



# Quarterly Report on FCS Conditions

April 11, 2024

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# Topics for Open Session

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## Economic Conditions Affecting the Farm Credit System

- ▶ Macroeconomic conditions
- ▶ Farm sector income and margin squeeze
- ▶ Issues shaping risk in livestock industry

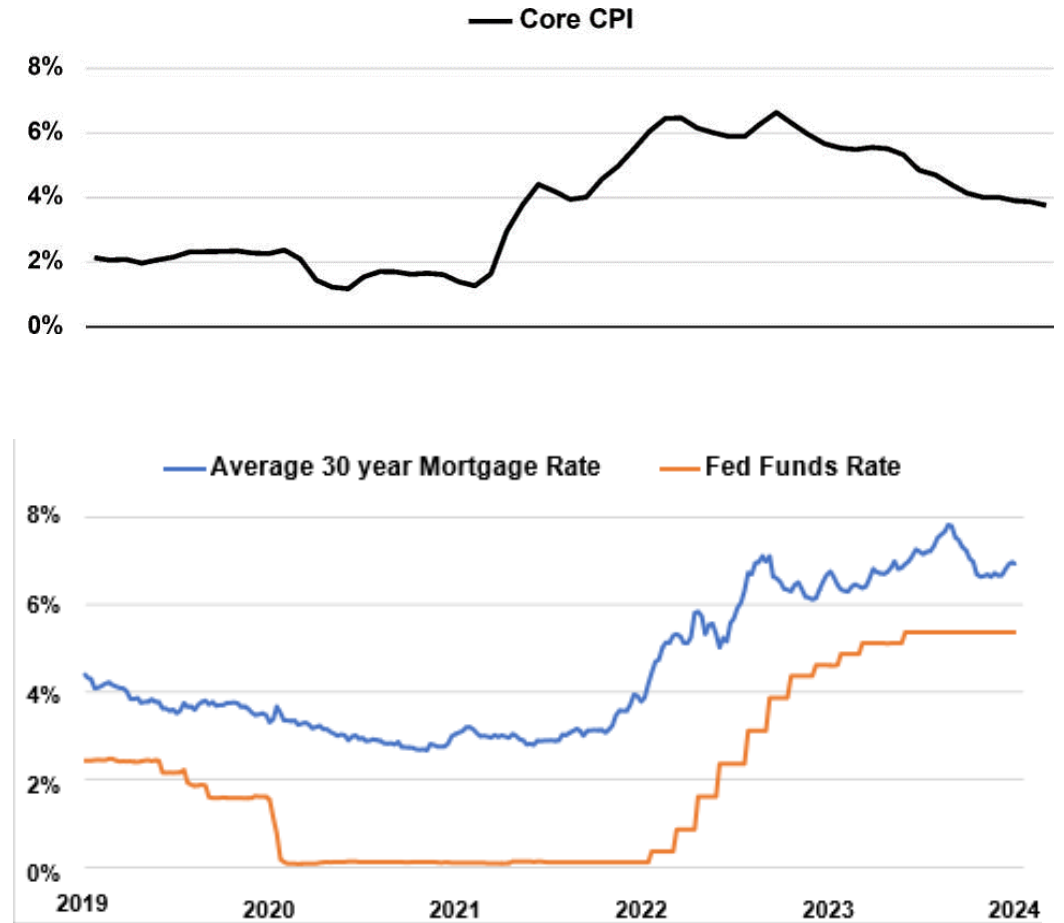
## Farm Credit System Condition and Performance

- ▶ System growth and loan portfolio
- ▶ Earnings and capital
- ▶ Financial Institution Rating System (FIRS)



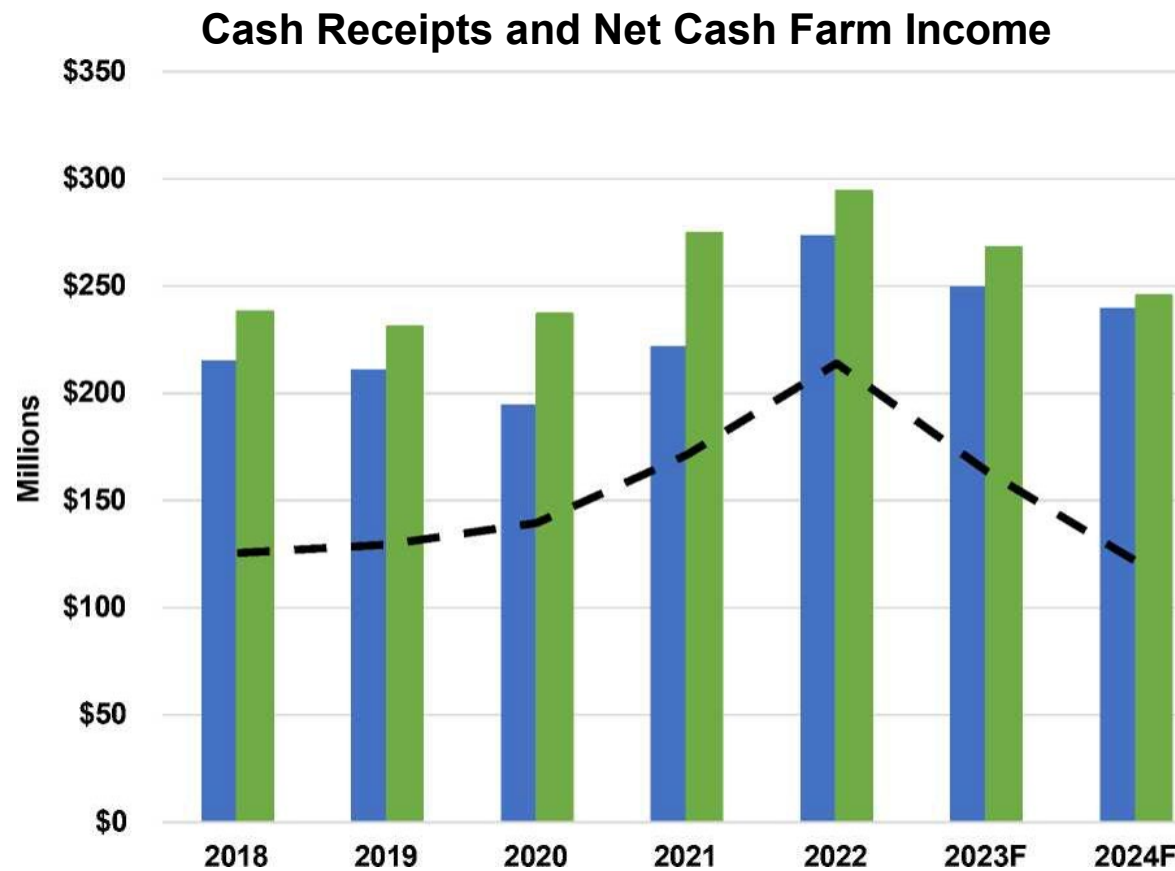
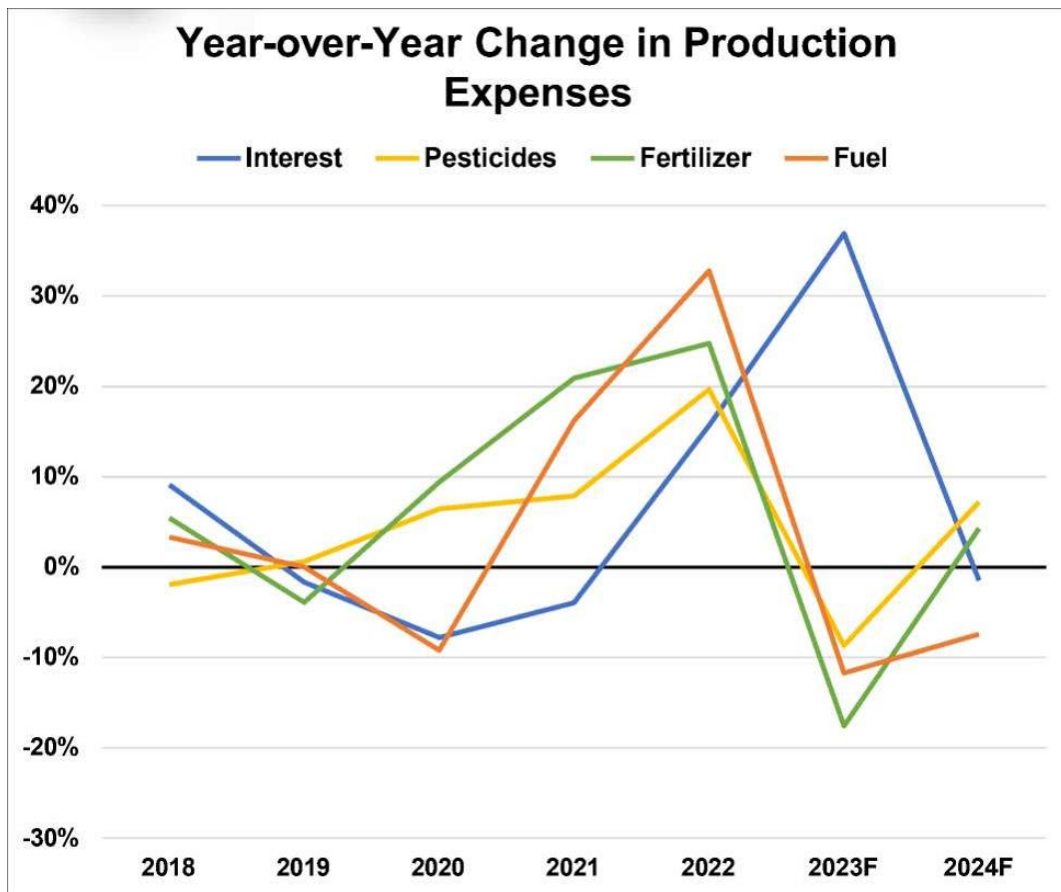
# Interest rates steady amid inflation risk

- ▶ High inflation in 2022 and 2023 led to sharp increase in interest rates aimed at bringing it down to 2%.
- ▶ The Fed has signaled possible rate cuts in 2024.
- ▶ Concerns about recession loom, but some economic indicators remain strong.





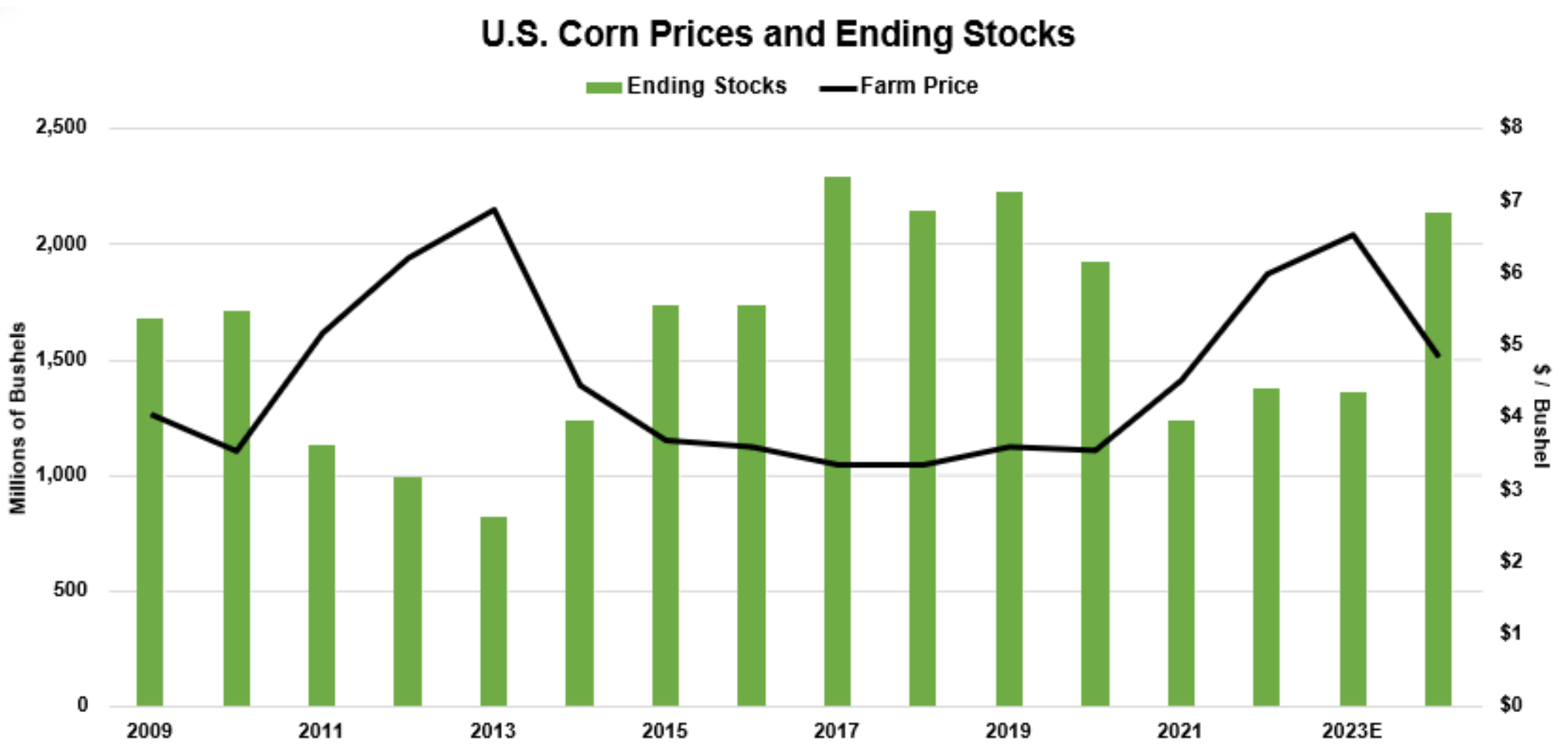
# Farm income expected to drop substantially



Source: USDA ERS Farm Income and Wealth Statistics



# Cash grain prices decline following highs in 2023



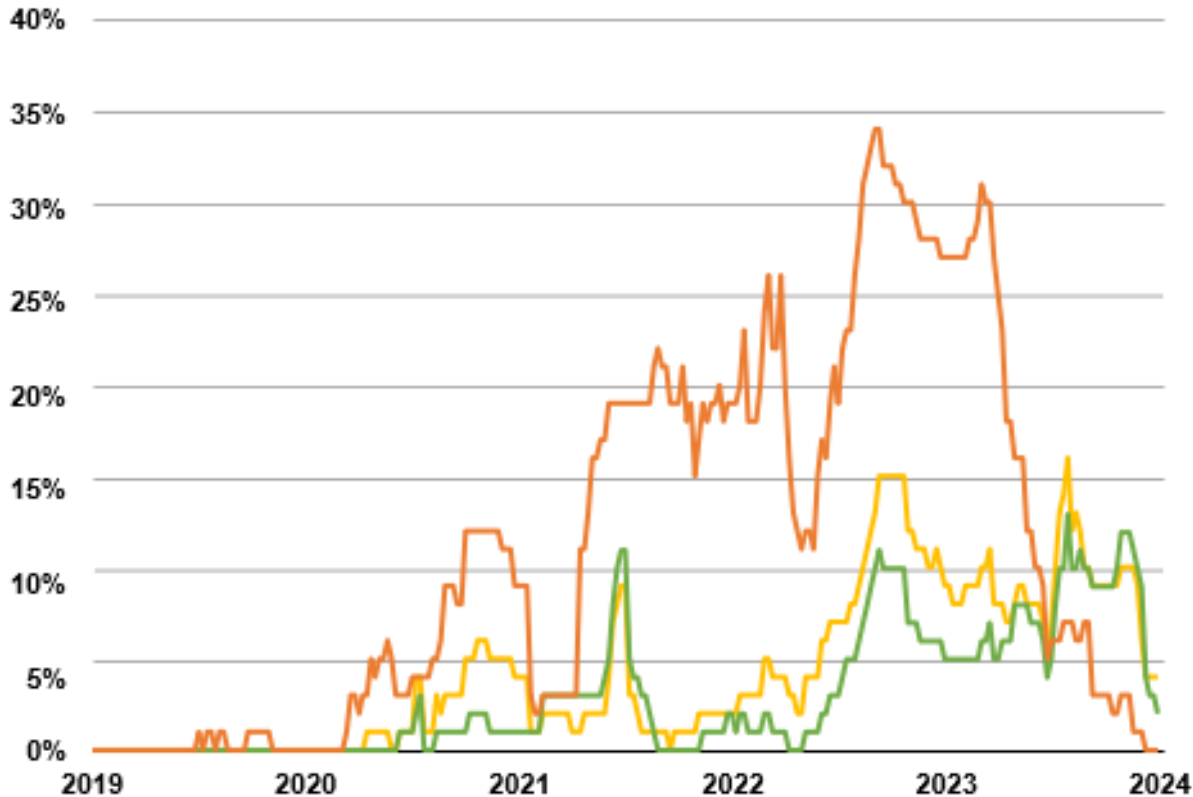
Source: USDA World Agricultural Supply and Demand Estimates  
Values for 2023 are estimates and 2024 are projections.



# Long-lasting drought eases across the country

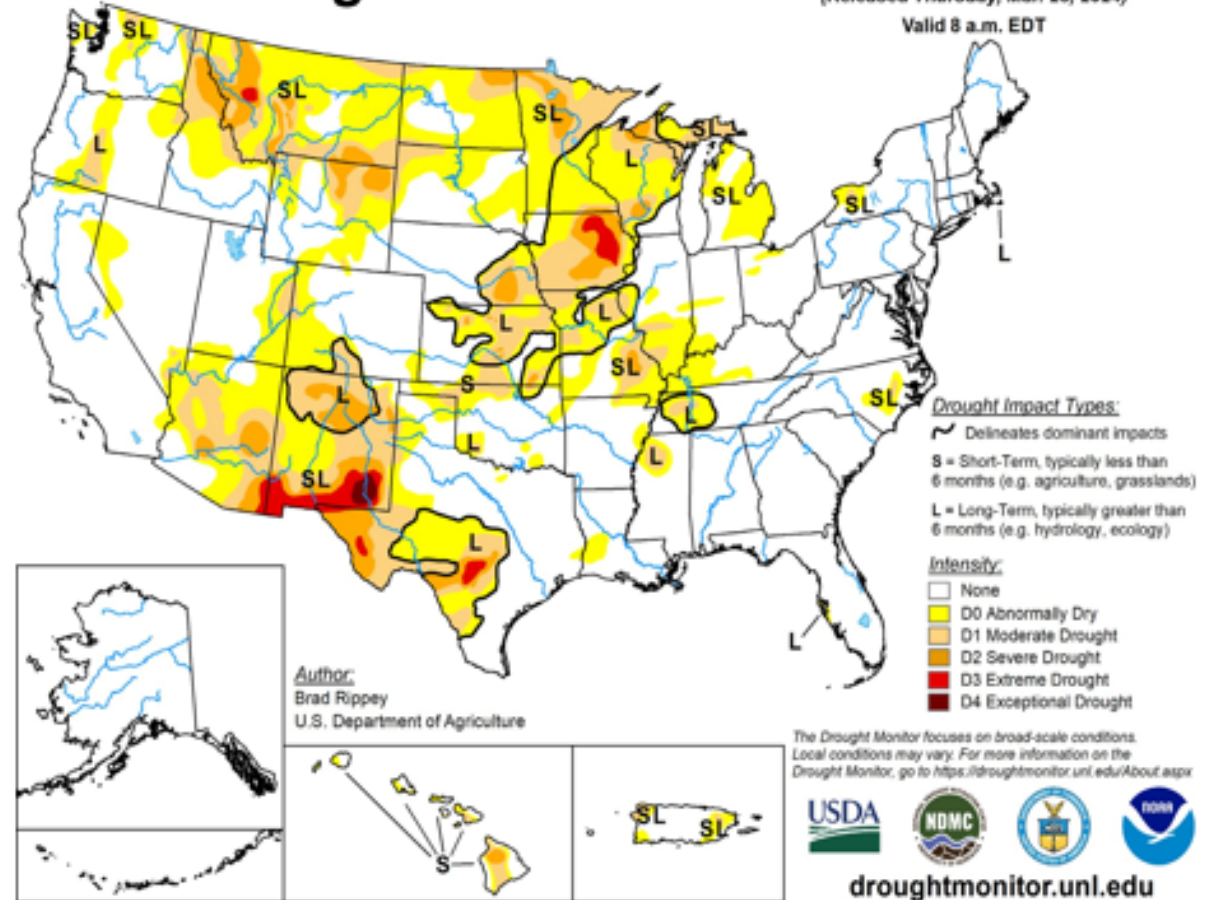
## Percent of Cropland in Extreme and Exceptional Drought

— Corn — Soybeans — Winter Wheat



## U.S. Drought Monitor

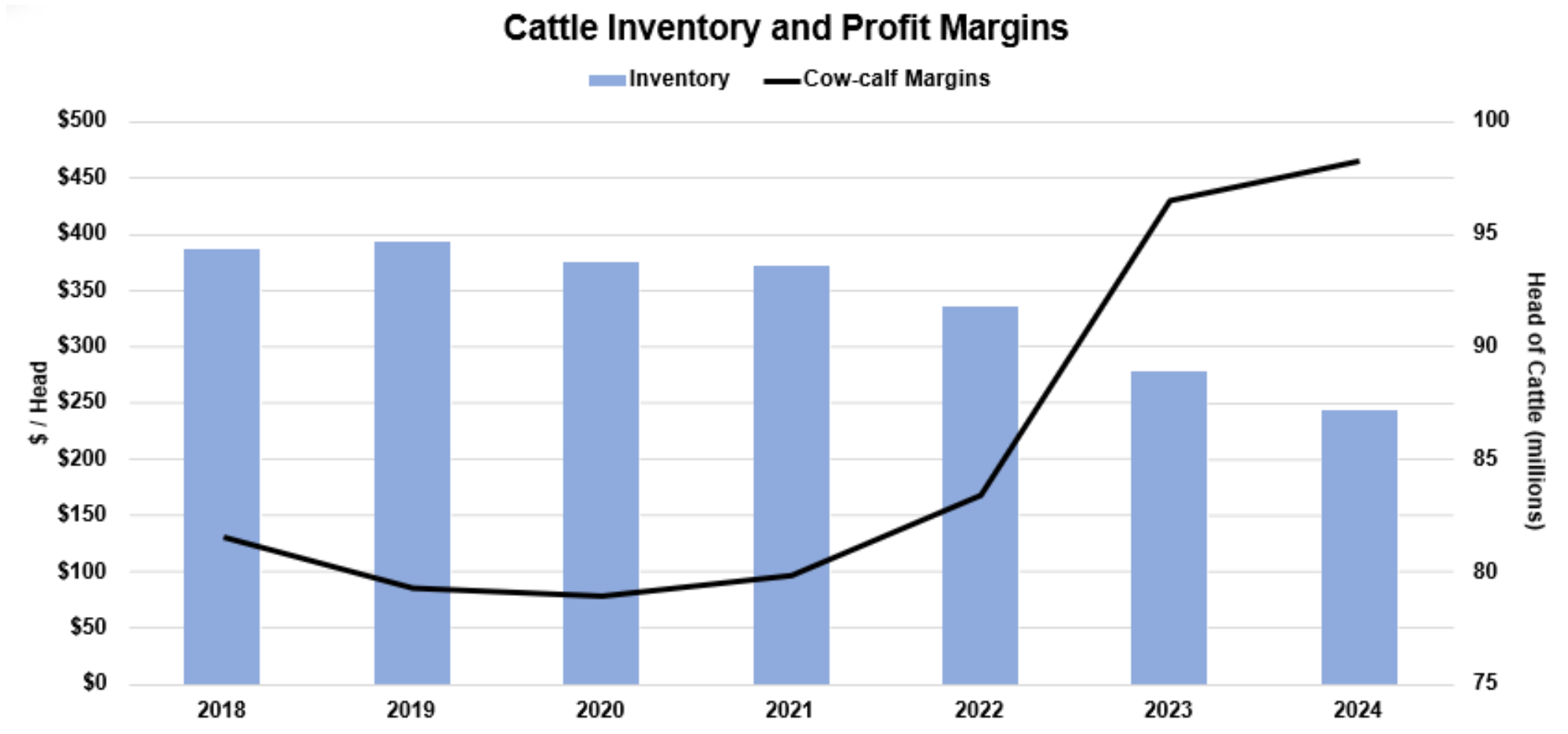
March 26, 2024  
(Released Thursday, Mar. 28, 2024)  
Valid 8 a.m. EDT



Source: National Drought Mitigation Center, University of Nebraska-Lincoln



# Cow-calf margins rise as inventory shrinks



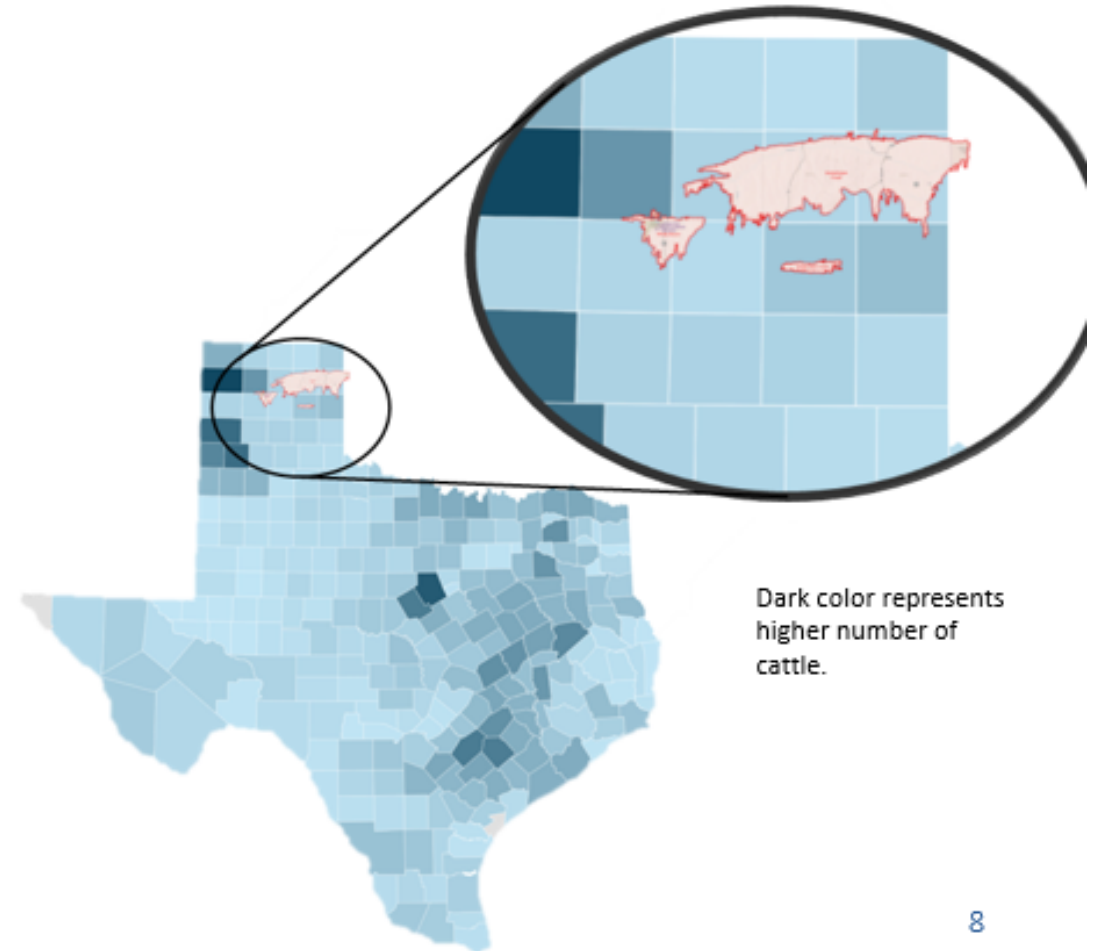
Sources: USDA NASS January 1 Cattle Inventory; Sterling Beef Profit Tracker



# Events shaping risk to livestock industry

- ▶ Texas wildfires:
  - Texas panhandle has largest concentration of cattle in the United States.
  - Impact of fires are felt in local areas with negligible effect on national beef supplies.
- ▶ Highly Pathogenic Avian Influenza (HPAI):
  - HPAI detected in dairy cattle in multiple states and has been transmitted from cattle to humans.
  - Questions about how virus moves through and across herds.
  - Egg operation in Texas tested positive.

**Texas Cattle Inventory and Wildfire Zone**

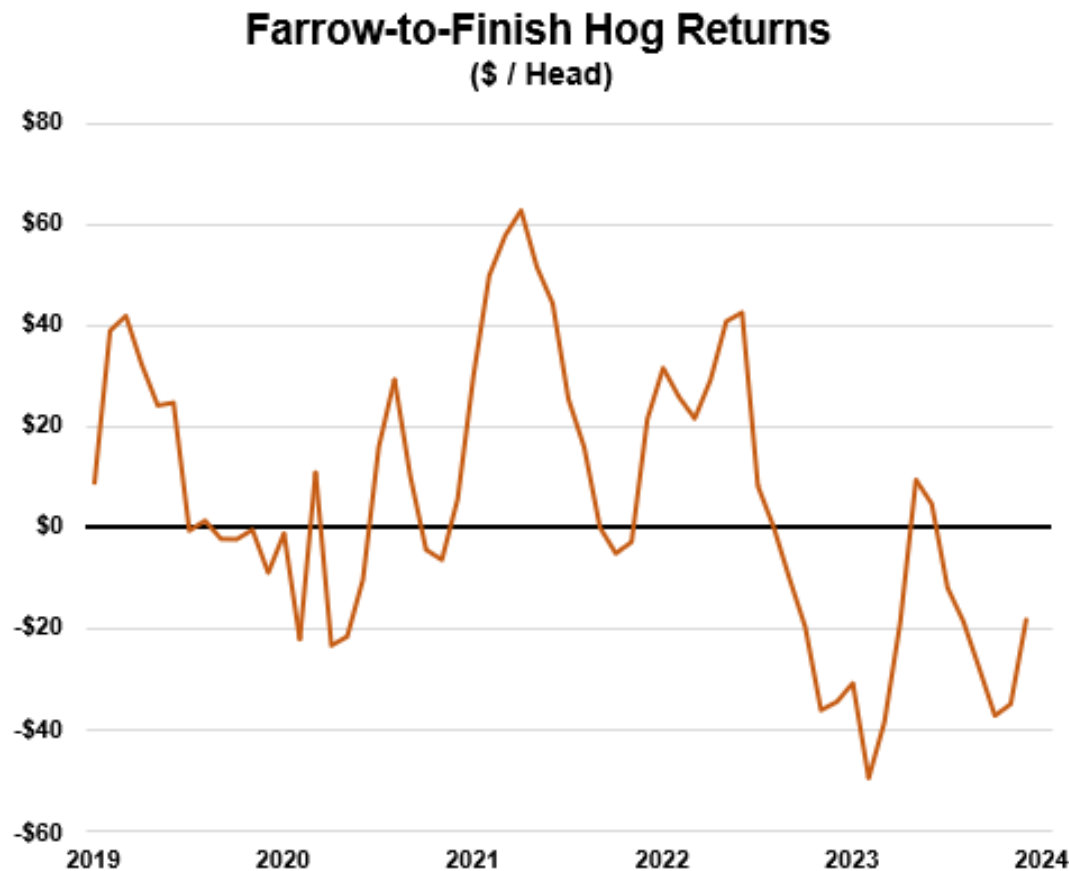






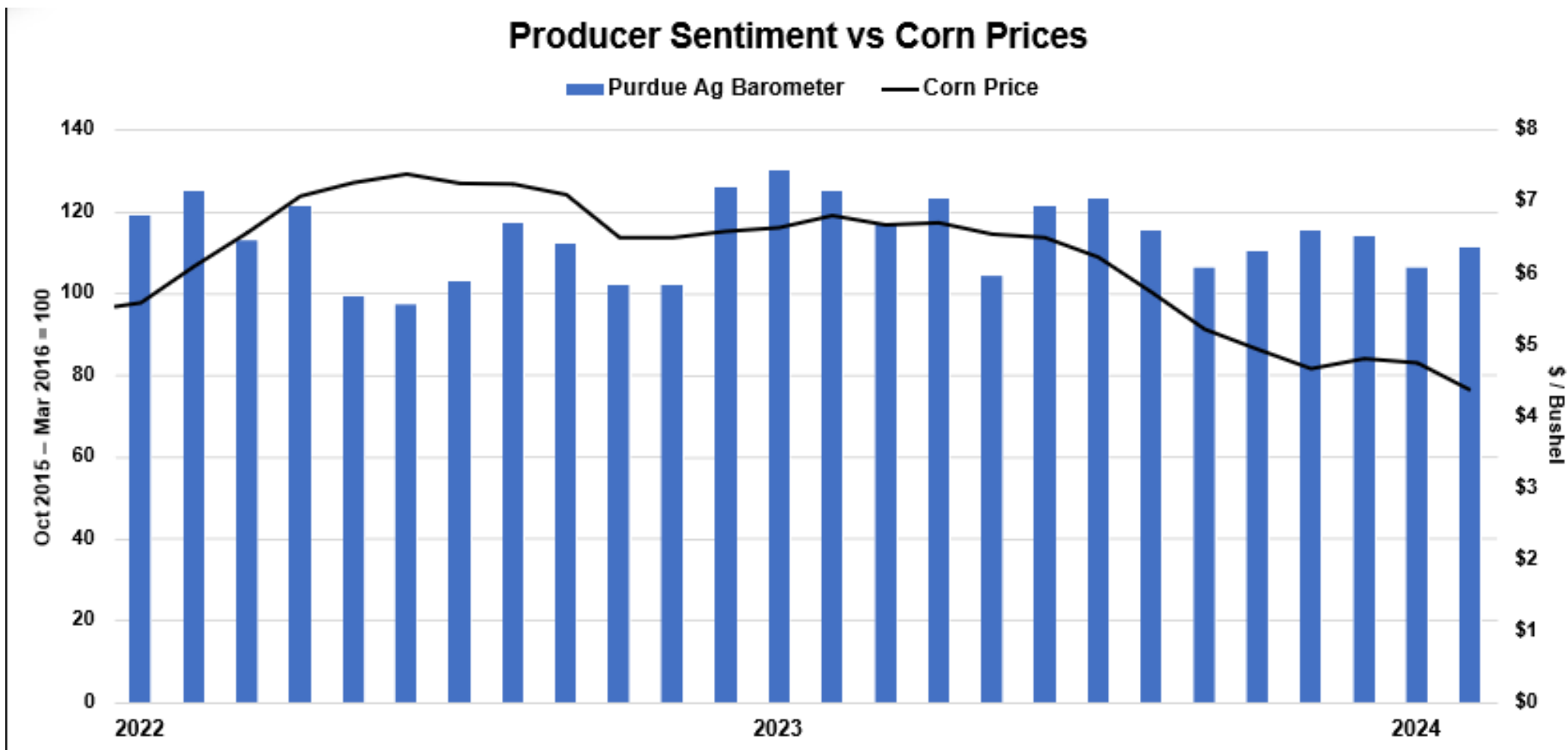
# CA Prop 12 arrives with hog margins under pressure

- ▶ California's Proposition 12: Pork provisions prohibit the confinement of breeding pigs. The law went into full effect January 1, 2024.
- ▶ Drawn-out process may have allowed the market to adjust, but some analyses are showing Californians are already paying higher pork prices.
- ▶ Farrow-to-finish returns are already slim and negative.





# Producer sentiment holding up better than corn prices



Sources: Purdue Center for Commercial Agriculture, Producer Survey, February 2024; USDA NASS



# Questions

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# Farm Credit System Condition and Performance as of December 31, 2023

Brianna Tomlinson  
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Office of Examination

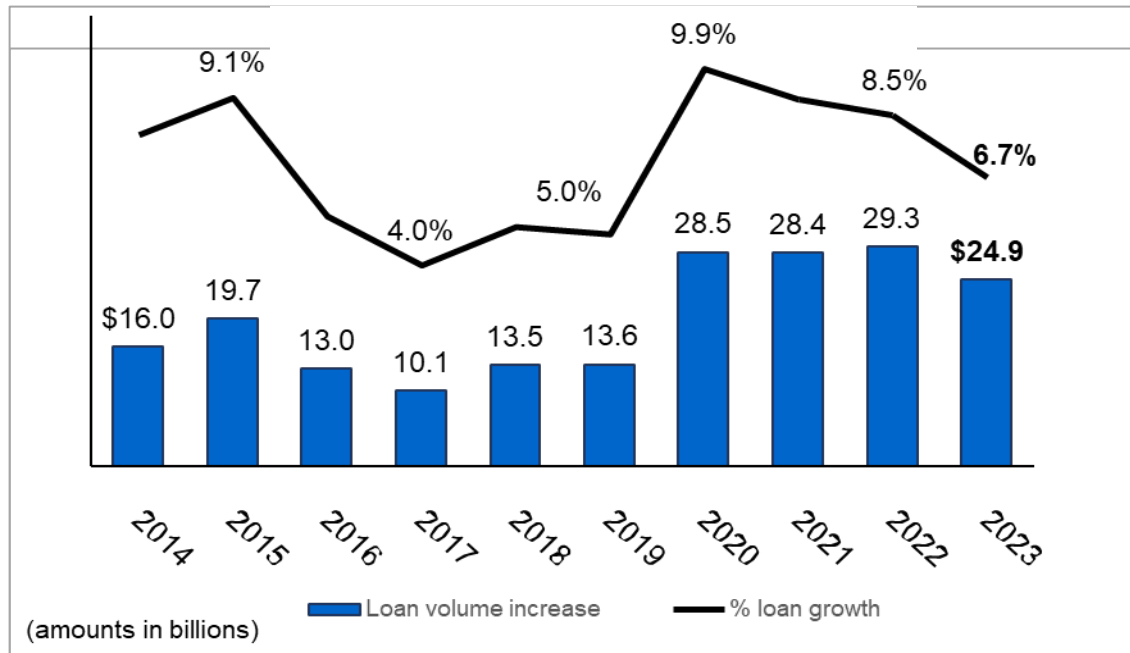




# Portfolio growth slowed in 2023, but certain loan categories posted strong gains

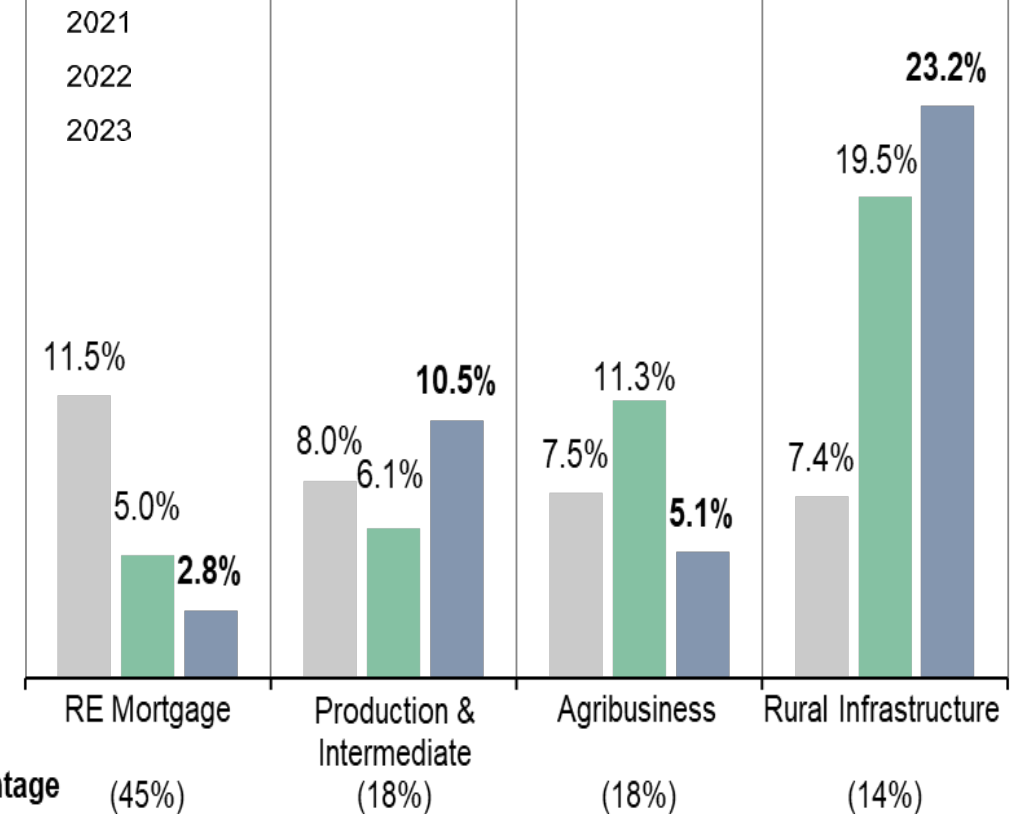
<b>Total Assets</b> 12/31/23	<b>\$507.8</b>	<b>+3.1% Qtr</b>	<b>Gross Loans</b> 12/31/23	<b>\$398.2</b>	<b>+3.4% Qtr</b>
	billion	<b>+6.5% 12M</b>		billion	<b>+6.7% 12M</b>

**Portfolio Loan Growth**  
(% change year-over-year)



Source: Federal Farm Credit Banks Funding Corporation Information Statements

**Loan Growth by Loan Type**  
(% change year-over-year)



Percentage of Portfolio

(45%)

(18%)

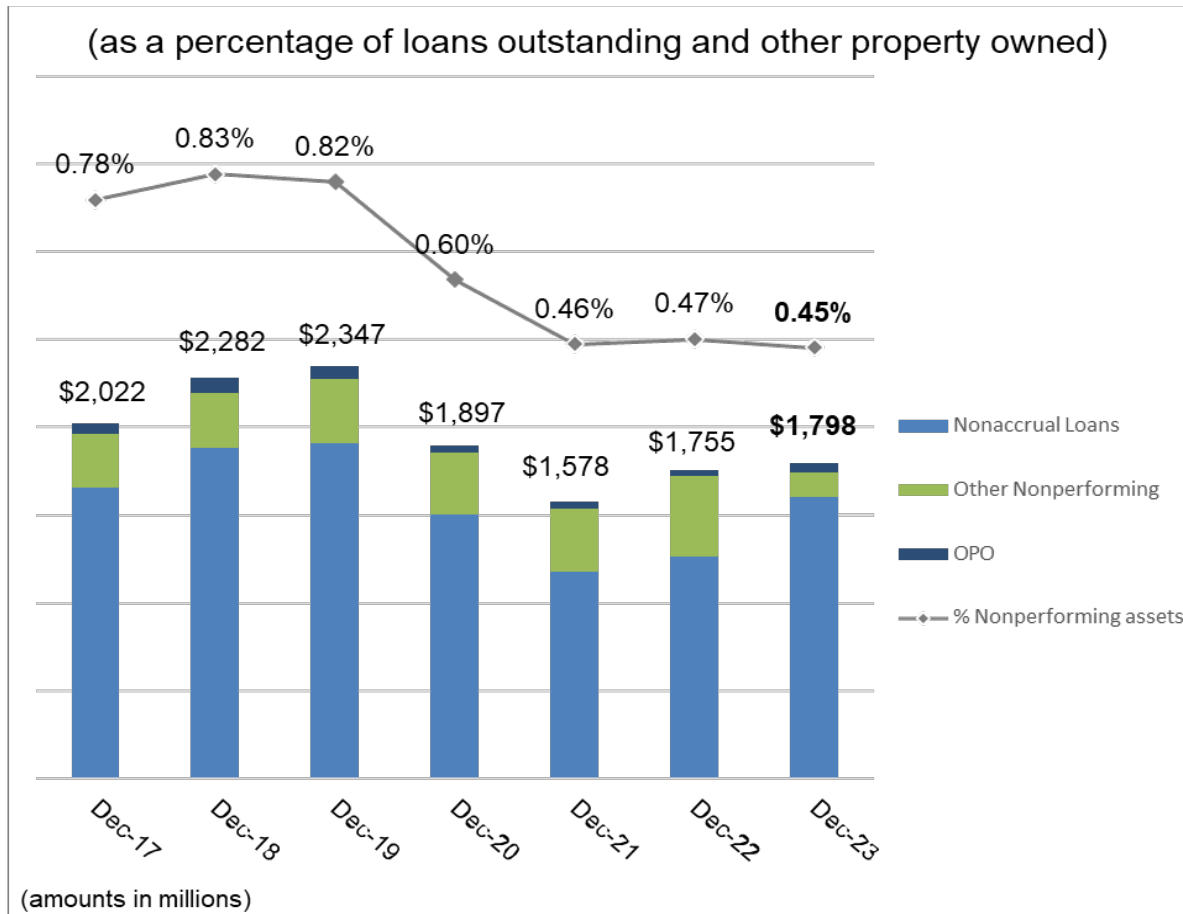
(18%)

(14%)

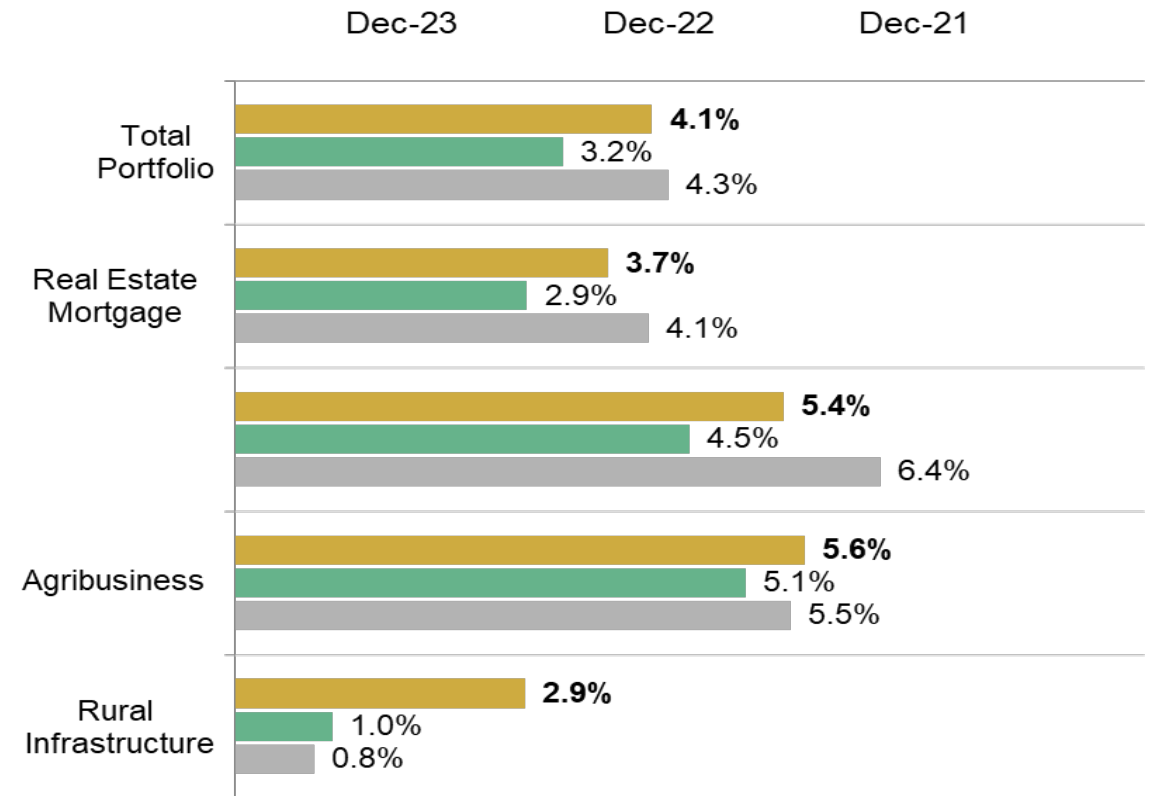


# Portfolio credit risk remained low, but nonaccruals and less than Acceptable loans increased in 2023

## Nonperforming Assets<sup>(1)</sup>



## Loans Classified Less than Acceptable (as a percentage of loans outstanding)



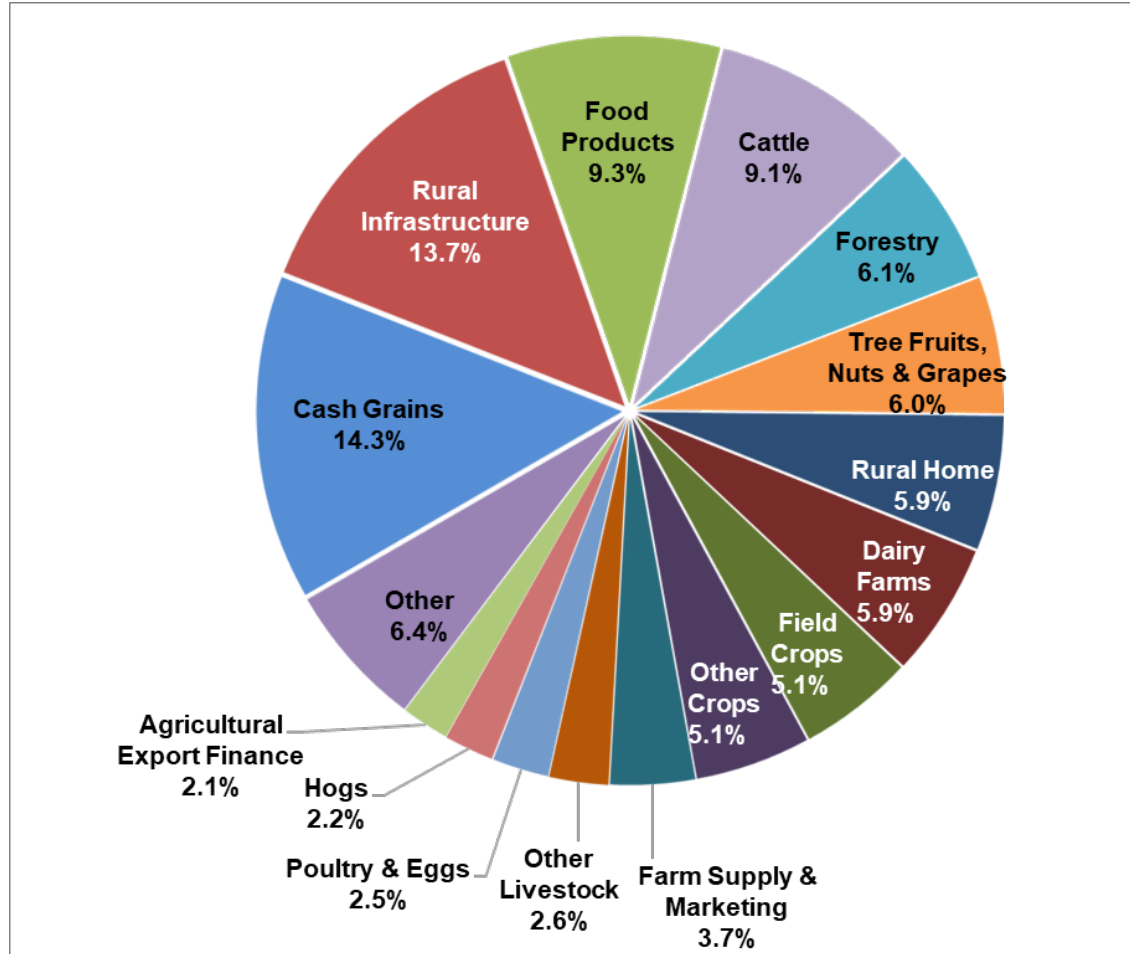
(1) Includes lease receivables

(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans  
 Source: Federal Farm Credit Banks Funding Corporation Information Statements



# System portfolio is diversified by commodity

Loan Portfolio by Major Commodity Concentration



Source: Federal Farm Credit Banks Funding Corporation Information Statements

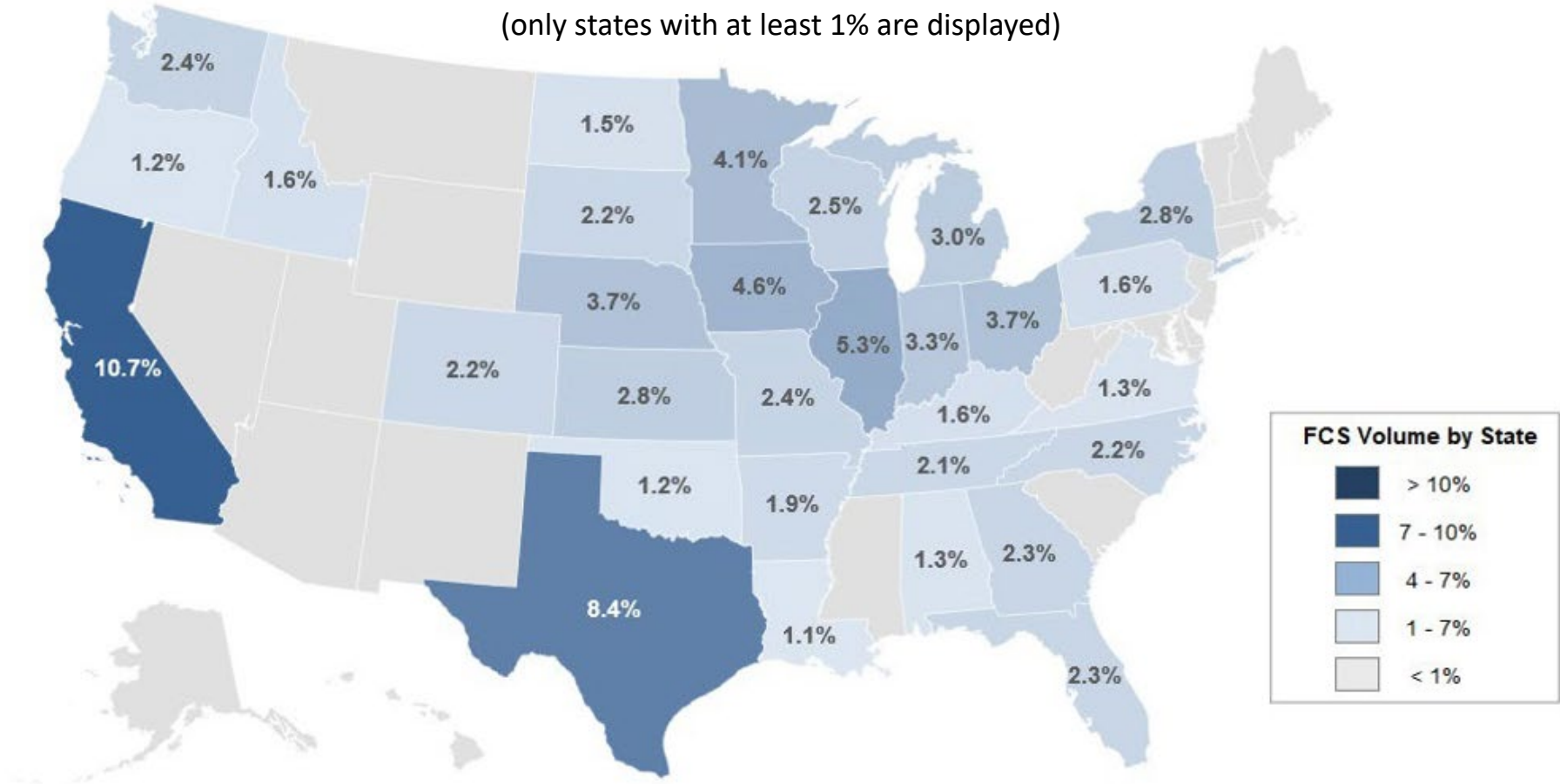
System Loan Portfolio (amounts in millions)	Dec-23	% of Total Portfolio	% chg. yr. over yr.
Cash Grains	57,104	14.3%	2.6%
Tree Fruits, Nuts & Grapes	23,976	6.0%	2.9%
Field Crops	20,351	5.1%	4.7%
Other Crop Production	20,474	5.1%	5.9%
<b>Total Crop Production</b>	<b>121,905</b>	<b>30.6%</b>	<b>3.5%</b>
Cattle	36,364	9.1%	9.2%
Dairy Farms	23,410	5.9%	6.3%
Poultry & Eggs	9,884	2.5%	3.8%
Hogs	8,645	2.2%	2.8%
Other Livestock	10,180	2.6%	3.5%
<b>Total Animal Production</b>	<b>88,483</b>	<b>22.2%</b>	<b>6.5%</b>
Rural Infrastructure	54,457	13.7%	23.2%
Food Products	37,104	9.3%	14.6%
Rural Home Loans	23,541	5.9%	5.4%
Forestry	24,111	6.1%	12.4%
Farm Supply & Marketing	14,627	3.7%	(8.4%)
Agricultural export finance	8,418	2.1%	(16.4%)
Other	25,530	6.4%	(1.9%)
<b>Total</b>	<b>398,176</b>	<b>100.0%</b>	<b>6.7%</b>



# Portfolio volume is geographically dispersed

Percentage of System Loan Volume by State  
as of Dec. 31, 2023

(only states with at least 1% are displayed)



Source: Federal Farm Credit Banks Funding Corporation Information Statements

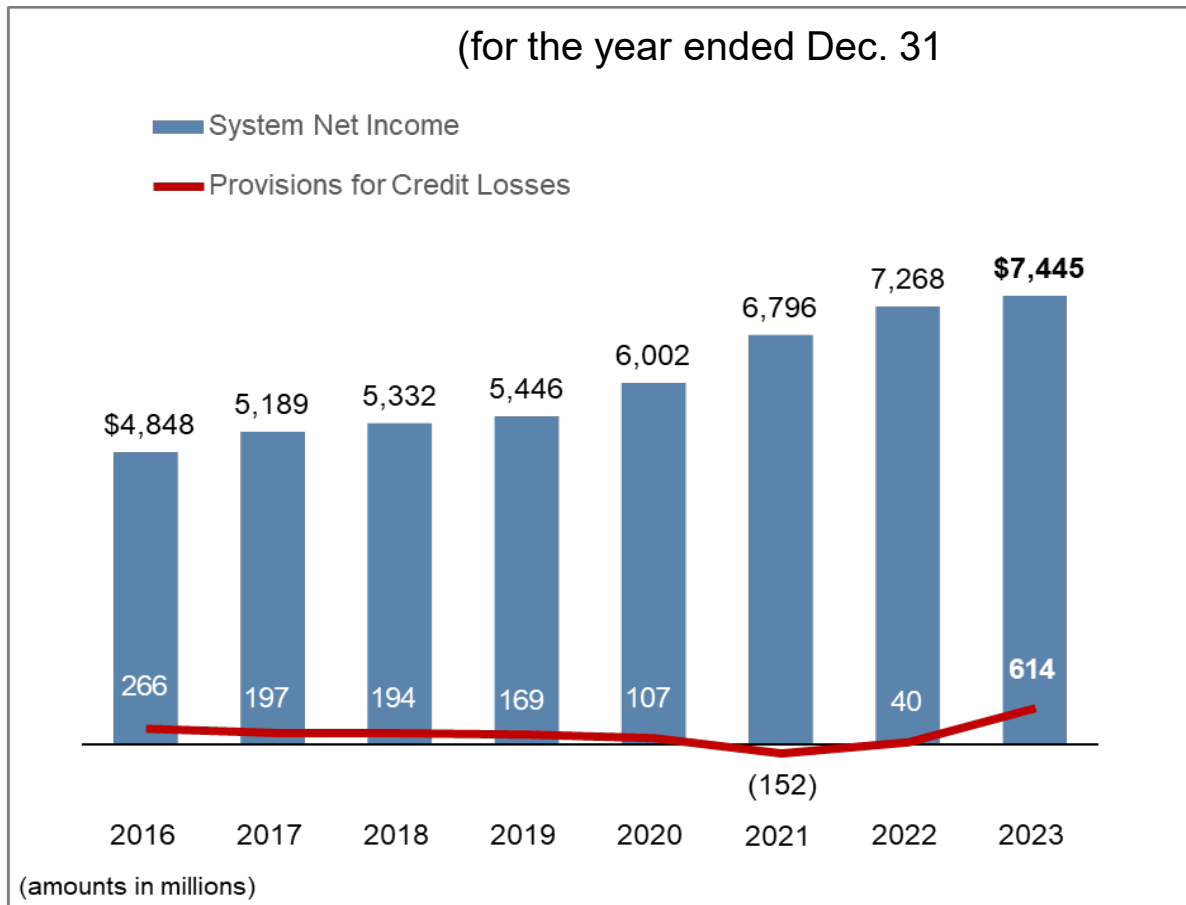




# System reported increased earnings, but provisions for credit losses were higher

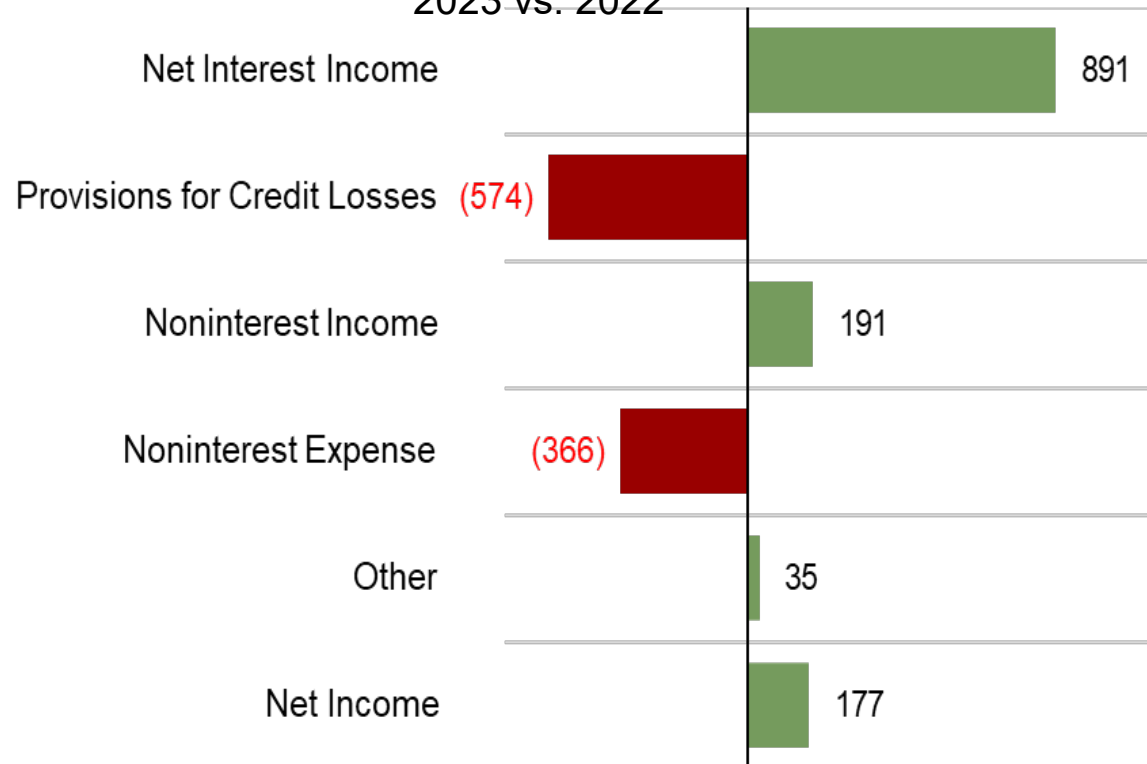
## System Net Income

(for the year ended Dec. 31)



## Changes in key components of net income

2023 vs. 2022

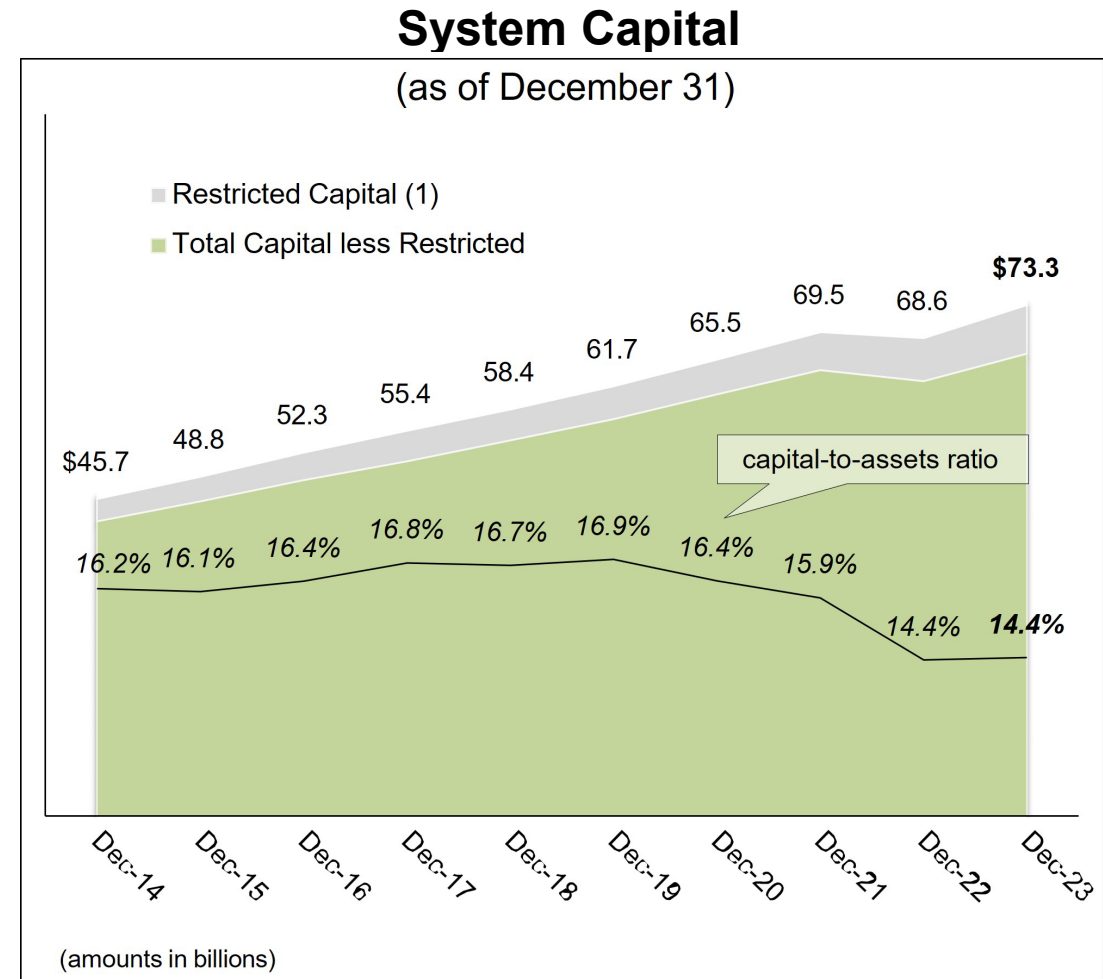


(amounts in millions)



# System capital and liquidity levels are strong

- ▶ For 2023, System capital increased \$4.7 billion or 6.9% year-over-year.
- ▶ The System's capital-to-assets ratio at year-end was 14.4%, unchanged from a year ago.
- ▶ Total regulatory capital ratios were sound
  - Banks: 13.4% to 16.0%
  - Associations: 12.5% to 33.4%.
- ▶ Days of liquidity for the 4 funding banks ranged from 161 to 219 days.
- ▶ As of December 31, accumulated other comprehensive loss (AOCL) equaled \$4.5 billion, down from \$5.5 billion a year ago.



Source: Federal Farm Credit Banks Funding Corporation Information Statements (1) Restricted Capital represents capital associated with the FCS Insurance Fund



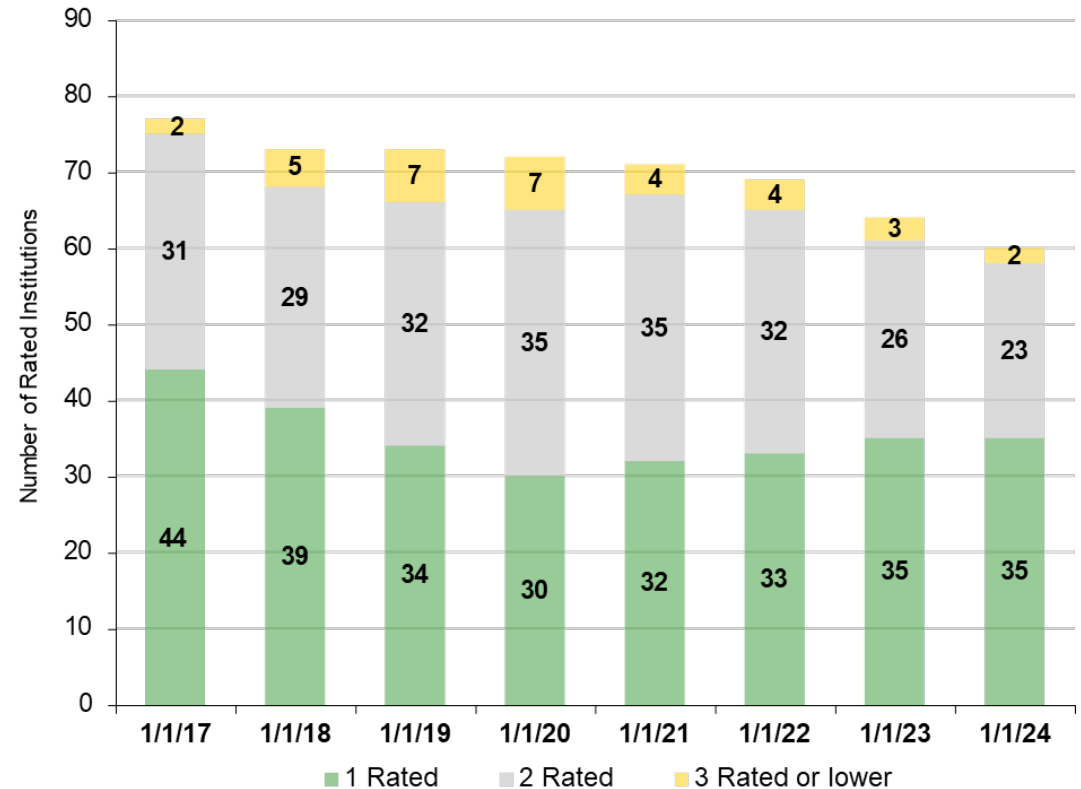
# Composite FIRS ratings are strong

## Composite FIRS Ratings

(based on 12/31/23 financial reporting)

- ▶ Composite FIRS ratings reflect the System's sound financial condition.
- ▶ Over 96% of System banks and associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower hold under 1% of System assets.

### Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



# Risks we are monitoring

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We anticipate a more challenging operating environment for both borrowers and System institutions moving forward:

- Declining net farm income and margin compression (especially for cash grains) resulting from lower commodity prices
- Increased stress in certain industry segments including swine, dairy, tree nuts, and poultry
- Higher interest rates during a period of declining liquidity and increased reliance on operating lines
- The impact of lower profit margins and higher interest rates on real property values
- Other concerns – weather, avian influenza, and increased global tensions