



# FCA Board Meeting December 2018

Exhibit D

## Quarterly Report on FCS Condition December 13, 2018

Dennis A. Shields  
Hal Johnson





# Topics for Open Session

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- ▶ Economic Conditions Affecting the Farm Credit System
  - Macroeconomic factors
  - Farm income and commodity indicators
  - Risks ahead
- ▶ FCS Condition and Performance
  - System growth
  - Loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)





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# Economic Conditions Affecting the Farm Credit System

**Dennis A. Shields**  
Chief Economist  
Office of Regulatory Policy



# Favorable U.S. and global economic conditions continue amid concerns

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## Favorable factors

- ▶ Solid world economic growth
- ▶ Improving U.S. employment
- ▶ Consumer wage and income growth
- ▶ Moderating crude oil prices

## Concerns

- ▶ Higher costs from labor and tariffs
- ▶ Rising consumer, business, and government debt
- ▶ Rising interest rates and stronger dollar
- ▶ Slowdown in housing

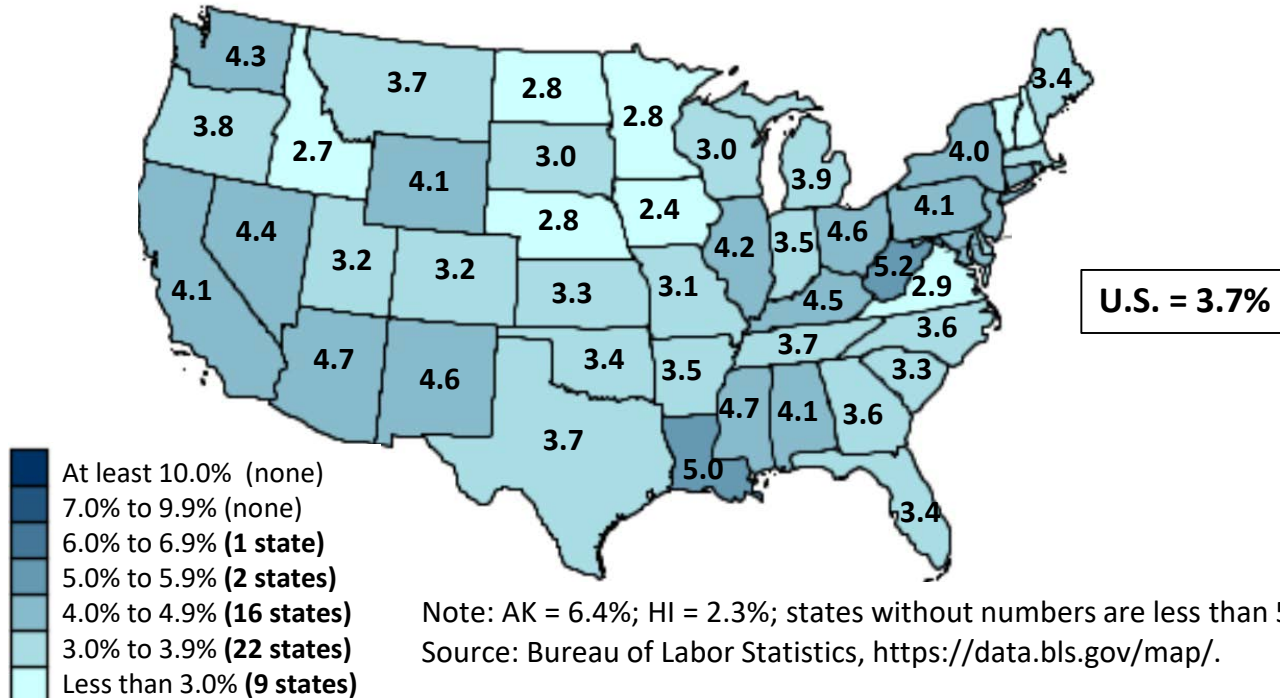




# Unemployment rate remains low in all states



Unemployment rate by state (%)



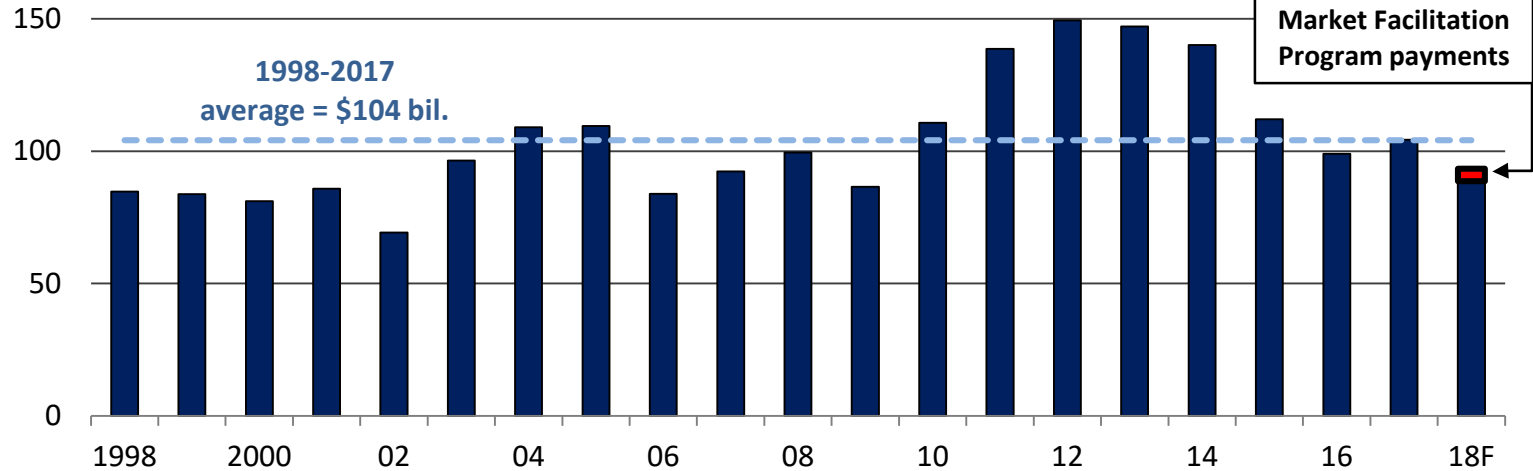


# Farm income in 2018 is supplemented by Market Facilitation Program payments



U.S. net cash farm income  
(adjusted for inflation)

\$ billion  
(2018 dollars)



Source: USDA/ERS, November 30, 2018.



# Corn prices stay below \$4 despite tighter stocks



## U.S. corn prices received by farmers



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stocks/ use (%)	13.1	8.7	7.9	7.4	9.2	12.6	12.7	15.7	14.5	<b>11.5</b>

Note: Calendar year monthly farm prices; stocks/use ratio is crop year beginning September.  
Source: USDA/NASS and USDA/WAOB, November 2018.



# Soybean prices sink as stocks rise sharply



## U.S. soybean prices received by farmers



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stocks/ use (%)	4.5	6.6	5.4	4.5	2.6	4.9	5.0	7.2	10.3	<b>23.3</b>

Note: Calendar year monthly farm prices; stocks/use ratio is crop year beginning September.  
 Source: USDA/NASS and USDA/WAOB, November 2018.

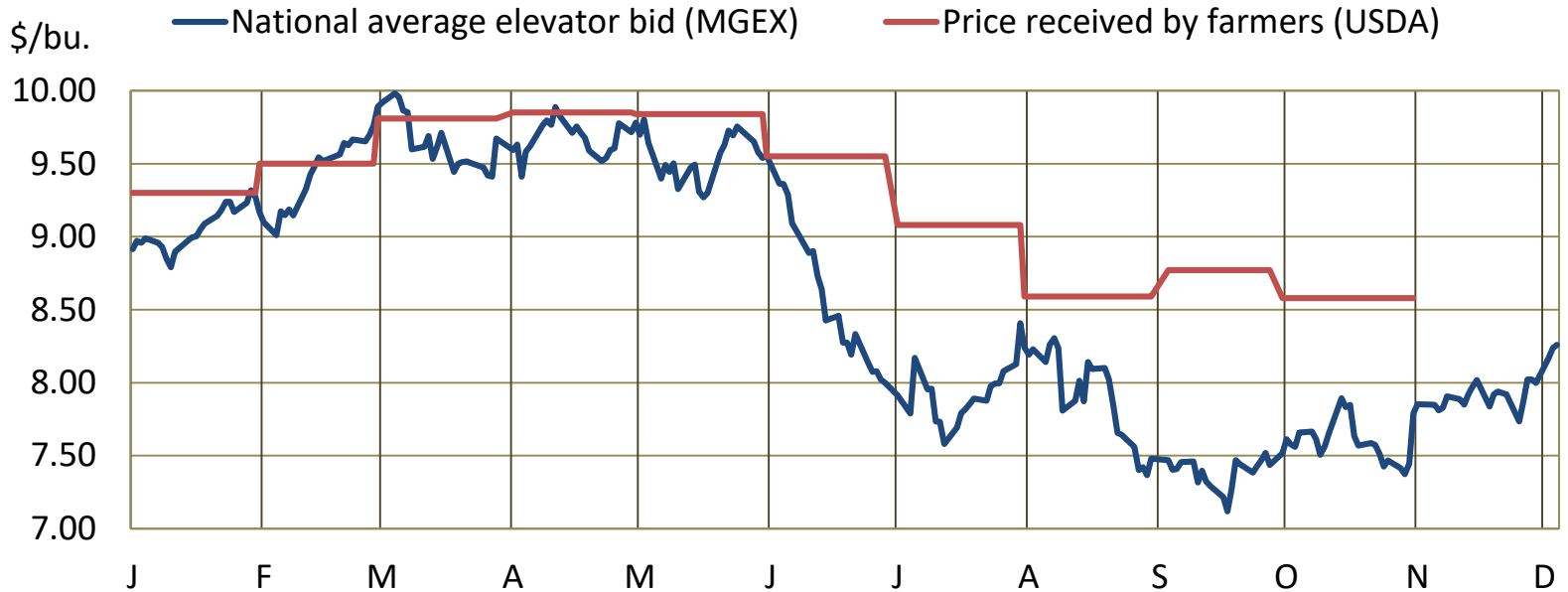




# Soybean bids have been below USDA's monthly farm prices



### U.S. soybean prices in 2018

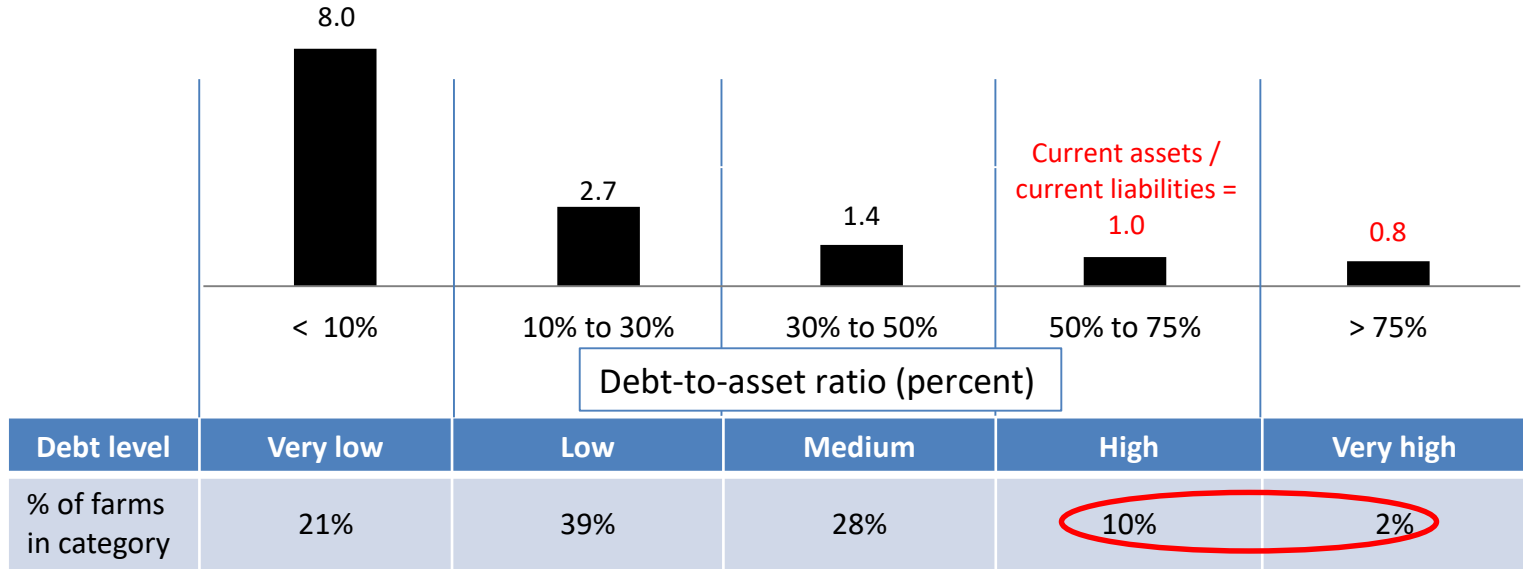


Source: Minneapolis Grain Exchange, Inc. (MGEX) and USDA/NASS.



# Farm liquidity approaches danger zone for high-debt grain producers

Average current ratio declines as farm debt increases



Note: Illinois grain farms, year-end 2017.

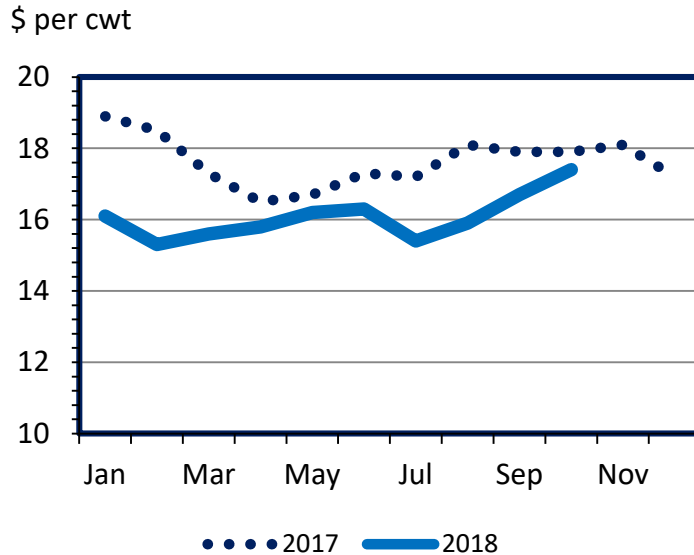
Source: Schnitkey, G. and K. Swanson, *farmdoc daily* (8): 196, Univ. of Illinois, October 23, 2018.



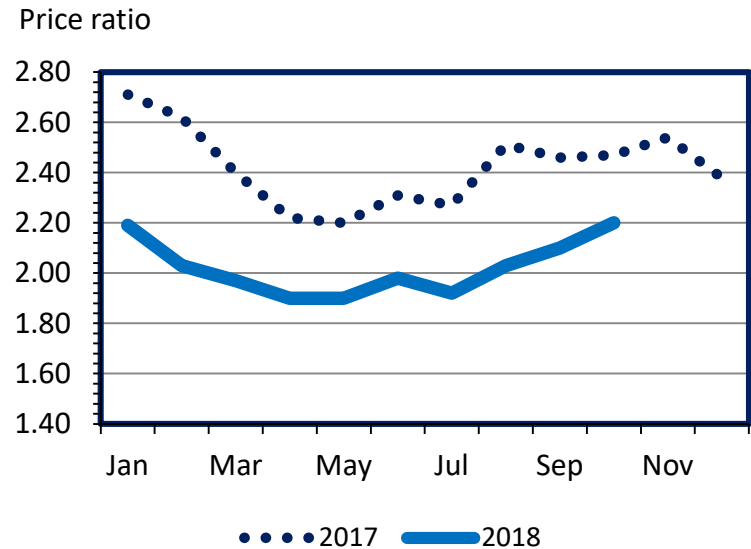
# Low milk prices and higher feed costs squeeze dairy producers



### U.S. farm milk price



### Milk-feed price ratio\*



\*U.S. farm milk (\$ per cwt) divided by feed price (\$ per cwt).

Source: Livestock Marketing Information Center using USDA data.

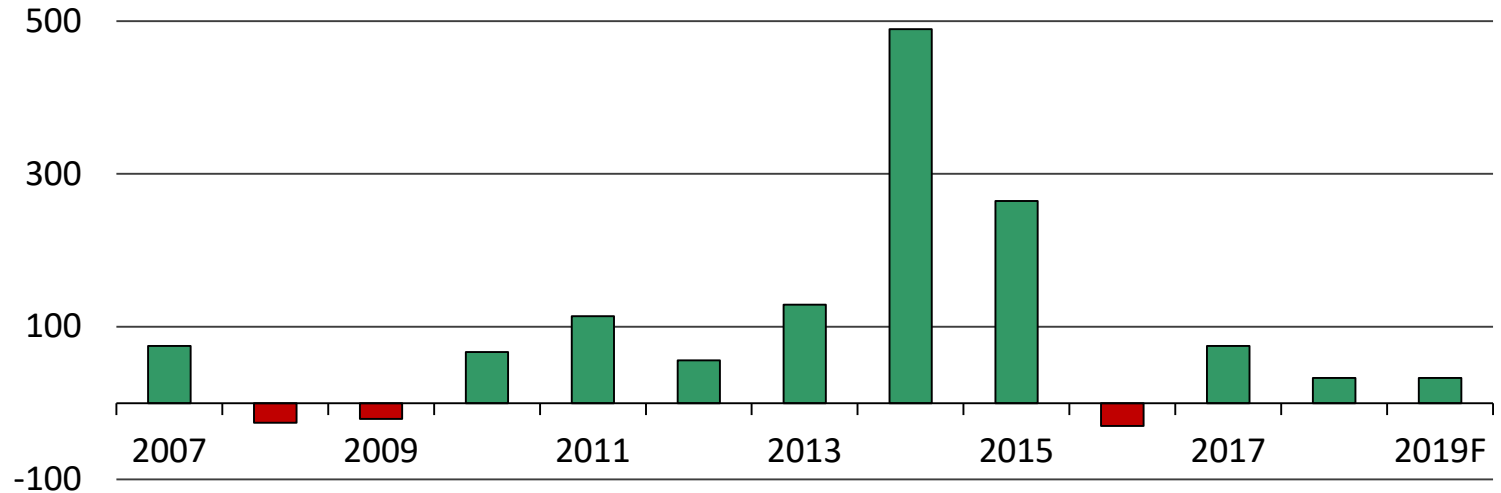


# Cow/calf returns are projected to remain low but above breakeven



Cow/calf returns

\$ per head



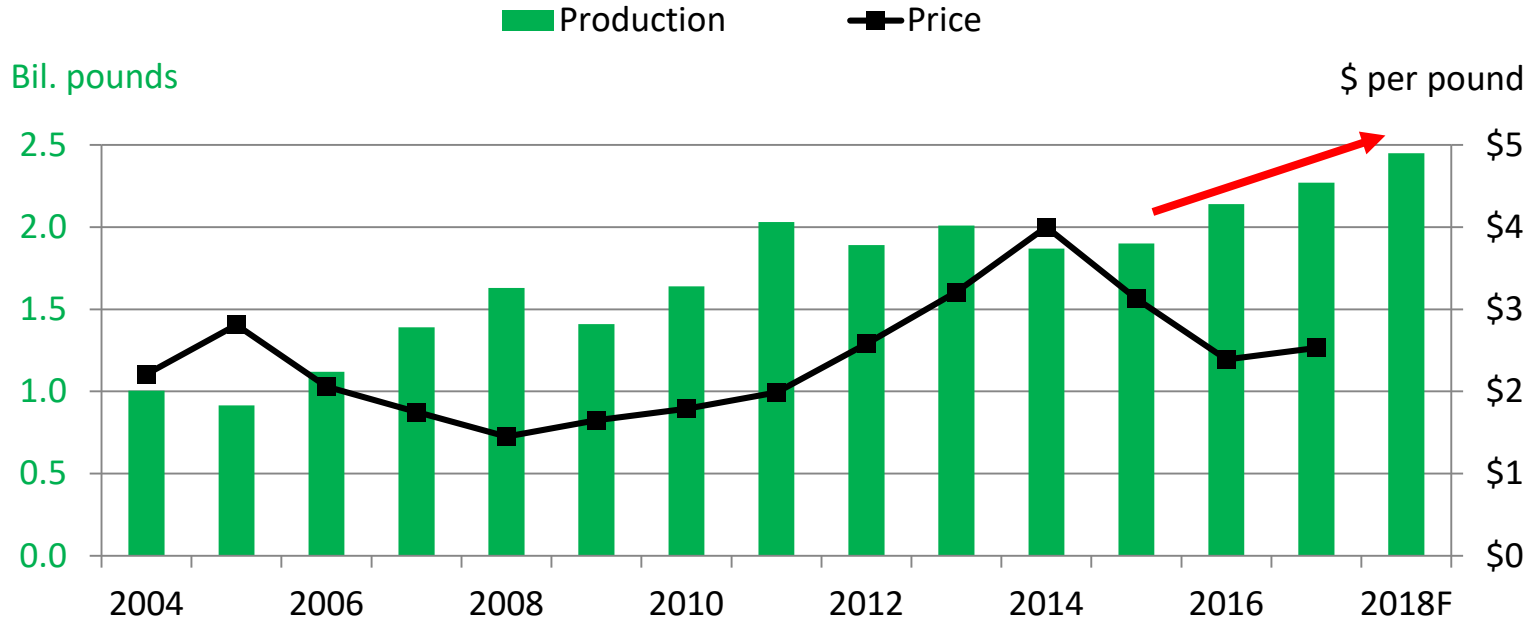
Source: Informa Economics.



# Almond production expands and the grower price adjusts downward



U.S. almond production and grower price



Note: 2018 price estimate available in June 2019.

Source: USDA/NASS.



# Risks ahead

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- ▶ Trade (and farm) policy
- ▶ Pricing opportunities for grain and soybean producers
- ▶ Rising interest and input costs
- ▶ Changes in farmland supply and demand
- ▶ Slowdown in U.S. and global economic growth





# Questions

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**THANK YOU**



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# Farm Credit System Condition and Performance

as of  
September 30, 2018

**Hal Johnson**  
Sr. Financial Analyst  
Office of Examination





# Topics

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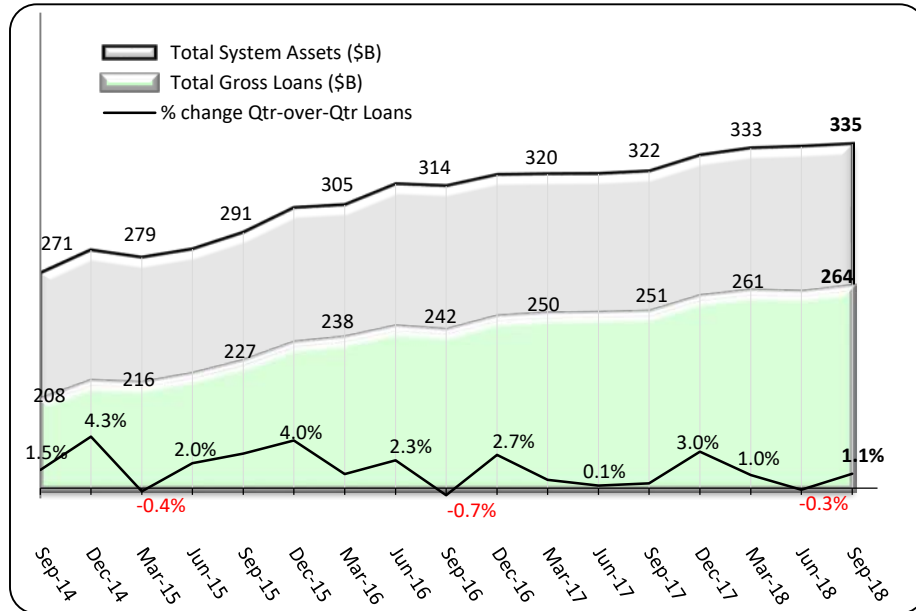
- ▶ System Growth
- ▶ Portfolio Credit Quality
- ▶ Earnings
- ▶ Capital
- ▶ FIRS



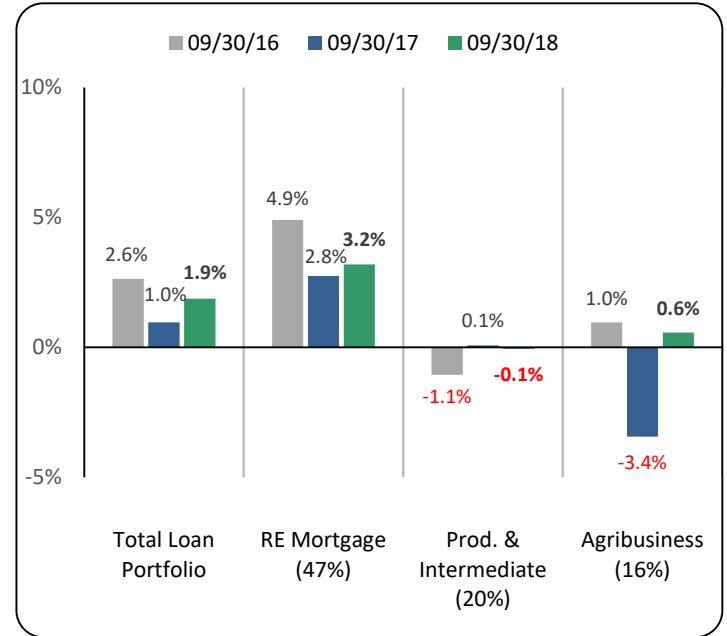


# System shows modest growth for the 1<sup>st</sup> nine months of 2018; primarily RE mortgage lending

<b>Total Assets</b> 9/30/18	<b>\$335.0</b> billion	+0.3% Qtr +1.7% YTD	<b>Gross Loans</b> 9/30/18	<b>\$263.6</b> billion	+1.1% Qtr +1.9% YTD
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**Loan Growth by Loan Type**  
(% change year-to-date through September)



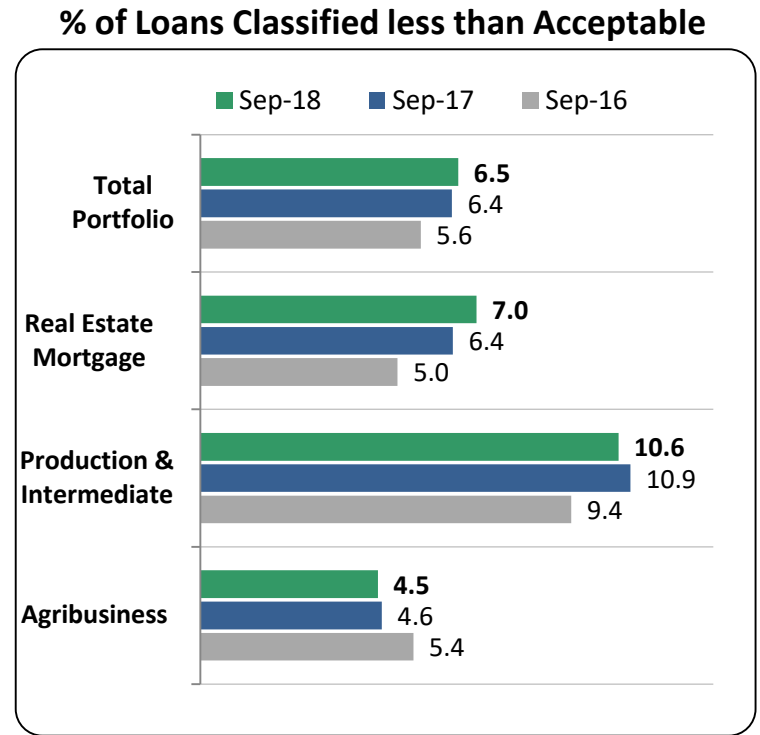
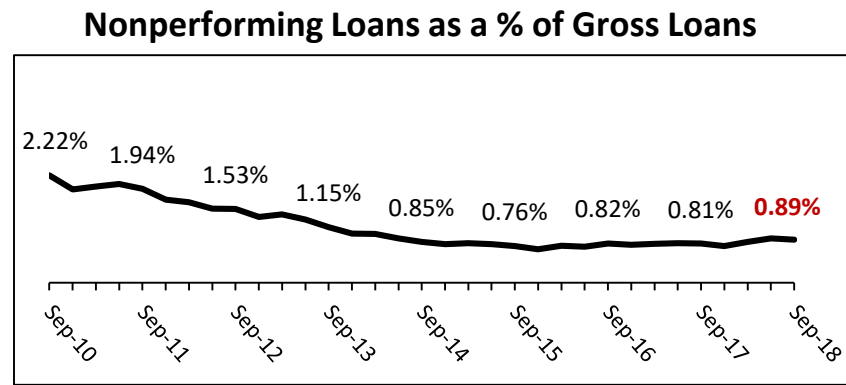
Source: FCS Information Statements



# Loan quality is down from a year ago; System is well-positioned for increased risk levels



<b>Nonperforming Loans</b>	<b>\$2.347 billion</b>	Qtr chg: -\$54M down 2.2%	YTD chg: +\$380M up 19.3%
<b>Delinquencies accruing loans ≥ 30 days past due</b>	3Q '18: 0.27% YE '17: 0.25%	% of total accruing loans	
<b>Allowance for Loan Losses</b>	<b>\$1.682 billion</b>	69% of nonperforming assets 84% of nonaccrual loans	



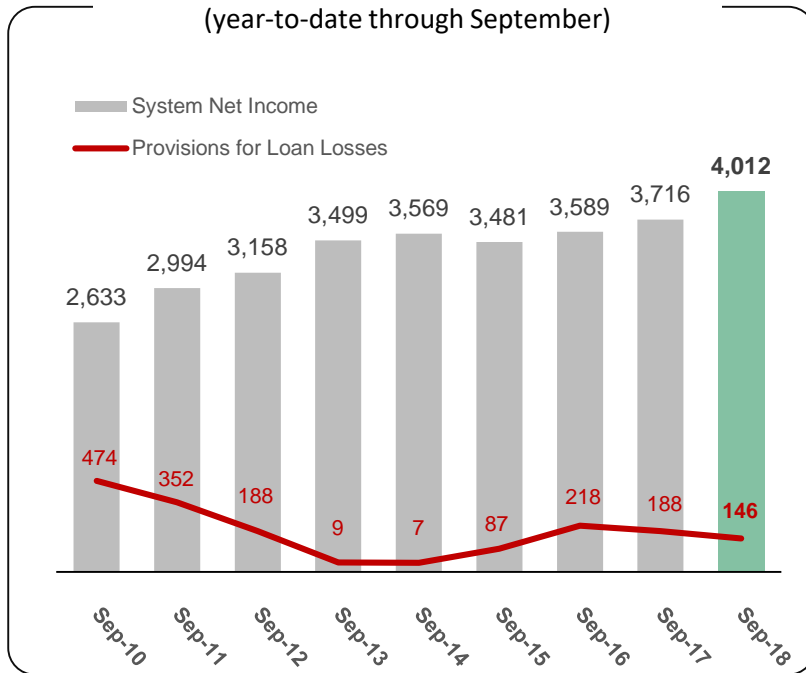
Source: FCS Information Statements



# The System's financial condition is sound; earnings are up year-over-year

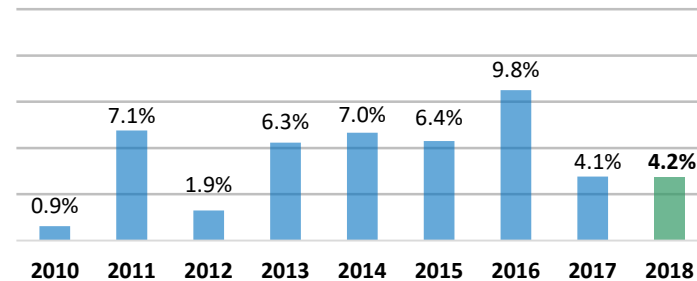


**System Earnings**  
(year-to-date through September)



<b>Net Interest Spread</b> (YTD annualized)	Sept. '18 <b>2.13%</b>	Sept. '17 <b>2.24%</b>
<b>Net Interest Margin</b> (YTD annualized)	Sept. '18 <b>2.45%</b>	Sept. '17 <b>2.47%</b>

**% increase in YTD Average Earning Assets**  
(compared to the same period a year ago)



Source: FCS Information Statements



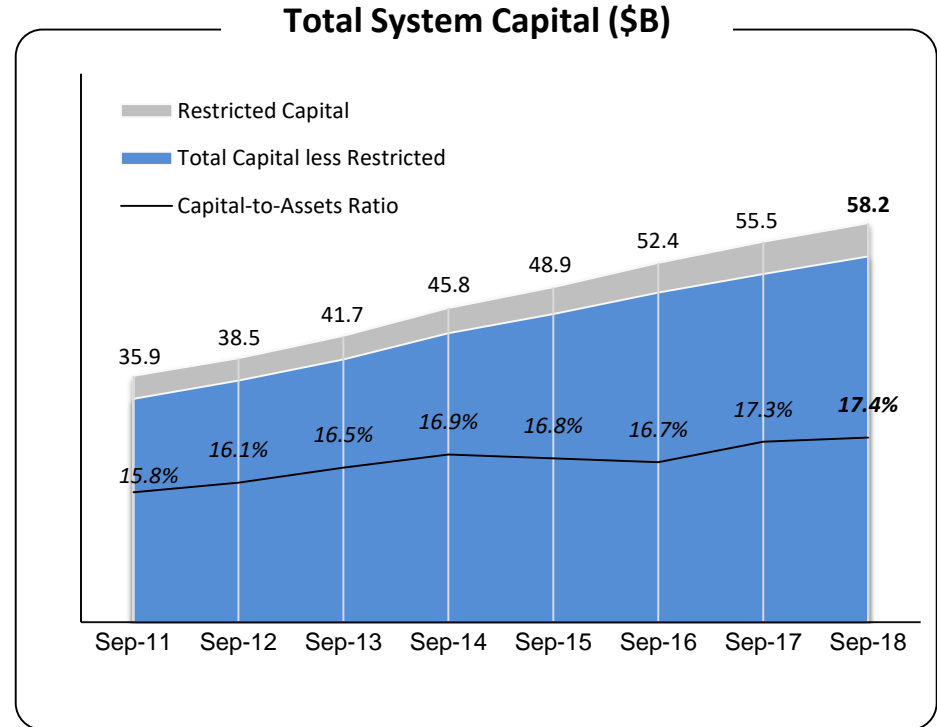
# System is strongly capitalized

## Capital and Liquidity

as of September 30, 2018

- ▶ Retained earnings as a percentage of total capital equaled 80.1% of total capital.
- ▶ The System's liquidity position equaled 171 days of coverage.

Days of available liquidity for the 4 funding banks ranged from 144 to 226 days.



Source: FCS Information Statements

Restricted capital represents capital associated with the Insurance Fund. 21



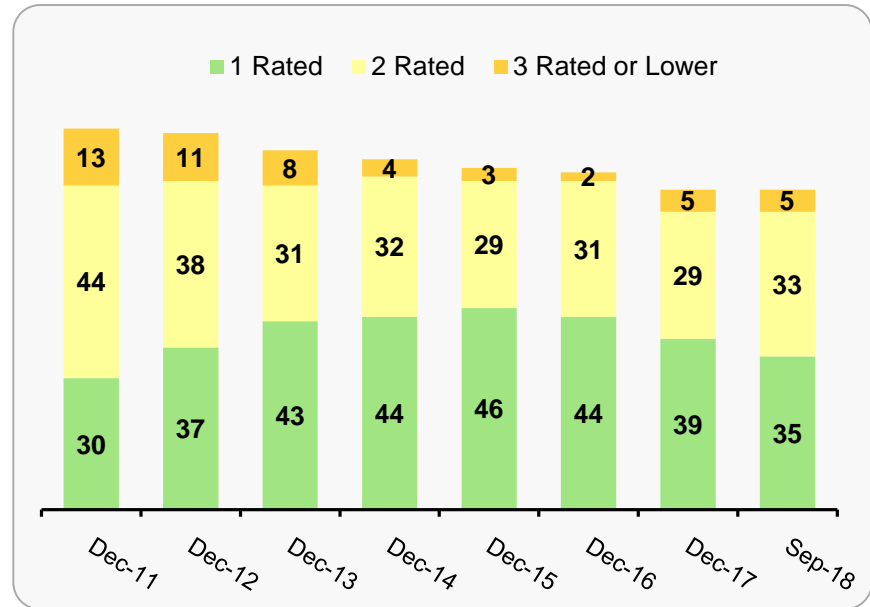
# System FIRS ratings



## FIRS Ratings

- ▶ Composite FIRS ratings reflect the System's solid financial performance and good portfolio credit quality
- ▶ Over 93% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower account for less than 2.0% of System assets

**Composite FIRS Ratings**  
**Farm Credit System Banks and Associations**



Source: FCA's FIRS ratings database



# Summary and final points

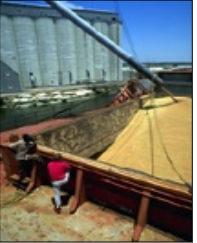


- ▶ Challenges for agriculture:
  - General economic factors: higher interest rates; strength of the dollar; rising consumer, business, and government debt levels; labor availability and costs
  - Farm sector concerns: matching supply with demand needs; rising input costs; trade policies; pricing opportunities for grain/soybean producers
- ▶ The System is financially strong and well-capitalized
- ▶ Portfolio credit stress is higher in 2018, but System institutions are well-positioned for the challenges facing the farm economy and have significant risk-bearing capacity



# Questions

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**THANK YOU**