

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Board Member
Jeffery S. Hall, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
April 14, 2016**

These minutes reflect the business transacted at the April 14, 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 10:46 a.m. Members of the Board present were:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Member
Jeffery S. Hall, Member

The above named constituted the full Board.

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and two 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 Spearman reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Tonsager moved to adopt the Agenda as published.

Mr. Hall seconded the motion.

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

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

Mr. Hall 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. Tonsager seconded the motion.

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

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

OPEN SESSION

Approval of Minutes

Minutes for March 10, 2016 (BM-14-APR-16-01)

Mr. Tonsager moved to approve the minutes for March 10, 2016, FCA Regular Board Meeting.

Mr. Hall seconded the motion.

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

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-14-APR-16-01)**

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

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 (OE) presented the Quarterly Report on Economic Conditions and Farm Credit System Conditions.

Board Chairman Spearman 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.)

Farm Credit System Building Association Auditor's Report on 2015 Financial Audit

Rick Albrecht, President of the Farm Credit System Building Association (FCSBA); and **Craig Hunter** and **Brandon Welsh** of Cherry Beakert, LLP presented the FCSBA Auditor's Report on 2015 Financial Audit.

Board Chairman Spearman asked if there were any questions or further discussion from the Board.

There was no further discussion.

(A copy of the PowerPoint presentation is attached as Exhibit E.)

CLOSED SESSION

Board Chairman Spearman 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 Spearman convened the closed session of the meeting at 9:51 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 Spearman 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.)

Members of the Board present were:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Member
Jeffery S. Hall, Member

The above named constituted 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

Board Chairman Spearman reminded those speaking to state their name before speaking.

Robert Coleman and **Roger Paulsen** of the Office of Examination presented the OE Quarterly Report.

Board Chairman Spearman thanked the OE staff at the conclusion of their report.

CLOSED EXECUTIVE SESSION

Executive Session with External Auditor

Board Chairman Spearman announced that the next topic on the Agenda was a closed executive session pursuant to previous Board action and 5 U.S.C. § 552b(c)(2).

Board Chairman Spearman instructed all to exit except for Board Members, Executive Assistants, the General Counsel, and the Secretary to the Board so that the Board could meet with Craig Hunter and Brandon Welsh as approved by the Board previously.

Board Chairman Spearman reminded those speaking to state their name before speaking and asked the Auditors to further discuss the audit.

Board Chairman Spearman asked if there were any questions or further discussion from the Board.

There was no further discussion.

ADJOURNMENT

There being no further business to come before the Board, **Board Chairman Spearman** indicated he would entertain a motion to adjourn the meeting.

Mr. Hall moved that the meeting be adjourned.

Mr. Tonsager seconded the motion.

Board Chairman Spearman called the question.

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

The meeting adjourned at 10:46 a.m.

NOTATIONAL VOTE ACTIONS

There were three notational vote actions approved by the FCA Board from March 11, 2016, through April 13, 2016 as follows:

| Item Number | Action Date | Voting Results | Subject |
|-------------|-------------|----------------|---|
| NV 16-05 | 03/14/2016 | Approved | The FCA Board did not object to the disclosure statement that CoBank, ACB, intends to use to issue up to \$375 million in noncumulative perpetual preferred stock in one or more future offerings. |
| NV 16-06 | 03/15/2016 | Approved | CoBank, ACB request to invest up to \$10 million in bonds issued by a regional healthcare center in South Dakota. The bonds will provide financing to renovate and expand the center's facilities. FCA placed conditions on CoBank in conjunction with this investment. |
| NV 16-07 | 04/05/2016 | Approved | FCA Strategic Plan for 2016 to 2021. |

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
April 14, 2016**

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Board Member
Jeffery S. Hall, Board Member

| OFFICE | OPEN SESSION | CLOSED SESSION | EXECUTIVE SESSION |
|----------------------------|--------------|----------------|-------------------|
| Office of the Board | | | |
| Aultman, Dale | X | X | X |
| Middleton, Russell | X | X | X |
| Laguarda, Wendy | X | X | X |
| Kramp, Kevin | X | X | X |
| Calhoun, Gaye | X | | |
| Buccolo, Debra | X | | |
| Corey, Kathryn | X | | |
| | | | |
| OIT | | | |
| Shaffer, Jeannie | X | X | |
| | | | |
| COO | | | |
| Hoffman, William | X | X | |
| Ibelli, Heyam | X | | |
| | | | |
| OCPA | | | |
| Stokke, Mike | X | X | |
| | | | |
| OSMO | | | |
| Connor, Joe | X | X | |
| | | | |
| OGC | | | |
| Rawls, Charles | X | X | X |
| Donner, Mary Alice | X | X | |

| OFFICE | OPEN SESSION | CLOSED SESSION | EXECUTIVE SESSION |
|----------------------------|--------------|----------------|-------------------|
| OE | | | |
| Coleman, Robert | X | X | |
| Paulsen, Roger | X | X | |
| Johnson, Hal | X | X | |
| Wondra, Craig | | X | |
| MacLean, Michael | | X | |
| Lindlauf, Jerry | | X | |
| | | | |
| EEOI | | | |
| Burlew, Thais | X | | |
| | | | |
| OIG | | | |
| Dean, Elizabeth | X | X | |
| | | | |
| ORP | | | |
| Van Meter, Gary | X | X | |
| Mardock, Barry | X | X | |
| Gabriel, Stephen | X | X | |
| | | | |
| OMS | | | |
| Smith, Stephen | X | X | |
| | | | |
| FCSIC | | | |
| Rubin, Howard | X | X | |
| | | | |
| FCSBA | | | |
| Albrecht, Rick | X | | |
| Duffy, Morgan | X | | |
| | | | |
| Cherry Beakert, LLP | | | |
| Hunter, Craig | X | | X |
| Welsh, Brandon | X | | X |
| | | | |
| GENERAL PUBLIC | 2 | | |

**PUBLIC ANNOUNCEMENT OF
 MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
 Farm Credit Administration Board
 Regular Meeting
 April 14, 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 April 14, 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. 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 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

- 1 **Approval of Minutes**
 March 10, 2016
- 2 **Reports**
 Quarterly Report on Economic Conditions and FCS Conditions
- 3 Farm Credit System Building Association Auditor’s Report on 2015 Financial Audit

CLOSED SESSION

- 4 Office of Examination Quarterly Report¹

CLOSED EXECUTIVE SESSION

- 5 Executive Session - FCS Building Association Auditor’s Report²

 April 1, 2016
 Date

 /s/
 Dale L. Aultman
 Secretary to the Board

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

²Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(2).

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for March 10, 2016 Board Meeting

BM-14-APR-16-01

Effective Date: April 14, 2016

Effect on Previous Action: None

THE FCA BOARD HEREBY:

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

DATED THIS 14th DAY OF APRIL 2016

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting

April 2016

Quarterly Report on FCS Condition

April 14, 2016

Stephen Gabriel
Hal Johnson

Exhibit D





Topics for Open Session

- Economic Conditions Affecting the FCS
- FCS Condition and Performance





Economic Conditions Affecting the Farm Credit System

Stephen Gabriel
Chief Economist
Office of Regulatory Policy



Uncertainty is still a key factor in the global economy

- Weak global economic growth
- Negative interest rates
- Divergent monetary policies
- Chinese economic slowdown
- Potential “Brexit”
- European migration crisis
- Geopolitical issues – N. Korea, Iran, ISIS, Ukraine, Syria





U.S. economic outlook: steady as she goes



Consensus Forecasts (percent)

Red indicates forecast

| | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| GDP growth* | 0.6 | 3.9 | 2.0 | 1.4 | 2.1 | 2.4 | 2.5 | 2.4 | 2.4 | 2.4 | 2.3 | 2.3 |
| CPI* | -2.9 | 2.4 | 1.4 | 0.8 | 0.4 | 1.8 | 2.1 | 2.2 | 2.3 | 2.5 | 2.4 | 2.3 |
| Unemployment rate | 5.6 | 5.4 | 5.2 | 5.0 | 4.9 | 4.8 | 4.7 | 4.6 | 4.6 | 4.6 | 4.5 | 4.5 |
| 10 Yr T-Bond | 2.0 | 2.4 | 2.0 | 2.2 | 2.0 | 2.1 | 2.3 | 2.4 | 2.7 | 2.8 | 3.0 | 3.1 |

Source: Consensus Economics, Inc.

Survey date - March 7, 2016

* % change from prior quarter, seasonally adjusted annual rate



Farm sector developments and concerns

- Farm sector net cash income projected to drop 2.5% in 2016 after dropping 27% in 2015
- Receipts from both crops and animal products to decline in 2016
- Exports are being hurt by the strong dollar and a weak global economy
- Continued farmland market weakness
- California rains improve the water situation





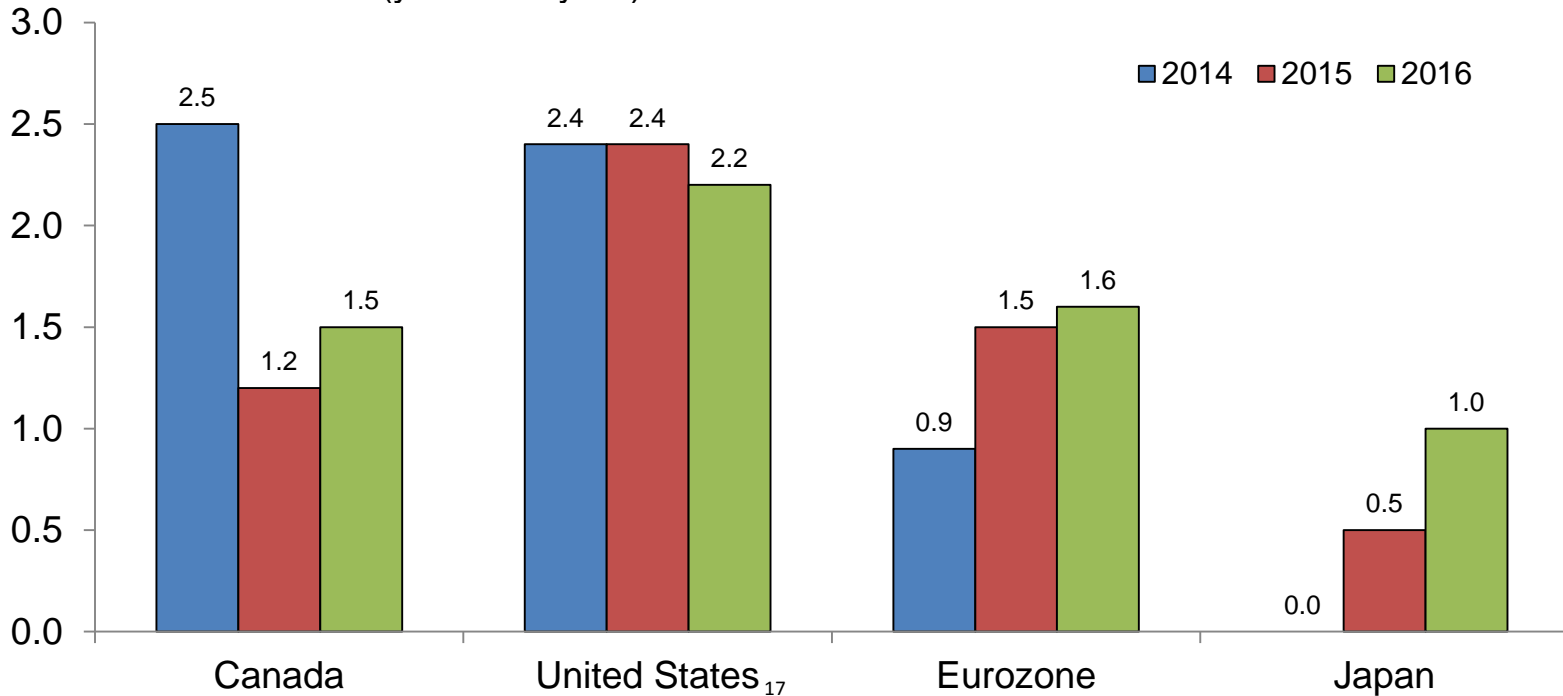
Factors Contributing to the Strong Dollar and Declining Exports



U.S. economic growth exceeds other developed countries



GDP Growth Rate % (year over year)

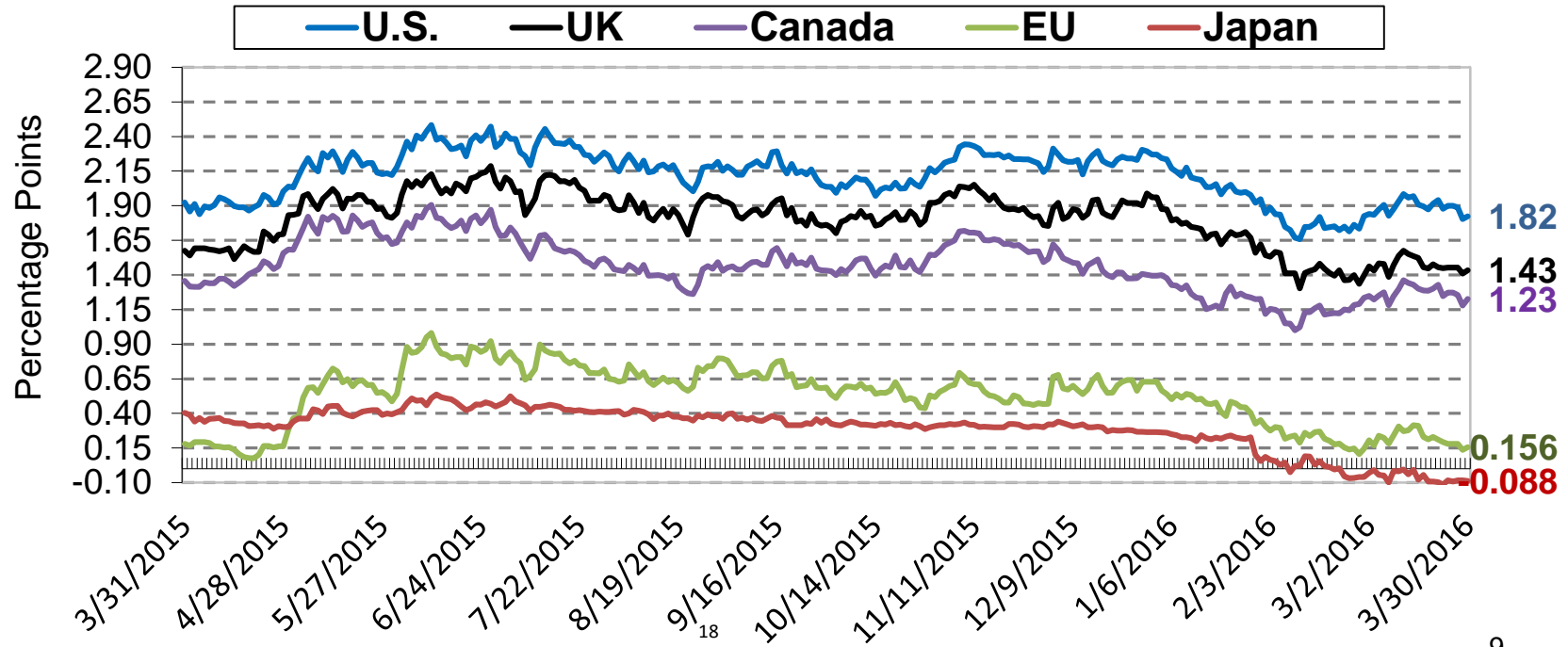


Source: FCA-ORP from Bloomberg LLC data



Where would you put your money?

Government Bond Yields, 10 Year, Daily Rates, Mar. 31, 2015 - Mar. 30, 2016



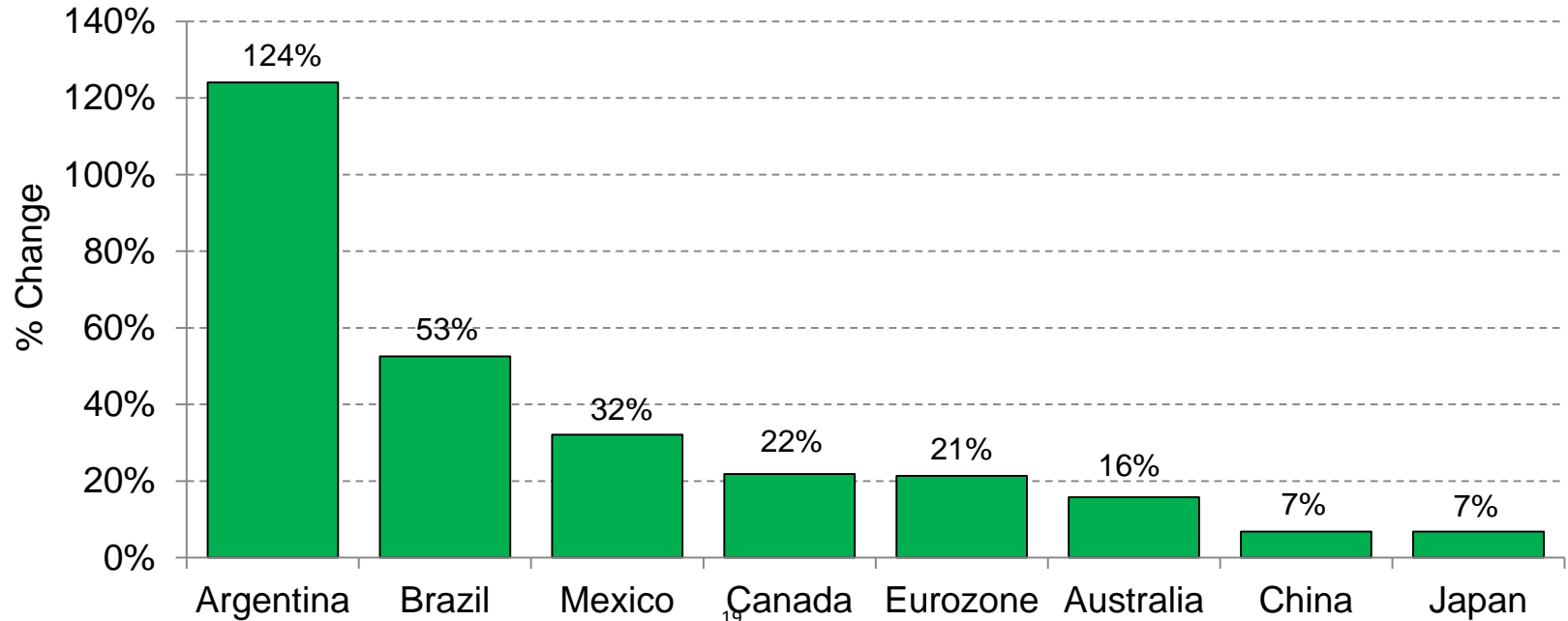
Source: FCA-ORP from Bloomberg data



The dollar has strengthened relative to competitors and customers



Exchange Rate Changes: Dollar versus Foreign Currency
% Change, Jan. 1, 2014 - Mar. 30, 2016



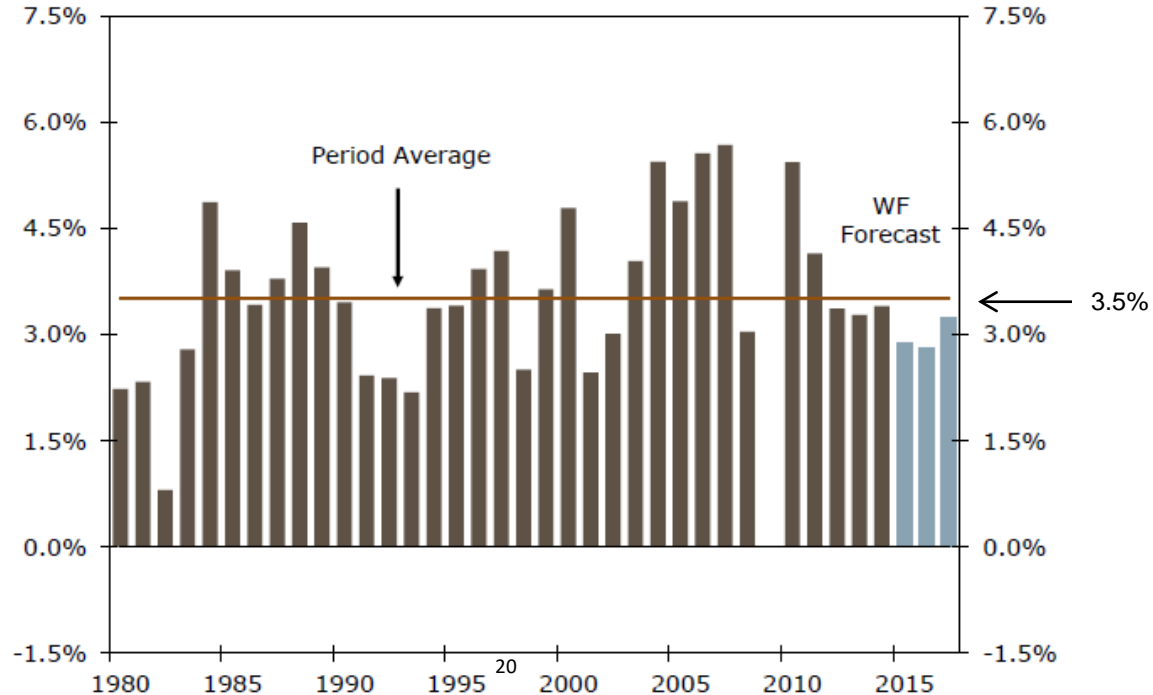
Source: FCA-ORP from Bloomberg LLC data



Export demand is down due to weakened global economic growth



Real Global GDP Growth
Year-over-Year Percent Change, PPP Weights



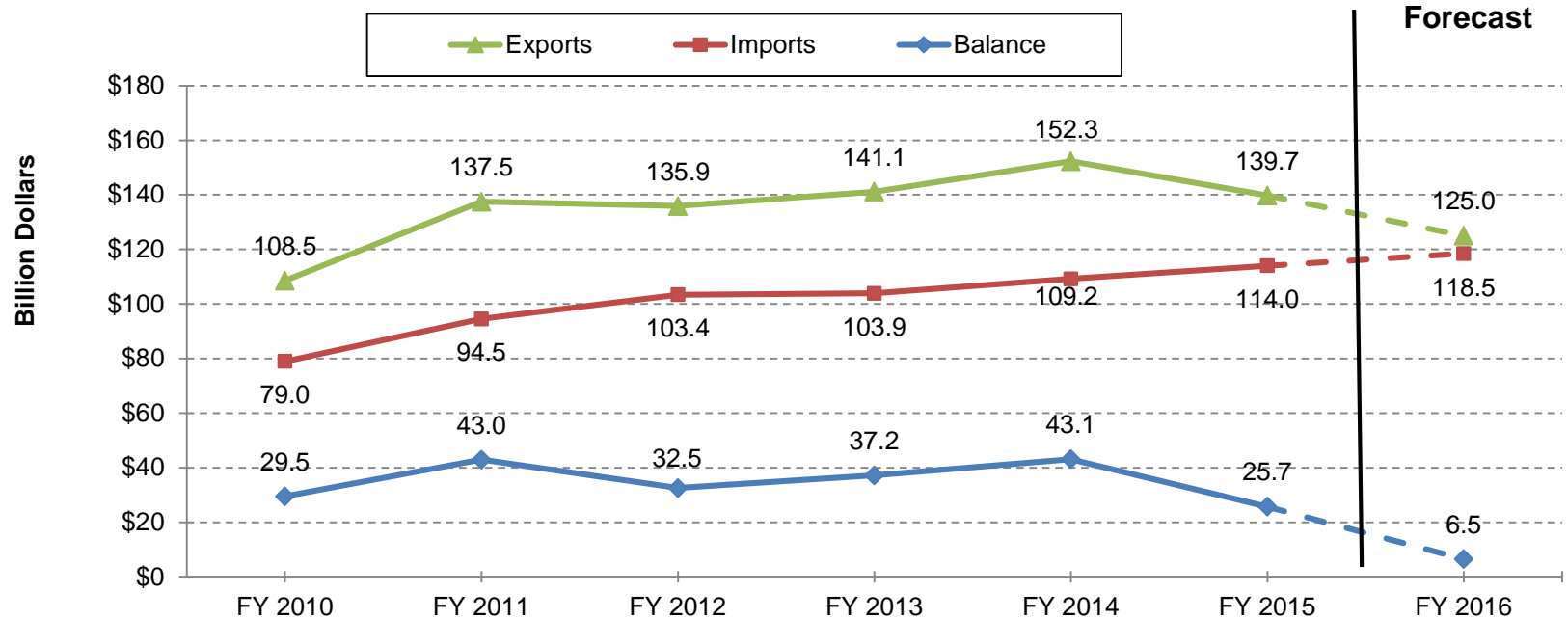
Source: Wells Fargo Securities



U.S. ag exports projected to decline for second year in a row



U.S. Agricultural Trade, Fiscal Years 2010-2016*



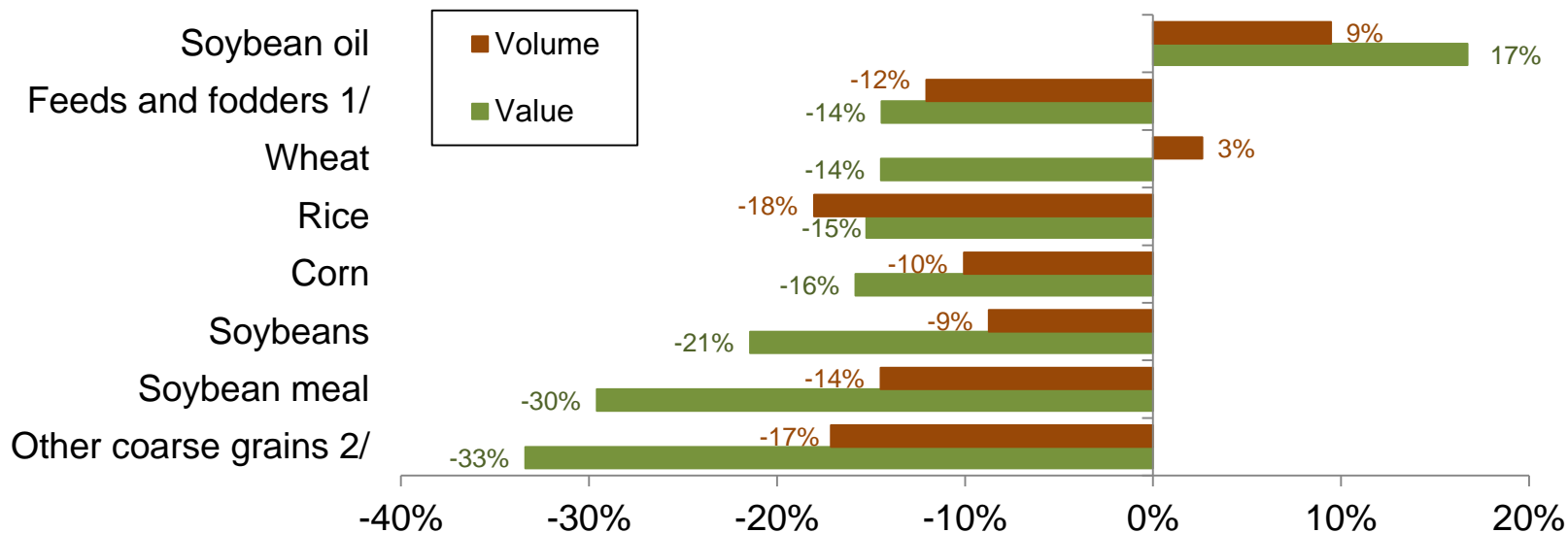
*Fiscal years = October of previous year through September of year indicated.

Source: FCA-ORP from USDA-ERS, Outlook for U.S. Agricultural Trade, Feb. 25, 2016



Exports of most grains projected to fall on both value and volume basis

U.S. Agricultural Exports Grains and Soybeans, % Change in Volume and Value, FY 2015 to Forecast FY 2016



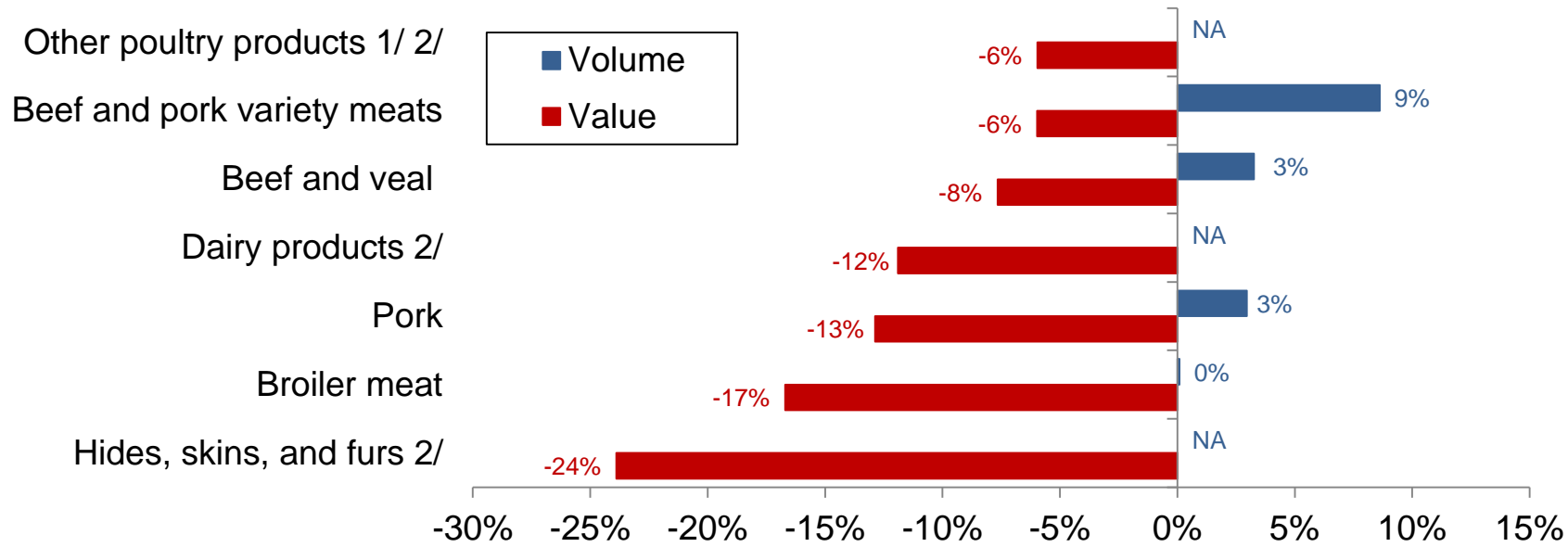
1/ Includes corn gluten feed and meal and processed grain products.

2/ Includes barley, sorghum, oats and rye.



Livestock product export value to drop despite higher volume

U.S. Agricultural Exports of Livestock Products, % Change in Volume and Value, FY 2015 to Forecast FY 2016



1/ Includes all poultry products except broiler meat. 2/ Volume figures not available (NA).

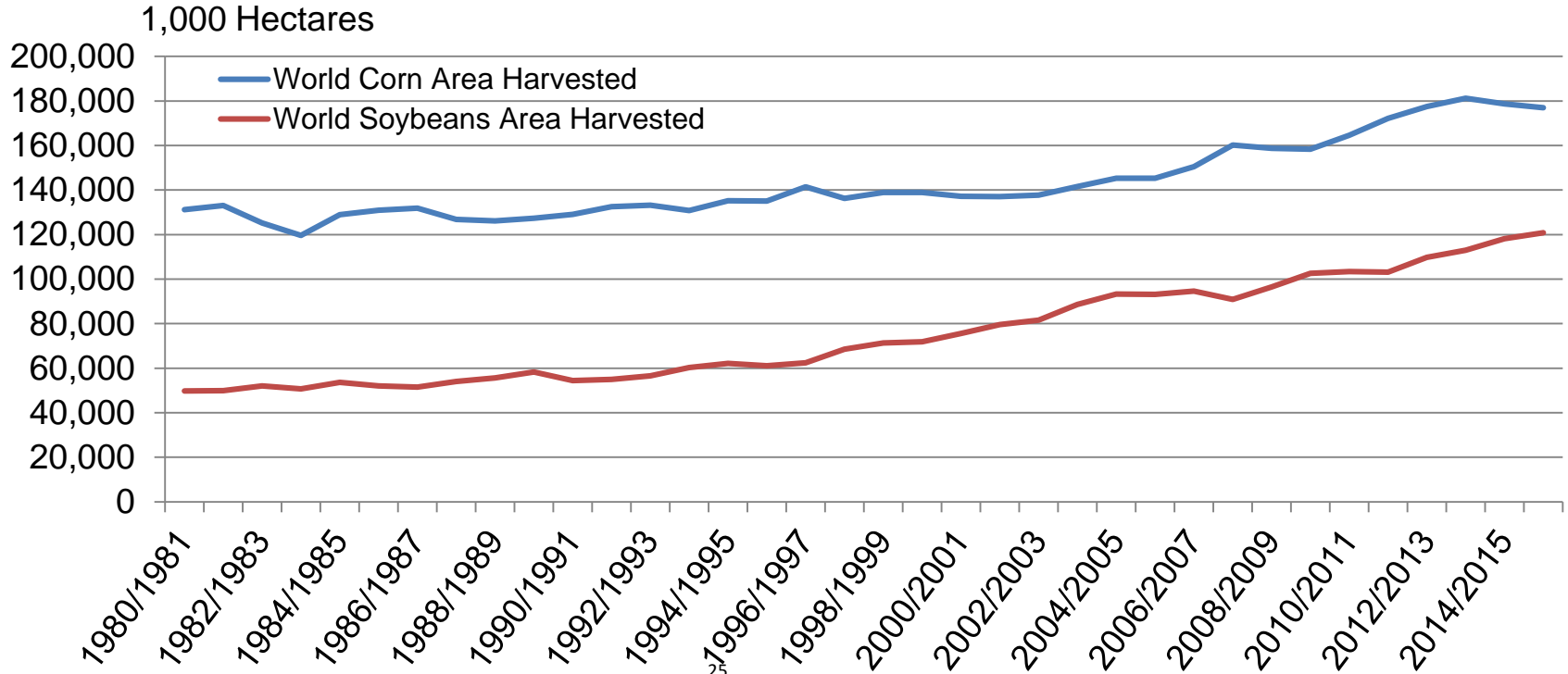
Source: FCA-ORP from USDA-Economic Research Service, Outlook for U.S. Agricultural Trade, Feb. 25, 2016.



Factors Contributing to Low Grain and Soybean Prices and Lower Farm Income



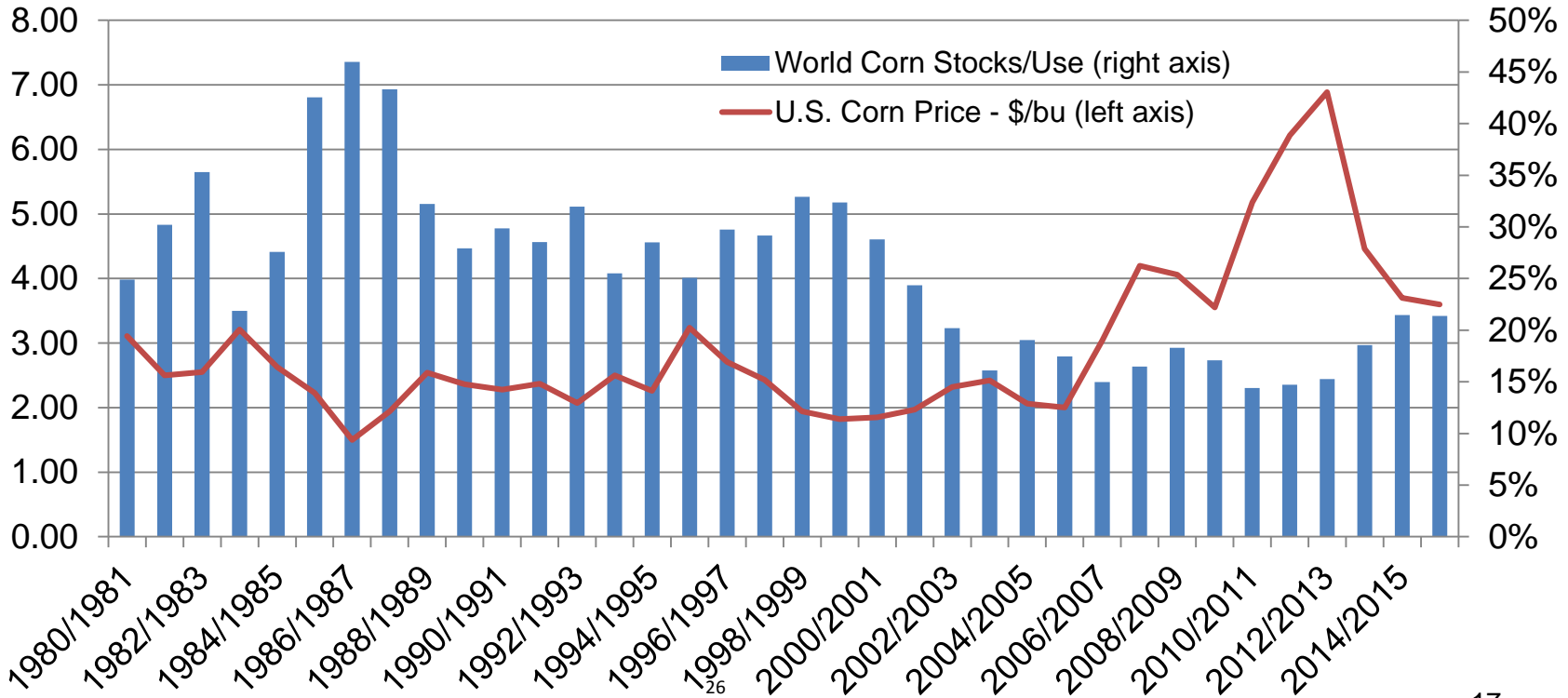
World corn and soybean area rose substantially after 2005



Source: USDA, FAS



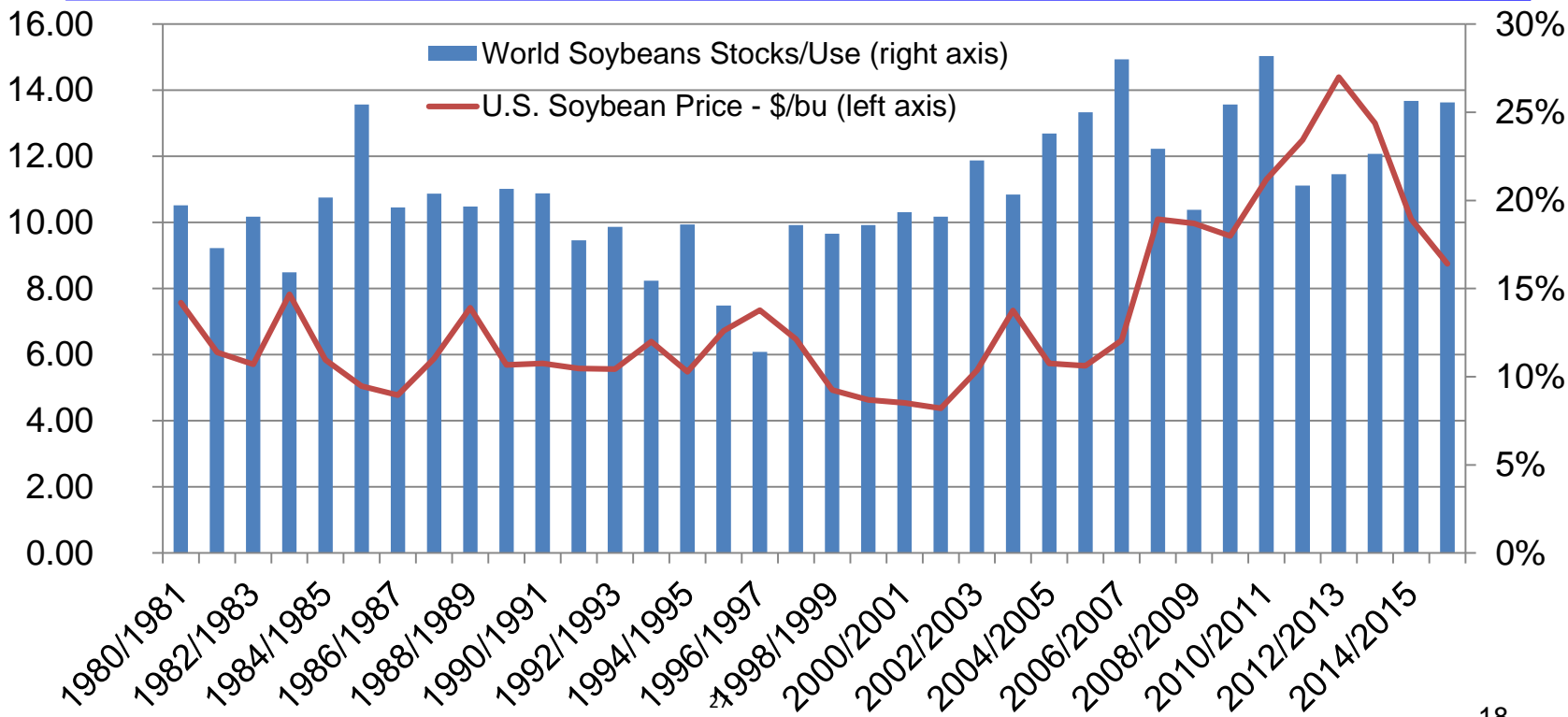
Global corn supplies are pressuring prices



Source: USDA, FAS and NASS



World soybean supplies are also ample



Source: USDA, FAS and NASS



Risks to watch

- Growing conditions this summer
- Signs of borrower stress, especially grain and soybean producers
- Midwest farmland markets
- World economic conditions
- Exchange rates
- Geopolitical tensions





Discussion



THANK YOU



Farm Credit System Condition and Performance

as of
December 31, 2015

Hal Johnson
Sr. Financial Analyst
Office of Examination



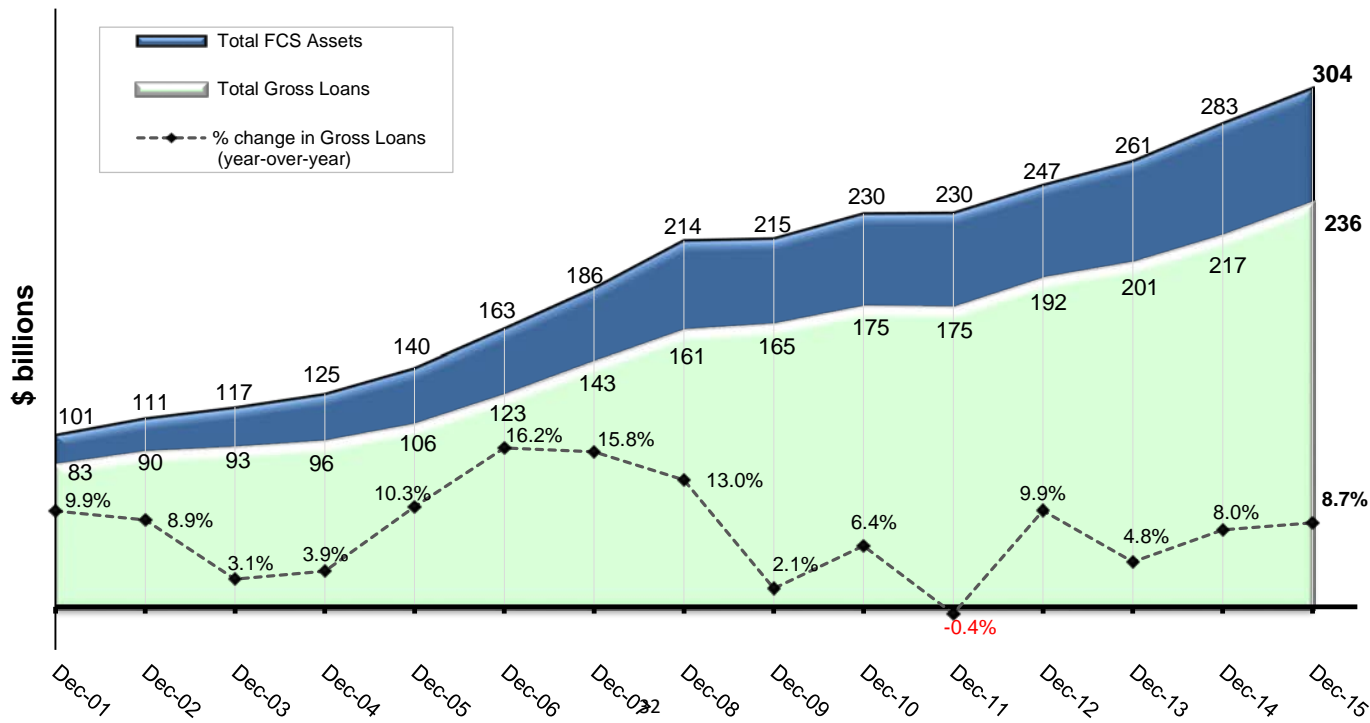
Topics

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





System growth up in 2015



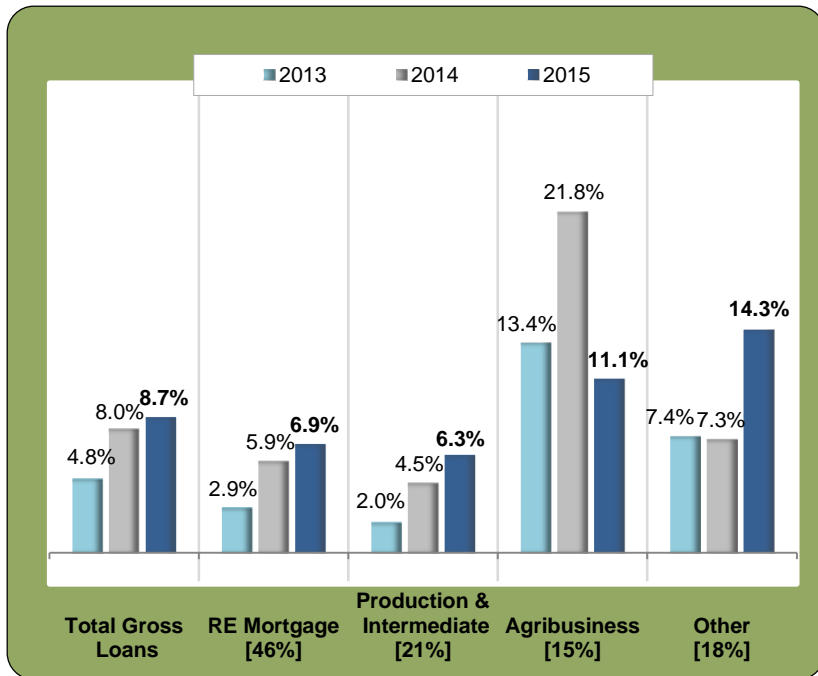
Source: FCS Annual Information Statements



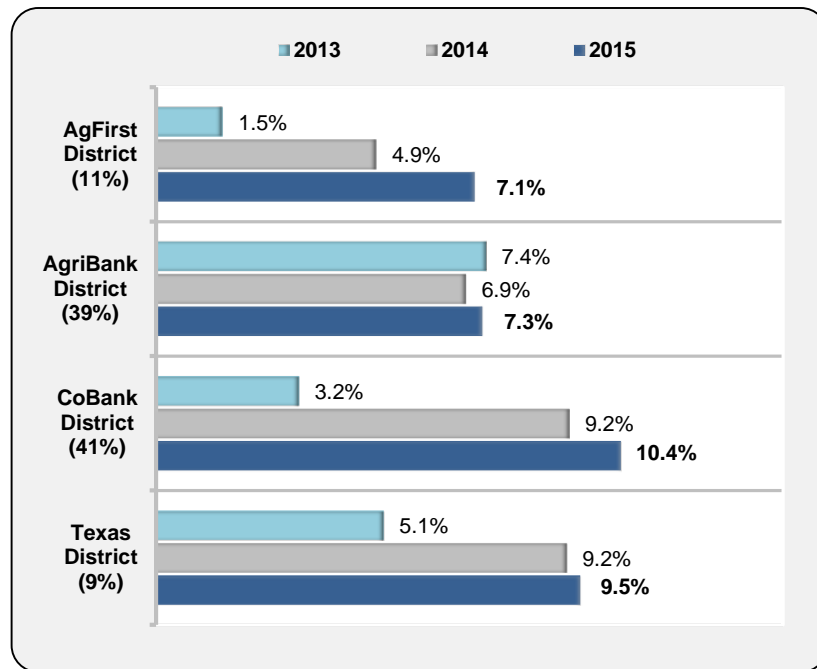
Loan growth strong across loan types and districts



Loan Growth by Loan Type (% change year-over-year)



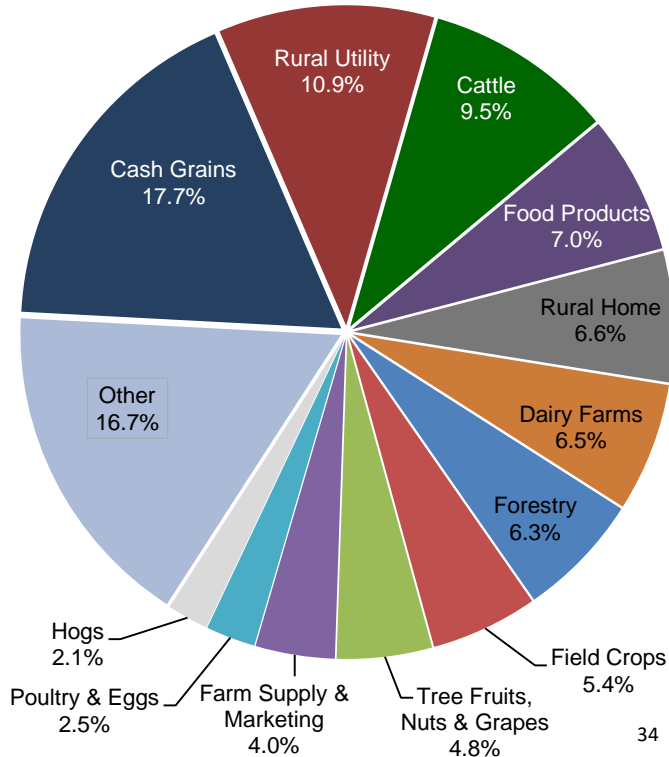
Loan Growth by District (% change year-over-year)



33



System's loan portfolio is well diversified within agriculture



| FCS Loan Portfolio (\$M) | | | | |
|-------------------------------------|---------|----------------|---------|--------------------|
| | Dec-15 | % of Portfolio | Dec-14 | % Change over 2014 |
| Cash Grains | 41,710 | 17.7% | 39,779 | 4.9% |
| Rural Utility | 25,798 | 10.9% | 21,568 | 19.6% |
| Cattle | 22,347 | 9.5% | 20,909 | 6.9% |
| Food Products | 16,607 | 7.0% | 14,895 | 11.5% |
| Rural Home | 15,481 | 6.6% | 14,522 | 6.6% |
| Dairy Farms | 15,265 | 6.5% | 14,325 | 6.6% |
| Forestry | 14,855 | 6.3% | 12,555 | 18.3% |
| Field Crops | 12,774 | 5.4% | 11,850 | 7.8% |
| Tree Fruits, Nuts and Grapes | 11,392 | 4.8% | 10,137 | 12.4% |
| Farm Supply & Marketing | 9,330 | 4.0% | 8,707 | 7.2% |
| Poultry & Eggs | 5,966 | 2.5% | 5,453 | 9.4% |
| Hogs | 4,963 | 2.1% | 4,420 | 12.3% |
| Other | 39,402 | 16.7% | 37,934 | 3.9% |
| Total | 235,890 | 100% | 217,054 | 8.7% |

Source: FCS Annual Information Statements

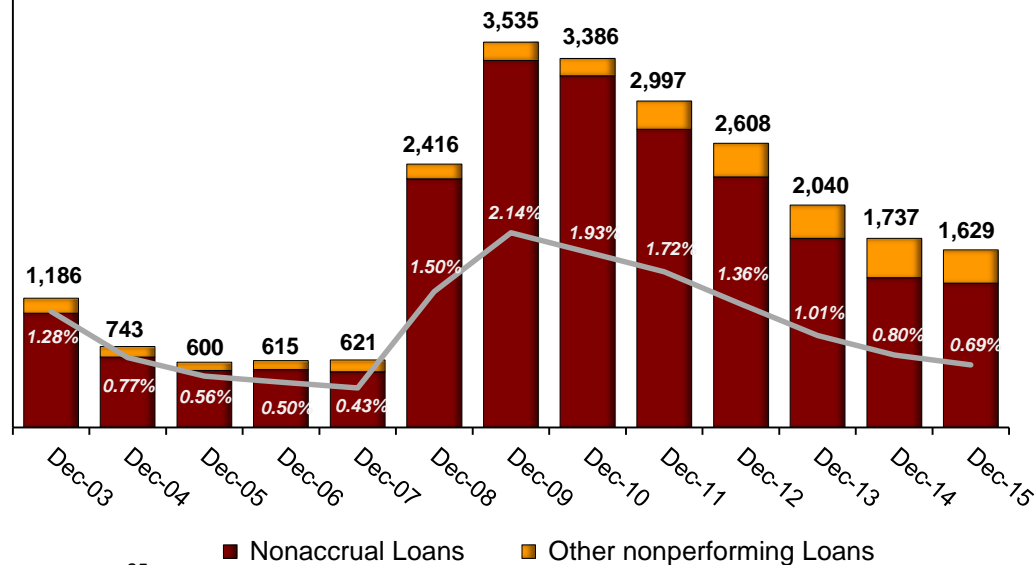


Portfolio credit quality remains strong

Portfolio Credit Quality as of December 2015

- Nonperforming loans equaled 0.69% of System loans outstanding
- Over 96% of System loans were classified as Acceptable
- Loan delinquencies were 0.20% of accruing loans
- The System's allowance for loan losses equaled 79% of nonperforming loans
- Total capital and the allowance for loan losses represented 21.2% of System loans at quarter-end

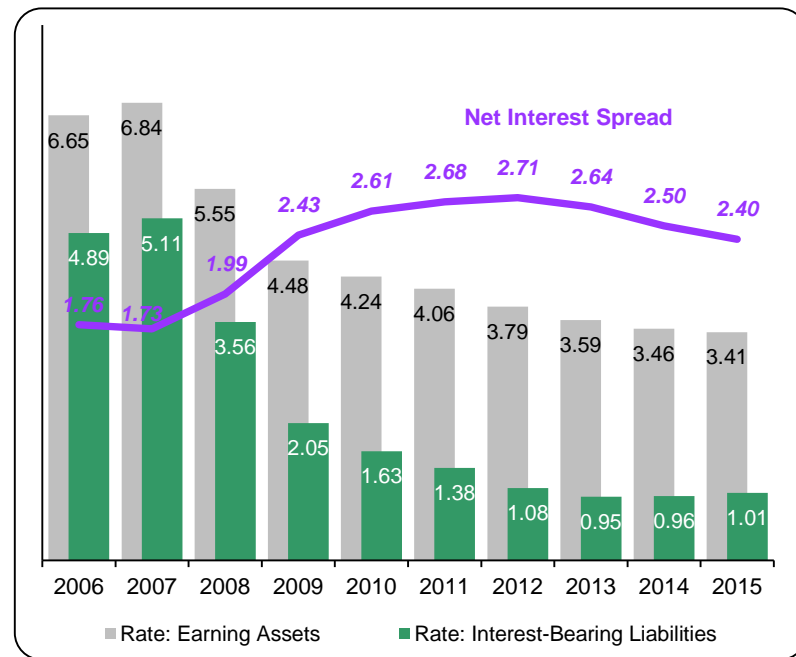
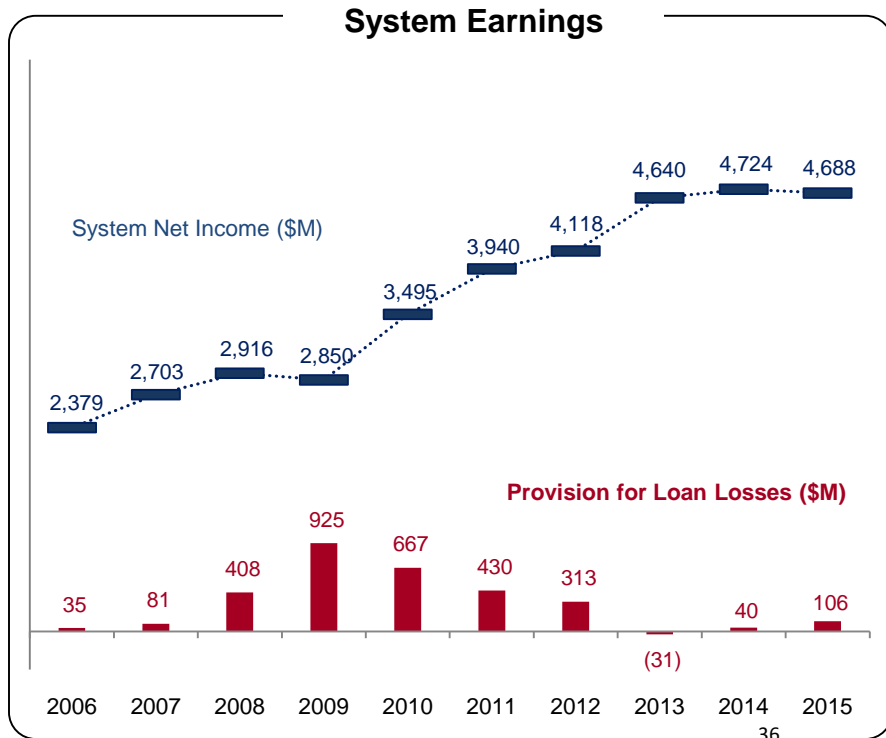
% of Nonperforming Loans-to-Total Loans



35



System continued to report strong financial results in 2015



Source: FCS Annual Information Statements



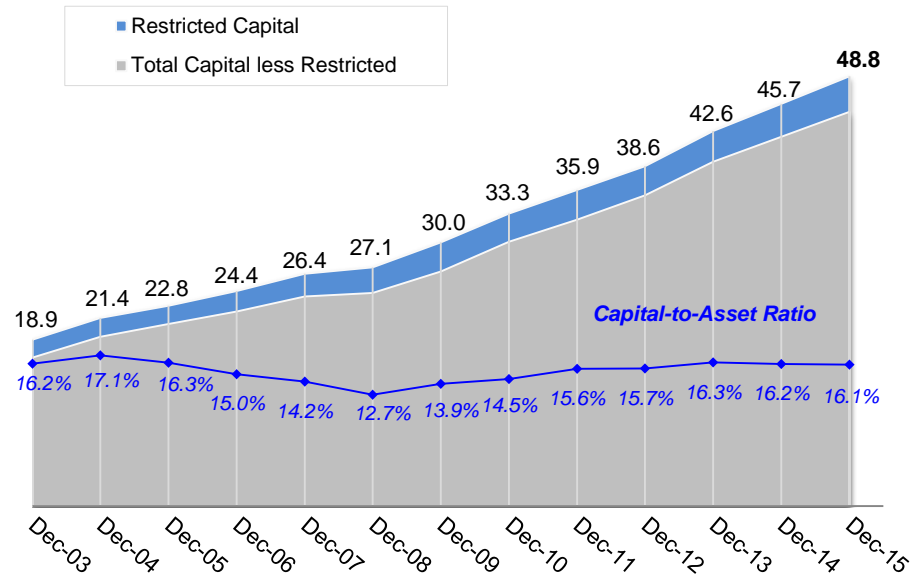
System is well-capitalized



Capital and Liquidity as of December 2015

- System capital as a percentage of total assets was 16.1% compared to 16.2% at year end 2014
- Surplus as a percentage of total capital equaled 82.8%
- System liquidity at year end 2015 equaled 181 days of coverage. Days of available liquidity for the four funding banks ranged from 136 days to 206 days.

Total System Capital (\$B)



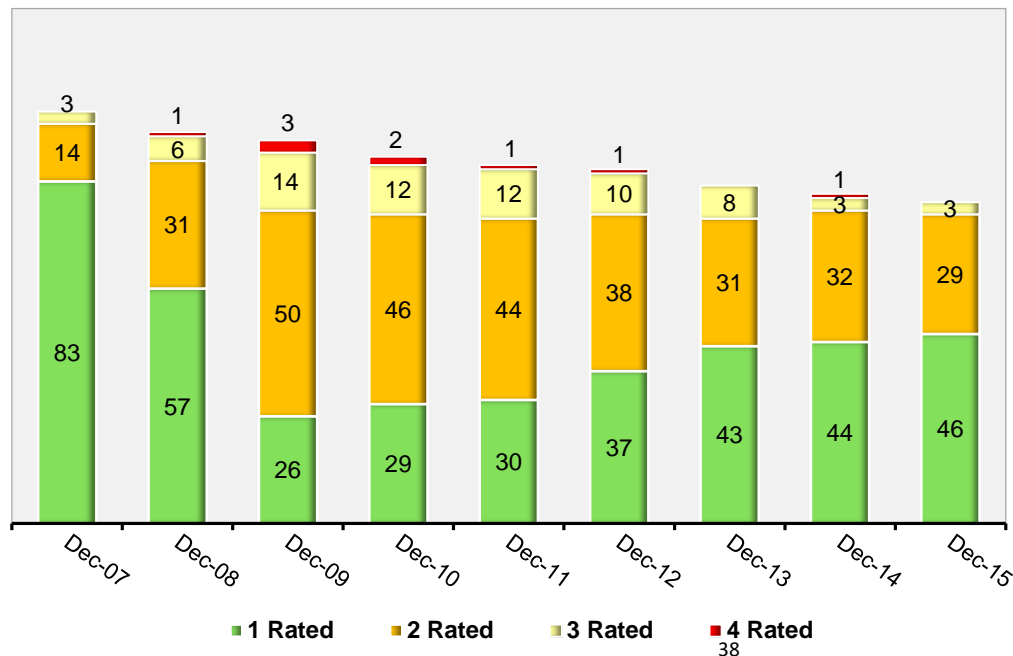
Restricted capital represents capital associated with the Insurance Fund.



System FIRS ratings



Composite FIRS Ratings - System Banks & Associations



Source: FCA's FIRS ratings database

FIRS Ratings

- FIRS ratings remain stable. Relatively few rating changes with the most recent FIRS update
- 96% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 and 4 rated institutions account for less than 1% of total System assets



Summary and final points

- Challenges for agriculture:
 - General economic factors – weak global economic growth, divergent monetary policies, strong dollar
 - Farm sector concerns – Midwest farmland values, increased stress on corn and soybean producers, declining exports, lower expected cash receipts for animal products
- The System is financially sound, well-capitalized, with strong earnings, and favorable portfolio credit quality
- System institutions are well-positioned for the current risk environment





Questions



THANK YOU

Cherry Bekaert LLP

FCS Building Association Report Regarding Financial Statement Audit for the Year Ended December 31, 2015

Audit Team

Craig Hunter, Partner

Brynn McNeil, Senior Manager

Brandon Welsh, Senior

Exhibit E



FCS Building Association

► Overview of Audit Results

- We have completed our audit procedures related to the FCS Building Association's year ended December 31, 2015 financial statements.
- Our procedures and scope were substantially consistent with our planned audit strategy and we did not experience any significant problems during the audit process.
- We issued an unmodified (clean) opinion on the Company's financial statements
- We received excellent cooperation from the Company's personnel.

General Financial Statement Comments

- ▶ Strong Balance Sheet as of December 31, 2015
 - Cash reserve balance of \$1.1 million
 - Current Ratio of 4 to 1
 - Total Liabilities to Equity Ratio 1 to 8

- ▶ Operating loss for the year ended December 31, 2015, as budgeted

- ▶ No new or unusual transactions noted for fiscal year 2015

- ▶ No significant new disclosures noted for fiscal year 2015

Areas of Focus for the 2015 Audit

- ▶ Procedures with respect to internal control
- ▶ Leasing activities
- ▶ Capital expenditures and repairs and maintenance
- ▶ Related party transactions (FCSBA and FCA)
- ▶ We identified no significant deficiencies or material weaknesses

Required Communications

- ▶ The auditor's responsibility under generally accepted auditing standards – reasonable assurance that financial statements are materially correct
- ▶ Significant accounting policies are disclosed in Note 2 of the F/S's
- ▶ We have considered management judgments and accounting estimates included in the financial statements and believe them to be reasonable
- ▶ There were no disagreements with management during the engagement
- ▶ There were no major issues discussed with management prior to our being retained
- ▶ No irregularities or fraud identified as part of our audit



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 April 14, 2016, was properly closed to the public on the basis of the exemptions set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).
- Information related solely to the internal practices of an Agency – 5 U.S.C. §552b(c)(2).

_____/s/_____
Charles R. Rawls
General Counsel

Date: April 14, 2016