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# Funding Update for the Farm Credit System



# Recent Financial Headlines

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## **“Why Realtors Have Embraced Brutal Honesty, *Smells Like a Farmtown*”**

- Lots of Americans have relocated during the Covid-19 pandemic, sometimes sight unseen. Real-estate agents are doing some truth-telling in advance.





# Recent Financial Headlines

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***“U.S. National Debt Exceeds \$30 Trillion for First Time”***

- Increase from pre-pandemic levels fueled by trillions of dollars spent on aid programs for small businesses, workers and others.





# Recent Financial Headlines

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## “U.S. Treasury Yields Rise After Positive Jobs Data ”

- Move extends a recent climb in government bond yields.





# Recent Financial Headlines

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## “U.S. Inflation Accelerates to 40-Year High”

- Consumer-price index rose at 7.5% annual rate in January





# Recent Financial Headlines

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## “Bank of England Enacts First Back-to-Back Rate Rises Since 2004”

- Four of the rate-setting panel’s nine members wanted a bigger increase to tame inflation.





# Recent Financial Headlines

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## “Treasury Yields Hit 2% After Inflation Data”

- Yields on shorter-term Treasuries led gain.





# Recent Financial Headlines

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## **“As Inflation Soars, Central Banks Scramble to Lift Rates”**

- Bank of England raises rates while ECB leaves door open to tighter monetary policy; facing a ‘trade-off between strong inflation and weakening growth’







# Recent Financial Headlines

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## “China’s Property Crisis Has Investors in Green Bonds Seeing Red”

- Chinese real-estate firms sold close to \$10 billion of green bonds in 2021





# Recent Financial Headlines

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## “Eurozone Inflation Climbs to Fresh High as Russian Invasion Confronts ECB With Dilemma”

- Pickup in inflation driven by higher energy prices, with further increases likely





# Recent Financial Headlines

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## “Oil Briefly Tops \$115”

- European natural-gas prices rise as Russian ruble continues to fall





# Funding Update Topics

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- Global Market
- Agency Debt Market
- Funding Corporation Activity
- Yields & Spreads on FCS Debt
- FCS Liquidity
- LIBOR/SOFR
- War in Eastern Europe





# Global Market

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- Federal Reserve
- E.C.B., Bank of England, Bank of Japan
- U.S. Treasury
- China
- War in Eastern Europe





# System High Level Financials



- Assets – \$ 436.0 billion (+ 8.8%)
- Loans – \$ 343.9 billion (+ 9.0%)
- A.L.L. – \$ 1.6 billion (- 9.1%)
- Cash & Invts. – \$ 80.8 billion (+ 8.9%)
- Capital – \$ 69.5 billion (+ 6.0%)
- Net Income – \$ 6.8 billion (+13.2%)



# Credit Rating Agencies - Outlook for the United States

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- Standard & Poors – AA+  
Outlook – Stable
- Moody's – Aaa  
Outlook – Stable
- Fitch – AAA  
Outlook – *Negative*





# Agency Debt Issuance

Billions of Dollars	2017	2018	2019	2020	2021
F.H.L.B.	\$2,499	\$2,856	\$2,739	\$1,975	\$1,467
<b>FCS</b>	<b>278</b>	<b>308</b>	<b>364</b>	<b>421</b>	<b>415</b>
Freddie Mac	480	413	558	465	22
Fannie Mae	710	556	572	369	50
<b>Total</b>	<b>\$3,967</b>	<b>\$4,133</b>	<b>\$4,233</b>	<b>\$3,230</b>	<b>\$1,954</b>

Source: Agency Websites







# Agency Debt Outstanding

Billions of Dollars	2017	2018	2019	2020	2021
F.H.L.B.	\$ 1,034	\$1,044	\$ 1,005	\$ 737	\$653
<b>FCS</b>	<b>265</b>	<b>280</b>	<b>292</b>	<b>322</b>	<b>353</b>
Fannie Mae	278	204	158	275	202
Freddie Mac	317	274	254	284	182
Farmer Mac	16	16	19	22	23
Tenn. V.A.	25	23	22	21	21
<b>Total</b>	<b>\$1,935</b>	<b>\$1,941</b>	<b>\$1,750</b>	<b>\$1,661</b>	<b>\$1,434</b>

Source: Agency Websites



# Funding Activity by FCS



(\$ millions)	Discount Notes	Designated Bonds	Fixed Rate Bonds		Floating Rate Bonds			Retail Bonds	Other <sup>1</sup>	Total
			Callable	Non-Callable	LIBOR	SOFR	Prime, FF, 91-day,			
2/28/2022	22,734	11,100	110,407	98,981	1,916	86,517	30,062	19	148	361,883
12/31/2021	24,280	9,100	104,071	100,600	2,141	79,747	32,797	20	151	352,906
12/31/2020	23,524	3,100	78,971	90,084	39,437	56,595	29,712	42	148	322,464
12/31/2019	17,459	0	77,903	79,068	80,613	7,957	28,657	122	159	291,938
12/31/2011	13,647	21,450	46,429	43,986	36,155	0	21,461	356	66	183,549

<sup>1</sup> Includes Linked Deposits

Source: FFCBFC Website



# Designated Bonds

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- GSE Benchmark Issue
- Six Issuances in 2021
- \$1 Billion, 2 & 3 yr. Maturities
- Barclays Aggregate Bond Index
- Dealer Performance/Investor Base

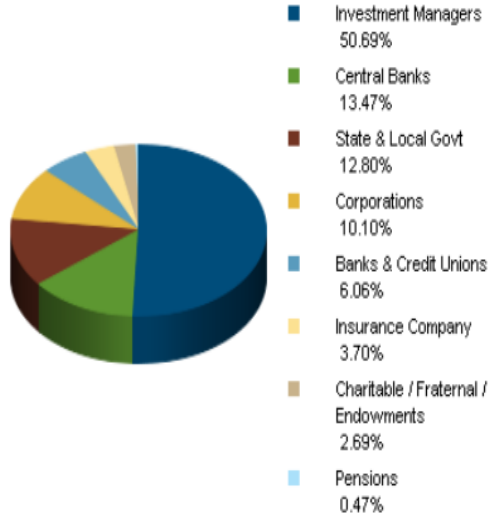




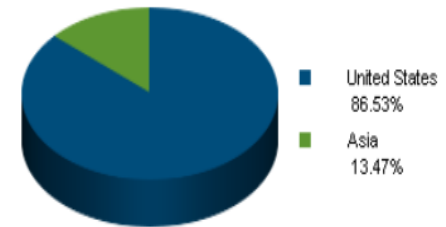
# Designated Bond



ACCOUNT DISTRIBUTION\*



GEOGRAPHICAL DISTRIBUTION





# Dealer Group

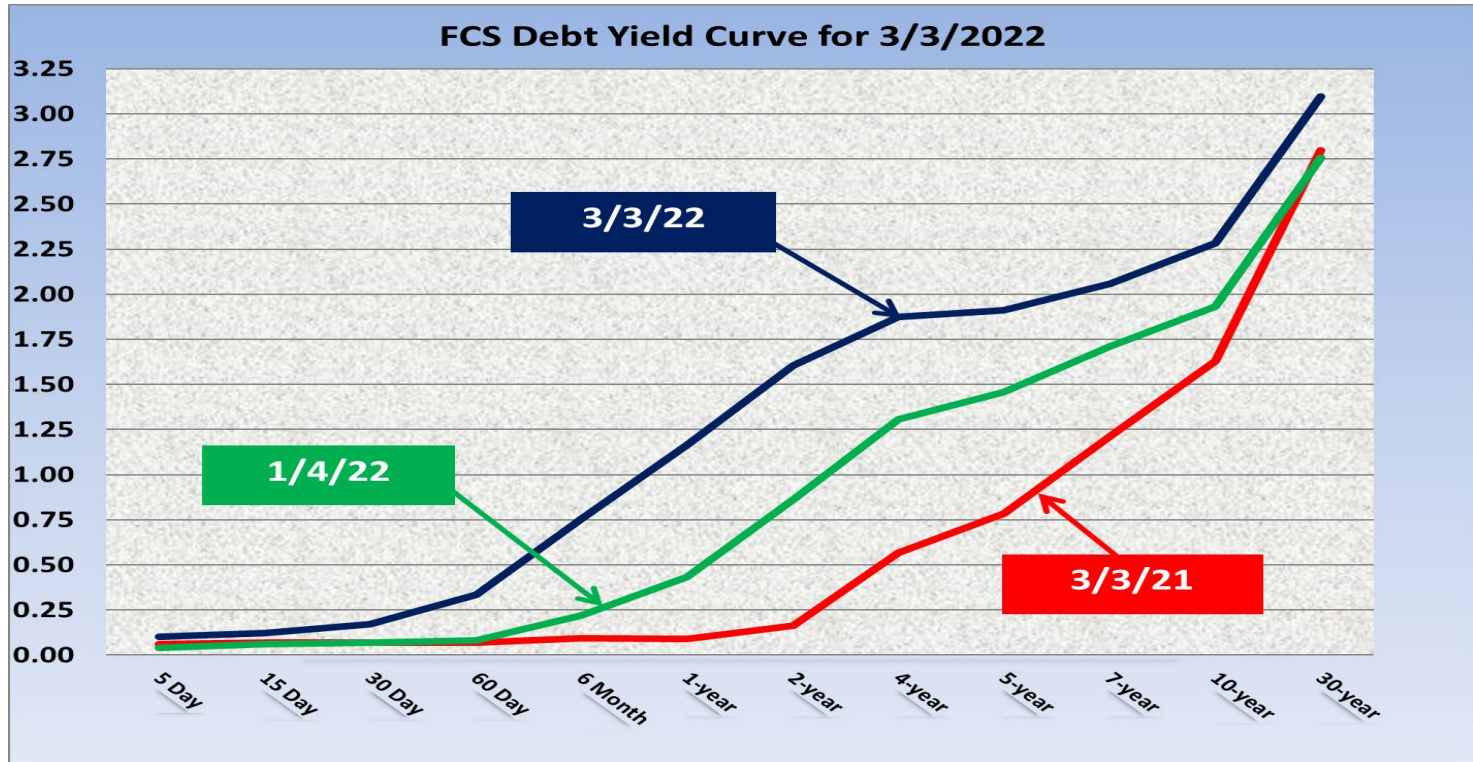
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- **37 Dealer Group Members**
- **MFR Securities, Inc. added in Jan. '22**
  - **Leveraging Equality and Diversity (LEAD)**
  - **9 Overall LEAD Dealer Members**





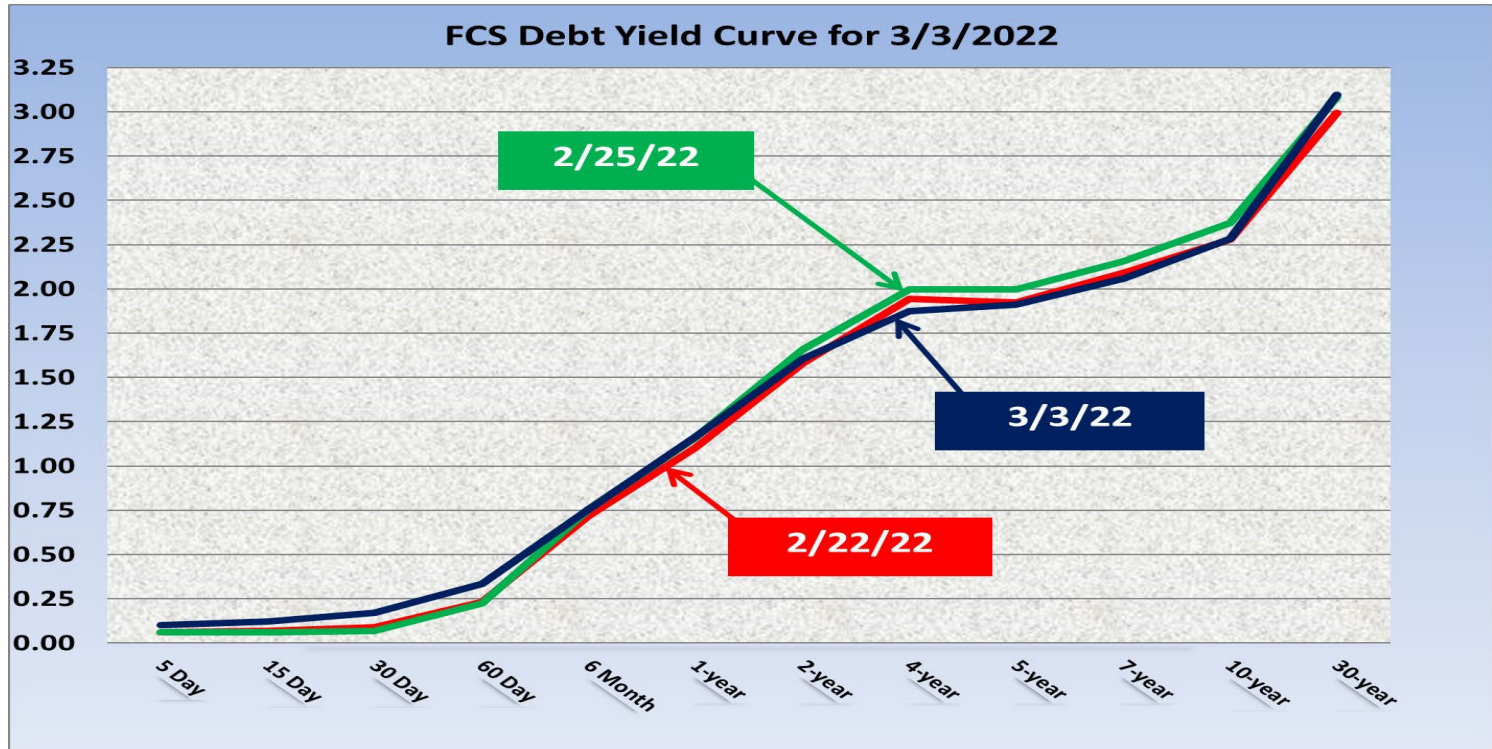
# FCS Debt Yields Increasing







# Recent FCS Debt Yields

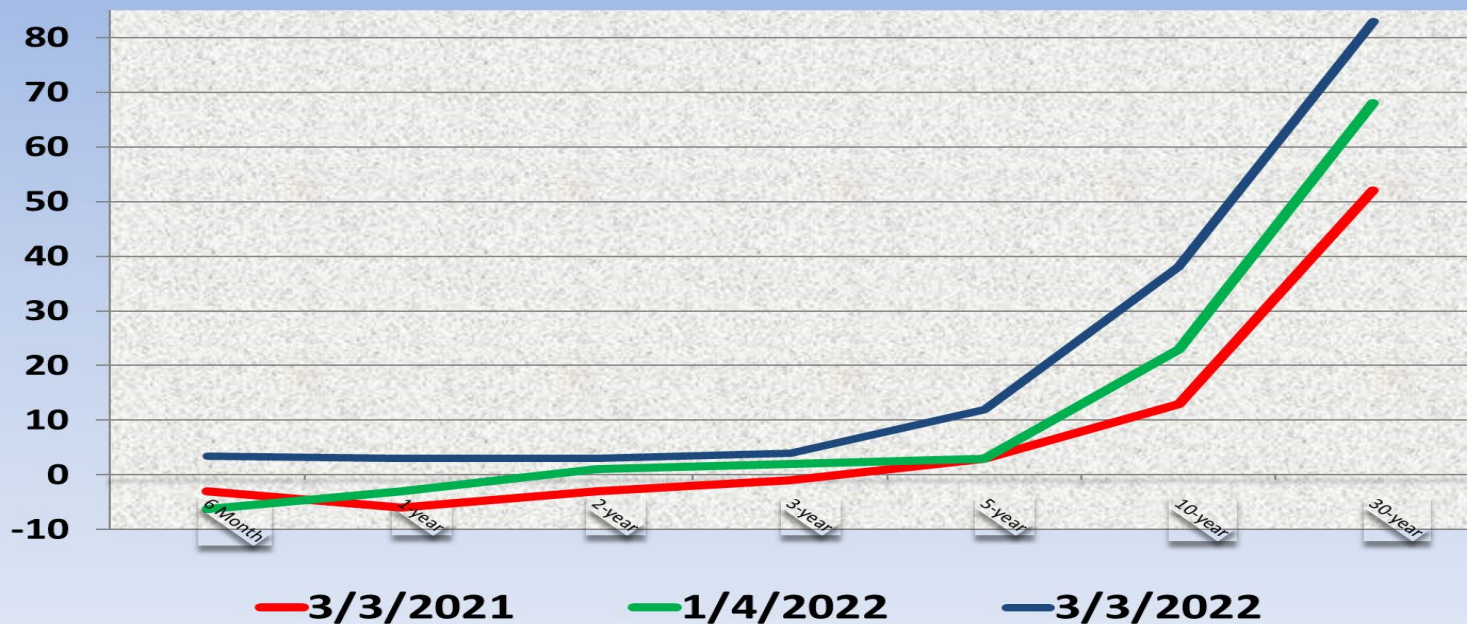




# Increased Risk Premiums



## FCS Basis Points Spread over Treasuries



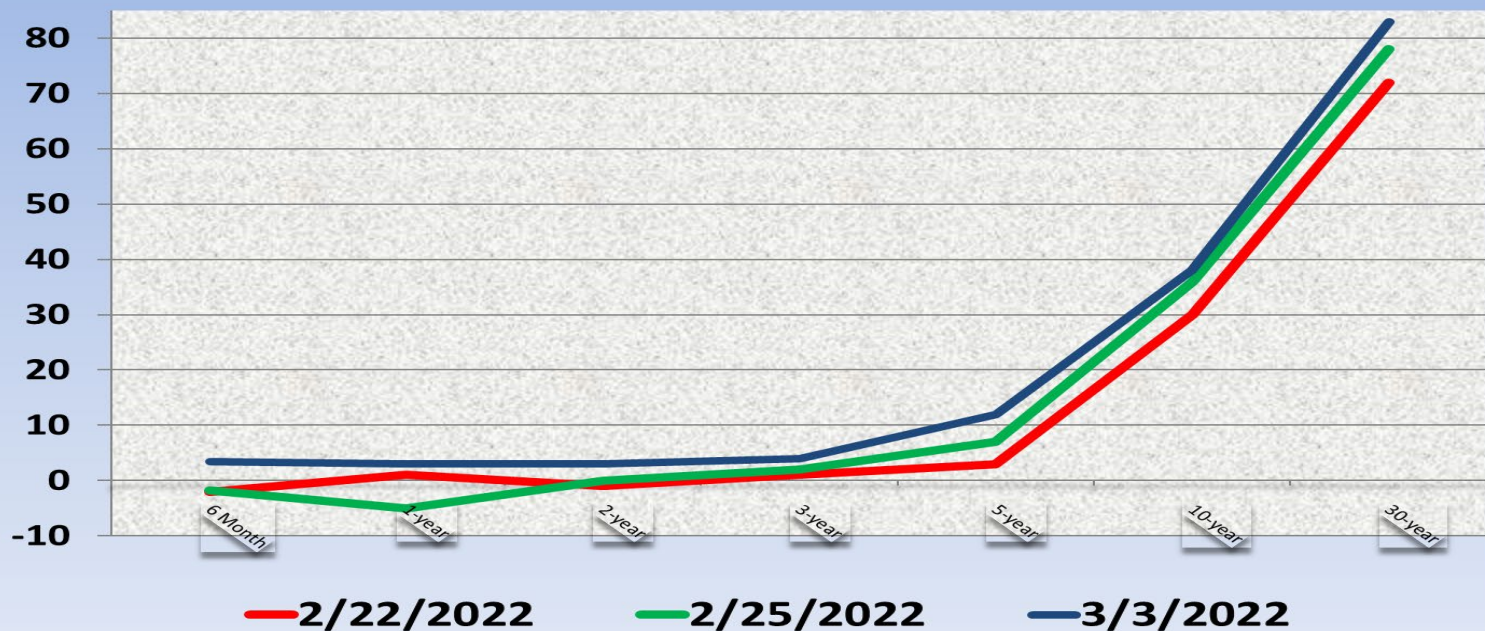




# Recent Risk Premiums



## FCS Basis Points Spread over Treasuries





# Decreased Call Activity

- **Calls in '21 – \$ 35 billion**
- Calls in '20 – \$ 115 billion
- Calls in '19 – \$ 54 million
- Calls in '18 – \$ 29 billion
- Calls in '17 – \$ 5 billion
- Net Interest Spreads
  - **2.33% for '21**, 2.26 % for '20, 2.04% for '19, 2.12% for '18, 2.25% for '17.
- Net Interest Margins
  - **2.46% for '21**, 2.46 % for '20, 2.42% for '19, 2.46% for '18, 2.48% for '17.





# Debt Maturity

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- Weighted average maturity of FCS Debt
  - ❖ **Dec./2021 – 3.14 years**
  - ❖ Dec./2020 – 2.85 years
  - ❖ Dec./2019 – 2.82 years
  - ❖ Dec./2018 – 2.86 years
  - ❖ Dec./2017 – 2.88 years





# Debt Maturity

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- Percentage of FCS debt maturing within 1 year.
  - ❖ **Dec./2021 – 37.0 percent**
  - ❖ Dec./2020 – 38.8 percent
  - ❖ Dec./2019 – 38.9 percent
  - ❖ Dec./2018 – 38.8 percent
  - ❖ Dec./2017 – 39.1 percent





# Days of Liquidity

- As of 12/31/21 System = 180(174) days:
  - AgFirst = 235(221) days, AgriBank = 158(146) days, FCB of TX = 185(173) days, CoBank = 180(180)days
- As of 12/31/20 System = 171 (158) days:
  - AgFirst = 196(189) days, AgriBank = 167(136) days, FCB of TX = 182(173) days, CoBank = 174(174) days





# LIBOR/SOFR TRANSITION

- Global U.S. LIBOR referenced instruments still dominate.
- **16 mos.** until ALL remaining LIBOR's Tenors R.I.P. date.
- Secured Overnight Financing Rate growing quickly in use.
- System's J & S LIBOR directly based debt down to \$1.9 billion. No new issues. Synthetic derivative exposure notional amount \$44.3 billion versus \$46.2 billion yearend '20.
- FCS issued just over \$46.2 billion in SOFR indexed bonds in 2021. Now dominates FCS indexed debt.







# War in Eastern Europe

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- Global Issue
- Major Economic Shocks
- Long Term Impacts





# Summary

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- Strong Demand for FCS Debt
- FCS Debt Yields Moving Higher
- FCS Risk Premiums Rising but Still Favorable
- Solid Financial Performance Continuing
- Substantial Liquidity
- LIBOR/SOFR Transition Progressing
- War in Eastern Europe Global Impact

