Topics for Open Session




- Economic Conditions Affecting the Farm Credit System
  - Economic indicators during COVID-19
  - Commodities and trade
  - Agriculture sector income
- FCS Condition and Performance
  - System growth and loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)



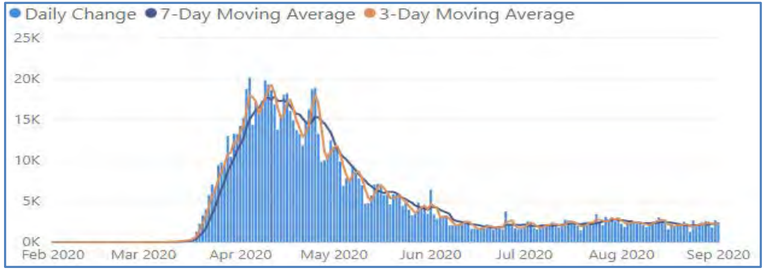

Economic Conditions Affecting the Farm Credit System

Dennis A. Shields

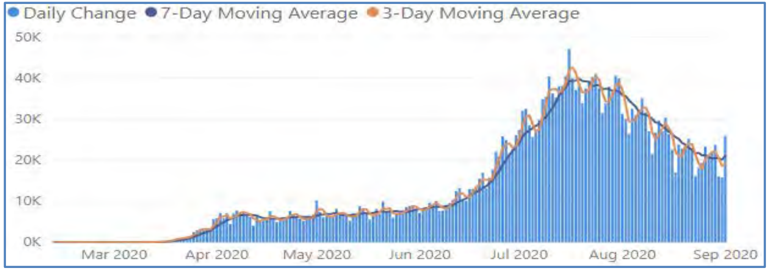
Chief Economist
Office of Data Analytics and Economics

Trend in COVID-19 cases varies by U.S. region

Northeast

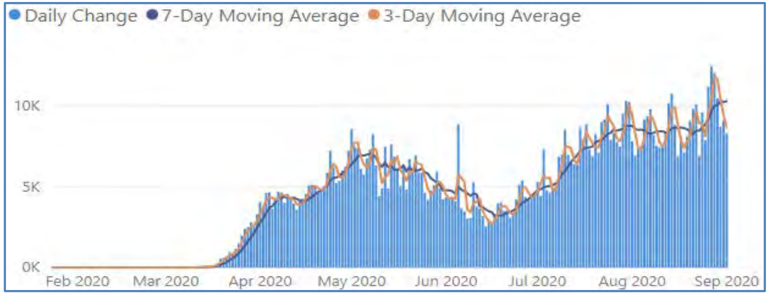


South



West

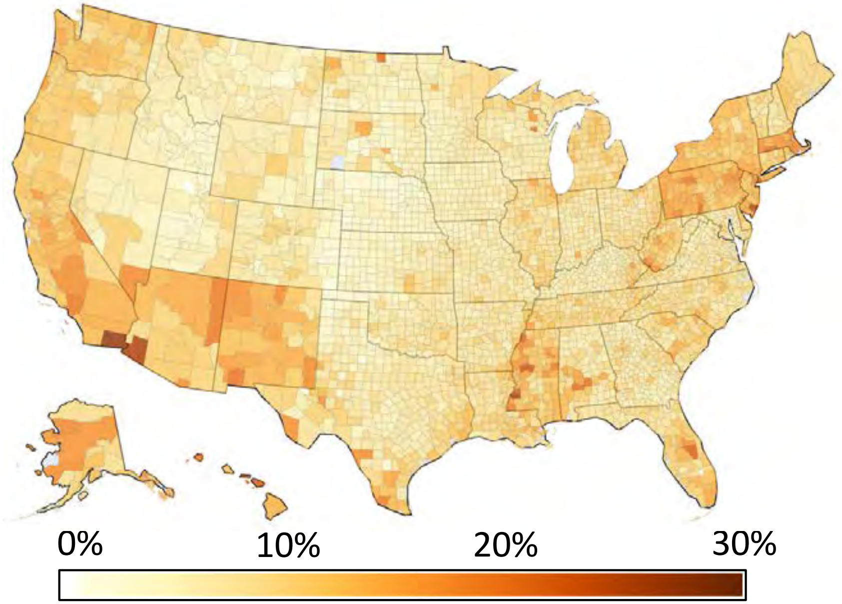
Midwest



Source: Data from Johns Hopkins University Center for System Science and Engineering (as of 9/2/20).

Unemployment remains elevated in many areas of the United States

Unemployment rate by county in July 2020

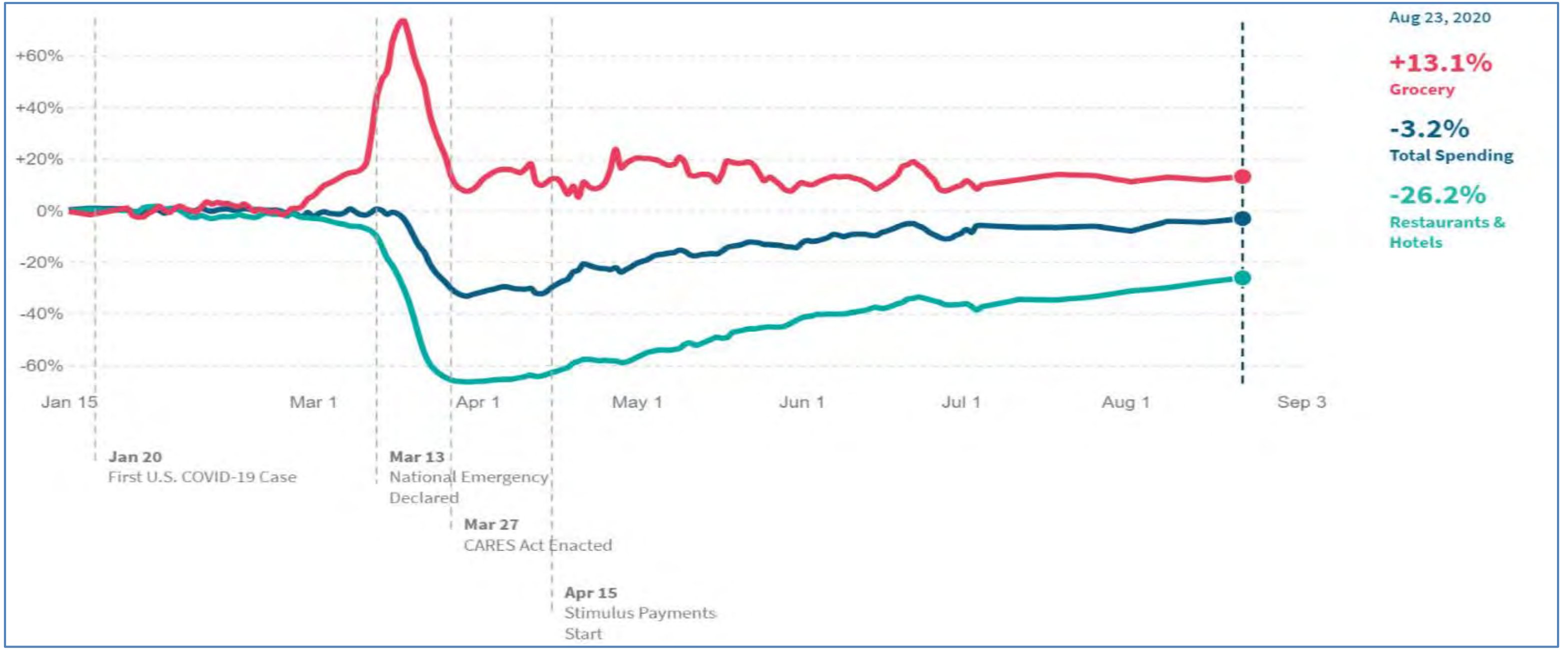


	July 2019	July 2020
Employed	157.3 mil.	143.5 mil.
Unemployed	6.0 mil.	16.3 mil.
Unemployment rate	3.7%	10.2%

Source: FCA using data from U.S. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.a.htm.

Consumer spending has recovered some

Change in average consumer credit and debit card spending since January



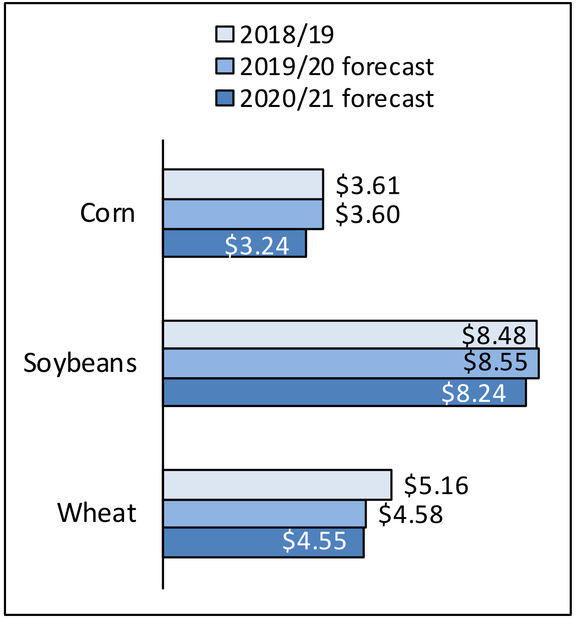
Source: www.tracktherecovery.org.

Expectations for large corn and soybean crops are tempered by poor weather in parts of the Midwest




- Farm prices for 2020 crops are forecast lower, but drought and exports have lifted markets recently.
- Price Loss Coverage payments supplement market returns when corn price < $3.70 per bu. and soybean price < $8.40 per bu.
- Wheat prices remain weak as large global stocks continue to overhang the market.

U.S. season-average farm price ($/bu.)



Source: FAPRI using August data.

Crop returns could fall sharply in 2021 without ad hoc federal assistance

Central Illinois operator and land returns (bars) and cash rents (line)
(assumes ad hoc payments for 2020 crop but not for 2021)

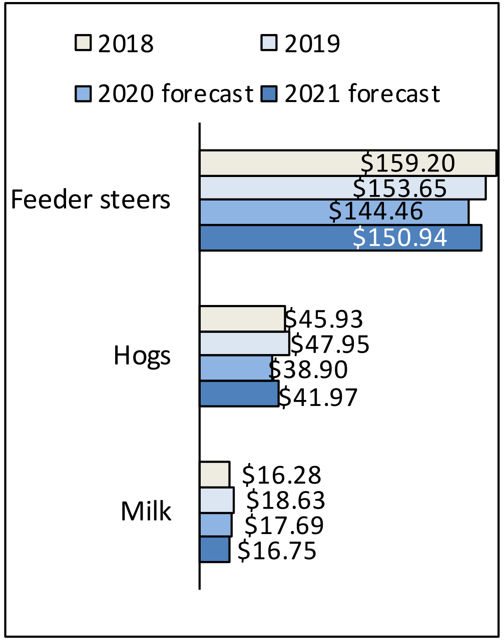
Source: farmdocdaily.illinois.edu/2020/08/cash-rents-in-2020-and-2021.html.
Note: High-productivity farmland.




Livestock sector faces weather and price challenges following COVID-related disruptions

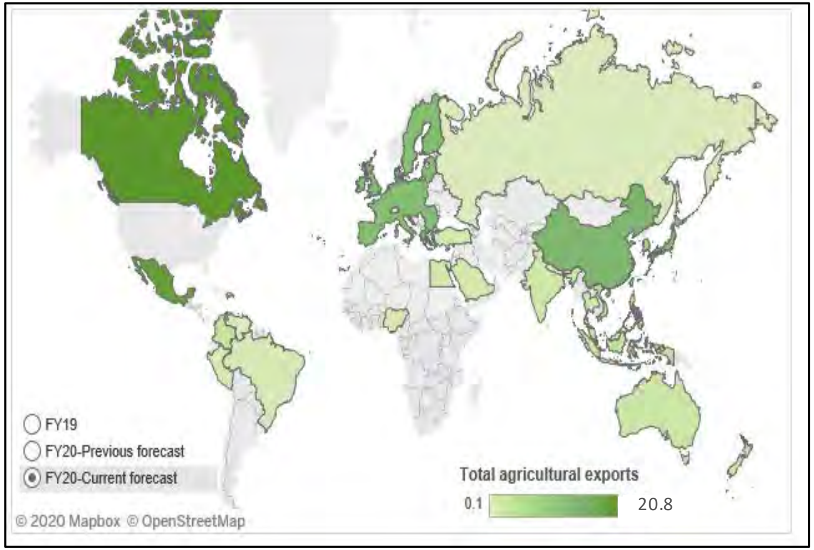
- For cow-calf producers, drought is pushing cows off marginal pastures; 4th quarter calf prices are expected below a year ago.
- Hog producers are expected to be unprofitable for rest of 2020 as the industry works through backlog of hogs.
- Dairy margins have been positive this summer with strong cheese demand lifting milk prices.

Annual prices ($/cwt.)



Source: FAPRI using August data.

U.S. ag exports to rise in 2021 as shipments to China advance



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

	2019	2020 forecast	2021 forecast
Canada	$21.0	$20.8	$21.0
Mexico	$19.0	$19.0	$19.3
China	$10.1	$14.0	$18.5
Europe	$13.2	$11.7	$11.9
Japan	$12.1	$11.6	$11.8
World	$135.5	$135.0	$140.5

Source: USDA/ERS.

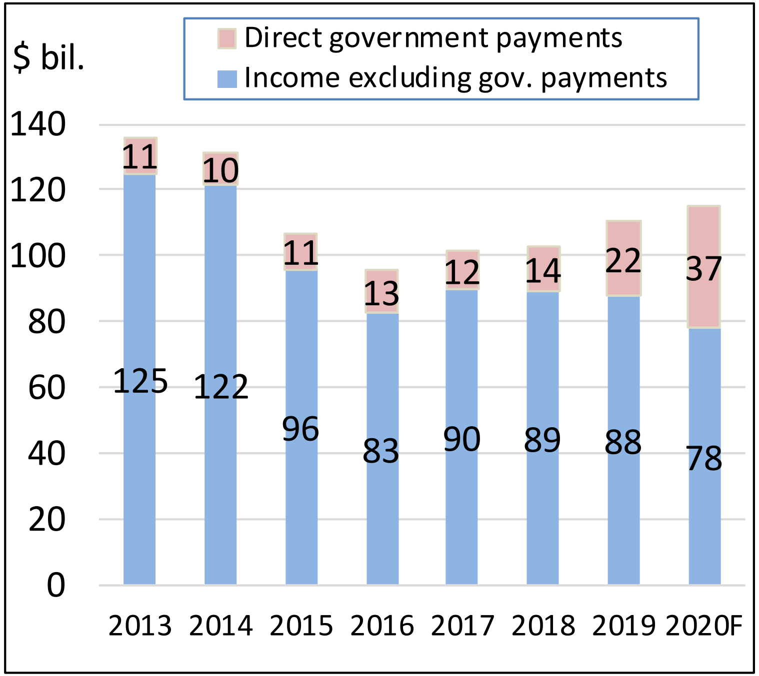
Note: Forecasts as of August 26, 2020.

Government payments continue to strengthen farm income




- Cash receipts in 2020 are forecast to decline 3.3% to $358.3 billion.
- Cash expenses are down 1.3%, driven by lower interest expense.
- Net cash farm income is forecast to increase 4.5% to $115.2 billion, which is above the historical inflation-adjusted average.
- Government payments account for a growing share of farm income.

Net cash farm income



Source: USDA/ERS, September 2, 2020.




Government support has been broadened to include many “non-program” commodities

- Farm program commodities: corn, soybeans, wheat, rice, cotton, peanuts, lentils, chickpeas, etc.; separate programs for milk and sugar.
- Recent ad hoc programs have expanded assistance to more commodities:
  - 2018 Market Facilitation Program (MFP)
    - ✓ 4 non-program commodities
  - 2019 MFP
    - ✓ 13 non-program commodities
  - 2020 Coronavirus Food Assistance Program (CFAP)
    - ✓ More than 125 non-program commodities
- With ad hoc payments, risk is reduced but only after-the-fact.
- Next farm bill will likely consider breadth and depth of farm support.

Concluding comments




- U.S. economic recovery is uneven as consumers and businesses adapt to challenges of COVID-19 impacts and attempt to find normalcy.
- Off-farm income prospects could be most affected in areas with largest changes in employment.
- Commodity prices and returns continue to pressure producers.
  - Major crop supplies remain plentiful; weather issues this summer have created both production losses (in some areas) but also marketing opportunities with price rallies.
  - Protein sector supplies are also plentiful; drivers include export demand and a rebound in foodservice demand.
  - For specialty crops, availability of farm workers remains a major concern.
- Substantial ad hoc government payments are helping many producers in 2020; there is no guarantee of a repeat next year.




Farm Credit System Condition and Performance

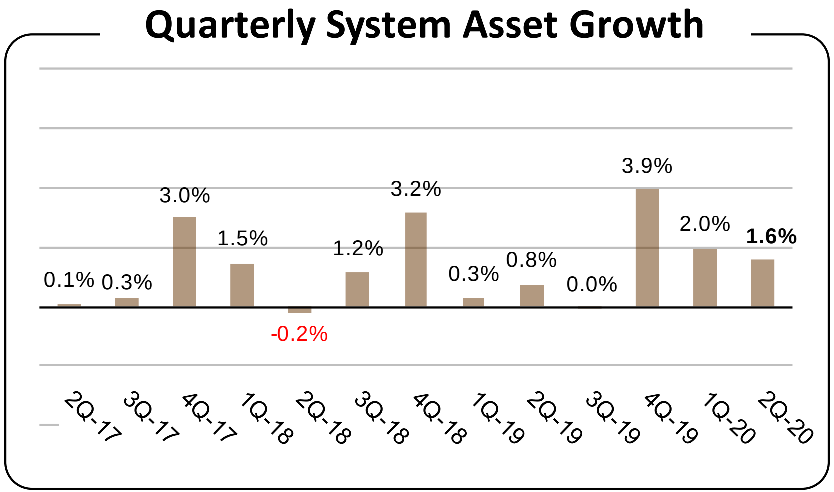
as of
June 30, 2020

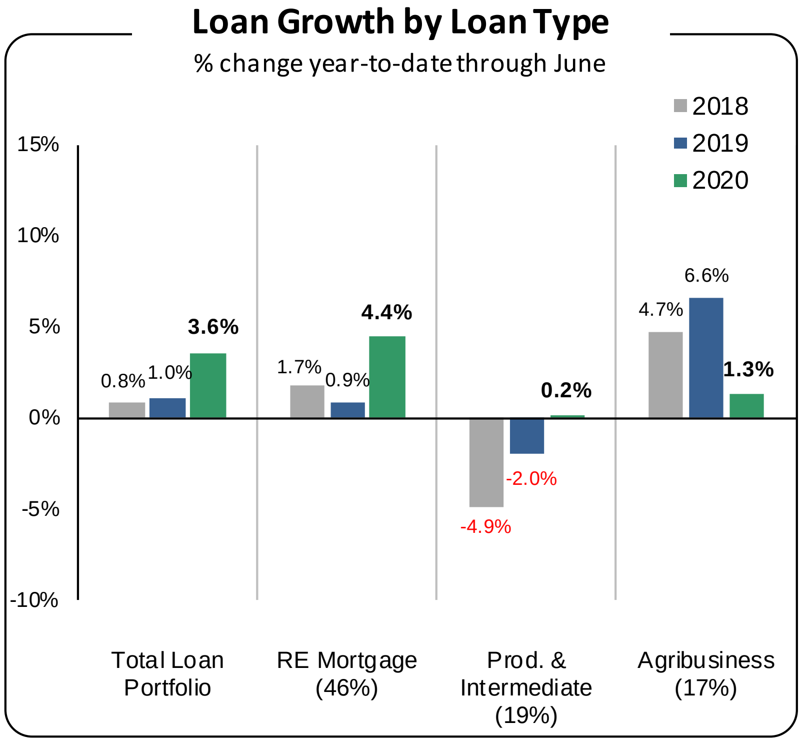
Hal Johnson
Sr. Financial Analyst
Office of Examination

Real estate mortgage lending drives portfolio growth in the 1st half of the year




Total Assets 6/30/20	$384.7 billion	-0.7% Qtr +5.3% YTD	Gross Loans 6/30/20	$297.2 billion	+1.6% Qtr +3.6% YTD





Source: FCS Information Statements

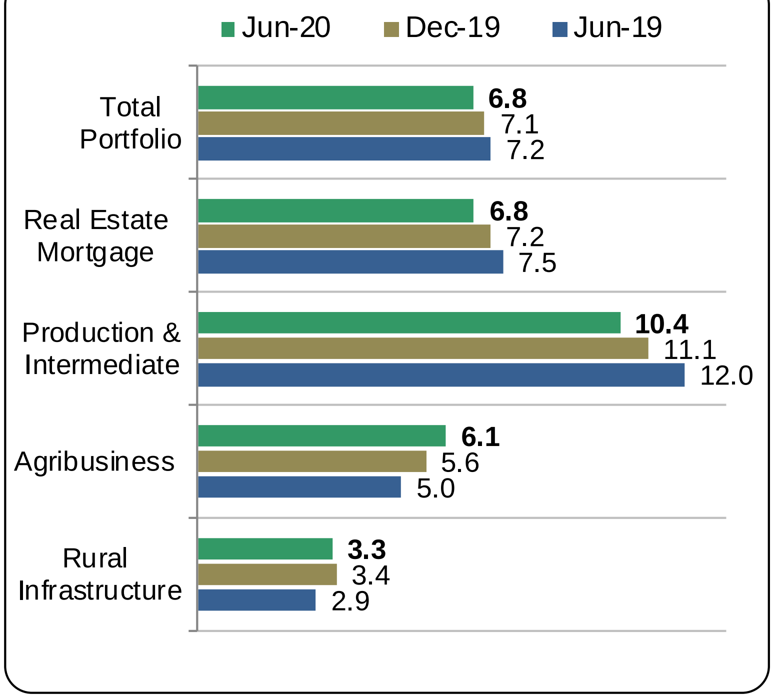
Credit risk indicators mixed; market uncertainty remains high for producers




Nonperforming Assets (6/30/20)	**$2.487** billion	**YTD chg.**	**+ $140M or +6.0%**
		12 month chg.	**- $43M or -1.7%**
Delinquencies [1] (6/30/20)	**0.37%**	**Q4 '19**	**0.32%**
		Q2 '19	**0.36%**

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

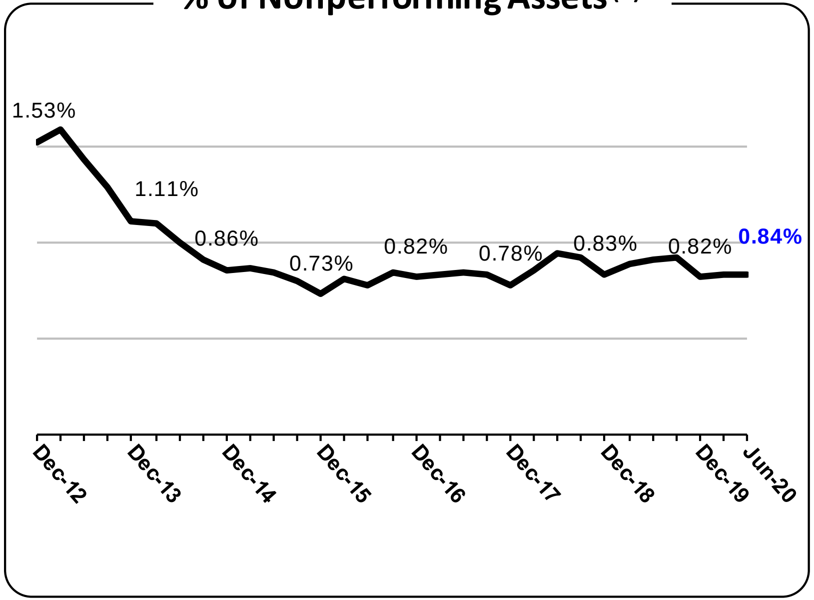
% of Loans Classified less than Acceptable



Source: FCS Information Statements

Nonperforming assets edge higher; indications of increasing portfolio stress

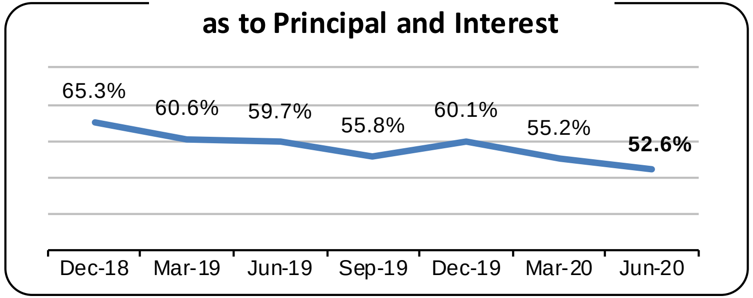
% of Nonperforming Assets (1)



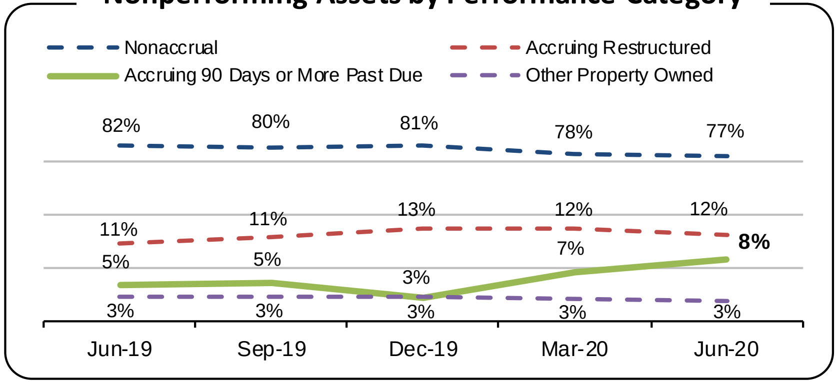
(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

Source: FCS Information Statements

Nonaccrual Loans that are Current as to Principal and Interest



Nonperforming Assets by Performance Category

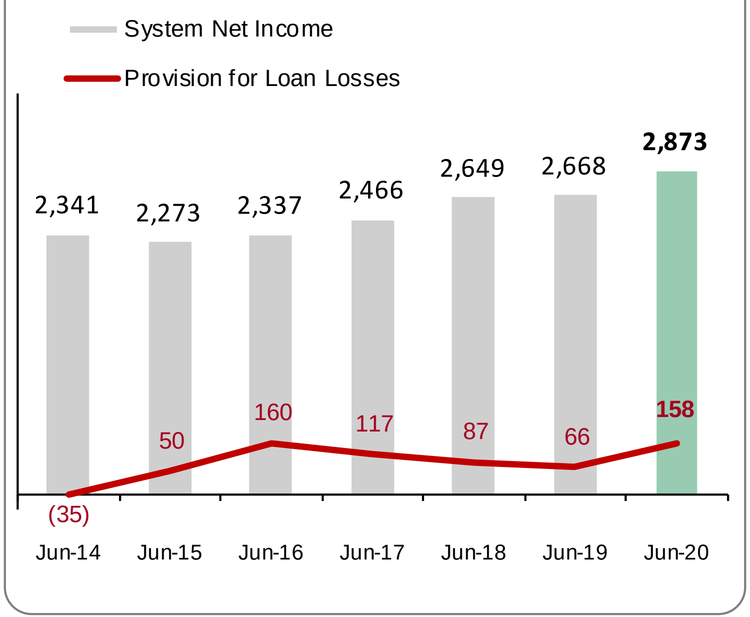


Strong earnings growth year-over-year; loan provisions rise

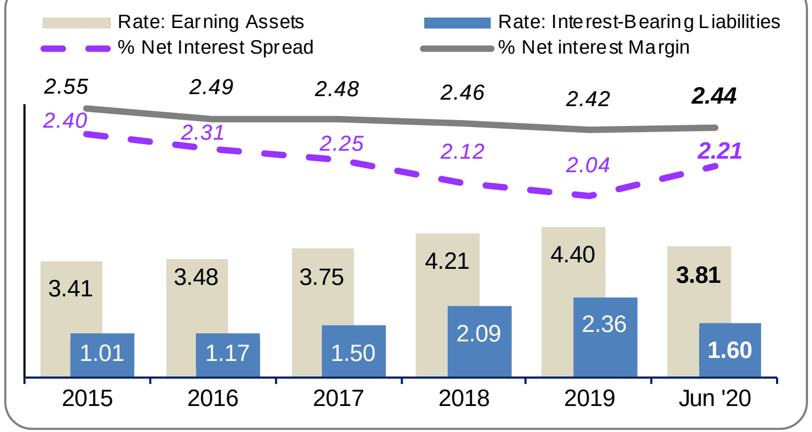



System Earnings ($M)

Year-to-date through June



Net Interest Spread | Net Interest Margin



Rate | Volume Impact on Net Interest Income

	Increase (decrease) due to:		
YTD through June	**Volume**	**Rate**	**Total**
Interest Income	467	(1,167)	(700)
Interest Expense	263	(1,303)	(1,040)
Net Interest Income	**204**	**136**	**340**

Source: FCS Information Statements

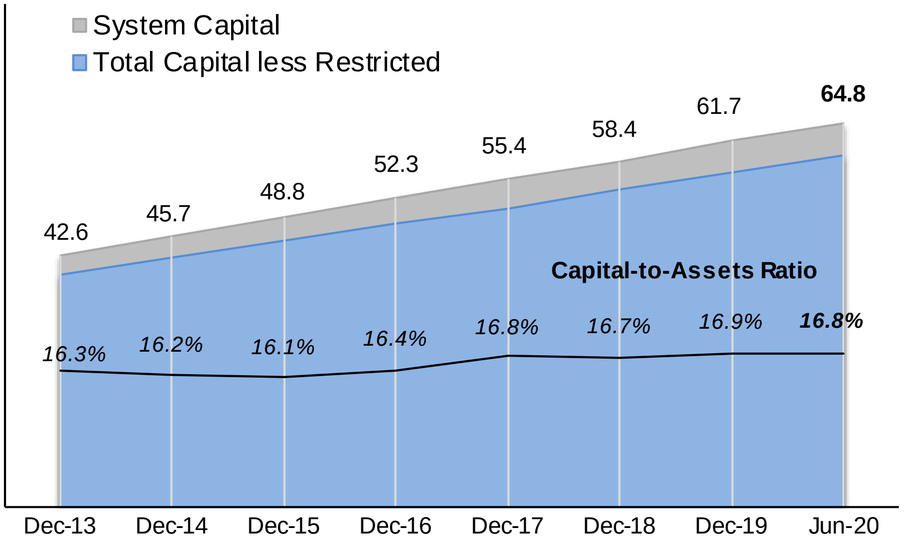
System is financially sound and well-capitalized

Capital and Liquidity
(as of June 30, 2020)

- Total Regulatory Capital:
  - Banks | 15.0% to 18.0%
  - Associations | 12.4% to 37.5%
- Days of available liquidity for the 4 funding banks ranged from 180 to 223 days
- Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.4% to 23.3% at a district level

Source: FCS Information Statements

Total System Capital ($B)



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

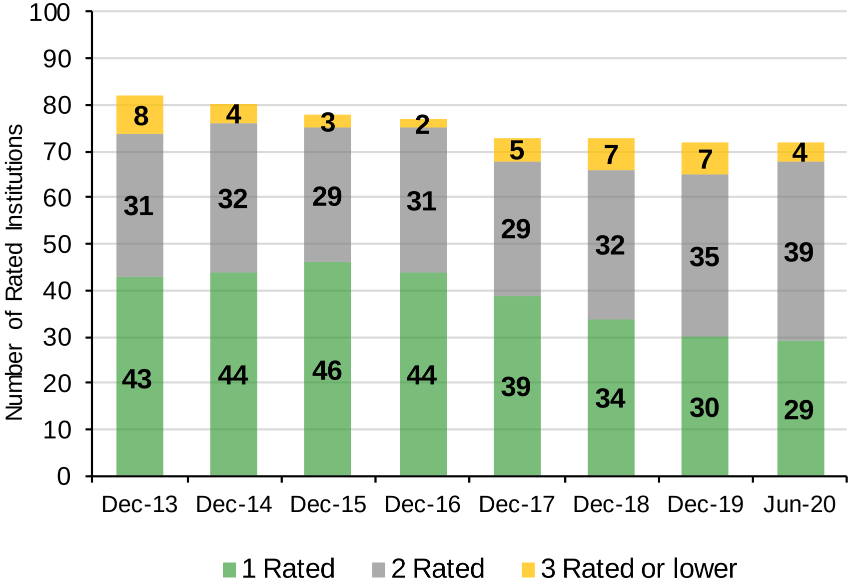
System FIRS ratings

FIRS Ratings

(based on 6/30/20 financial reporting)

- Composite FIRS ratings remained steady in the 2nd 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




- The U.S. economy is recovering as local economies reopen, but significant uncertainty persists.
- For agricultural producers, market volatility and price concerns remain high for key crop and livestock sectors.
- The Farm Credit System remains fundamentally safe and sound.
- Although portfolio credit quality is expected to deteriorate, System institutions are strongly capitalized with significant risk-bearing capacity.
- System institutions are well-positioned to support agricultural producers and rural America.

News Release

Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

For Immediate Release
NR 20-13 (08-13-20)

Contact: Mike Stokke or Emily Yaghmour,
703-883-4056
Email: info-line@fca.gov

FCA board receives 2019 annual report on the Farm Credit System's young, beginning, and small farmer lending

McLEAN, Va., Aug. 13, 2020 — At its monthly meeting today, the Farm Credit Administration board received FCA's 2019 Annual Report on the Farm Credit System's Young, Beginning, and Small (YBS) Farmer Mission Performance.

FCA defines young farmers as those who are 35 years old or younger, beginning farmers as those who have been farming for 10 years or less, and small farmers as those with gross annual sales of less than $250,000.

Outstanding loans

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding increased in 2019. Total System loan dollar volume outstanding increased by 6.3%, and loan dollar volume outstanding to young farmers increased by 3.3%, to beginning farmers by 3.9%, and to small farmers by 4.6%.

However, the total number of loans outstanding both for the System as a whole and for YBS borrowers remained relatively flat in 2019. The number of total System loans outstanding increased by 0.5%. The number of loans outstanding to young farmers increased by 1.0%, to beginning farmers by 1.8%, and to small farmers by 0.6%.

New loans

From Dec. 31, 2018, to Dec. 31, 2019, the System's overall new loan dollar volume increased by 5.4%. New loan dollar volume to young farmers increased by 7.3%, to beginning farmers by 8.0%, and to small farmers by 15.9%.

The number of loans made during the year also increased in 2019 for both total System lending and for all YBS categories. The number of total System loans made during the year increased by 4.8%. The number of loans to young farmers increased by 5.9%, to beginning farmers by 8.1%, and to small farmers by 7.8%.

System institutions are required by law and FCA regulation to maintain programs to provide sound and constructive credit and related services to YBS farmers and ranchers. They must report annually to FCA on their YBS lending activity.

-more-

For more information about the System's YBS farmer lending in 2019, see the related fact sheet (PDF). Also, see the PowerPoint presentation (PDF) used at the FCA board meeting.

Final rule on investment eligibility

In other business, the board approved a final rule to amend FCA regulation 615.5140(b)(2), which took effect on Jan. 1, 2019. The final rule will permit associations to now purchase loan portions in the secondary market that are fully and unconditionally guaranteed by USDA. These USDA-guaranteed loan portions will serve as risk management investments in addition to those investments already authorized by this FCA regulation.

The final rule will enhance the ability of associations to manage risks, and it should help increase liquidity in rural credit markets, which is consistent with the System's mission.

Final rule on amortization

The FCA board also approved a final rule that will repeal regulatory provisions that impose amortization limits on loans made by production credit associations (PCAs). For any loan that amortizes over a period that is longer than its term to maturity, the final rule will require all System associations to establish an appropriate loan amortization schedule consistent with their underwriting standards. These standards should consider the type and purpose of the loan, the expected useful life of the asset being financed, and the repayment capacity of the borrower.

The final rule is unchanged from the proposed rule, which was published on Jan. 23. The agency removed the PCA limits because it views loan amortization as a credit underwriting issue, not a legal authority issue.

Effective dates for final rules

Both final rules will take effect 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date for each rule will be published in the Federal Register.

Notational votes

Since the July 16 FCA board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA board between board meetings.

On July 26, the FCA board approved the transfer of procurement functions from the Office of Agency Services to the Office of the Chief Financial Officer.

On July 29, the FCA board approved a request by Compeer Financial, ACA, to renew the streamlined approval process that allows the association to invest in certain healthcare-related bonds. The bonds must involve facilities in rural areas that have met the USDA's definition of an "essential community facility." The approval is subject to conditions, including a total limit of $200 million in bonds.

On Aug. 4, the board approved the request by MidAtlantic Farm Credit, ACA, to distribute $8.25 million in allocated equities to its member-borrowers.

###

2019 Results:
FCA's Annual Report on the Farm Credit System's Young, Beginning, and Small Farmer Mission Performance

FCA Board Meeting
August 13, 2020
Salvatore Iannetta, Senior Policy Analyst

YBS Definitions

Definitions for FCA Reporting:

- *Young Farmer*: 35 years of age or younger.
- *Beginning Farmer*: 10 years or less of farming experience.
- *Small Farmer*: gross annual farm sales of $250,000 or less.

Important Data Clarifications:

- YBS data is reported separately for each category.
- Borrowers may qualify under more than one category.
    - Adding Y, B, and S data together does not produce an accurate measure of YBS lending.
- Dollar volumes include advances and commitments.