



FCA Board Meeting April 2022

Quarterly Report on FCS Condition April 14, 2022

**Sarah Tulman
Hal Johnson**





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Macroeconomy
 - Impact of war in Ukraine
 - U.S. agricultural sector

- ▶ Farm Credit System Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Sarah Tulman, PhD

Senior Economist

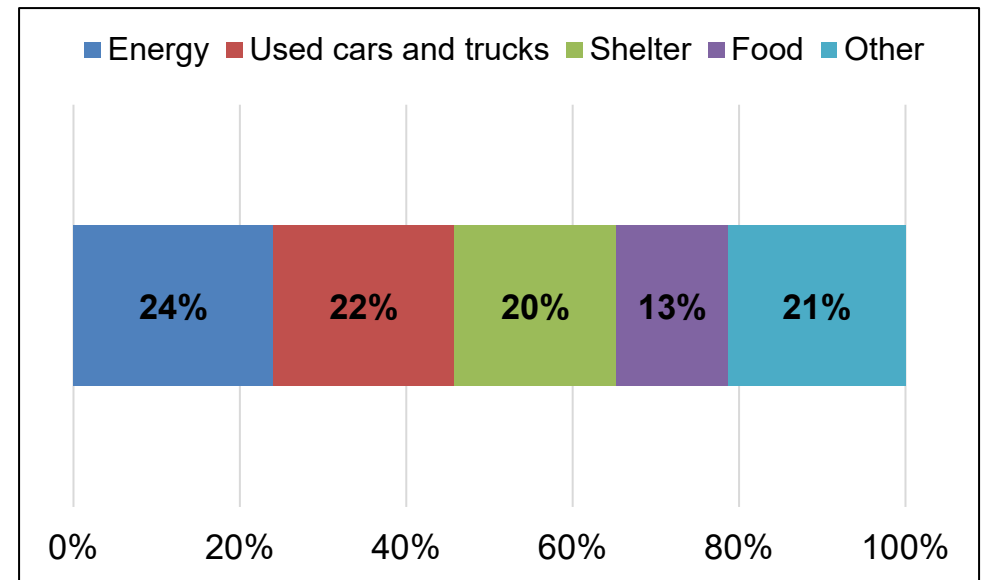
Office of Data Analytics and Economics



Inflation remains high for both consumers and producers

- ▶ Consumer Price Index (CPI) up 7.9% in February from a year earlier.
- ▶ Increase led by energy (primarily motor fuel), used cars and trucks, shelter, and food.
- ▶ Producer Price Index (PPI) up 10% in February from a year earlier.
 - Tied with January for largest annual rate of increase.
 - 40% of increase was from motor fuel.

Contributions to the 7.9% annual increase in CPI



Source: [Bureau of Labor Statistics](#) (CPI)

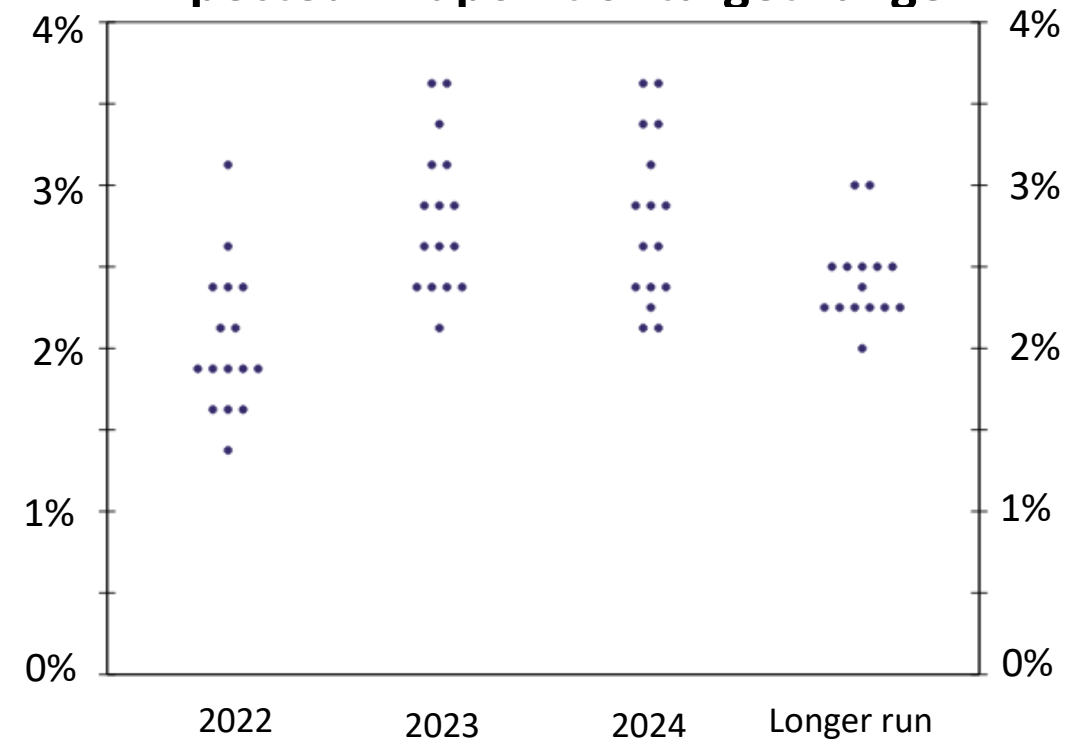




Federal Reserve taking action to combat inflation

- ▶ Federal Reserve raised federal funds rate 25 bps on March 16; expects six additional hikes in 2022, possibly four in 2023.
- ▶ Federal Reserve expected to begin reducing its balance sheet soon.
- ▶ 2022 GDP growth forecast lowered to 2.8% from 4.0%.
- ▶ Global events increase upward pressure on inflation and supply chain issues.

Federal Open Market Committee “Dot Plot”
Expected midpoint of target range



Source: [Wells Fargo](#), based on the Federal Reserve’s March [Summary of Economic Projections](#).

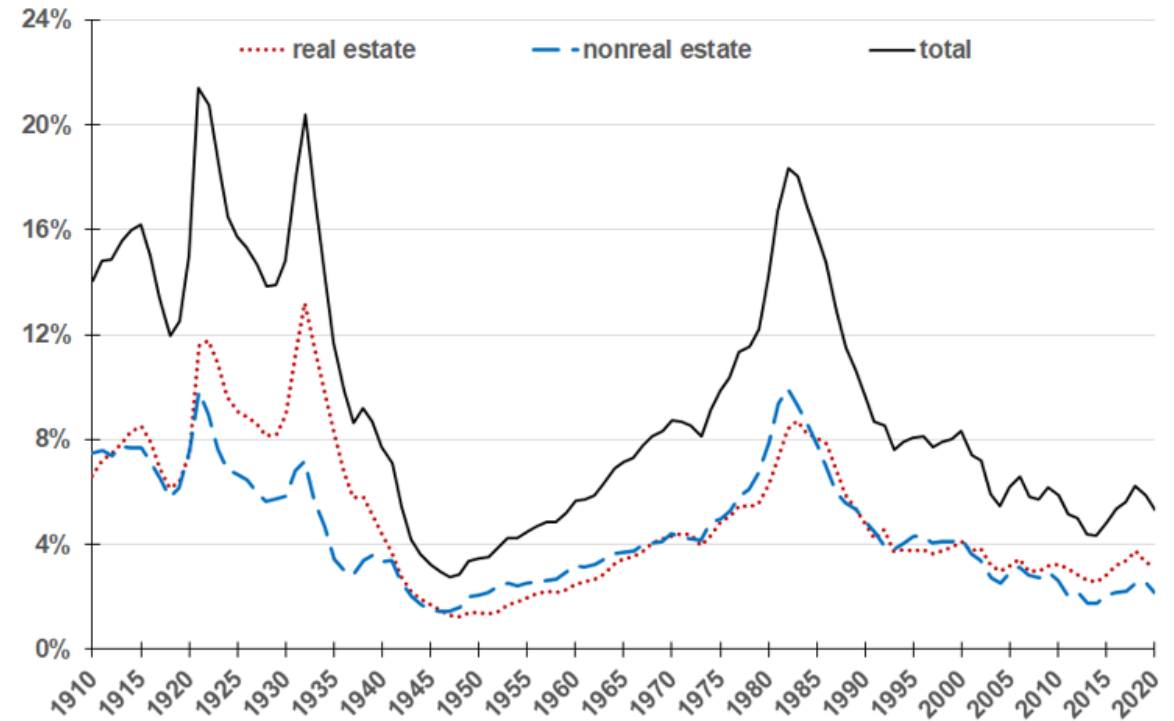


Higher interest rates to increase U.S. farm production expenses

- ▶ Since 1991, farm debt has increased by more than 200%, which was faster than inflation.
- ▶ Downward trend in interest expense as a share of cash production expense reflects declining interest rates.
- ▶ Rising interest rates combined with the increase in farm debt to put pressure on farm income in 2022 and beyond.



Interest expense as a share of cash production expenses, excluding operator dwellings

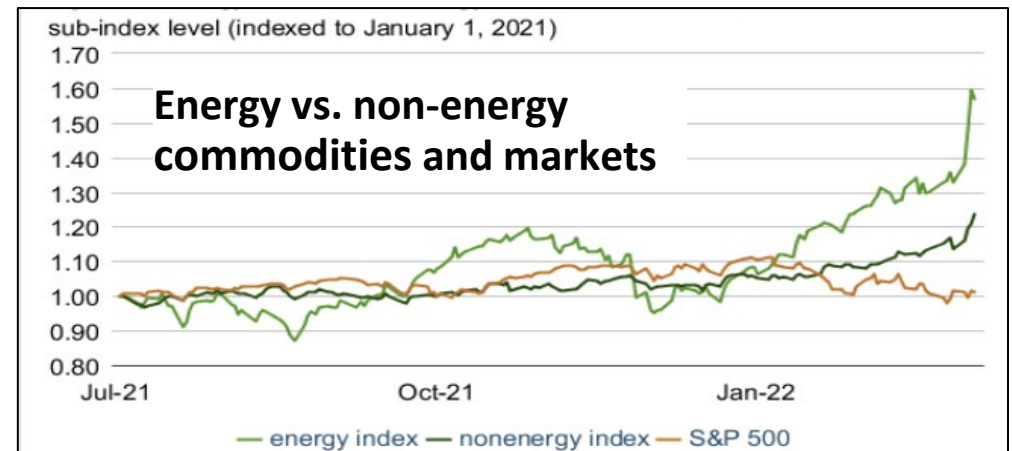
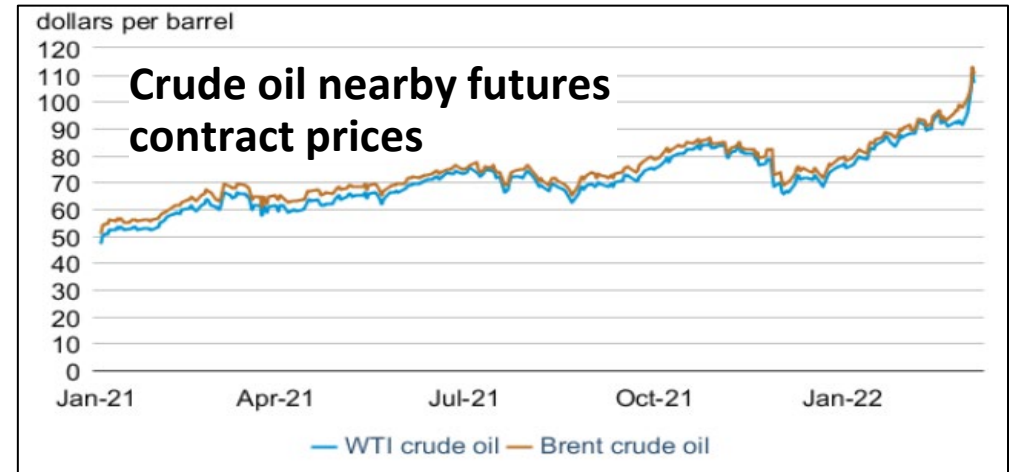


Source: [farmdoc daily](https://farmdocdaily.com), March 21, 2022



Oil price rise was accelerated by the impact of the war in Ukraine

- ▶ Oil prices were already increasing when invasion of Ukraine took place.
- ▶ Increase in oil prices have outpaced the increase in non-energy commodity prices.
- ▶ U.S. has banned Russian oil imports and involvement in the sector.

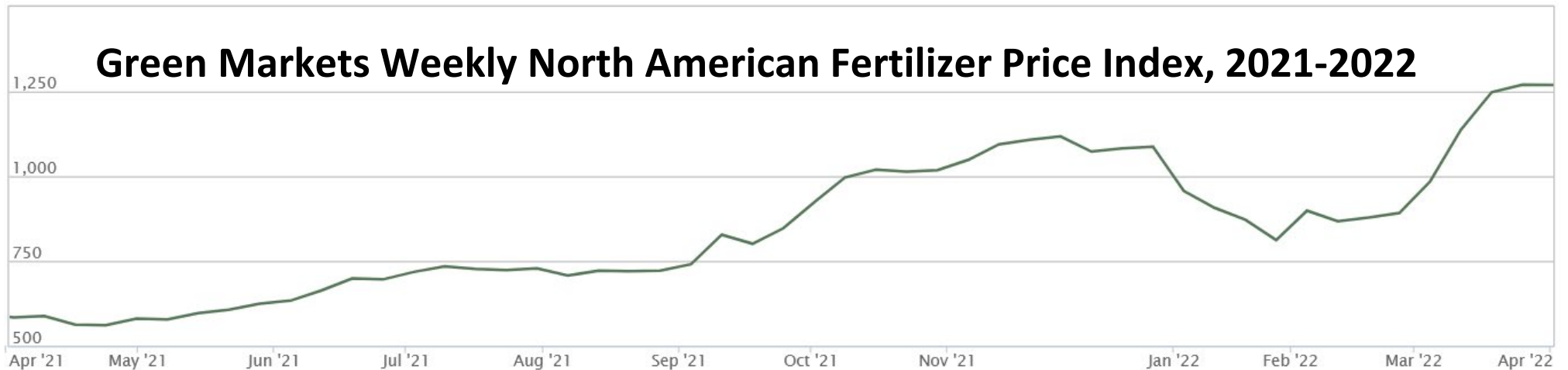


Source: [Short-Term Energy Outlook](#), U.S. Energy Information Agency, as compiled by Bloomberg L.P.



Fertilizer cost and supply issues intensify

- ▶ Prices were increasing and supplies were constrained even before the Ukraine invasion.
- ▶ Russia suspended fertilizer exports.
- ▶ Longer run: USDA announced \$250 million in grants to support additional fertilizer production.



Source: [Green Markets](#), A Bloomberg Company.



High degree of uncertainty in grain markets

- ▶ Grain price strength and volatility.
- ▶ Ukraine ag status and impacts on global trade.
- ▶ South American weather issues.

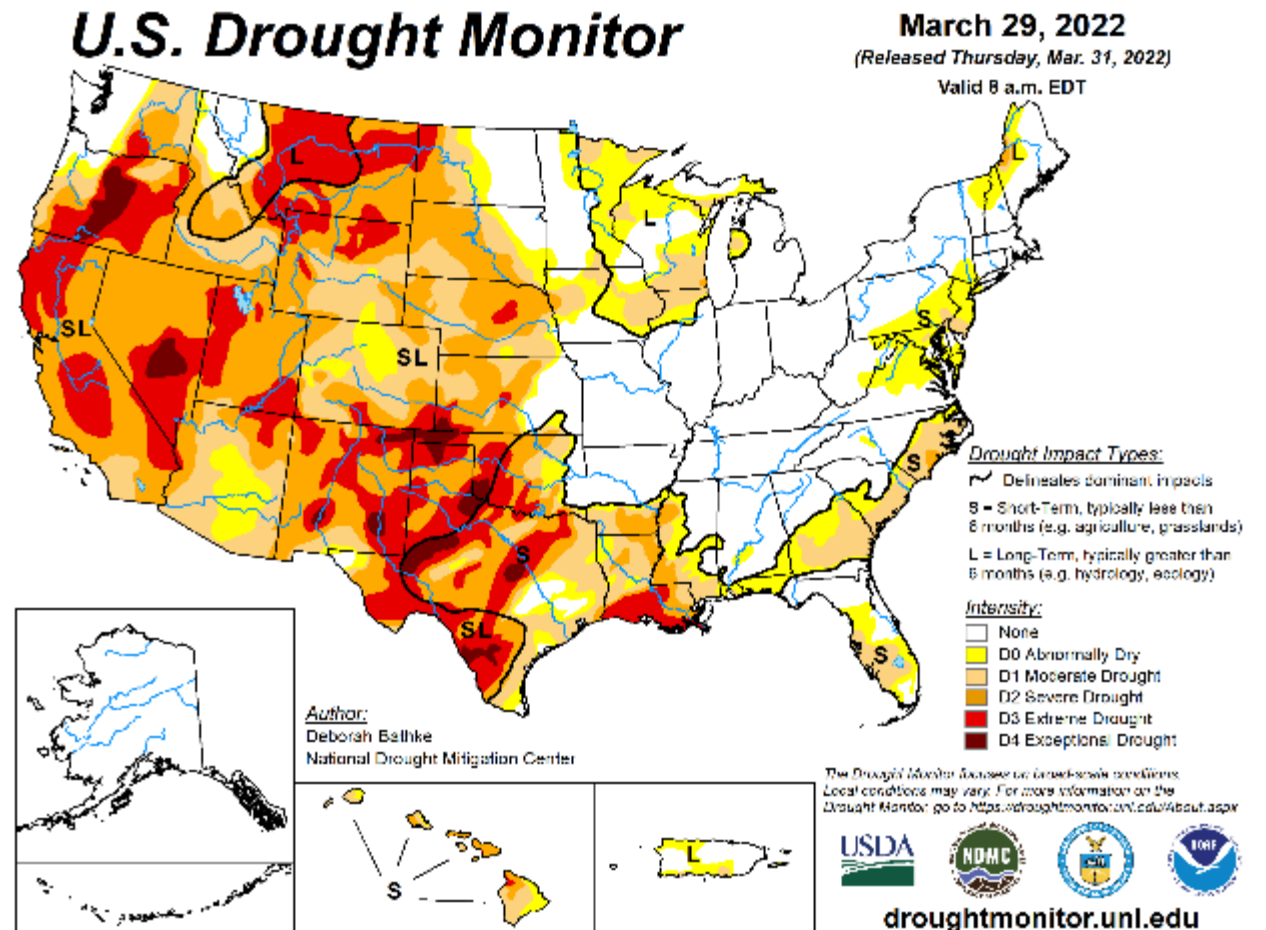


Source: AgWeb ([wheat](#), [corn](#)) using CME Group data.



Widespread drought impacting the Western half of the U.S.

- ▶ Widespread western drought continues.
- ▶ California state water allocations cut to 5%, widely expected to be cut again to 0%.
- ▶ Hits both livestock forage availability and hay production.
- ▶ Winter wheat crop threatened and concerns in the Corn Belt.



Source: [U.S. Drought Monitor](https://droughtmonitor.unl.edu).



Livestock producer margins are favorable but squeezed by higher feed costs



- ▶ Cow-calf margins depend on pasture conditions.
 - In early 2022, calf prices have declined but remain above year-earlier levels.
 - 61% of cattle were in drought-impacted areas in February, twice the level of late summer 2021.
- ▶ Hog margins are supported by stronger prices.
 - Prices driven by decline in slaughter activity, with higher prices offsetting higher feed costs.
 - Export forecasts lowered: lower U.S. supplies, higher pork prices, and inflationary pressures.
- ▶ Broiler margins remain positive on strong consumer demand.
 - Revenue has offset increased feed costs in recent months.
 - Cases of highly pathogenic avian influenza reported beginning in mid-January.
- ▶ Dairy margins expected to remain positive in 2022.
 - Margins bolstered by production cuts and strong dairy demand.



Concluding comments

- ▶ Inflation and input costs continue to affect producer returns and consumer demand.
- ▶ The Federal Reserve has begun raising interest rates and is expected to begin reducing its balance sheet. Rising interest rates put pressure on farm margins.
- ▶ War in Ukraine has introduced additional uncertainty into oil prices, fertilizer prices and supply, and grain markets.
- ▶ Drought and water concerns stress some regions and producers.





Farm Credit System Condition and Performance

as of
December 31, 2021

Hal Johnson
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Office of Examination



Topics

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

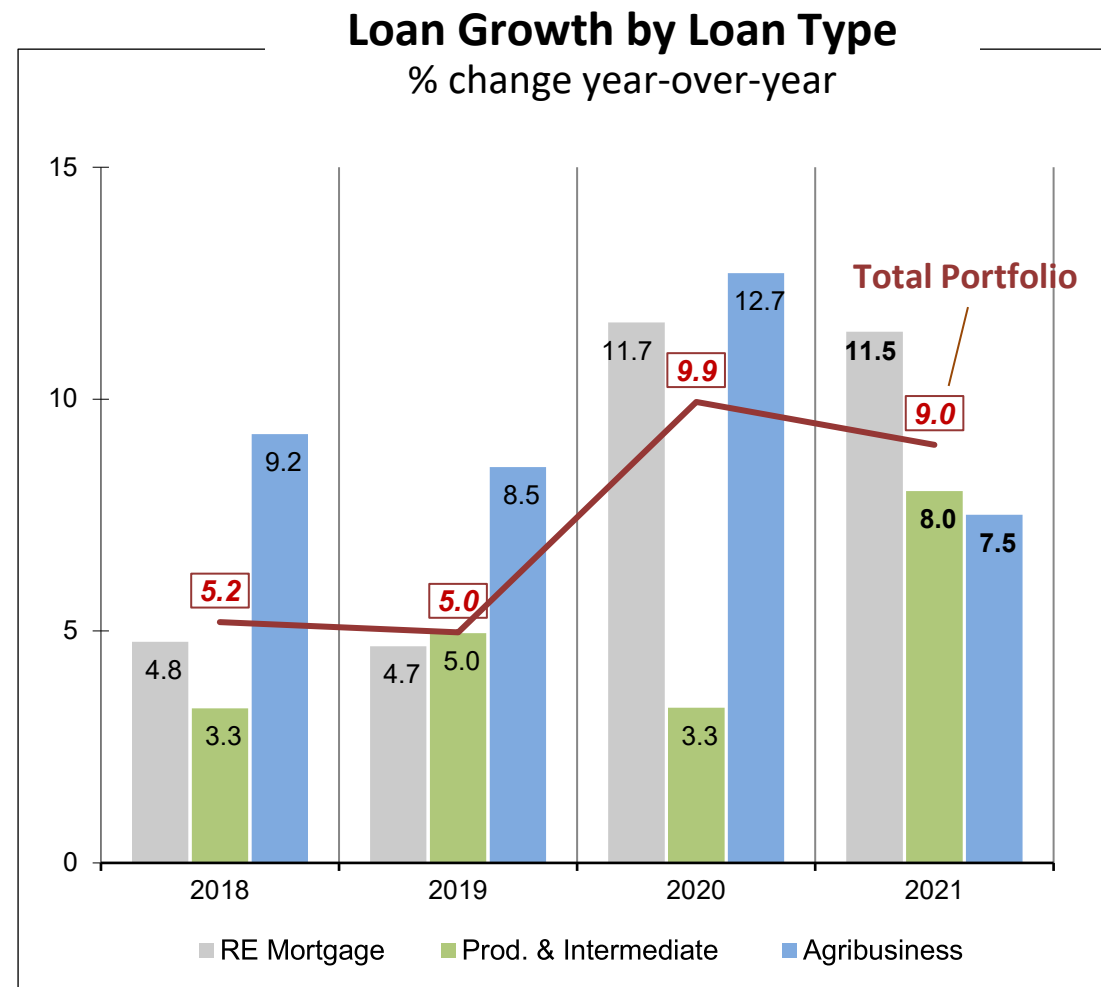
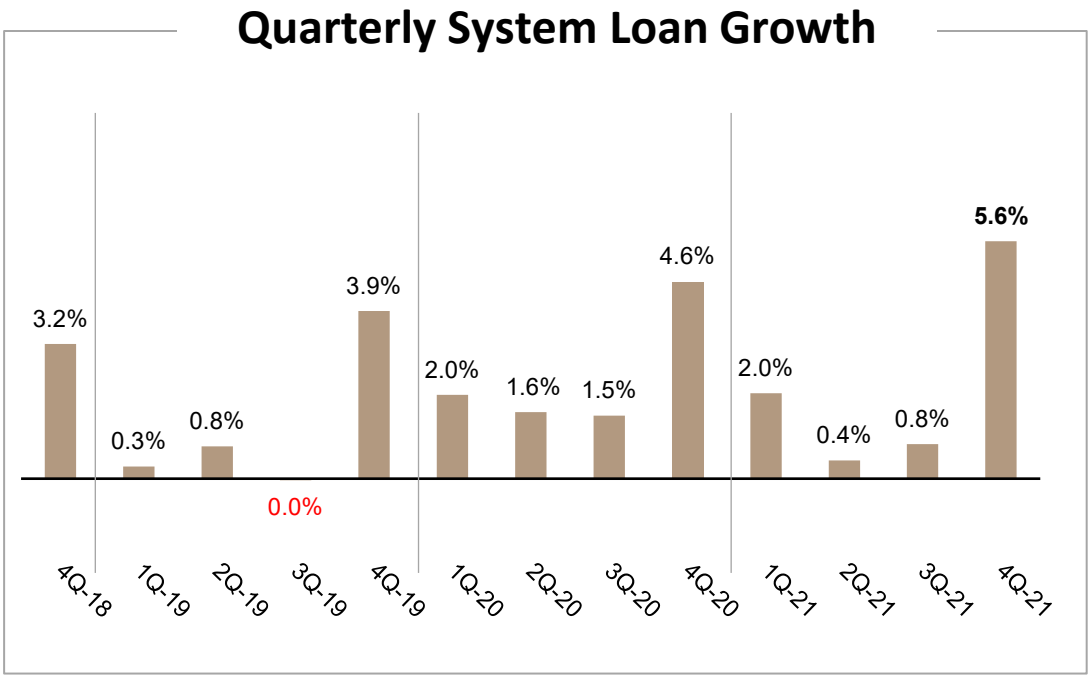




System's loan growth reflects a strong farm economy



Total Assets 12/31/21	\$436.0	+6.2% Qtr	Gross Loans 12/31/21	\$343.9	+5.6% Qtr
	billion	+8.8% 12M		billion	+9.0% 12M



Source: FCS Information Statements

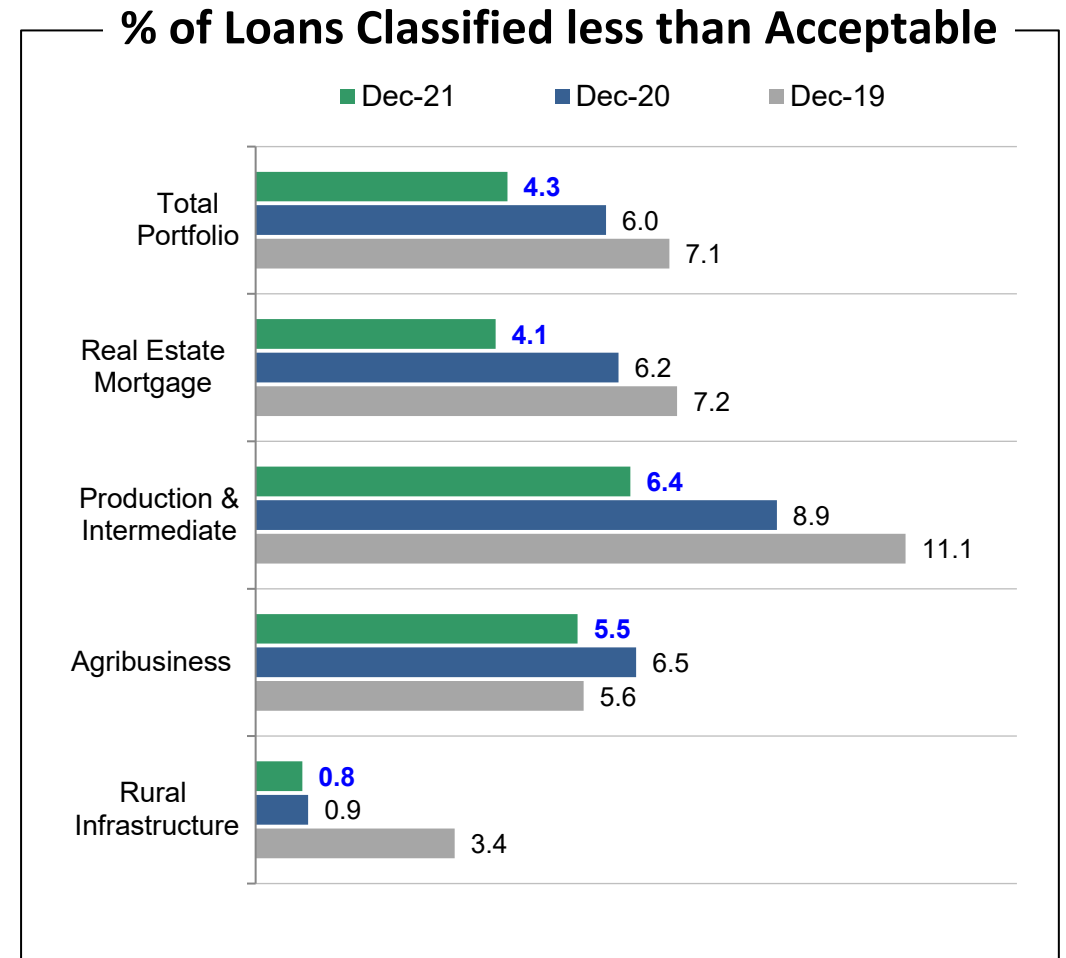


The System's portfolio performed well in 2021



Nonperforming Assets (12/31/21)	\$1.578 billion	Qtr chg. -\$206M or -11.5% 12 month chg. -\$319M or -16.8%
Delinquencies ⁽¹⁾ (12/31/21)	0.27%	Q4 '20 0.28% Q3 '21 0.22%

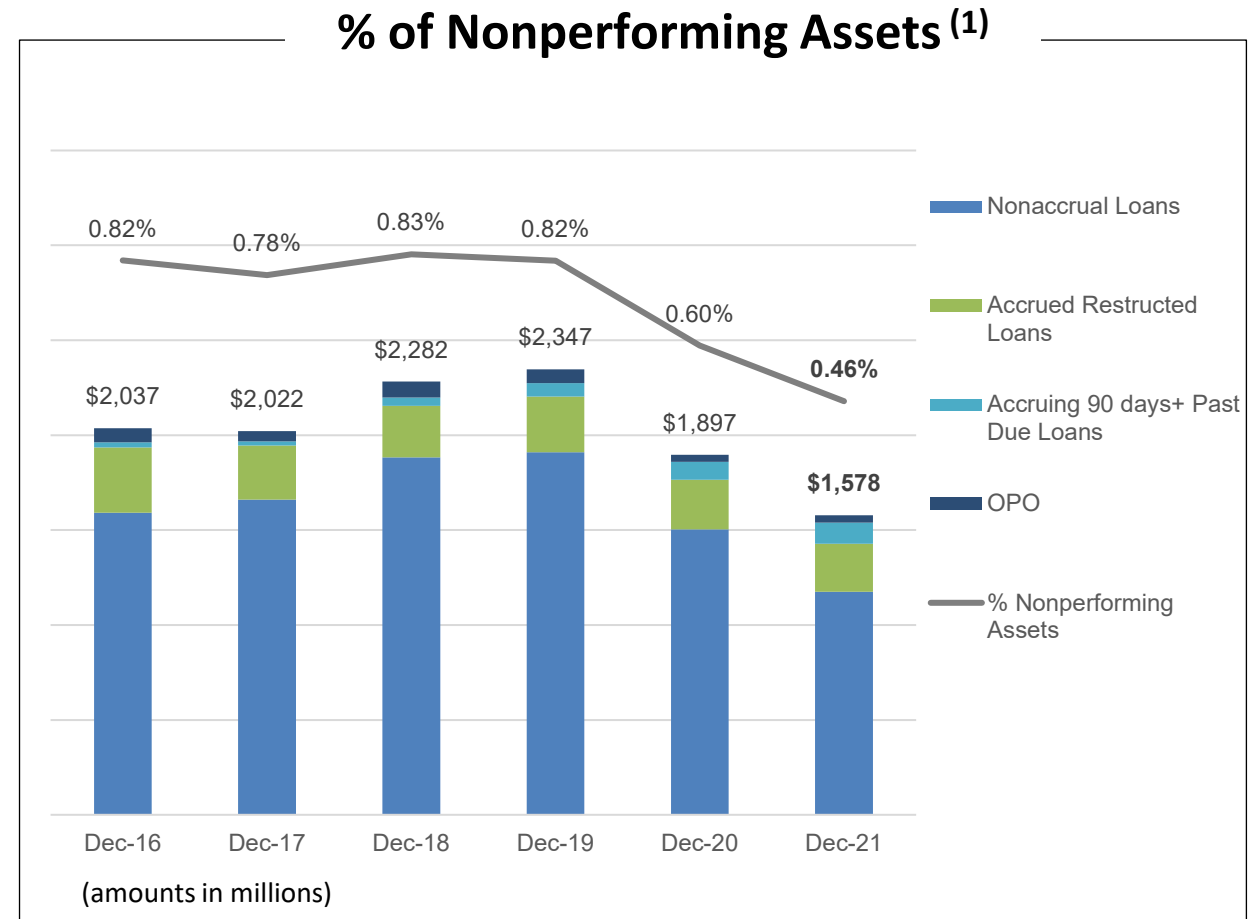
(1) accruing loans 30 days or more past due as a % of accruing loans





Loan credit quality is very good; focus on strong risk management practices crucial

- ▶ Nonperforming assets were 0.46% of loans outstanding and other property owned, the lowest level since 4th quarter 2007.
- ▶ Nonaccrual loans totaled \$1.176 billion on December 31, down 21.8% from a year ago.
- ▶ 63.7% of nonaccrual loans were current as to principal and interest.
- ▶ Higher agricultural production costs and increasing market volatility reinforces the need for strong risk management practices.



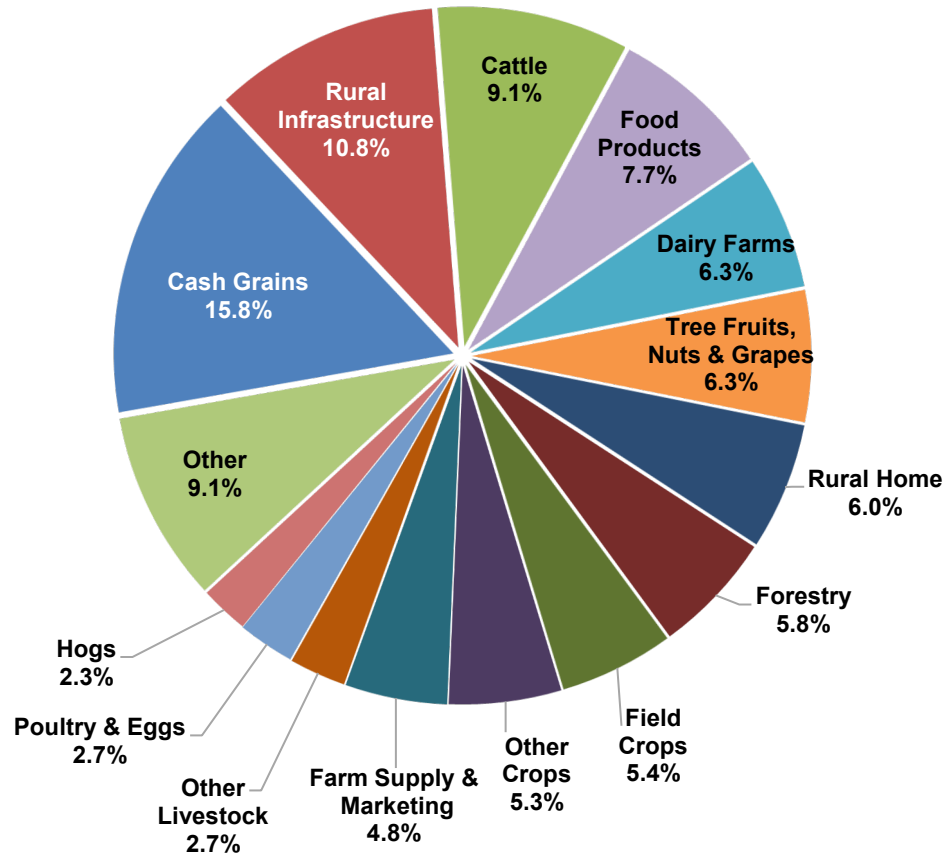
(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

Source: FCS Information Statements



System's portfolio is diversified by commodity

Loan Portfolio by Commodity Concentration



System Loan Portfolio (\$ in millions)	Dec-21	% of Total Portfolio	% chg. yr. over yr.
Cash Grains	54,230	15.8%	9.6%
Tree Fruits, Nuts & Grapes	21,524	6.3%	12.4%
Field Crops	18,668	5.4%	7.5%
Other Crop Production	18,180	5.3%	9.1%
Total Crop Production	112,602	32.7%	9.7%
Cattle	31,228	9.1%	13.3%
Dairy Farms	21,813	6.3%	9.0%
Poultry & Eggs	9,240	2.7%	6.2%
Hogs	7,937	2.3%	6.2%
Other Livestock	9,244	2.7%	15.9%
Total Animal Production	79,462	23.1%	10.8%
Rural Infrastructure	37,015	10.8%	7.4%
Food Products	26,484	7.7%	10.1%
Rural Home	20,707	6.0%	8.6%
Forestry	19,917	5.8%	7.3%
Farm Supply & Marketing	16,498	4.8%	4.7%
Other	31,244	9.1%	7.0%
Total	343,929	100.0%	9.0%

Source: FCS Information Statement



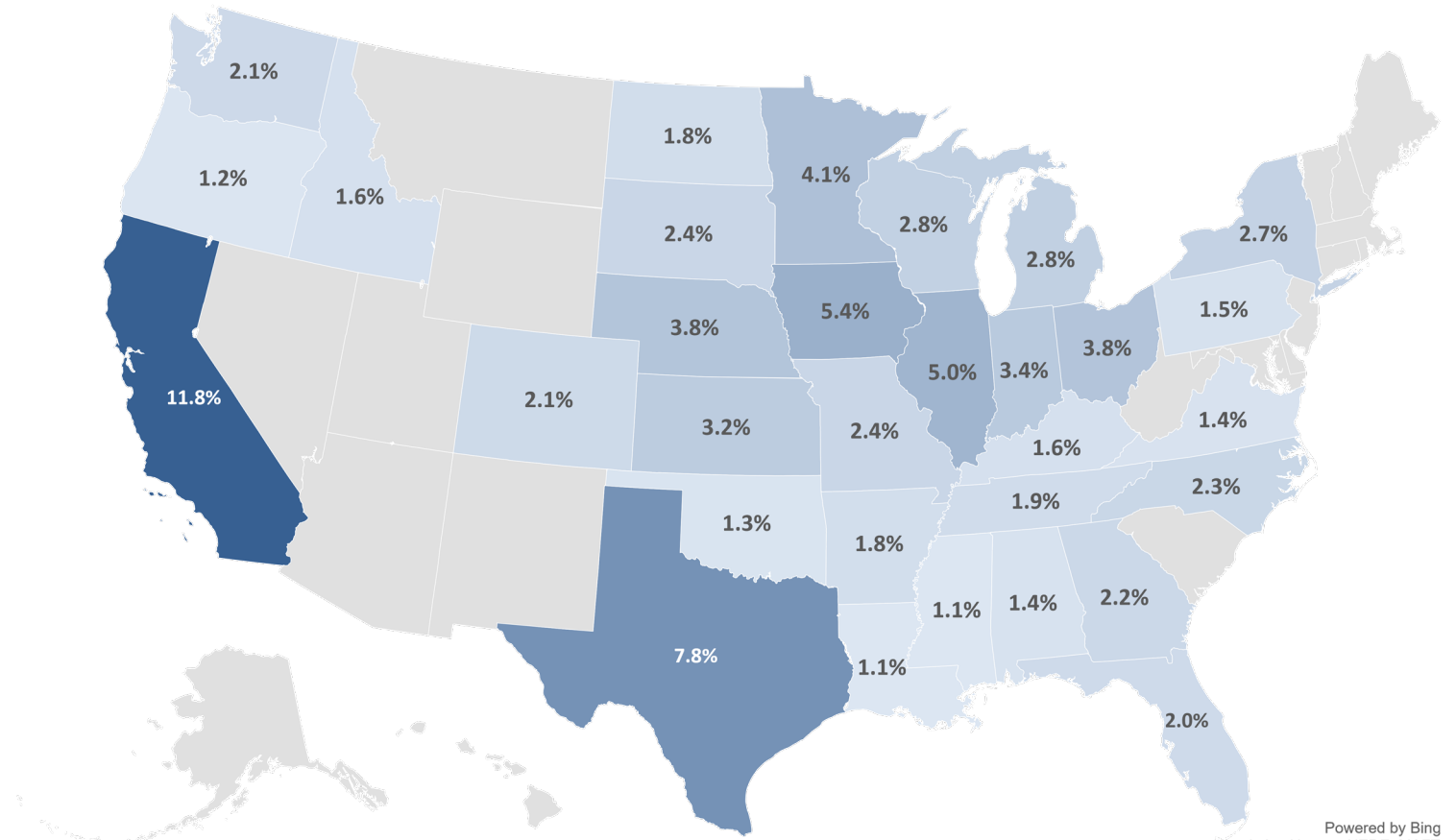
Portfolio volume is geographically distributed



% of System Loan Volume by State at Dec. 31, 2021

(only states with at least 1% are displayed)

Top 5 States	% of Portfolio
California	11.8%
Texas	7.8
Iowa	5.4
Illinois	5.0
Minnesota	4.1



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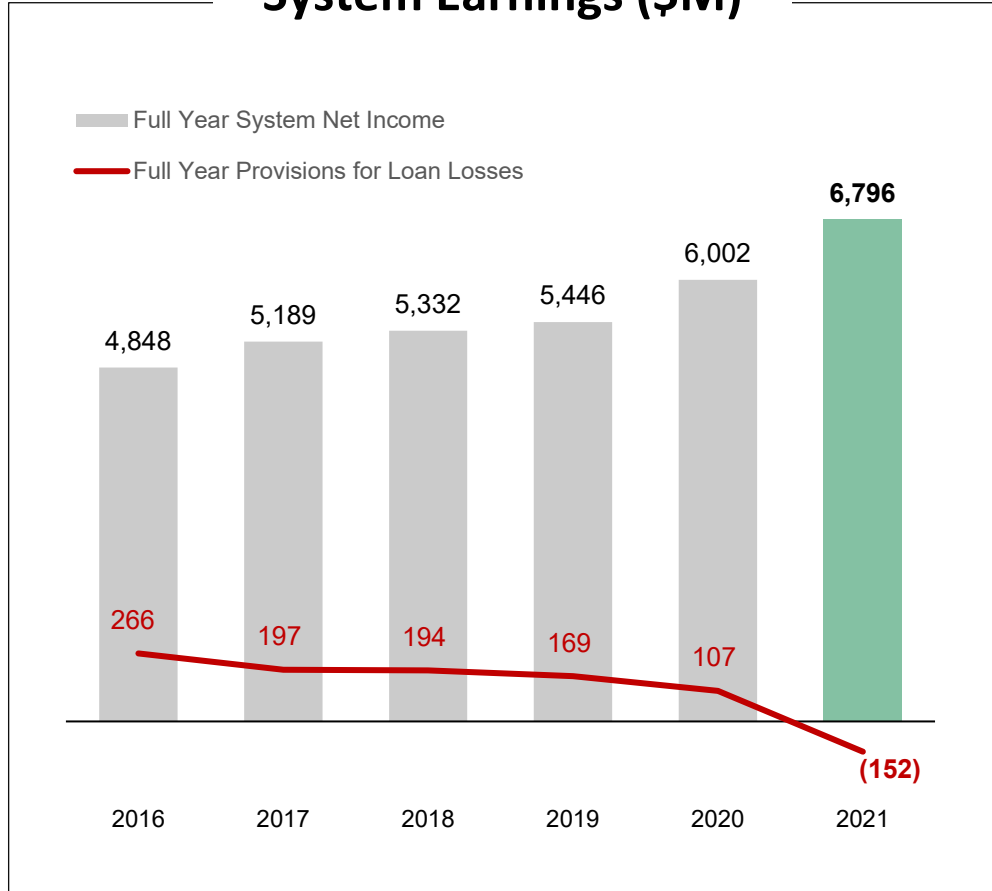
Source: FCS Information Statement



System reports strong financial results for 2021

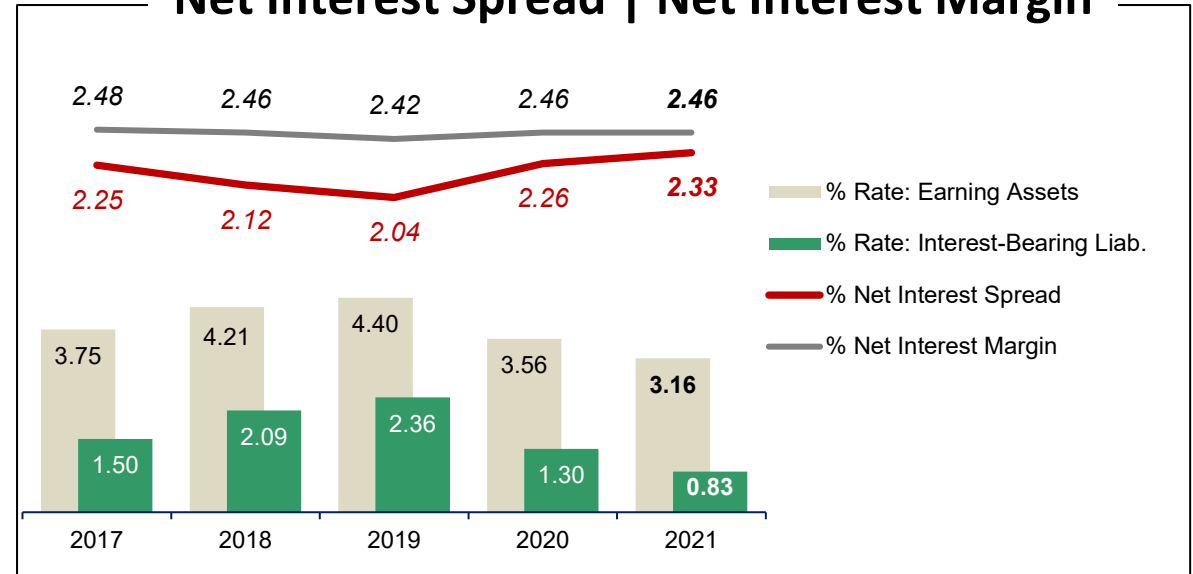


System Earnings (\$M)

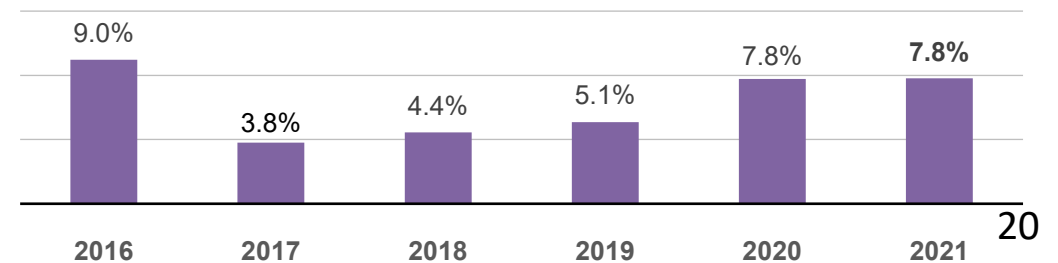


Source: FCS Information Statements

Net Interest Spread | Net Interest Margin



% Increase in Average Earning Assets (from the same period a year ago)





Strong earnings drive continued capital growth

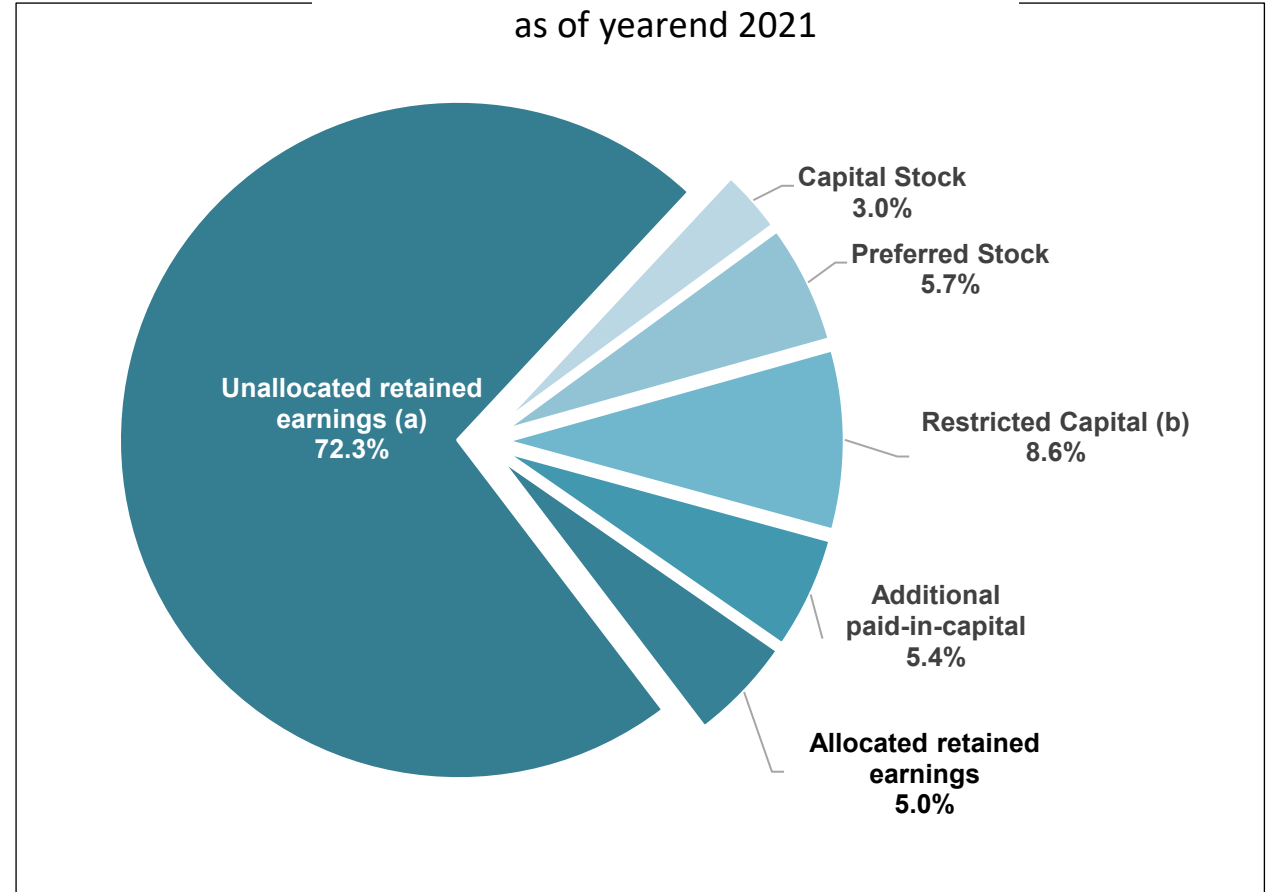
Capital and Liquidity

(as of December 31, 2021)

- ▶ Total Regulatory Capital levels:
Banks: 15.2% to 18.9%
Associations: 12.8% to 34.7%
- ▶ Days of available liquidity for the 4 funding banks ranged from 158 to 235 days.
- ▶ Capital and the allowance for loan losses as a % of loans at a district level ranged from 16.8% to 21.6%.

Total System Capital: \$69.5 B

as of yearend 2021



(a) includes \$1.2B in accumulated other comprehensive loss

(b) Restricted Capital represents capital associated with the FCS Insurance Fund



System Composite FIRS ratings



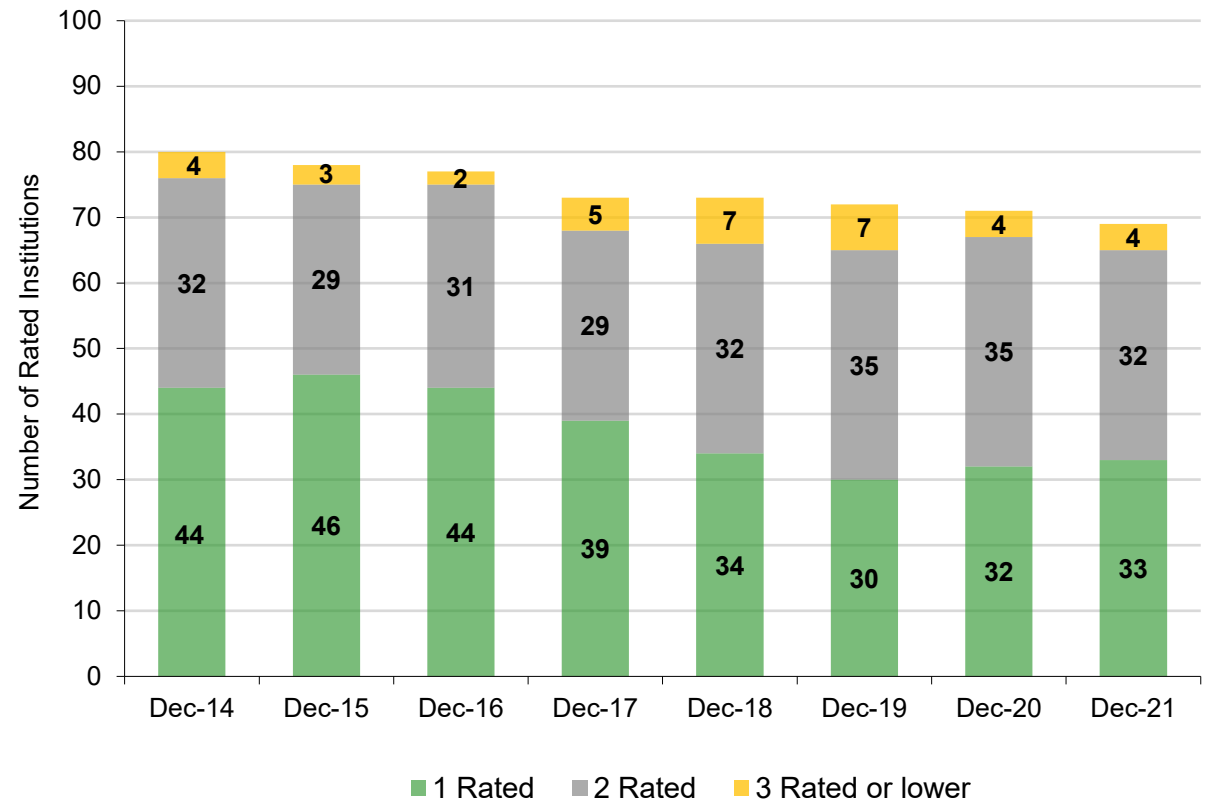
FIRS Ratings

(based on 12/31/21 financials)

- ▶ Composite FIRS ratings reflect the System's sound condition and strong financial performance.
- ▶ Over 94% of System Banks and Associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower account for less than 1.0% of System assets.

Source: FCA's FIRS ratings database

Composite FIRS Ratings Farm Credit System Banks and Associations





Summary and final points

- ▶ Producers squeezed by broad rise in agricultural production costs.
- ▶ Drought and water availability in the Western half of the U.S. is a continuing concern for agricultural producers.
- ▶ Portfolio loan quality is very good; continued emphasis on sound risk management practices essential.
- ▶ The Farm Credit System is safe and financially strong.
- ▶ System institutions are strongly capitalized and well-positioned to meet the credit needs of U.S. farmers and ranchers.

