

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
September 13, 2018**

These minutes reflect the business transacted at the September 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 10:28 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 five 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 August 9, 2018 (BM-13-SEPT-18-01)

Mr. Hall moved to approve the minutes for the August 9, 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-SEPT-18-01)**

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

Report

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.)

New Business

Final Rule: Farmer Mac Investment Eligibility (BM-13-SEPT-18-02)

Joe Connor of the **Office of Secondary Market Oversight**, and **Laura McFarland** of the **Office of General Counsel** presented the Final Rule: Farmer Mac Investment Eligibility.

Board Chairman Tonsager opened the discussion for questions by the board.

Board Chairman Tonsager asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chairman Tonsager called for a motion on the staff's recommendation.

Mr. Smith moved to approve the Final Rule: Mac Investment Eligibility.

Mr. Hall seconded the motion.

Board Chairman Tonsager asked if there was any further discussion.

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

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-13-SEPT-18-02)**

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

**Revised Bookletter: Director Election Nomination Procedures
(BM-13-SEPT-18-03)**

Mike Wilson of the **Office of Regulatory Policy**, and **Laura McFarland** of the **Office of General Counsel** presented the Revised Bookletter: Director Election Nomination Procedures.

Board Chairman Tonsager opened the discussion for questions by the board.

Board Chairman Tonsager asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chairman Tonsager called for a motion on the staff's recommendation.

Mr. Smith moved to approve the Revised Bookletter: Director Election Nomination Procedures.

Mr. Hall seconded the motion.

Board Chairman Tonsager asked if there was any further discussion.

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

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-13-SEPT-18-03)**

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

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 9:56 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 G.)

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. Hall moved that the meeting be adjourned.

Mr. Smith seconded the motion.

Board Chairman Tonsager called the question.

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

The meeting adjourned at 10:28 a.m.

NOTATIONAL VOTE ACTIONS

There were three notational vote actions approved by the FCA Board from August 9, 2018, through September 12, 2018 as follows:

Item Number	Action Date	Voting Results	Subject
NV 18-12	08/21/2018	Approved	Extend effective date of subsidiary mergers of FCS Southwest, ACA; and Farm Credit West, ACA, to not later than 11/1/2021
NV 18-13	09/04/2018	Approved	Reissue EEO and Diversity Policy Statement #62
NV 18-14	09/05/2018	Approved	FCA Revised 2019 and Proposed 2020 Budgets

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

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

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

Approved: October 11, 2018

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
September 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
OIT		
Golley, Jerald	X	X
OCPA		
Stokke, Michael	X	X
DeLancy, Toni	X	
Middleton, Russell	X	X
OSMO		
Rea, Laurie	X	X
Conner, Joe	X	X
Hudson, Bruce	X	X
Bravenec, Bill	X	X
OGC		
Donner, Mary Alice	X	X
Strickland, Joy	X	X
McFarland, Laura	X	
OE		
Coleman, Robert	X	X
Paulsen, Roger	X	X
Johnson, Hal	X	X
Lund, Zachary	X	X
OIG		
Laguarda, Wendy	X	X
ORP		
Van Meter, Gary	X	X
Mardock, Barry	X	X
Shields, Dennis	X	X
Wilson, Mike	X	
Gibbs, Paul	X	

OFFICE	OPEN SESSION	CLOSED SESSION
Tulman, Sarah	X	X
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X
OAS		
Bell, Vonda	X	X
FCSIC		
Rubin, Howard	X	X
Wynn, Wade	X	X
GENERAL PUBLIC	5	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
September 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 September 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 August 9, 2018

Report

- 2 Quarterly Report on Economic Conditions and FCS Conditions and Performance

New Business

- 3 Final Rule: Farmer Mac Investment Eligibility
- 4 Revised Bookletter: Director Election Nomination Procedures

CLOSED SESSION

- 5 Office of Examination Quarterly Report¹

September 4, 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 August 9, 2018 Regular Board Meeting

BM-13-SEPT-18-01

Effective Date: September 13, 2018

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for August 9, 2018, Regular Board Meeting as submitted.

DATED THIS 13th DAY OF SEPTEMBER 2018

BY ORDER OF THE BOARD

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



FCA Board Meeting September 2018

Exhibit D

Quarterly Report on FCS Condition September 13, 2018

Dennis A. Shields
Hal Johnson





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy



Overview

- ▶ Economic growth continues to underpin agricultural demand
- ▶ Land values remain stable
- ▶ Farm cash receipts trend sideways; farm liquidity falls
- ▶ Soybean and hog prices weaken
- ▶ Trade situation still developing
- ▶ Additional farm assistance (and the Farm Bill) to arrive

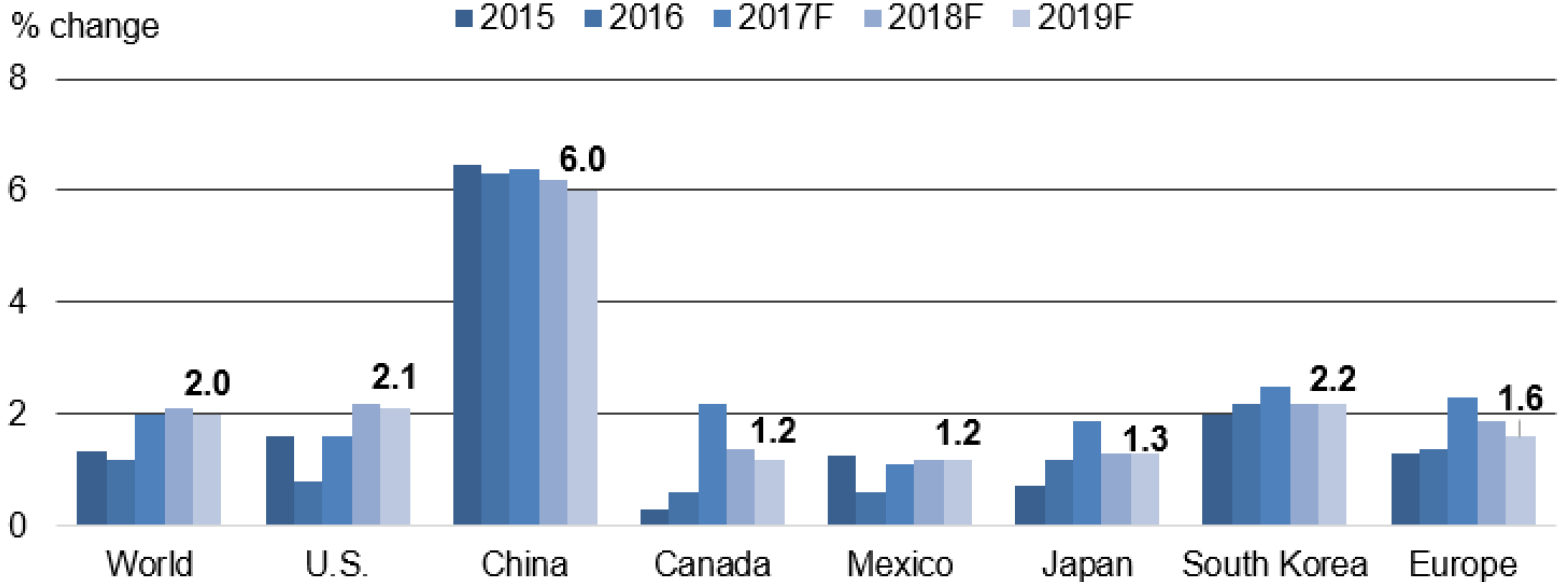




Global economic growth continues in major U.S. agricultural markets



Real gross domestic product per capita



Source: USDA/ERS using data and forecasts from Global Insight, International Monetary Fund, and Oxford Economics.



Favorable trends for U.S. income, unemployment, and housing



	U.S. real disposable personal income	Unemployment rate	Housing starts
	% change	%	mil. units
2016	1.7	4.9	1.18
2017	2.6	4.4	1.21
2018F	2.8	3.9	1.29
2019F	2.2	3.6	1.34

Source: Consensus Economics, Inc.



Long-term interest rates moving up

Percent, 10-year Treasury rate



Source: Federal Reserve Bank of St. Louis.

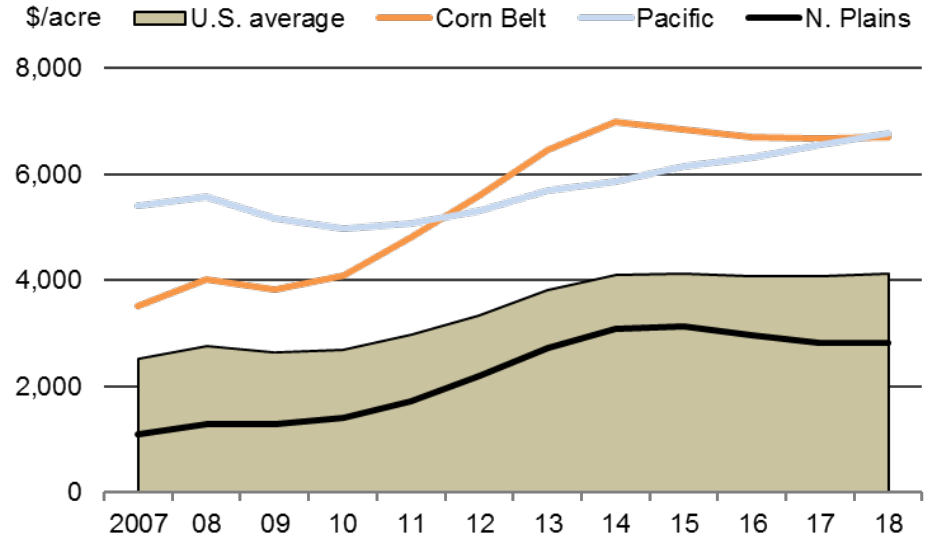


Cropland values are flat to slightly higher in 2018

- ▶ U.S. average cropland value up 1.0% in 2018
- ▶ Small increase in Corn Belt (+0.6%) and no change in Northern Plains
- ▶ Increases in most other regions



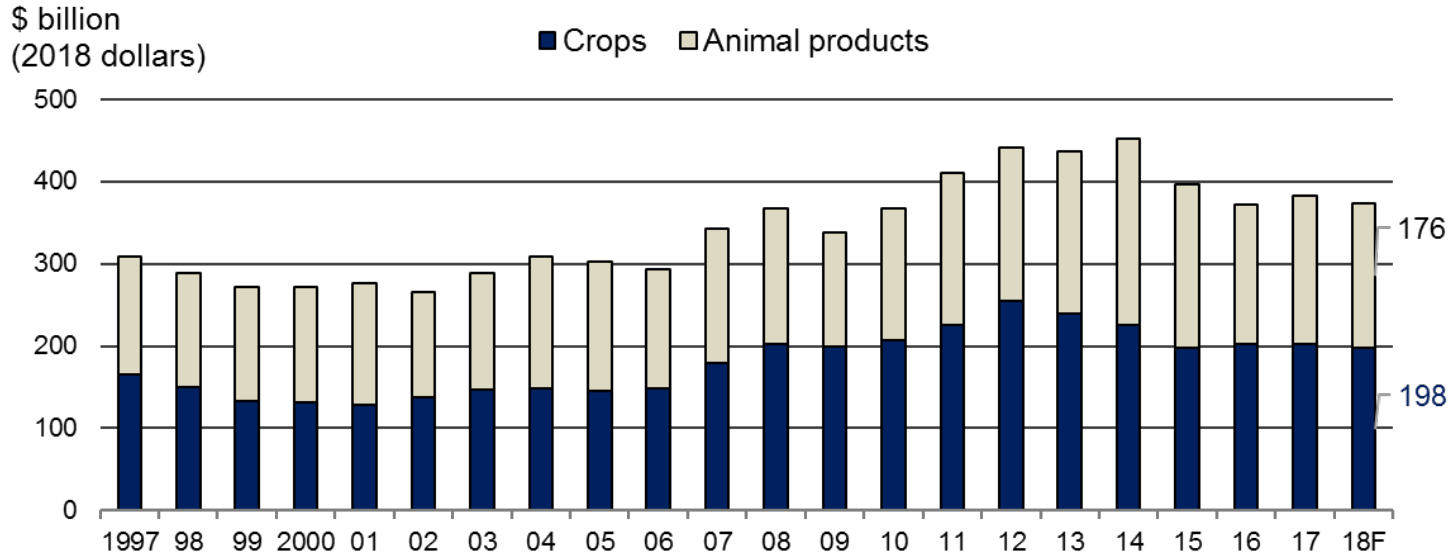
Cropland values





U.S. farm cash receipts decline to pre-boom levels

Cash receipts adjusted for inflation



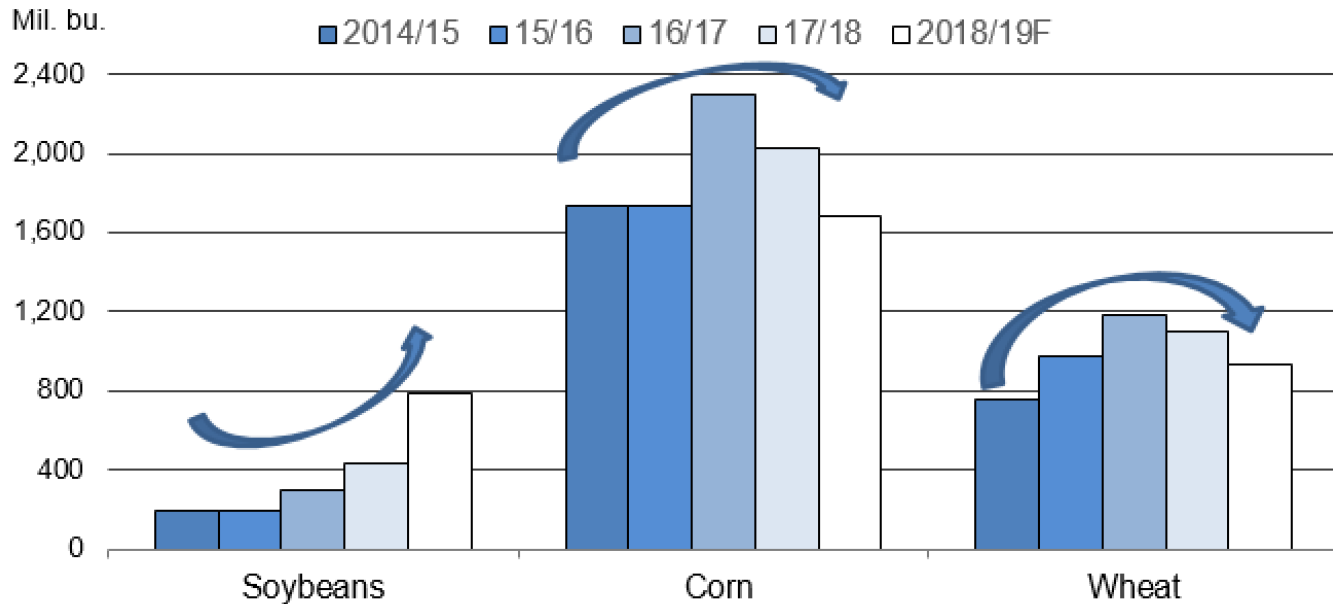
Source: USDA/ERS.



U.S. soybean stocks to rise, corn and wheat stocks to fall



U.S. ending stocks



Source: USDA.



U.S. soybean prices to fall in 2018/19

U.S. season-average farm prices and returns

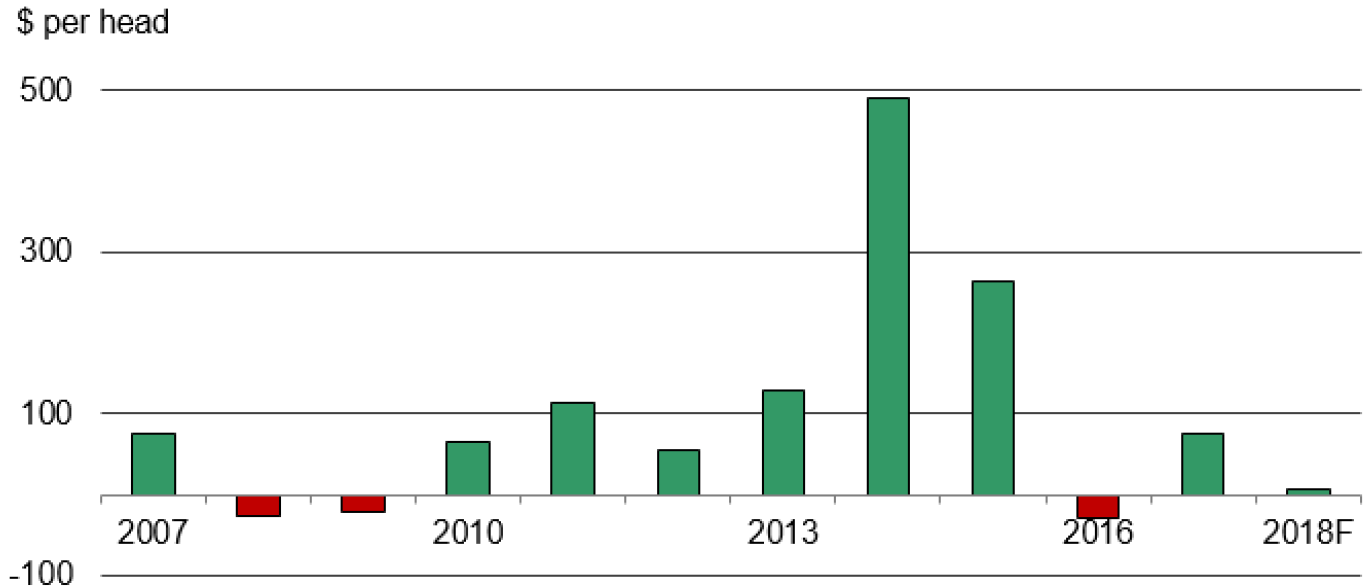
	2016/17	2017/18	2018/19F
Soybean price (\$/bu.)	9.47	9.35	8.73
Returns after variable costs (\$/acre)	328	296	288
Corn price (\$/bu.)	3.36	3.4	3.62
Returns after variable costs (\$/acre)	237	259	306
Wheat price (\$/bu.)	3.89	4.73	5.12
Returns after variable costs (\$/acre)	95	110	131



Source: Food & Agricultural Policy Research Institute, University of Missouri.



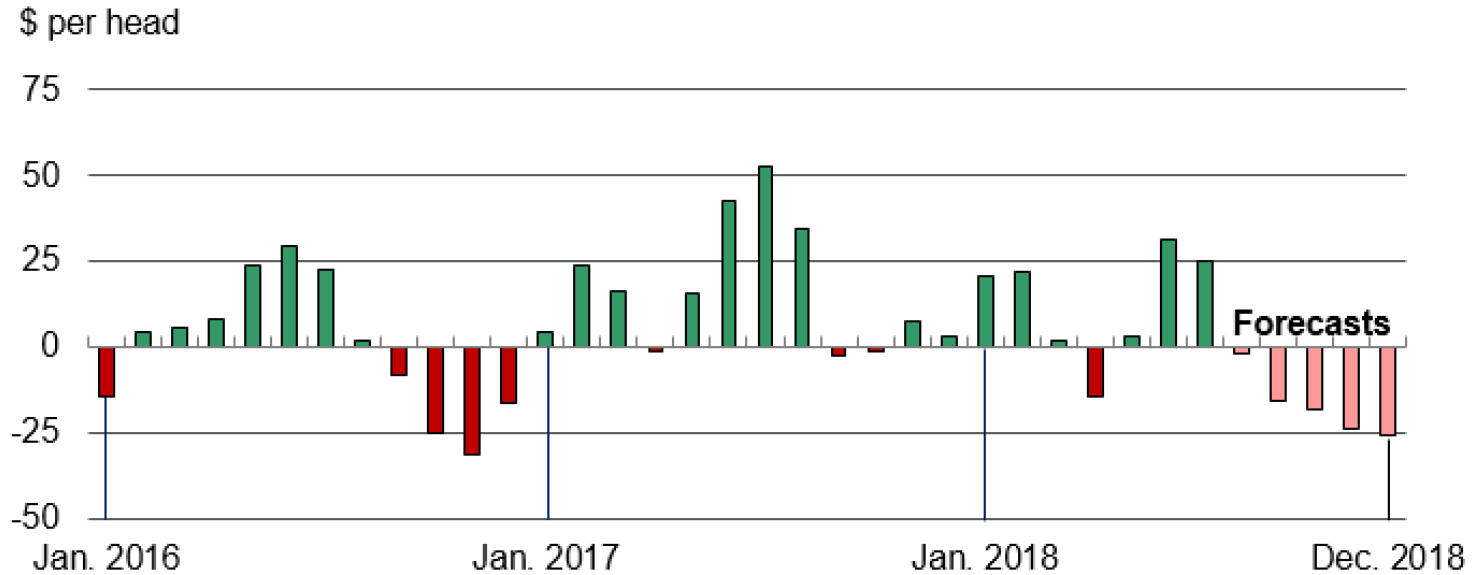
Cow/calf returns are near breakeven



Source: Informa Economics.



Hog returns head south



Source: Informa Economics.

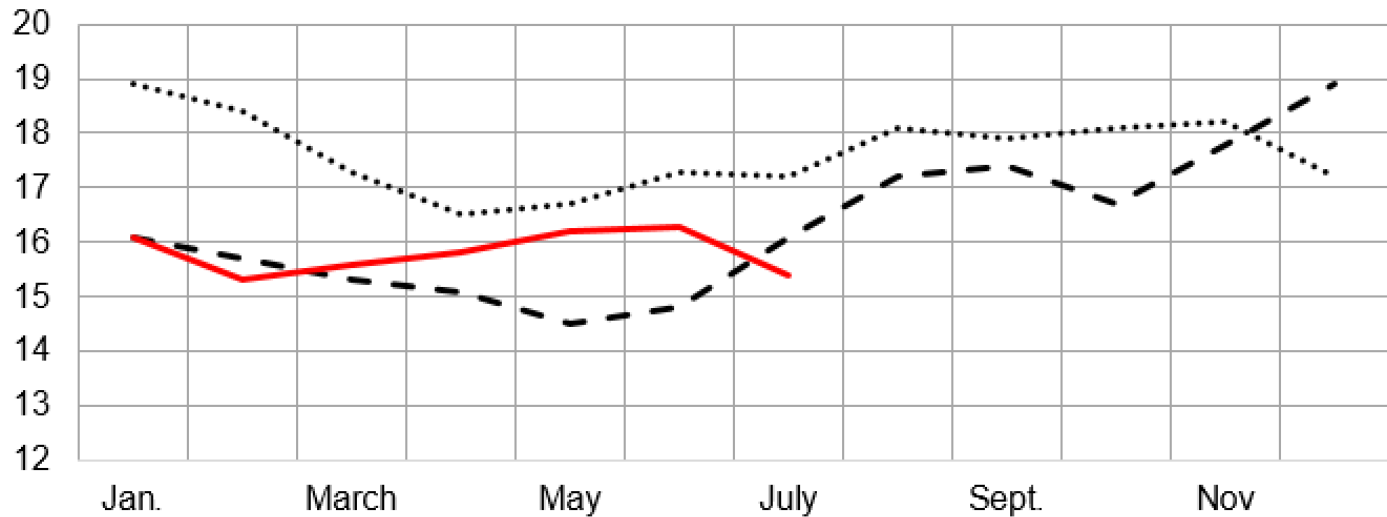


Milk prices run below last year

U.S. milk price received by farmers

— 2016 2017 — 2018

\$ per hundredweight



Source: USDA/NASS.





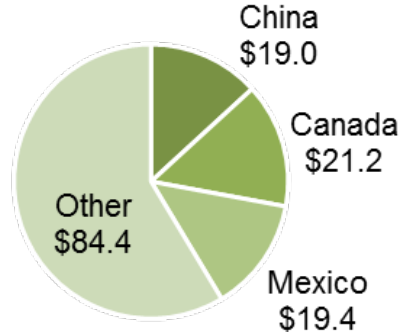
Trade situation creates uncertainty

- ▶ China's retaliatory tariffs
- ▶ Negotiations with Mexico and Canada
- ▶ Trade diversion and alternative suppliers

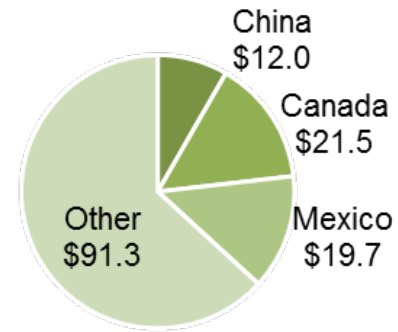


U.S. agricultural export forecasts

FY 2018 = \$144.0 billion



FY 2019 = \$144.5 billion



Source: USDA, August 30, 2018.



Global soybean flows could shift

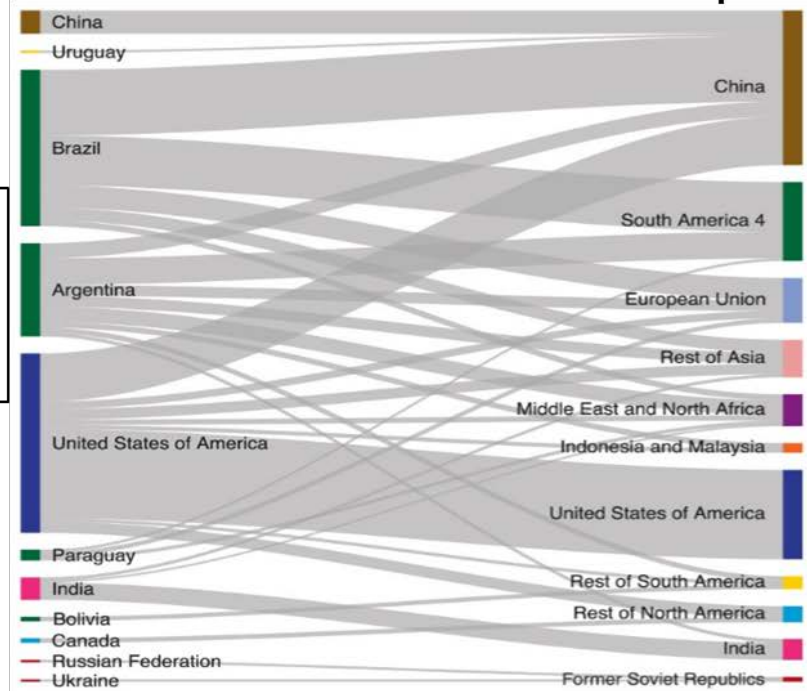


1. **China** produces few soybeans.

3. **Brazil, Argentina, and United States** are **China's** major suppliers.

Production

Consumption



2. **China** is the world's largest soybean consuming nation.

4. Other countries also purchase soybeans from South America; where would these importers find soybeans?

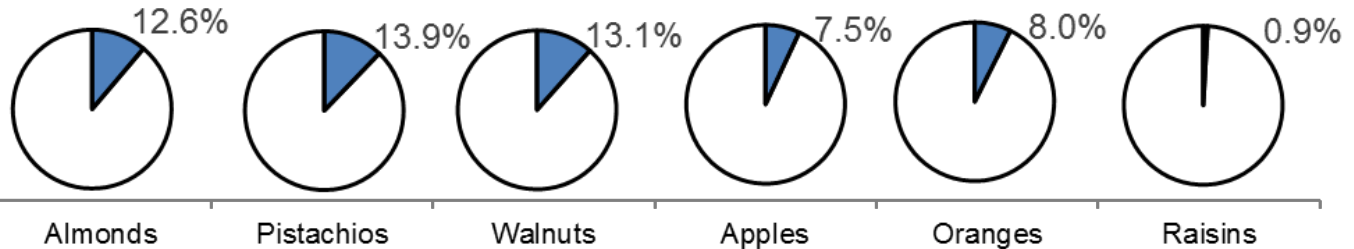
Source: USDA/ERS.

Typical trade flows using 2013 data for soybeans and products.

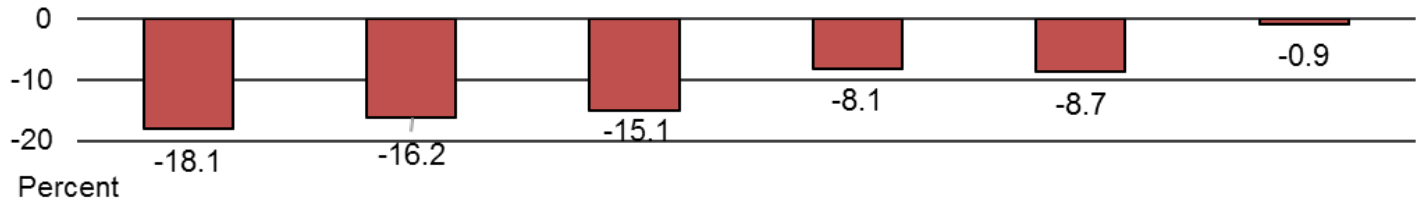


Possible impacts on California fruit and tree nuts from additional tariffs

Share of U.S. production exported to affected markets*



Estimated price decline**



*Affected markets include China & Hong Kong, India, Mexico, and Turkey.

**Assumes all production exported to affected markets is absorbed by domestic or other foreign markets.

Source: University of California Agricultural Issues Center. August 1, 2018.



Emergency assistance for farmers affected by tariffs

USDA authorizes up to \$12 billion in programs

1. Initial farm payments to arrive this fall (\$4.7 billion)

Payment rate times 50% of producer's 2018 production, hog inventory, or historical milk production

Soybeans	Hogs	Cotton	Sorghum	Milk	Wheat	Corn
\$1.65 / bu.	\$8 / head	\$0.06 / lb.	\$0.86 / bu.	\$0.12 / cwt.	\$0.14 / bu.	\$0.01 / bu.
\$3,630 mil.	\$290 mil.	\$277 mil.	\$157 mil.	\$127 mil.	\$119 mil.	\$96 mil.

2. Commodities for nutrition programs (\$1.2 billion)

Purchases scheduled for 31 products (e.g., fruits, tree nuts, beans, meat)

3. Trade promotion (\$0.2 billion)





Farm Bill heads to the finish line

- ▶ Farm safety net expected to remain intact
- ▶ Modest changes/upgrades expected for farm programs
- ▶ Modifications in early 2018
 - Improvements to margin protection program for dairy
 - Cotton returns as a “covered” commodity
 - Eliminated payment limits on certain disaster programs





Risks ahead

- ▶ Upward pressure on interest expenses
- ▶ Supply gains and demand changes
- ▶ Trade policy that would shift U.S. export potential to competitors
- ▶ Liquidity at the borrower level





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
June 30, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

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

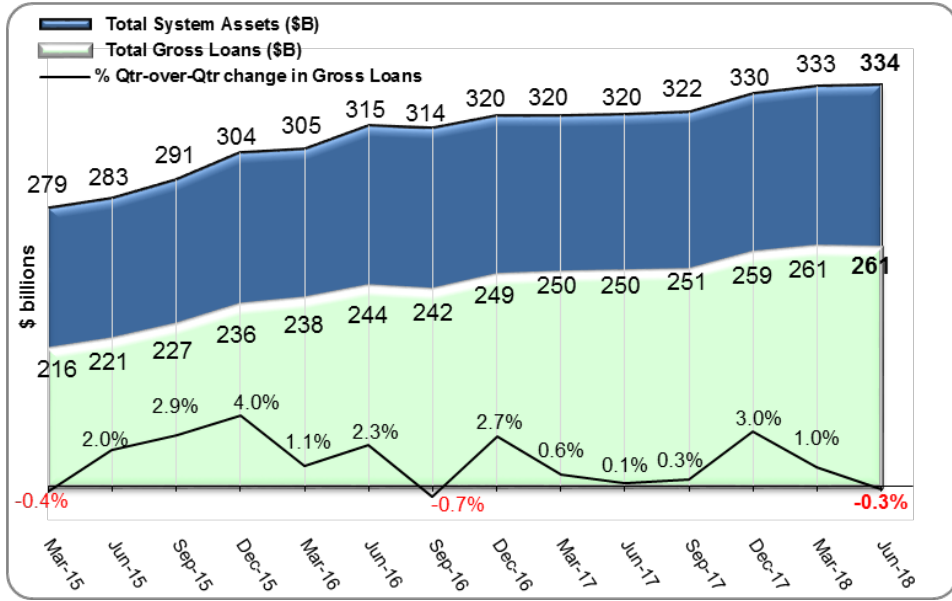




System grows at a measured pace for the 1st 6 months of 2018

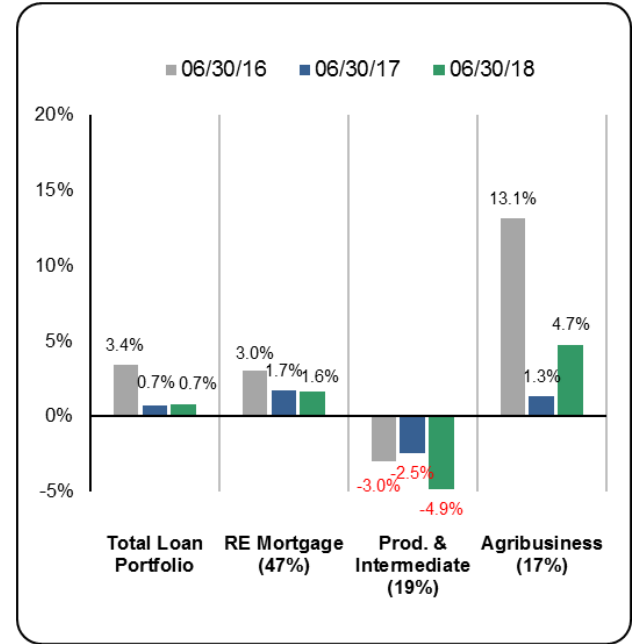


Total Assets 6/30/18	\$333.8 billion	+0.2% Qtr +1.3% YTD	Gross Loans 6/30/18	\$260.7 billion	-0.3% Qtr +0.7% YTD
--------------------------------	---------------------------	------------------------	-------------------------------	---------------------------	------------------------



Source: FCS Information Statements

Loan Growth by Loan Type (% change year-to-date through June)

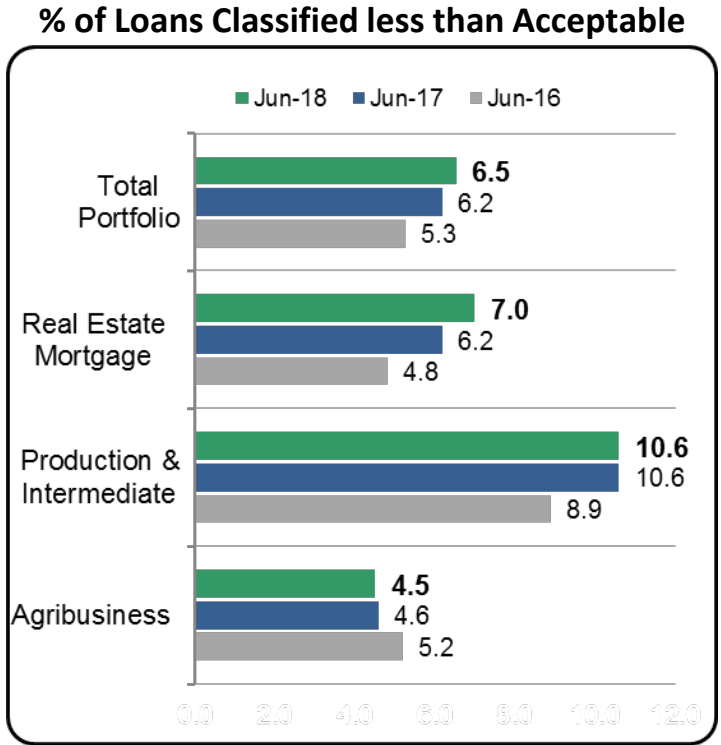
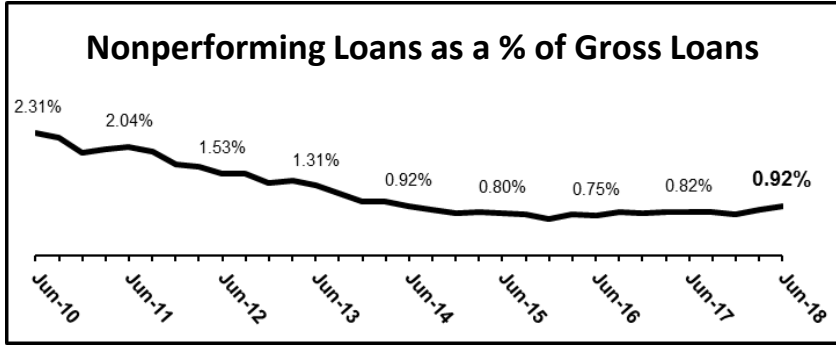




Loan portfolio risk edges up; level remains manageable



Nonperforming Loans	\$2.401 billion	Qtr chg: +192M up 8.7%	YTD chg: +434M up 22.1%
Delinquencies accruing loans ≥ 30 days past due	2Q '18 0.26% 2Q '17 0.23%	% of total accruing loans	
Allowance for Loan Losses	\$1.666 billion	69% of nonperforming loans 82% of nonaccrual loans	



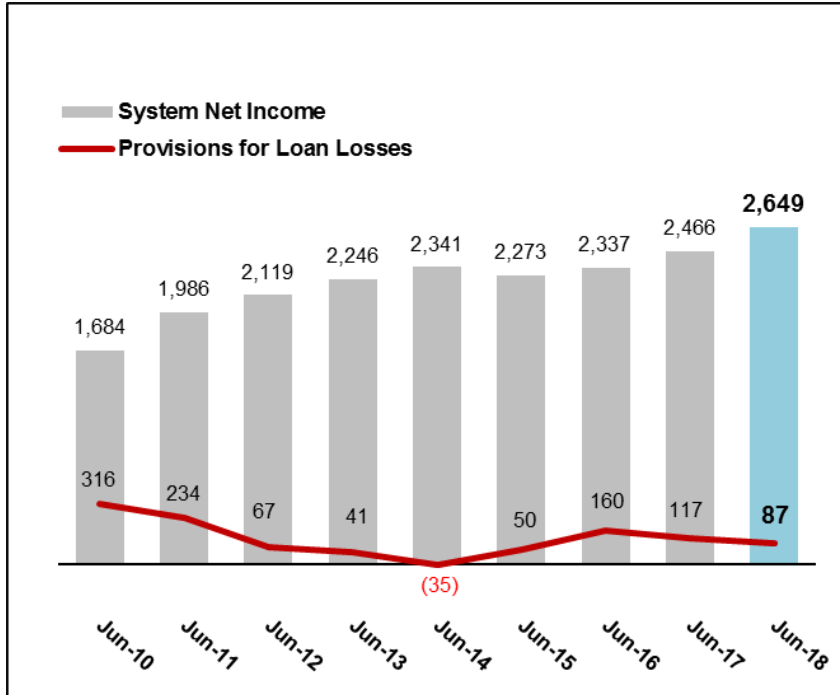
Source: FCS Information Statements



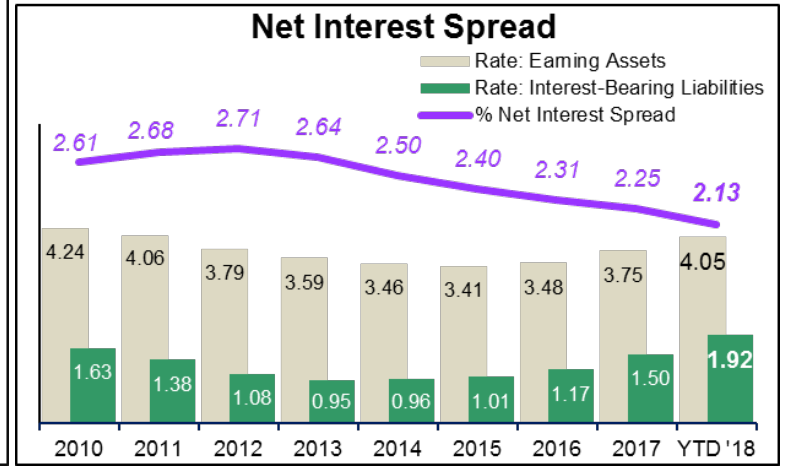
System is financially sound



System Earnings



Net Interest Spread (YTD annualized)	June '18 2.13%	June '17 2.23%
Net Interest Margin (YTD annualized)	June '18 2.44%	June '17 2.45%



Source: FCS Information Statements



Strong earnings support continued capital growth

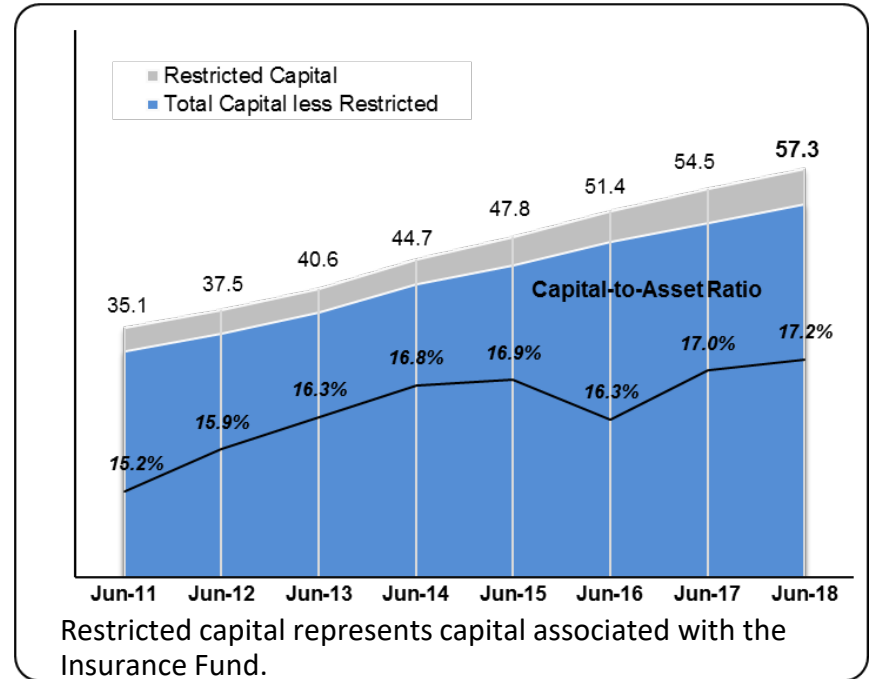


Capital and Liquidity as of June 2018

- System capital as a percentage of total assets was 17.2% compared to 16.8% at yearend 2017 and 17.0% as of June 2017
- Retained earnings as a percentage of total capital equaled 79.8%
- System liquidity equaled 180 days of coverage. As of June 30, days of available liquidity for the four funding banks ranged from 145 to 234 days.

Source: FCS Quarterly Information Statements

Total System Capital (\$B)



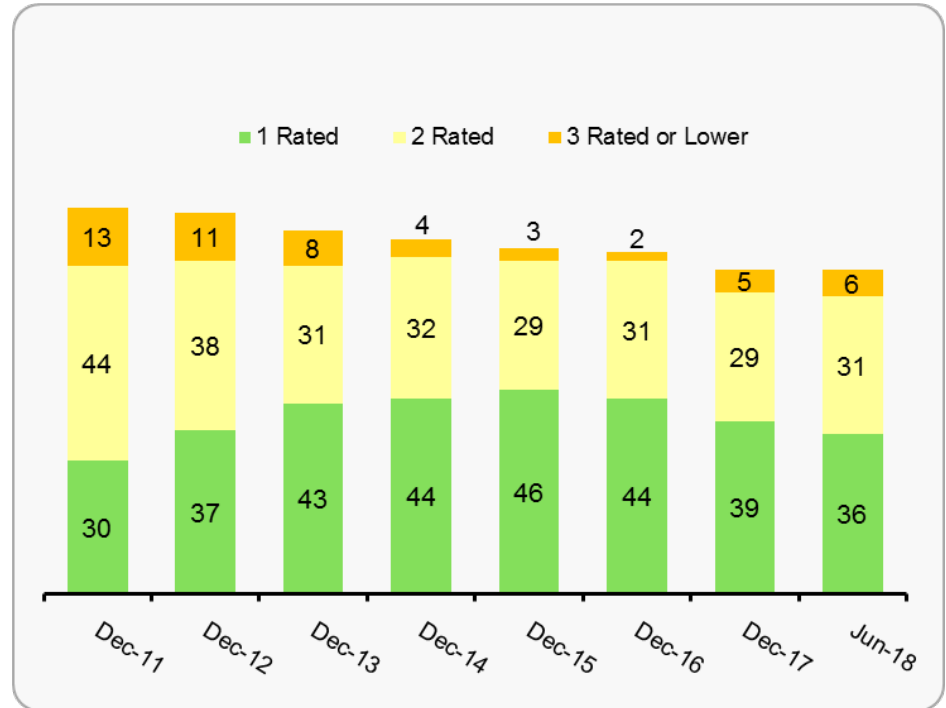


System FIRS ratings



FIRS Ratings

- Composite FIRS ratings reflect the System's solid financial performance and favorable portfolio credit quality
- Almost 92% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower account for 2.0% of total System assets



Source: FCA's FIRS ratings database



Summary and final points

- ▶ Risks for agriculture:
 - trade uncertainties, rising interest rates, aligning production with demand, declining farm liquidity, drought in the Southwest
- ▶ The System is financially safe and sound
- ▶ Loan portfolio risk is rising as financial challenges continue for certain ag sectors, but the level remains manageable.
- ▶ System institutions are well-capitalized and have substantial risk-bearing capacity





Questions



THANK YOU

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Final Rule: Farmer Mac Investment Eligibility

BM-13-SEPT-18-02

Effective Date: September 13, 2018

THE FCA BOARD HEREBY:

- Approves the Final Rule amending the non-program investment eligibility criteria for the Federal Agricultural Mortgage Corporation; and
- Authorizes staff to make any technical or grammatical changes that may be necessary for publication in the *Federal Register*.

DATED THIS 13th DAY OF SEPTEMBER 2018

BY ORDER OF THE BOARD

/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

Revised Bookletter: Director Election Nomination Procedures

BM-13-SEPT-18-03

Effective Date: September 13, 2018

Impact on Prior Board Actions: This booklet replaces BL-043 Revised – “Guidance on Farm Credit Bank and Association Nominating Committees,” dated March 8, 2007.

THE FCA BOARD HEREBY:

- Approves the Bookletter 043 Revised [2018] — “Guidance on Farm Credit Bank and Association Nominating Committees” containing revisions that update operational guidance on nominating committees within the Farm Credit System; and
- Authorizes staff to make any technical or grammatical changes to the Bookletter 043 Revised [2018] prior to its issuance.

DATED THIS 13th DAY OF SEPTEMBER 2018

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board

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 September 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).

September 13, 2018

Date

/s/

Charles R. Rawls
General Counsel