

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
December 13, 2018**

These minutes reflect the business transacted at the December 13, 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 10:14 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 **Charlie Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and the Farm Credit System Insurance Corporation; and three members of the general public. (A list of staff attendees is attached as Exhibit A.)

Before starting the meeting **Board Chairman Tonsager** recognized the retirement of **Kathryn Corey**, his Special Assistant. He thanked Kathryn for her dedication and years of service to the FCA.

Also, **Mr. Hall** introduced his wife **Elaine Hall**, who was observing the meeting.

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 November 8, 2018 (BM-13-DEC-18-01)

Mr. Hall moved to approve the minutes for the November 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-13-DEC-18-01)**

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

Reports

Quarterly Report on Economic Conditions and FCS Conditions

Dennis Shields, of the **Office of Regulatory Policy** and **Hal Johnson** of the **Office of Examination** presented the Quarterly Report on Economic Conditions and FCS Conditions.

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.)

Semi-Annual Report on Office of Examination Operations

Hal Johnson of the **Office of Examination** presented the Semi-Annual Report on the Office of Examination Operations.

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 9:53 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 as Exhibit F.)

Office of Examination Quarterly Report

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

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 10:14 a.m.

NOTATIONAL VOTE ACTIONS

There were seven notational vote actions approved by the FCA Board from November 9, 2018, through December 12, 2018 as follows:

Item Number	Action Date	Voting Results	Subject
NV 18-19	11/19/2018	Approved	Farm Credit System Building Association Budget and Assessments for 2019
NV 18-20	11/28/2018	Approved	Prior approval of Compeer ACA's Request to retire certain allocated equities
NV 18-21	12/7/2018	Approved	FCA 2019 Compensation and Benefits Program
NV 18-22	12/12/2018	Approved	Bond investment request by CoBank, ACB to purchase bonds issued by a healthcare foundation in rural Louisiana subject to conditions
NV 18-23	12/12/2018	Approved	Bond investment request by Compeer Financial, ACA to purchase bonds issued by a healthcare foundation in rural Louisiana subject to conditions
NV 18-24	12/12/2018	Approved	Bond investment request by Compeer Financial, ACA to purchase taxable bonds issued by a hospital in rural Illinois subject to conditions
NV 18-25	12/12/2018	Approved	Allow associations meeting certain requirements to continue, for up to one year and while the Board studies the issues involved, to purchase as investments in the secondary market portions of obligations that non-FCS lenders originate and the United States Department of Agriculture fully and unconditionally guarantees

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on December 13, 2018.

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

/s/
Dale L. Aultman
Secretary to the Board

Approved: January 10, 2019

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
December 13, 2018**

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

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Batta, Todd	X	X
Kramp, Kevin	X	X
Morris, James	X	X
Corey, Kathryn	X	
Roque-Brehm, Awilda	X	
Calhoun, Gaye	X	
COO		
Hoffman, William	X	X
D'Antoni, Jeremy	X	X
OIT		
Golley, Jerald	X	X
OCPA		
Stokke, Michael	X	X
DeLancey, Toni	X	
Meaux, Willy	X	
Middleton, Russell	X	X
OSMO		
Rea, Laurie	X	X
Hudson, Bruce	X	X
Bravenec, Bill	X	X
OGC		
Rawls, Charles	X	X
Donner, Mary Alice	X	
Strickland, Joy	X	X
OE		
Coleman, Robert	X	X
Paulsen, Roger	X	X
Johnson, Hal	X	X
Alford, Doug	X	X
Lund, Zach	X	
OIG		
Bell, Ava	X	X
Miller, Kevin	X	X

OFFICE	OPEN SESSION	CLOSED SESSION
ORP		
Van Meter, Gary	X	X
Mardock, Barry	X	X
Shields, Dennis	X	X
Cain, Josh	X	X
EEOI		
Burlew, Thais	X	
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X
Cabrera, Victoria	X	
OAS		
Bell, Vonda	X	X
FCSIC		
Rubin, Howard	X	X
Wynn, Wade	X	X
Smith, Greg	X	X
GENERAL PUBLIC	3	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
December 13, 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 December 13, 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 November 8, 2018

Reports

- 2 Quarterly Report on Economic Conditions and FCS Conditions and Performance
- 3 Semi-Annual Report Office of Examination Operation

CLOSED SESSION

- 4 Office of Examination Quarterly Report¹

December 3, 2018
Date

/s/
Dale L. Aultman
Secretary to the Board

¹ Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for November 8, 2018 Regular Board Meeting

BM-13-DEC-18-01

Effective Date: December 13, 2018

Effect on Previous Action: None

THE FCA BOARD HEREBY:

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

DATED THIS 13th DAY OF DECEMBER 2018

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting December 2018

Exhibit D

Quarterly Report on FCS Condition December 13, 2018

Dennis A. Shields
Hal Johnson





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Macroeconomic factors
 - Farm income and commodity indicators
 - Risks ahead
- ▶ FCS Condition and Performance
 - System growth
 - Loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy



Favorable U.S. and global economic conditions continue amid concerns

Favorable factors

- ▶ Solid world economic growth
- ▶ Improving U.S. employment
- ▶ Consumer wage and income growth
- ▶ Moderating crude oil prices

Concerns

- ▶ Higher costs from labor and tariffs
- ▶ Rising consumer, business, and government debt
- ▶ Rising interest rates and stronger dollar
- ▶ Slowdown in housing

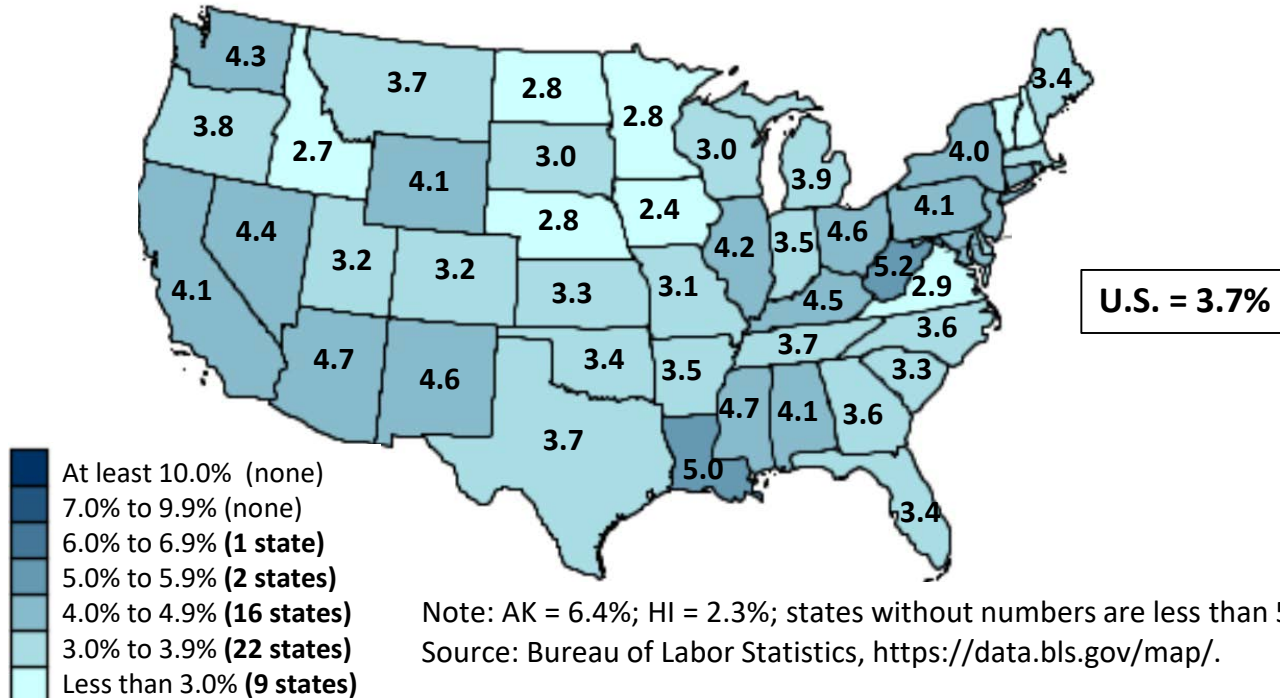




Unemployment rate remains low in all states



Unemployment rate by state (%)



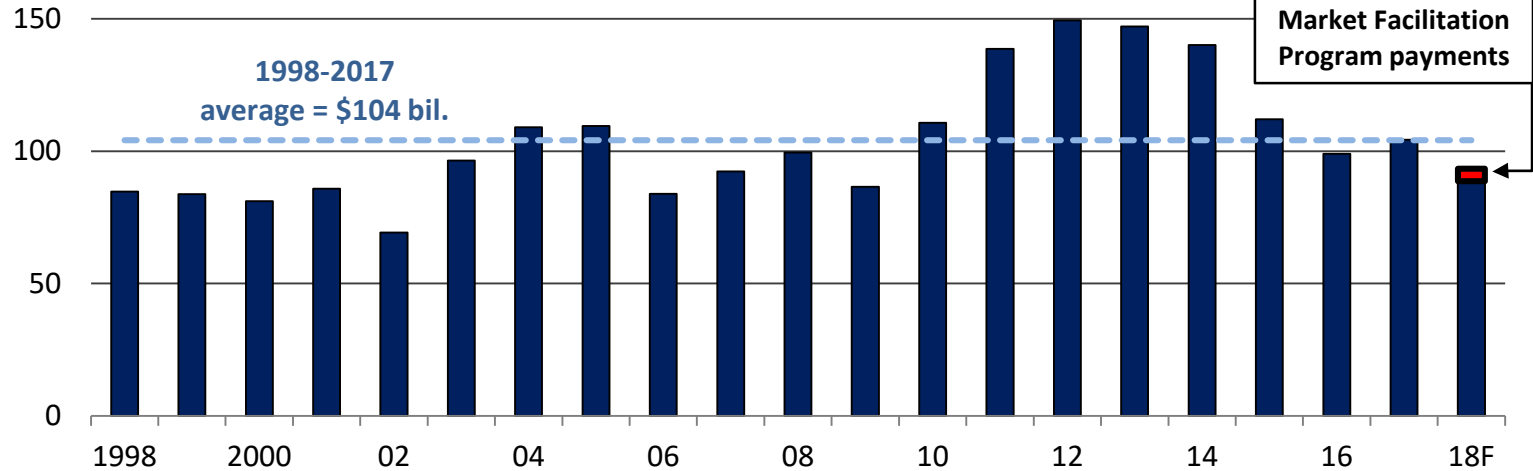


Farm income in 2018 is supplemented by Market Facilitation Program payments



U.S. net cash farm income
(adjusted for inflation)

\$ billion
(2018 dollars)



Source: USDA/ERS, November 30, 2018.



Corn prices stay below \$4 despite tighter stocks



U.S. corn prices received by farmers



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stocks/ use (%)	13.1	8.7	7.9	7.4	9.2	12.6	12.7	15.7	14.5	11.5

Note: Calendar year monthly farm prices; stocks/use ratio is crop year beginning September.
 Source: USDA/NASS and USDA/WAOB, November 2018.



Soybean prices sink as stocks rise sharply



U.S. soybean prices received by farmers



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stocks/ use (%)	4.5	6.6	5.4	4.5	2.6	4.9	5.0	7.2	10.3	23.3

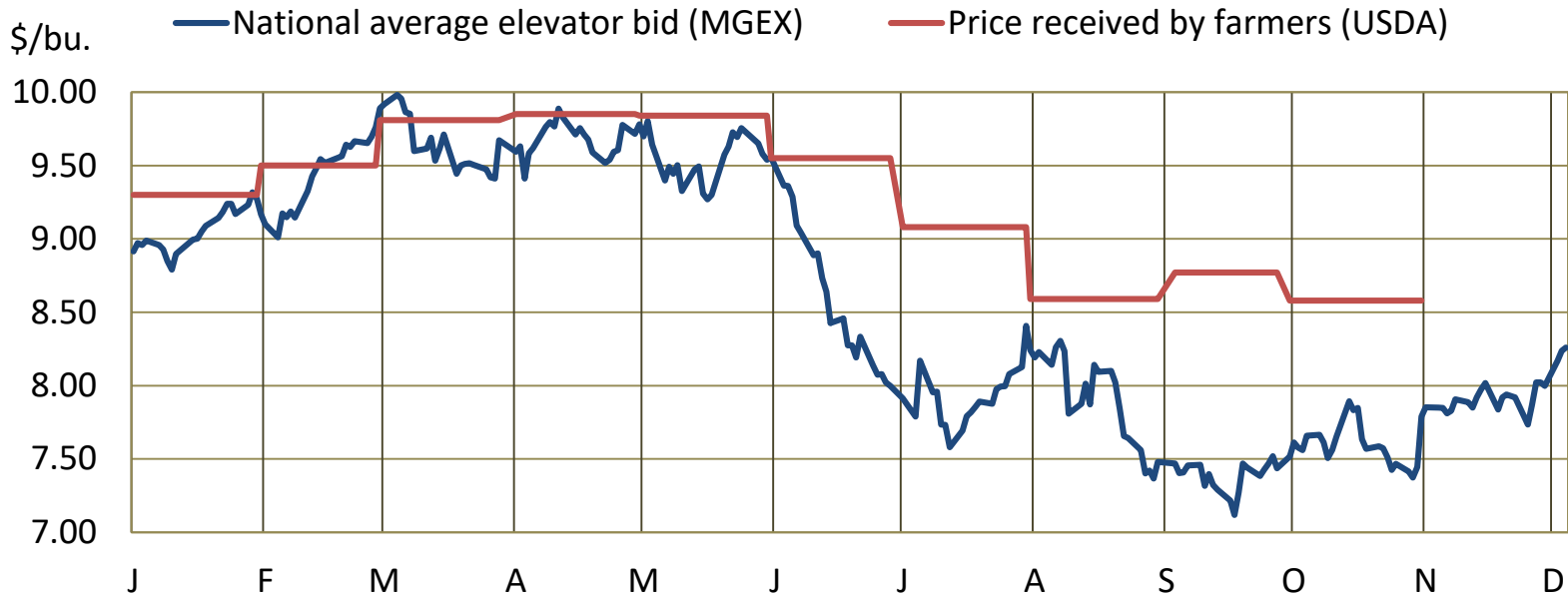
Note: Calendar year monthly farm prices; stocks/use ratio is crop year beginning September.
 Source: USDA/NASS and USDA/WAOB, November 2018.



Soybean bids have been below USDA's monthly farm prices



U.S. soybean prices in 2018

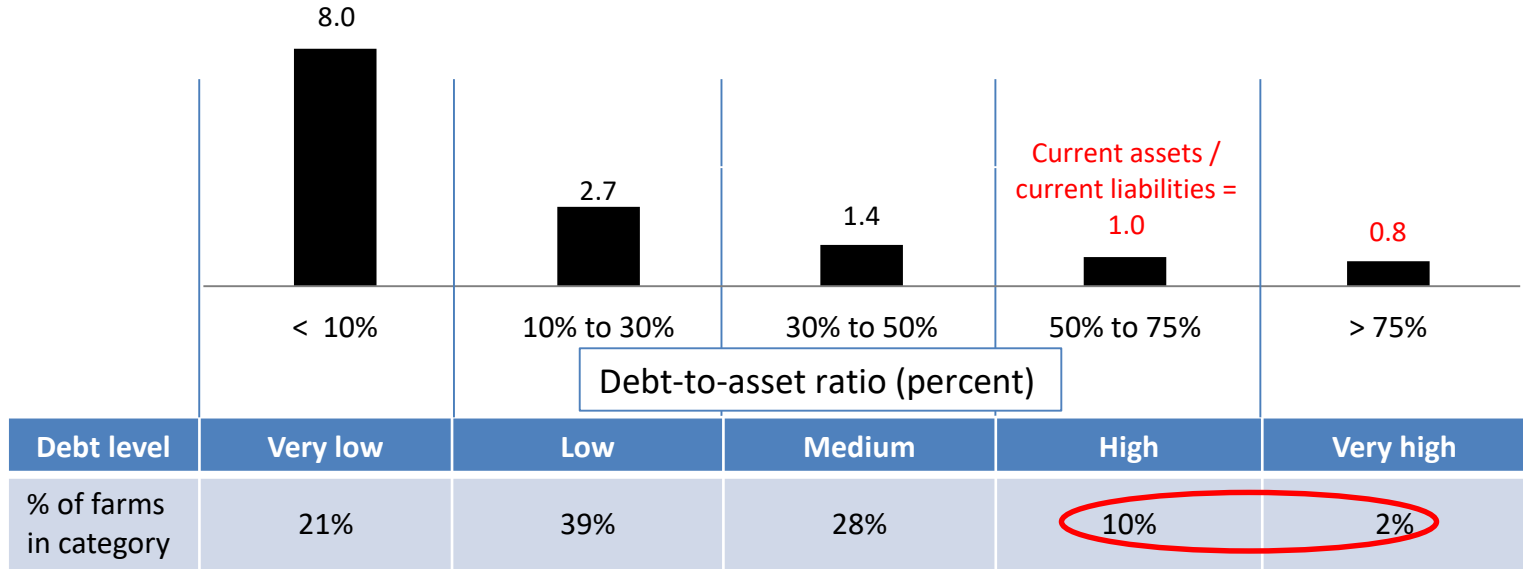


Source: Minneapolis Grain Exchange, Inc. (MGEX) and USDA/NASS.



Farm liquidity approaches danger zone for high-debt grain producers

Average current ratio declines as farm debt increases



Note: Illinois grain farms, year-end 2017.

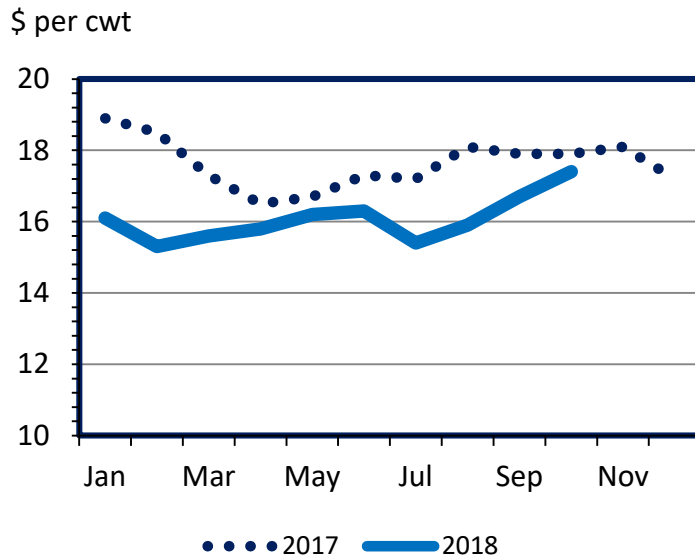
Source: Schnitkey, G. and K. Swanson, *farmdoc daily* (8): 196, Univ. of Illinois, October 23, 2018.



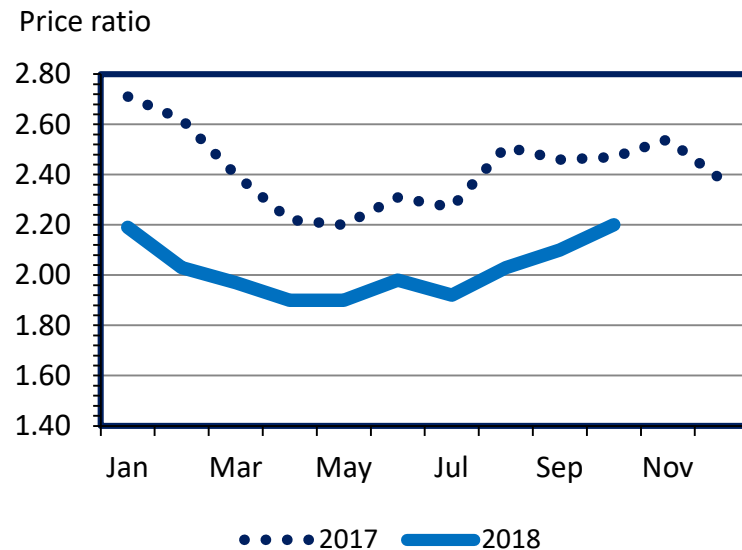
Low milk prices and higher feed costs squeeze dairy producers



U.S. farm milk price



Milk-feed price ratio*



*U.S. farm milk (\$ per cwt) divided by feed price (\$ per cwt).

Source: Livestock Marketing Information Center using USDA data.

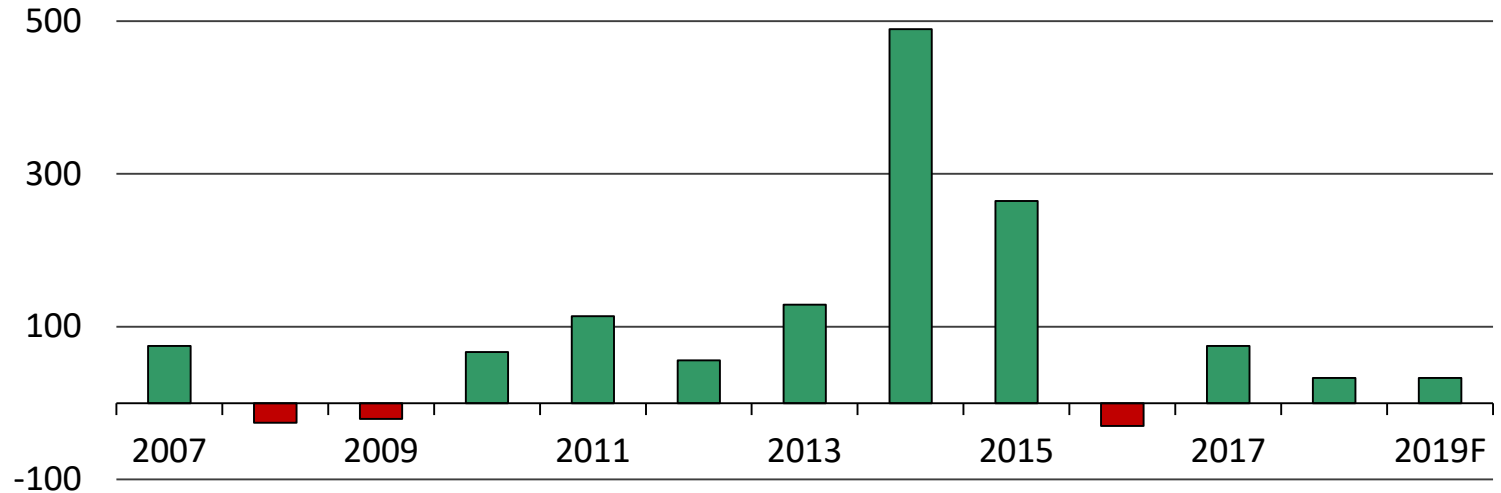


Cow/calf returns are projected to remain low but above breakeven



Cow/calf returns

\$ per head



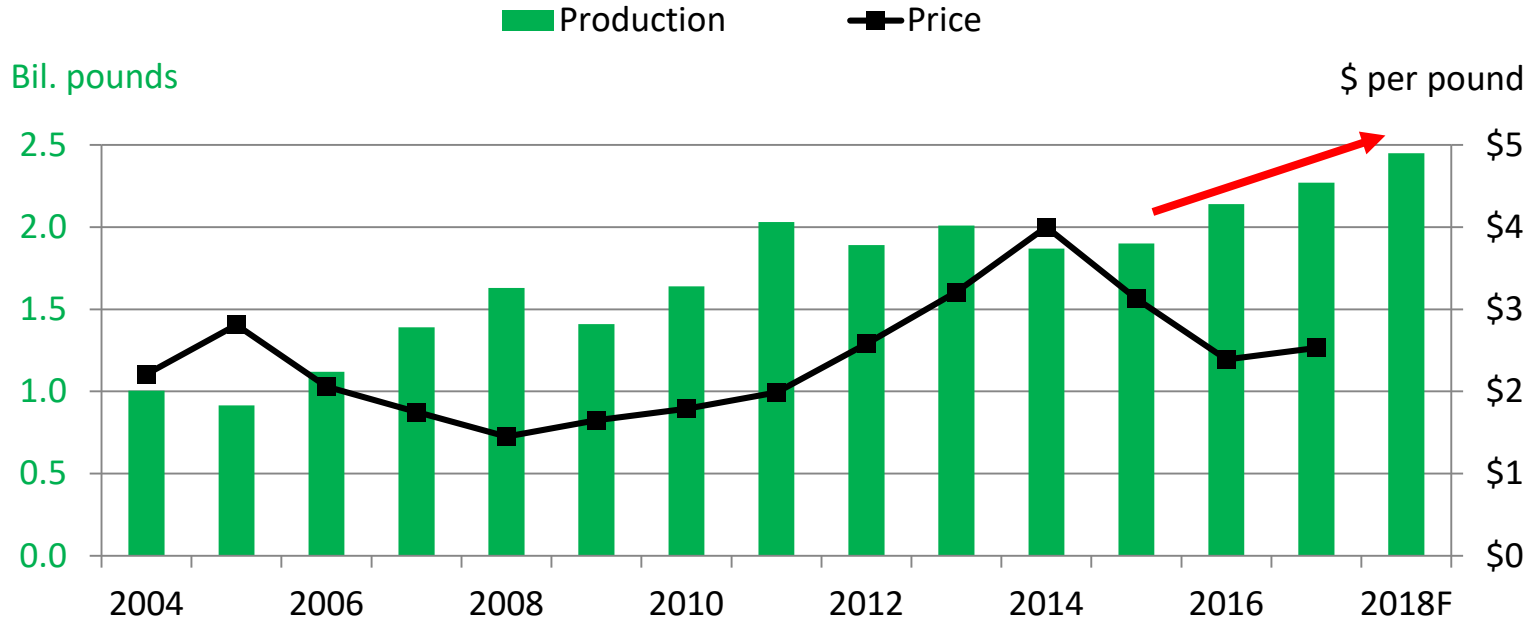
Source: Informa Economics.



Almond production expands and the grower price adjusts downward



U.S. almond production and grower price



Note: 2018 price estimate available in June 2019.

Source: USDA/NASS.



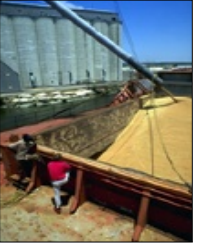
Risks ahead

- ▶ Trade (and farm) policy
- ▶ Pricing opportunities for grain and soybean producers
- ▶ Rising interest and input costs
- ▶ Changes in farmland supply and demand
- ▶ Slowdown in U.S. and global economic growth





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
September 30, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System Growth
- ▶ Portfolio Credit Quality
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

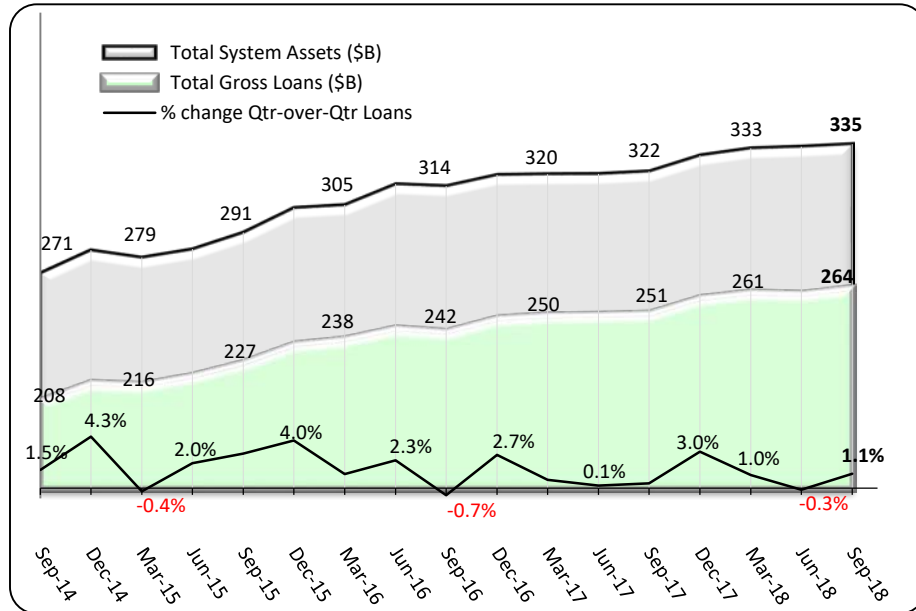




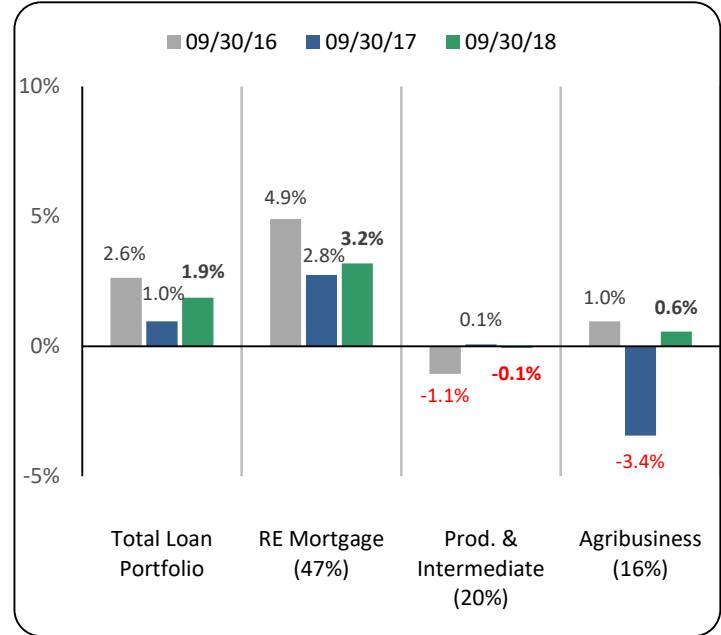
System shows modest growth for the 1st nine months of 2018; primarily RE mortgage lending



Total Assets 9/30/18	\$335.0 billion	+0.3% Qtr +1.7% YTD	Gross Loans 9/30/18	\$263.6 billion	+1.1% Qtr +1.9% YTD
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Loan Growth by Loan Type
(% change year-to-date through September)



Source: FCS Information Statements

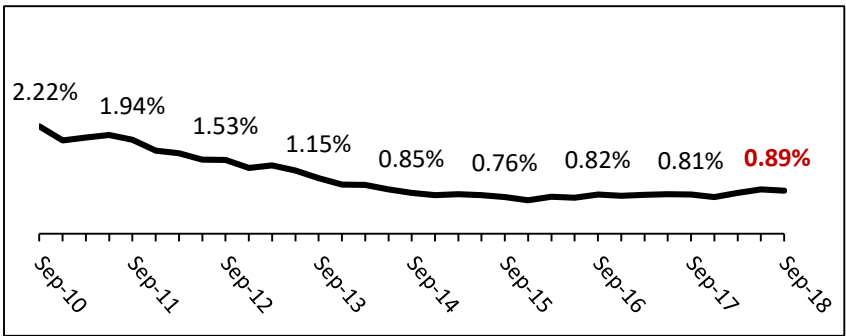


Loan quality is down from a year ago; System is well-positioned for increased risk levels

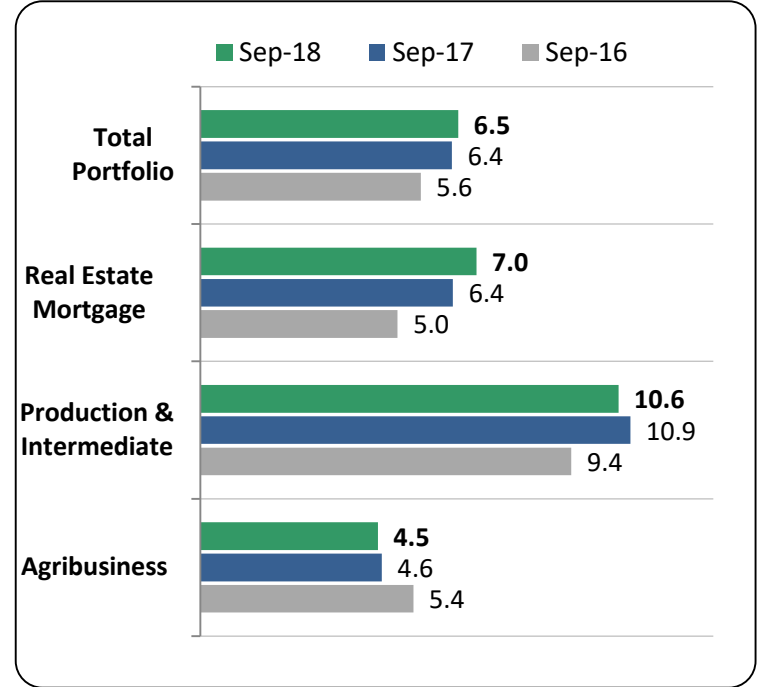


Nonperforming Loans	\$2.347 billion	Qtr chg: -\$54M down 2.2%	YTD chg: +\$380M up 19.3%
Delinquencies accruing loans ≥ 30 days past due	3Q '18: 0.27% YE '17: 0.25%	% of total accruing loans	
Allowance for Loan Losses	\$1.682 billion	69% of nonperforming assets 84% of nonaccrual loans	

Nonperforming Loans as a % of Gross Loans



% of Loans Classified less than Acceptable



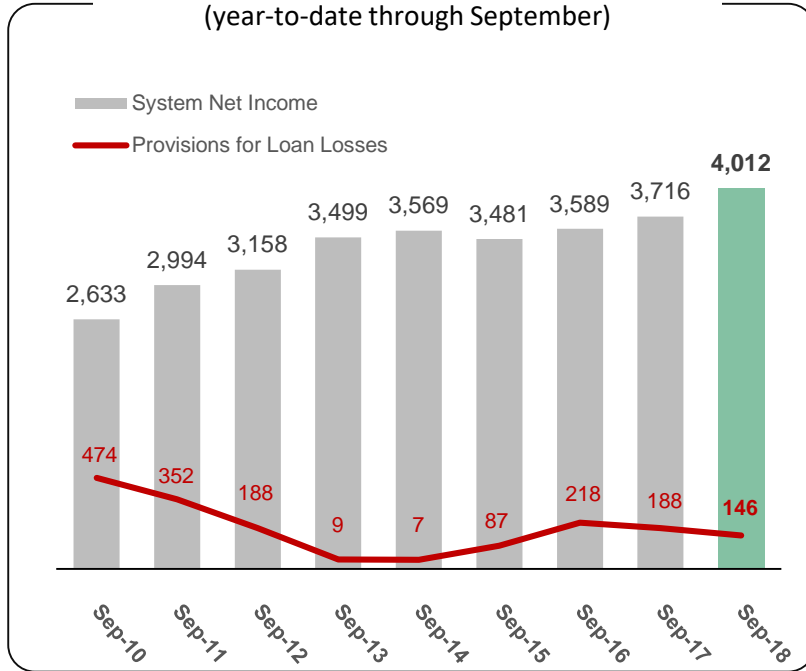
Source: FCS Information Statements



The System's financial condition is sound; earnings are up year-over-year

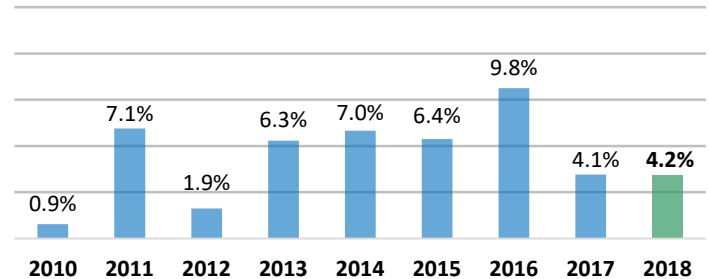


System Earnings
(year-to-date through September)



Net Interest Spread (YTD annualized)	Sept. '18 2.13%	Sept. '17 2.24%
Net Interest Margin (YTD annualized)	Sept. '18 2.45%	Sept. '17 2.47%

% increase in YTD Average Earning Assets
(compared to the same period a year ago)



Source: FCS Information Statements



System is strongly capitalized

Capital and Liquidity

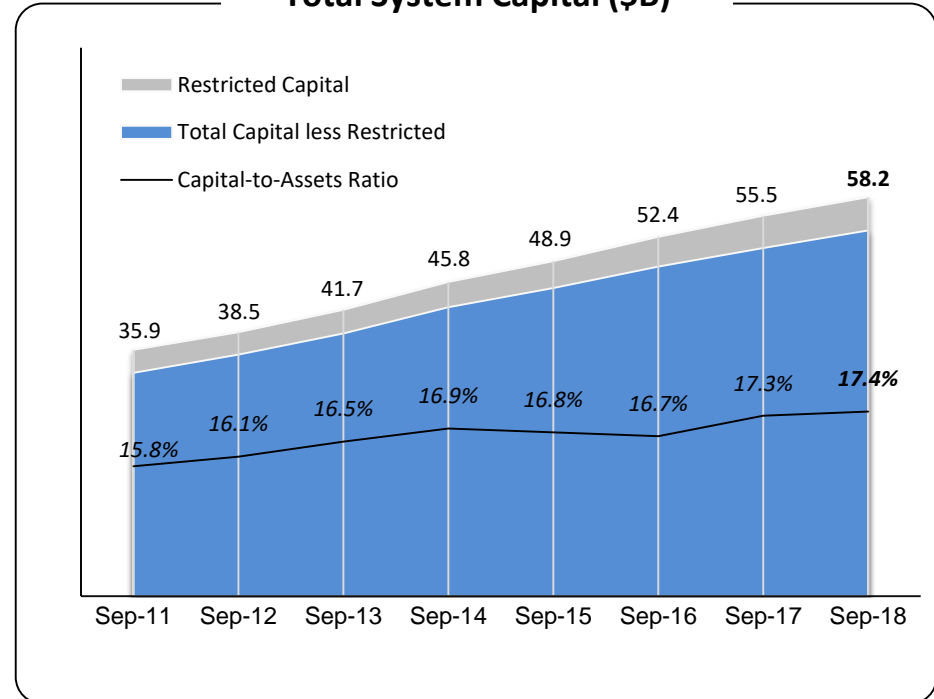
as of September 30, 2018

- ▶ Retained earnings as a percentage of total capital equaled 80.1% of total capital.
- ▶ The System's liquidity position equaled 171 days of coverage.

Days of available liquidity for the 4 funding banks ranged from 144 to 226 days.



Total System Capital (\$B)



Source: FCS Information Statements

Restricted capital represents capital associated with the Insurance Fund. 21



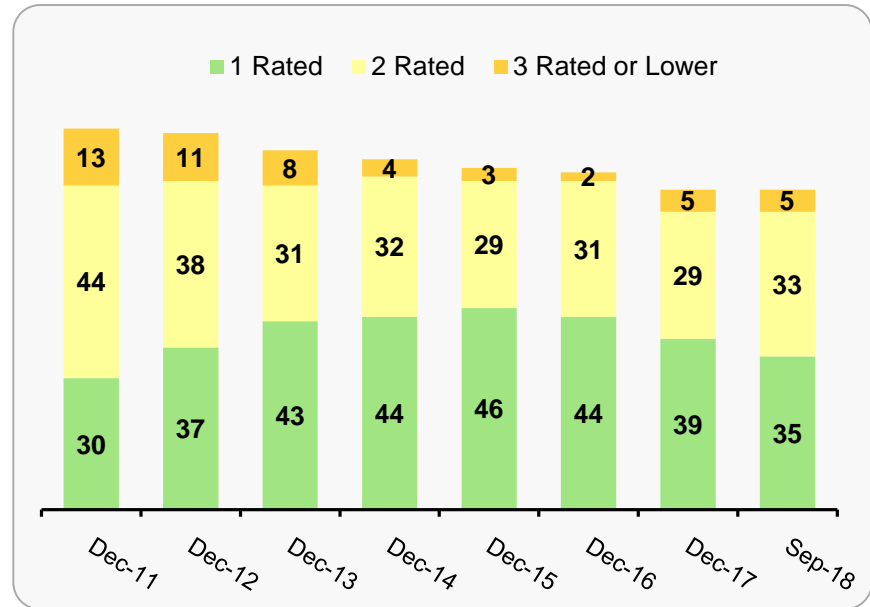
System FIRS ratings



FIRS Ratings

- ▶ Composite FIRS ratings reflect the System's solid financial performance and good portfolio credit quality
- ▶ Over 93% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower account for less than 2.0% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



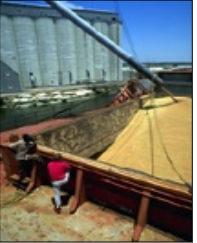
Summary and final points



- ▶ Challenges for agriculture:
 - General economic factors: higher interest rates; strength of the dollar; rising consumer, business, and government debt levels; labor availability and costs
 - Farm sector concerns: matching supply with demand needs; rising input costs; trade policies; pricing opportunities for grain/soybean producers
- ▶ The System is financially strong and well-capitalized
- ▶ Portfolio credit stress is higher in 2018, but System institutions are well-positioned for the challenges facing the farm economy and have significant risk-bearing capacity



Questions



THANK YOU



FCA Board Meeting December 2018

Exhibit E

Semi-Annual Report on Office of Examination Operations December 13, 2018

Hal Johnson
Office of Examination





Highlights of OE Operations

- ▶ Operating Plan Objectives
 - Risk Supervision and Examination
 - Operational Efficiency and Effectiveness
 - Human Capital
- ▶ Summary





Risk Supervision & Examination

System Profile as of 9/30/18

73 Lending Institutions

- 4 Funding Banks
- 69 Associations

7 Service Entities

\$335.0 billion	Total Assets
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\$263.6 billion	Gross Loans
---------------------------	--------------------

\$4.0 billion	YTD Earnings
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FCS Institution Activities and Guidance

- ▶ Onsite at all 4 funding banks, 64 associations, and a number of other entities.
- ▶ Issued 53 Reports of Examination and 32 Interim Activity Letters
 - Four institutions are under a higher level of supervisory oversight
- ▶ Other supervision and oversight activities
 - Exam Manual Updates and Revisions
 - System Communications
 - External meetings



Supervision & Examination Initiatives

2018 NOP Risk Topics and associated initiatives:

▶ Portfolio Risk – Weathering the Storm

- Credit Guidance
- Automated Lending Systems
- Adherence to Borrower Rights

▶ Internal Controls over Financial Reporting (ICFR)

- Continued emphasis on internal controls with a specific focus on ICFR and audit coverage
- Horizontal Exam Activity (HEA) in progress
- Engaged outside audit firm to evaluate & enhance examination efforts
- Informational Memorandum and Talking Points under development



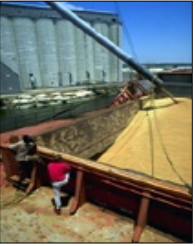


Operational Efficiency & Effectiveness

- ▶ Examination Tools / Ongoing technology initiatives
 - Loan Sampling Tool in Power BI
 - EDGe Loan Workpaper enhancements
 - Onsite connectivity improvements

- ▶ OE budget results

Fiscal Year 2018	Budget	Actual	Variance
Expenditures (\$M)	\$33.2	\$32.5	\$0.7 under
FTE	176.9	173.5	3.4 FTE under





Human Capital Update

- ▶ Implemented revised FCA Examiner Career Development Program
- ▶ Fiscal yearend staffing levels



Total OE Staff

	Planned	Actual	Variance
Beginning FY 2018	171	170	(1)
Attrition/Retirements	(16)	(8)	8
Hirings			
- Associate Examiners	20	11	(9)
- Mid-Career	1	8	7
Ending FY 2018	176	181	5

Commissioned Examiners

	Planned	Actual	Variance
Beginning FY 2018	83	83	0
Attrition/Retirements	(7)	(2)	5
Hirings	0	3	3
Newly Commissioned	9	3	(6)
Ending FY 2018	85	87	2



Summary

- ▶ Achieved examination objectives as planned while maintaining a strong onsite risk supervision and oversight presence
- ▶ Completed significant program activities, examination guidance, system communications, and risk analyses as part of accomplishing OE's operating objectives
- ▶ Staffing levels benefited from significant mid-career hiring and lower attrition this year; staff training and developing commissioned examiners remains a priority
- ▶ Accomplished OE operating objectives within approved budget





Discussion



THANK YOU

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 December 13, 2018, was properly closed to the public on the basis of the exemption set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).

December 13, 2018
Date

/s/
Charles Rawls
General Counsel