

Dallas P. Tonsager, Chairman and Chief Executive Officer
Jeffery S. Hall, Board Member
Glen R. Smith, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
April 12, 2018**

These minutes reflect the business transacted at the April 12, 2018, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act, 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 10:43 a.m. Members of the Board present were:

Dallas P. Tonsager, Chairman and Chief Executive Officer
Jeffery S. Hall, Member
Glen R. Smith, Member

The above named constitute the full Board.

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and the Farm Credit System Insurance Corporation; and two members of the general public. (A list of staff attendees is attached as Exhibit A.)

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

Board Chairman Tonsager reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Hall moved to adopt the Agenda as published.

Mr. Smith seconded the motion.

There being no further discussion, **Board Chairman Tonsager** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

Mr. Smith noted that the Agenda *did* include portions of the meeting that should be closed to the public as permitted by the Government in the Sunshine Act and therefore moved that meeting be closed as shown on the Agenda.

Mr. Hall seconded the motion.

There being no further discussion, **Board Chairman Tonsager** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for March 8, 2018 (BM-12-APR-18-01)

Mr. Hall moved to approve the minutes for the March 8, 2018, FCA Regular Board Meeting.

Mr. Smith seconded the motion.

There being no further discussion, **Board Chairman Tonsager** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-12-APR-18-01)**

(A copy of the official "Board Action Item" is attached as Exhibit C.)

Report

Quarterly Report on Economic Conditions and FCS Condition and Performance

Steve Gabriel, of the **Office of Regulatory Policy** and **Hal Johnson** of the **Office of Examination** presented the Quarterly Report on Economic Conditions and FCS Condition and Performance.

Board Chairman Tonsager asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit D.)

Farm Credit System Building Association Auditor's Report on 2017 Financial Audit

Rick Albrecht, President of the **Farm Credit System Building Association** and **Brynn McNeil** and **Jeremy Burgess** of **Cherry Bekaert, LLP** presented the FCSBA Auditor's Report on the 2017 Financial Audit.

Board Chairman Tonsager asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit E.)

CLOSED SESSION

Board Chairman Tonsager noted that this was a Closed Session and ensured that nonessential staff were not in the room so the Board could meet in Closed Session with the Office of Examination.

Board Chairman Tonsager convened the closed session of the meeting at 10:05 a.m. and instructed the **Secretary** to activate the electronic recording device so that the proceedings of the closed session were properly recorded as required by the Government in the Sunshine Act.

Board Chairman Tonsager then instructed the **General Counsel** to furnish the **Secretary** with a certification, pursuant to 5 U.S.C. § 552b(f), that the portions of the meeting held in closed session may be properly closed to the public. (A copy of the Certification is attached hereto as Exhibit F.)

Office of Examination Quarterly Report

Robert Coleman and **Roger Paulsen** of the **Office of Examination** presented the OE Quarterly Report.

Board Chairman Tonsager asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

CLOSED EXECUTIVE SESSION

Farm Credit System Building Association Auditor's Report

Board Chairman Tonsager announced that the next topic on the Agenda was closed executive session pursuant to previous Board action and 5 U.S.C. § 552b(c)(2).

Board Chairman Tonsager instructed all to exit except for the Board Members, Executive Assistants, the General Counsel and the Secretary to the board so that the board could meet with Brynn McNeil and Jeremy Burgess as approved by the Board previously.

Board Chairman Tonsager reminded those speaking to state their name before speaking and asked the Auditors to further discuss the audit.

Board Chairman Tonsager asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

ADJOURNMENT

There being no further business to come before the Board, **Board Chairman Tonsager** indicated he would entertain a motion to adjourn the meeting.

Mr. Smith moved that the meeting be adjourned.

Mr. Hall seconded the motion.

Board Chairman Tonsager called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

The meeting adjourned at 10:43 a.m.

NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from March 9, 2018, through April 11, 2018 as follows:

Item Number	Action Date	Voting Results	Subject
NV 18-04	03/20/2018	Approved	Compeer Financial, ACA investment in a healthcare foundation in rural Illinois, subject to conditions.

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on April 12, 2018.

_____/s/_____
Dallas P. Tonsager
Board Chairman and Chief Executive Officer

_____/s/_____
Dale L. Aultman
Secretary to the Board

Approved: May 10, 2018

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
April 12, 2018**

Dallas P. Tonsager, Chairman and Chief Executive Officer
Jeffery S. Hall, Board Member
Glen R. Smith, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION	CLOSED EXECUTIVE SESSION
Office of the Board			
Aultman, Dale	X	X	X
Kramp, Kevin	X	X	X
Morris, James	X	X	X
Batta, Todd	X	X	X
Corey, Kathryn	X		
Roque-Brehm, Awilda	X		
Calhoun, Gaye	X		
COO			
Hoffman, William	X	X	
OIT			
Golley, Jerald	X	X	
OCPA			
Stokke, Michael	X	X	
Delancey, Toni	X		
Meaux, Willy	X		
Middleton, Russell	X		
OSMO			
Rea, Laurie	X	X	
Hudson, Bruce	X	X	
OGC			
Rawls, Charles	X	X	X
Donner, Mary Alice	X		
Strickland, Joy	X	X	
OE			
Coleman, Robert	X	X	
Paulsen, Roger	X	X	
Johnson, Hal	X	X	
OIG			
Laguarda, Wendy	X	X	
ORP			
Van Meter, Gary	X	X	
Mardock, Barry	X	X	
Gabriel, Steve	X		
EEOI			
Burlew, Thais	X		
OCFO			
Smith, Stephen	X	X	
Gandy, Doug	X	X	

OFFICE	OPEN SESSION	CLOSED SESSION	CLOSED EXECUTIVE SESSION
FCSBA			
Albrecht, Rick	X		
Duffy, Morgan	X		
CHERRY BEKAERT, LLP			
McNeil, Brynn	X		X
Burgess, Jeremy	X		X
OAS			
Fowlkes, Jerome	X	X	
Bell, Vonda	X	X	
FCSIC			
Rubin, Howard	X	X	
Grimaldi, Andrew	X	X	
Pfitzinger, Rick	X	X	
GENERAL PUBLIC	2	N/A	N/A

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000



**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT**

**Farm Credit Administration Board
Regular Meeting
April 12, 2018**

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b(e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held April 12, 2018. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

For Further Information Contact: Dale L. Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: Parts of this meeting of the Board will be open to the public (limited space available) and parts will be closed. Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact Dale L. Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

Approval of Minutes

- 1 March 8, 2018

Reports

- 2 Quarterly Report on Economic Conditions and FCS Condition and Performance
- 3 FCSBA Auditor’s Report on 2017 Financial Audit

Closed Session

- 4 Office of Examination Quarterly Report
- 5 Executive Session – FCS Building Association Auditor’s Report

Date April 2, 2018

/s/
Dale L. Aultman
Secretary to the Board

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for March 8, 2018 Regular Board Meeting

BM-12-APR-18-01

Effective Date: April 12, 2018

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for March 8, 2018, Regular Board Meeting as submitted.

DATED THIS 12th DAY OF APRIL 2018

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting April 2018

Exhibit D

Quarterly Report on FCS Condition April 12, 2018

Stephen Gabriel
Hal Johnson





Topics for Open Session

- ▶ Economic Conditions Affecting the FCS
- ▶ FCS Condition and Performance





Economic Conditions Affecting the Farm Credit System

Stephen Gabriel
Chief Economist
Office of Regulatory Policy



The expansion continues; interest rates rise with inflationary pressures



Consensus Forecasts (percent)

Red indicates forecast

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
GDP growth*	1.2	3.1	3.2	2.9	2.4	3.1	3.0	2.8	2.5	2.4	2.2	2.1
CPI*	3.0	0.1	2.1	3.3	3.2	1.6	2.1	1.9	2.1	2.2	2.3	2.3
Unemployment rate	4.7	4.3	4.3	4.1	4.1	4.0	3.9	3.8	3.7	3.6	3.6	3.6
3 Month T-Bill	0.8	1.0	1.0	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.7	2.8
10 Yr T-Bond	2.4	2.3	2.3	2.8	2.8	2.9	3.0	3.2	3.3	3.4	3.5	3.5

Source: Consensus Economics, Inc.

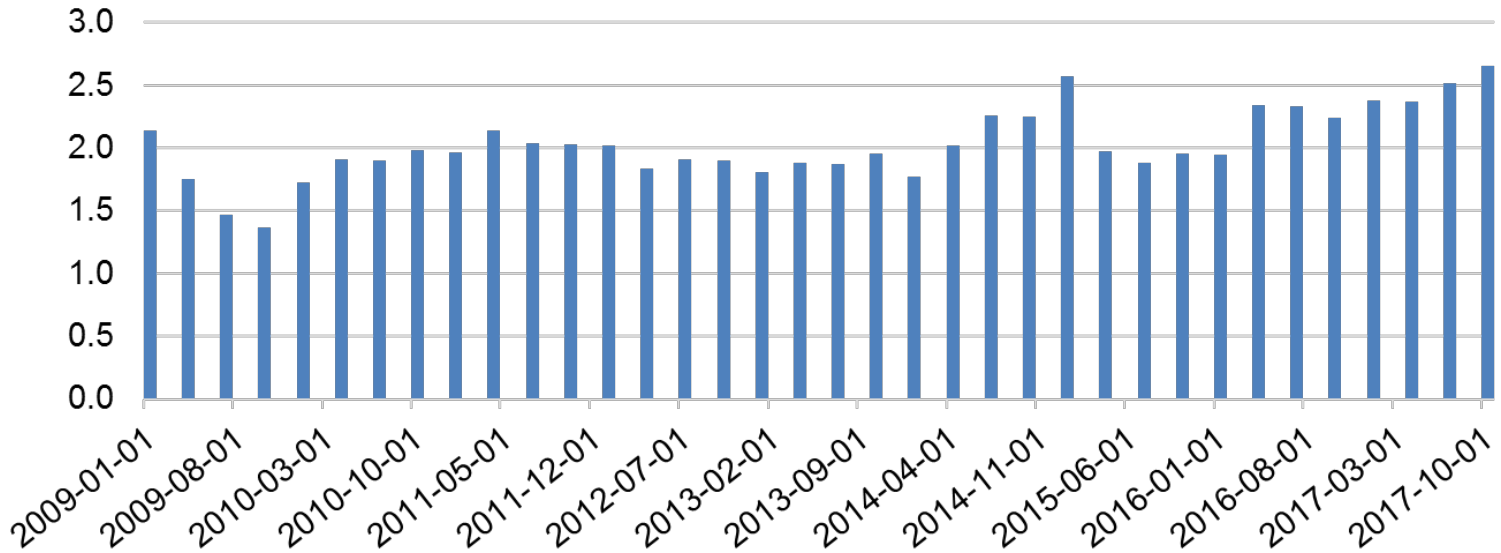
Survey date - March 12, 2018

* % change from prior quarter, seasonally adjusted annual rate



Inflationary pressures are emerging

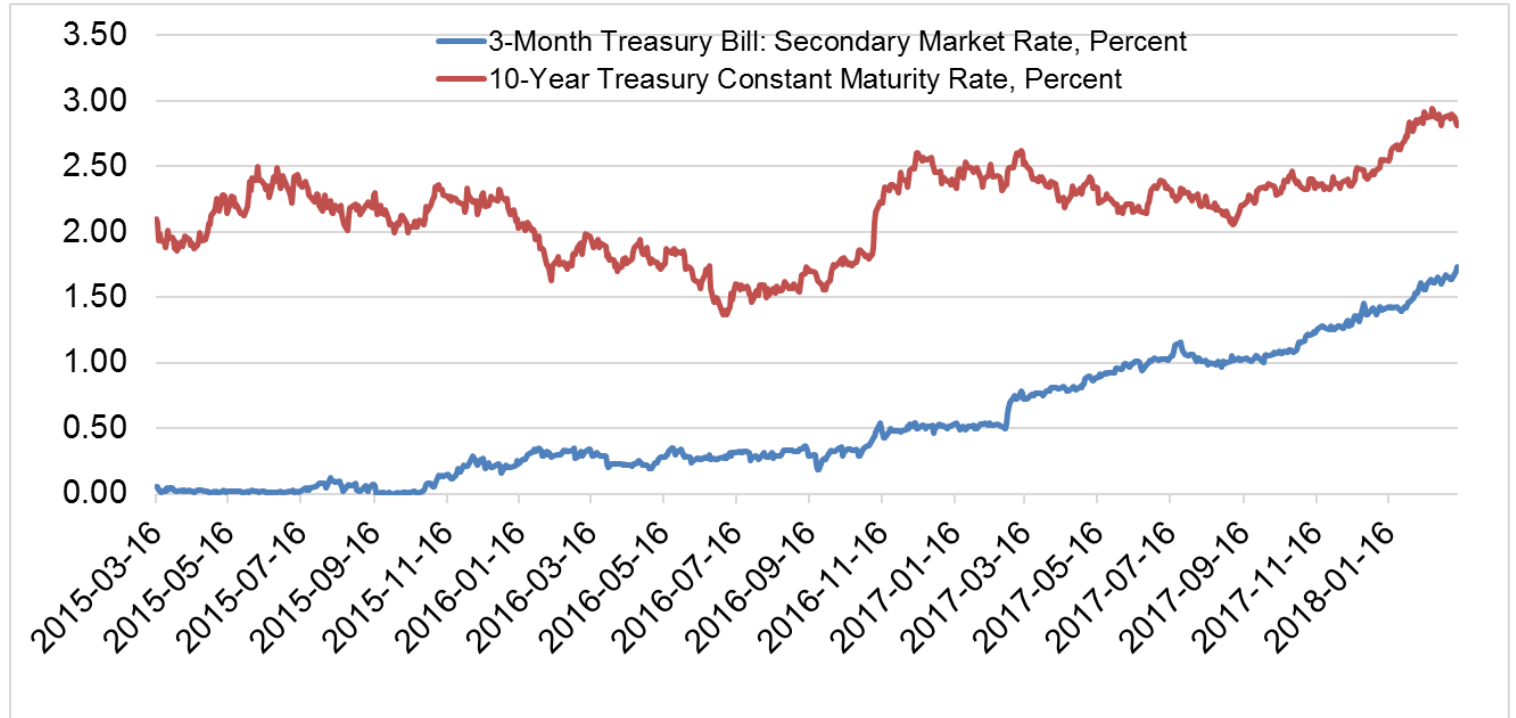
**Employment Cost Index: Total Compensation: All Civilian,
Percent Change from Year Ago, Quarterly, Seasonally Adjusted**



Source: U.S. Bureau of Labor Statistics



Interest rates are on the rise



Source: Board of Governors of the Federal Reserve System



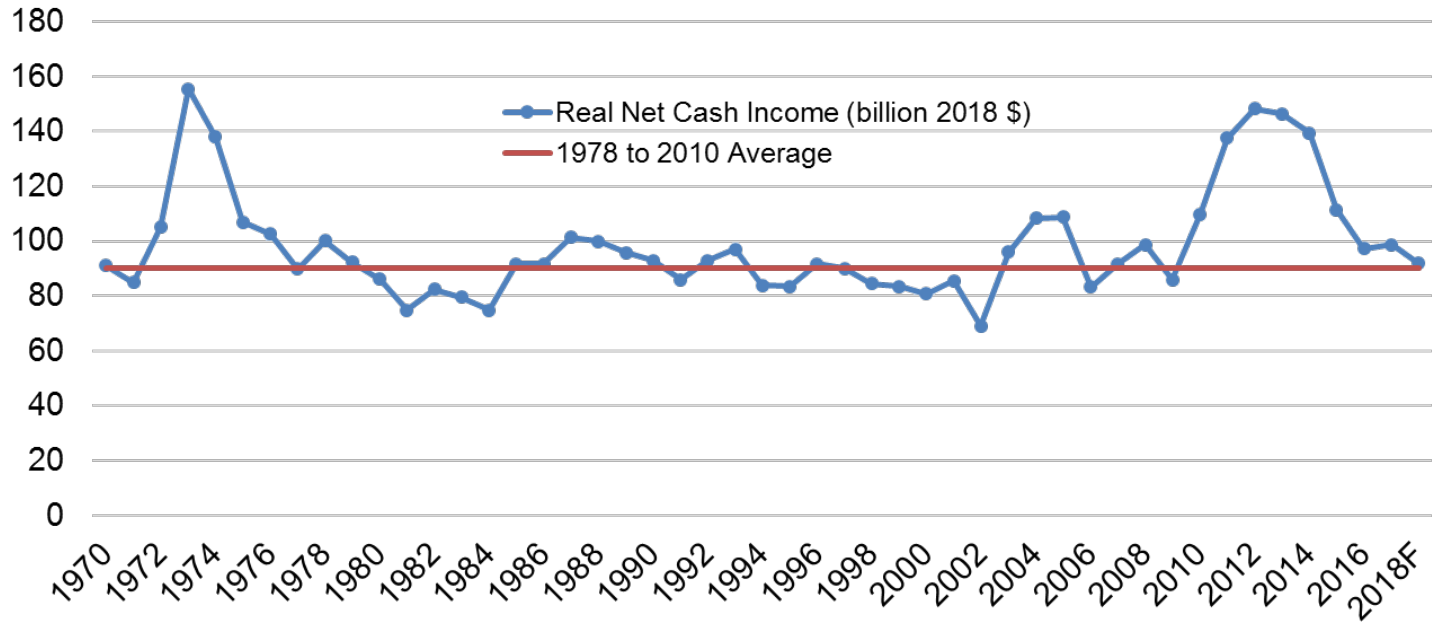
Farm sector developments and concerns

- ▶ USDA projects net farm income to decline 7% in 2018; net cash income will be down 5%
- ▶ Trade retaliation is a concern for agriculture
- ▶ Dry weather in Argentina is causing price volatility
- ▶ Drought in the southwest and Plains is threatening pasture and winter wheat crops
- ▶ Dairy sector is facing negative margins
- ▶ Farmland values may be stabilizing; higher interest rates pose a risk





Real net cash income returning to “normal” levels

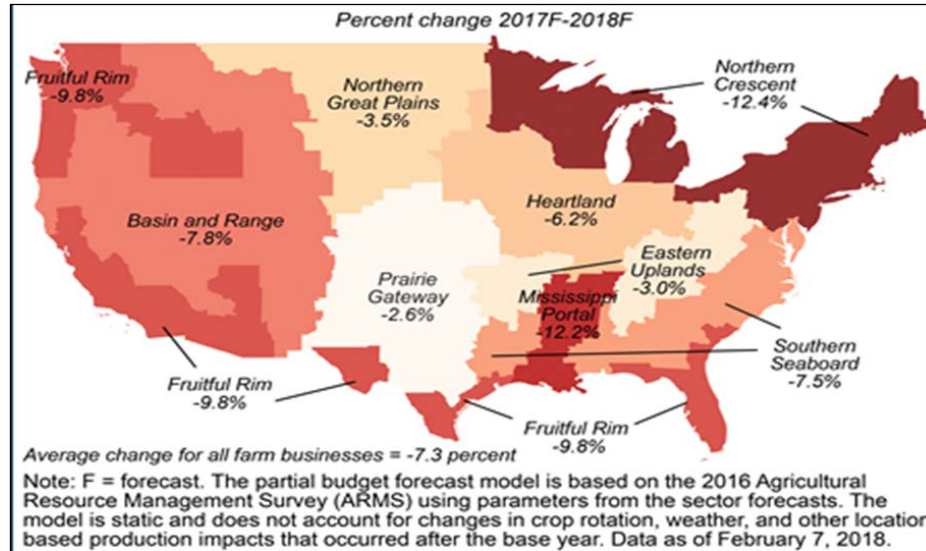


Source: USDA



All USDA regions projected to face lower farm business net cash income

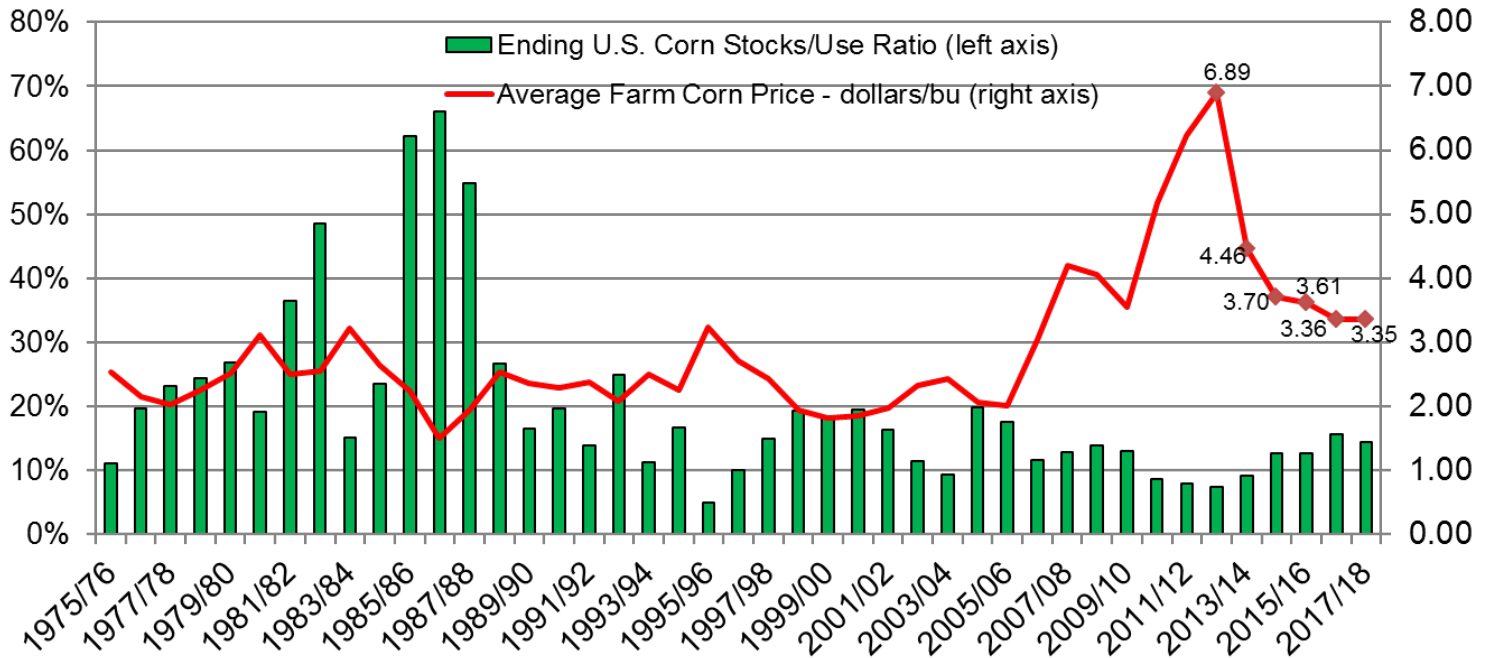
Farm business average net cash farm income by resource region, 2018F compared with 2017F



Source: USDA, Economic Research Service, Farm Income and Wealth Statistics



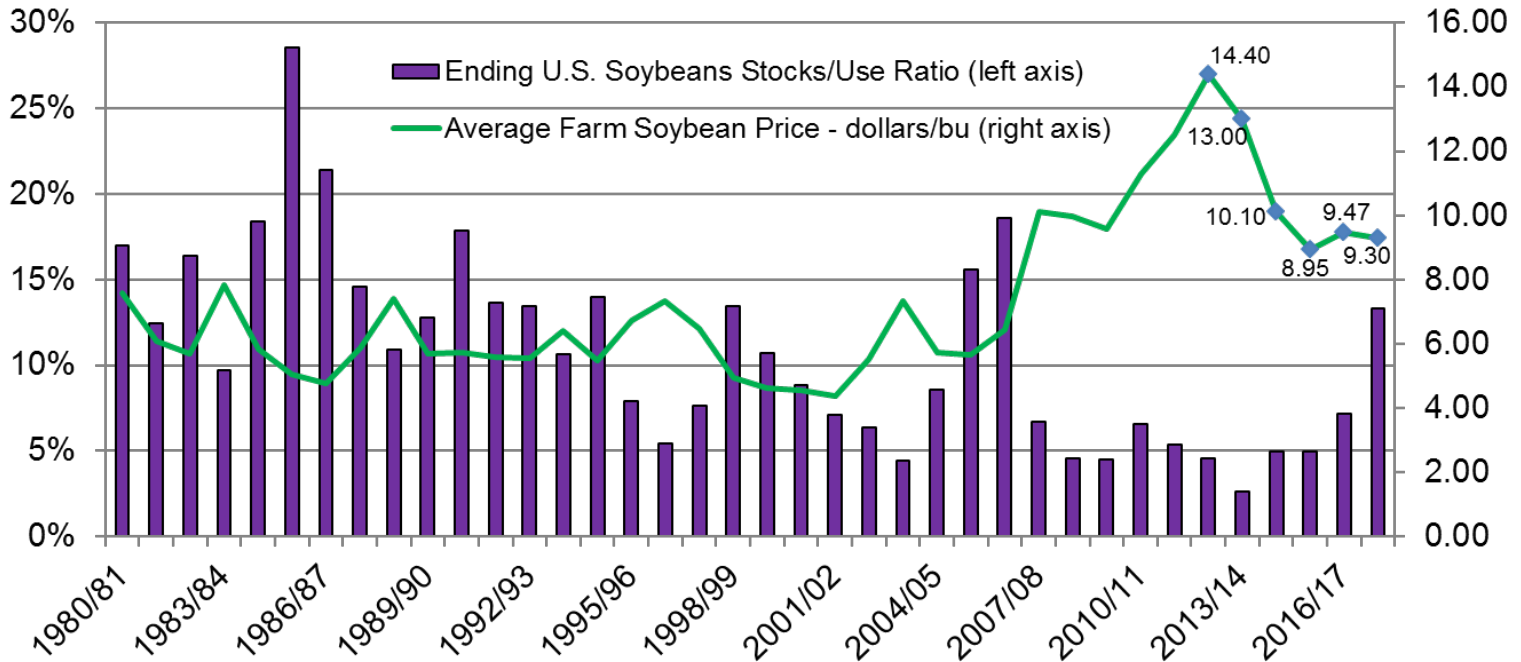
Average corn price to remain at last year's level



Source: USDA



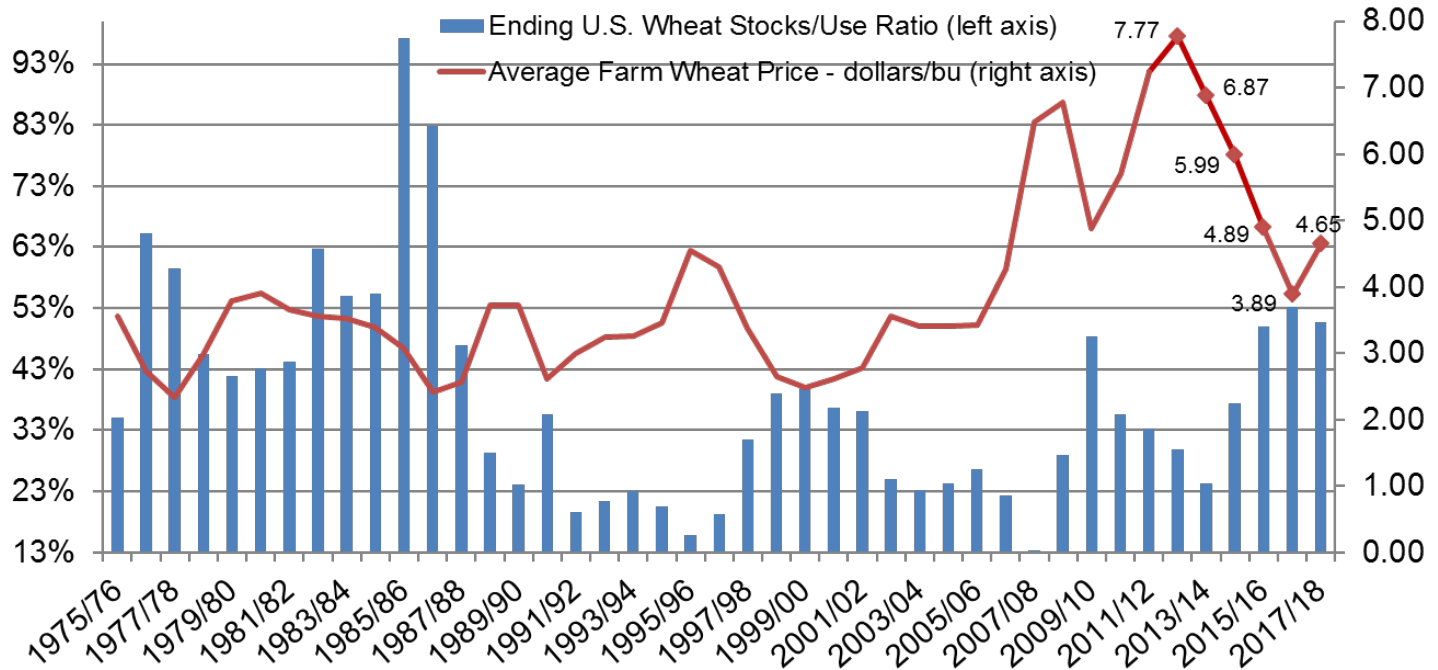
Soybean stocks soar relative to use



Source: USDA



Declining wheat production to push prices higher

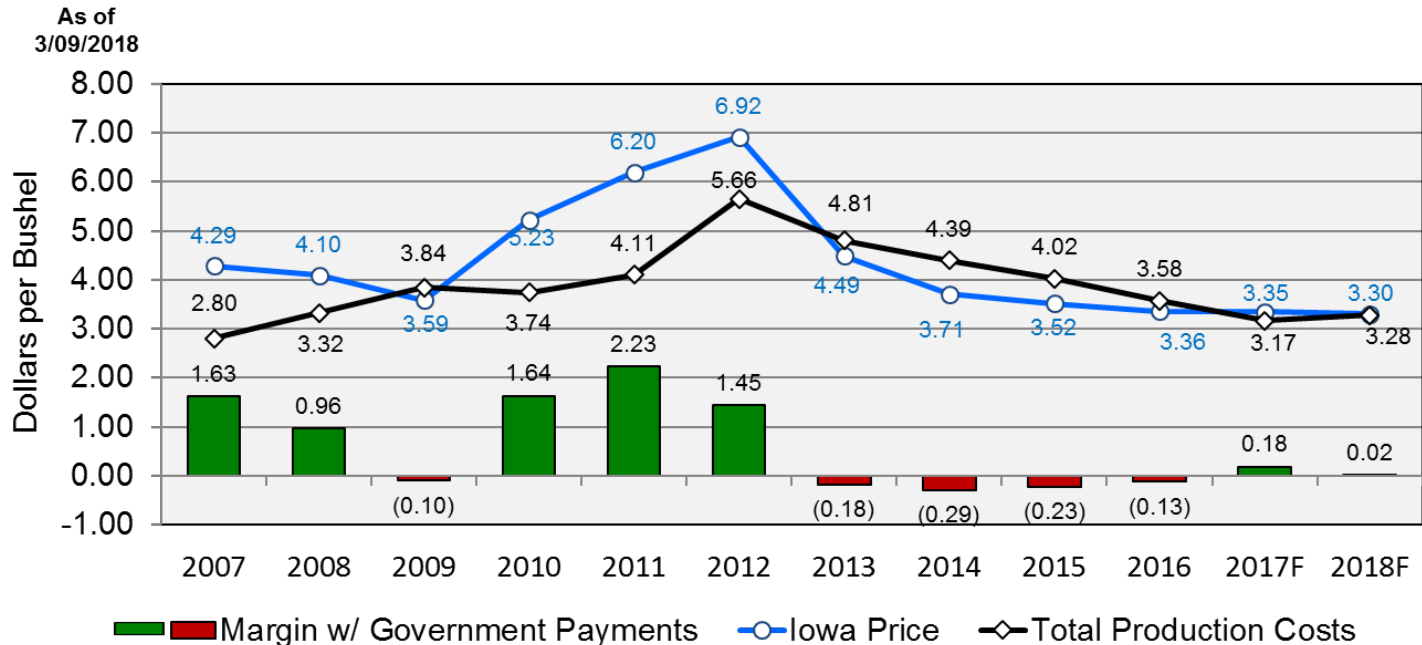


Source: USDA



Slim margins are expected for corn producers in 2018

Iowa Season-average Corn Profit Margin Estimates Using Iowa State University Cost of Production Estimates

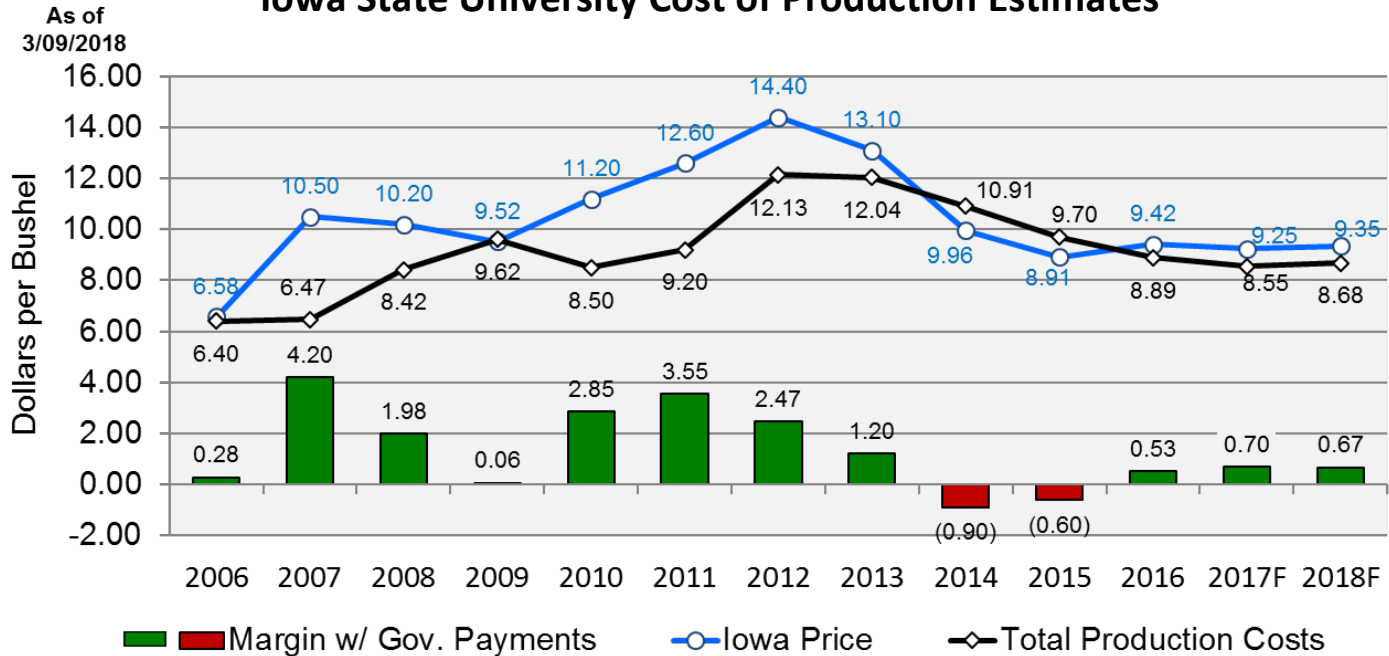


Source: FCA-ORP using data from USDA and Iowa State University. 2018 forecast assumes USDA baseline price and trendline yields.



Profits are projected for soybean producers in 2018

Iowa Season-average Soybean Profit Margin Estimates
Iowa State University Cost of Production Estimates



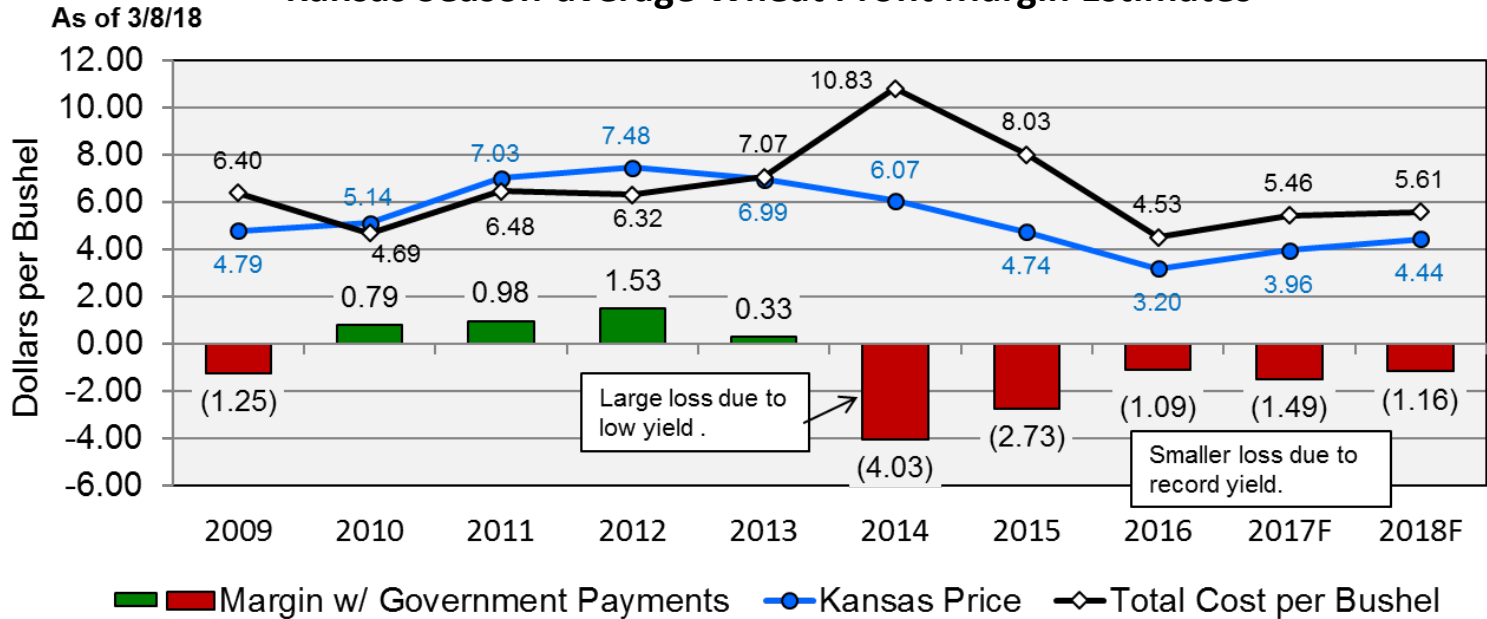
Source: FCA-ORP using data from USDA and Iowa State University. 2018 forecast uses USDA Baseline prices and trendline yields.



Higher prices help reduce losses on wheat farms



Kansas Season-average Wheat Profit Margin Estimates



Source: FCA-ORP using data from USDA and Kansas State University.

Notes: For 2014-2018F, government payment is Agriculture Risk Coverage and excludes loan deficiency payments. For 2017 and 2018, ARC payment is expected to be zero, compared with about 55-60 cents for Price Loss Coverage.

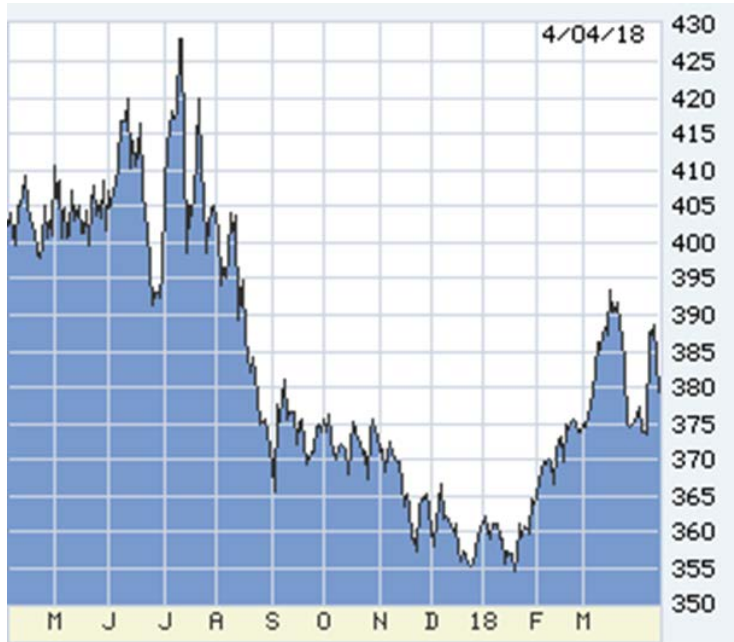


Weather in Argentina and tariffs from China causing price volatility



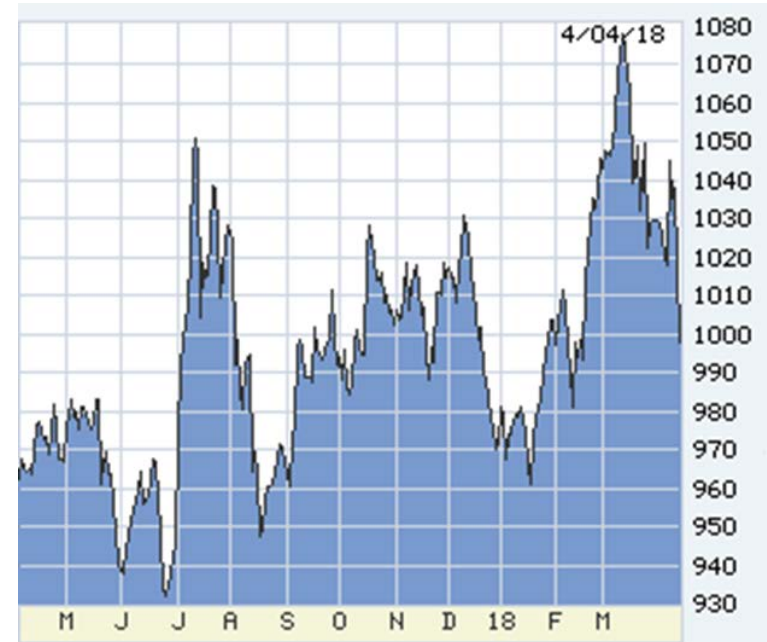
Corn (Cme) May, 2018

Cents/bu



Soybeans (Cme) May, 2018

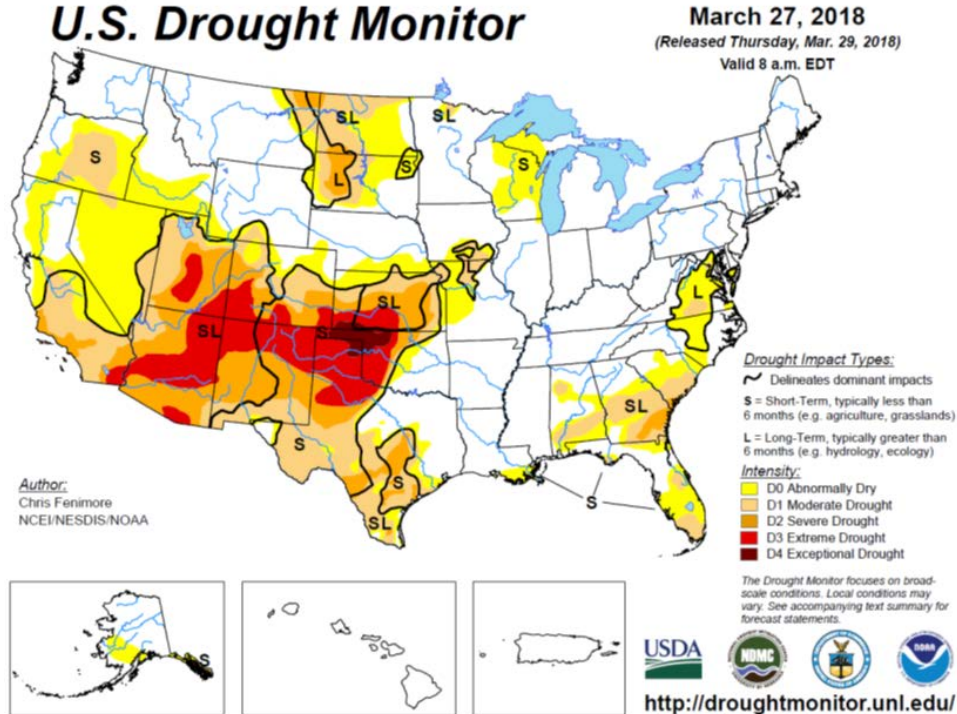
Cents/bu



Source: Wall Street Journal



Dry weather threatens pasture and winter wheat regions



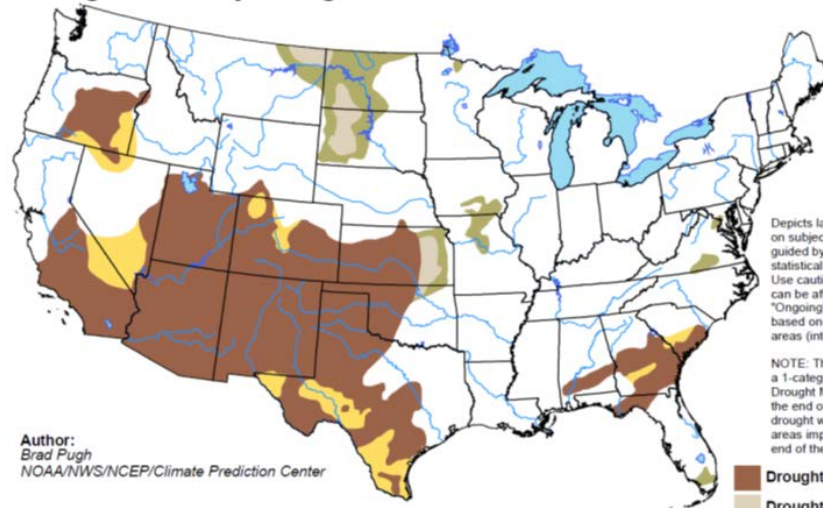


Southwest faces continued drought



U.S. Seasonal Drought Outlook Drought Tendency During the Valid Period

Valid for March 15 - June 30, 2018
Released March 15, 2018

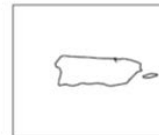


Author:
Brad Pugh
NOAA/NWS/NCEP/Climate Prediction Center

Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Use caution for applications that can be affected by short lived events. "Ongoing" drought areas are based on the U.S. Drought Monitor areas (intensities of D1 to D4).

NOTE: The tan areas imply at least a 1-category improvement in the Drought Monitor intensity levels by the end of the period, although drought will remain. The green areas imply drought removal by the end of the period (D0 or none).

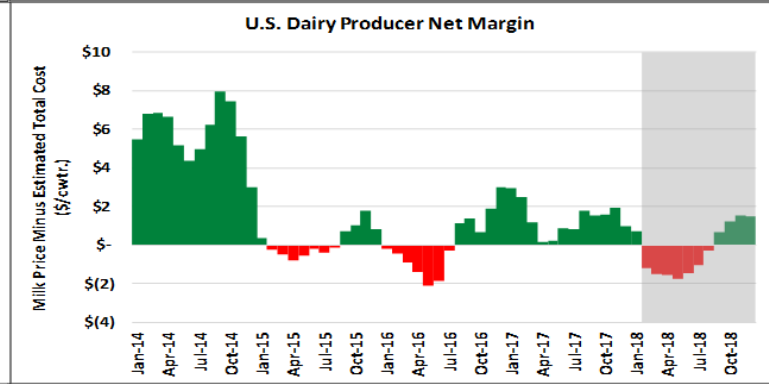
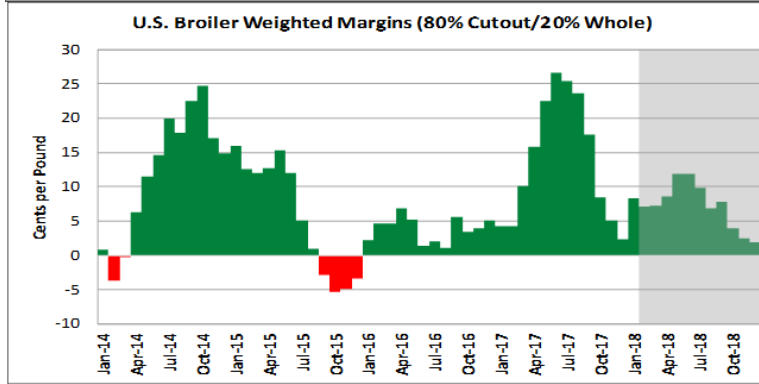
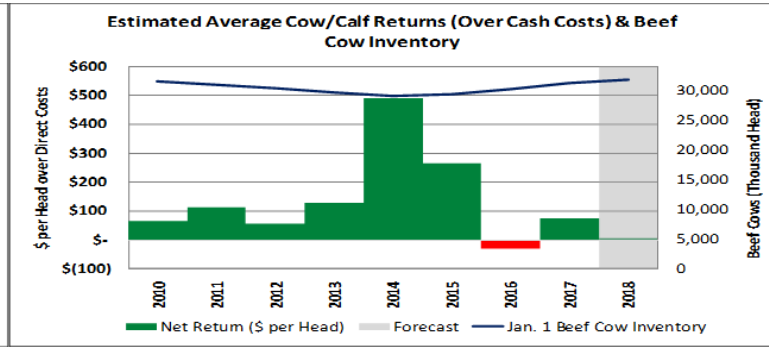
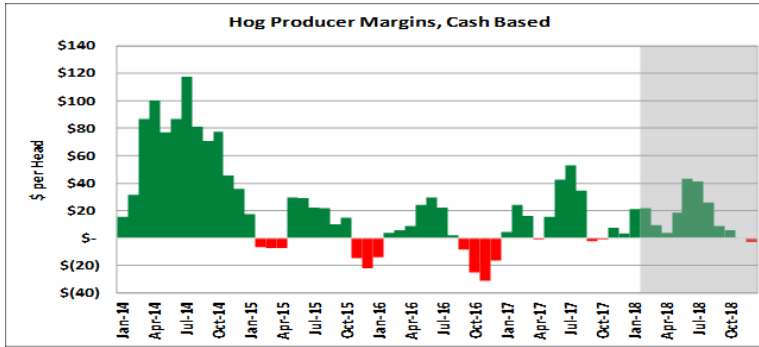
- Drought persists
- Drought remains but improves
- Drought removal likely
- Drought development likely



<http://go.usa.gov/3eZ73>



Livestock producers posting profits; dairy struggling



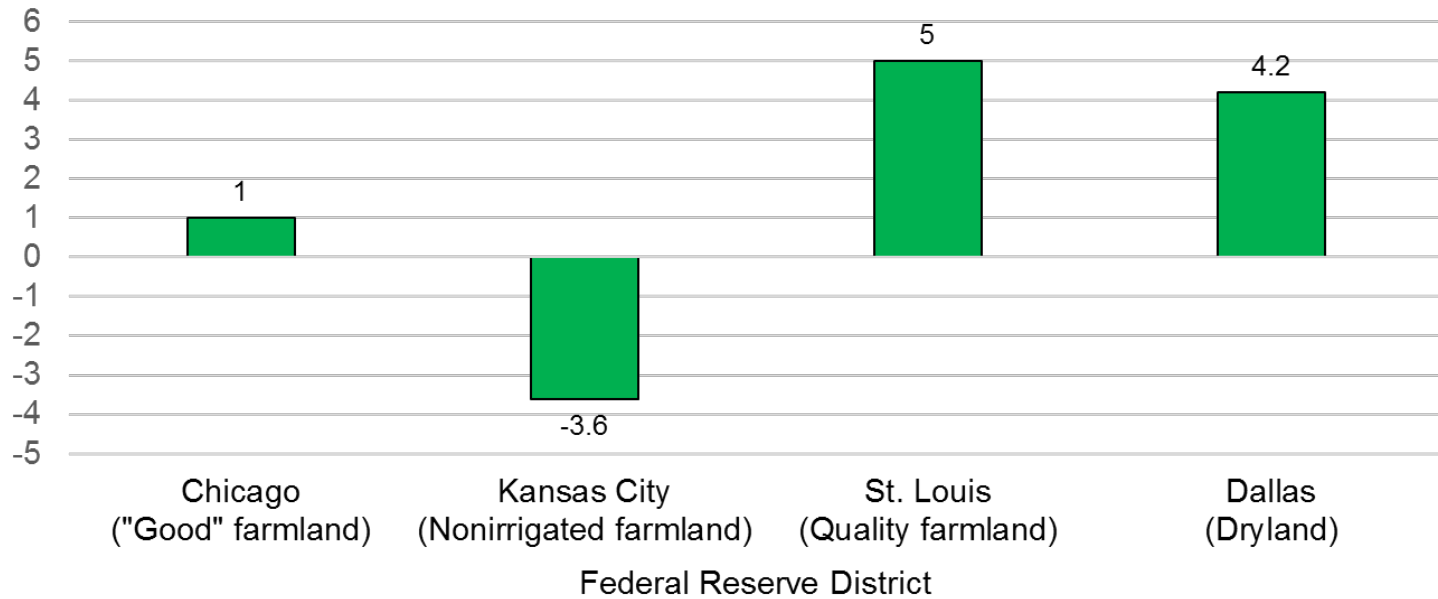
Source: Informa Economics IEG



Farmland values may be stabilizing; but rising interest rates are a risk



Fourth quarter 2017 (% change in value from prior year)

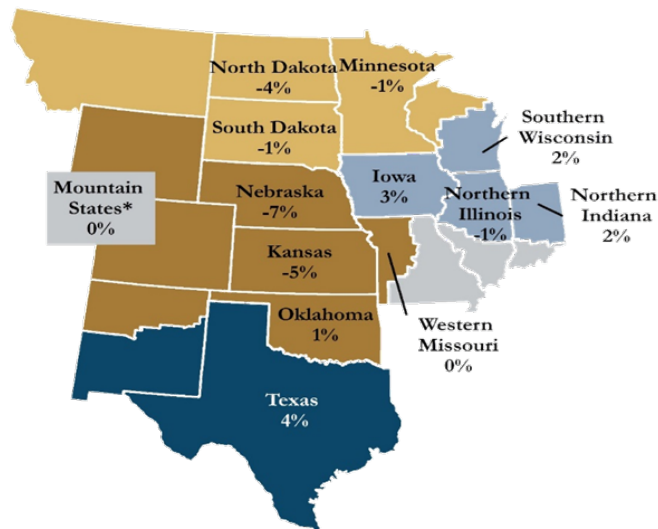


Source: Federal Reserve Banks of Chicago, Kansas City, St. Louis, and Dallas



Change in value of nonirrigated cropland varies

Fourth quarter 2017 percent change from previous year



*Mountain States include Colorado, northern New Mexico, and Wyoming, which are grouped because of limited survey responses from each state.

Sources: Federal Reserve District Agricultural Credit Surveys (Chicago, Dallas, Kansas City and Minneapolis).



Risks to watch

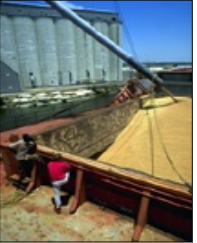
- ▶ International trade policy and trade retaliation
- ▶ Interest rates
- ▶ Crop growing conditions
- ▶ Farm Bill
- ▶ Geopolitical developments





Questions

Thank you





Farm Credit System Condition and Performance as of December 31, 2017

Hal Johnson
Senior Financial Analyst
Office of Examination



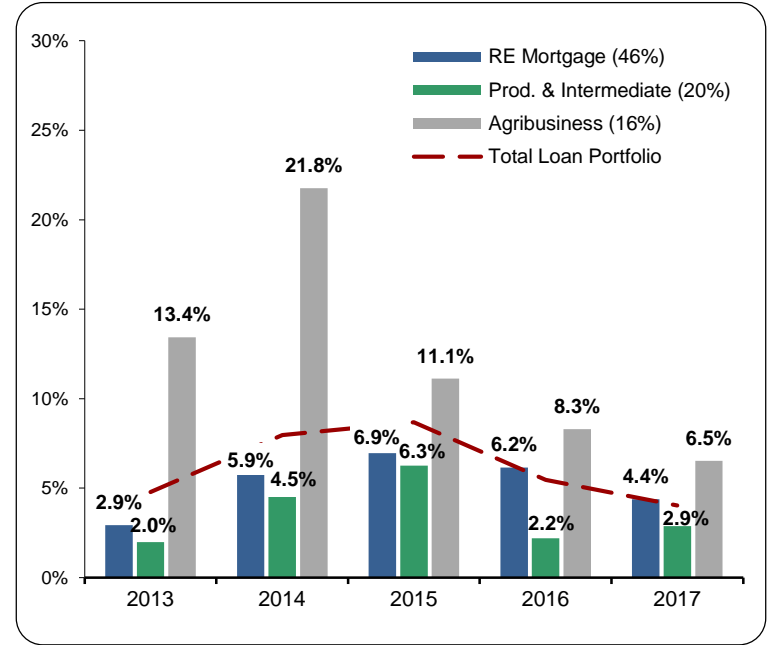
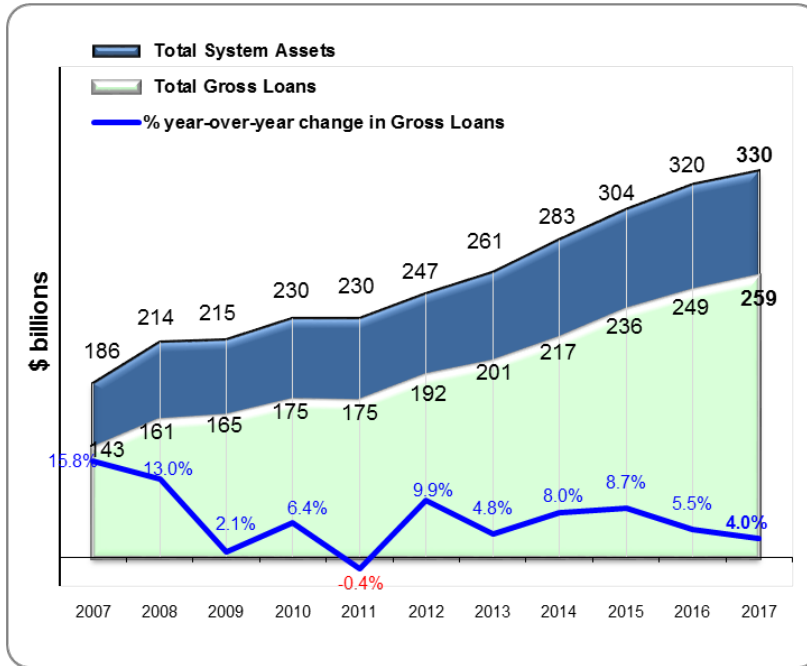
Topics

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





System grew at a modest pace in 2017; growth concentrated the 4th quarter



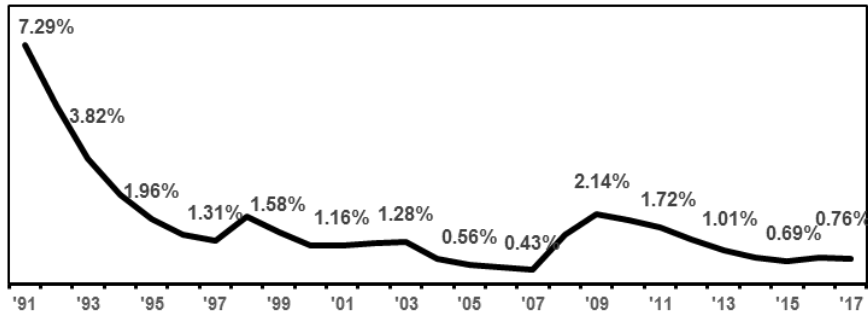
Source: FCS Information Statements



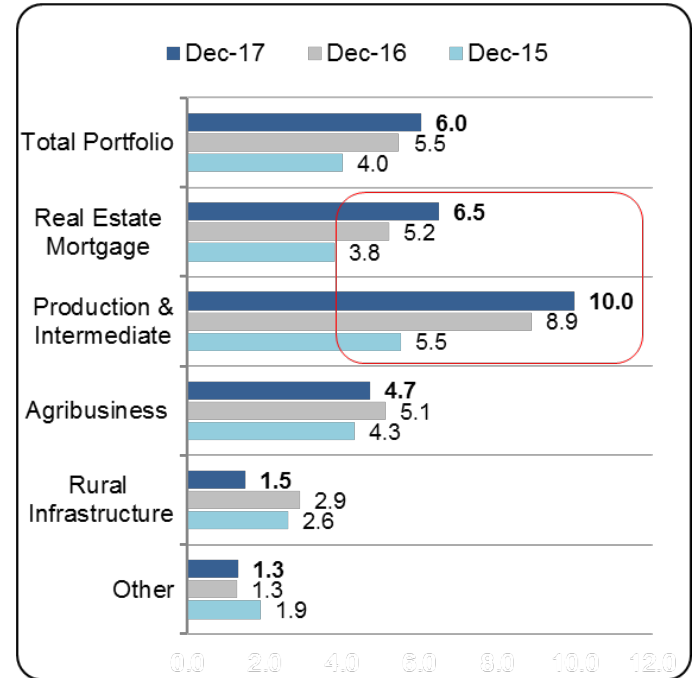
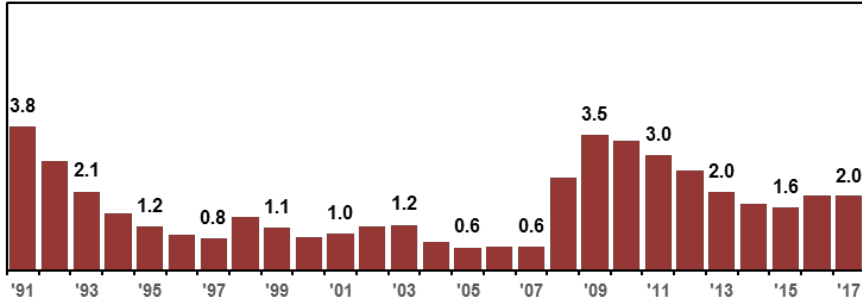
Loan quality remains favorable, but risks to agriculture are significant



Nonperforming Loans as a % of Gross Loans % of Loans Classified Less Than Acceptable



Nonperforming Loans (\$B)



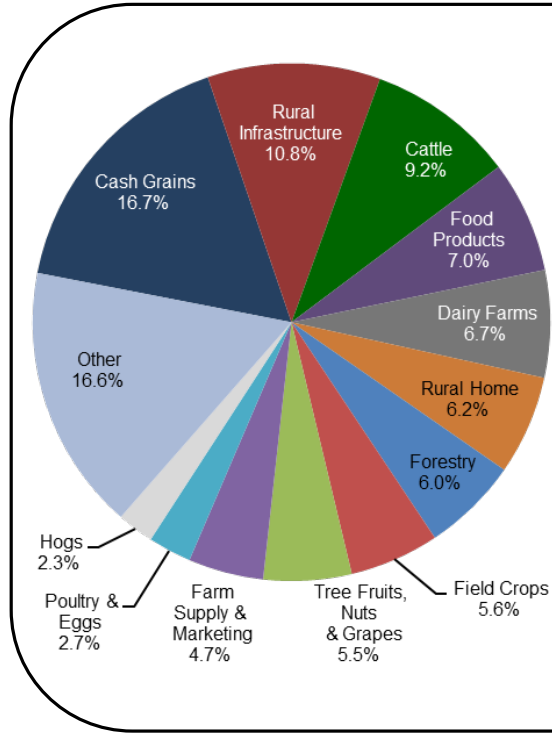
Source: FCS Information Statements



System's loan portfolio is diversified geographically and by commodity



FCS Loan Portfolio Geographical Distribution as of December 31, 2017	
California	10.6%
Texas	6.9%
Iowa	5.4%
Illinois	5.0%
Minnesota	4.9%
Nebraska	3.9%
Ohio	3.7%
Wisconsin	3.0%
Kansas	3.0%
Indiana	3.0%



FCS Loan Portfolio (in m millions)	Dec-17	%Volume vs. YE 2016
Cash Grains	43,146	1.0%
Rural Infrastructure	27,965	1.9%
Cattle	23,778	5.0%
Food Products	17,969	0.2%
Dairy Farms	17,194	4.2%
Rural Home	16,081	0.5%
Forestry	15,468	(0.6%)
Field Crops	14,512	5.2%
Tree Fruits, Nuts & Grapes	14,279	13.4%
Farm Supply & Marketing	12,249	16.0%
Poultry & Eggs	7,078	8.8%
Hogs	6,011	7.7%
Other	43,047	5.2%
Total	258,777	4.0%

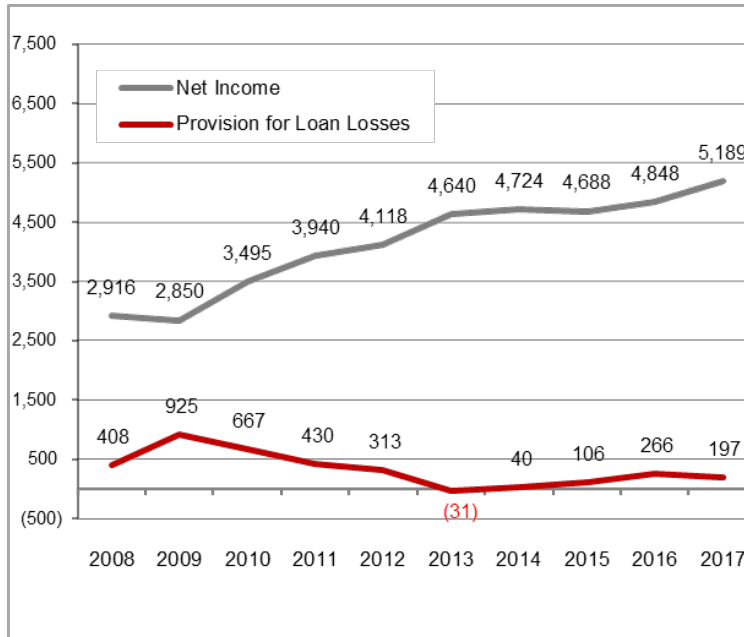
Source: FCS Information Statements



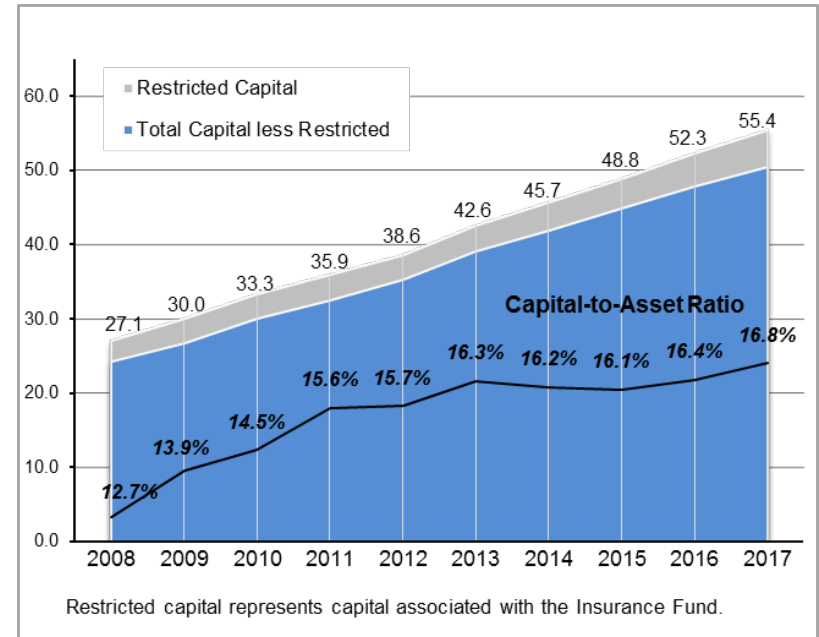
Favorable earnings support strong capital levels



System Earnings (\$M)



System Capital (\$B)



Source: FCS Information Statements



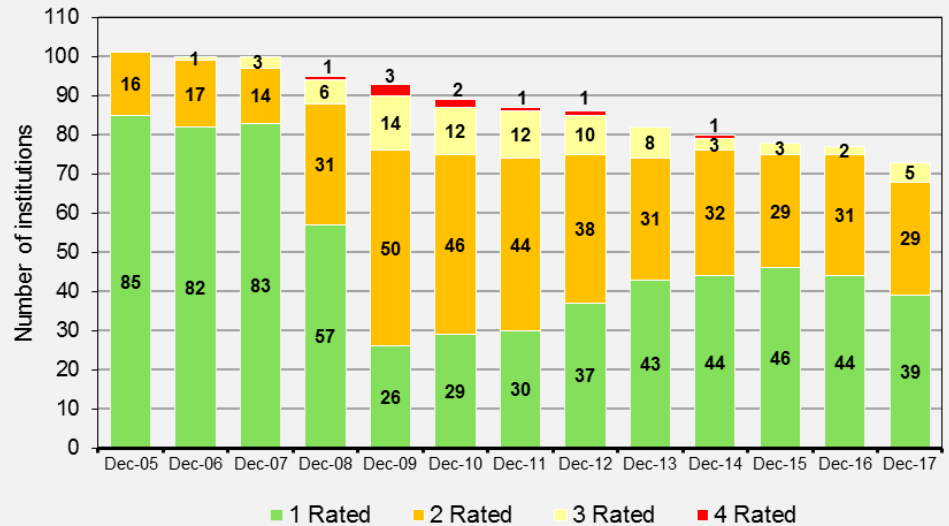
System FIRS ratings



FIRS Ratings

- Composite FIRS ratings continue to be strong and reflect the System's sound financial condition and favorable portfolio credit quality
- Over 93% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for less than 1.5% of total System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

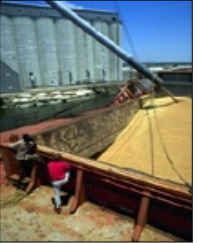


- ▶ Risks for agriculture:
 - supply vs. demand for agricultural commodities, rising interest rates, agricultural trade policies, farm debt and income levels, inflation, emerging drought
- ▶ The System is financially strong and well-capitalized
- ▶ Portfolio loan quality continues to be good, but the risks to certain agriculture sectors are significant
- ▶ System institutions are well-positioned for the current risk environment and have substantial risk-bearing capacity



Questions

Thank you



FCS Building Association

Report Regarding Financial
Statement Audit for the Year
Ended December 31, 2017

SPEAKERS

Brynn McNeil, Partner
bmcneil@cbh.com

Jeremy Burgess, Manager
jburgess@cbh.com

Your guide forward



FCS Building Association

Overview of Audit Results

We have completed our audit procedures related to the FCS Building Association's year ended December 31, 2017, financial statements.

Our procedures and scope were substantially consistent with our planned audit strategy, and we did not experience any significant problems during the audit process.

We issued an unmodified (clean) opinion on the Company's financial statements.

We received excellent cooperation from the Company's personnel.

General Financial Statement Comments

- ▶ Strong Balance Sheet as of December 31, 2017
 - Cash reserve balance of \$678K
 - Current ratio of 2:1
 - Total liabilities-to-equity ratio 1:7
- ▶ Operating loss for the year ended December 31, 2017, as budgeted
- ▶ No new or unusual transactions noted for fiscal year 2017
- ▶ No significant new disclosures noted for fiscal year 2017



Areas of Focus for the 2017 Audit

Procedures
with respect
to internal
control

Leasing
activities

Capital
expenditures
and repairs
and
maintenance

No significant
deficiencies
or material
weaknesses
identified

Required Communications

The auditor's responsibility under generally accepted auditing standards – reasonable assurance that financial statements are materially correct

Significant accounting policies are disclosed in Note 2 of the F/S's

We have considered management judgments and accounting estimates included in the financial statements and believe them to be reasonable

There were no disagreements with management during the engagement

There were no major issues discussed with management prior to our Firm being retained

No irregularities or fraud identified as part of the audit

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” ASU 2016-02 is intended to improve financial reporting about leasing transactions.

The ASU affects all companies and other organizations that lease assets such as real estate, airplanes and manufacturing equipment.

The ASU will require organizations that lease assets, referred to as “Lessees,” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

Recent Accounting Pronouncements (cont'd)

An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements.

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months.

Recent Accounting Pronouncements (cont'd)

Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases (i.e., operating and capital) to be recognized on the balance sheet.

Non-public companies will be required to adopt the new leasing standard for fiscal years beginning after December 15, 2019.

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000



CERTIFICATE OF CLOSED MEETING

The General Counsel, in accordance with the Government in the Sunshine Act, 5 U.S.C. § 552b(f)(1), hereby certifies that the Farm Credit Administration Board regular meeting of April 12, 2018, was properly closed to the public on the basis of the exemptions set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).
- Information related solely to the internal practices of an Agency – 5 U.S.C. §552b(c)(2).

April 12, 2018
Date

/s/
Charles R. Rawls
General Counsel