Spring 2017: Interviews with White House personnel
Introduction of Smith Family
Introduction by Senator Ernst and Senator Grassley
On December 14, 2017, Glen R. Smith was sworn in as a member of the FCA Board by Chairman Dallas Tonsager, assisted by Glen’s wife, Fauzan.
Farm Credit Administration Board

Dallas P. Tonsager
FCA Board Chairman and CEO

Jeffery S. Hall
FCA Board Member
FCSIC Board Chairman

Glen R. Smith
FCA Board Member
Farm Credit Administration
Mission and Responsibilities

The Farm Credit Administration ensures that Farm Credit System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

We fulfill this responsibility by

– developing policies and regulations to help ensure the safety and soundness of System institutions, and
– examining institutions to ensure that they operate in a safe and sound manner and comply with applicable laws and regulations.

FCA headquarters are in McLean, VA, with field offices in McLean; Bloomington, MN; Dallas, TX; Denver, CO; and Sacramento, CA.
Overview of the Farm Credit System

Government Oversight

- U.S. Congress (Farm Credit Act)
- Farm Credit Administration
- Farm Credit System Insurance Corporation

Farm Credit System

- Borrowers / Stockholders
- FCS Associations
- Farmer Mac
- FFCB Funding Corporation
- FCS Banks
Financing the U.S. Farm Sector – Market Share

- Commercial banks (41.2% share in 2017)
- Farm Credit System (40.4%)
- Life insurance companies (3.8%)
- U.S. Department of Agriculture (2.6%)
- Farmer Mac (1.6%)
- Individuals and others (10.4%)

Overview of the System

- Created by an Act of Congress (1916)
- Government Sponsored Enterprise (GSE) created to support rural communities and agriculture with reliable, consistent credit and financial services
- Network of cooperatives owned by its borrowers (farmers, ranchers, agricultural cooperatives and rural customers)
- Regulated and examined by the Farm Credit Administration (FCA), an independent agency in the Executive Branch of the US Government
- Federal Farm Credit Banks Consolidated Systemwide Debt Securities are issued to fund the System’s loan portfolio, investments and operations
- The Farm Credit System funds approximately 40% of all US farm business debt. *(November 2018, USDA ERS)*

Source: Federal Farm Credit Banks Funding Corporation.
What is today’s cooperative structure?*

525,000 Borrowers/Owners

69 Farm Credit Associations

4 Banks

FCS Funding Corporation

System Total Loans: $261 B
System Total Assets $334 B
Systemwide Total Debt Securities: $269 B
System Total Capital: $57 B
System Annualized Net Income: $5.3 B

* As of June 30, 2018. Income annualized first 6 months.
Farm Credit System territories
The number of System institutions has declined since the 1980s

Source: FCA from Farm Credit System data. Number of banks and associations as of January 1.
Two dozen FCS associations have assets greater than $1.5 billion

### AgFirst District
- MidAtlantic FC ($2.8 bil.)
- First South FC ($2.1 bil.)
- AgCredit ($2.0)
- AgChoice FC ($1.9 bil.)
- FC of the Virginias ($1.9 bil.)
- AgSouth FC ($1.8 bil.)
- Carolina FC ($1.5 bil.)

### CoBank District
- Northwest FCS ($11.5 bil.)
- Farm Credit West ($10.3 bil.)
- American AgCredit ($10.0 bil.)
- Farm Credit East ($6.9 bil.)
- Yosemite FC ($2.9 bil.)
- Frontier FC ($2.1 bil.)
- FC of New Mexico ($1.7 bil.)
- Golden State ($1.6 bil.)

### AgriBank District
- FCS of America ($28.0 bil.)
- FC Mid-America ($22.5 bil.)
- Compeer Financial ($19.5 bil.)
- GreenStone FCS ($8.5 bil.)
- AgCountry ($7.4 bil.)
- FC of Illinois ($4.3 bil.)
- FCS Financial ($4.0 bil.)

### Texas District
- Capital FC ($7.5 bil.)
- AgTexas FCS ($1.9 bil.)

Source: 2017 Annual Information Statement of the FCS.
System’s loan portfolio is diversified geographically and by commodity

<table>
<thead>
<tr>
<th>FCS Loan Portfolio Geographical Distribution as of December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
</tr>
<tr>
<td>Texas</td>
</tr>
<tr>
<td>Iowa</td>
</tr>
<tr>
<td>Illinois</td>
</tr>
<tr>
<td>Minnesota</td>
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<tr>
<td>Nebraska</td>
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<tr>
<td>Ohio</td>
</tr>
<tr>
<td>Wisconsin</td>
</tr>
<tr>
<td>Kansas</td>
</tr>
<tr>
<td>Indiana</td>
</tr>
</tbody>
</table>

Source: 2017 Annual Information Statement of the FCS.
System gross loans

- The System continues to experience moderate loan growth
- A variety of loan types are available to qualified borrowers
- Loan eligibility is based on credit, collateral AND repayment capacity/cash flow.

Source: Federal Farm Credit Banks Funding Corporation.
How is credit delivered?

1. **Borrower requests funds**

2. **FCS institution reviews application for creditworthiness**
   - Assesses eligibility, scope, purpose
   - Assesses five C’s of credit (capacity, character, capital, collateral, condition)
   - Identifies appropriate loan controls, terms, and conditions
   - May use credit scoring models

3. **FCS institution approves credit, completes legal documentation, secures collateral, and advances funds**
   - Bases interest rate on funding costs, capital needs, operating costs, marketplace, and credit risk profile of the borrower
   - Provides follow-up loan review and monitoring

4. **Borrower becomes voting stockholder of the FCS institution**
Structure/Ownership

Source: Federal Farm Credit Banks Funding Corporation.
## Farm Credit ratings

<table>
<thead>
<tr>
<th></th>
<th>Fitch</th>
<th>Moody's</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Farm Credit System</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term</td>
<td>AAA</td>
<td>Aaa</td>
<td>AA+</td>
</tr>
<tr>
<td>Short-term</td>
<td>F1+</td>
<td>P-1</td>
<td>A-1+</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
</tr>
<tr>
<td><strong>BCA (baseline credit assessment)</strong></td>
<td>a1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SACP (stand-alone credit profile)</strong></td>
<td>aa</td>
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</tbody>
</table>

### AgFirst

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<tr>
<td>Issuer ratings - LT</td>
<td>AA-</td>
<td>Aa3</td>
<td></td>
</tr>
<tr>
<td>Noncumulative preferred</td>
<td>BBB</td>
<td>Baa1</td>
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</tbody>
</table>

### Agribank

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### CoBank

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<tr>
<td>Noncumulative preferred</td>
<td>BBB</td>
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</tbody>
</table>

### Farm Credit Bank of Texas

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<tr>
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</tr>
<tr>
<td>Noncumulative preferred</td>
<td>BBB</td>
<td>Baa1</td>
</tr>
</tbody>
</table>

Source: Federal Farm Credit Banks Funding Corporation.
FCSIC & the Farm Credit Insurance Fund

• Farm Credit System Insurance Corporation
  – Created in 1988 through an amendment to the Farm Credit Act.
  – Primary responsibility is managing the Farm Credit Insurance Fund.
  – Has authority to provide assistance to System institutions, including providing liquidity to System banks when exigent market circumstances threaten the banks’ ability to pay maturing obligations.
  – Has secured a $10 billion line of credit to be used as additional liquidity assistance if needed.

• Farm Credit Insurance Fund
  – Primarily to insure the timely payment of principal and interest on Systemwide debt securities (provides additional protection for investors).
  – Funded by premiums assessed on System banks, which may be passed on to the associations.
  – Insurance Fund target is 2% of aggregate outstanding insured debt.
  – Insurance Fund invested only in U.S. government securities.
  – Assets of $5 billion in the Insurance Fund (at 12/31/18).
  – Insurance Fund has never been used for the payment of principal or interest on Systemwide debt securities.
System total assets and loans have grown substantially over time

Source: FCS Information Statements.
Much of the loan growth is real estate mortgage lending

Loan Growth by Loan Type
(% change year-to-date through September)

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>09/30/16</th>
<th>09/30/17</th>
<th>09/30/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loan Portfolio</td>
<td>2.6%</td>
<td>1.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>RE Mortgage (47%)</td>
<td>4.9%</td>
<td>2.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Prod. &amp; Intermediate (20%)</td>
<td>-1.1%</td>
<td>0.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Agribusiness (16%)</td>
<td>1.0%</td>
<td>0.6%</td>
<td>-3.4%</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements.
System earnings are up year-over-year

System Earnings ($ millions)
(year-to-date through September)

Source: FCS Information Statements.
System is well capitalized

Capital and Liquidity
as of September 30, 2018

- Retained earnings as a percentage of total capital equaled 80.1% of total capital.
- The System’s liquidity position equaled 171 days of coverage.

Days of available liquidity for the 4 funding banks ranged from 144 to 226 days.

Restricted capital represents capital associated with the Insurance Fund.

Source: FCS Information Statements.
U.S. farm income and debt

Farm Income – 2018 Forecasts

- **Net cash income** declining since 2012, expected to continue downward trend through 2018.

- Total production expenses forecast to increase 4.2% after 2 years of declines.

- **Debt-to-Asset ratio** continues upward trend since 2012 approaching 30 year average.

Source: Federal Farm Credit Banks Funding Corporation using USDA data as of 11/30/18.
System credit quality is slipping but remains favorable

Source: Consolidated Reporting System year-end data, except September for 2018.
System credit quality varies by district

Nonaccrual share of loans

Source: Consolidated Reporting System year-end data, except September for 2018.
Modest deterioration has occurred for real estate mortgage loans

% of Loans Classified less than Acceptable

<table>
<thead>
<tr>
<th>Category</th>
<th>Sep-18</th>
<th>Sep-17</th>
<th>Sep-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Portfolio</td>
<td>6.5</td>
<td>6.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Real Estate Mortgage</td>
<td>7.0</td>
<td>6.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Production &amp; Intermediate</td>
<td></td>
<td></td>
<td>10.6</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>4.5</td>
<td>4.6</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: FCS Information Statements.
Farmer Mac Financial Highlights: Program Volume by Business Line

$ in Billions


Farm & Ranch Mtges (incl. Standby) USDA Guaranteed Portions
Rural Utility Coop Loans (incl. Standby) Institutional Credit
Farmer Mac Financial Highlights: Asset Quality

- >90 Day Delinquencies
- Substandard Assets
- OAEM Assets
- Tier I Capital
- Regulatory Capital

$ in Millions

- Mar-16
- Jun-16
- Sep-16
- Dec-16
- Mar-17
- Jun-17
- Sep-17
- Dec-17
- Mar-18
- Jun-18
- Sep-18
Farmer Mac Financial Highlights: Capital

![Bar chart showing financial highlights for Farmer Mac from Sep-14 to Sep-18. The chart includes categories such as Core Capital, Statutory Capital Requirement, Tier 1 Equity, Noncontrolling Int. Stock, Accumulated OCI, Preferred Stock, Retained Earnings, and Common Stock (A,B, & C) & Additional Paid-In Capital. The values are represented in millions of dollars.](image)

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System mission for young, beginning and small farmers

• Farm Credit Act – 1980 Amendments
  – FCS institutions must have programs to furnish sound and constructive credit and related services to YBS farmers and ranchers.
  – Requires the reporting of YBS activities.

• How do associations carry out their mission?
  – Develop strategies to identify and reach out to creditworthy YBS farmers.
  – Understand demographic diversity and financial needs of current and potential YBS farmers.
  – Coordinate credit and delivery of related services with third parties.
Concluding thoughts

• Challenges for agriculture:
  – General economic factors: higher interest rates; strength of the dollar; rising consumer, business, and government debt levels; labor availability; weakening global economies
  – Farm sector concerns: trade policies; rising input costs; commodity prices below the cost of production

• Challenges for the Farm Credit System:
  – Five year trend of credit stress and decreasing loan quality
  – Potentially fragile land values
  – Large vs. small associations
  – Aging borrower/customer
  – Reputation risk/GSE status

• Hopefully, the system is financially able and sufficiently capitalized to meet these challenges.
Thank you!