



FCA Board Meeting December 2019

Quarterly Report on FCS Condition December 12, 2019

**Dennis A. Shields
Hal Johnson**





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Trade and farm income
 - Crop insurance indemnities
 - Farm prices and risks in 2020
- ▶ FCS Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields

Chief Economist

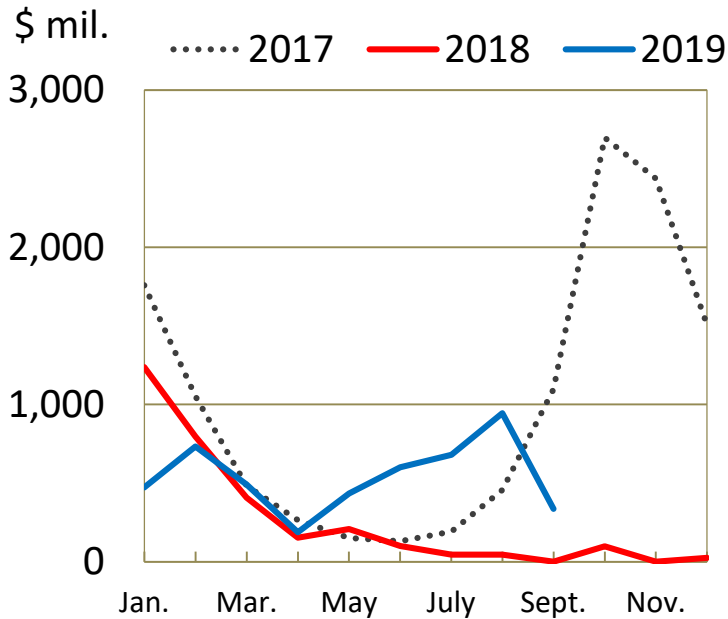
Office of Data Analytics and Economics



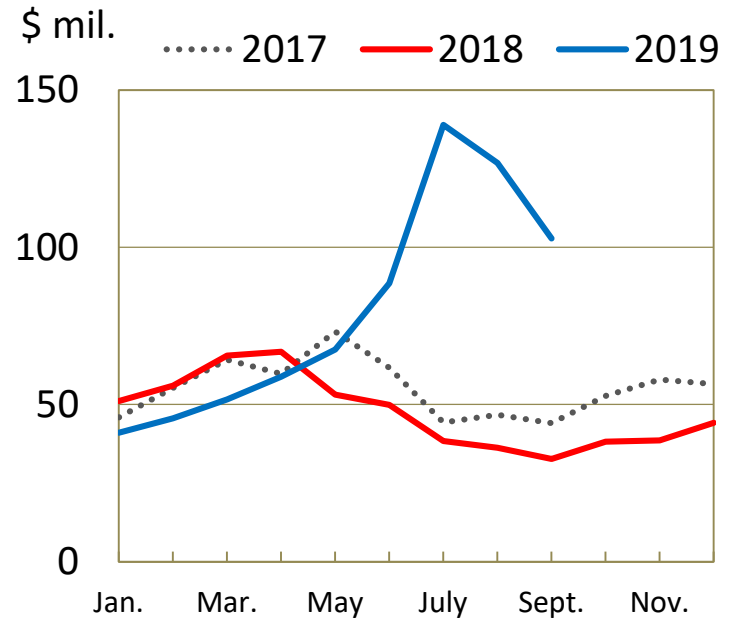
U.S. soybean exports to China try to regain traction; pork exports advance in 2019



U.S. soybean exports to China



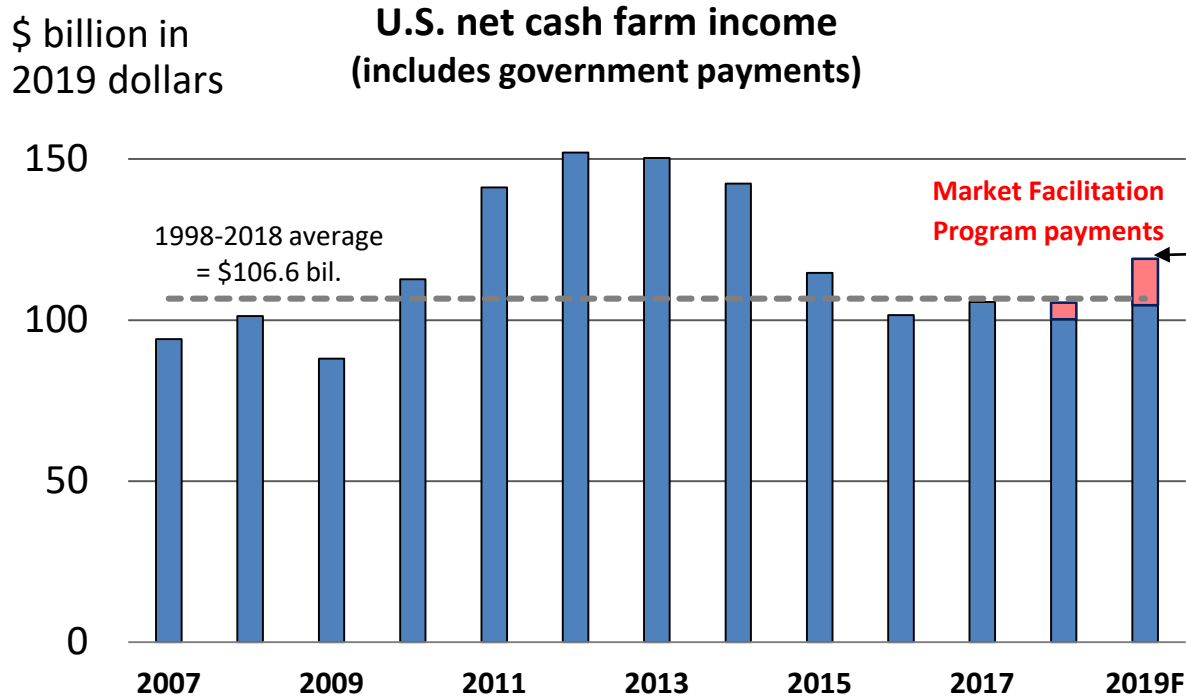
U.S. pork exports to China



Source: USDA/FAS.



Farm income is lifted by Market Facilitation Program payments



2019 forecast of net cash farm income is \$119.0 billion.

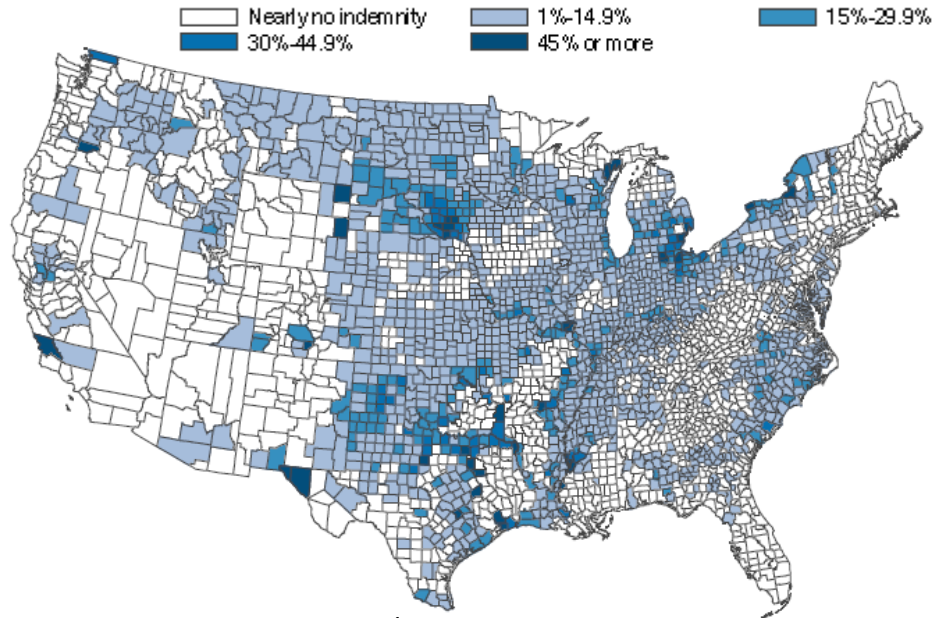
Based on USDA's historical forecast accuracy, farm income could be as low as \$115.1 billion or as high as \$136.2 billion.

Source: USDA/ERS, November 27, 2019.



Crop insurance indemnities provide support to areas experiencing poor weather in 2019

2019 indemnities for 6 major program crops as a share of their total liability



6-crop indemnities as of 12/2/19

Selected FCS geographic footprint	Indemnities (\$ mil.)
Compeer	\$535
Mid-America	\$644
FCS of America	\$1,265
Northwest FCS	\$80
Amer. AgCredit	\$147
U.S. total	\$5,725

Source: FCA analysis of USDA/RMA data.

Notes: Includes corn, soybeans, wheat, sorghum, cotton, and rice. Total liability is amount equal to a complete crop loss (after deductible is incurred).

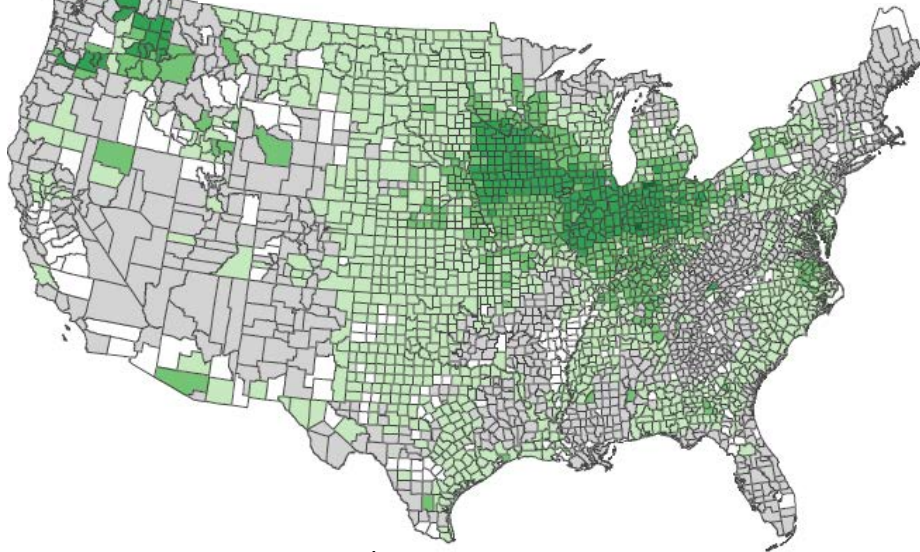




Farmers in the Corn Belt purchase relatively higher levels of crop insurance coverage

Average crop insurance coverage level in 2019 for combined corn, soybeans, wheat, sorghum, cotton, and rice

Legend for coverage levels:
Not applicable (Grey)
65% or less (White)
65%-74.9% (Light Green)
75%-79.9% (Medium Green)
80%-84.9% (Dark Green)
85% or more (Darkest Green)



2019 crop year

Selected FCS geographic footprint	Average coverage level
Compeer	81.2%
Mid-America	80.0%
FCS of America	78.4%
Northwest FCS	78.7%
American AgCredit	71.1%
U.S. total	77.1%

Source: FCA analysis of USDA/RMA data.

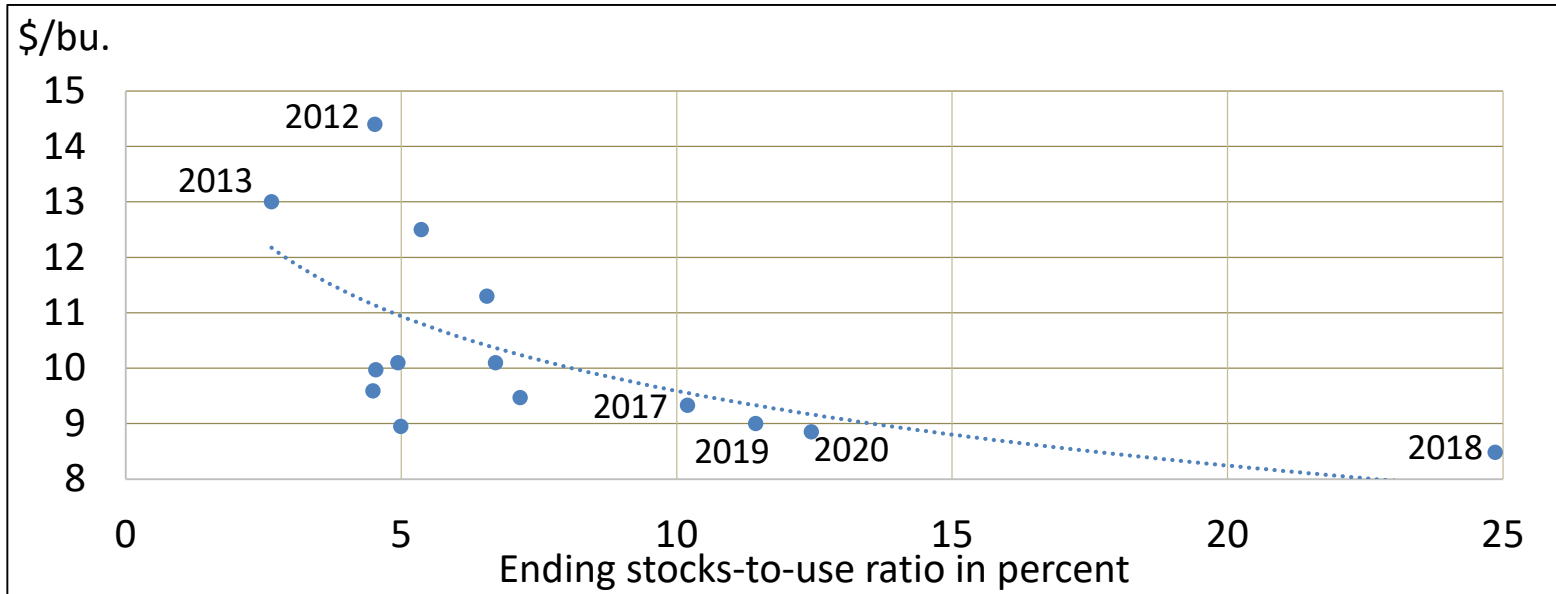
Note: Average coverage level in 2019 for 6 major program crops, weighted by crop value of insured acres. The insured absorbs the deductible (1 minus coverage %) before indemnity is paid.





For the 2020 crop year, another high soybean stocks-to-use ratio could keep a lid on prices

U.S. soybean price and stocks-to-use ratio



Source: FCA using USDA data (November 2019 WASDE for 2019 forecast; Baseline Projections for 2020 crop; ERS Oil Crops Yearbook for historical data).

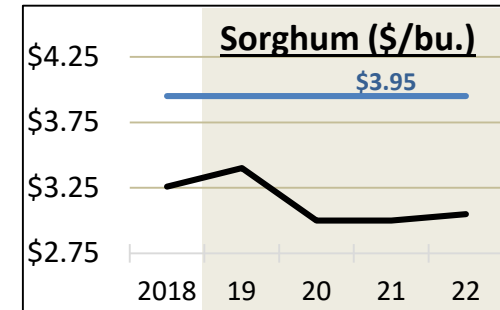
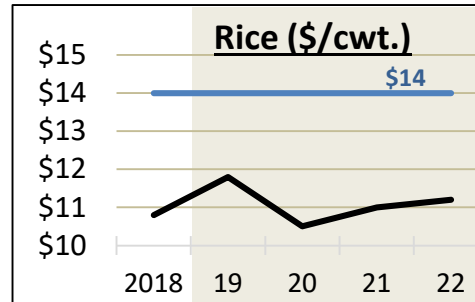
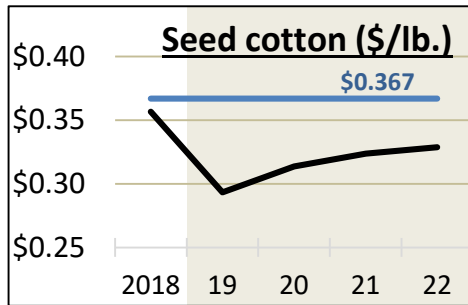
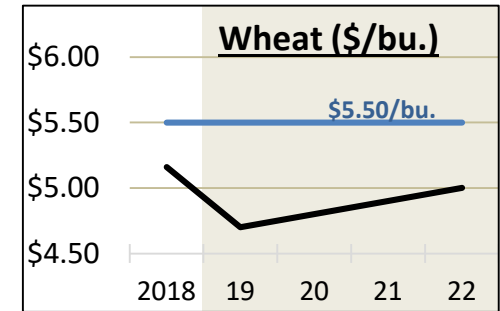
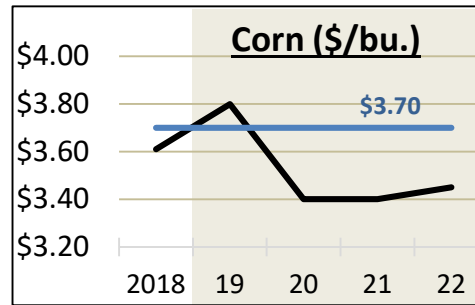
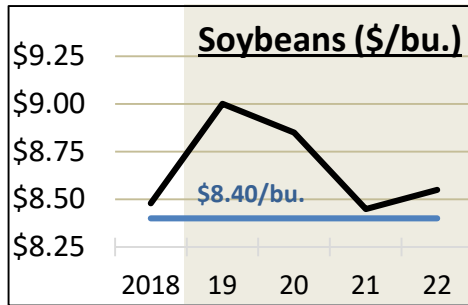




Crop prices for the next 3 years are projected below reference prices (except soybeans)



— Farm price
— Farm Bill reference price that triggers Price Loss Coverage payments

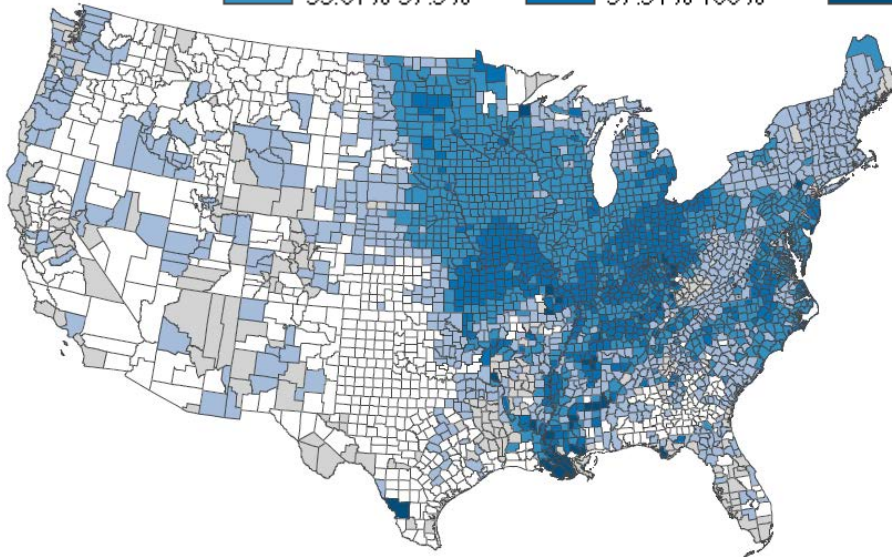
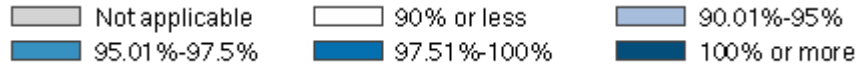


Source: USDA Baseline Projections, November 2019.



Projected price weakness (relative to reference price) varies across growing regions

2020-2022 projected farm price as percentage of Farm Bill reference price
(combined corn, soybeans, wheat, sorghum, cotton, and rice)



Selected FCS geographic footprint	Projected price as % of ref. price
Compeer	96.5%
Mid-America	97.5%
FCS of America	96.1%
Northwest FCS	89.4%
American AgCredit	90.2%
U.S. total	94.1%

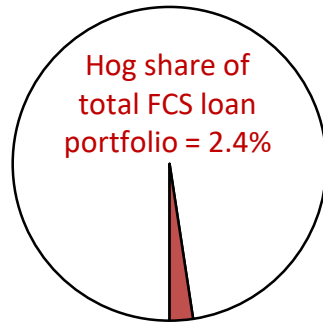
Source: FCA analysis of USDA's November 2019 baseline prices for 2020-2022 and 2017-19 planted area by county.
Note: For each county, the 3-year average ratio (projected price/reference price) for each crop is weighted by the crop's planted area.





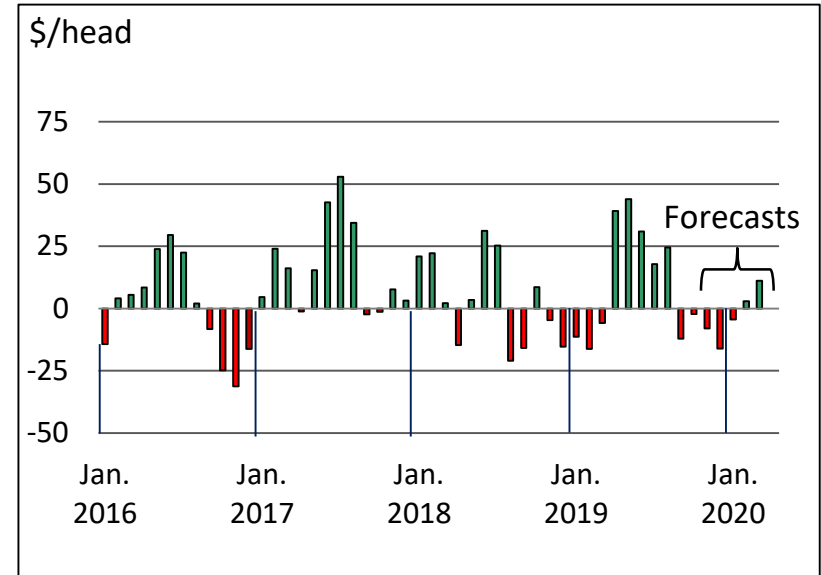
Hog producer returns are expected above break-even in early 2020, but risks remain

- ▶ U.S. supply ramps up and demand prospects brighten
- ▶ Risk posed by African swine fever approaches U.S. agriculture from different angles



Source: 2018 FCS Information Statement.

Hog margins



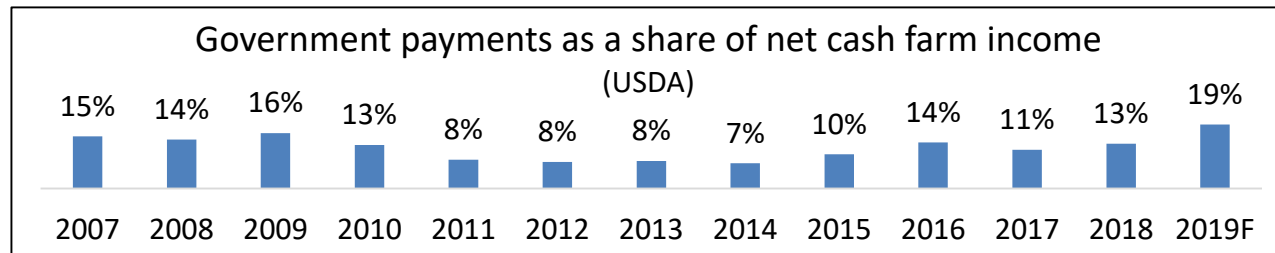
Source: IHS Markit Agribusiness.



Government assistance for farmers in 2020



- ▶ Permanent disaster programs for livestock losses
- ▶ Crop insurance addresses within-season revenue or yield risk; coverage varies by System territory
- ▶ Farm program payments provide downside protection for some commodities (but they weren't enough in 2018 and 2019)
- ▶ Tranche 3 payments from 2019 Market Facilitation Program?
- ▶ Additional assistance from the Administration or Congress?





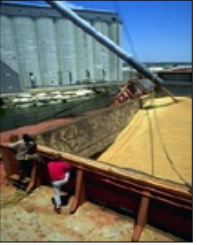
Concluding comments

- ▶ As 2020 approaches, global crop supplies remain ample, limiting attractive pricing opportunities for U.S. farmers
- ▶ Farm financial conditions become more challenging next year in the absence of stronger markets or another injection of payments
- ▶ Expected livestock/dairy returns in early 2020 are positive, but trade and disease risk remains elevated; a recession would dim prospects
- ▶ Without broader foreign trade access, U.S. agriculture could become a “residual” supplier with farm prices remaining under pressure





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
September 30, 2019

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Portfolio credit quality
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

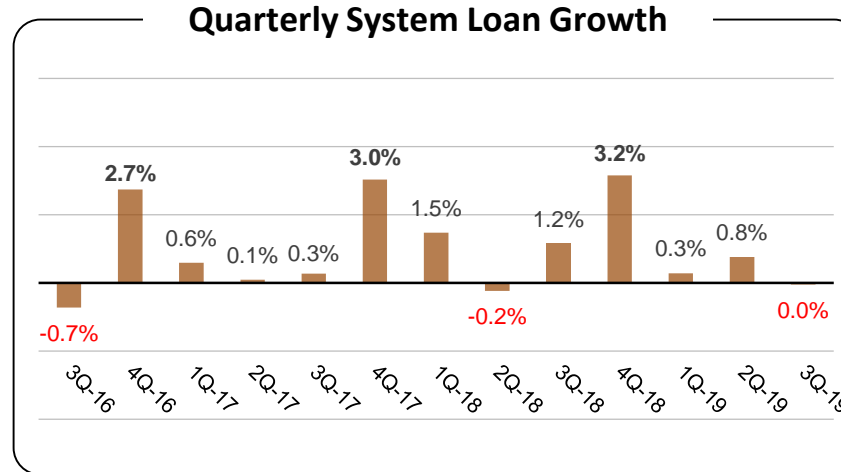




System reports little growth through the first nine months of 2019

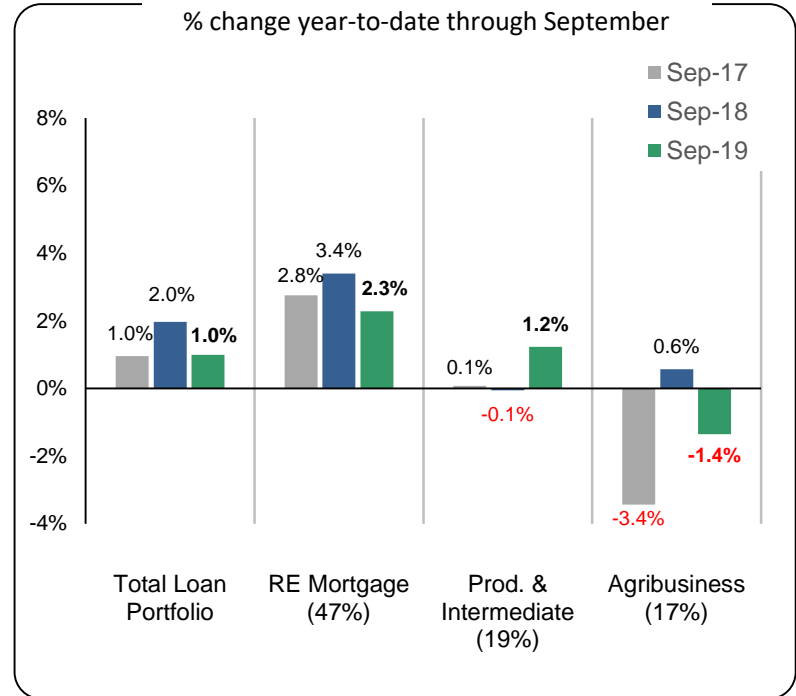


Total Assets 9/30/19	\$354.0 billion	+0.4% Qtr +1.4% YTD	Gross Loans 9/30/19	\$276.1 billion	-0.04% Qtr +1.0% YTD
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Loan Growth by Loan Type

% change year-to-date through September





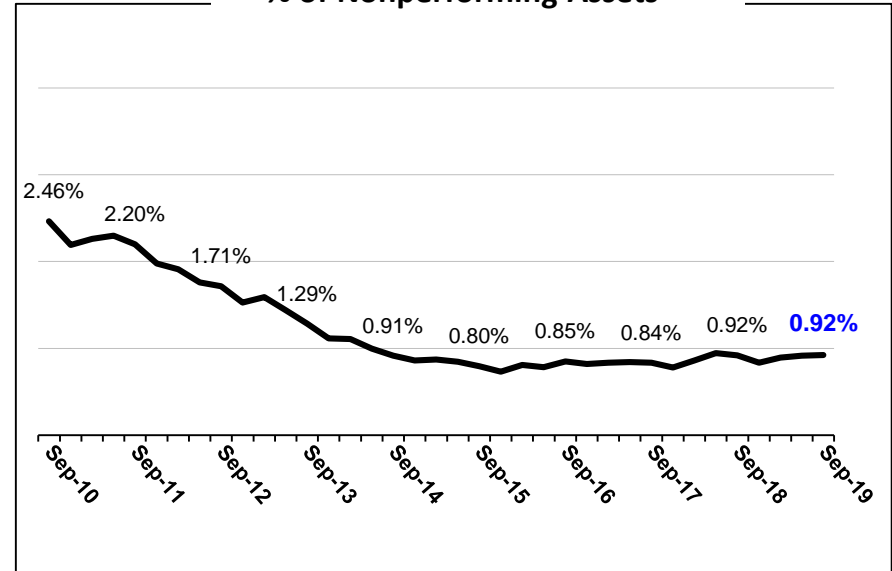
Credit stress edges higher; risk varies by region and sector



Nonperforming Assets (9/30/19)	\$2.549 billion	Qtr Chg. + \$19M or 0.8%
		YTD Chg. + \$267M or 11.7%
Delinquencies ⁽¹⁾ (9/30/19)	0.30%	Q2 '19 0.36%
		Q3 '18 0.29%

(1) accruing loans 30 days or more past due as a % of accruing loans

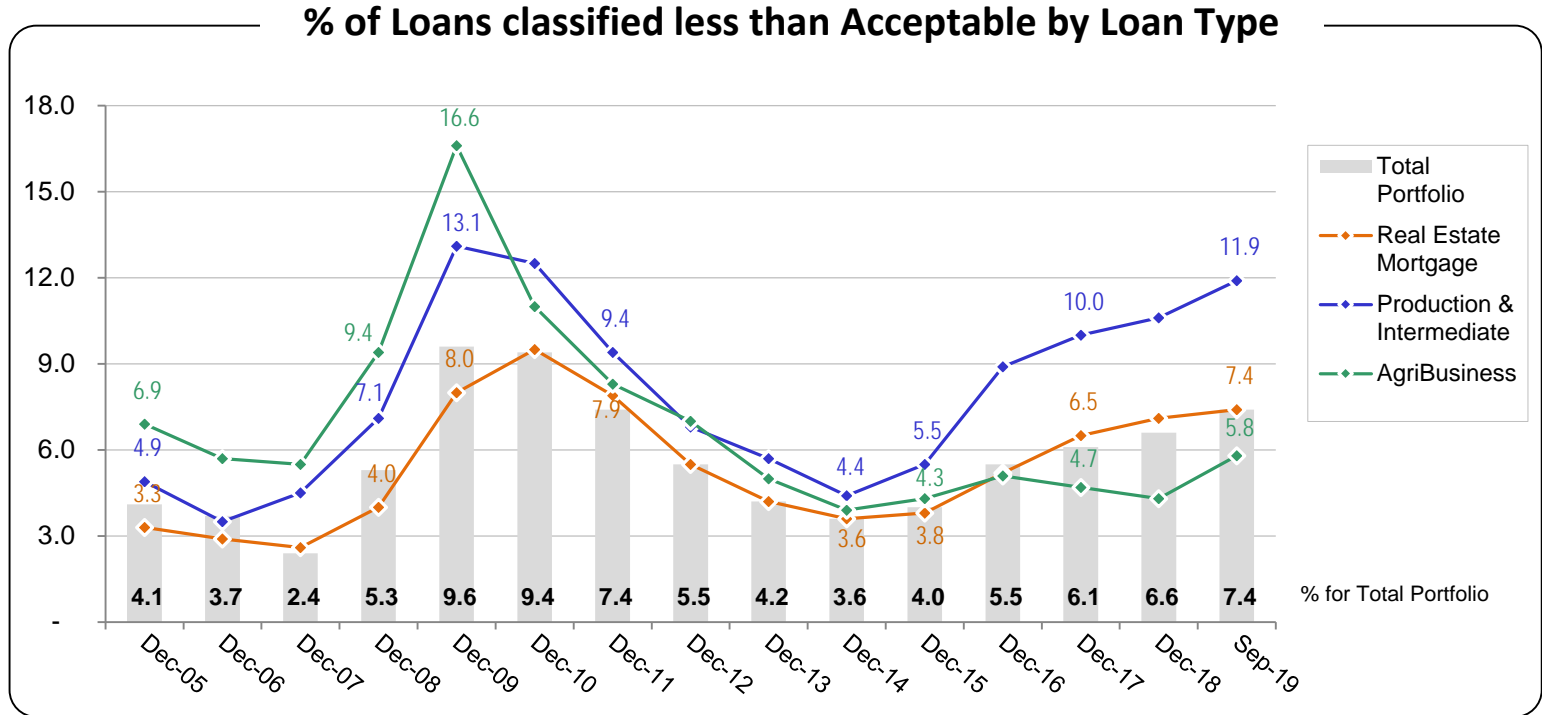
% of Nonperforming Assets ⁽¹⁾



(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)



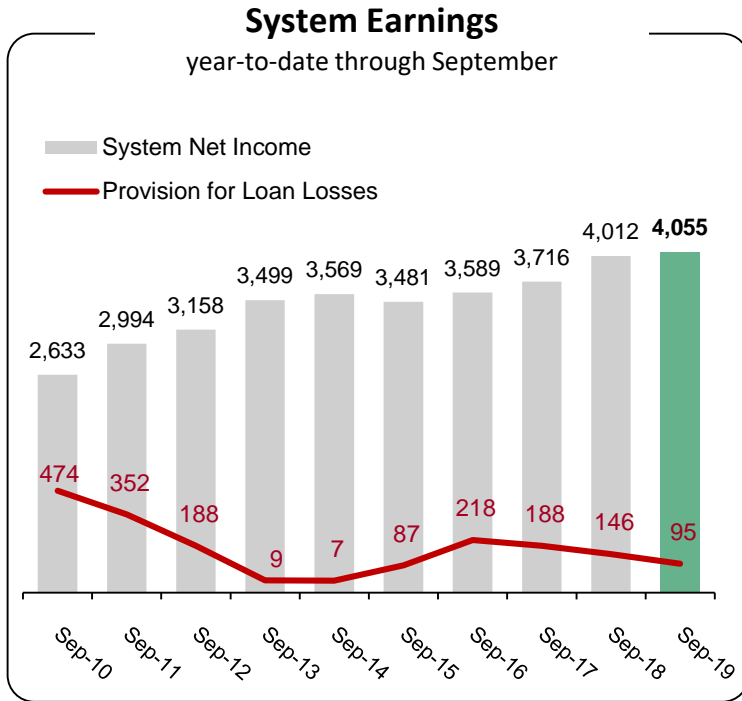
Loans classified less than Acceptable are up in 2019 for all major loan types



Source: FCS Information Statements

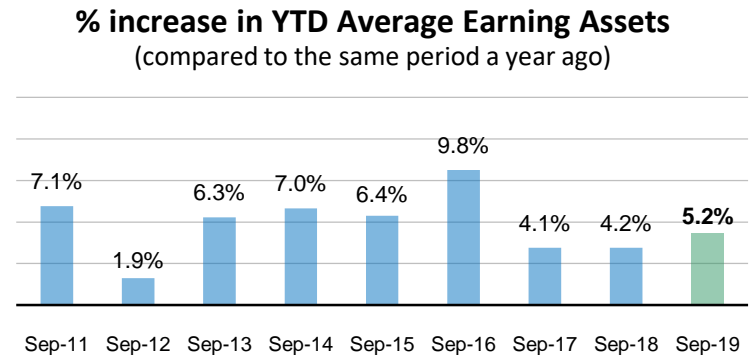


System's financial condition is sound; year-to-date earnings stable



Source: FCS Information Statements

Net Interest Spread (YTD annualized)	Q3 '19 2.02%	Q2 '19 2.00%	Q3 '18 2.13%
Net Interest Margin (YTD annualized)	Q3 '19 2.41%	Q2 '19 2.40%	Q3 '18 2.45%





The System is strongly capitalized

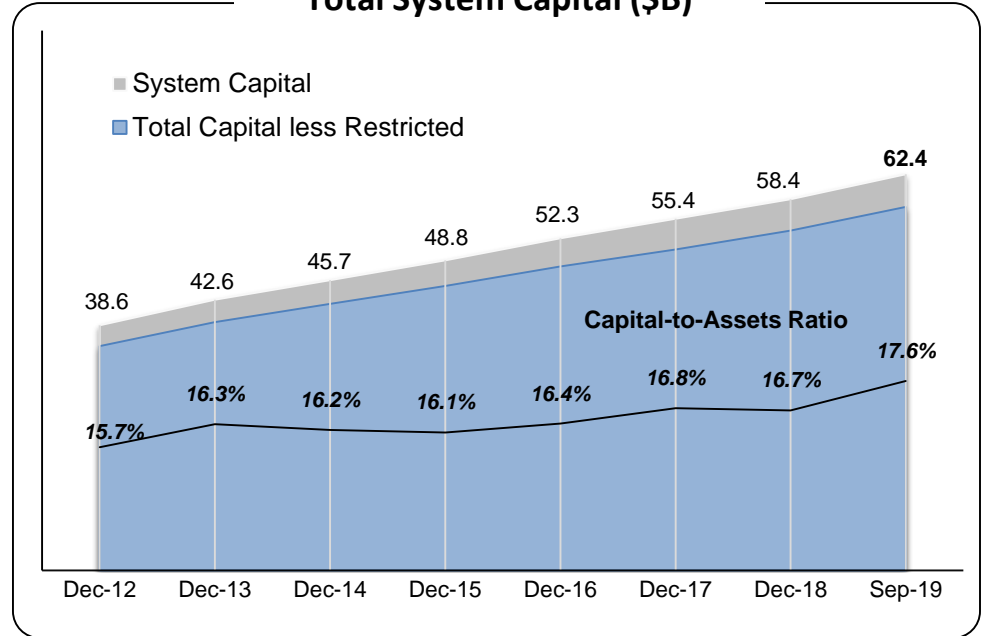
Capital and Liquidity

- as of September 30, 2019 -

- ▶ Total Regulatory Capital levels:
Banks: 16.1% to 19.1%
Associations: 13.5% to 39.5%
- ▶ The System's liquidity position equaled 177 days of coverage
- ▶ Days of available liquidity for the 4 funding banks ranged from 149 to 232 days



Total System Capital (\$B)



Note: Restricted capital represents capital associated with the Insurance Fund.



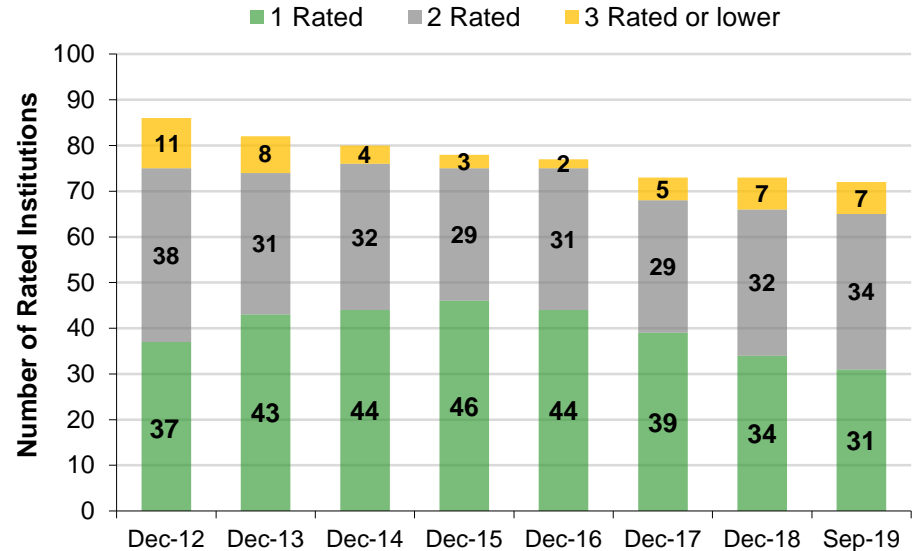
System FIRS ratings



FIRS Ratings

- ▶ Composite FIRS ratings reflect the System's solid financial performance and acceptable portfolio credit quality
- ▶ Over 90% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower account for less than 2.5% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ Agricultural producers are facing tough times
 - Trade policy uncertainties, low margins, weak crop prices, large global stocks, changing markets
- ▶ Rising credit stress in the loan portfolio reflects the financial challenges confronting System borrowers
- ▶ System institutions are financially sound, well-capitalized, and have the risk-bearing capacity to respond to the credit needs of U.S. agriculture





Questions



THANK YOU