Quarterly Report on Economic Conditions and Farm Credit System Condition and Performance

December 12, 2024

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Topics for Open Session

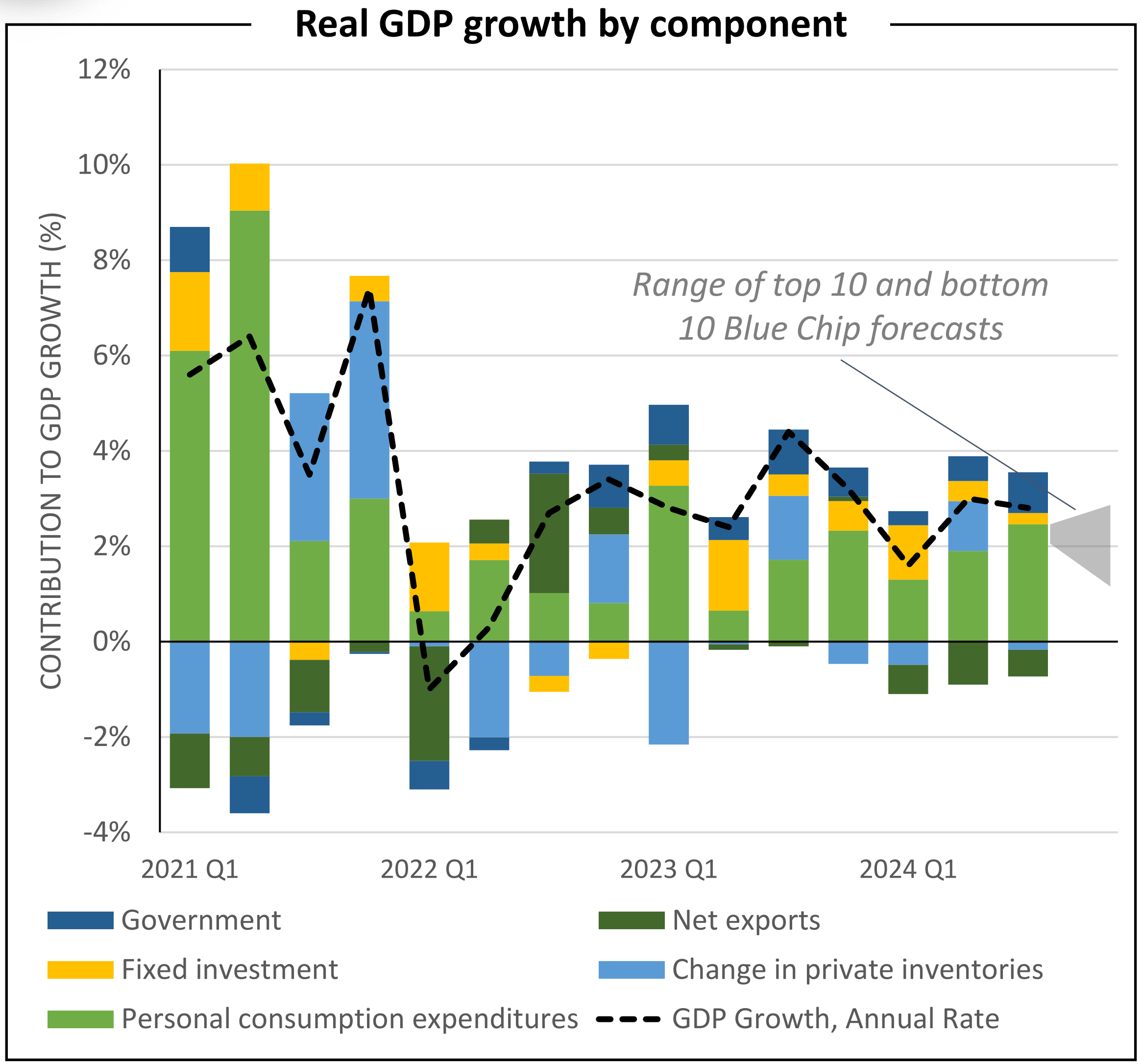
Economic Conditions Affecting the Farm Credit System

- Macroeconomic conditions
- Agricultural incomes
- Farmland markets

Farm Credit System Condition and Performance

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

Modest economic growth continues with resilient consumer spending, higher productivity, and income gains



Source: Bureau of Economic Analysis, Gross Domestic Product (Second Estimate). Blue Chip forecast range from Federal Reserve Bank of Atlanta GDPNow.

Solid signals entering 2025

- Robust productivity growth
- Recession probabilities continue to fall

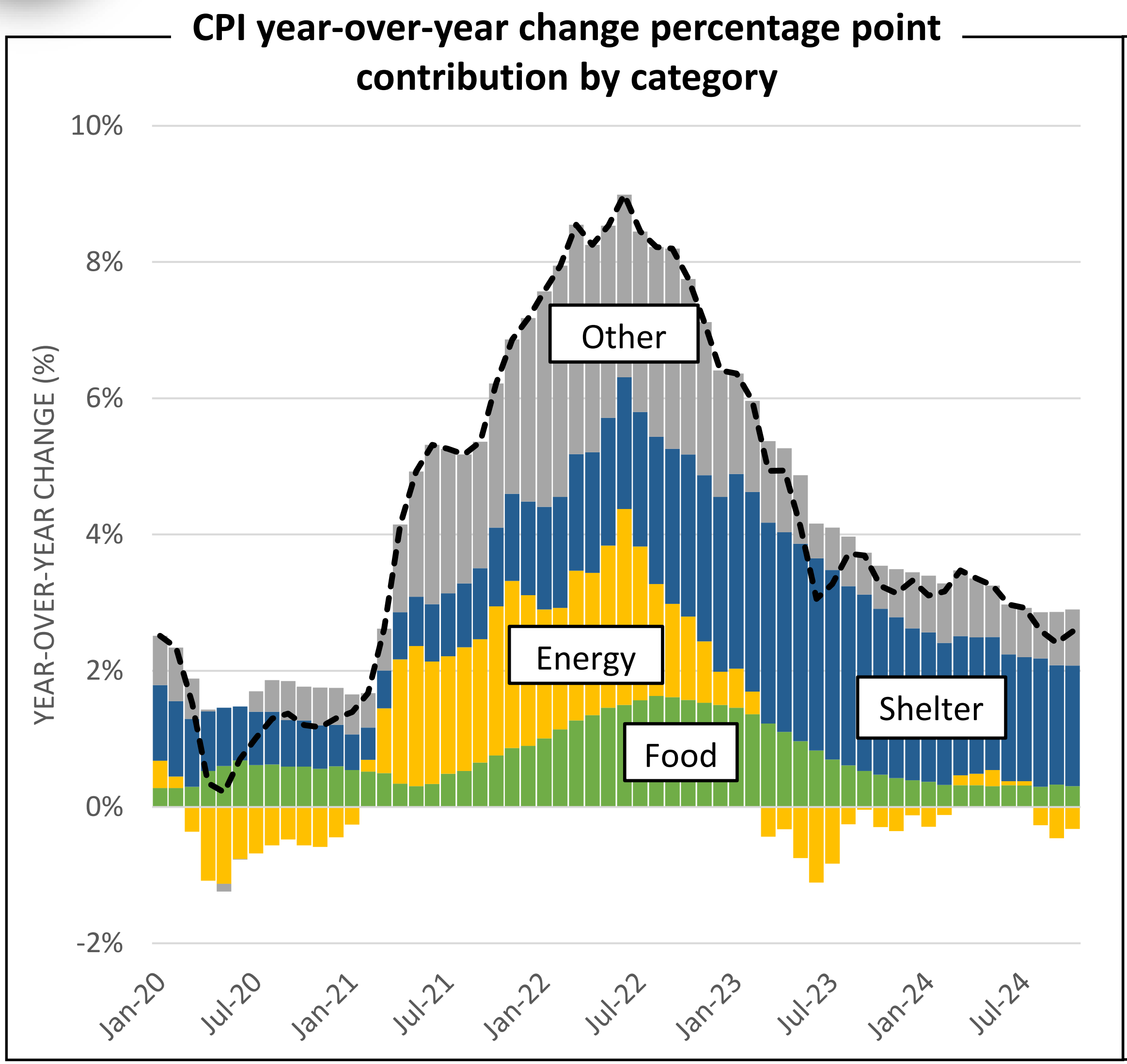
Continued resilience in personal consumption

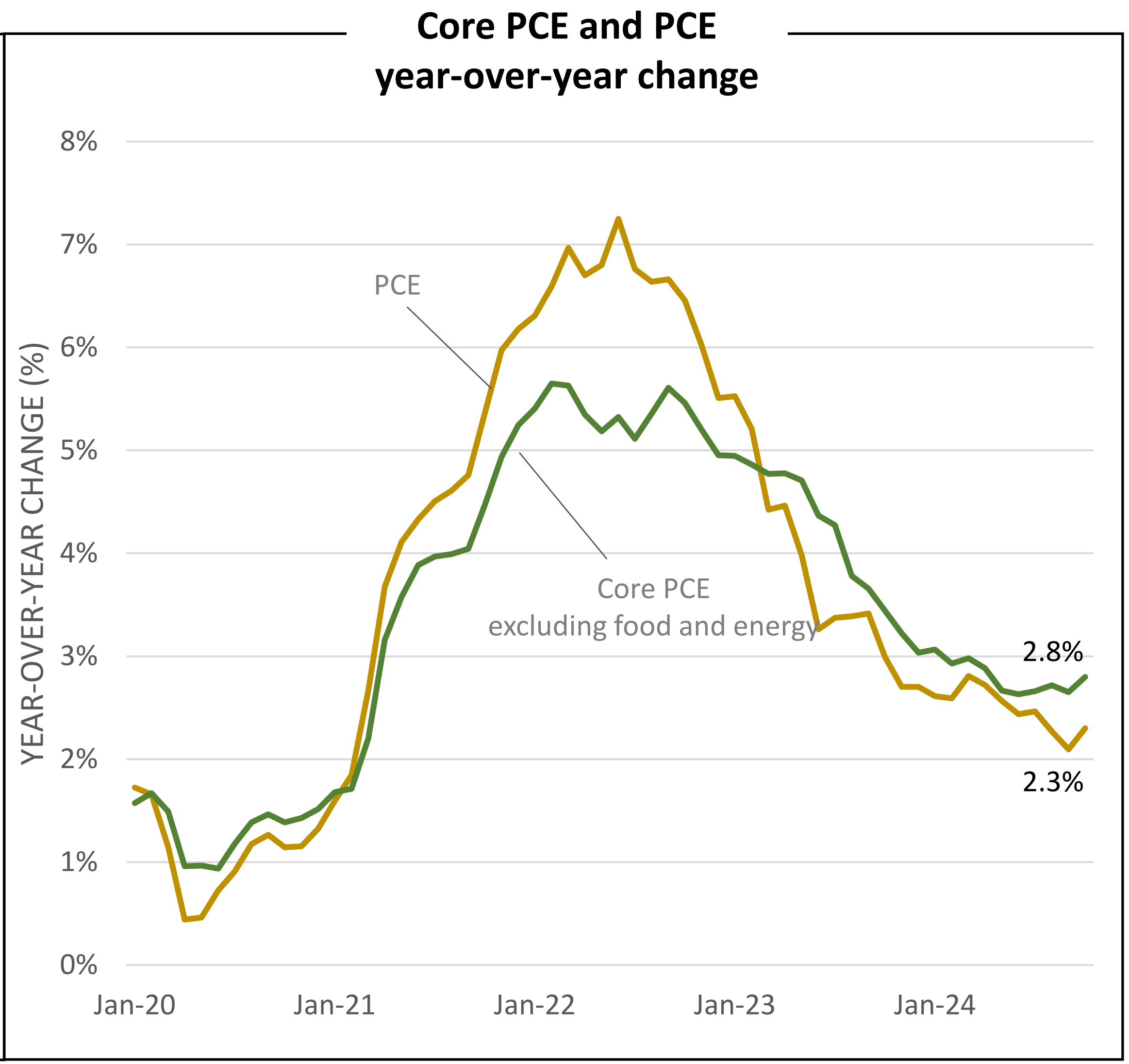
- Food-at-home, food-away-from-home rise
- Good purchases begin to rise again

Warning signs for low-income households?

- Credit card delinquencies highest since 2011
- Real median income below 2019 levels
- Multiple job holders back to 2019 levels

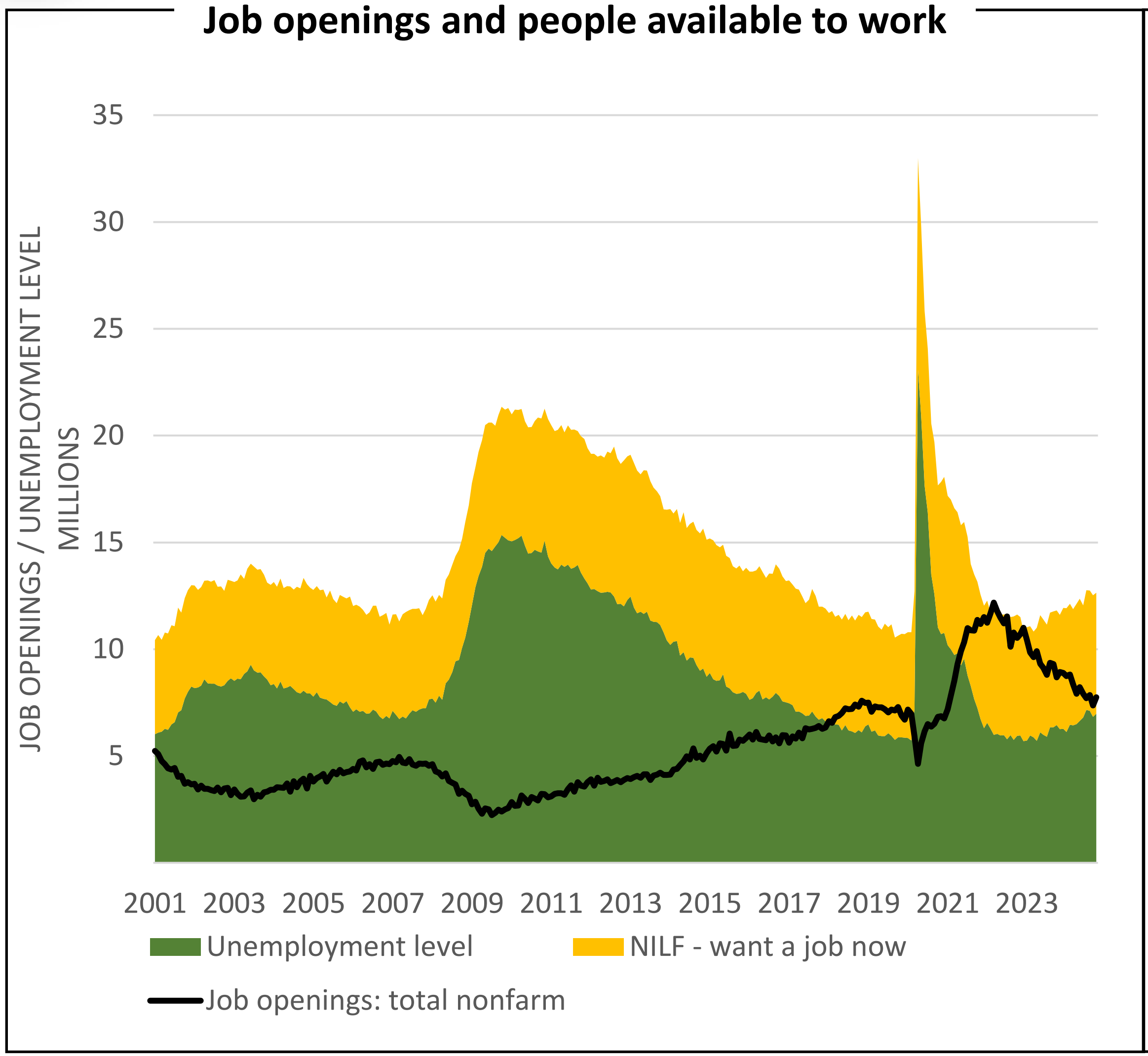
Headline inflation continues to fall, but more stable measures show modest residual inflation

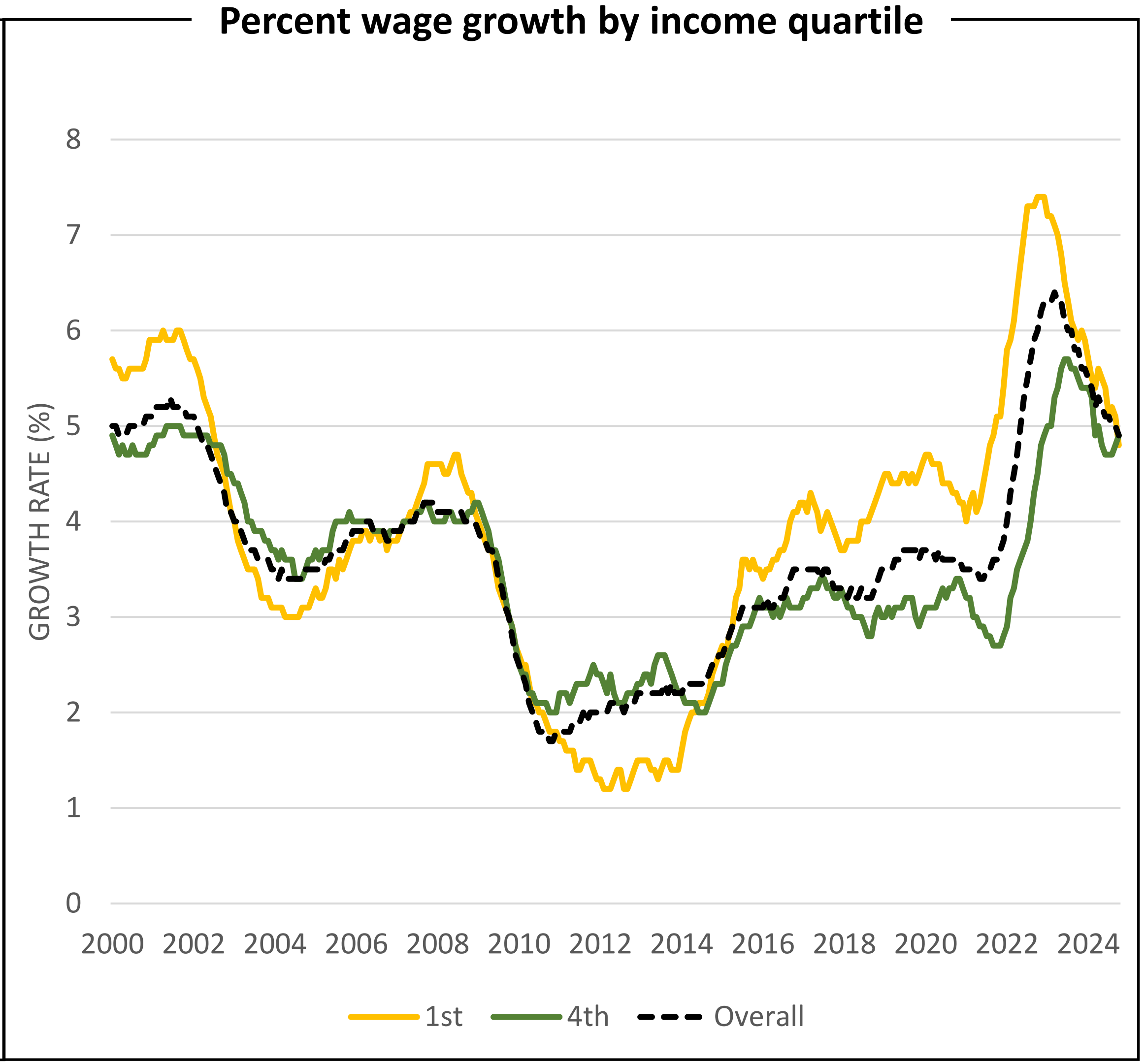




Source: U.S. Bureau of Labor Statistics Consumer Price Index, author's calculations and U.S. Bureau of Economic Analysis Personal Income and Outlays.

Labor markets return to normal, though real income growth remains positive

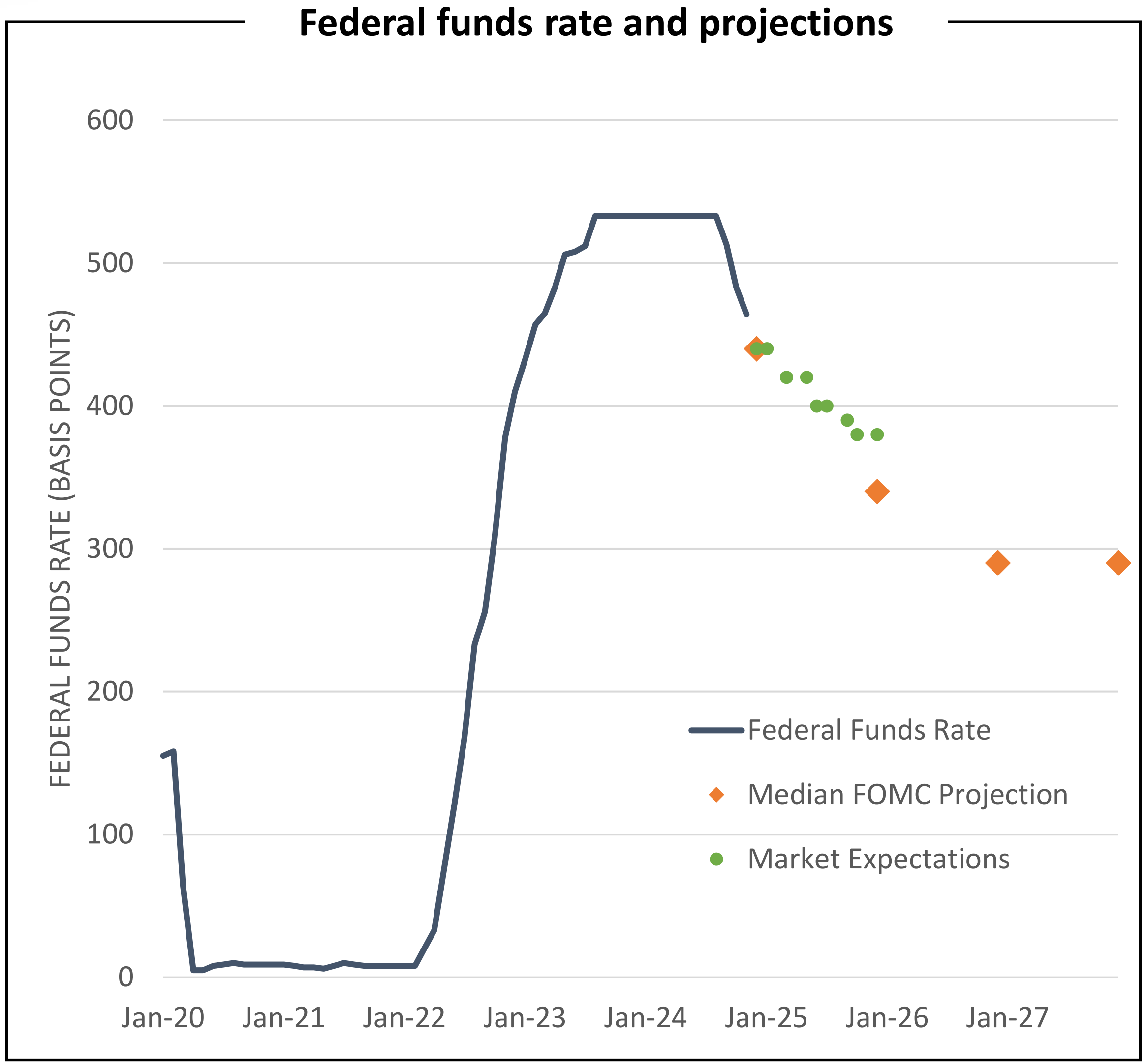




Source: BLS Employment Situation Report; BLS Job Openings and Labor Turnover Survey and Federal Reserve Bank of Atlanta Wage Growth Tracker.

NILF = not in the labor force; individuals who are not working, and who have not actively looked for work in the last 4 weeks. Wage growth is 12-month moving average.

Market expectations for monetary policy continue to shift



Sources: FOMC Projection Materials (September 2024); CME Group FedWatch Tool

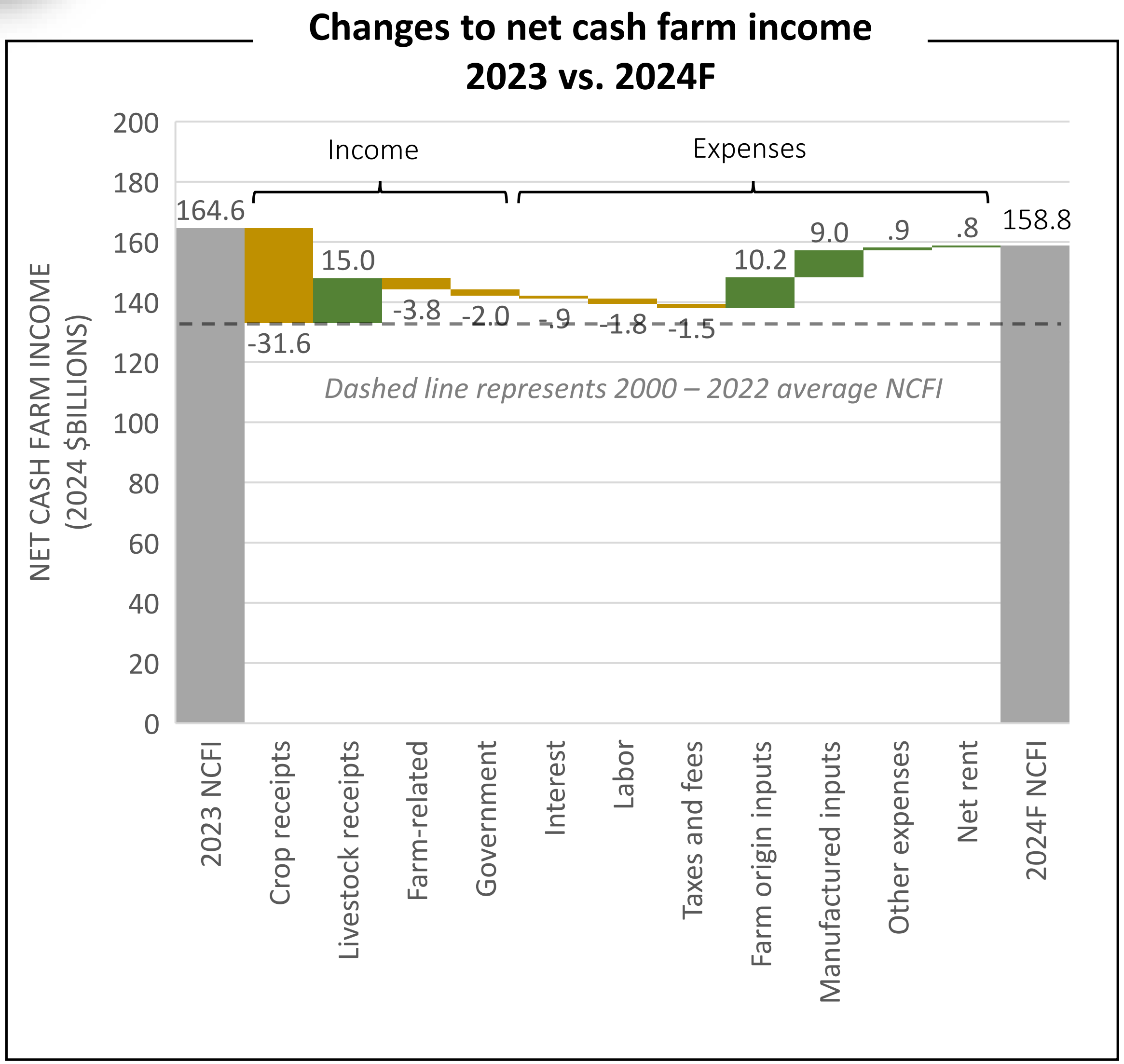
Fed continues to emphasize its dual mandate

- Sticky core inflation measures
- Labor market softening
- Aiming for the soft landing

"The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate."

- FOMC November Statement

USDA projections show lower expenses, higher livestock receipts offset crop receipt declines



Source: USDA Economic Research Service Farm Income and Wealth Statistics, December 3, 2024 Release

Income continues decline from record levels

- Price declines offset higher quantities sold
- Divergent crops, livestock receipts
- Lower supplemental, ad-hoc payments

A reversal in expenses?

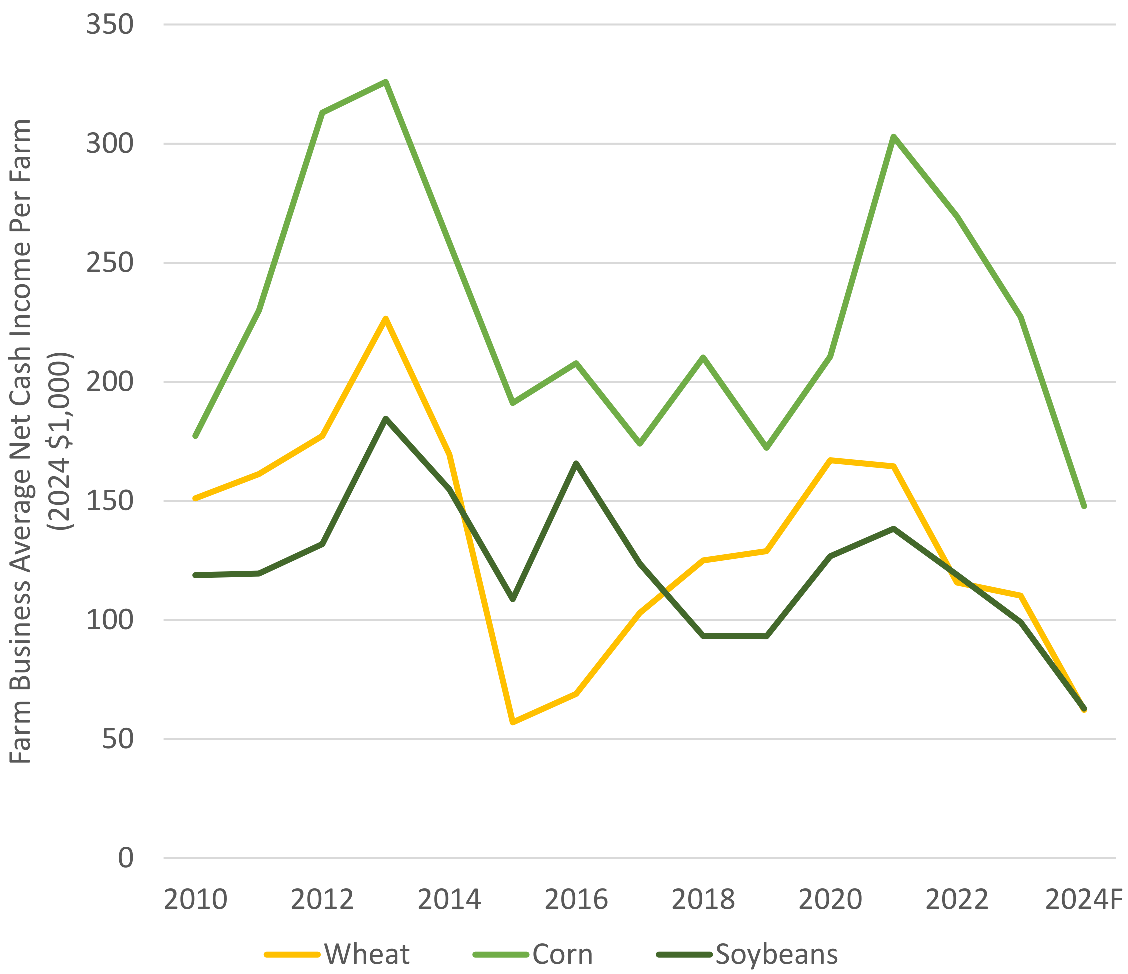
- USDA observes sharp expense declines
- Feed, fertilizer, fuels lead declines

Sector financial ratios suggest stability

- Liquidity, profitability ratios largely stable
- Solvency ratios improve
- Aggregate story masks subsector strains

Livestock operators see strong returns, while crop producers face significant margin compression

Farm business average net cash income by commodity, 2010 – 2024F



Source: USDA ERS Farm Income and Wealth Statistics.

Crops

- Corn, soybean operator income at recent lows
- High expenses overwhelm crop prices
- Margin compression key story for 24/25

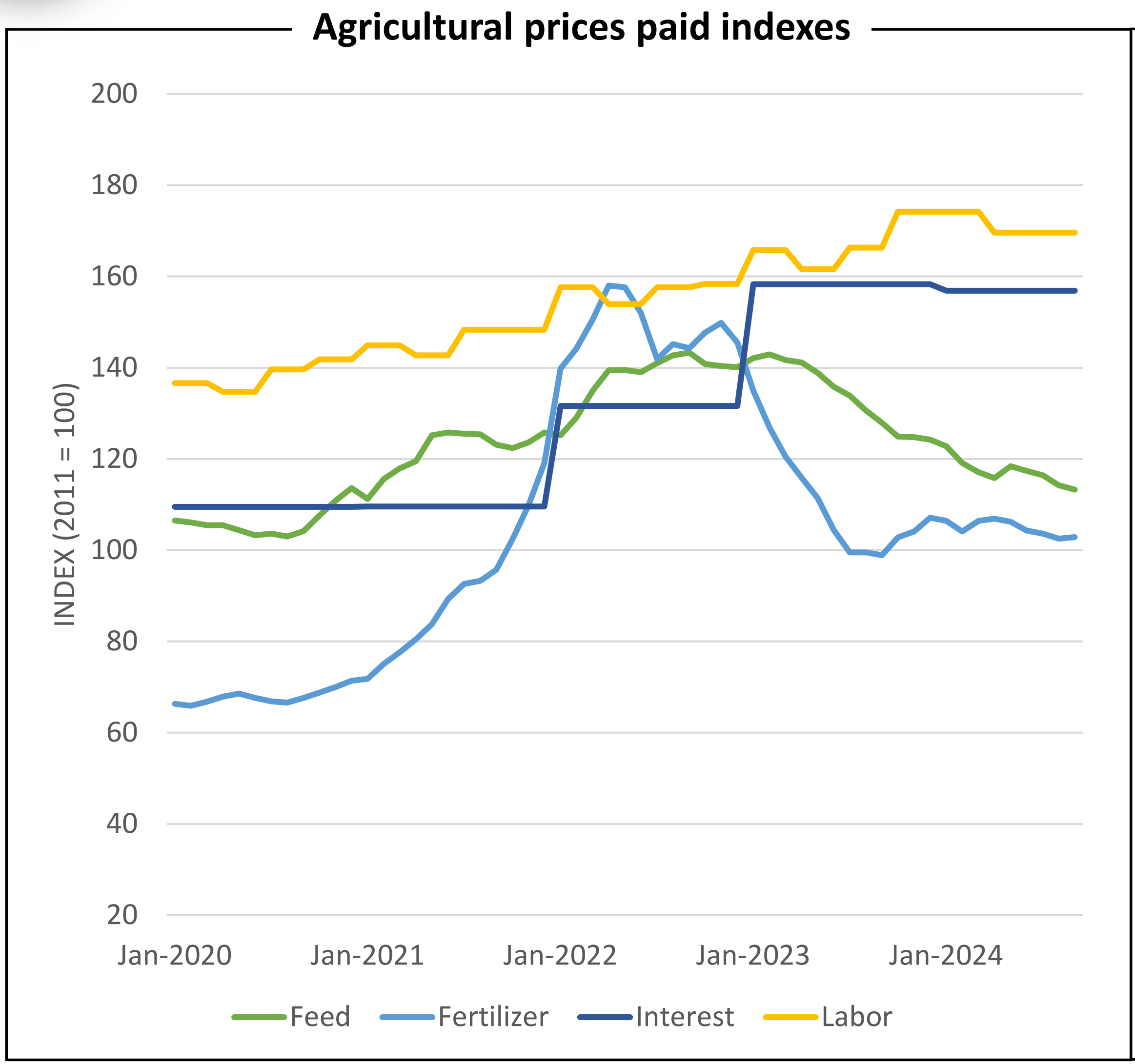
Livestock

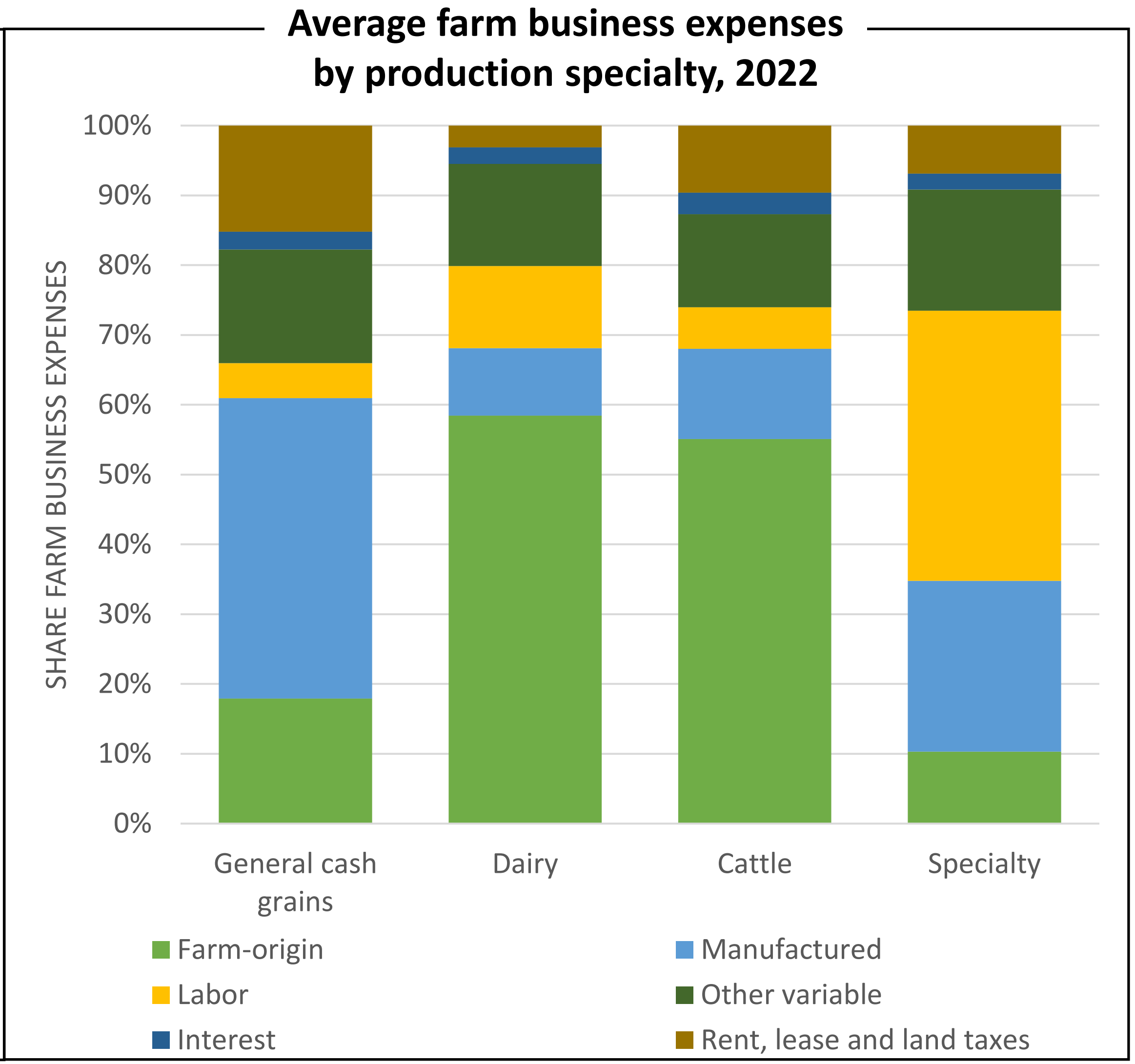
- Prices continue to support profitability
- Pasture conditions offer warning sign

Fruit / Nut

- Most nut prices stabilize at moderate levels
- Hurricane impacts southeast production

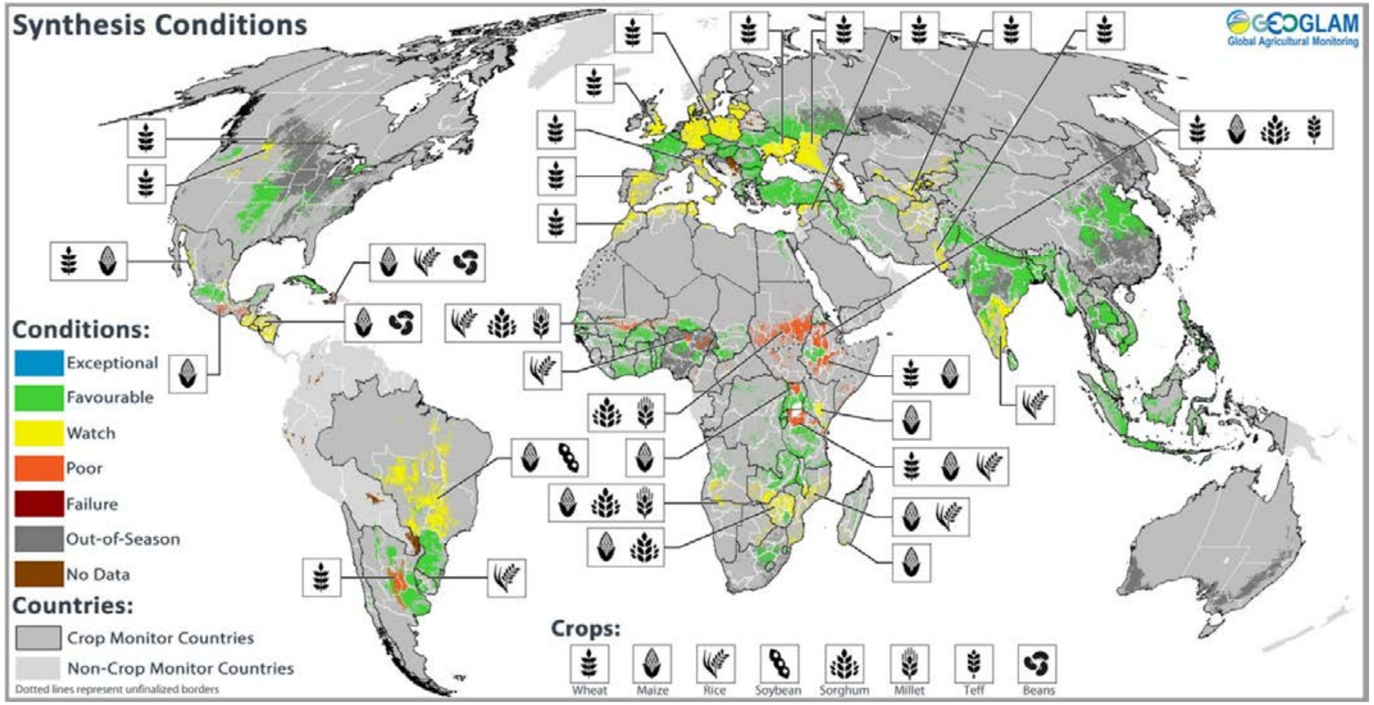
Feed and energy-related input prices continue to decline, but select costs remain elevated





Sources: USDA NASS Agricultural Prices and USDA ERS Agricultural Resource Management Survey

Global weather influences on commodity markets



U.S. Conditions

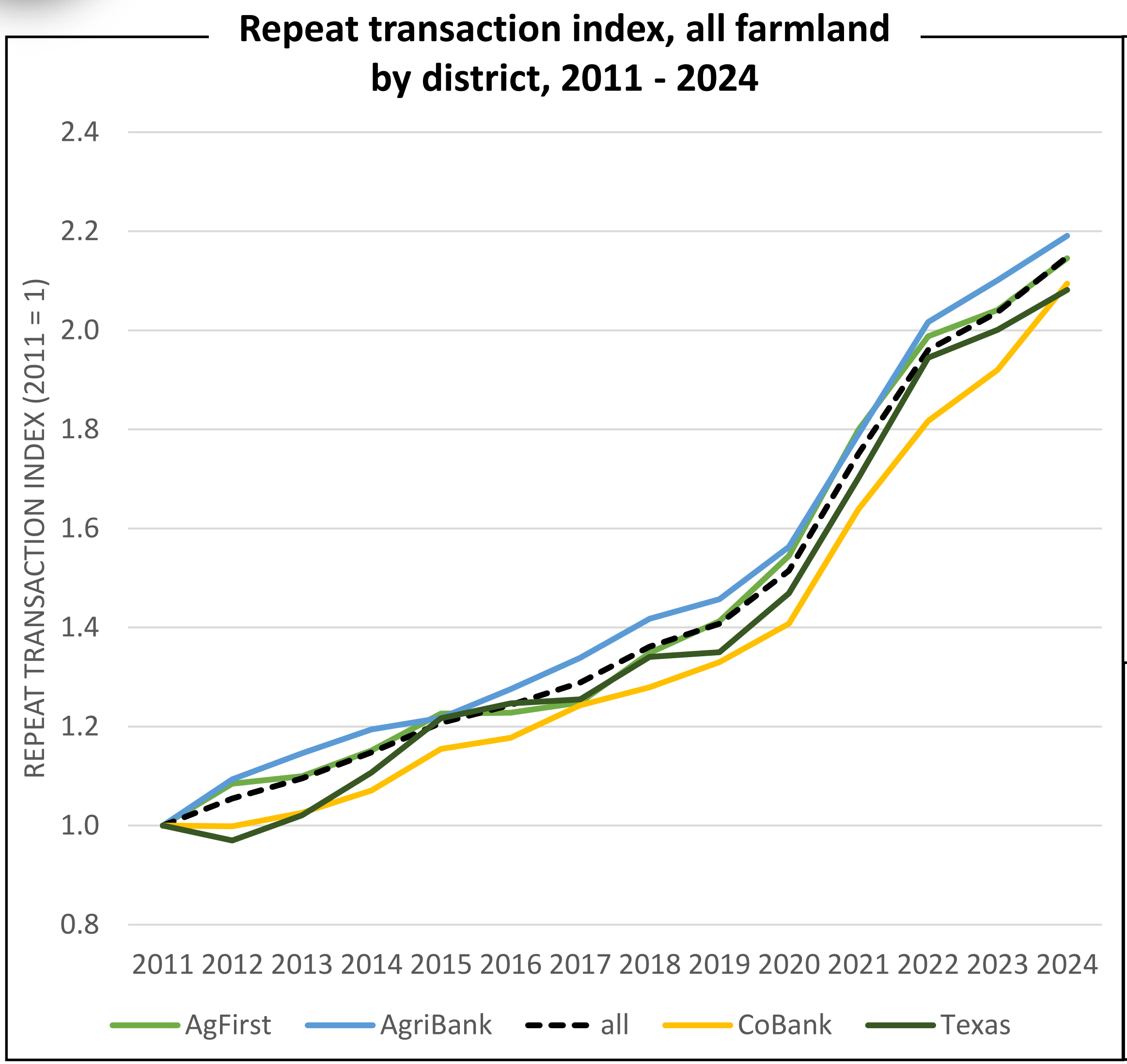
- Pasture deteriorated through the season
- Variability in winter wheat conditions
- Drought forecast to persist across SE
- No impact in hay prices to date

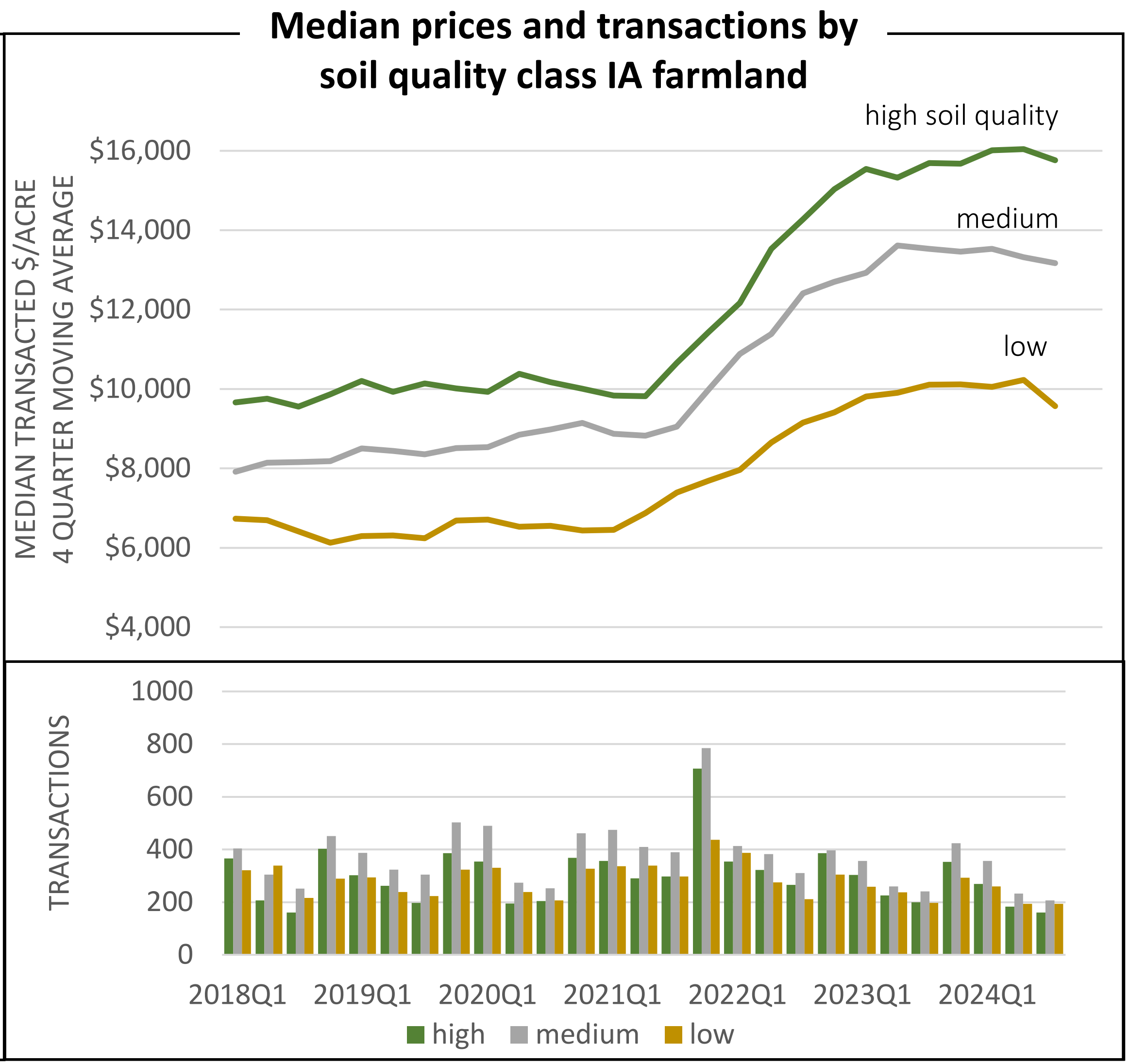
Global conditions

- Drought across parts of South America, Russia
- Total global production largely unchanged

Sources: GEOGLAM Crop Monitor

Real land value growth cools, and some leading indicators show weakness

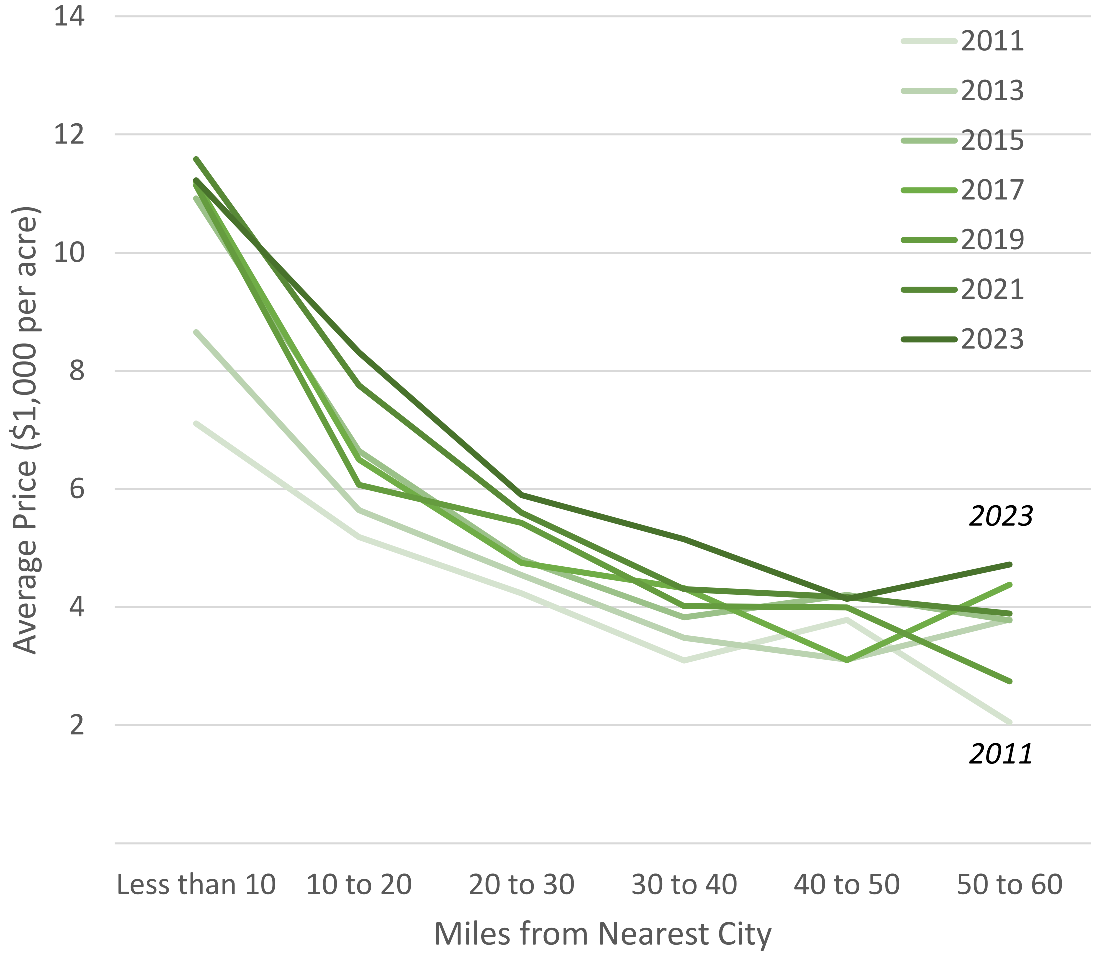




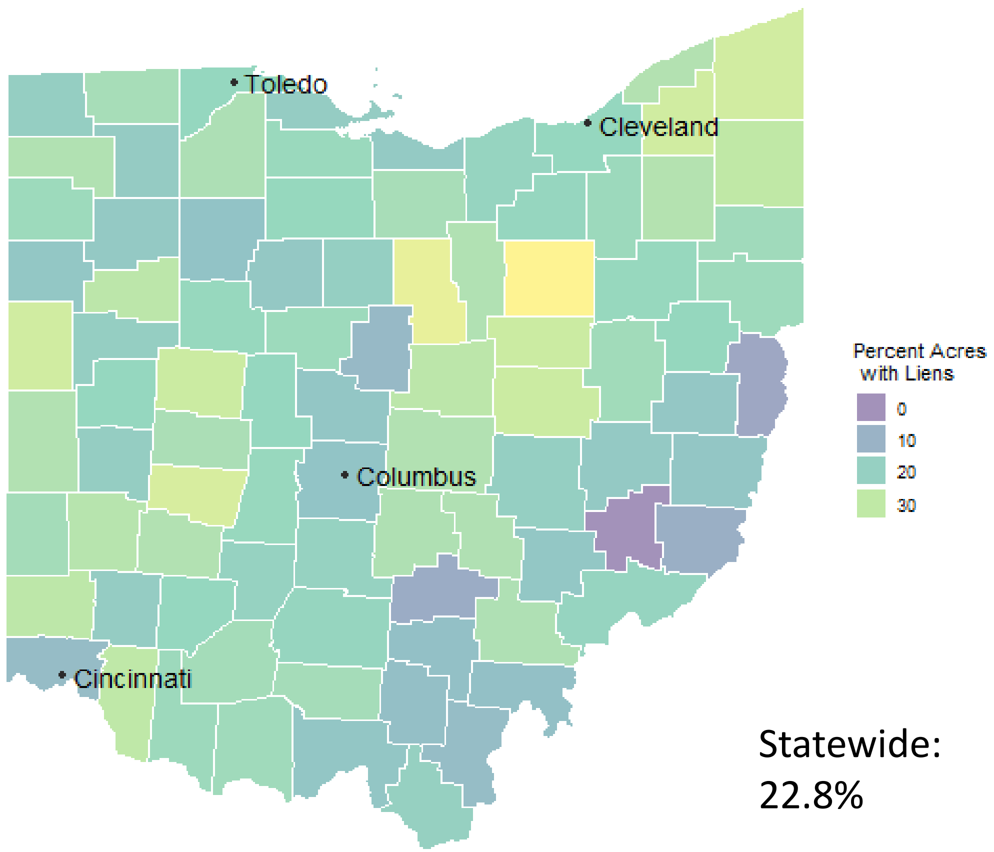
Source: ODAE using CoreLogic data

Nonfarm land value growth may have implications for farmland values

Average per acre price of farmland with a lien held by FCS by year and distance from nearest city



Q3 2024: Percent of Ohio farmland acreage with any lien



Statewide: 22.8%

Source: ODAE using CoreLogic data

Questions?

Farm Credit System Condition and Performance as of September 30, 2024

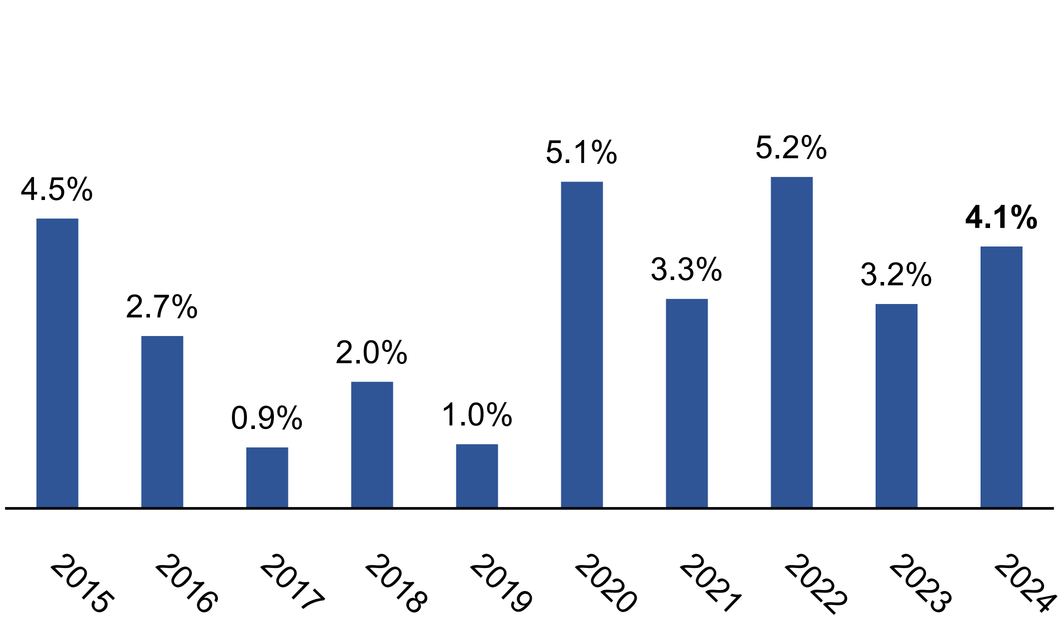
Nicole Yaddof
Financial Analyst
Office of Examination

Modest portfolio loan growth continued into the third quarter 2024

Total Assets 09/30/24	$527.8 billion	+2.7%	Qtr	Gross Loans 09/30/24	$414.4 billion	+1.9%	Qtr
		+3.9%	YTD			+4.1%	YTD
		+7.1%	12M			+7.6%	12M

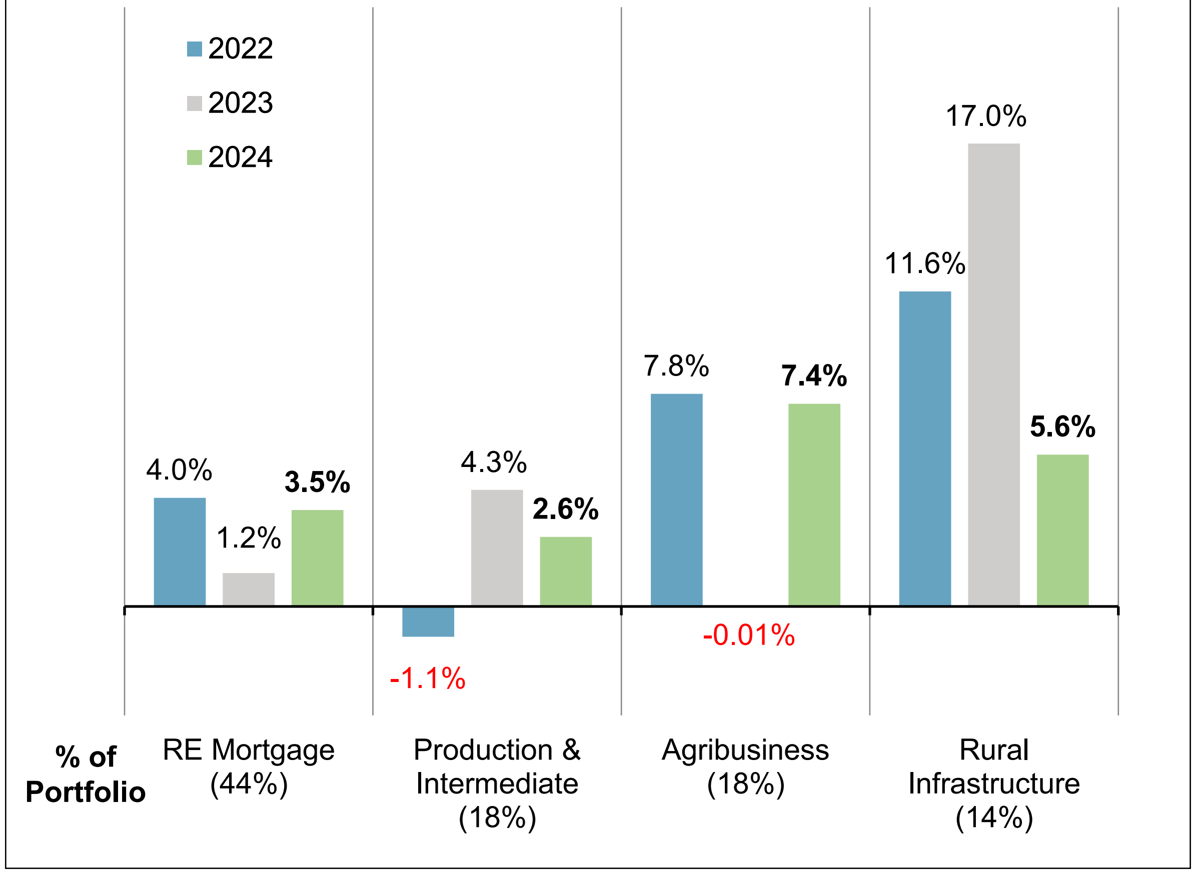
Portfolio Loan Growth

(% change year-to-date through September)



Loan Growth by Loan Type

(% change year-to-date through September)

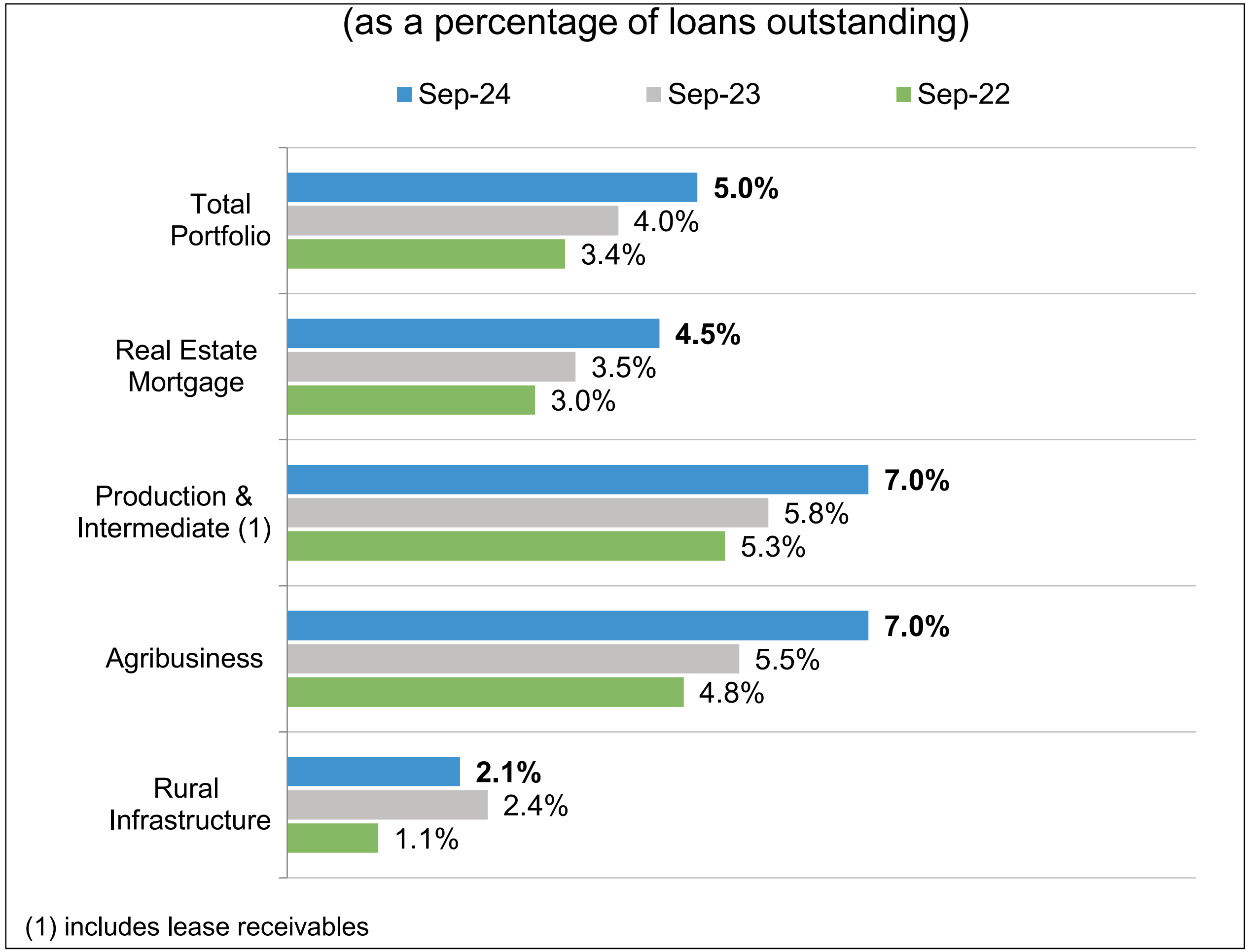


Source: Federal Farm Credit Banks Funding Corporation Information Statements

Credit risk measures trend higher

- Percentage of loans classified less than Acceptable increased in all loan categories apart from rural infrastructure.
- Certain agricultural sectors and geographical regions continue to experience an elevated level of stress.
- Accruing loans 30 days or more past due as a percentage of total accruing loans equaled 0.40% at September 30.

Loans Classified Less than Acceptable

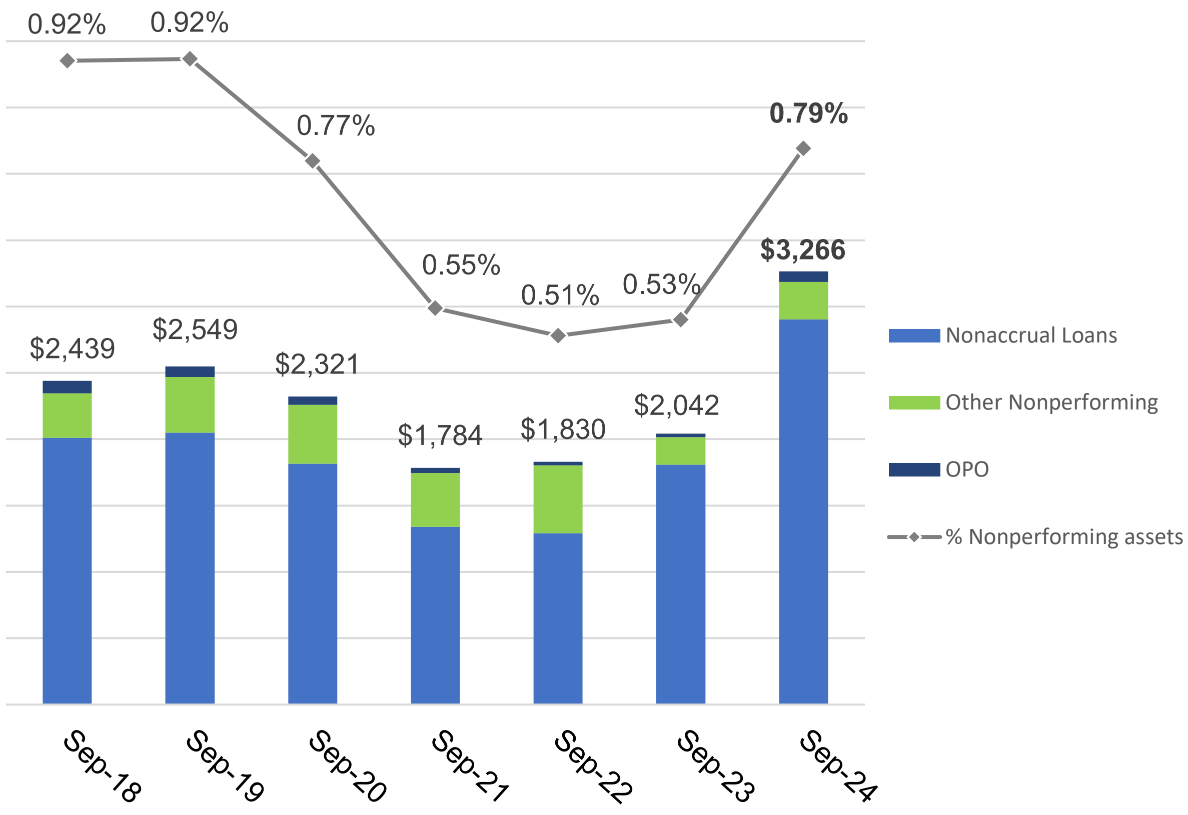


Source: Federal Farm Credit Banks Funding Corporation Information Statements

Nonperforming assets rise, but portfolio credit quality remains sound

Nonperforming Assets[1]

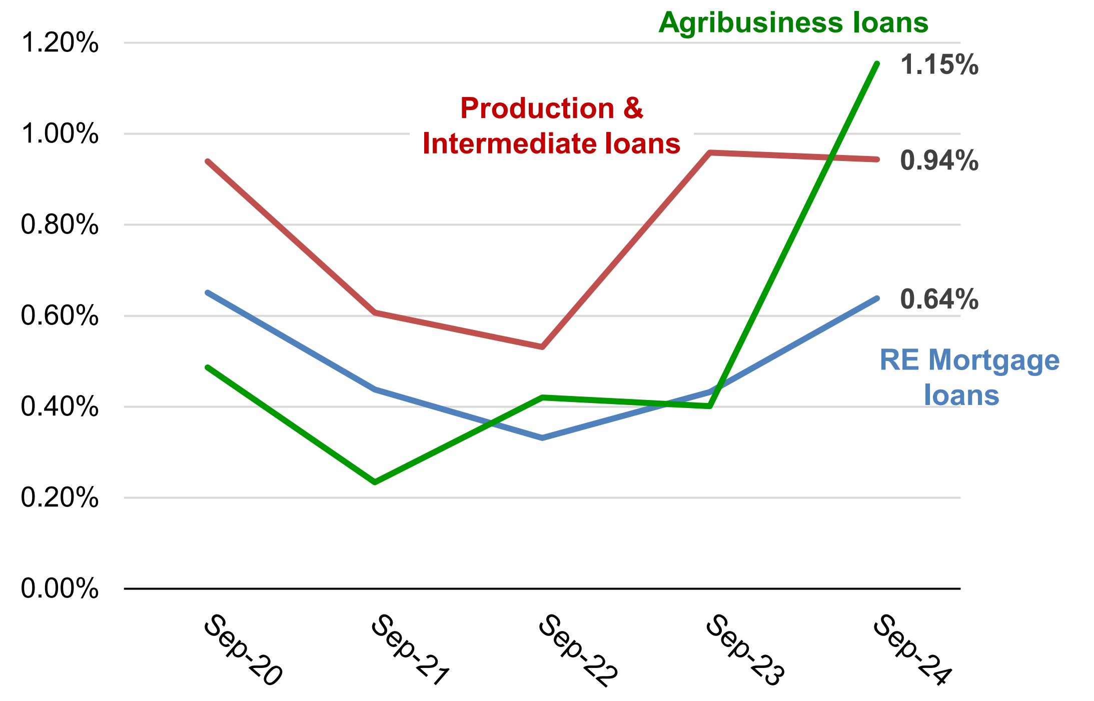
(as a percentage of loans outstanding and other property owned)



(amounts in millions)

Nonaccrual Loans by Loan Type

(as a percentage of loans outstanding)

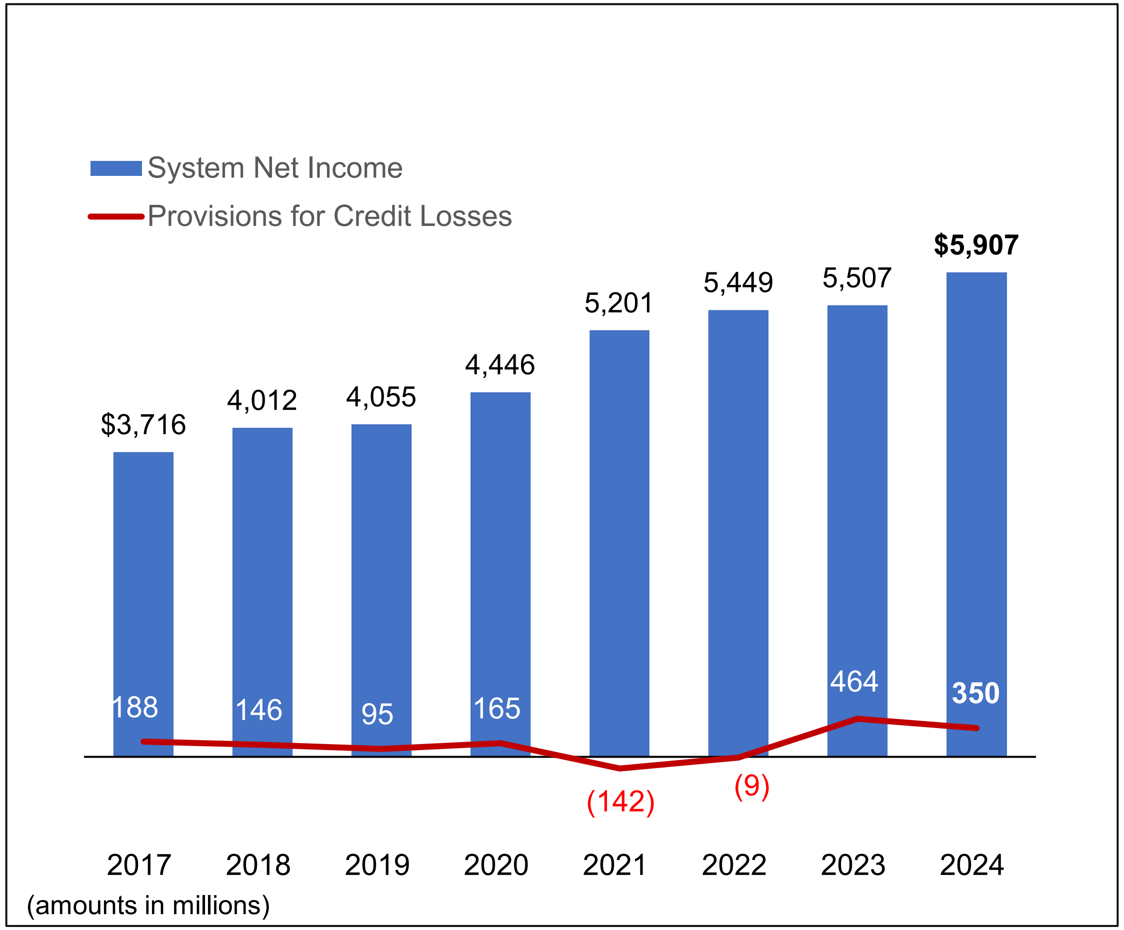


(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans

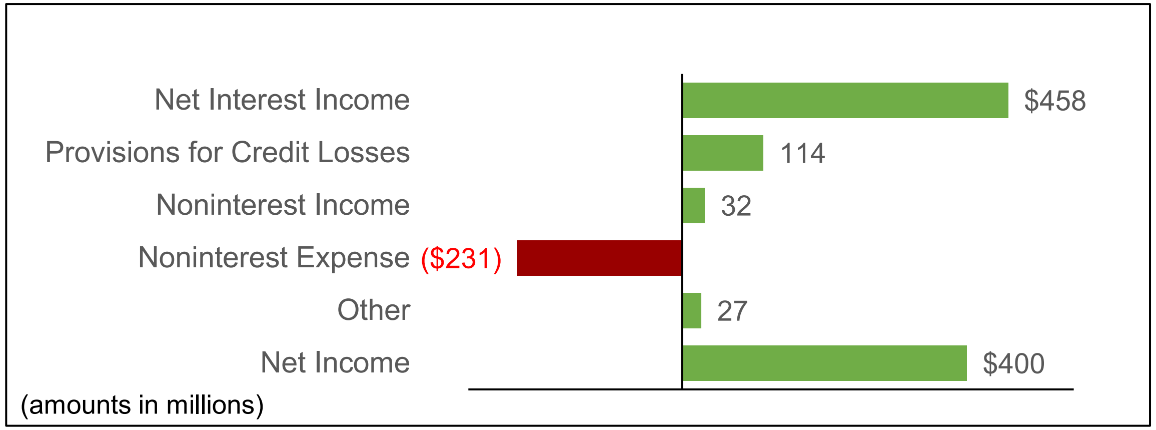
Source: Federal Farm Credit Banks Funding Corporation Information Statements

Year-to-date earnings growth driven by strong growth in net interest income

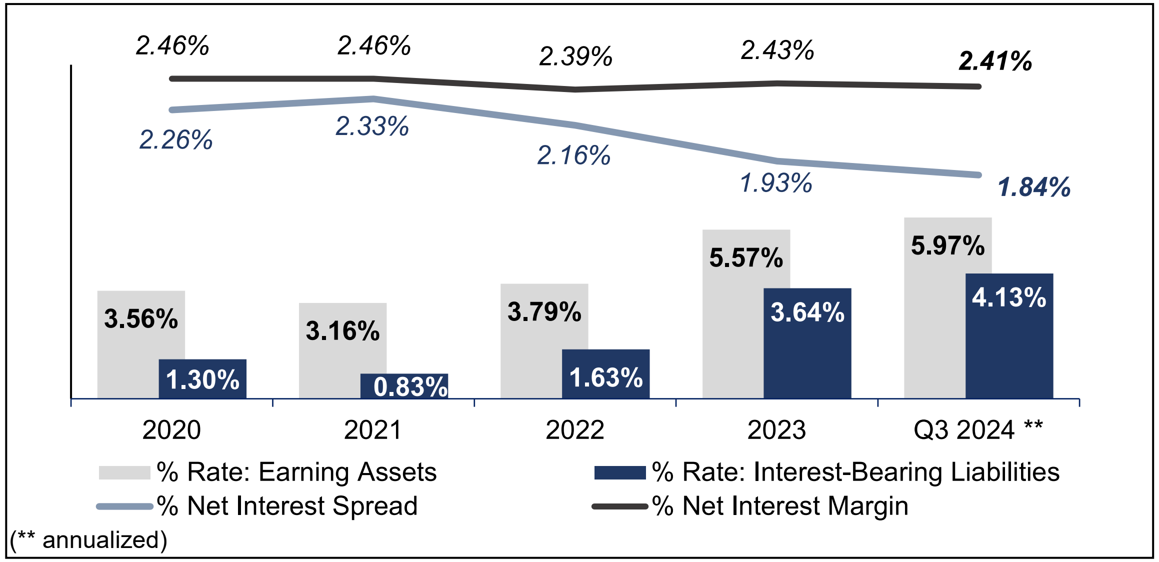
System Earnings
(year-to-date through September)



Change in Net Income
(year-to-date through September)



Net Interest Spread | Net Interest Margin

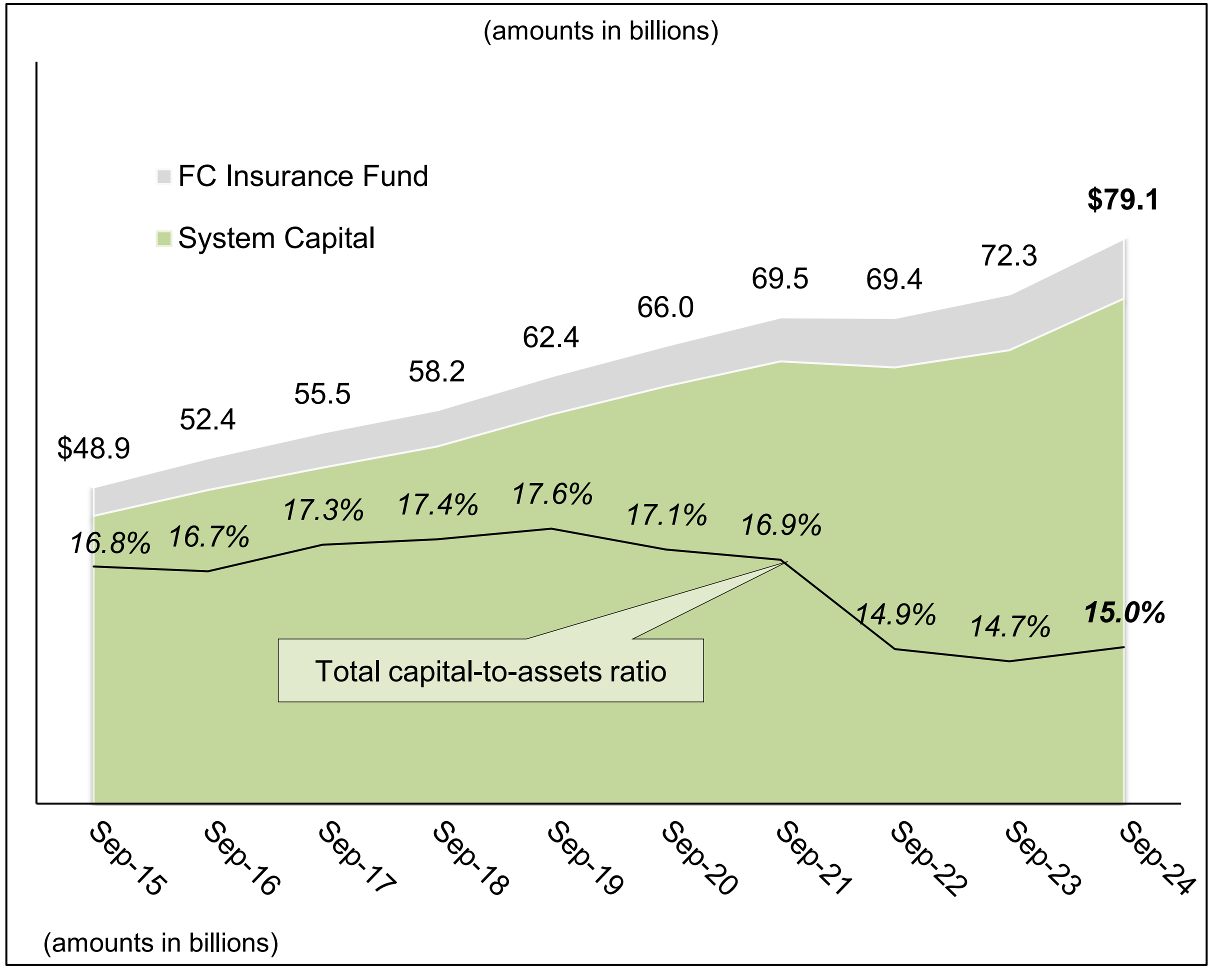


Source: Federal Farm Credit Banks Funding Corporation Information Statements

Strong earnings support continued capital growth

- Total capital increased to $79.1 billion or 9.4% year-over-year.
- The System's capital-to-assets ratio increased to 15.0% compared with 14.7% a year ago.
- Total regulatory capital ratios:
  - Banks: 14.6% to 15.9%
  - Associations: 12.2% to 35.4%
- Days of liquidity for the 4 funding banks ranged from 155 to 220 days.
- Capital and the allowance for credit losses on loans equaled 19.5% of loans outstanding as of Sept 30 compared with 19.2% a year ago.

Total Capital[1]
(for the quarter ended Sept 30)



(1) Includes the Farm Credit Insurance Fund.

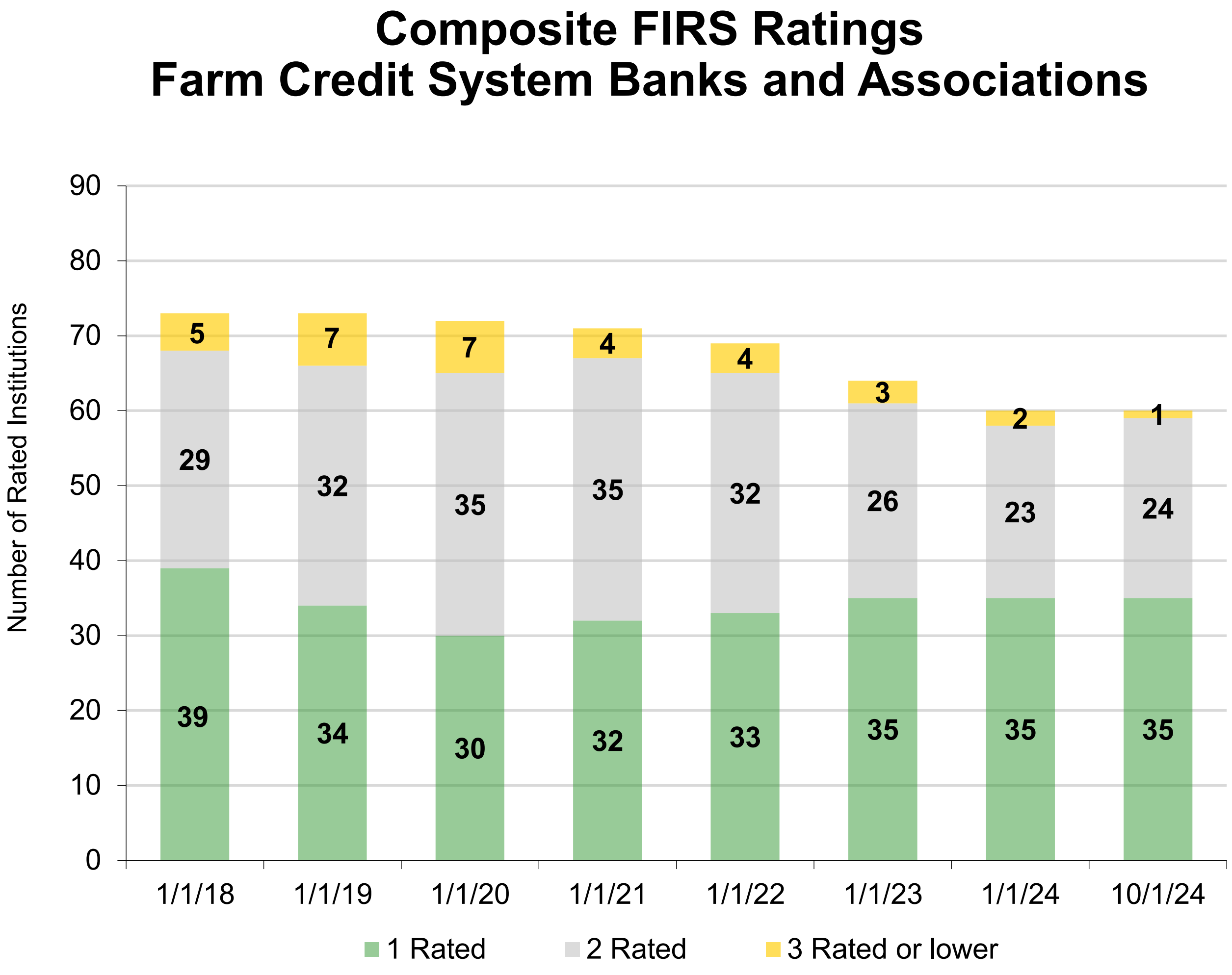
Source: Federal Farm Credit Banks Funding Corporation Information Statements

Composite FIRS ratings remain steady

Current FIRS Ratings

(based financial reporting through 9/30/24)

- Composite FIRS ratings reflect the System's sound financial condition.
- Over 98% of System banks and associations have a composite FIRS rating of 1 or 2.
- Institutions rated 3 or lower hold less than 1% of System assets.



Source: FCA's FIRS ratings database

Risks we are monitoring

Borrowers and System institutions face a more challenging operating environment in 2025.

- Stress in the grain sector as lower prices and elevated production costs compress margins.
- Greater reliance on operating lines as liquidity declines.
- Impact of changing interest rates and lower farm sector income on farmland and collateral values.
- Potential shocks to agriculture: global regional conflicts, changes to foreign trade policies, avian influenza, and possible farm program changes.