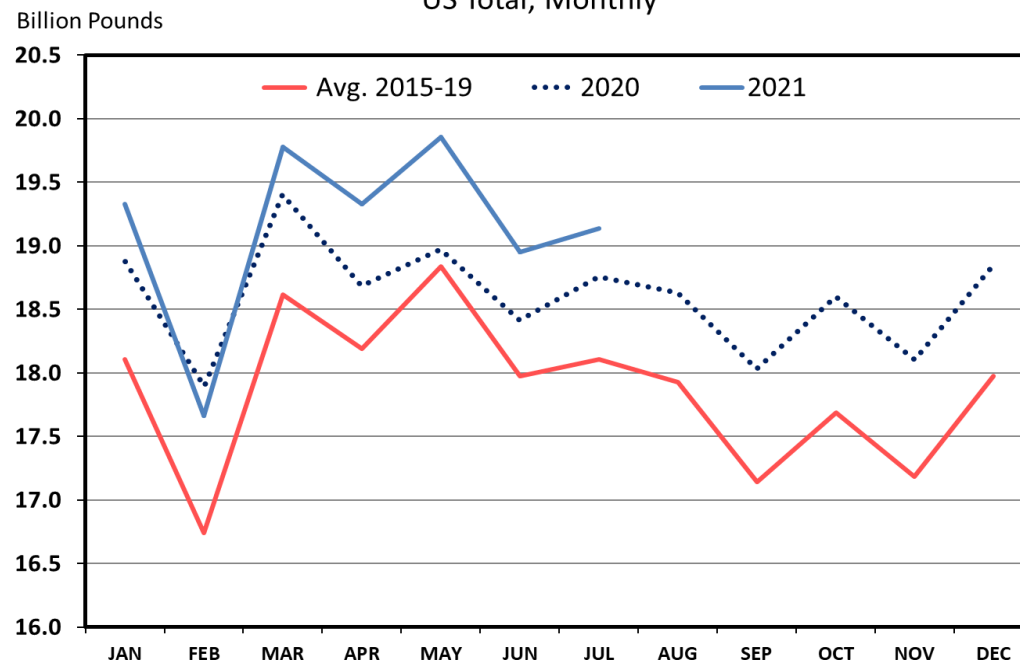


Dairy production pressures margins

- Production increased 2% in July relative to last year with a 1.3% herd expansion
- Dairies face limited margins due to flat pricing and higher feed costs
- While exports have been healthy, domestic demand remains unsettled
- USDA announced \$350M in new pandemic assistance payments to dairy farmers

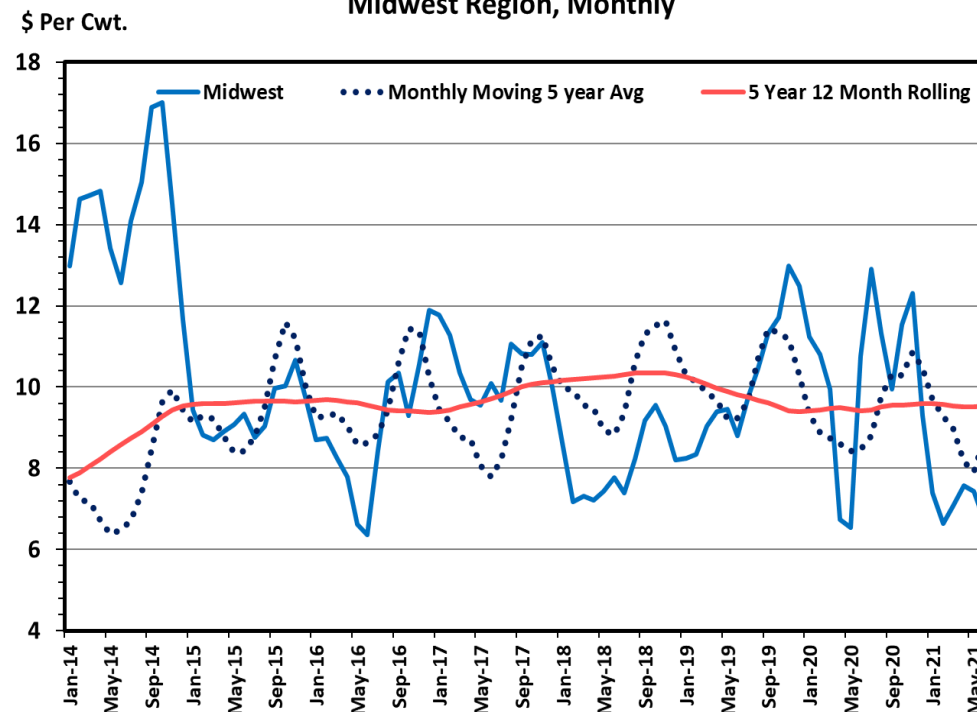


MILK PRODUCTION
US Total, Monthly



Source: USDA-AMS & USDA-NASS. Livestock Marketing Information Center.

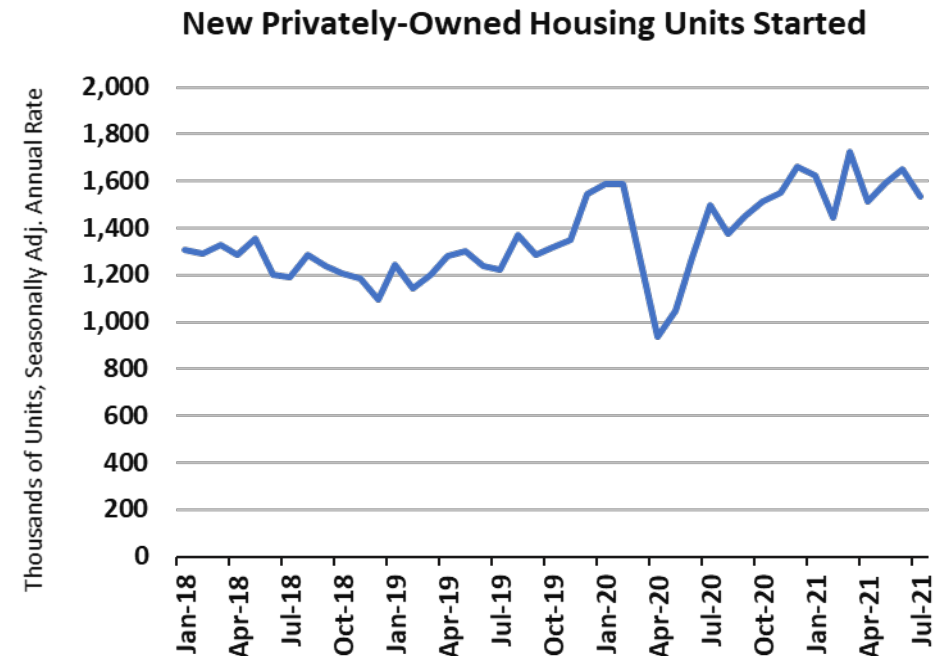
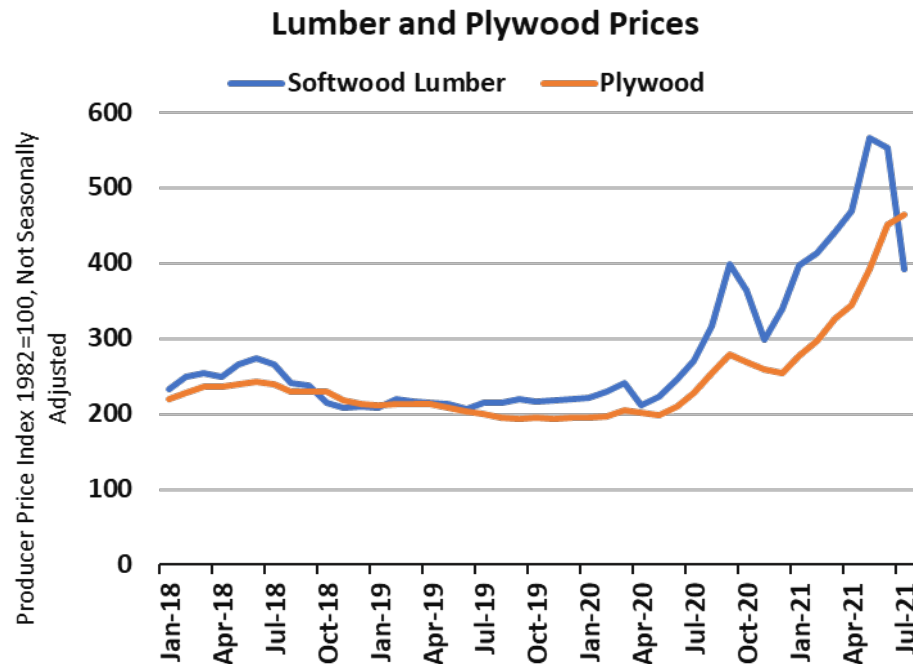
DAIRY INCOME OVER FEED COSTS
Midwest Region, Monthly





Historic lumber price run-up ends

- Lumber and wood product prices set records this spring, but have since fallen back
- Softwood timber did not experience the large price rise
- Housing starts stall on affordability problems and building material shortages
- Supply catching up as exceptional demand wanes



Source: Federal Reserve Bank of St. Louis.



Concluding comments

- Robust near-term U.S. economy
- Future inflation rates and central bank responses remain critical
- Strong U.S. farm economy with certain commodities and regions (drought) facing challenges
- Exports, particularly to China are key
- Fall harvests are underway





Questions





Farm Credit System Condition and Performance

as of
June 30, 2021

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

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

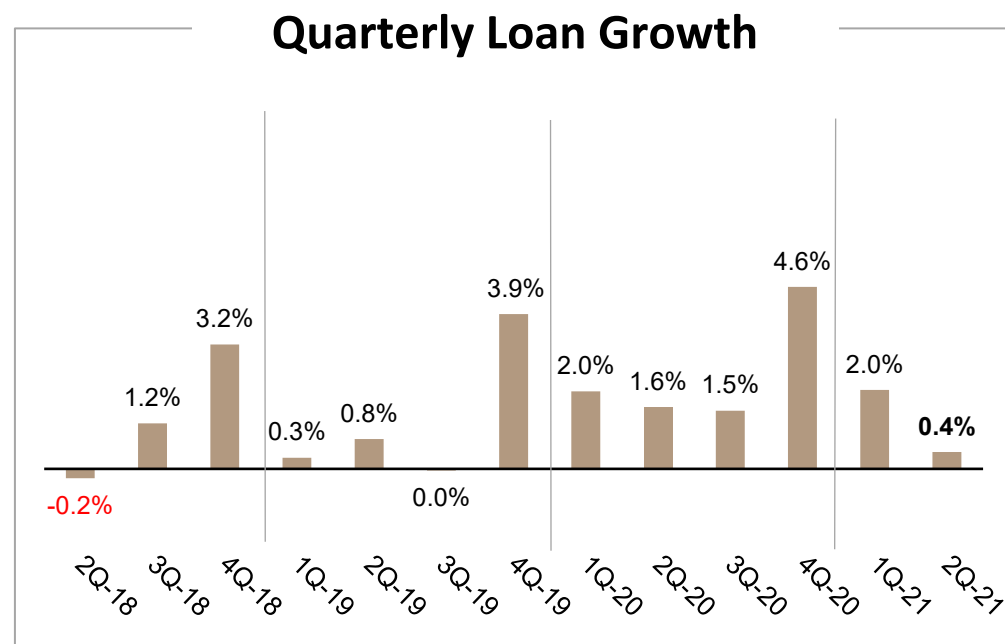




Real estate mortgage lending drives System growth in the first half of the year



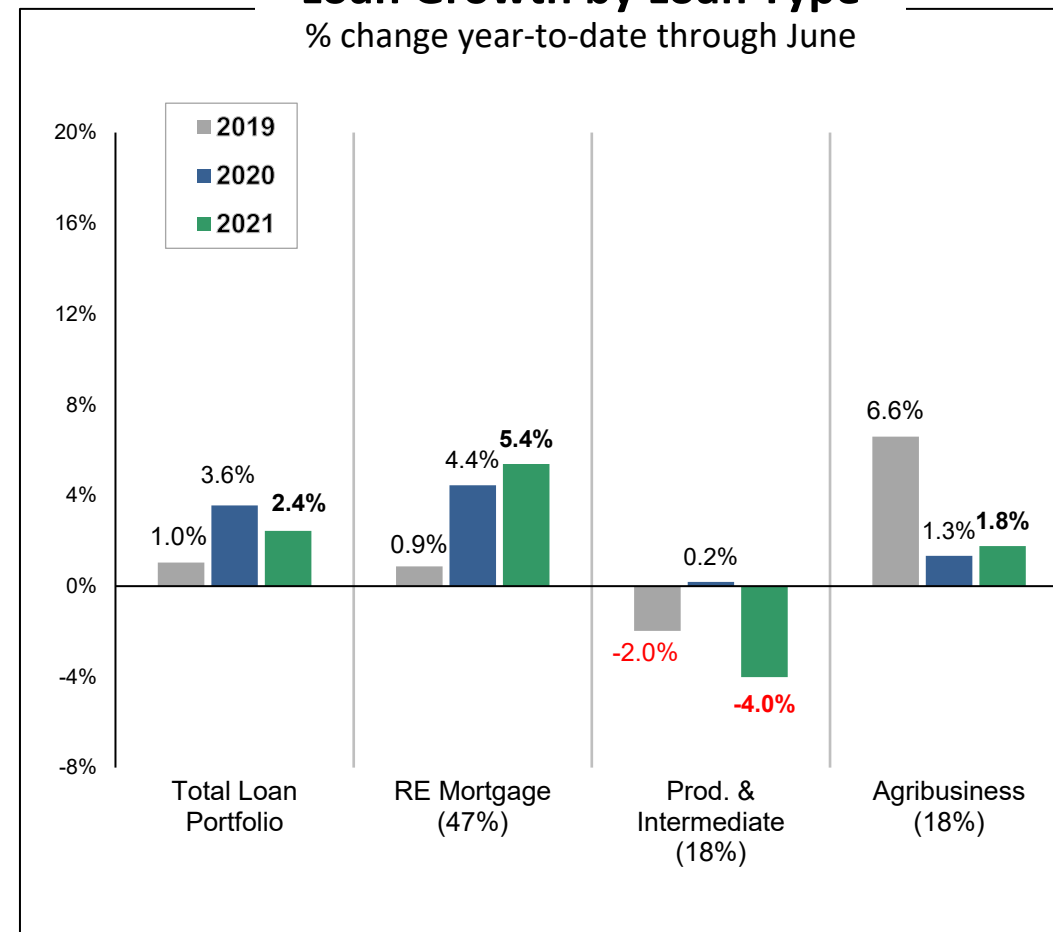
Total Assets 6/30/21	\$407.8 billion	+0.9% Qtr +1.8% YTD +6.0% 12M	Gross Loans 6/30/21	\$323.2 billion	+0.4% Qtr +2.4% YTD +8.8% 12M



Source: FCS Information Statements

Loan Growth by Loan Type

% change year-to-date through June



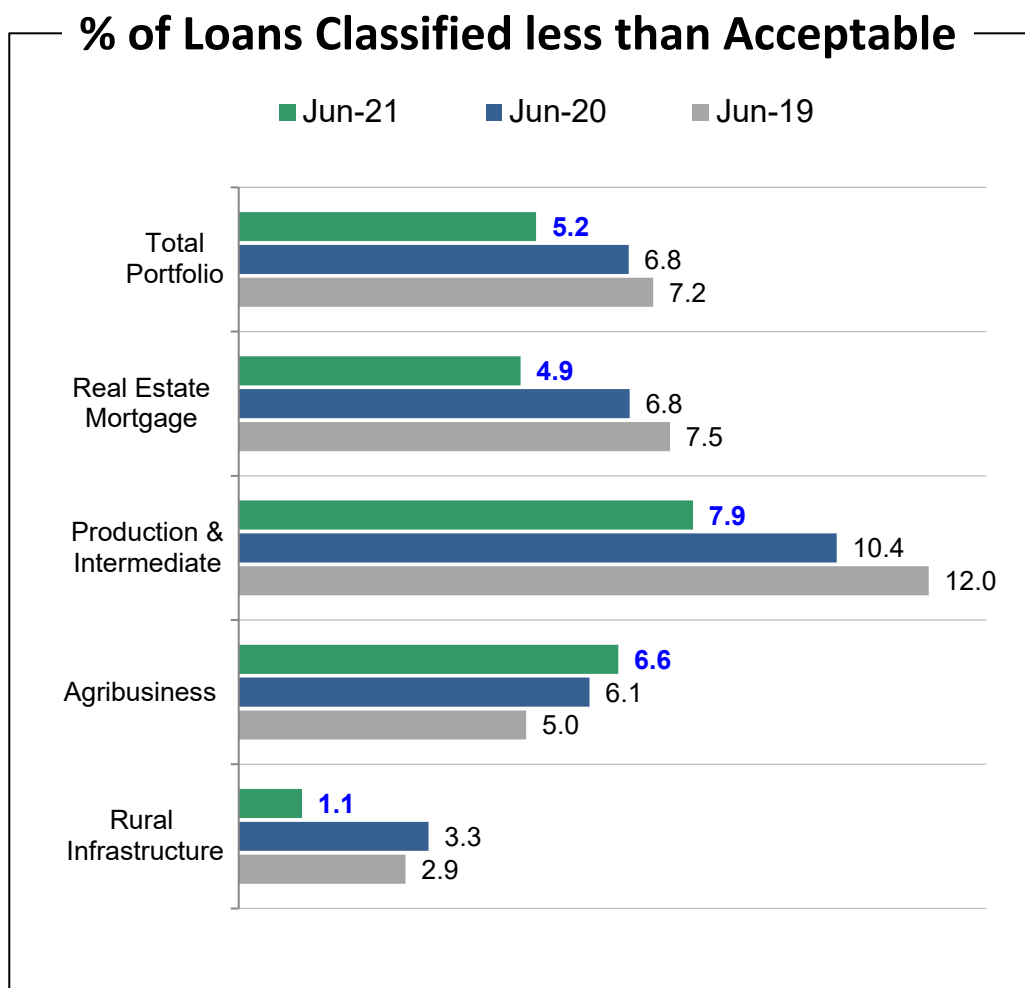
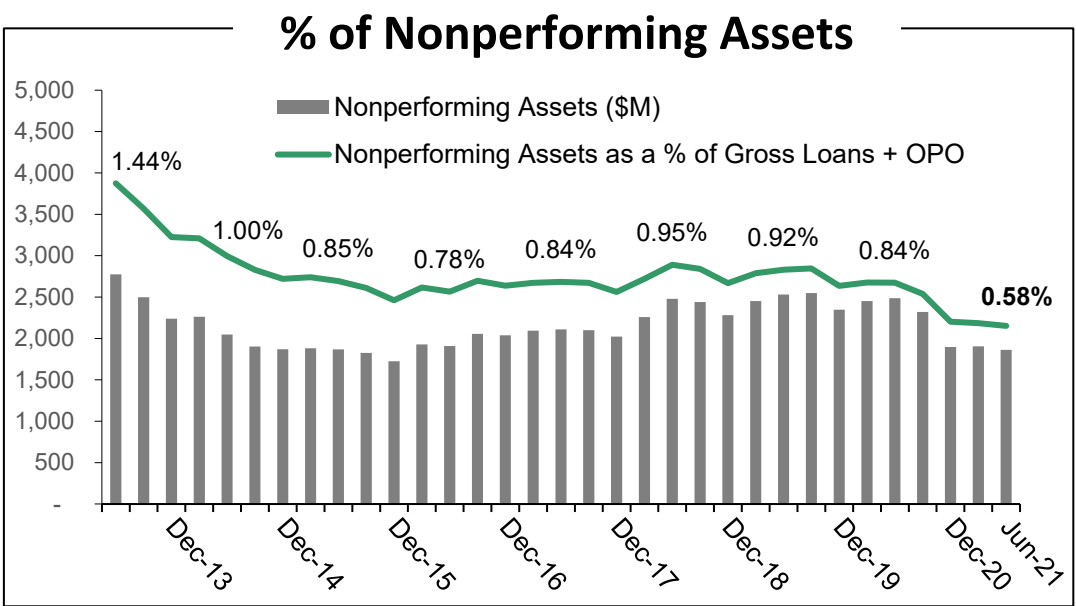


Portfolio loan quality is very good; credit risk elevated for certain agricultural sectors



Nonperforming Assets (6/30/21)	\$1.861 billion	Qtr chg.	-\$44M or -2.3%
		12 month chg.	-\$626M or -33.6%
Delinquencies ⁽¹⁾ (6/30/21)	0.24%	Q4 '20	0.28%
		Q2 '20	0.37%

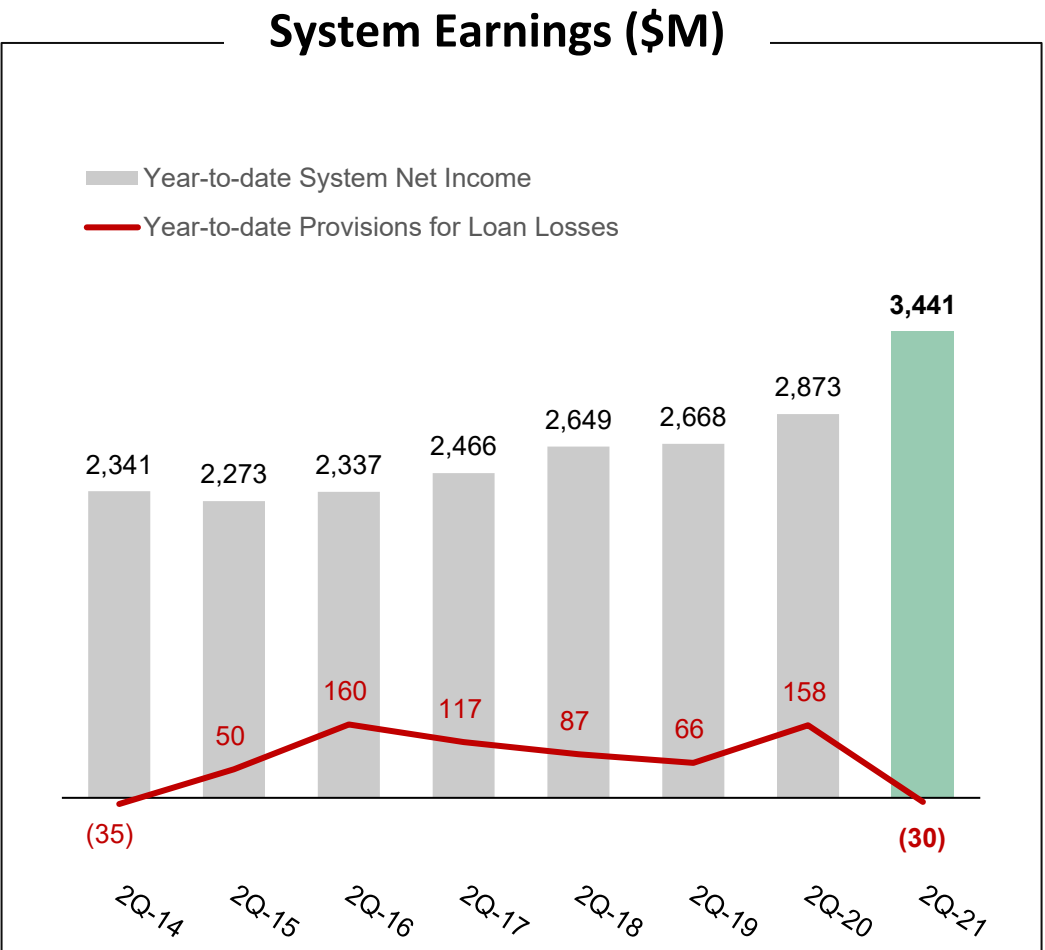
(1) accruing loans 30 days or more past due as a % of accruing loans



Source: FCS Information Statements

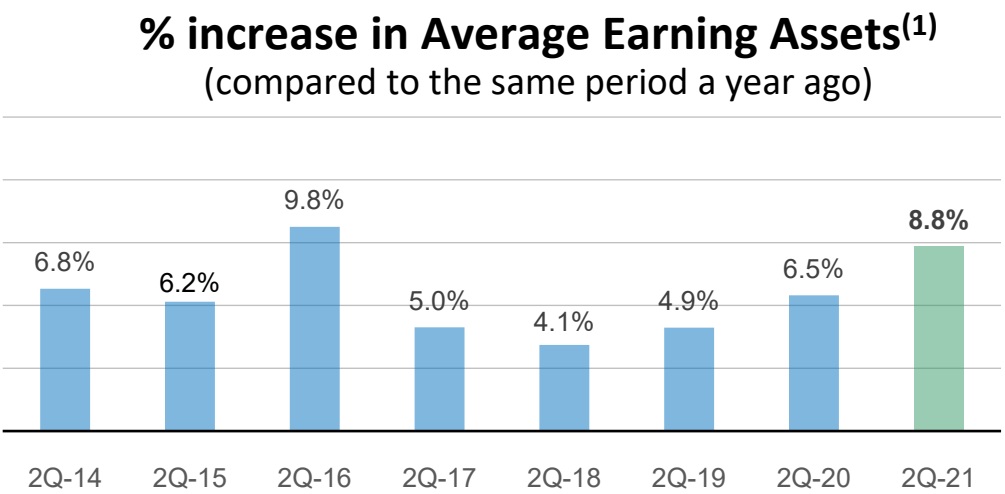


System is financially sound; reports strong year-over-year earnings growth



Source: FCS Information Statements

	Jun '19	Jun '20	Jun '21
Net Interest Spread (YTD annualized)	2.00%	2.21%	2.33%
Net Interest Margin (YTD annualized)	2.40%	2.44%	2.46%



(1) year-to-date annualized



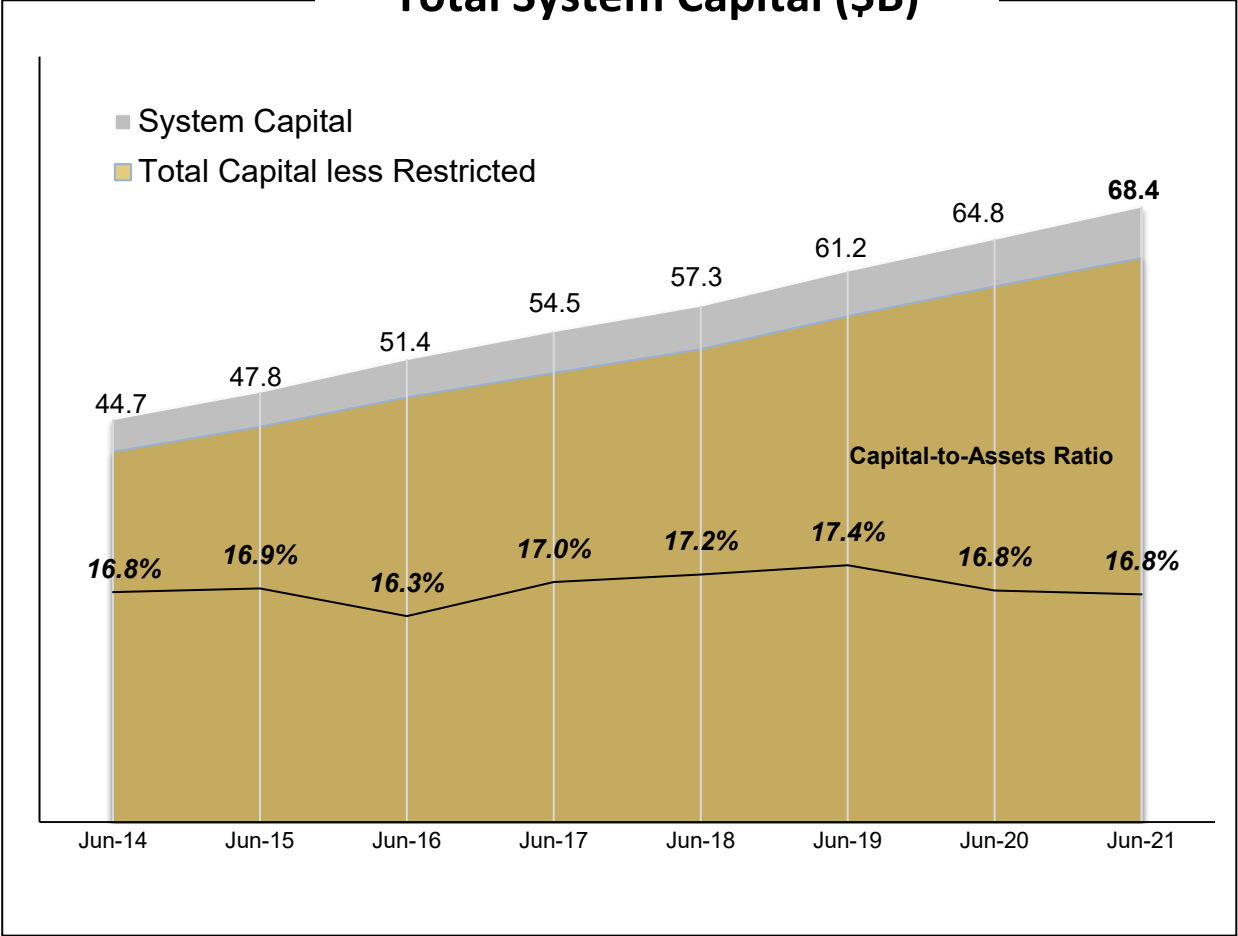
System is strongly capitalized; well-positioned for the current risk environment

Capital and Liquidity (as of June 30, 2021)

- ▶ Total Regulatory Capital:
Banks | 14.7% to 18.5%
Associations | 11.5% to 35.2%
- ▶ Days of liquidity for the four funding banks ranged from 165 to 223 days
- ▶ Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.2% to 23.2% at a combined district level

Source: FCS Information Statements

Total System Capital (\$B)



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



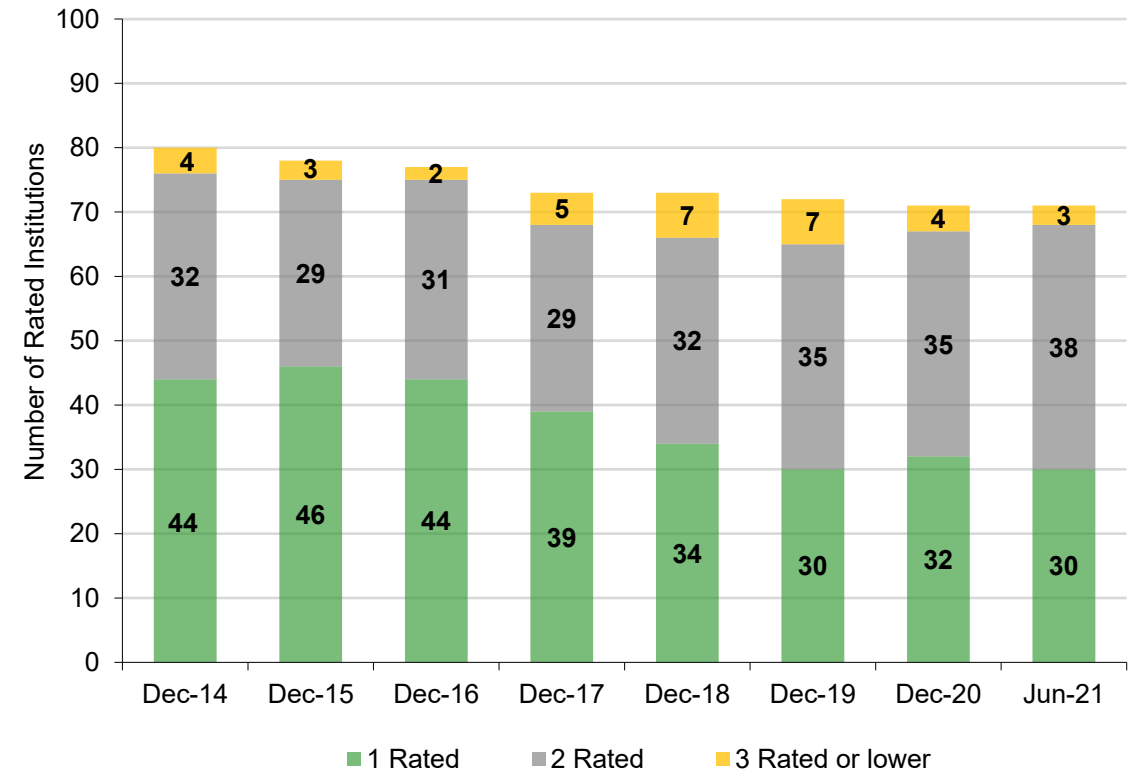
System FIRS ratings

FIRS Ratings

(based on 6/30/21 financial reporting)

- ▶ Composite FIRS ratings were largely unchanged in the 2nd quarter
- ▶ Over 95% of System banks and associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower hold less than 1.0% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ U.S. economic activity ramps-up, inflation worries remain
- ▶ Soaring grain and oilseed revenues push farmland prices higher
- ▶ Revenues for much of the livestock sector are expected to improve next year, but higher production costs could erode gains
- ▶ All eyes focused on continuing drought and weather in the West
- ▶ The Farm Credit System continues to be safe and financially sound. Portfolio loan quality is strong, but credit risk is elevated for certain sectors and geographic regions
- ▶ System institutions are strongly capitalized and well-positioned to meet borrower funding and liquidity needs





Questions



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 September 9, 2021, 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 9, 2021
Date

/s/
Clark Ogilvie
General Counsel