

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
June 14, 2018**

These minutes reflect the business transacted at the June 14, 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 10:37 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 **Joy Strickland**, Deputy 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.)

Board Chairman Tonsager recognized FCA's Chief Economist **Steve Gabriel** as retiring soon after 34 years in the Federal Government and thanked him for his service. **Board Chairman Tonsager** noted Steve also leads the Agricultural and Economic Policy Team in FCA and his quarterly reports to the Board regarding economic conditions will be missed.

Mr. Hall also thanked Steve for his service and recognized Steve's passion for agriculture and economics, and providing vital information to the Board.

Mr. Smith noted Steve's knowledge of history, insights, and predictions as being invaluable to the FCA.

Board Chairman Tonsager then called the meeting into order.

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 May 10, 2018
(BM-14-JUN-18-01)

Mr. Hall moved to approve the minutes for the May 10, 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-14-JUN-18-01)**

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

Reports

Quarterly Report on Economic Conditions and FCS Conditions

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 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 10:19 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 **Deputy 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 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 10:37 a.m.

NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from May 10, 2018, through June 13, 2018 as follows:

Item Number	Action Date	Voting Results	Subject
NV 18-08	05/23/2018	Approved	Concluded that no regulatory action in FCA's Unified Regulatory Agenda meets the definition of "significant regulatory action" and therefore FCA is not required to develop a regulatory plan for submission to the Office of Information and Regulatory Affairs.

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on June 14, 2018.

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

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

Approved: July 12, 2018

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
June 14, 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
OIT		
Golley, Jerald	X	X
OCPA		
Stokke, Michael	X	X
Delancey, Toni	X	
Middleton, Russell	X	X
OSMO		
Rea, Laurie	X	X
Hudson, Bruce	X	X
OGC		
Strickland, Joy	X	X
Virga, Jane	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	X
Tulman, Sarah	X	
Johansen, Mark	X	

OFFICE	OPEN SESSION	CLOSED SESSION
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X
OAS		
Bell, Vonda	X	X
FCSIC		
Rubin, Howard	X	X
Pfitzinger, Rick	X	X
GENERAL PUBLIC	2	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
June 14, 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 June 14, 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 May 10, 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 Report

Date June 4, 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 May 10, 2018 Regular Board Meeting

BM-14-JUN-18-01

Effective Date: June 14, 2018

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for May 10, 2018, Regular Board Meeting as submitted.

DATED THIS 14th DAY OF JUNE 2018

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting June 2018

Exhibit D

Quarterly Report on FCS Condition June 14, 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
Real GDP growth*	1.2	3.1	3.2	2.9	2.2	3.2	3.0	2.9	2.5	2.4	2.2	2.1
CPI*	3.0	0.1	2.1	3.3	3.5	1.9	2.3	1.9	2.1	2.1	2.4	2.4
Unemployment rate	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.6
3 Month T-Bill	0.8	1.0	1.0	1.4	1.7	1.9	2.1	2.3	2.5	2.7	2.8	2.9
10 Yr T-Bond	2.4	2.3	2.3	2.8	2.7	3.0	3.1	3.2	3.3	3.4	3.5	3.6

Source: Consensus Economics, Inc.

Survey date: May 14, 2018

*% change from prior quarter, seasonally adjusted annual rate



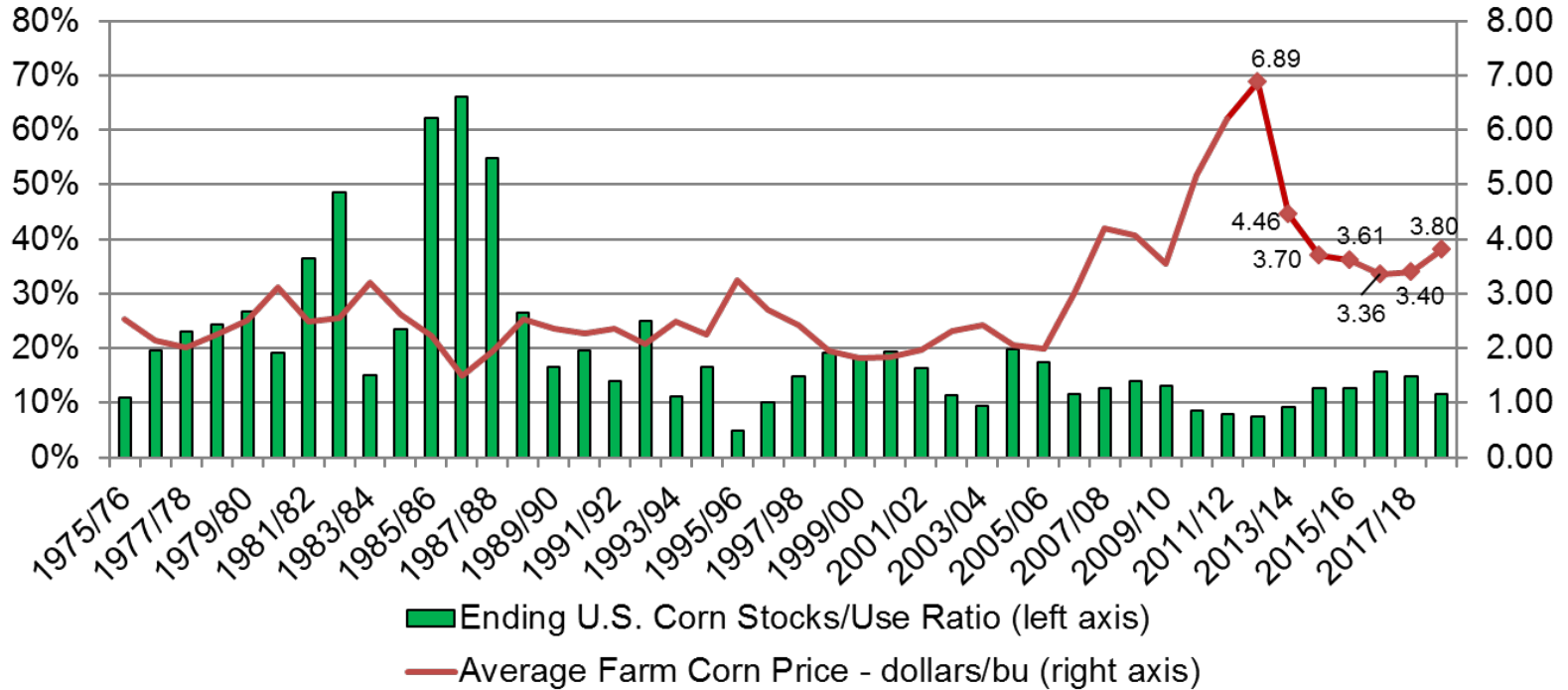
Farm sector developments and concerns

- ▶ Trade policy poses risk for agriculture
- ▶ USDA projects higher crop prices in 2018/19 crop year
- ▶ Rising interest rates pressure cash flows and land values
- ▶ Higher oil prices may stoke inflation and fuel prices
- ▶ Extreme drought in the Southwest and Southern Plains is affecting pasture and winter wheat
- ▶ Farm Bill deliberations add to uncertainty





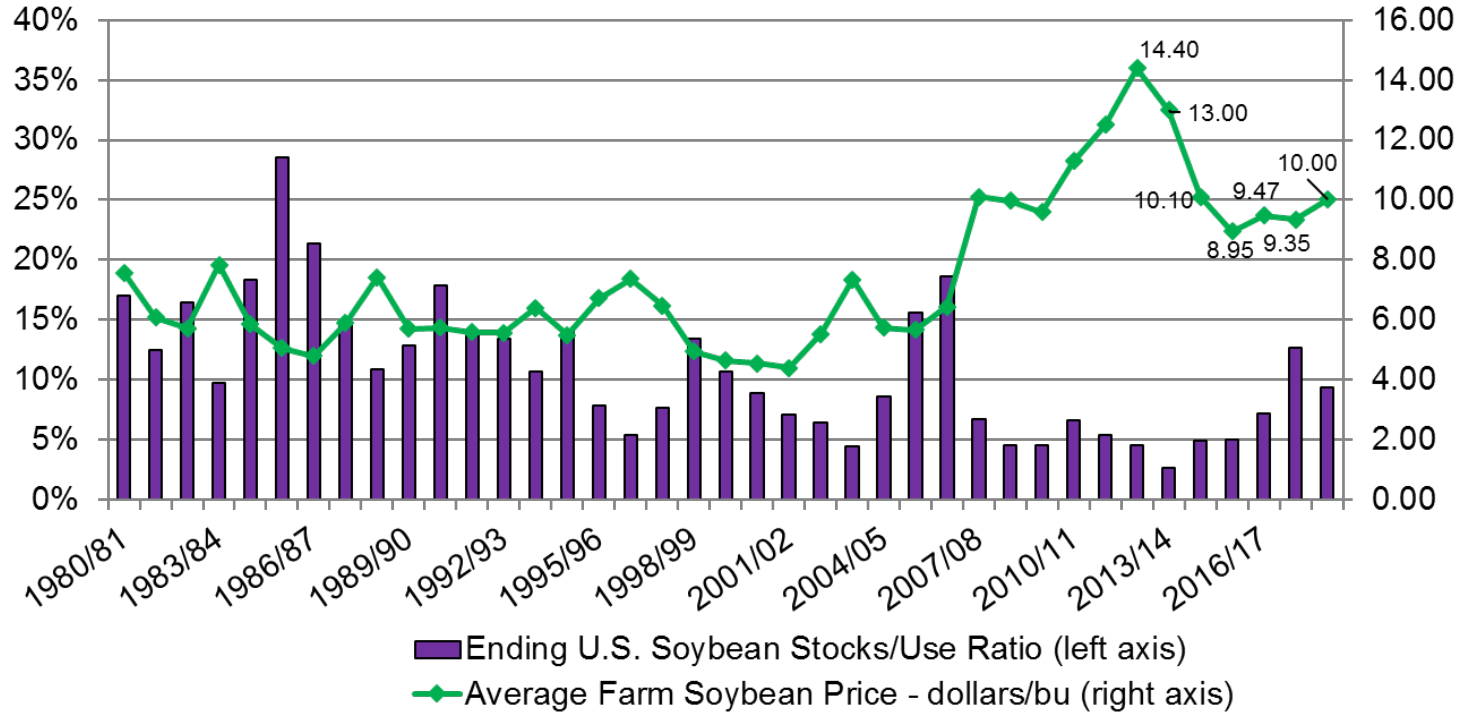
Corn price projected to strengthen in the 2018/19 crop year



Source: USDA



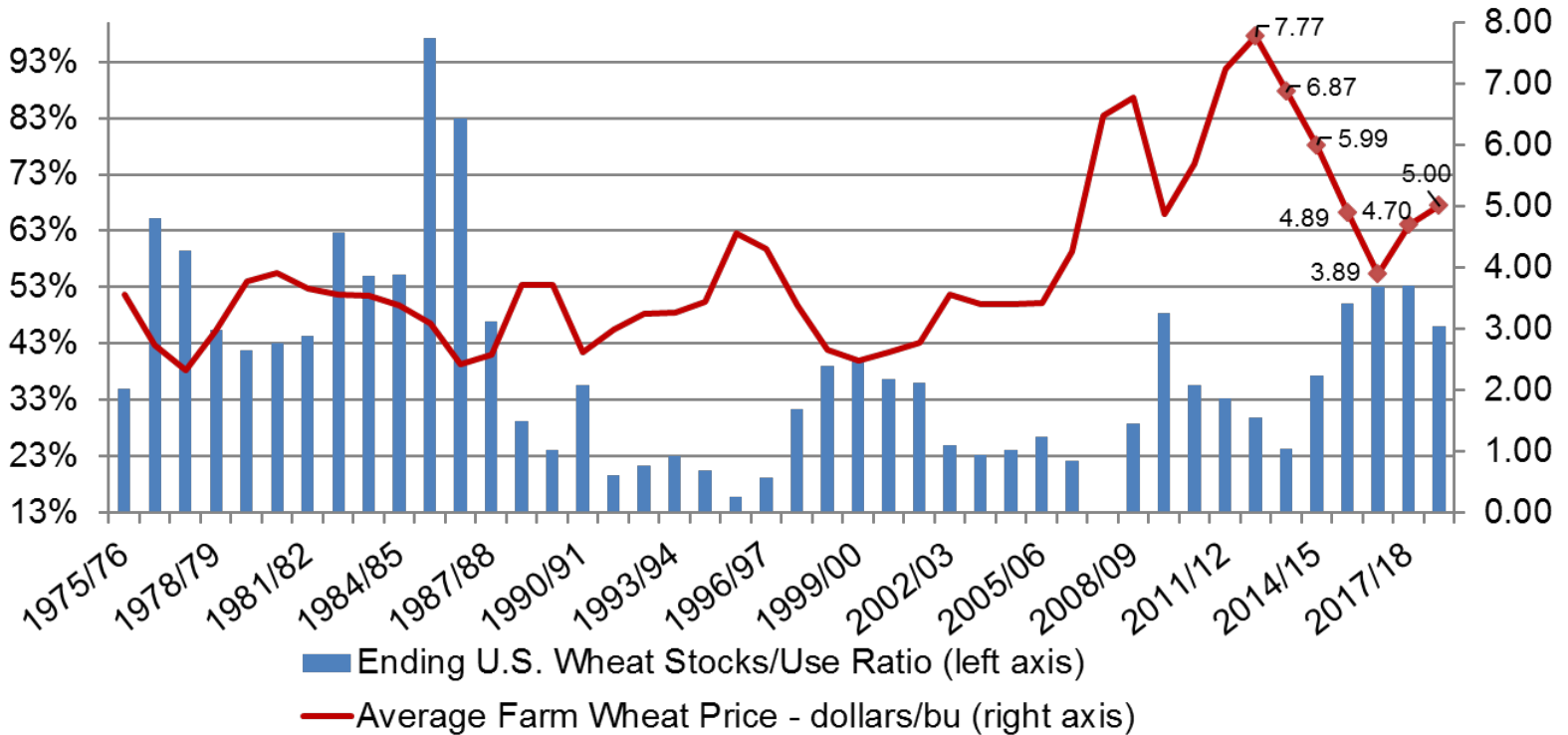
Soybean price to rise as ending stocks decline



Source: USDA



Wheat price projected to rise for second year in a row



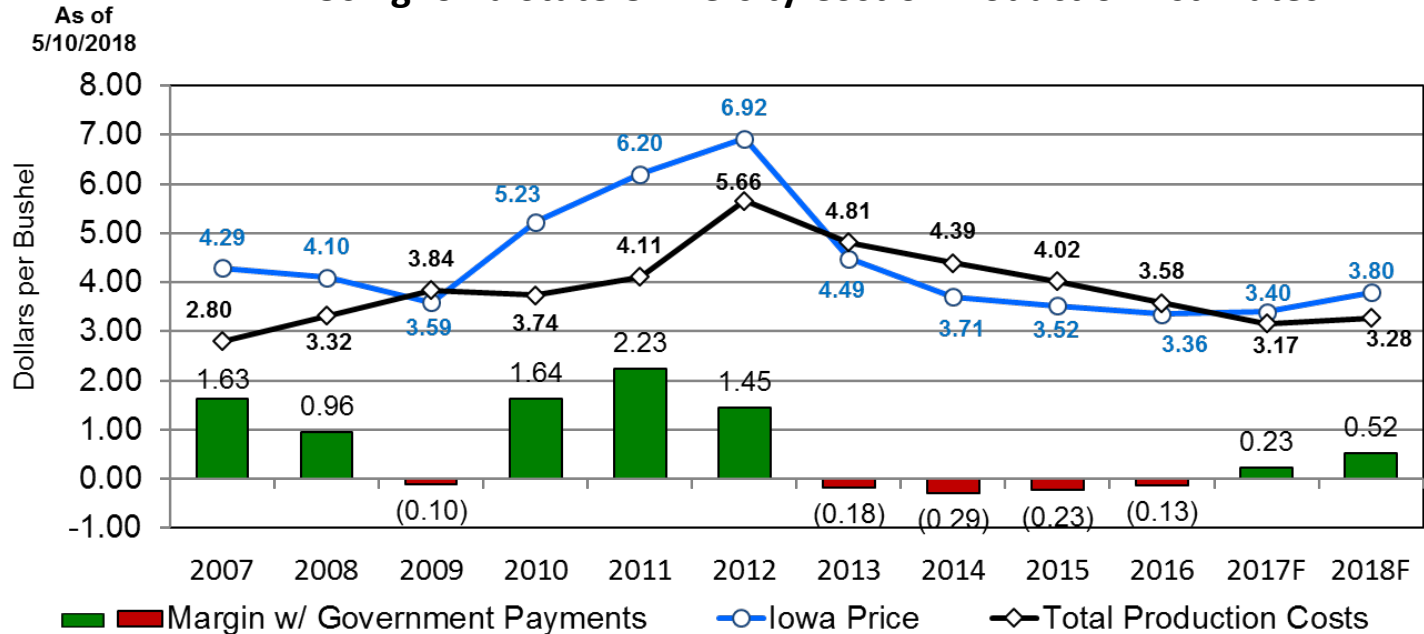
Source: USDA



Corn margins to improve in 2018



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



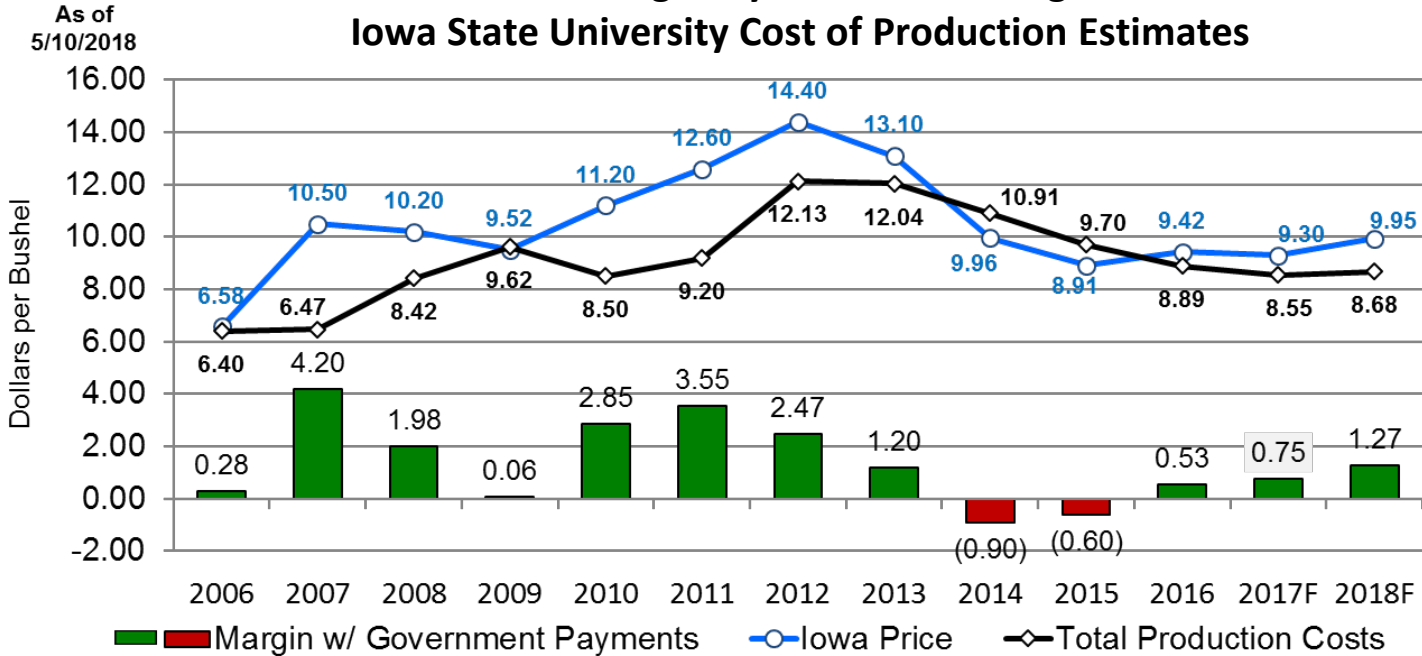
Source: FCA-ORP using data from USDA and Iowa State University



Soybean margins to remain positive for third year



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

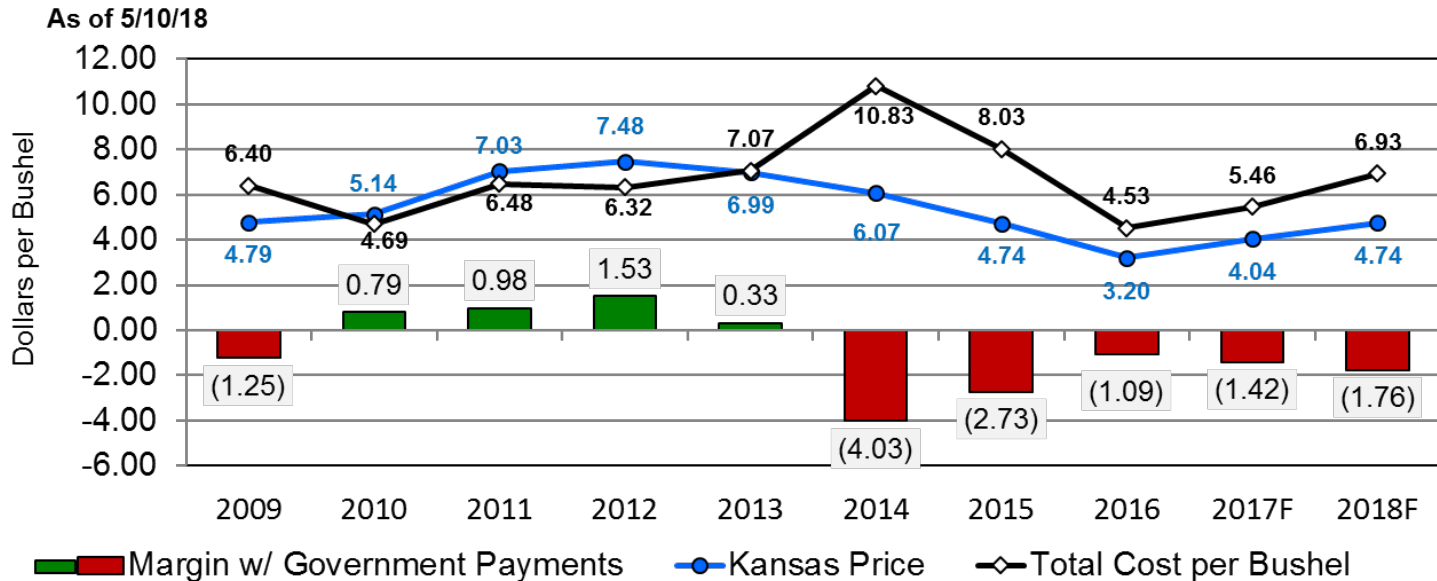


Source: FCA-ORP using data from USDA and Iowa State University



Poor yields push wheat margins lower

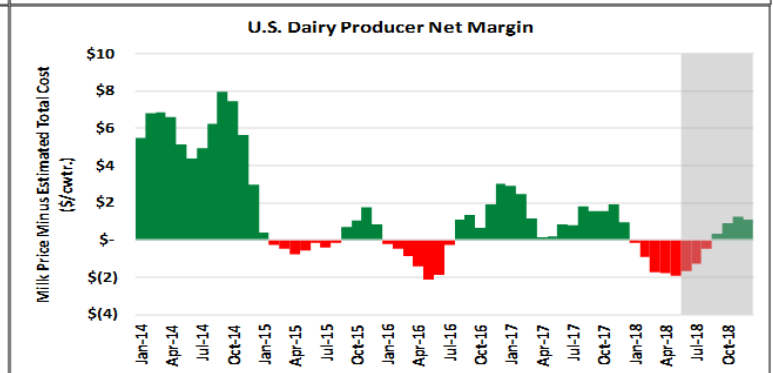
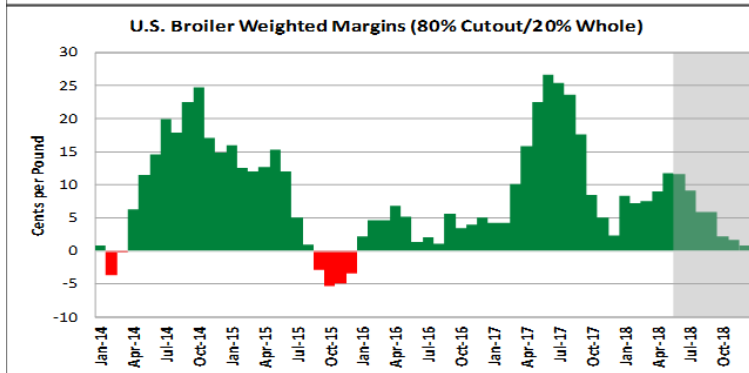
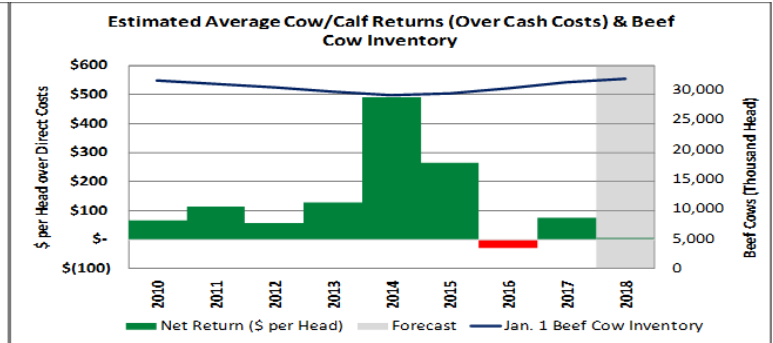
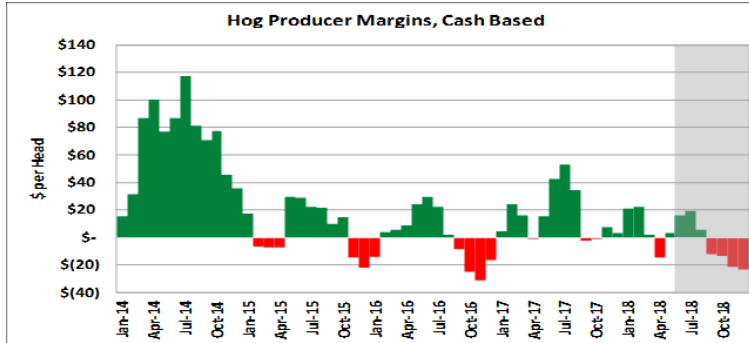
Kansas Season-average Wheat Profit Margin Estimates



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, ARC payment is expected to be zero, compared with about 50 cents for Price Loss Coverage. For 2018, payment for both programs is expected to be about 45 cents per bu.



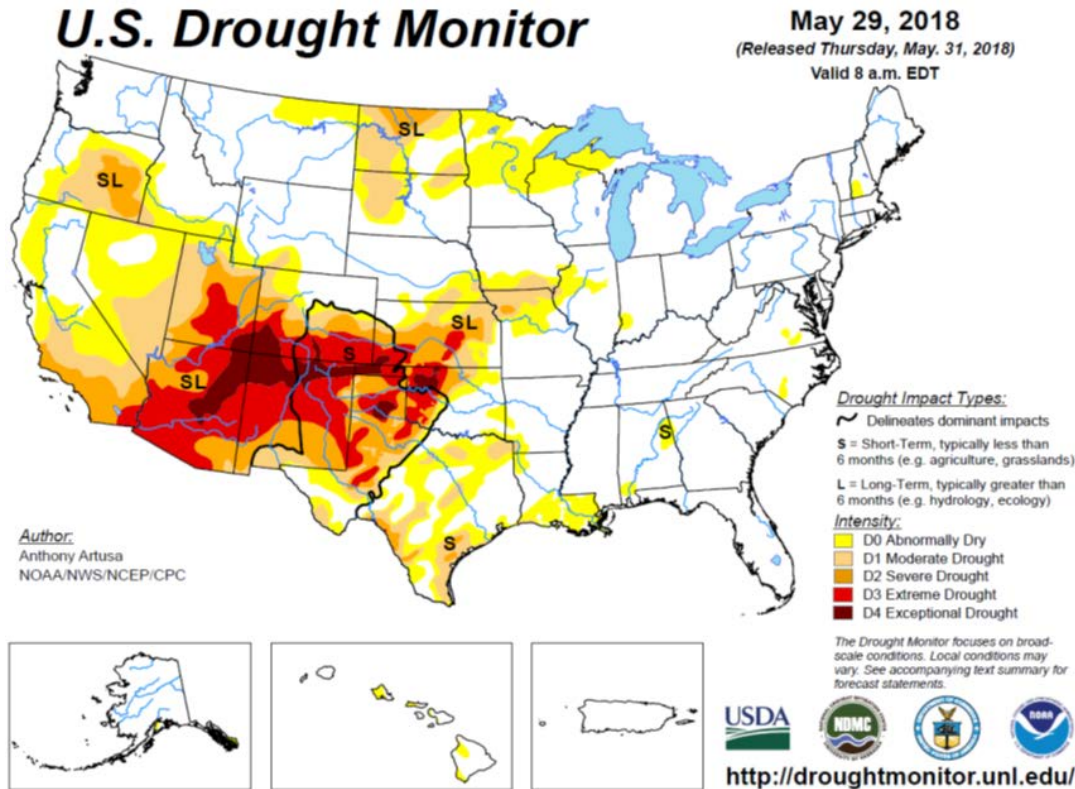
Livestock profitability diminishing



Source: Informa Economics IEG

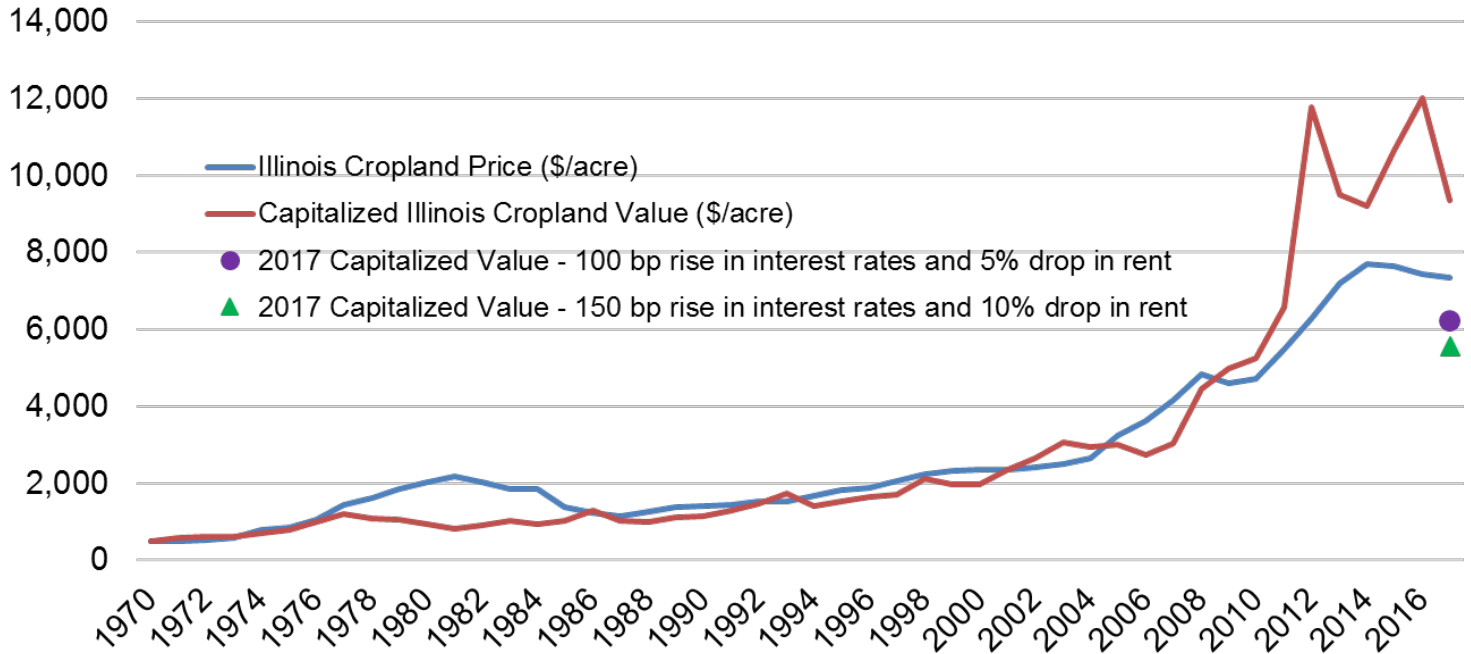


Drought causing poor pasture and winter wheat conditions





Rising interest rates and declining rents to pressure farmland values



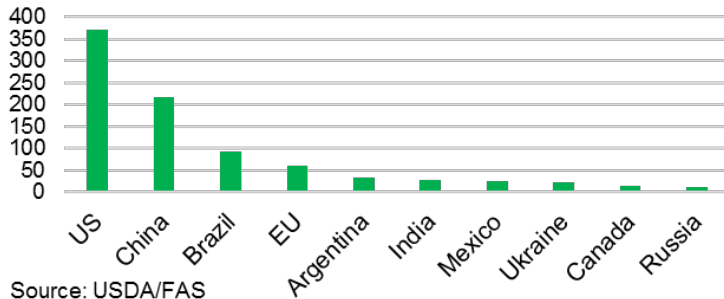
Source: USDA, NASS; Federal Reserve Board; FCA



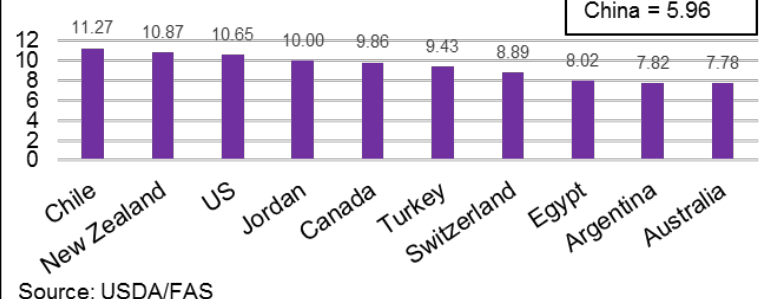
The United States leads the world in corn production and exports



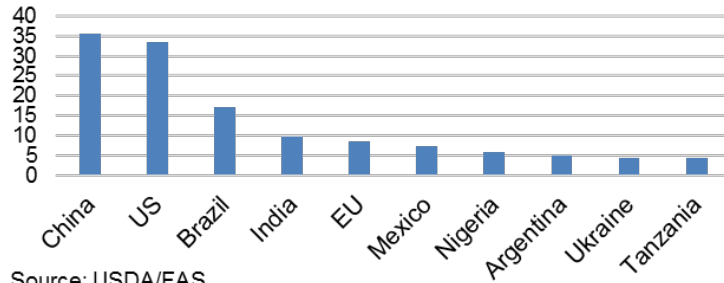
2017/18 Corn Production (million MT)



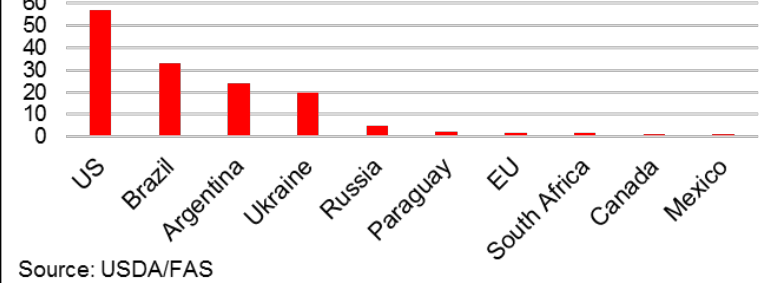
5 Year Average Corn Yield (2013/14 to 2017/18) MT/HA



Corn Area Harvested in 2017/18 (million HA)

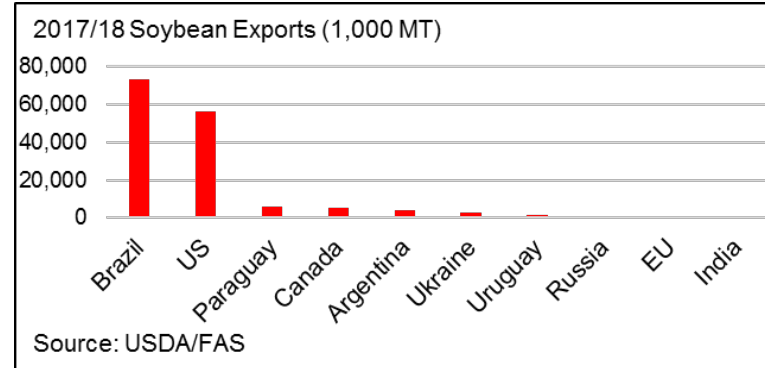
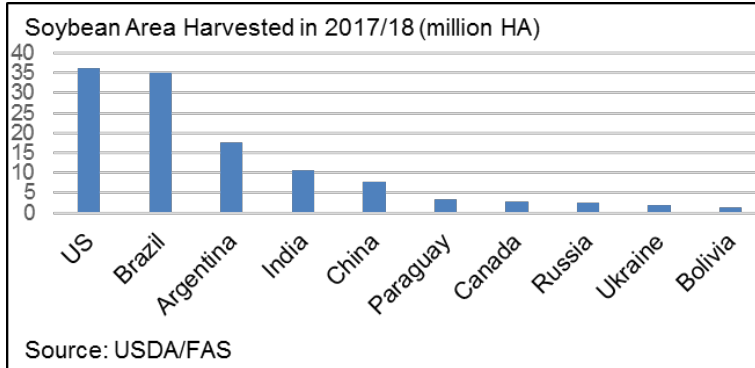
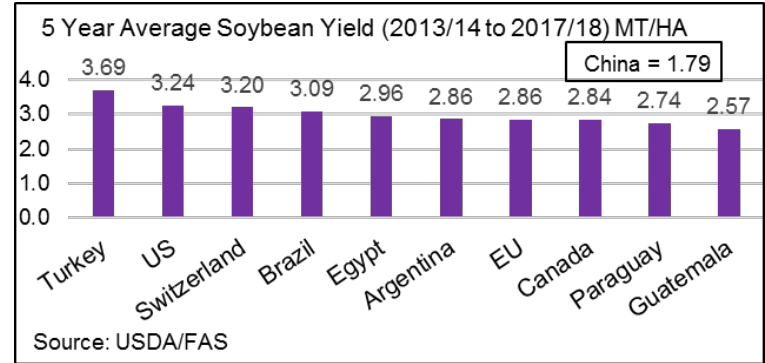
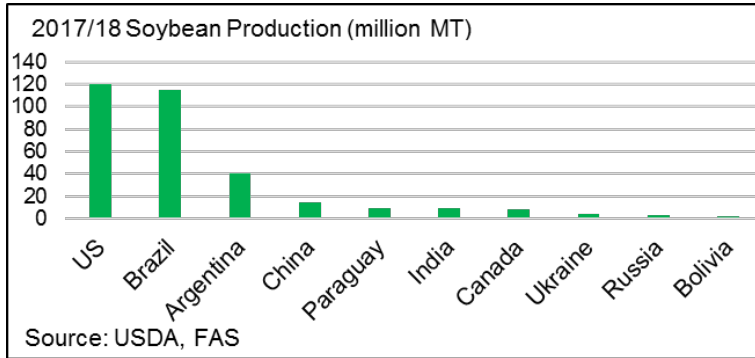


2017/18 Corn Exports (million MT)



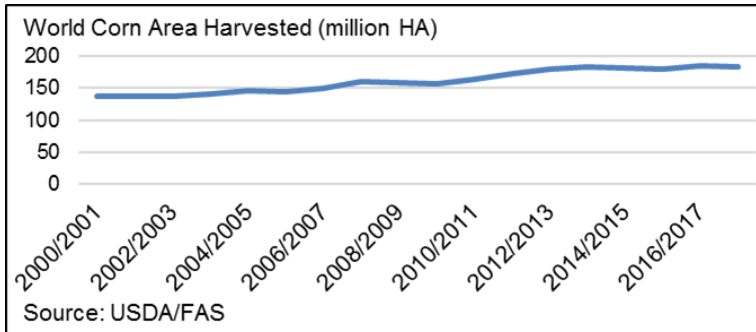
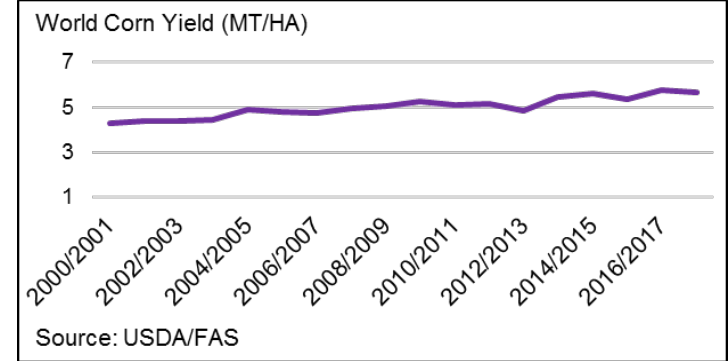
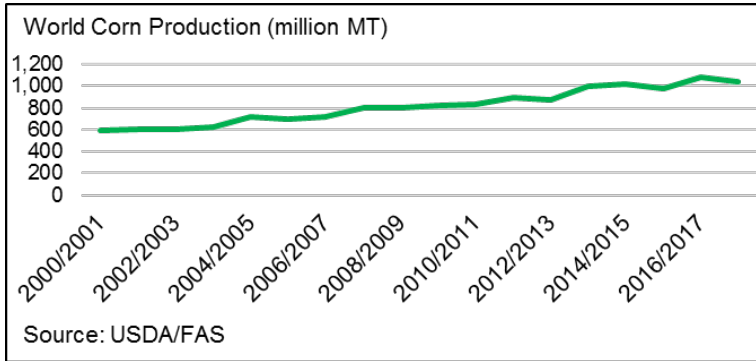


The U.S. and Brazil dominate the world soybean market





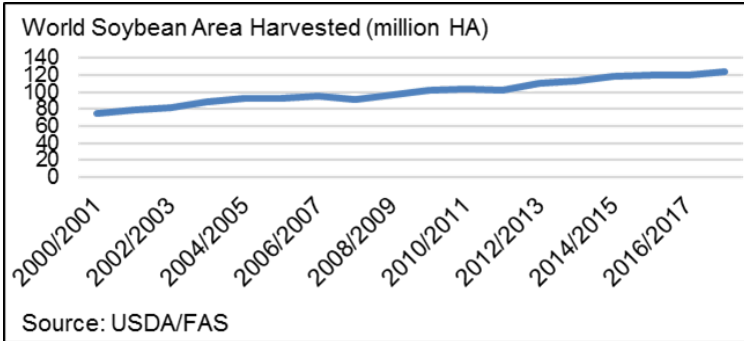
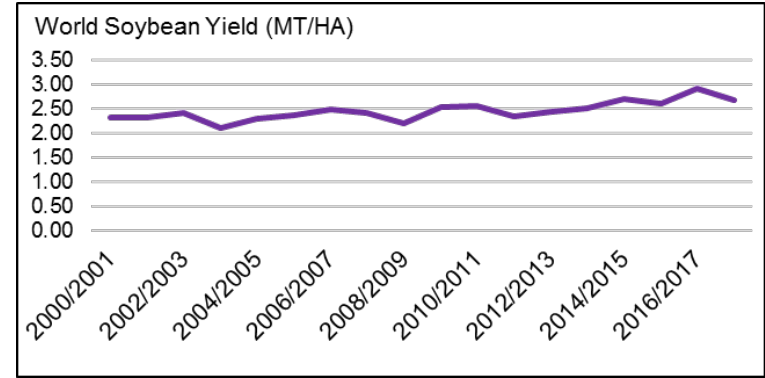
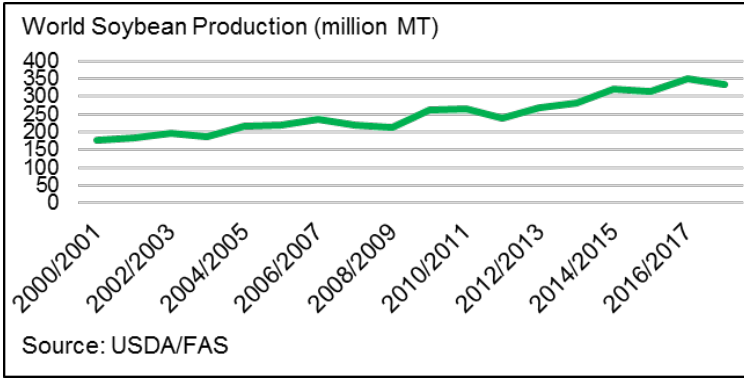
World corn production is up by a quarter since 2010



	Percent Change	
	2010 – 2017	2000 - 2017
World Corn Production	24%	75%
World Corn Area Harvested	12%	34%
World Corn Trend Yield	11%	31%



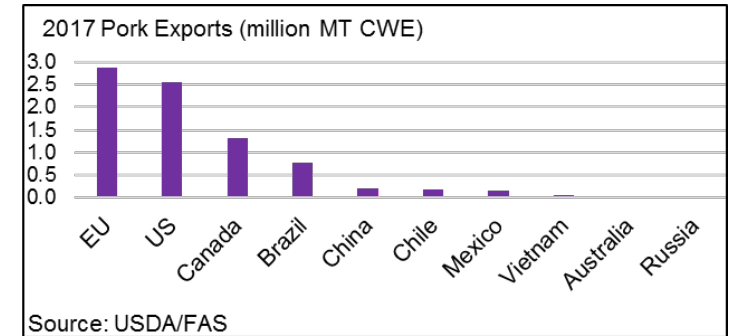
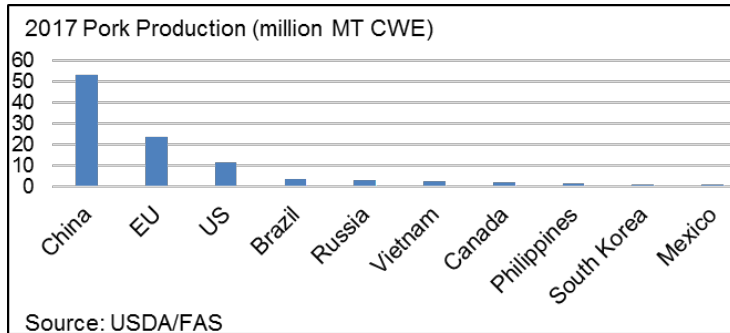
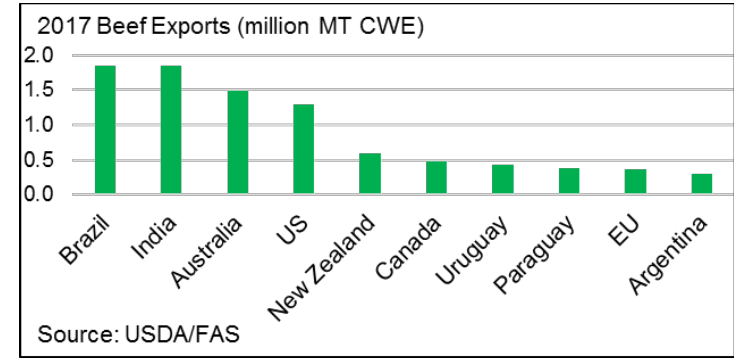
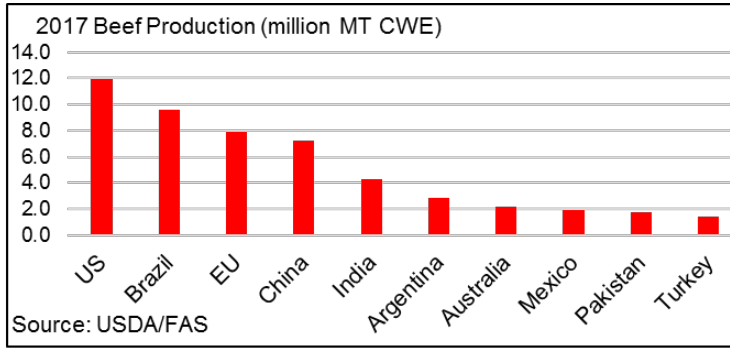
World soybean production has risen by more than a quarter since 2010



	Percent Change	
	2010 – 2017	2000 - 2017
World Soybean Production	27%	90%
World Soybean Area Harvested	21%	65%
World Soybean Trend Yield	9%	21%

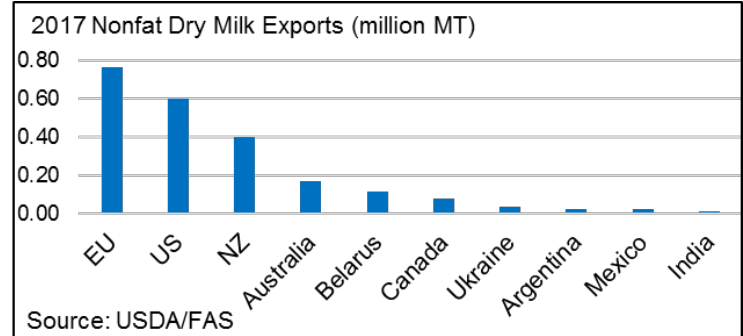
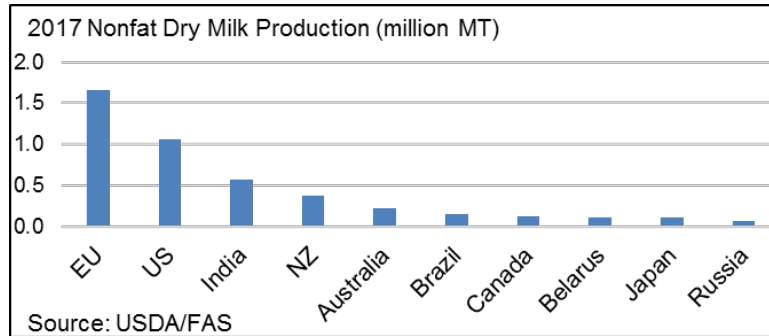
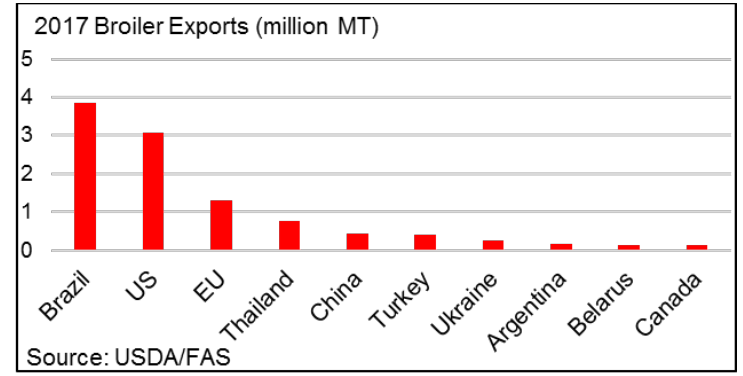
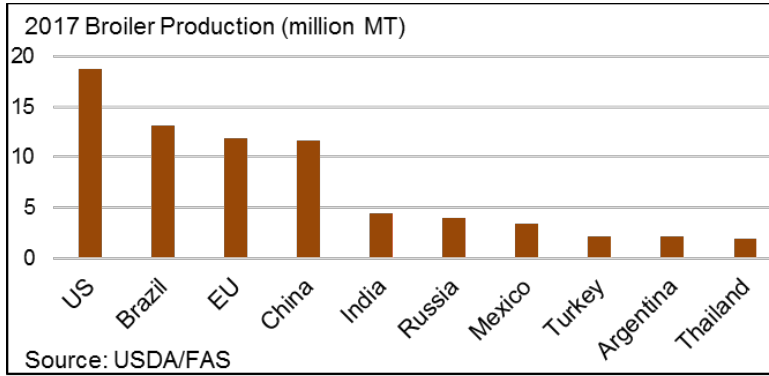


Several countries vie for top exporter of red meat





Brazil is the leading broiler exporter; the EU leads in NF dry milk exports





Risks to watch

- ▶ International trade policy developments
- ▶ Summer weather and crop conditions
- ▶ Rising interest rates
- ▶ Geopolitical developments (Eurozone, Iran, North Korea)
- ▶ Farm Bill





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
June 14, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

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

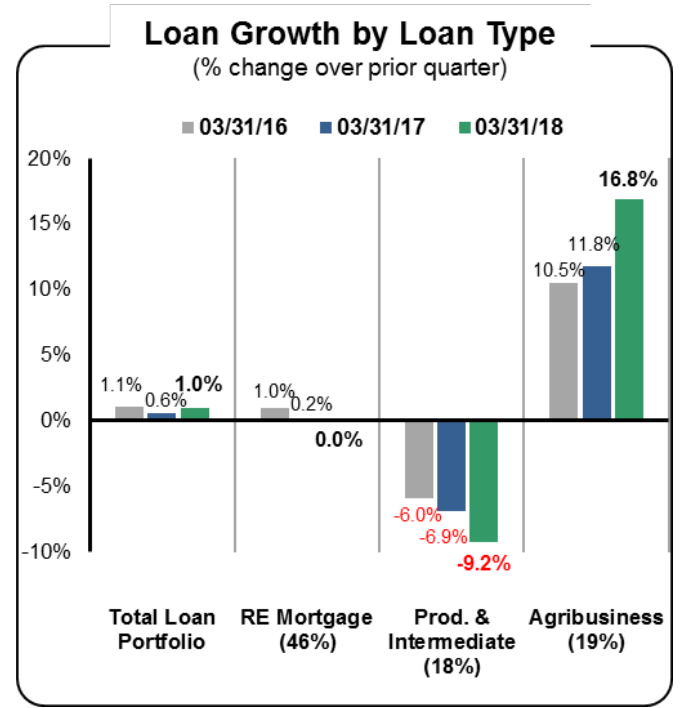
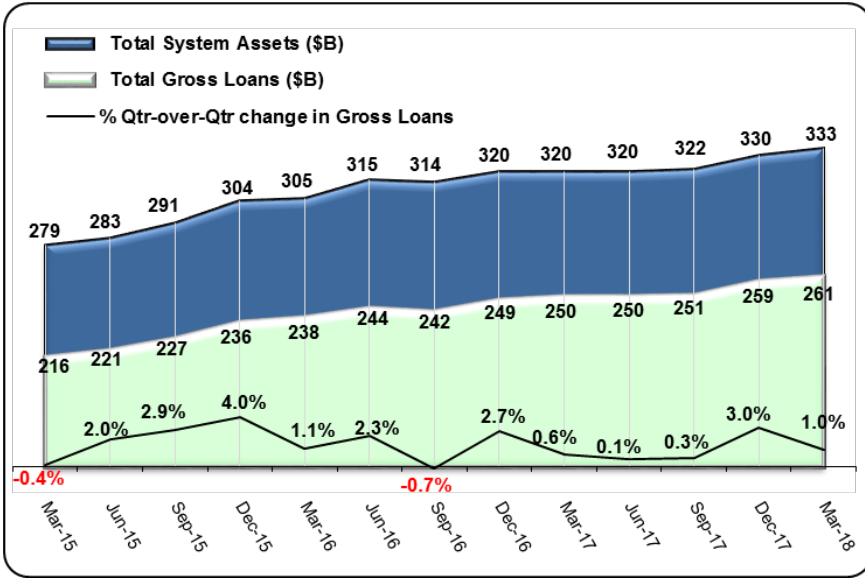




1st quarter growth influenced by seasonal factors



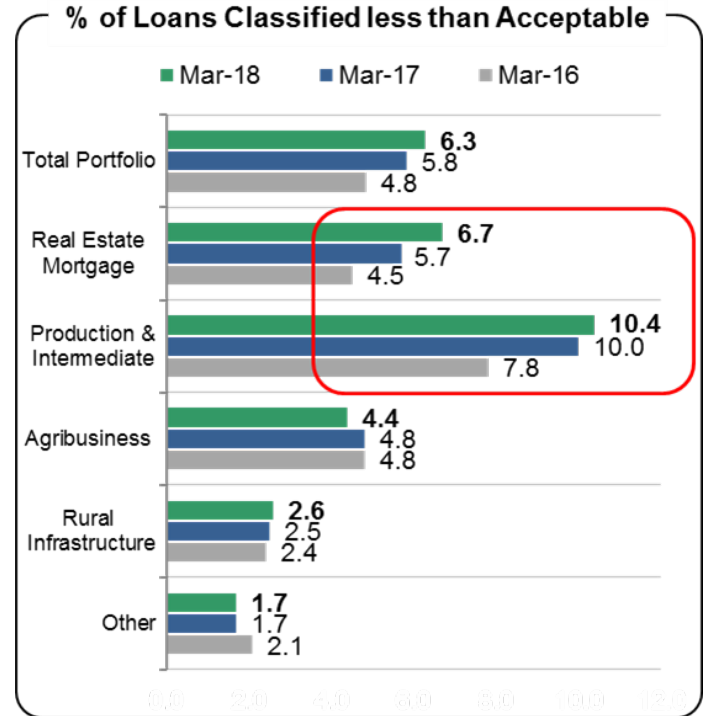
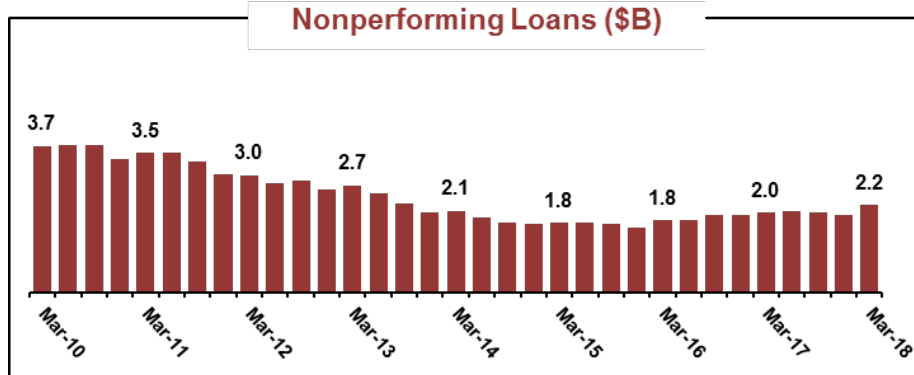
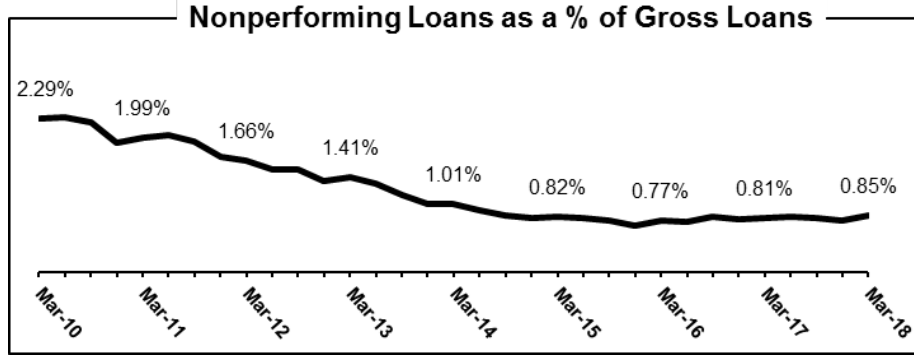
Total Assets 3/31/18	\$333.0 billion	+1.1% Qtr +4.0% Year	Gross Loans 3/31/18	\$261.4 billion	+1.0% Qtr +4.5% Year
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Source: FCS Information Statements



Little change in portfolio credit quality



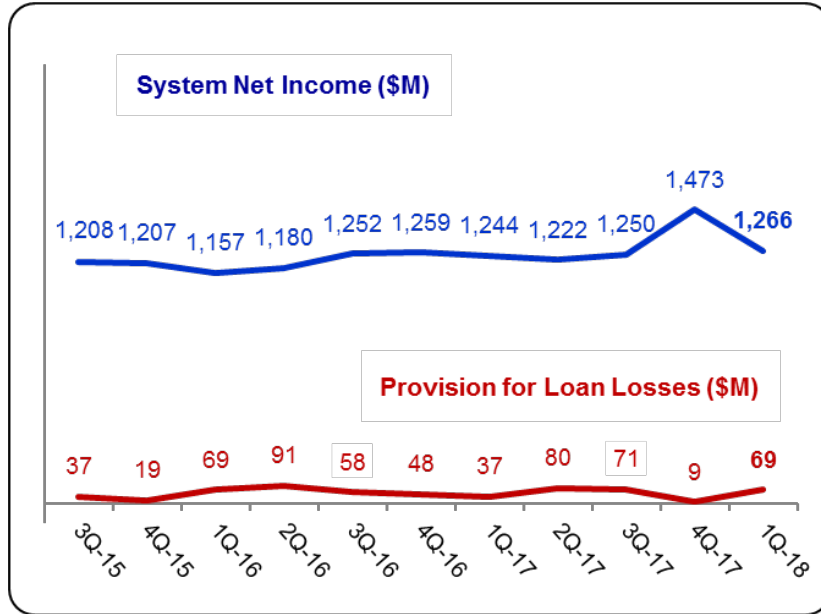
Source: FCS Information Statements



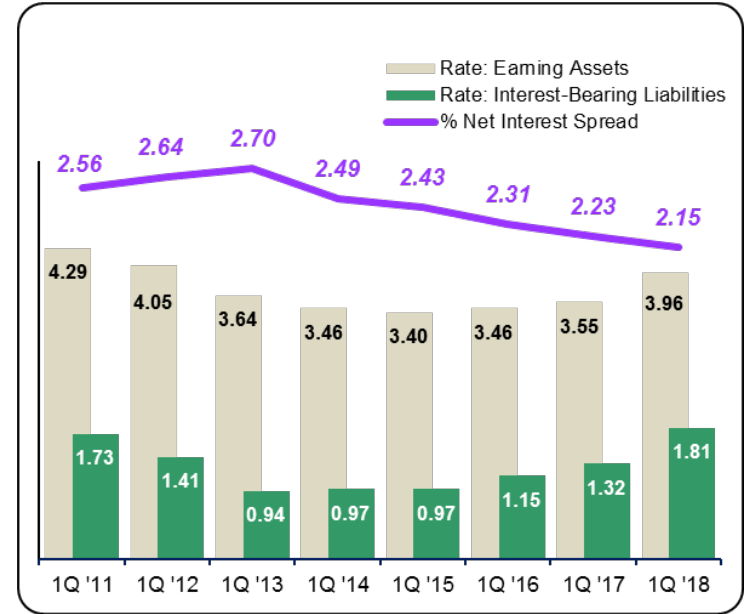
System reports strong 1st quarter financial results



System Earnings



Net Interest Spread



Source: FCS Information Statements



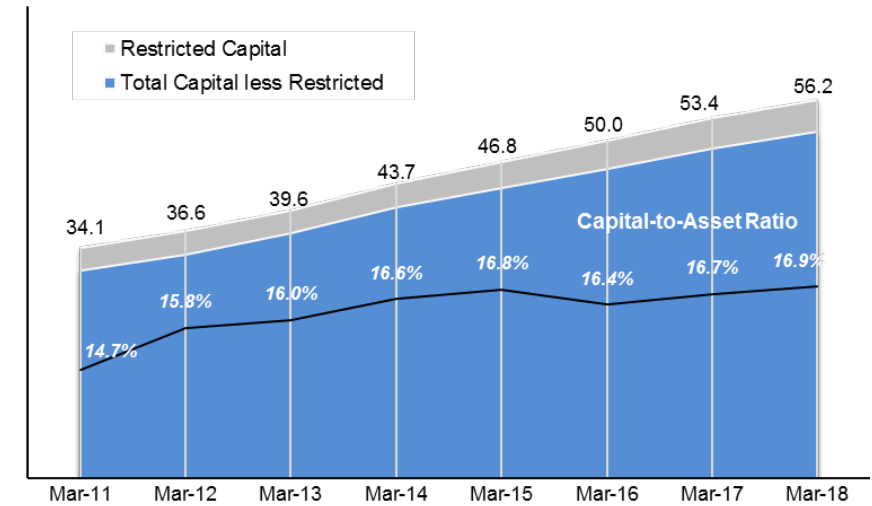
The System is well-capitalized



Capital and Liquidity as of March 2018

- System capital as a percentage of total assets was 16.9% compared to 16.8% at yearend 2017 and 16.7% as of March 2017
- Retained earnings as a percentage of total capital equaled 79.6%
- System liquidity equaled 176 days of coverage. As of March 31, days of available liquidity for the four funding banks ranged from 156 to 222 days.

Total System Capital (\$B)



Restricted capital represents capital associated with the Insurance Fund.



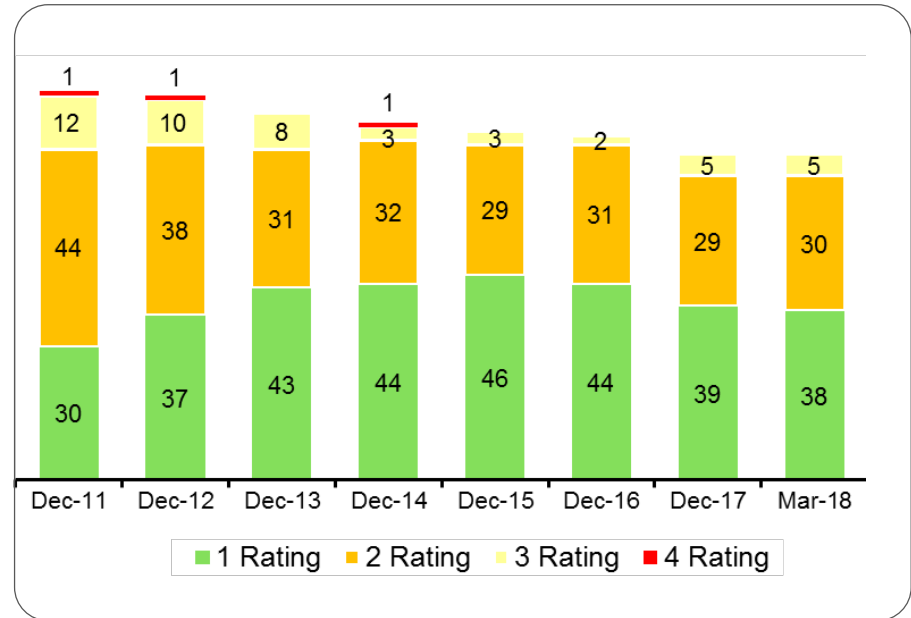
System FIRS ratings



FIRS Ratings

- Composite FIRS ratings reflect the System's solid financial performance 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 System Banks & Associations



Source: FCA's FIRS ratings database



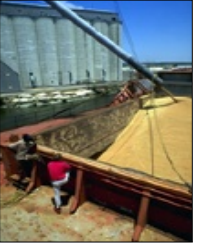
Summary and final points



- ▶ Risks for agriculture:
 - agricultural trade policies, rising interest rates, higher oil prices, inflation, drought in the Southwest
- ▶ The System is financially strong and well-capitalized
- ▶ Portfolio loan quality is good, but agricultural producers in certain sectors face significant challenges
- ▶ System institutions have substantial risk-bearing capacity and are well-positioned for the risks facing agriculture.



Questions



THANK YOU



FCA Board Meeting

June 2018

Exhibit E

Semi-Annual Report on Office of Examination Operations June 14, 2018

Hal Johnson
Office of Examination





Highlights of OE Operations

- ▶ Operating Plan Objectives
- ▶ OE Budget Performance Results
- ▶ Staffing Update
- ▶ Summary





Risk Supervision & Examination



System Profile as of 3/31/18

73 Lending Institutions

- 4 Funding Banks
- 69 Associations

7 Service Entities

\$330.0
billion

Total Assets

\$261.4
billion

Gross Loans

\$1.3
billion

Qtrly Earnings

FCS Institution Activities and Guidance

- ▶ Onsite at all funding banks, 45 associations and 7 other System entities
- ▶ Issued 25 Reports of Examination and 15 Interim Activity Letters
- ▶ 5 institutions are under a higher level of supervisory oversight
- ▶ Examination Manual Updates & Revisions
- ▶ Informational Memorandums



Supervision & Examination Initiatives

2018 NOP Risk Topics

Risk topics are nationally focused areas of emphasis that address material or emerging risk issues.

- ▶ **Portfolio Risk – Weathering the Storm**
 - Credit Guidance
 - Automated Lending Systems
 - Borrower Rights

- ▶ **Internal Controls over Financial Reporting (ICFR)**
 - ICFR and Audit Examination
 - ICFR Informational Memorandum

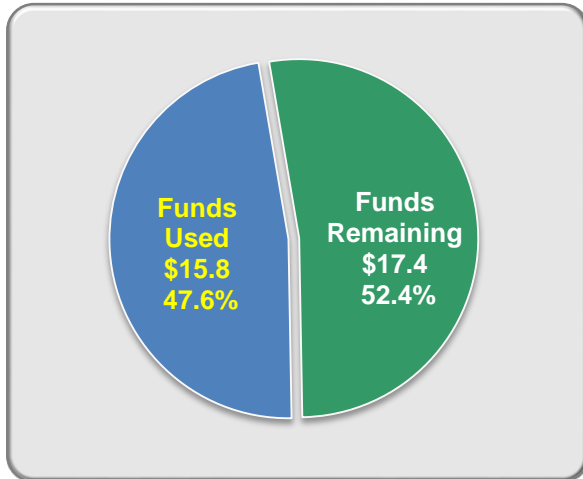




Operational Efficiency & Effectiveness

- ▶ EDGe Loan Workpaper enhancements
- ▶ Ongoing technology initiatives
- ▶ OE Budget results (Fiscal YTD thru 3/31/18)

FY 2018 OE Budget - \$33.2M



FTEs	
◆ Projected Full Year FTE's	175.8
◆ Budgeted Full Year FTE's	176.9
Budget Variance	(1.1)





Human Capital Update

▶ Revised FCA Examiner Career Development Program

Total OE Staff	Planned	Projected	Variance
Beginning FY 2018	171	170	(1)
Attrition / Retirements ⁽¹⁾	(16)	(16)	0
Hirings	21	20	(1)
Ending FY 2018	176	174	(2)

▶ Staffing

Commissioned Examiners			
Beginning FY 2018	83	83	0
Attrition / Retirements	(7)	(7)	0
Hirings	0	0	0
Newly Commissioned	9	3	(6)
Ending FY 2018	85	79	(6)

(1) There have been 6 staff attritions/retirements fiscal year-to-date through May 31, 2018





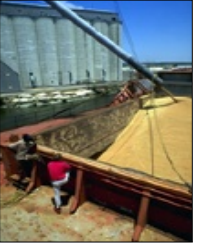
Summary

- ▶ Maintain a strong onsite supervision presence with a continued emphasis on risk-based oversight and examination
- ▶ Development of commissioned examiners and ensuring OE has sufficient highly skilled staff to accomplish its mission remains a critical priority
- ▶ On target to accomplish 2018 Operating Plan objectives within budget parameters





Discussion



THANK YOU

Farm Credit Administration

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CERTIFICATE OF CLOSED MEETING

The Deputy 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 June 14, 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).

June 14, 2018
Date

/s/
Joy Strickland
Deputy General Counsel