



FCA Board Meeting April 2020

Tab 2

Quarterly Report on FCS Condition April 16, 2020

Dennis A. Shields
Hal Johnson





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Economic upheaval with COVID-19
 - Commodity market volatility
 - 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. economic activity has plunged

- ▶ Effects of the pandemic became visible in the week ending March 21, with an unprecedented number of unemployment insurance claims, a sharp decline in consumer confidence, and a more modest decline in steel production.
- ▶ An offsetting surge in retail sales occurred as consumers flooded stores to stock up.



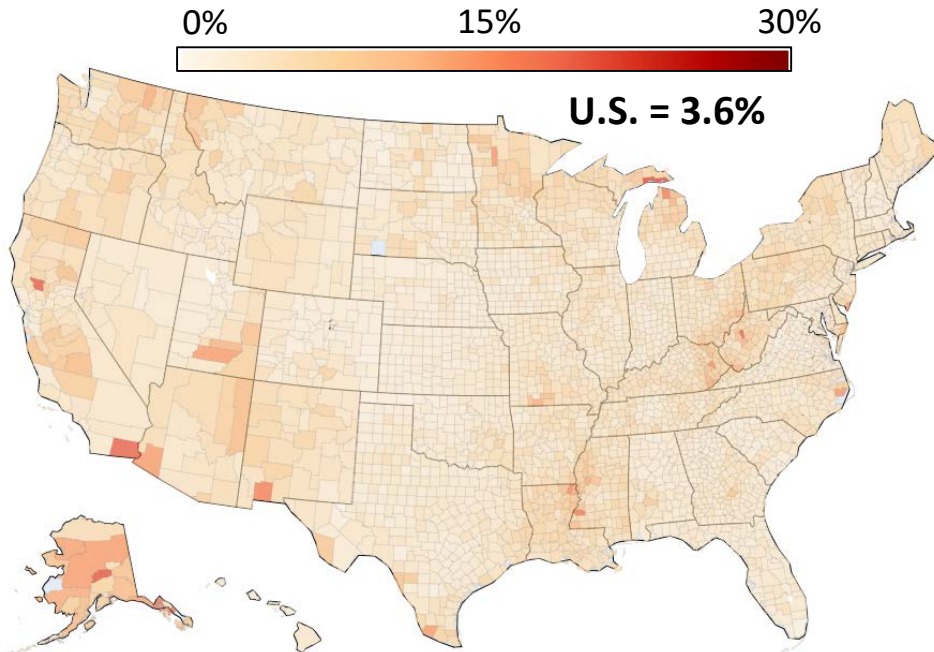
Source: "Monitoring Real Activity in Real Time: The Weekly Economic Index," Federal Reserve Bank of New York *Liberty Street Economics*, March 30, 2020 ([link](#)).





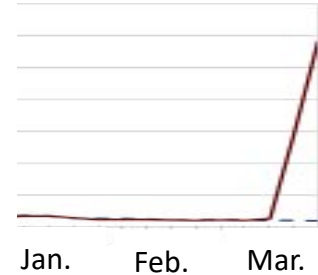
Unemployment was low across the country before insurance claims skyrocketed

Unemployment rate by county as of January 2020



Unemployment insurance claims

Week ending: 3/21 = 3.3 mil.
3/28 = 6.9 mil.
4/04 = 6.6 mil.



March figures to be revised

Employed = 155.8 mil.

Unemployed = 7.1 mil.

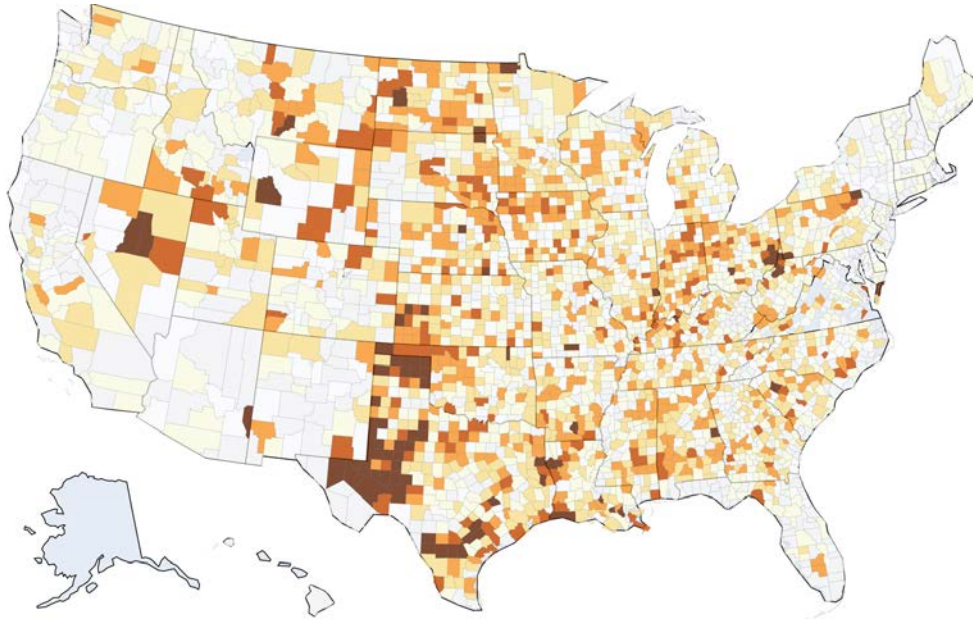
Unemployment rate = 4.4%

Source: FCA analysis of U.S. Bureau of Labor Statistics unemployment rate data; unemployment insurance claims from <https://www.dol.gov/ui/data.pdf>.



Goods-producing industries are important in local economies

Percent of 2018 GDP from goods-producing industries by county



Selected FCS geographic footprint	For each territory, goods-producing share of GDP (%)
Capital FC	47.0%
FCS of America	34.2%
Mid-America	31.8%
Amer. AgCredit	30.4%
Compeer	28.4%
Northwest FCS	25.0%
U.S. total	17.8%

Source: FCA analysis of data from Bureau of Economic Analysis, Gross Domestic Product: Private Goods-Producing Industries.

Notes: Latest data available; "goods" equals agriculture, forestry, fishing, and hunting; mining (oil and gas); construction; and manufacturing.

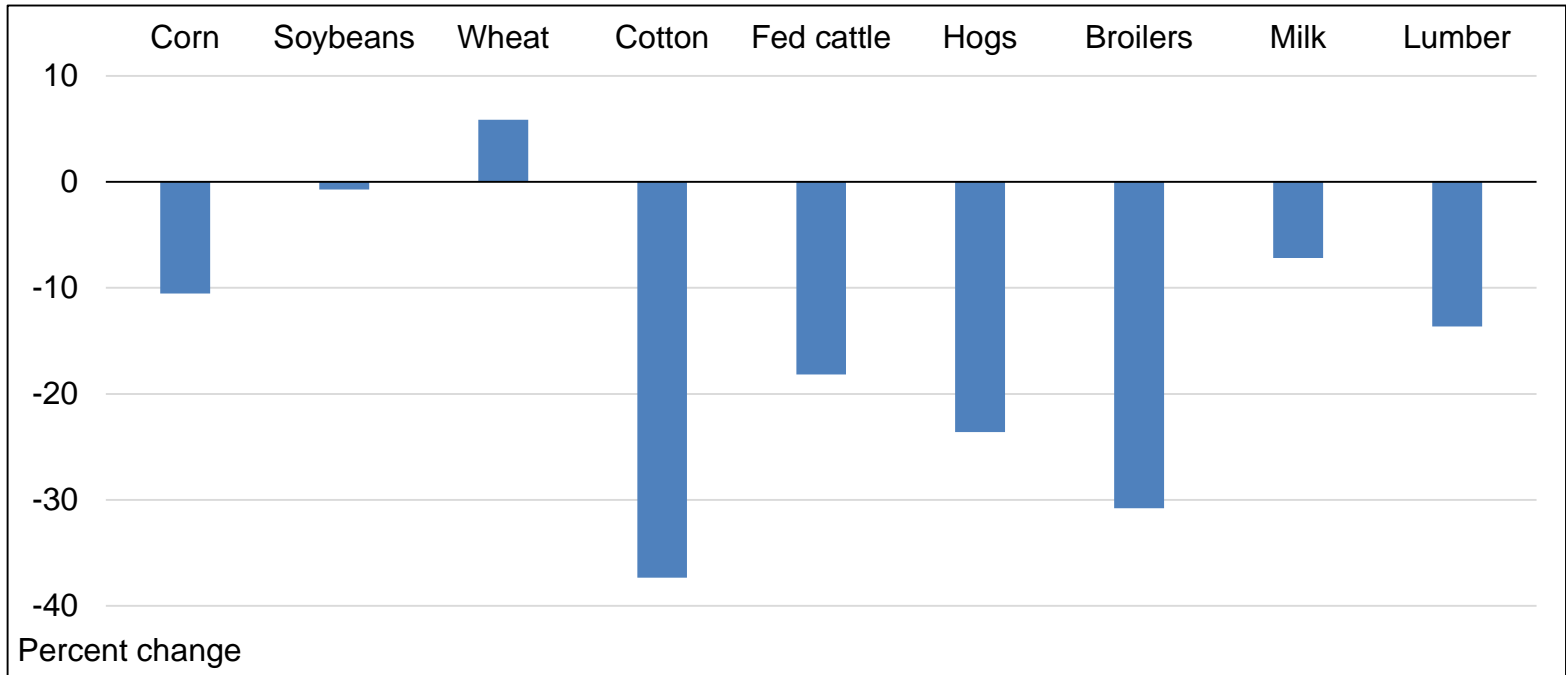




Commodity prices are below year-earlier levels (except wheat)



Prices in early April relative to a year ago



Source: MGEX and USDA (cash prices) and CME (futures) as of April 3.

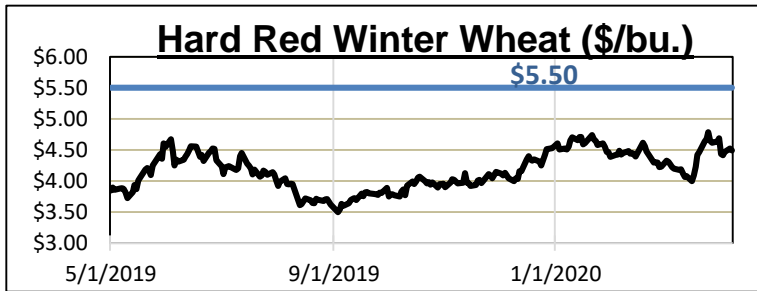
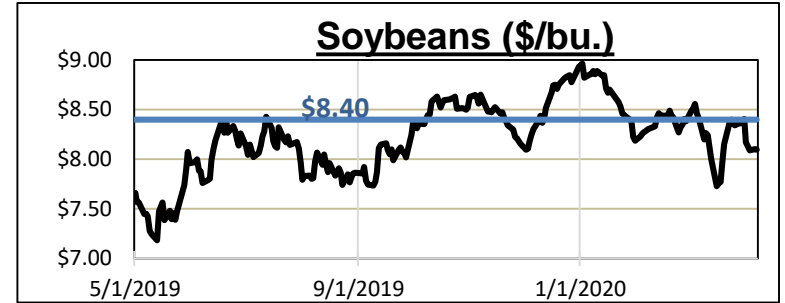
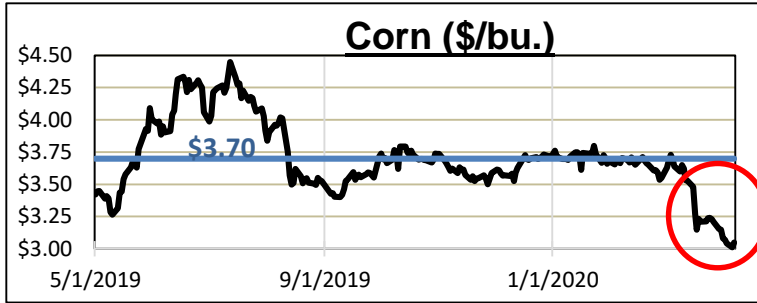
Note: Cash bid/prices for commodities except futures for milk (May class III) and lumber (May).



Corn bids collapse with demise of ethanol prices; soybeans and wheat bids remain volatile



— Elevator daily cash bids (national index)
— Farm Bill reference price that triggers Price Loss Coverage payments using season-avg. farm price



Lower fertilizer and fuel prices will partially offset lower market returns.

Source: MGEX elevator daily cash bids.



Livestock producers brace for declining demand



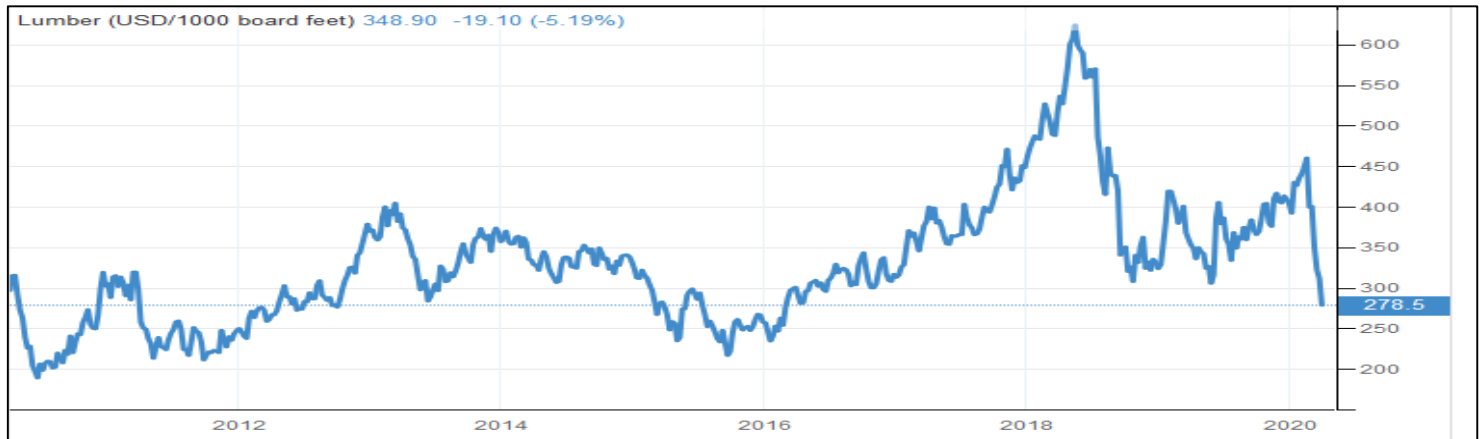
- ▶ Across all parts of the livestock marketing chain, declining prices reflect both loss of demand and developments in plant slowdowns or even closures related to COVID-19.
- ▶ Declining beef and fed cattle prices are pressuring feedlot margins and resulting in dwindling calf receipts.
- ▶ Hog prices increased in mid-March on a retail demand surge, generating positive producer margins, but then food service demand collapsed.
- ▶ Milk futures have plunged more than 30 percent since late 2019; a decline in cheese and butter prices will have a major negative impact on producer margins.
- ▶ While poultry integrators were likely able to stay above breakeven during March, many operators are experiencing depleted foodservice demand that is pushing margins into the red.
- ▶ The food system is being tested by extreme conditions.



Forestry sector faces significant pressure

- ▶ Lumber futures have plummeted, and mills are dramatically dialing back production of two-by-fours, plywood and other building materials.
- ▶ Sector weakness is only partially offset by the strong demand for pulp, which is used to make toilet paper, cardboard boxes and other products.

Lumber futures, softwood 2x4s measured in \$ per 1,000 board feet



Source: CME Group.





Government assistance for farmers

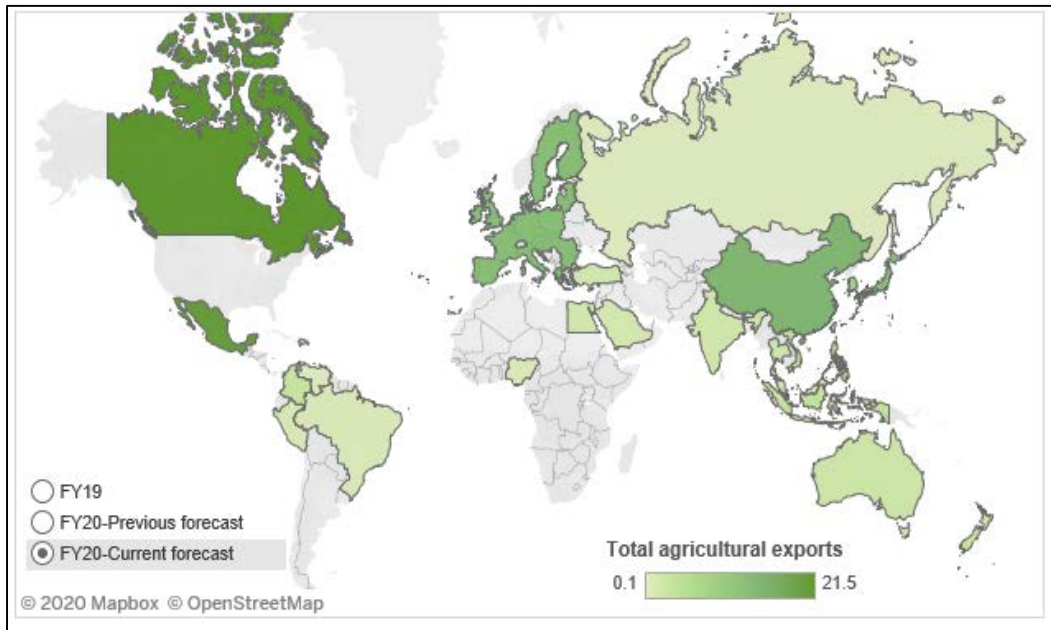
- ▶ Price Loss Coverage program provides some downside price protection – some program crops are better protected than others.
- ▶ Loan deficiency payments started for cotton on 3/20/20.
- ▶ Crop insurance guarantees also provide some price protection:
 - corn = \$ 3.88 per bushel,
 - soybeans = \$9.17,
 - hard red winter wheat = \$4.35, and
 - hard red spring wheat = \$5.56.
- ▶ CARES Act added \$14 billion to the Commodity Credit Corporation funds and provided \$9.5 billion for commodity support.
- ▶ Commodities that do not receive traditional farm program support include cattle, hogs, poultry, aquaculture, forage, fruits, vegetables and tree nuts.





Export demand will be critical for U.S. agricultural prices and income

U.S. agricultural exports – fiscal year 2020 forecast (February)



U.S. ag. exports (\$ bl.)	
Canada	\$21.5
Mexico	\$19.8
China	\$14.0
Europe	\$12.9
Japan	\$12.0
World FY 2020 (Feb. forecast)	\$139.5
World FY 2019 (actual)	\$135.5

Source: USDA/ERS.

Note: Forecasts as of February 20, 2020.



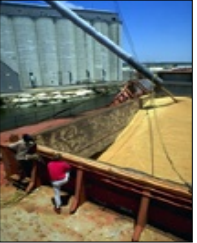
Concluding comments

- ▶ General economy could face a long recovery period with fewer fully-employed people, reducing off-farm income and demand.
- ▶ Depth and time period of economic loss depends on disease containment in the U.S. (and elsewhere) and subsequent consumer behavior.
- ▶ Collapse in the energy market has significantly affected agriculture (through lower prices of corn) and many other parts of the rural economy via declining employment and related business activity.
- ▶ A protracted recession will be tempered to the extent that the current (or future) fiscal stimulus is effective.





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
December 31, 2019

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Loan Portfolio
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

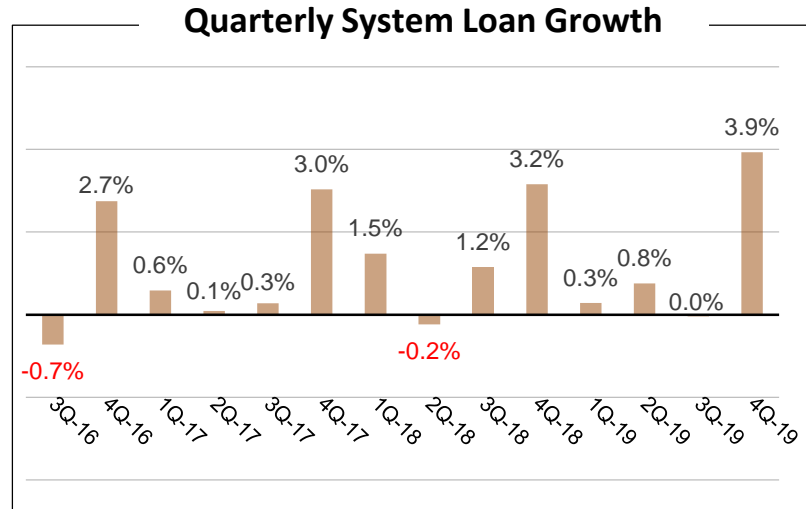




The System reported modest growth in 2019



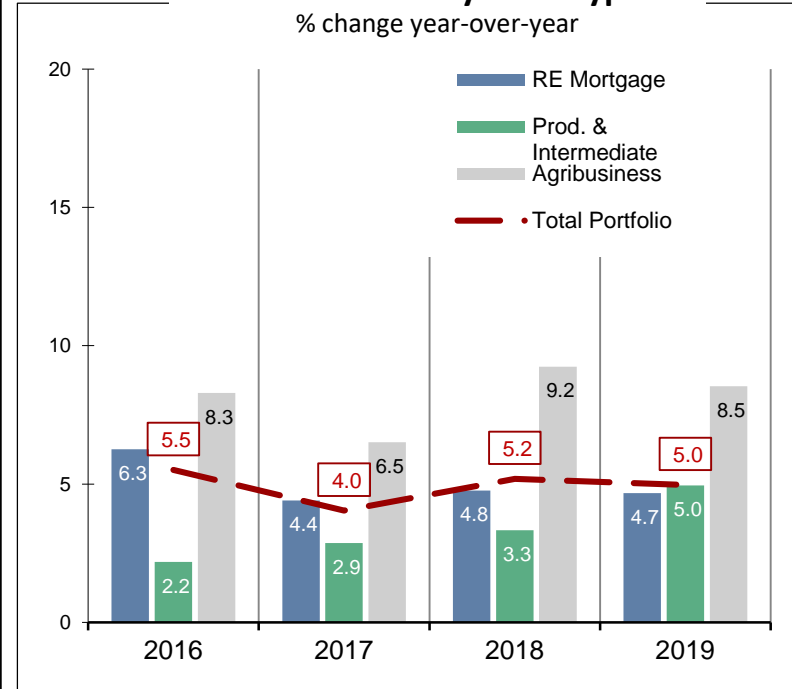
Total Assets 12/31/19	\$365.4 billion	+3.2% Qtr +4.7% FY	Gross Loans 12/31/19	\$287.0 billion	+3.9% Qtr +5.0% FY
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Source: FCS Information Statements

Loan Growth by Loan Type

% change year-over-year



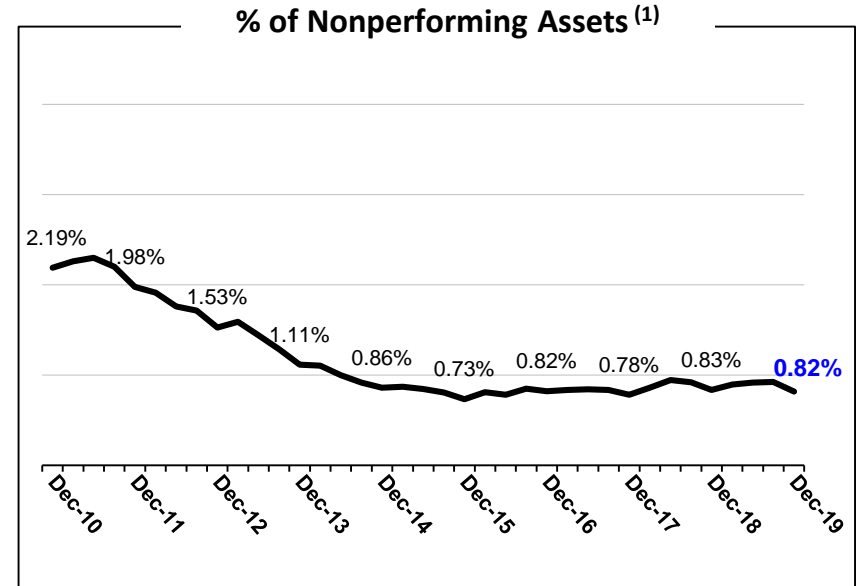


Portfolio credit risk indicators relatively stable in 2019; risk varies by region and ag sector



Nonperforming Assets (12/31/19)	\$2.347 billion	Qtr Chg. - \$202M or - 7.9%
		12 Month Chg. + \$65M or + 2.8%
Delinquencies ⁽¹⁾ (12/31/19)	0.32%	Q3 '19 0.30%
		Q4 '18 0.33%

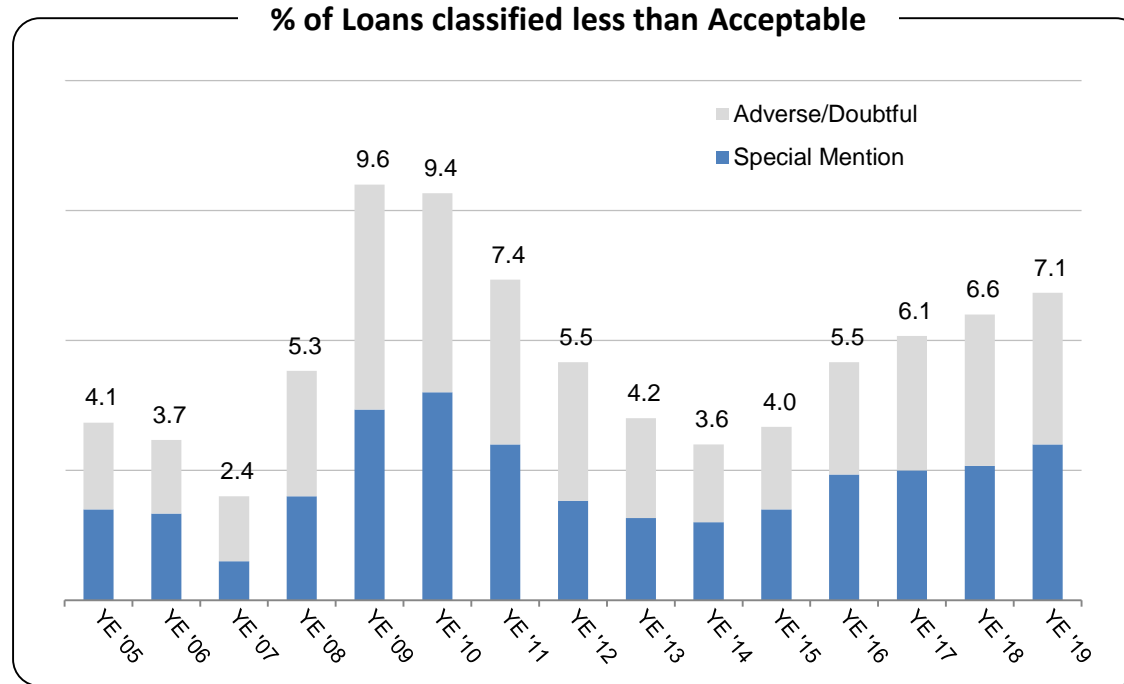
(1) accruing loans 30 days or more past due as a % of accruing loans



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



Loans classified less than Acceptable continued to trend higher in 2019

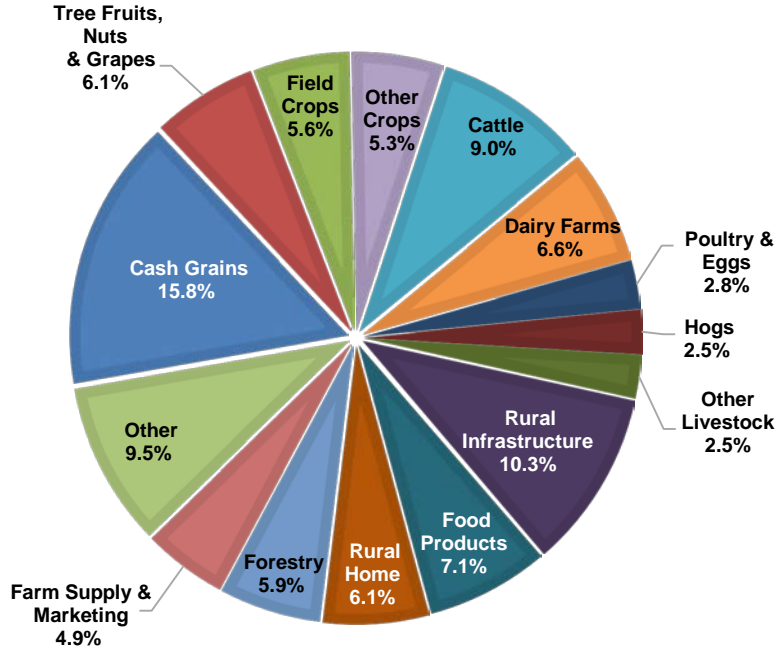


Source: FCS Information Statements



System portfolio is diversified by commodity

System Loan Portfolio by Commodity Concentration



System Loan Portfolio (\$ in millions)	Dec-19	% of Total Portfolio
Cash Grains	45,294	15.8%
Tree Fruits, Nuts & Grapes	17,381	6.1%
Field Crops	16,125	5.6%
Other Crop Production	15,162	5.3%
Total Crop Production	93,962	32.7%
Cattle	25,827	9.0%
Dairy Farms	18,818	6.6%
Poultry & Eggs	8,022	2.8%
Hogs	7,116	2.5%
Other Livestock	7,300	2.5%
Total Animal Production	67,083	23.4%
Rural Infrastructure	29,669	10.3%
Food Products	20,317	7.1%
Rural Home	17,379	6.1%
Forestry	17,065	5.9%
Farm Supply & Marketing	14,028	4.9%
Other	27,461	9.6%
Total	286,964	100.0%

Source: FCS Information Statement



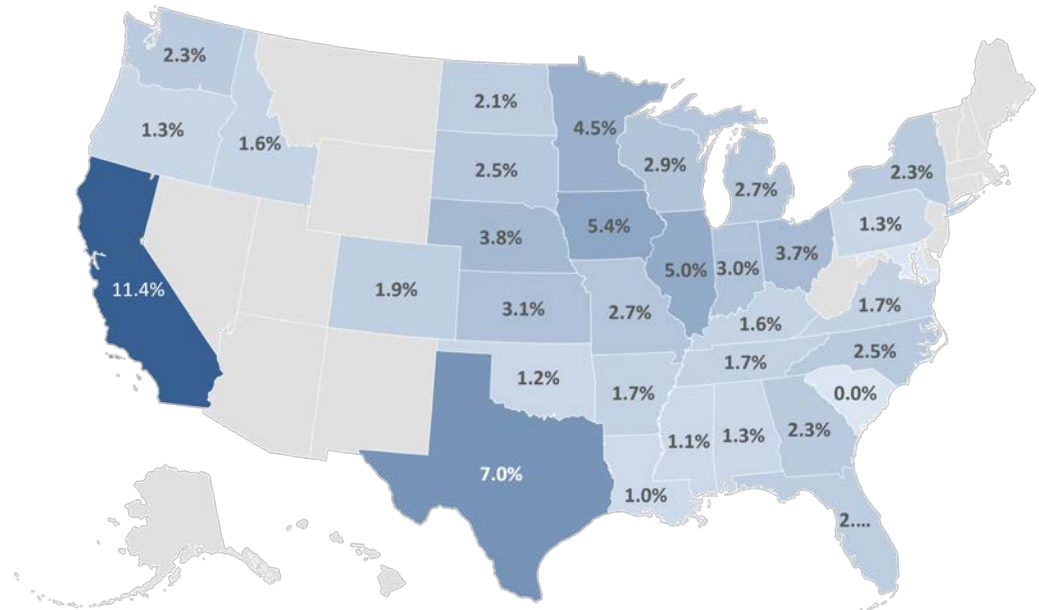
Portfolio volume is geographically distributed



% of System Loan Volume by State as of yearend 2019

(only states with at least 1% are displayed)

Top 5 States	% of Portfolio
California	11.4%
Texas	7.0
Iowa	5.4
Illinois	5.0
Minnesota	4.5



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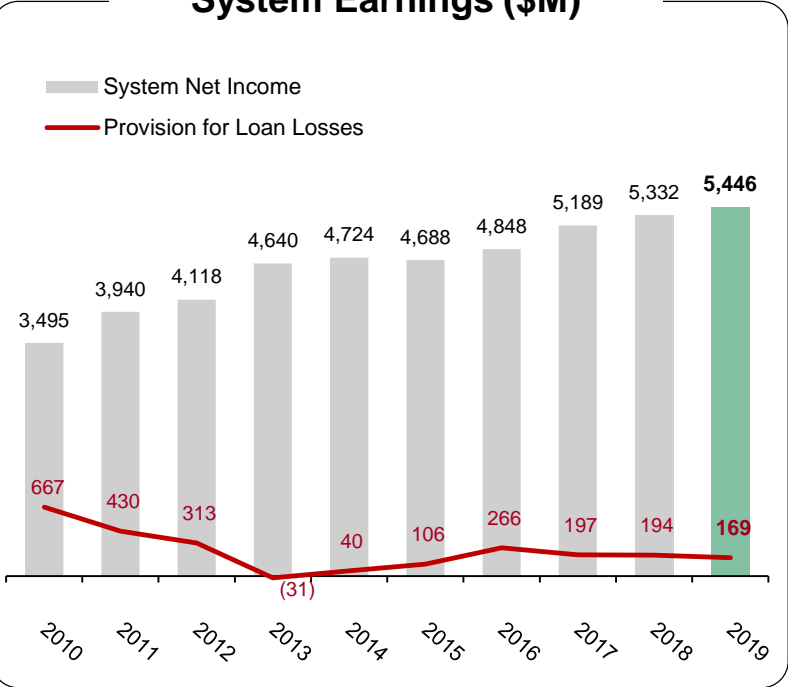
Source: FCS Information Statement



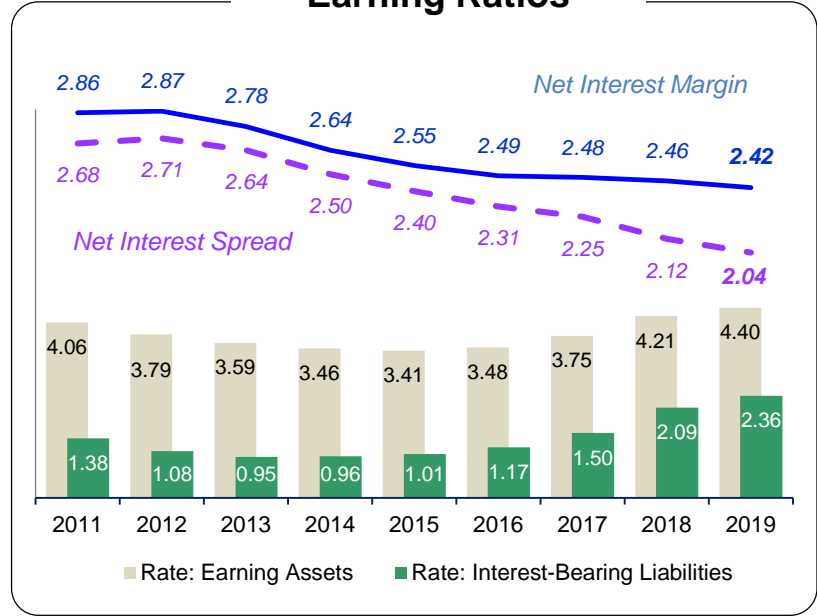
The System is financially sound



System Earnings (\$M)



Earning Ratios



Source: FCS Information Statements



The System is well-capitalized

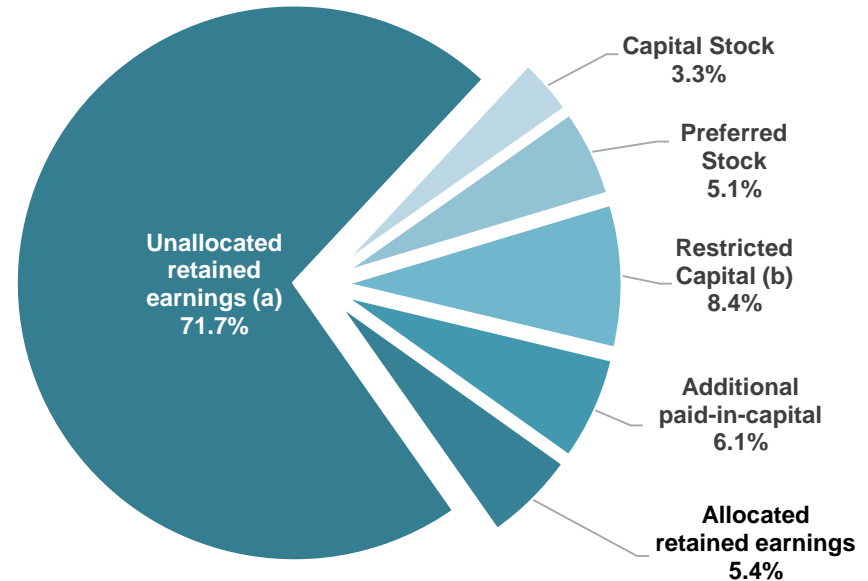
Capital and Liquidity

(as of December 31, 2019)

- ▶ Total Regulatory Capital levels:
Banks: 15.9% to 19.5%
Associations: 13.6% to 38.3%
- ▶ Days of available liquidity for the 4 funding banks ranged from 166 to 222 days
- ▶ Capital and the Allowance for Loan Losses as a % of loans for the combined districts ranged from 18.2% to 22.4%

Total System Capital: \$61.7 B

as of yearend 2019



(a) includes \$1.3B in accumulated other comprehensive loss

(b) Restricted Capital represents capital associated with the Insurance Fund

Source: FCS Information Statements



System FIRS ratings

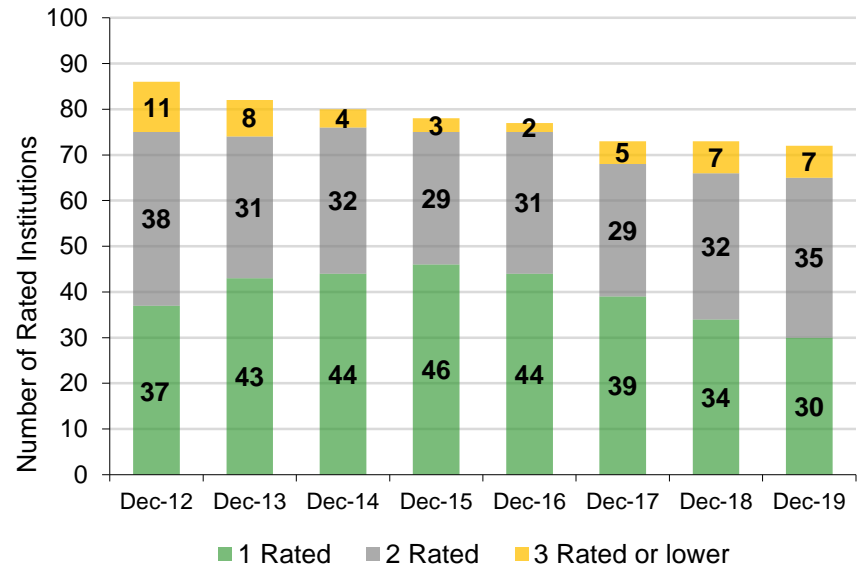


FIRS Ratings

(based on 12/31/19 financials)

- ▶ 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 2.5% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ The coronavirus pandemic (COVID-19) had an immediate and unprecedented effect on communities, businesses, and markets around the world.
- ▶ The severity and duration of the ongoing health crisis and disruption in economic activity is unknown.
- ▶ The impact on the farm economy and the Farm Credit System is uncertain, but will be significant.
- ▶ The Farm Credit System is fundamentally safe and sound. System institutions are financially strong, well-capitalized, and have significant risk-bearing capacity.





Questions



THANK YOU