

Dallas P. Tonsager, Board Chairman & Chief Executive Officer  
Jeffery S. Hall, Board Member  
Kenneth A. Spearman, Board Member (by telephone)



**MINUTES OF THE REGULAR MEETING  
OF THE  
FARM CREDIT ADMINISTRATION BOARD  
December 8, 2016**

These minutes reflect the business transacted at the December 8, 2016, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act (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 10:44 a.m. Members of the Board present were:

**Dallas P. Tonsager, Board Chairman & Chief Executive Officer**  
**Jeffery S. Hall, Member**  
**Kenneth A. Spearman, Member (by telephone)**

The above named constitute the full Board.

**Chairman Tonsager** recognized **Mr. Spearman's** service as prior FCA Board Chairman and CEO. **Chairman Tonsager** directed that his statement be attached to the minutes. (A copy is attached as Exhibit A.)

**Mr. Spearman** thanked **Chairman Tonsager** and congratulated him as being designated Chairman and asked that his statement be attached to the minutes. (A copy is attached as Exhibit B.)

Others present at the meeting included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and four members of the general public. (A list of staff attendees is attached as Exhibit C.)

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

The **Board Chairman** reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit D.)

**Mr. Hall** moved to adopt the Agenda as published.

**Mr. Spearman** 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. Spearman** 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 the meeting be closed at that point.

**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 November 10, 2016 Regular Board Meeting (BM-8-DEC-16-01)**

**Mr. Hall** moved to approve the minutes for the November 10, 2016, FCA Regular Board Meeting.

**Mr. Spearman** 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-8-DEC-16-01)**

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

## 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 F.)

### **Semi-Annual Report on Office of Examination Operations**

**Hal Johnson** of the Office of Examination presented the Semi-Annual Report on 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 G.)

## CLOSED SESSION

The **Board Chairman** noted that this was a Closed Session and ensured that members of the public and nonessential FCA and FCSIC staff were not in the room so the Board could meet with Office of Examination staff in Closed Session.

**Board Chairman Tonsager** convened the closed session of the meeting at 10:09 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.

The **Board Chairman** 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 H.)

Members of the Board present were:

**Dallas P. Tonsager, Board Chairman & Chief Executive Officer**

**Jeffery S. Hall, Board Member**

**Kenneth A. Spearman, Board Member** (by telephone)

The above named constitute the full Board.

Others present included **Dale Aultman**, Secretary to the Board; and **Charles Rawls**, General Counsel. (A list of staff attendees is attached as Exhibit A).

### **Office of Examination Quarterly Report**

**Robert Coleman** and **Roger Paulsen** of the Office of Examination presented the update on OE Supervisory and Oversight Activities.

**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. Spearman** 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 10:44 a.m.

**NOTATIONAL VOTE ACTIONS**

There were two notational vote action approved by the FCA Board from November 10, 2016, through December 7, 2016 as follows:

<b>Item Number</b>	<b>Action Date</b>	<b>Voting Results</b>	<b>Subject</b>
NV 16-22	11/17/2016	Approved	Farm Credit System Building Association Budget and Assessments for 2017
NV 16-23	12/5/2016	Approved	Regulatory Treatment of Certain Securitizations

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on December 8, 2016.

\_\_\_\_\_/s/  
Dallas P. Tonsager  
Chairman & Chief Executive Officer

\_\_\_\_\_/s/  
Dale L. Aultman  
Secretary to the Board

Approved: **January 12, 2017**

**Statement**  
**Dallas P. Tonsager, Chairman**  
**Farm Credit Administration Board Meeting, December 8, 2016**

Good morning, everyone. Before we start on the meeting agenda, I'd like to take a moment to recognize Ken's service as FCA's Board Chairman and CEO.

In that role, Ken made a positive and valuable impact on the agency. He was responsible for ushering in the new capital rule, and for issuing guidance on internal controls and similar entities.

He promoted diversity and inclusion both here at FCA and within the Farm Credit System. In fact, under his chairmanship, the agency stepped up its recruiting of minority populations, which has resulted in a more inclusive workplace.

He also had the vision to spearhead some major organizational changes at the agency that have led to more robust IT security and a dedicated office to human resources.

He accomplished all of this while remaining the consummate professional and a steadfast colleague. We are fortunate that Ken will continue to serve on the board, and we thank him for all his years of commitment and service.

**Statement  
Kenneth A. Spearman, Member  
Farm Credit Administration Board Meeting, December 8, 2016**

Dallas, Congratulations on being designated by the President to Chair the FCA Board. I have every confidence that you will do an outstanding job of ensuring the System remains safe and sound and that it continues to serve its mission of providing constructive credit to all of America's farmers and ranchers.

Also, I want to thank you and Jeff for your support and input that you have given me during my Chairmanship. In addition, I want to thank Bill, the Senior Staff and all the employees at FCA. It is your dedication and service that is the driving force of the agency, and who deserve much of the credit for our success.

**STAFF PRESENT AT THE  
FCA REGULAR BOARD MEETING  
December 8, 2016**

Dallas P. Tonsager, Chairman & Chief Executive Officer  
Jeffery S. Hall, Board Member  
Kenneth A. Spearman, Board Member (by telephone)

<b>OFFICE</b>	<b>OPEN SESSION</b>	<b>CLOSED SESSION</b>
<b>Office of the Board</b>		
Aultman, Dale	X	X
Middleton, Russell	X	X
Laguarda, Wendy	X	X
Buccolo, Deb	X	
Corey, Kathryn	X	
Kramp, Kevin	X	X
Calhoun, Gaye	X	
<b>EEOI</b>		
Burlew, Thais	X	
<b>COO</b>		
Hoffman, William	X	X
<b>OIT</b>		
Shaffer, Jeannie	X	X
<b>OCPA</b>		
Stokke, Mike	X	X
Meaux, Willy	X	X
<b>OSMO</b>		
Rea, Laurie	X	X
<b>OGC</b>		
Rawls, Charles	X	X
Strickland, Joy	X	X
Donner, Mary Alice	X	X



OFFICE	OPEN SESSION	CLOSED SESSION
<b>OE</b>		
Coleman, Robert	X	X
Paulsen, Roger	X	X
Johnson, Hal	X	X
Greenlee, Angela	X	X
Boston, Robin	X	X
<b>OIG</b>		
Dean, Elizabeth	X	X
<b>ORP</b>		
Van Meter, Gary	X	X
Mardock, Barry	X	X
Gabriel, Steve	X	X
<b>OCFO</b>		
Smith, Stephen	X	X
<b>OAS</b>		
Fowlkes, Jerome	X	X
<b>FCSIC</b>		
Pfizinger, Rick	X	X
Wynn, Wade	X	X
<b>GENERAL PUBLIC</b>	<b>4</b>	

**PUBLIC ANNOUNCEMENT OF  
 MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT  
 Farm Credit Administration Board  
 Regular Meeting  
 December 8, 2016**

**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 December 8, 2016. 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](mailto: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 to the public. Please send an e-mail to [VisitorRequest@FCA.gov](mailto: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 November 10, 2016

**Reports**

- 2 Quarterly Report on Economic Conditions and FCS Conditions
- 3 Semi-Annual Report on Office of Examination Operations

**CLOSED SESSION**

- 4 Office of Examination Quarterly Report<sup>1</sup>

\_\_\_\_\_  
 November 28, 2016  
 Date

\_\_\_\_\_  
 /s/  
 Dale L. Aultman  
 Secretary to the Board

<sup>1</sup>Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).

**Farm Credit Administration**

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

**BOARD ACTION ITEM**

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**FCA BOARD ACTION ON**

**Minutes for November 10, 2016 Regular Board Meeting**

**BM-8-DEC-16-01**

**Effective Date:** December 8, 2016

**Effect on Previous Action:** None

**THE FCA BOARD HEREBY:**

Approves the minutes for November 10, 2016, Regular Board Meeting as submitted.

**DATED THIS 8<sup>th</sup> DAY OF DECEMBER 2016**

**BY ORDER OF THE BOARD**

\_\_\_\_\_/s/\_\_\_\_\_  
**Dale L. Aultman**  
**Secretary to the Board**



# FCA Board Meeting

December 2016

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## Quarterly Report on FCS Condition

December 8, 2016

Stephen Gabriel  
Hal Johnson

Exhibit F





# Topics for Open Session

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- Economic Conditions Affecting the FCS
- FCS Condition and Performance





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# Economic Conditions Affecting the Farm Credit System

**Stephen Gabriel**  
Chief Economist  
Office of Regulatory Policy



# Economic growth expected to continue at sub-par pace

## Consensus Forecasts (percent)

Red indicates forecast

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
<b>GDP growth*</b>	2.0	0.9	0.8	1.4	3.2	2.1	2.1	2.3	2.3	2.1	2.1	2.2
<b>CPI*</b>	1.4	0.8	-0.3	2.5	1.6	2.8	2.0	2.3	2.3	2.5	2.3	2.3
<b>Unemployment rate</b>	5.2	5.0	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.6	4.6	4.6
<b>10 Yr T-Bond</b>	2.0	2.2	1.8	1.5	1.6	1.8	1.9	2.1	2.2	2.3	2.6	2.7

Source: Consensus Economics, Inc.

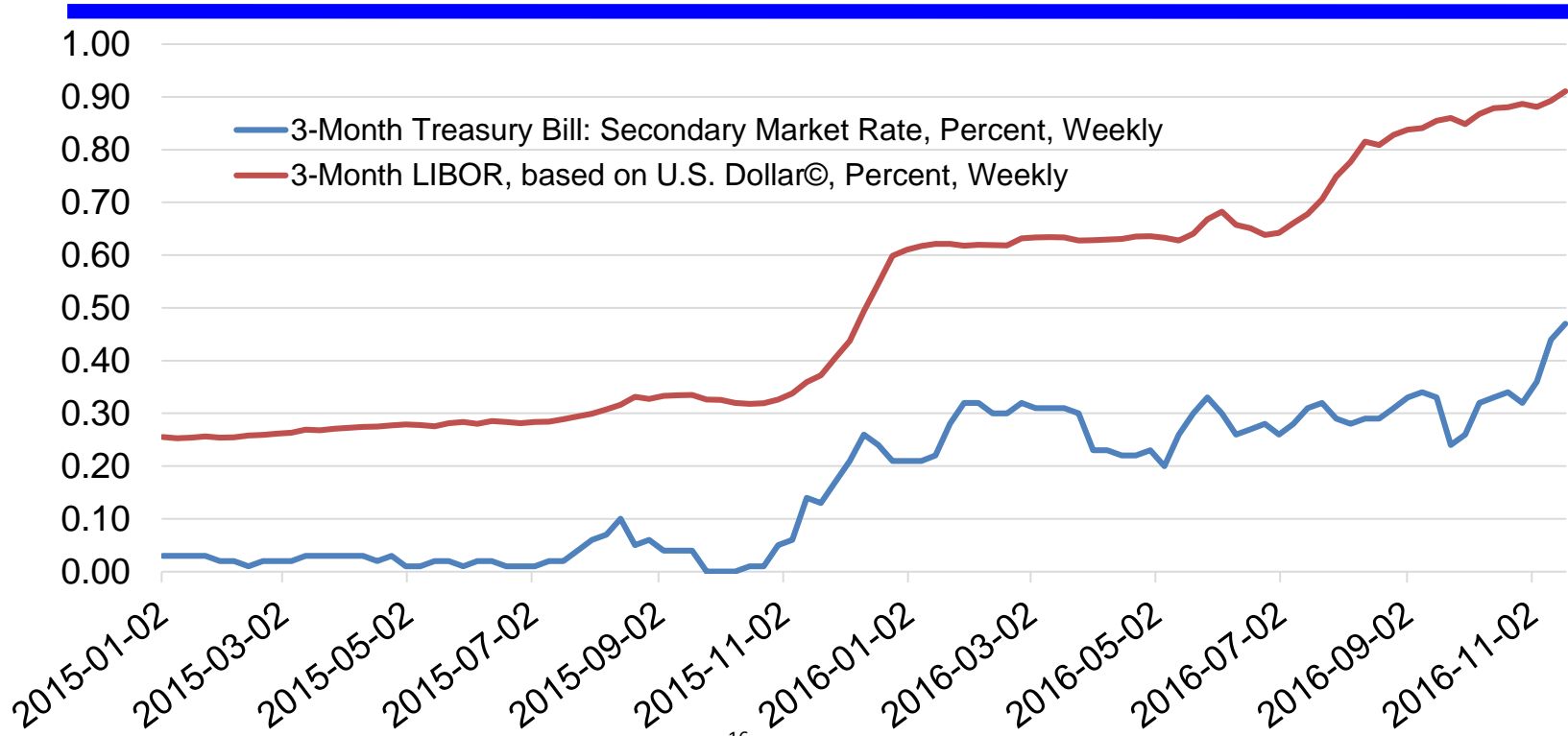
Survey date - November 7, 2016

\* % change from prior quarter, seasonally adjusted annual rate





# Short-term interest rates are rising



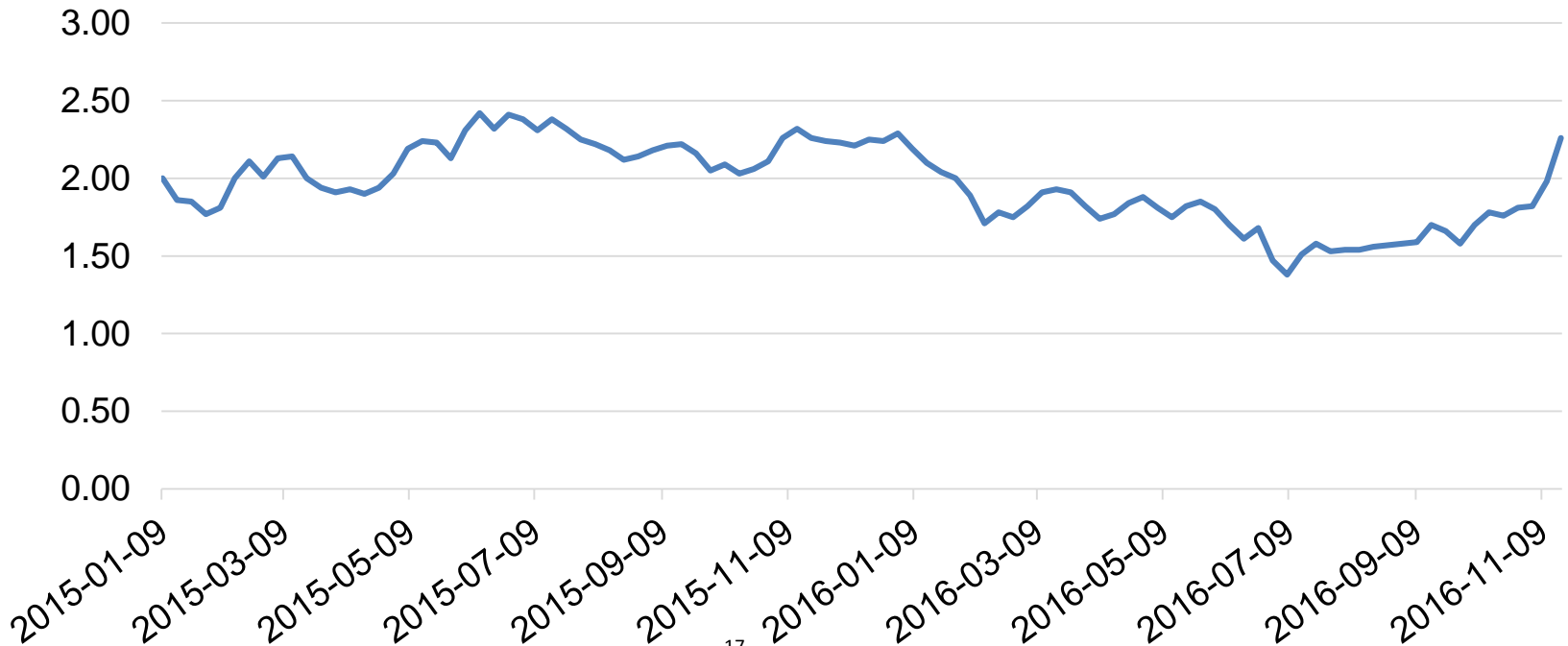
Source: ICE Benchmark Administration Limited, Board of Governors of the Federal Reserve System





# Long-term treasuries are moving higher

10-Year Treasury Constant Maturity Rate, Percent, Weekly

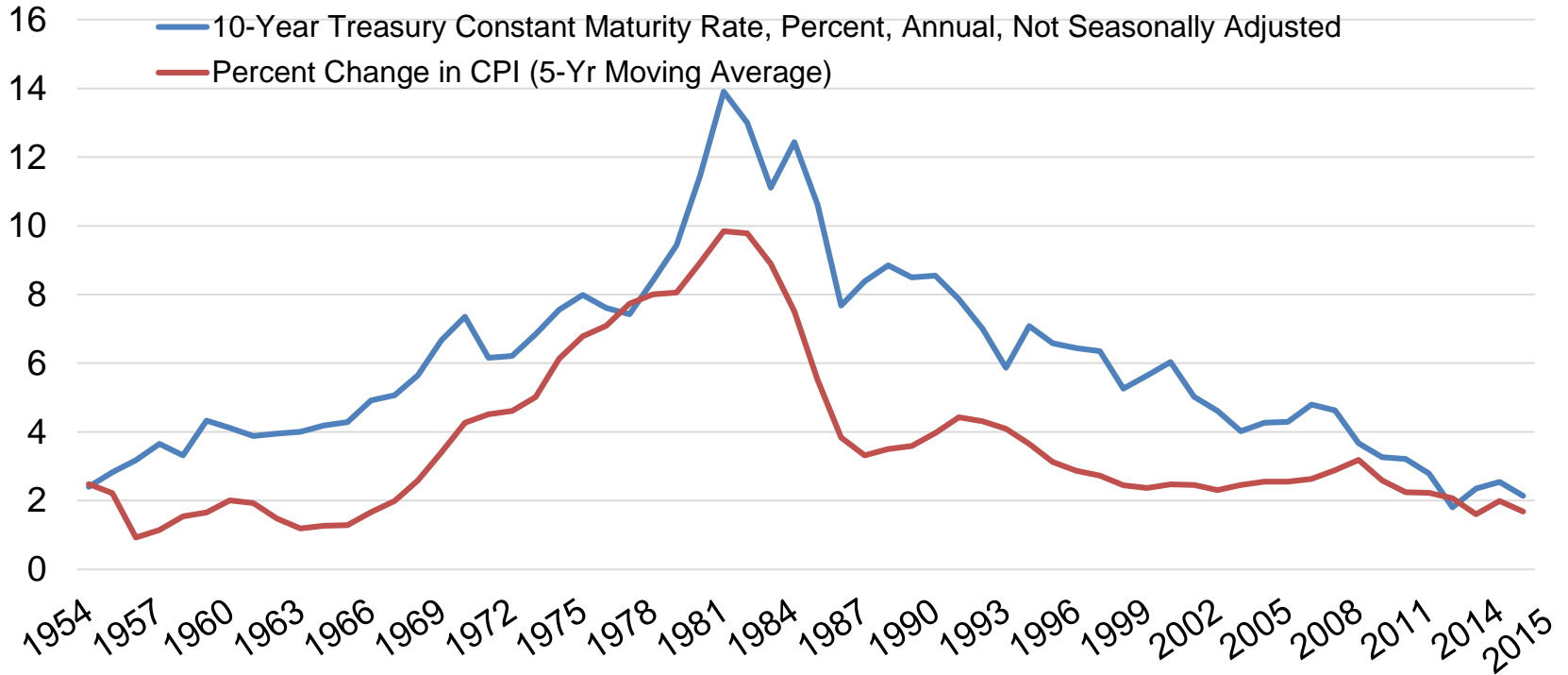


Source: Board of Governors of the Federal Reserve System (US)





# What's a "normal" 10-year treasury rate?

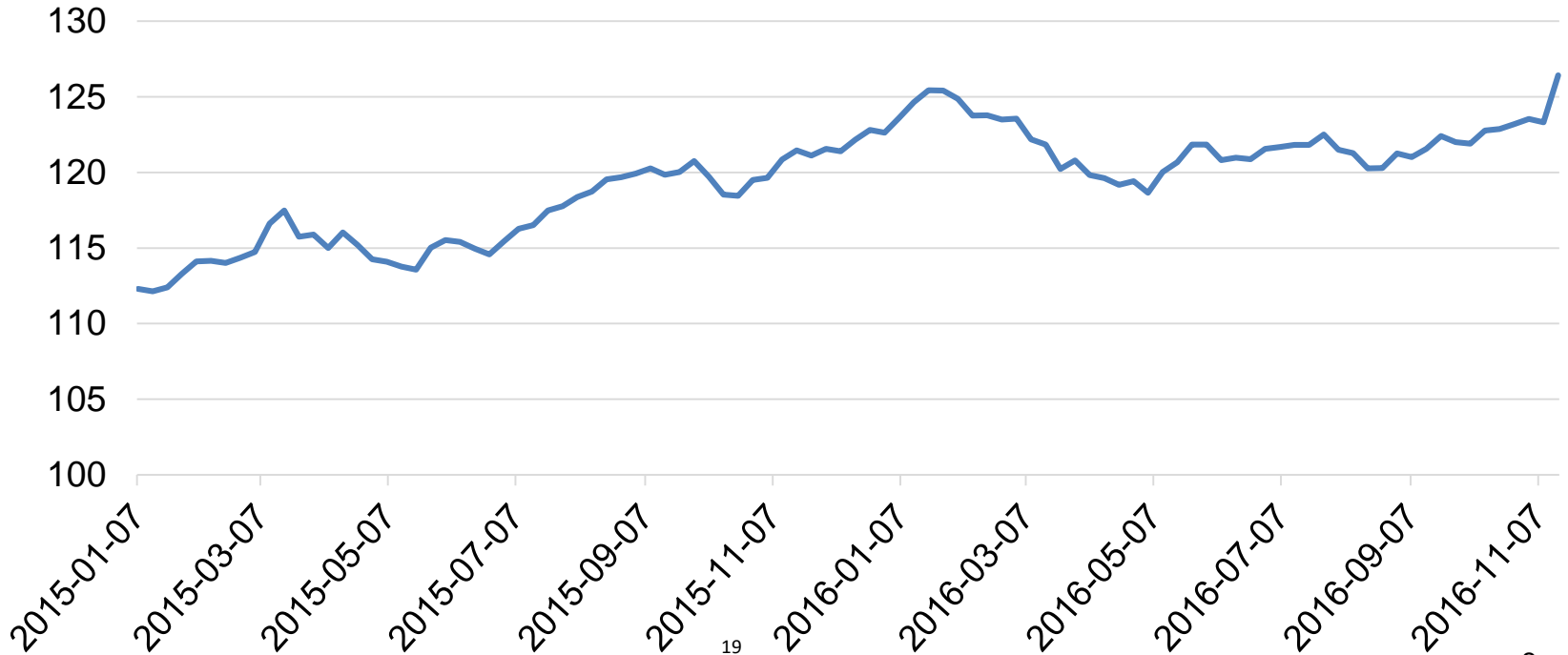




# The value of the dollar is strengthening



Trade Weighted U.S. Dollar Index: Broad, Index Jan 1997=100, Weekly



Source: Board of Governors of the Federal Reserve System (US)



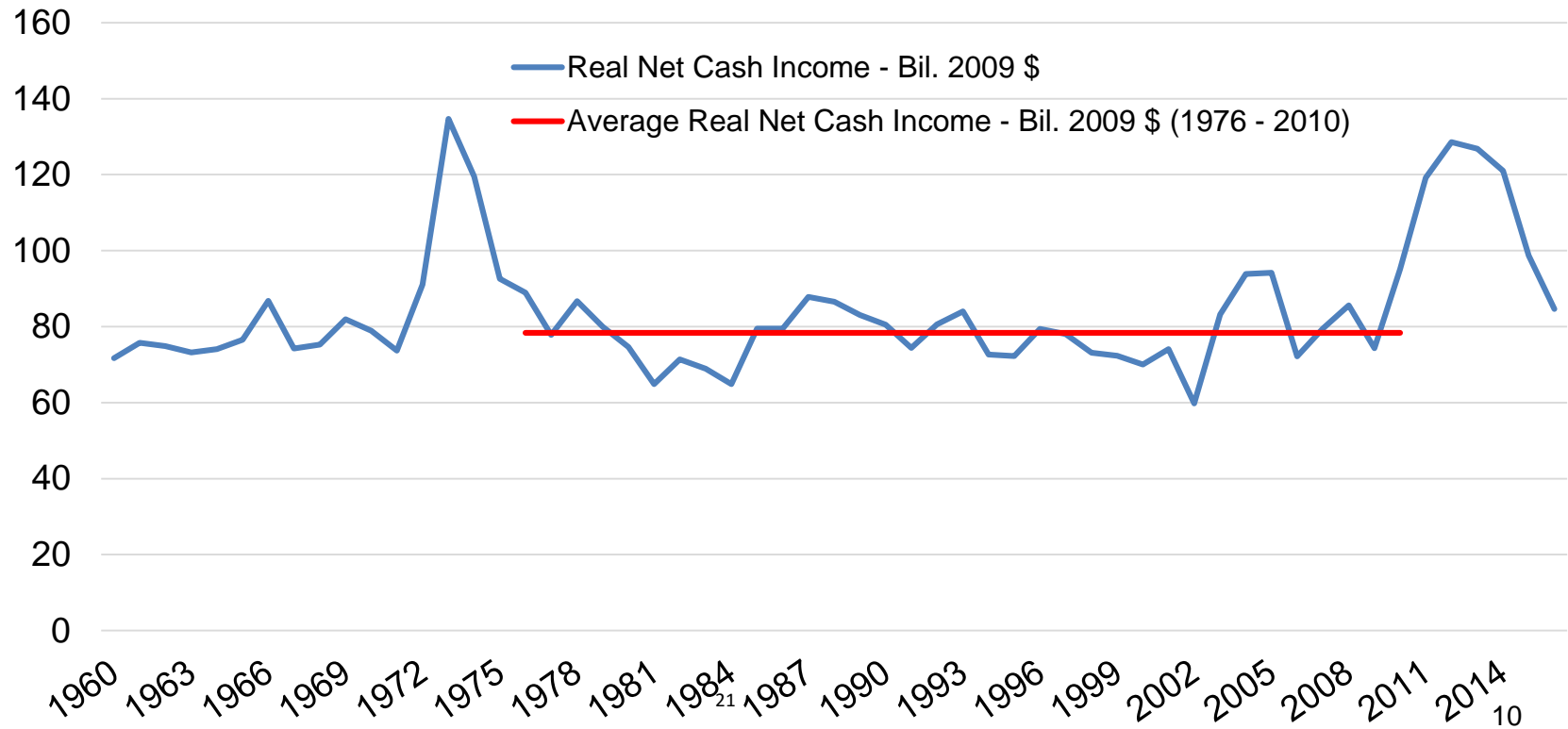
# Farm sector developments and concerns

- USDA projecting record corn and soybean crops
- Corn and soybean exports projected to be strong this marketing year
- Continued concerns about shrinking grain and soybean profit margins and working capital
- Production growth in the protein and dairy sectors is pressuring prices and margins
- Continued weakness in Midwest farmland markets?





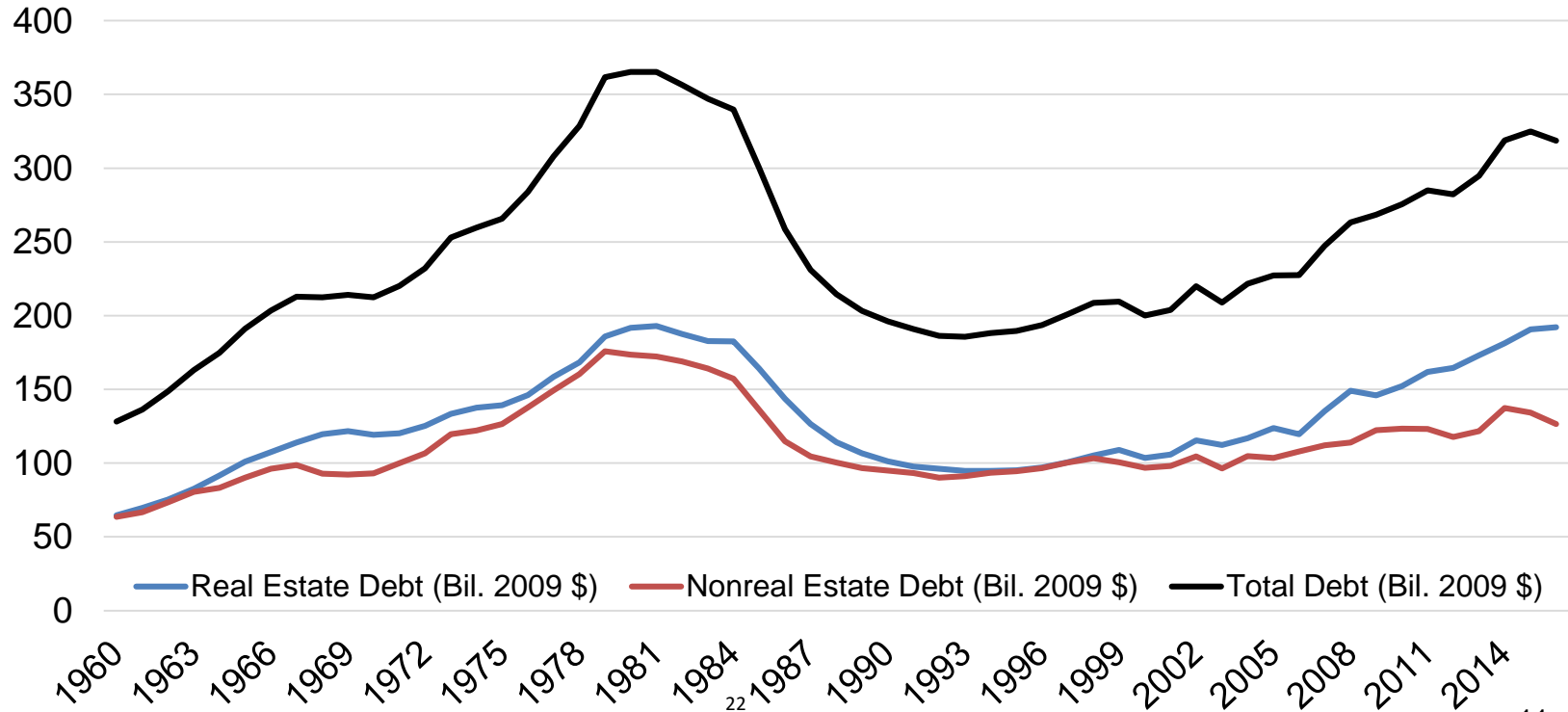
# Real net cash farm income is reverting to the mean



Source: USDA, ERS



# Will farm debt growth moderate in coming years?



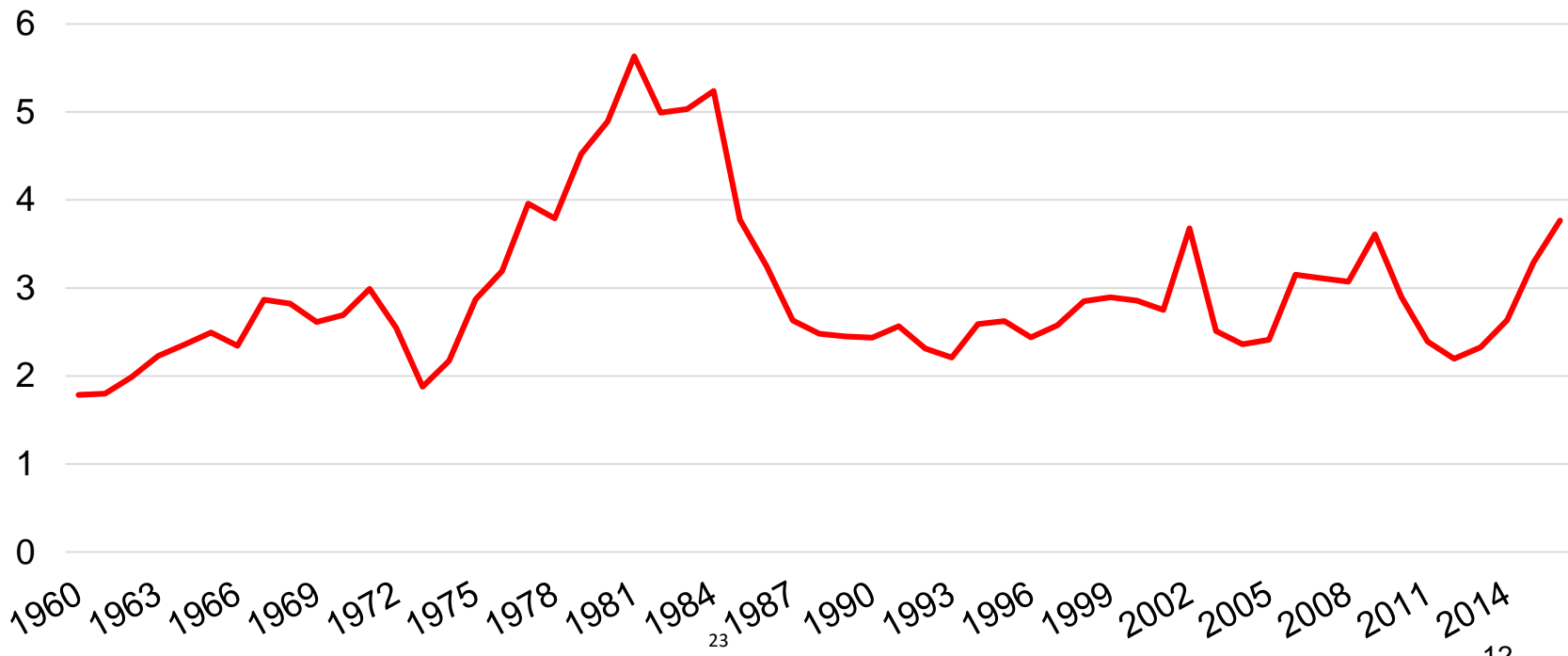
Source: USDA, ERS



# Lower farm income is leading to a greater debt burden



Ratio of total farm debt to net cash income



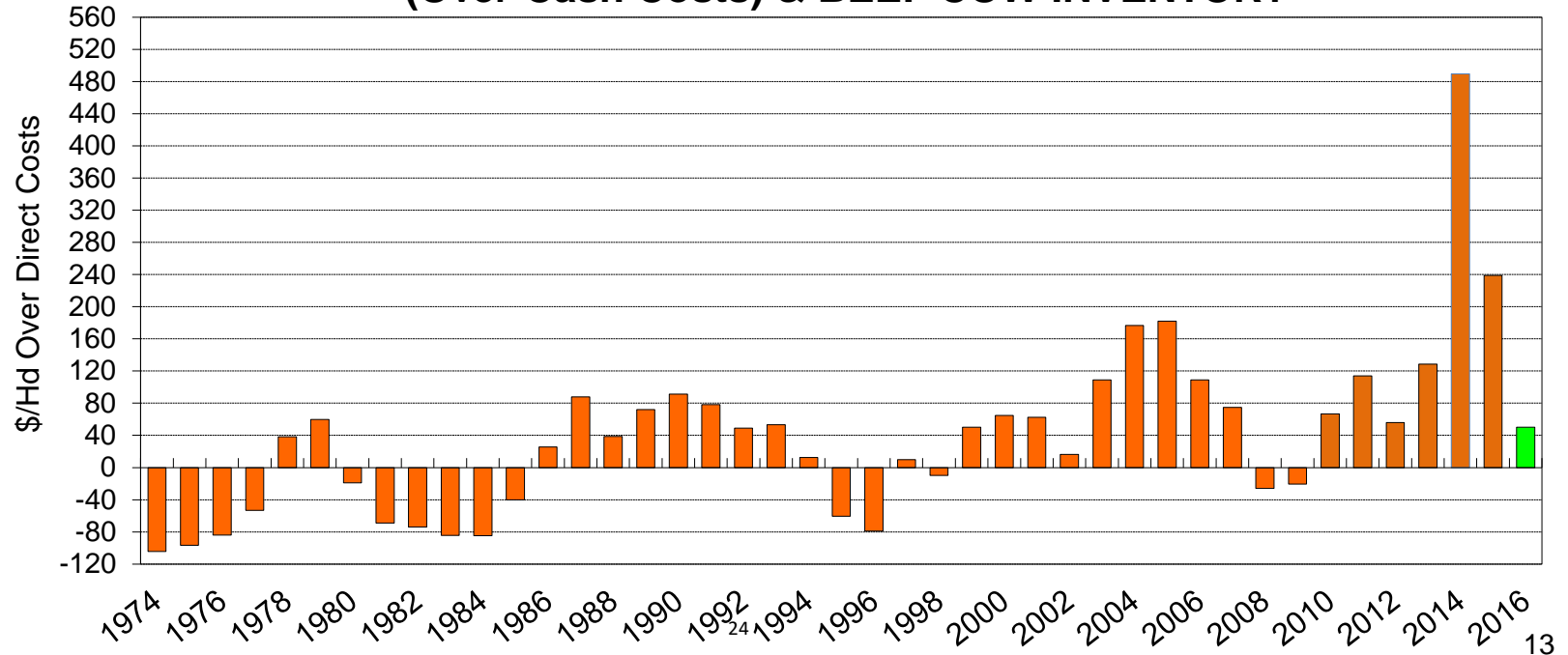
Source: USDA, ERS



# Cow/calf returns are down sharply from previous two years

8-Nov-16

## ESTIMATED AVERAGE COW/CALF RETURNS (Over Cash Costs) & BEEF COW INVENTORY



Source: Informa Economics IEG





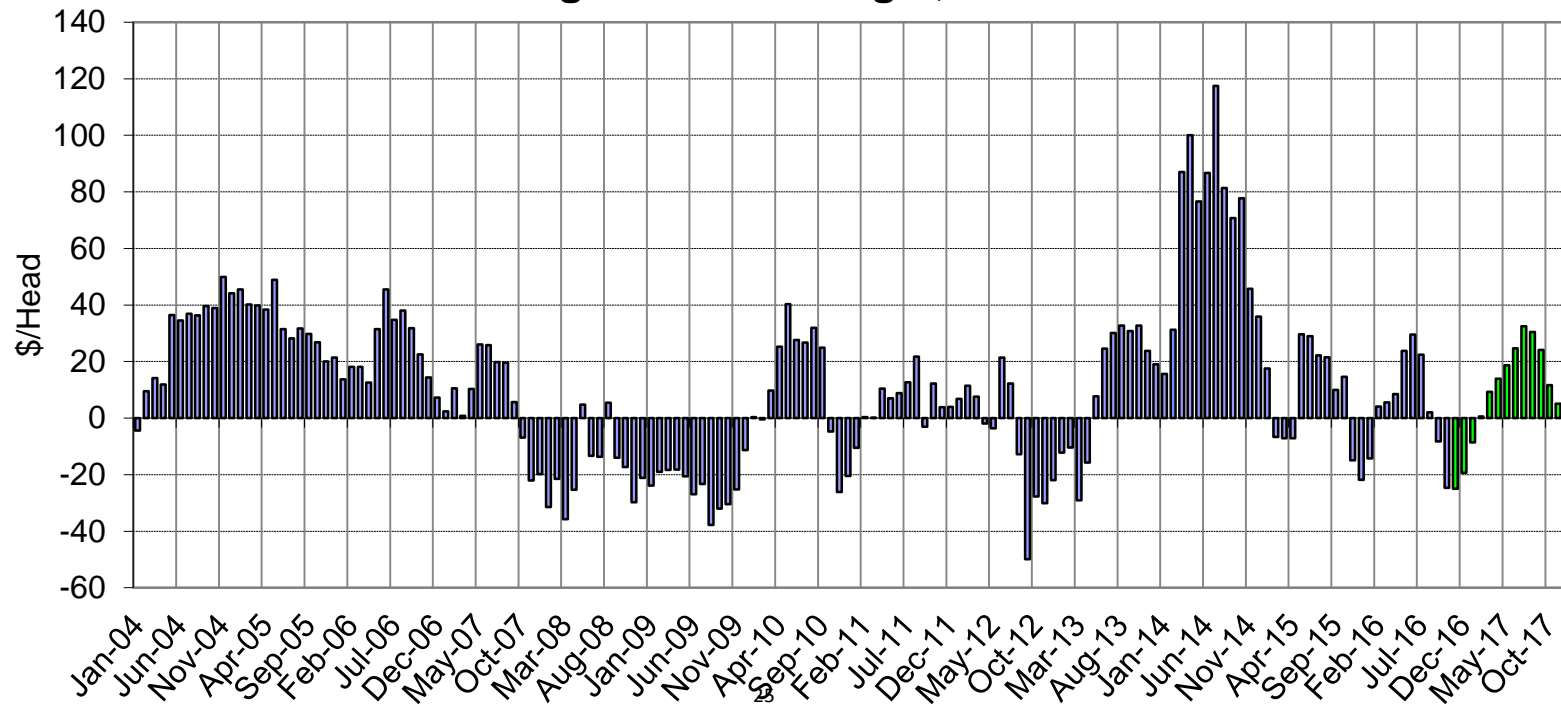


# Hog producers face negative margins through the winter



8-Nov-16

## Hog Producer Margin, Cash Based



Source: Informa Economics IEG

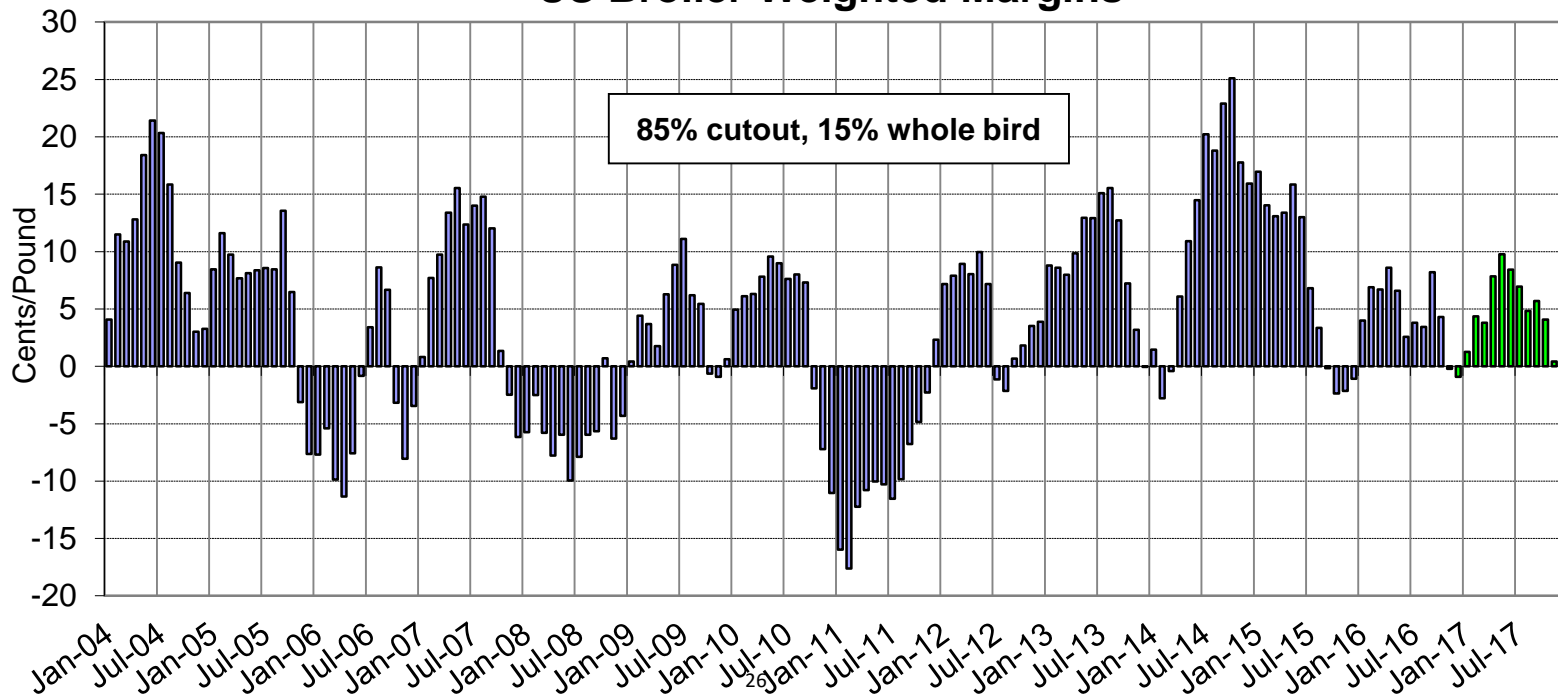


# Broiler margins should turn positive in January



8-Nov-16

## US Broiler Weighted Margins



Source: Informa Economics IEG

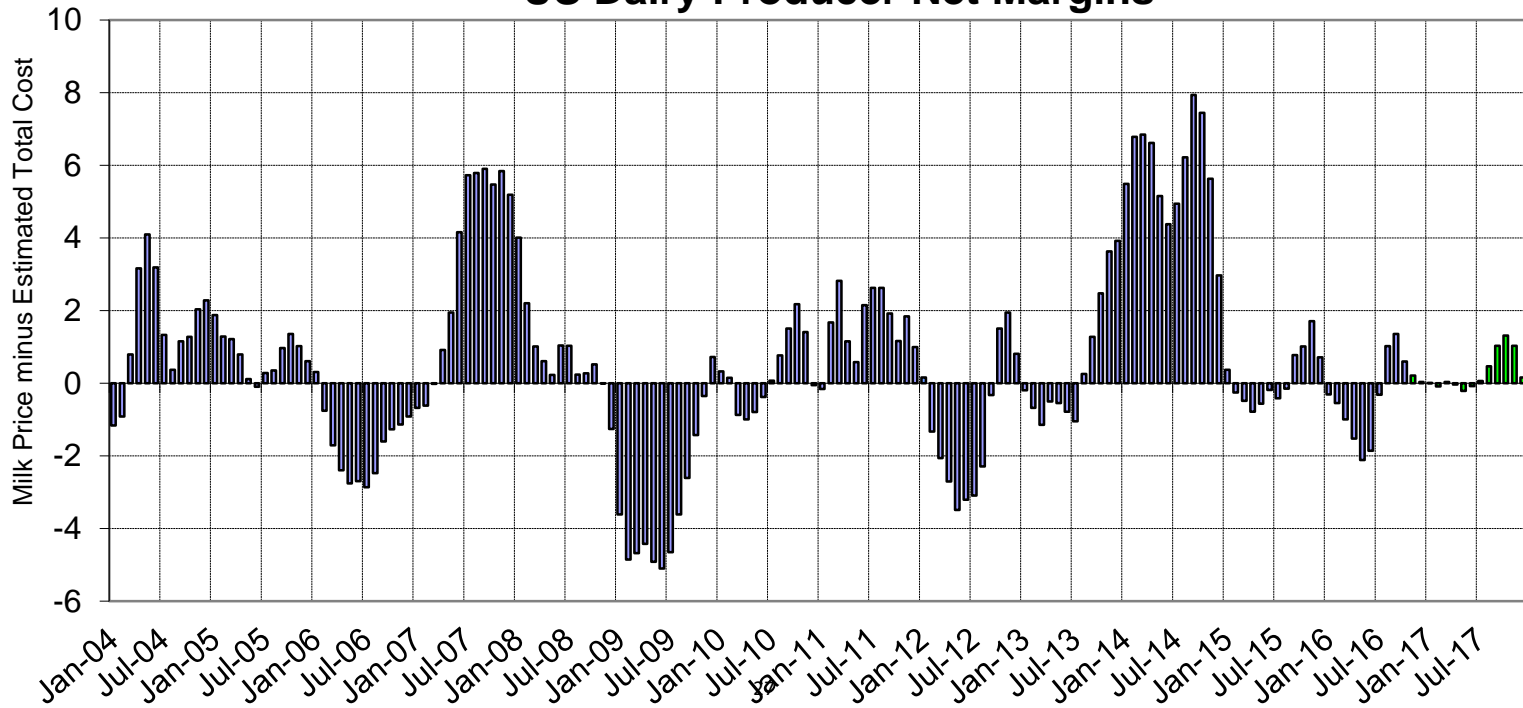


# Dairy margins could see a rough patch through summer 2017



8-Nov-16

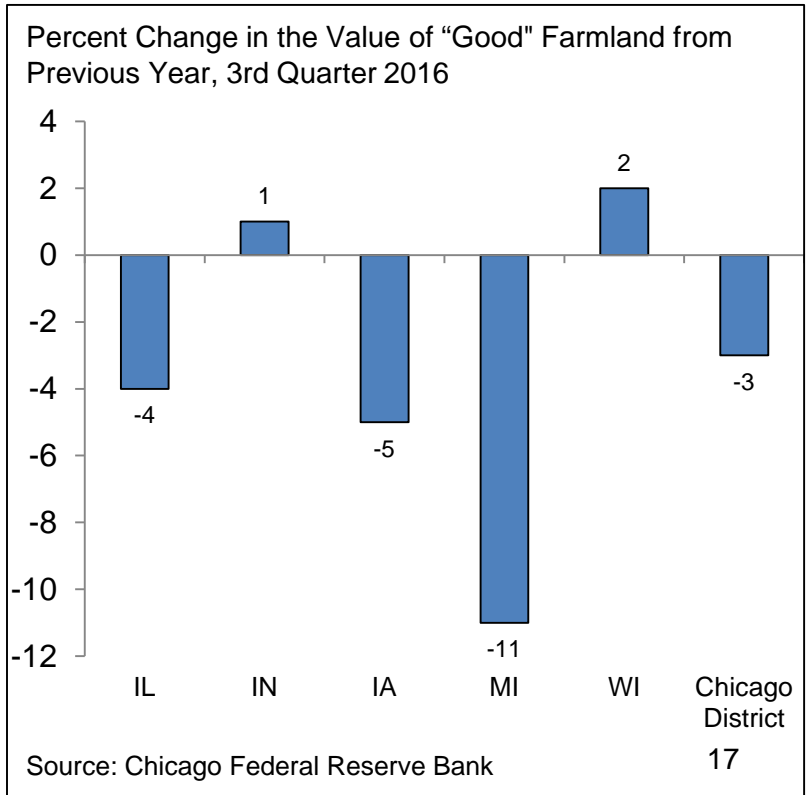
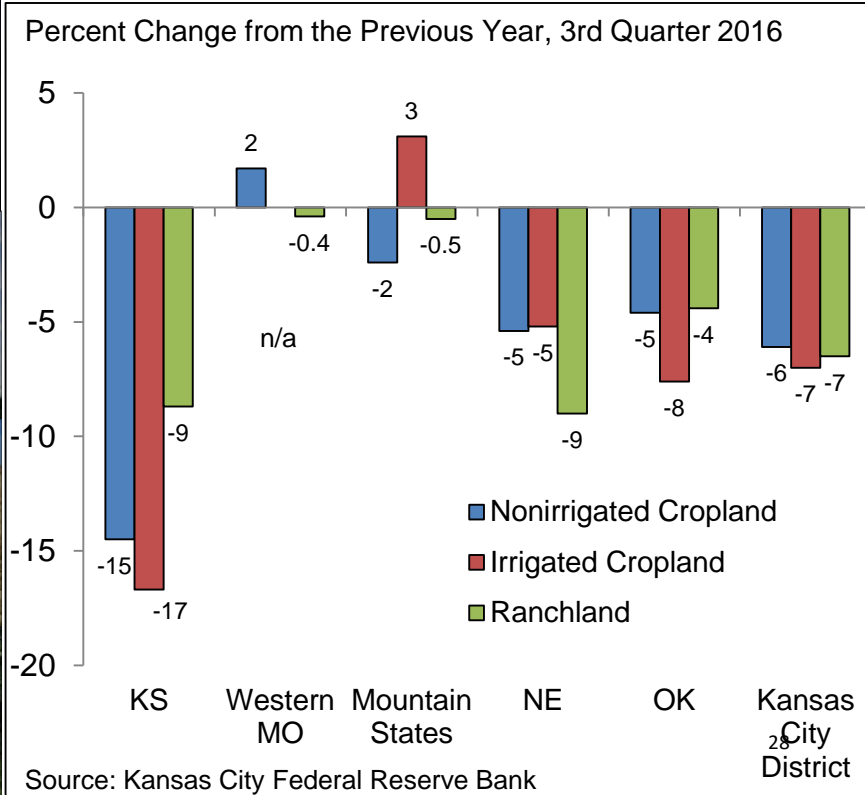
## US Dairy Producer Net Margins



Source: Informa Economics IEG



# There is continued weakness in Midwest farmland markets





# Risks to watch

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- Potential deterioration in international trade environment
- Crop conditions in South America
- U.S. and global economic growth
- Interest rates
- Strength of the dollar
- Deteriorating agricultural credit quality



# Questions

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**THANK YOU**



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# Farm Credit System Condition and Performance

as of  
September 30, 2016

Hal Johnson  
Sr. Financial Analyst  
Office of Examination



# Topics

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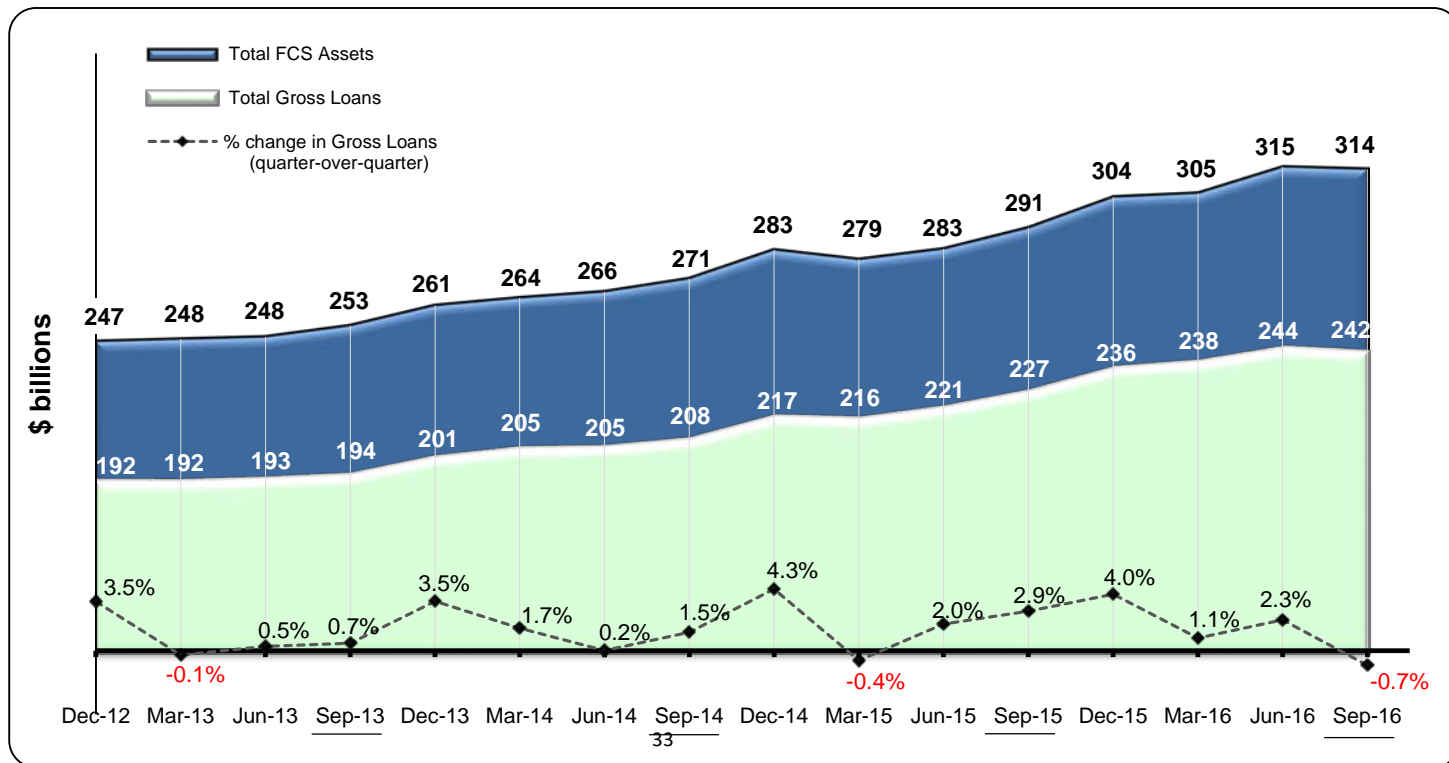
- System Growth
- Loan Portfolio Growth
- Earnings
- Capital
- FIRS







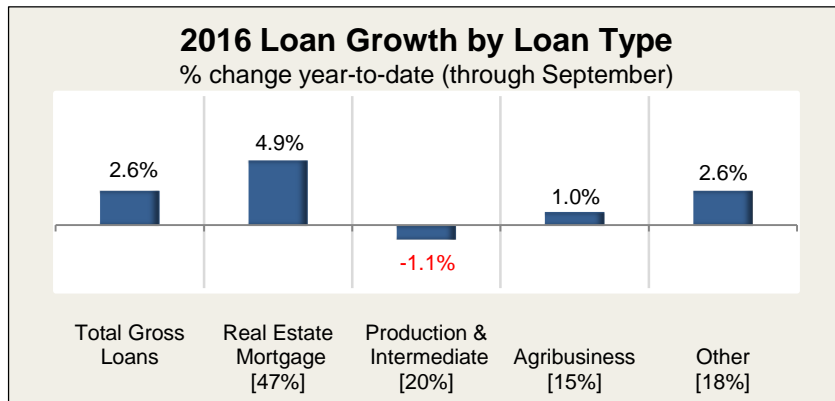
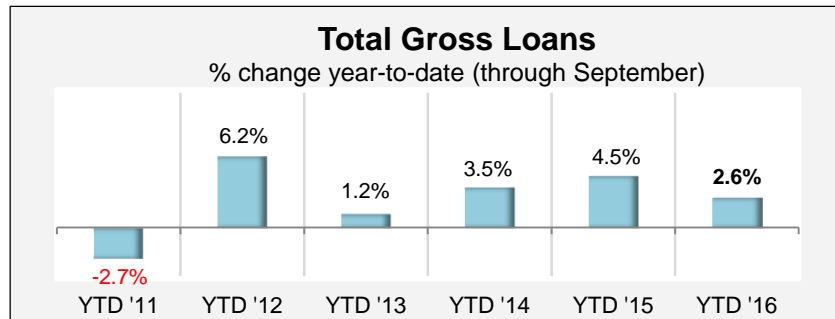
# System growth continues at a modest pace in 2016



Source: FCS Quarterly Information Statements



# Loan growth slows as production and intermediate term lending lags



Loan Growth by District (% change year-to-date through September)			
District	Sep-14	Sep-15	Sep-16
<b>AgFirst District (11%)</b>	3.6%	4.2%	<b>3.9%</b>
<b>AgriBank District (40%)</b>	2.9%	3.6%	<b>3.0%</b>
<b>CoBank District (40%)</b>	3.4%	5.2%	<b>1.7%</b>
<b>Texas District (9%)</b>	5.5%	6.1%	<b>4.4%</b>
<b>Total FCS</b>	3.5%	4.5%	<b>2.6%</b>

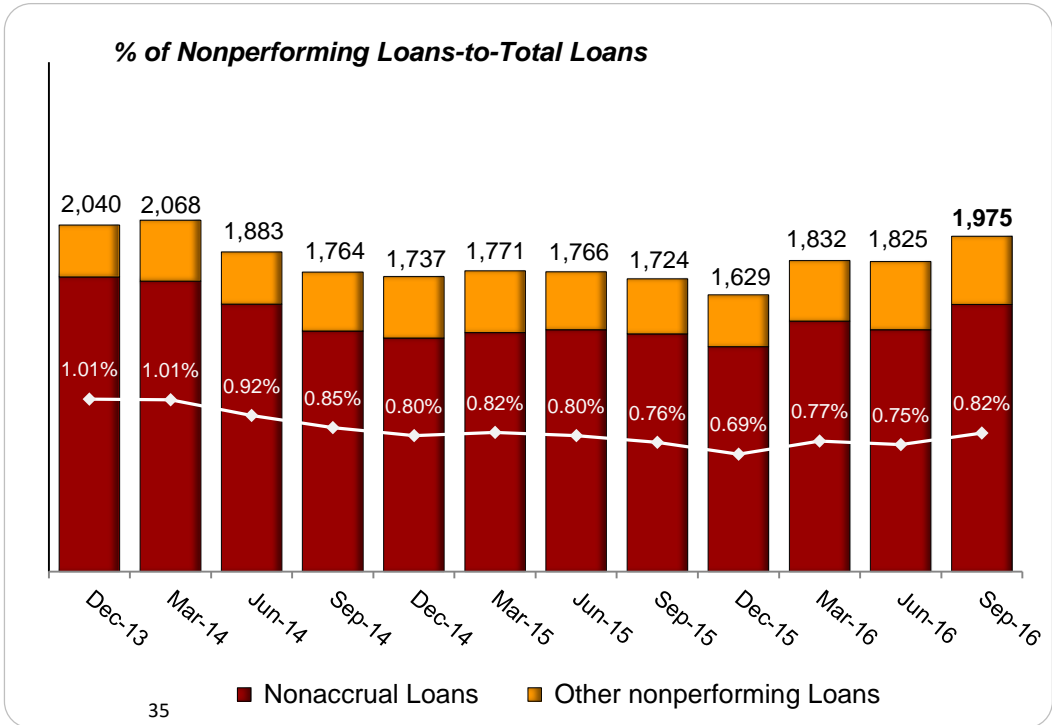


# Portfolio loan quality remains strong but risk indicators continue to trend up



## Portfolio Credit Quality as of September 2016

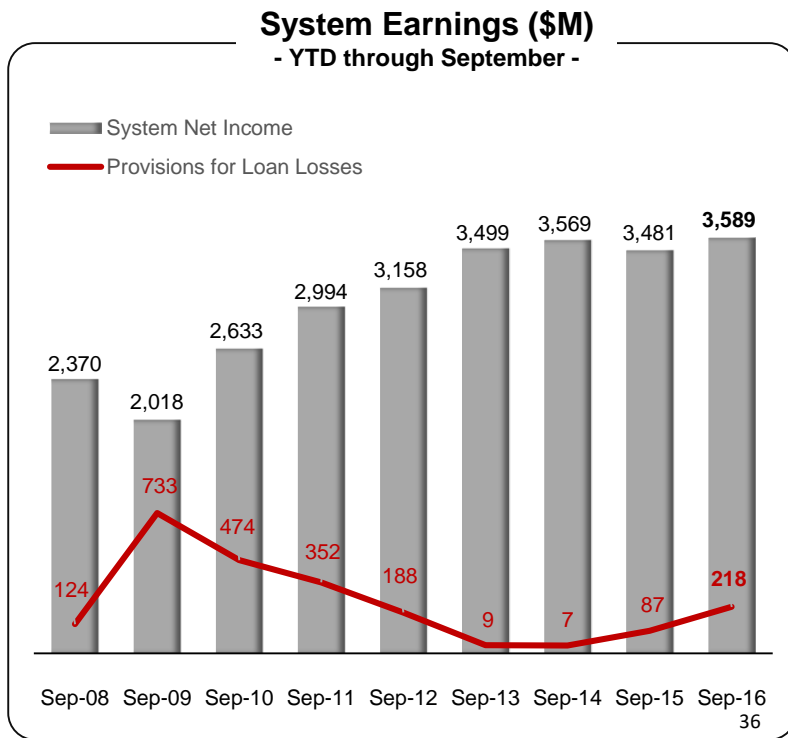
- Nonperforming loans equaled 0.82% of System loans outstanding in the 3<sup>rd</sup> quarter
- 94.4% of System loans were classified as Acceptable as compared to 96% at yearend 2015
- Loan delinquencies were 0.21% of accruing loans
- The System's allowance for loan losses equaled 74% of nonperforming loans
- Total capital and the allowance for loan losses represented 22.2% of System loans at quarter-end



Source: FCS Quarterly Information Statements



# System continues to register solid financial results in 2016



### Net Interest Income (YTD through September)

	2016	2015	Inc / (Dec)	Inc / (Dec) due to	
				Rate	Volume
Interest Income	7,738	6,948	790	114	676
Interest Expense	(2,214)	(1,731)	(483)	(308)	(175)
<b>Net Interest Income</b>	<b>5,524</b>	<b>5,217</b>	<b>307</b>	<b>(194)</b>	<b>501</b>

Source: FCS Quarterly Information Statements



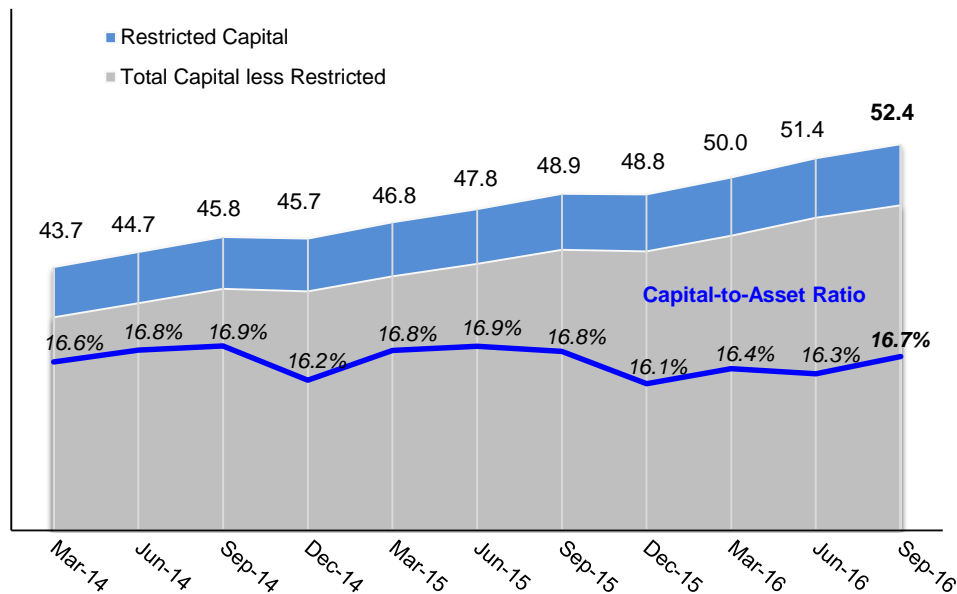
# System remains well-capitalized



## Capital and Liquidity as of September 2016

- System capital as a percentage of total assets was 16.7% compared to 16.1% at year end 2015
- Surplus as a percentage of total capital equaled 82.0%
- System liquidity equaled 177 days of coverage. Days of available liquidity for the four funding banks ranged from 144 days to 198 days.

## Total System Capital (\$B)



Restricted capital represents capital associated with the Insurance Fund.

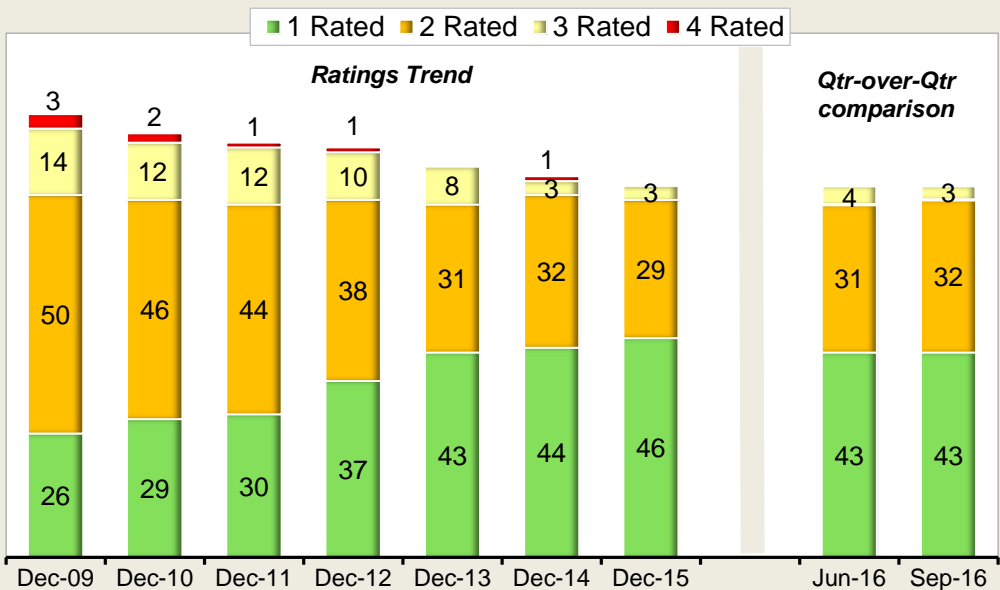
37



# System FIRS ratings



**Composite FIRS Ratings - System Banks & Associations**



## FIRS Ratings

- Composite FIRS ratings remain stable
- Over 95% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for about 1.0% of total System assets



# Summary and final points

- Challenges for agriculture:
  - General economic factors – *sub-par economic growth in the U.S. and abroad, a strengthening dollar, rising interest rates*
  - Farm sector concerns – *shrinking margins and cash flows concerns for grain producers, production levels pressuring prices and margins in the dairy and protein sectors, Midwest farmland values*
- The System is financially strong and well-capitalized
- Portfolio credit quality remains good but credit risk is expected to intensify as many ag producers face significant financial challenges
- System institutions are well-positioned for the risks facing agriculture and have significant risk-bearing capacity





# Questions

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**THANK YOU**





# FCA Board Meeting

December 2016

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## Semi-Annual Report on Office of Examination Operations

December 8, 2016

Hal Johnson  
Office of Examination

Exhibit G





# Highlights of OE Operations

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- 2016 Operating Plan Objectives
- OE Budget Results
- Staffing Update
- Summary





# 2016 Operating Plan Objectives

## ➤ Risk Supervision & Examination Activities

- Onsite at 71 associations (96%), all funding banks, 8 other System entities, National Cooperative Bank, and Farmer Mac
- Issued 55 Reports of Examination and 43 Interim Activity Letters
- 4 institutions are currently under a higher level of supervisory oversight
- Completed Compliance Horizontal Examination activity and Cybersecurity Horizontal Examination activity
- Issued 2015 Shared Assets Examination Results (March 2016)





# 2016 Operating Plan Objectives

## ➤ Risk Supervision & Examination Initiatives

- Internal Controls – Published Audit and Review Examination Manual module including supporting documents and talking points. Completed examination of System internal controls using new workprograms. Working with ORP on proposed Bookletter providing regulatory expectations.
- Loan Portfolio Management – Published Risk Identification Examination Manual module and two supporting documents. Revised guidance on collateral risk management, chattel evaluations and verification, and credit administration.
- Completed analyses on cash grain risk exposures and drought risk.





# 2016 Operating Plan Objectives



## ➤ Risk Supervision & Examination Initiatives (cont.)

- Other Examination Manual modules published:
  - Earnings Management
  - Allowance for Loan Losses
  - FCA Examination Process and Financial Institution Rating System

## ➤ Risk Supervision & Examination Informational Memorandums

- National Oversight Plan FY 2017 (issued 9/27/2016)
- Servicing Loans to Borrowers in Distressed Industries (issued 1/21/16)
- Compliance w/ Section 4.38 of the Farm Credit Act -- Affirmative Action (issued 11/06/15)



# 2016 Operating Plan Objectives

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## ➤ **Public Mission as GSE**

- Completed systemic risk assessment of out-of-territory lending

## ➤ **Human Capital**

- Integrating Job Analysis results in Commissioning Program
- Developing Post-Commission training
- Expanded development opportunities
- Identified recruiting and training cost-saving strategies

## ➤ **Operational Efficiency & Effectiveness**

- Progress in Loan Database, EDGe, and leveraging technology

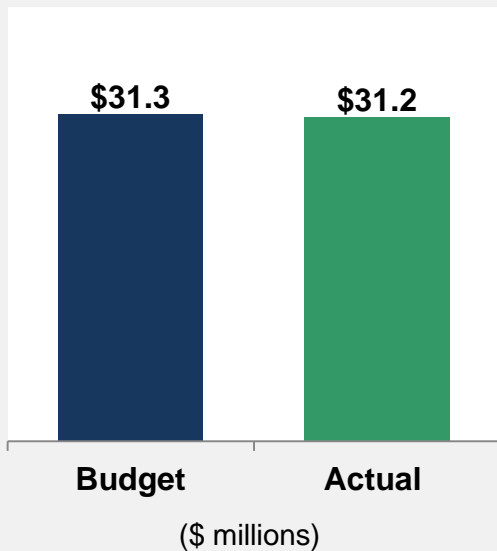




# OE Budget Results (Fiscal Year 2016)



## Fiscal Year 2016



*Actual OE  
spending within  
Operating Budget  
parameters*

### Travel Budget

- ◆ FY 2016 Travel Dollars Used 104%
- ◆ FY 2016 Travel Days Used 102%

### FTEs

- ◆ Budgeted Full Year FTE's 168.6
- ◆ Actual Full Year FTE's 172.9
- (Over)/Under Budget **(4.3)**



# Staffing Update



Total OE Staff	Planned	Actual	Variance
<b>Beginning FY 2016</b>	169	169	0
Attrition / Retirements	(16)	(11)	5
Hirings	25	19	(6)
<b>Ending FY 2016</b>	<b>178</b>	<b>177</b>	<b>(1)</b>

Commissioned Examiners	Planned	Actual	Variance
<b>Beginning FY 2016</b>	90	90	0
Attrition / Retirements	(7)	(6)	1
Hirings	2	1	(1)
Newly Commissioned	8	5	(3)
<b>Ending FY 2016</b>	<b>93</b>	<b>90</b>	<b>(3)</b>





# Summary

- Accomplished examination objectives as planned while maintaining a strong onsite risk supervision and oversight presence
- Significant guidance, communications, program activities, and risk analyses completed as part of our OE operating objectives
- Several 2016 initiatives will carry forward into 2017 including internal controls and intensifying credit and collateral risk
- Recruiting and developing staff remains a priority
- Executed OE operating objectives within approved budget parameters





# Discussion

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**THANK YOU**

Farm Credit Administration

1501 Farm Credit Drive  
McLean, Virginia 22102-5090

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**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 December 8, 2016, 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).

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/s/  
Charles R. Rawls  
General Counsel

Date: December 8, 2016