

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
May 12, 2016**

These minutes reflect the business transacted at the May 12, 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 10:32 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 April 14, 2016 Regular Board Meeting (BM-12-MAY-16-01)

Mr. Tonsager moved to approve the minutes for April 14, 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-12-MAY-16-01)**

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

Reports

Update on Farmland Values

Walter Gardiner of the Office of Regulatory Policy presented the Update on Farmland Values Report.

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.)

Economic Conditions in the Almond Industry

Dennis Shields of the Office of Regulatory Policy presented the Economic Conditions in the Almond Industry Report.

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

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 Secondary Market Oversight (OSMO) in Closed Session.

Board Chairman Spearman convened the closed session of the meeting at 10:04 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 F.)

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 Secondary Market Oversight Quarterly Report

Laurie Rea of the Office of Secondary Market Oversight presented the OSMO Quarterly Report.

Board Chairman Spearman 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 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 10:32 a.m.

NOTATIONAL VOTE ACTIONS

There were two notational vote actions approved by the FCA Board from April 14, 2016, through May 11, 2016 as follows:

Item Number	Action Date	Voting Results	Subject
NV 16-08	04/27/2016	Approved	Reorganization that created the Office of the Chief Financial Officer
NV 16-09	05/10/2016	Approved	Inflation Adjustment to Civil Money Penalties

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on May 12, 2016.

_____/s/_____
Kenneth A. Spearman
Board Chairman and Chief Executive Officer

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

Approved: June 9, 2016

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
May 12, 2016**

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

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Middleton, Russell	X	X
Laguarda, Wendy	X	X
Kramp, Kevin	X	X
Calhoun, Gaye	X	
Buccolo, Debra	X	
Corey, Kathryn	X	
COO		
Hoffman, William	X	X
OIT		
Golley, Jerald	X	X
OCPA		
Stokke, Mike	X	X
Meaux, Willy	X	X
OSMO		
Rea, Laurie	X	X
Connor, Joe	X	X
Hudson, Bruce	X	X
Del Moral, Jeremy	X	X
OGC		
Rawls, Charles	X	X
Donner, Mary Alice	X	

OFFICE	OPEN SESSION	CLOSED SESSION
OE		
Paulsen, Roger	X	X
EEOI		
Burlew, Thais	X	X
OIG		
Gallo, Kathy	X	X
ORP		
Mardock, Barry	X	X
Gardiner, Walter	X	
Shields, Dennis	X	X
Gabriel, Steve	X	X
OCFO		
Smith, Stephen	X	X
OAS		
Fowlkes, Jerome	X	X
FCSIC		
Rubin, Howard	X	X
Pfizinger, Rick	X	X
GENERAL PUBLIC	2	

**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
May 12, 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 May 12, 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**
April 14, 2016
- Reports**
- 2 Update on Farmland Values
- 3 Economic Conditions in the Almond Industry

CLOSED SESSION

- 4 Office of Secondary Market Oversight Quarterly Report¹

May 3, 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).

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for April 14, 2016 Regular Board Meeting

BM-12-MAY-16-01

Effective Date: May 12, 2016

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for April 14, 2016, Regular Board Meeting as submitted.

DATED THIS 12th DAY OF MAY 2016

BY ORDER OF THE BOARD

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



FCA Board Meeting

May 2016

Update on Farmland Values

May 12, 2016

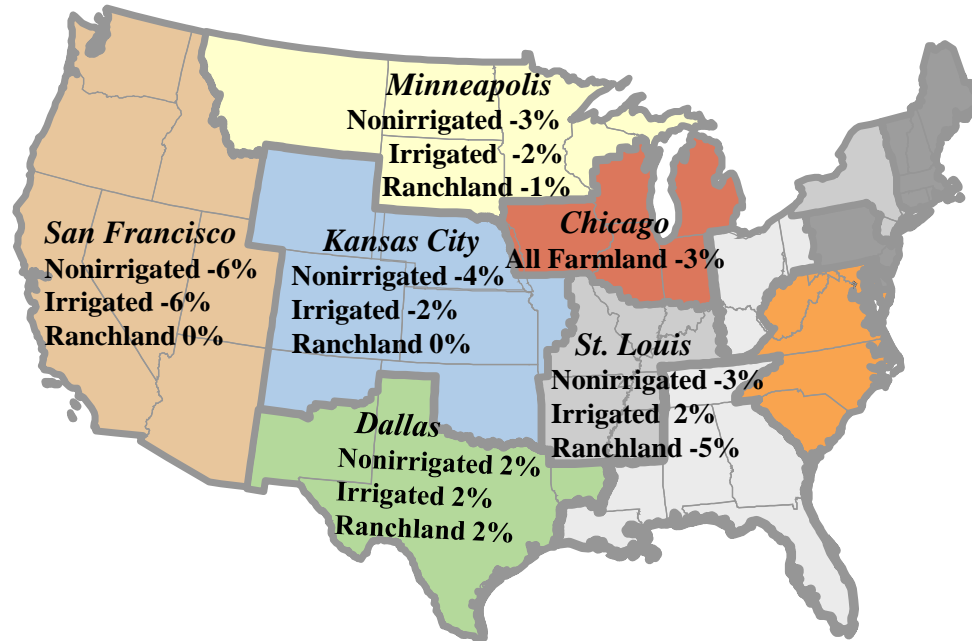
Walter Gardiner
Senior Economist
Office of Regulatory Policy

Exhibit D





4th Quarter 2015 Fed Surveys show widespread drop in cropland values



Percent changes are 4th quarter 2015 over 4th quarter 2014.

* Note: the San Francisco survey sample was extremely small.

Source: Federal Reserve Bank annual survey of agricultural bankers.



Value of nonirrigated cropland declines in nation's midsection



Value of Nonirrigated Cropland, Fourth quarter 2015
Percent Change from Previous Year



*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state

Sources: Federal Reserve District Agricultural Credit Surveys (Chicago, Dallas, Kansas City and Minneapolis)



Illinois farmland prices declined from 8% to 9% in 2015

Illinois Farmland Prices

Land Quality	<u>Jan 1, 2015</u>	<u>Dec 31, 2015</u>	<u>Change</u>
Excellent	\$12,600	11,600	-8%
Good	\$10,600	\$9,700	-8%
Fair	\$8,500	\$7,700	-9%
Poor	\$6,500	\$6,000	-8%

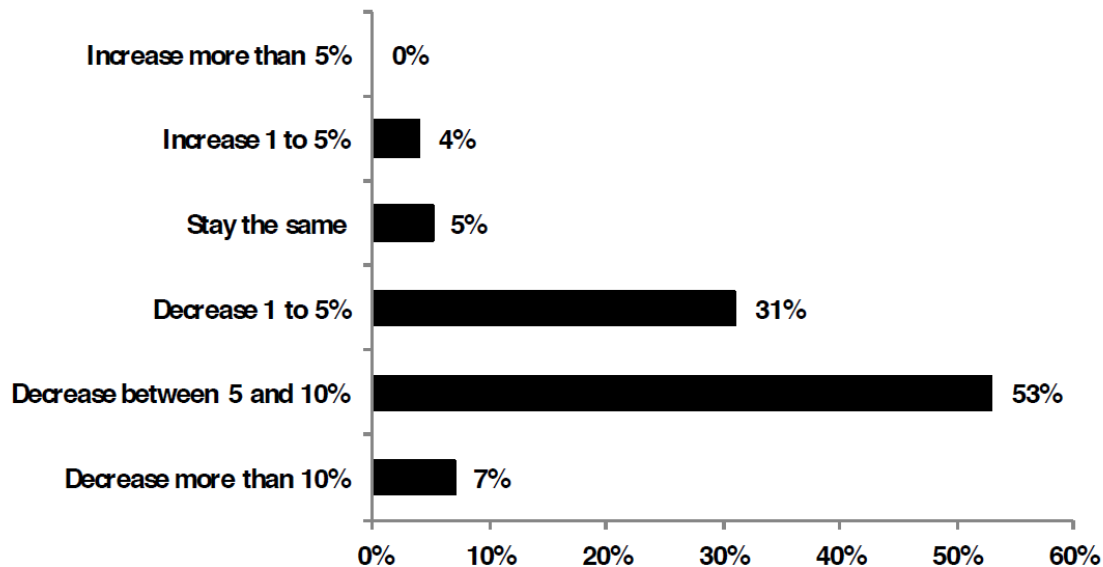
Source: Klein, David E. and Gary Schnitkey, Dept. of Agricultural and Consumer Economic, Univ. of Illinois. 2016 Illinois Farmland Values & Lease Trends, March 2016.



Illinois cropland values expected to drop between 5% and 10% in 2016



Expectations of Price Changes in 2016.



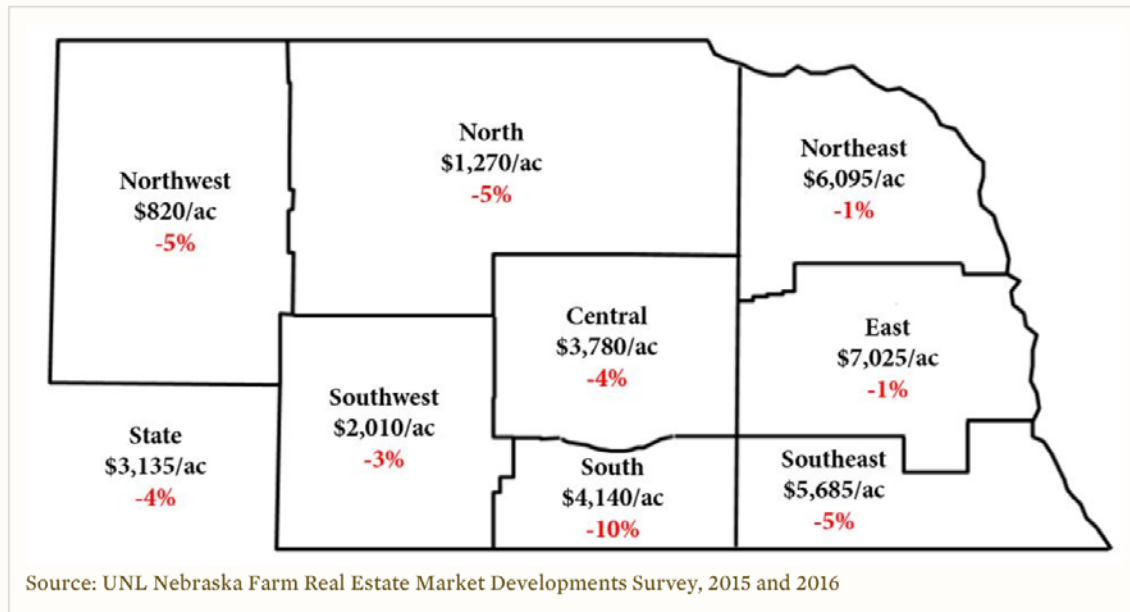
Source: Klein, David and Gary Schnitkey, Dept. of Ag. & Consumer Econ., Univ. of Illinois. 2016 Illinois Farmland Values and Lease Trends, March 2016.



Nebraska farmland values down from 1% to 10% over past year

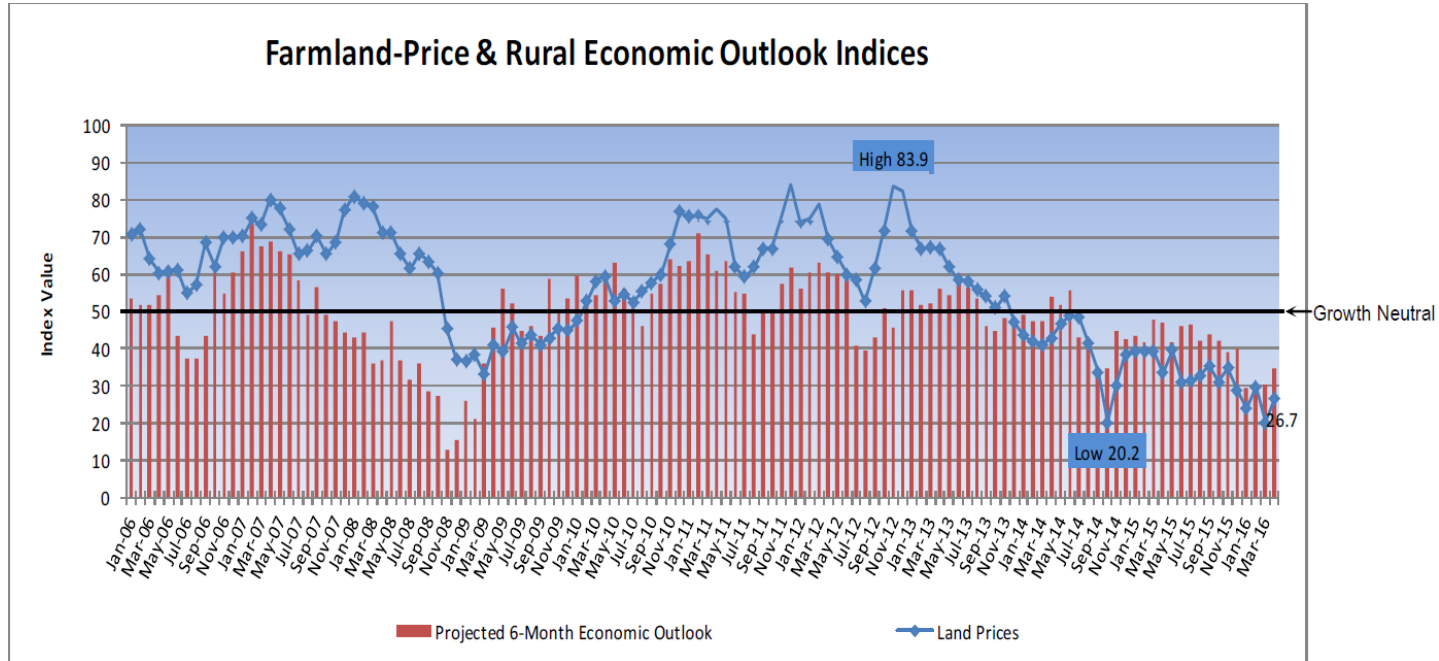


Preliminary Average Value of Nebraska Farmland, February 1, 2016, and Percent Change from a Year Earlier.





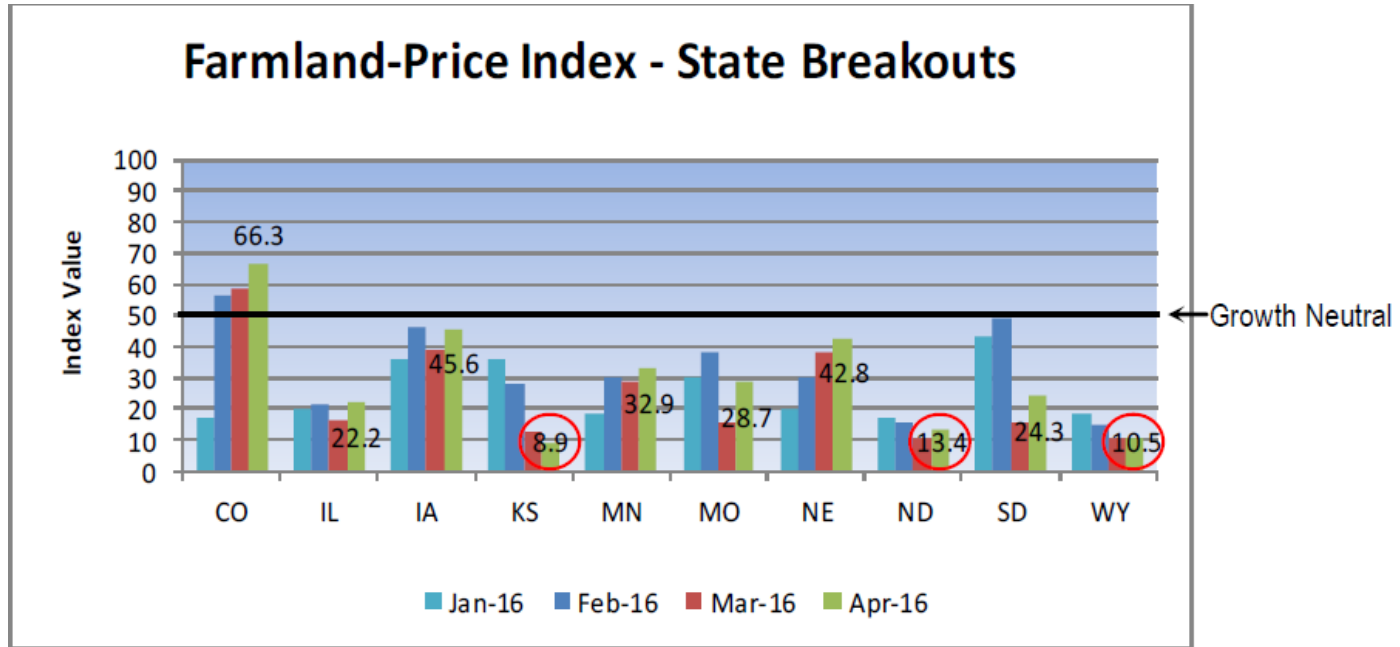
Pessimism over farmland market and rural economy remains



Fritz, Michael. "Monthly Land Market Pulse," Farmland Investor Letter. Mercator Research, LLC, April 22, 2016. Based on data from Creighton University's Economic Outlook, Mainstreet Economy Report.



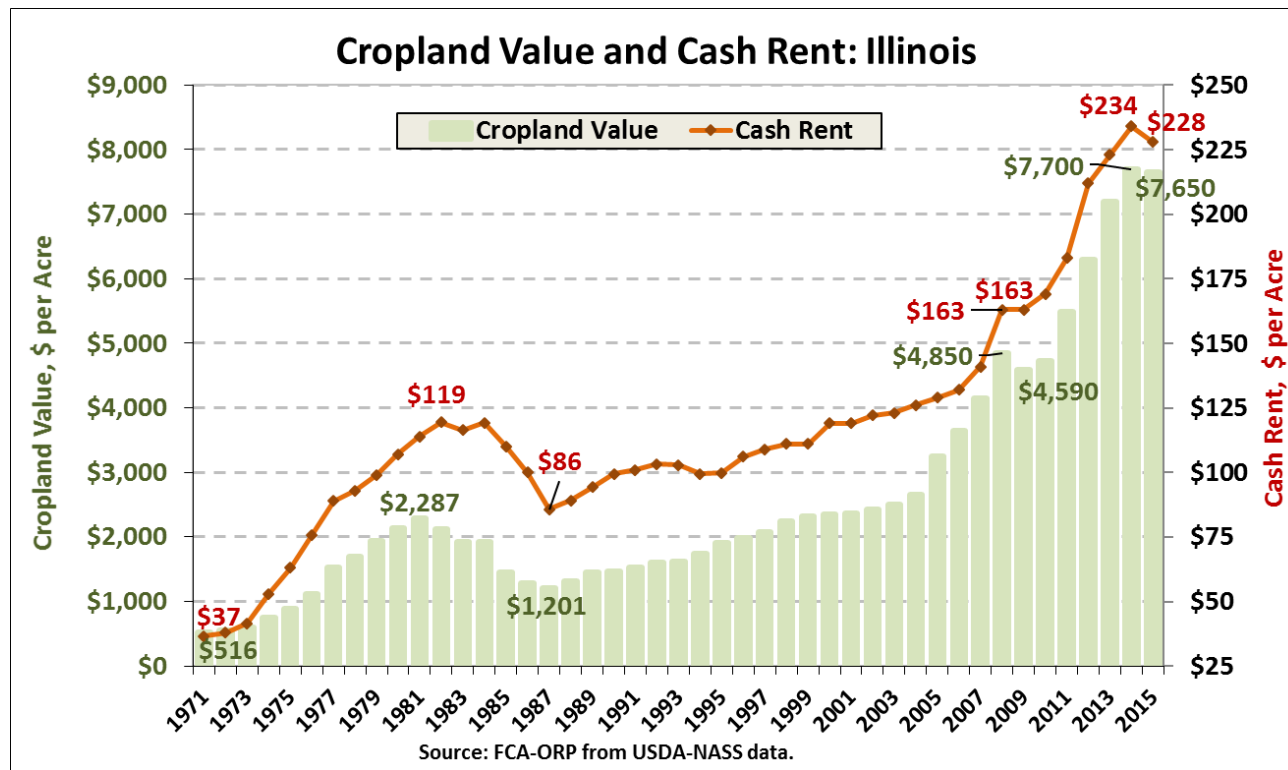
Farmland values in Midwest and Plains States under pressure



Fritz, Michael. "Monthly Land Market Pulse," Farmland Investor Letter. Mercator Research, LLC, April 22, 2016. Based on data from Creighton University's Economic Outlook, Mainstreet Economy Report.



Cropland values and cash rents move together but rents slower to adjust

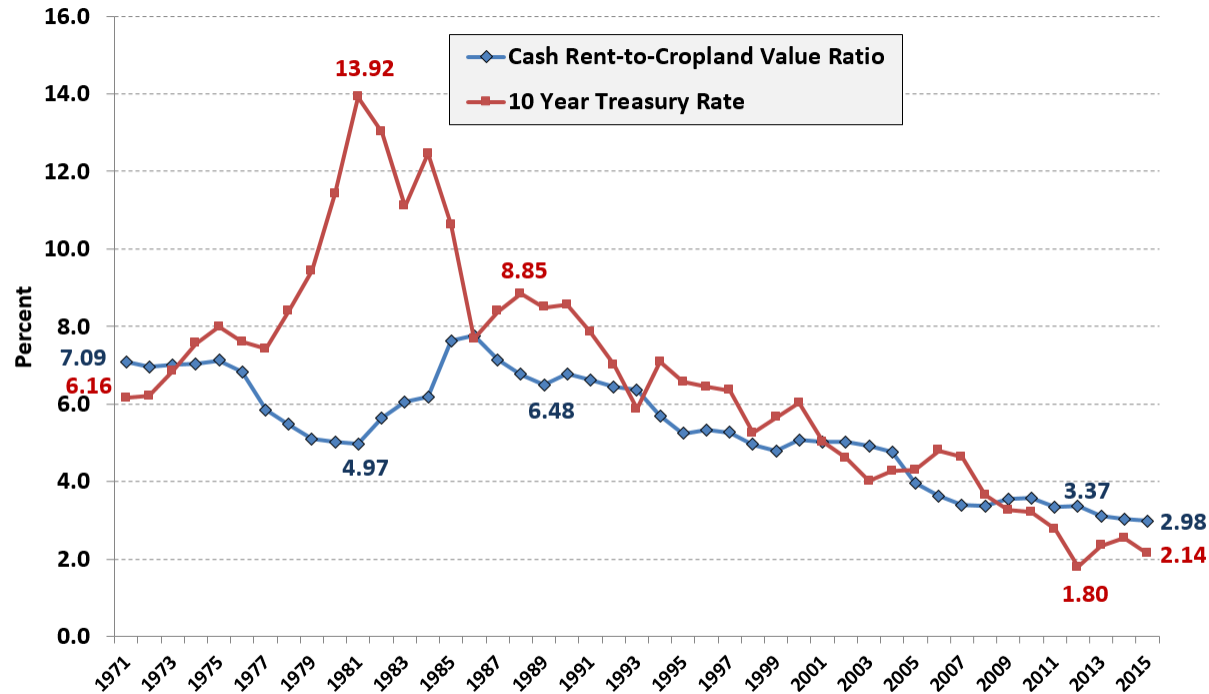




Returns to cropland and 10 yr Treasury rate on downward trend since mid-80s



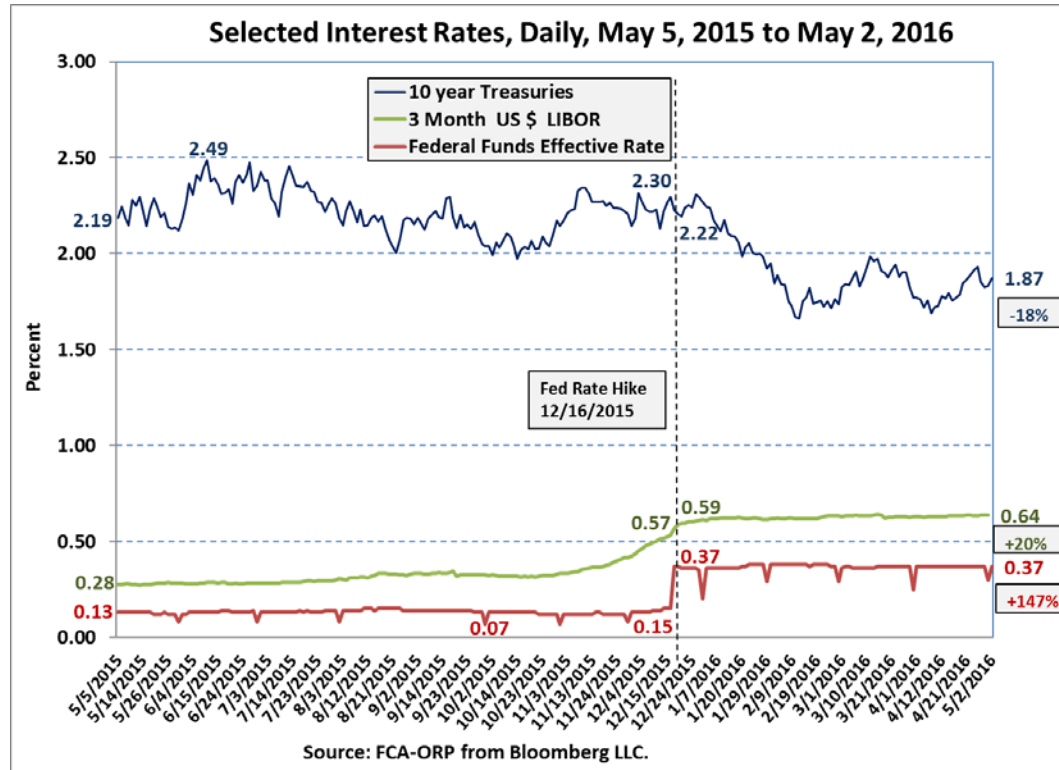
Cropland Rate of Return and 10 Year Treasury Rate: Illinois



Source: FCA-ORP from USDA-NASS and ERS data.

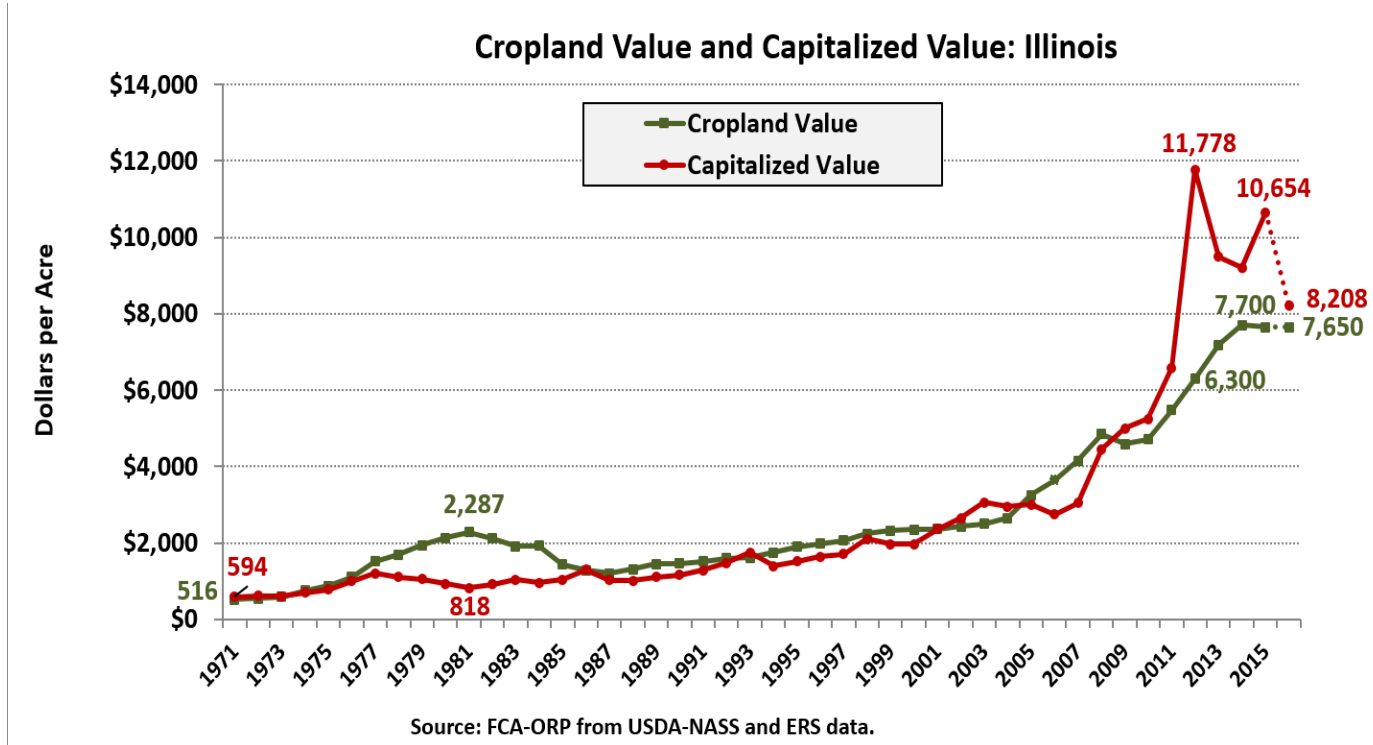


10 year Treasury rate down 43 basis points since Dec 16 Fed rate hike





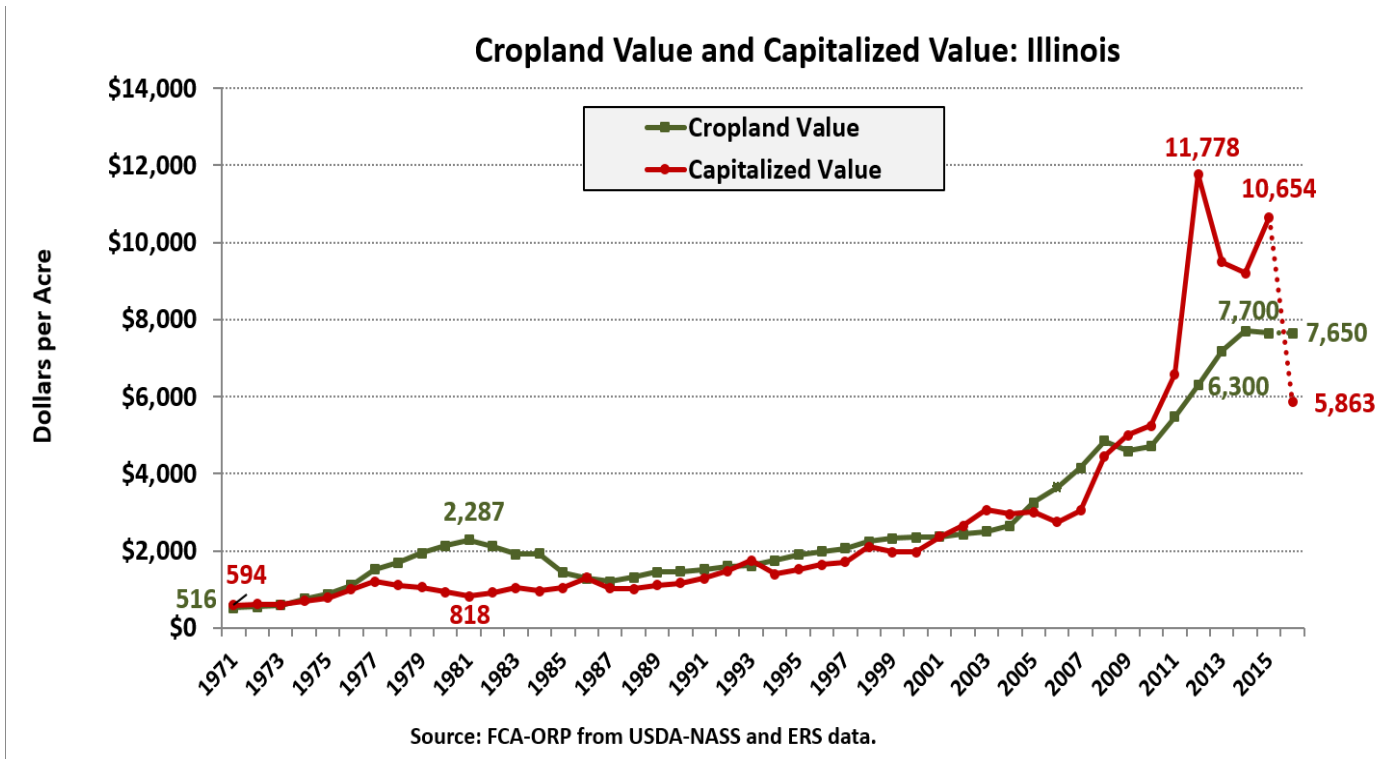
Capitalized values indicate cropland values are not overpriced – yet!



10 Yr. Treasury increase to 2.5%, 10% cut in cash rent:
Capitalized value drops 23% and reduces premium over cropland value from 39% to 7.3%.



A big interest rate hike could lead to a significant correction in cropland values



10 Yr. Treasury increase to 3.5%, 10% cut in cash rent: Capitalized value drops 45% and reduces premium over cropland value from 39% to a 23% discount.



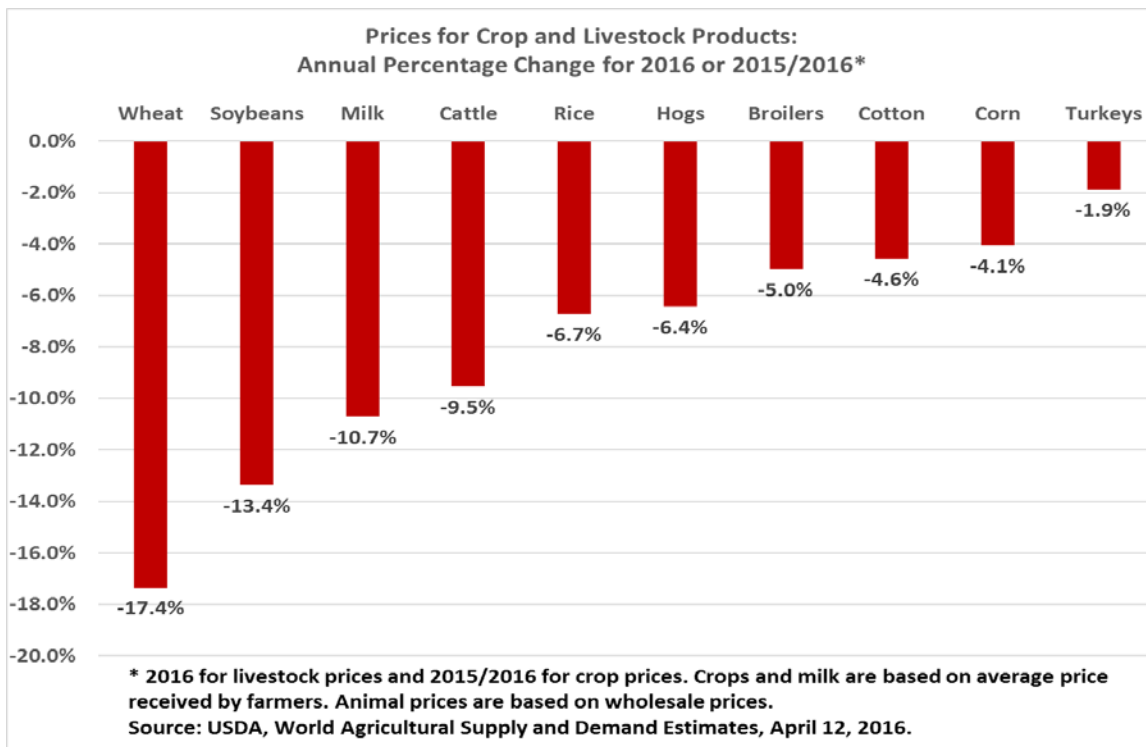
Forces behind weakening cropland values

- Third consecutive year of declining crop prices and second year of declining livestock prices
- Producer profit margins being squeezed
- Farm income projected to drop again in 2016
- Export earnings constrained by strong dollar, trade disputes and sluggish economic growth
- Anticipation of interest rate rise by the Fed



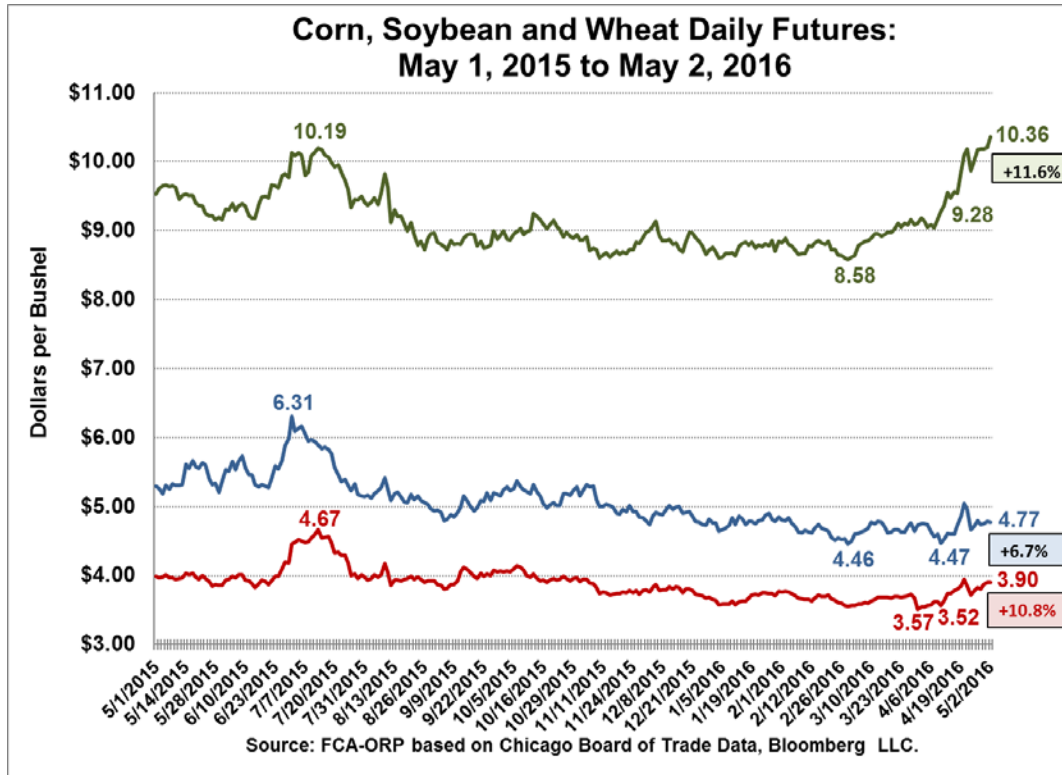


USDA projects another year of lower crop and livestock prices





Recent rally in futures prices reflect crop problems in South America

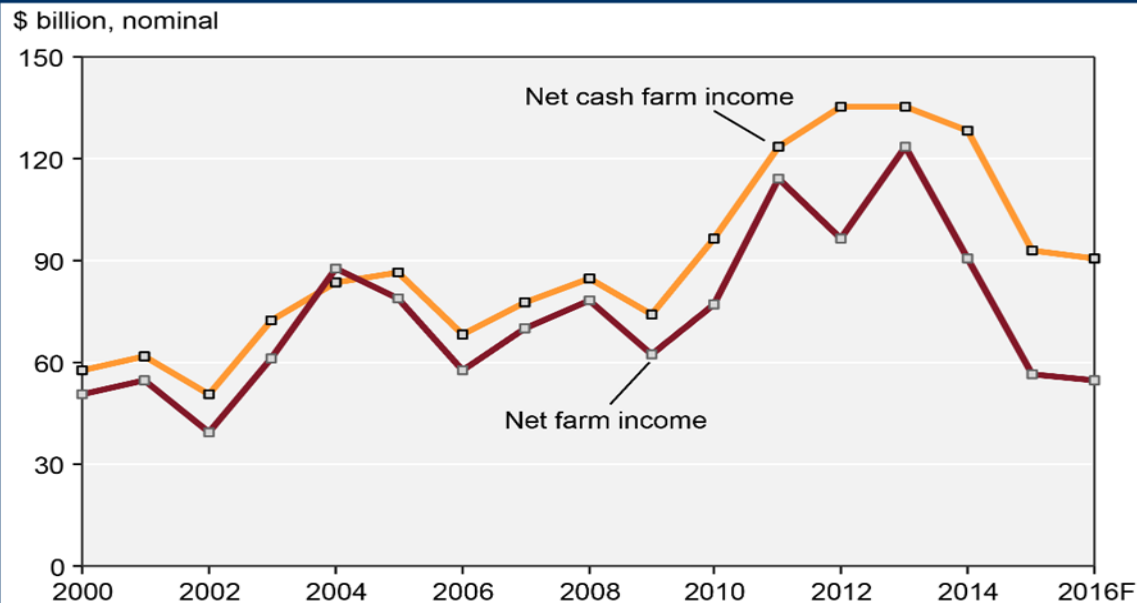




Farm sector profitability forecast to decline for 3rd year in a row



Net farm income and net cash farm income, 2000-2016F



Note: F = forecast. Data for 2015 and 2016 are forecasts.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of February 9, 2016.



Take aways

- Global forces will continue to pressure commodity prices and farm income in 2016
- Cropland values in nation's midsection declining and expect further drop as long as farm profitability down
- Interest rates remain low, but an increase later in the year and beyond could put further downward pressure on farmland values





Questions?





FCA Board Meeting

May 12, 2016

Economic Conditions in the Almond Industry

Dennis A. Shields
Senior Economist
Office of Regulatory Policy

Exhibit E





Overview

- Almond demand expanded
- Higher prices resulted in increased tree plantings
- Will demand growth keep up?
- Potential breakeven prices for almonds
- Managing risks in almond farming



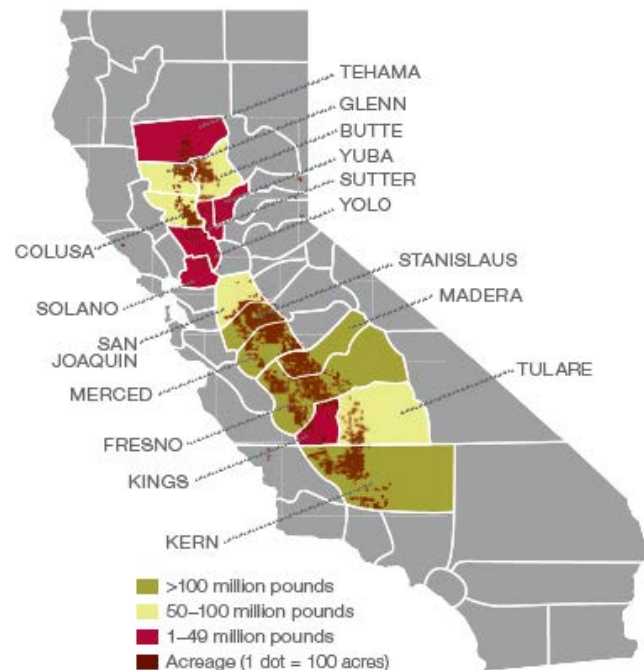


California almond profile

- \$5-6 billion crop value
- #2 in state (#1 dairy and #3 grapes)
- 70% of crop is exported
- 6,800 farms
- 900,000 bearing acres
- Spans 500 miles



Almond Production by County 2014/15



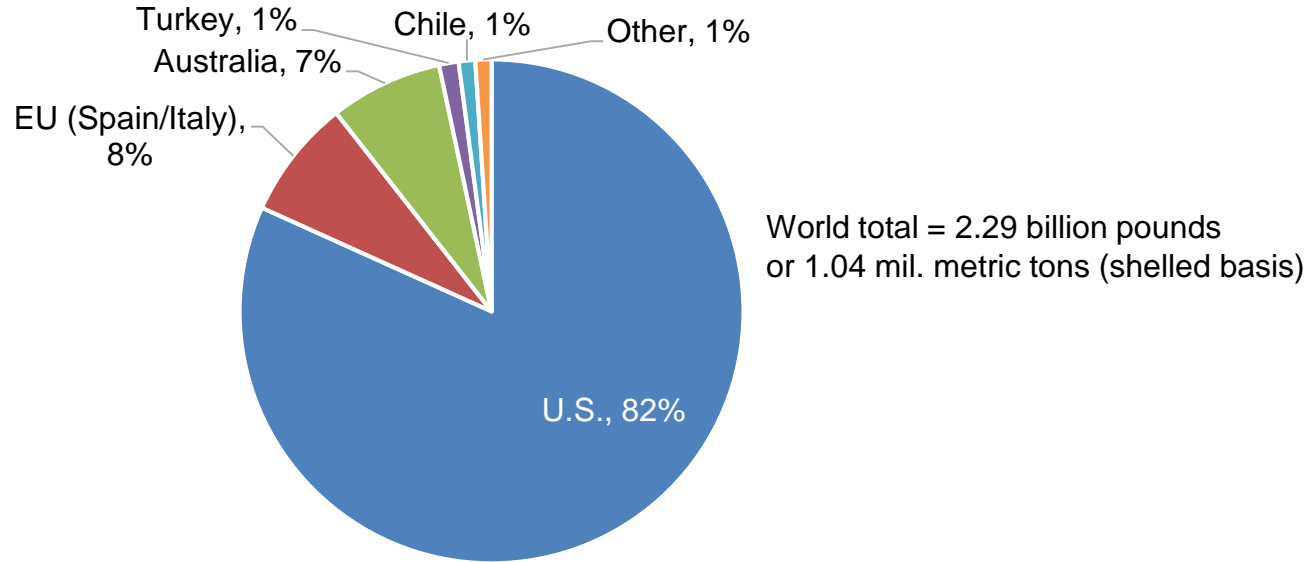
Source: Almond Board of California, *Almond Almanac 2015*.



U.S. dominates global production



Global almond production in 2014/15



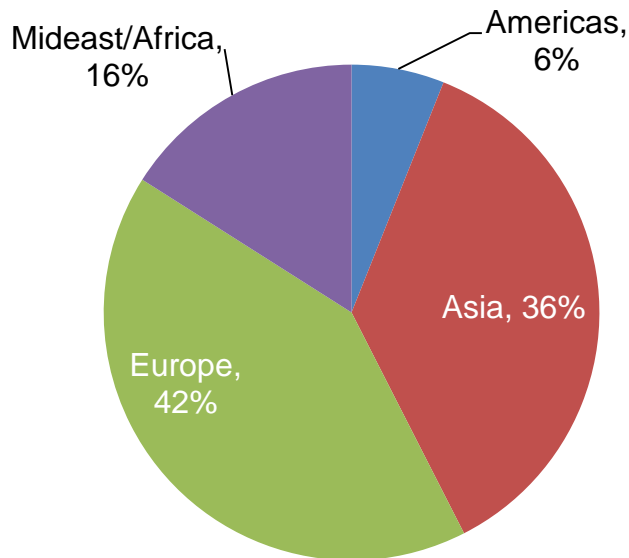
Source: USDA/Foreign Agricultural Service.



U.S. almond exports



U.S exports in 2014/15



Leading export markets:
Spain, China/Hong Kong,
India, Germany,
United Arab Emirates

Total = 1.17 billion lbs. (shelled basis)

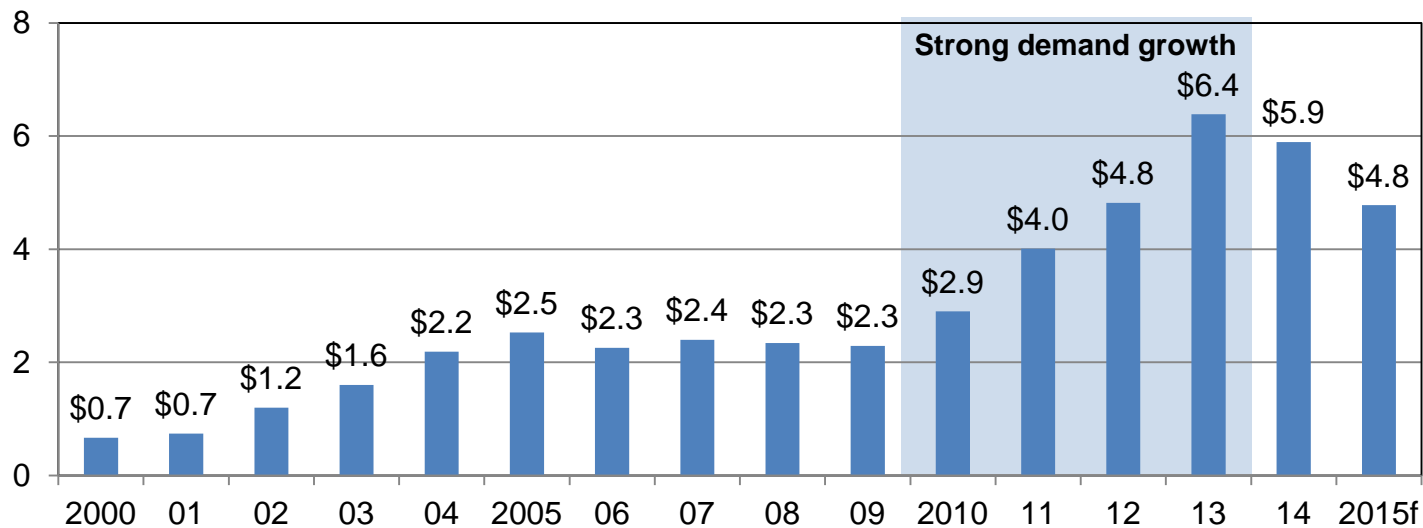
Source: Almond Board of California



Almond crop value peaked in 2013



\$ billion



Source: FCA-ORP from USDA/ERS *Fruit and Tree Nut* database.

Note: Market year beginning August. 2015 is FCA-ORP forecast (\$2.55 per lb. x 1.87 billion pounds).

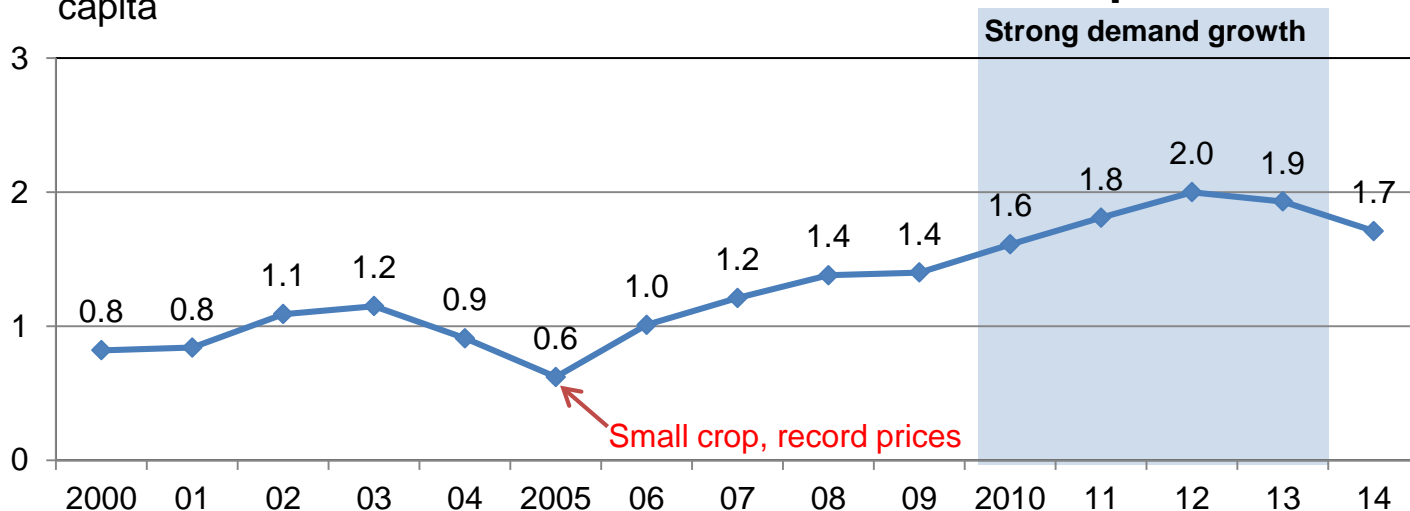


Domestic consumption increased



Pounds per capita

Domestic almond consumption



Source: FCA-ORP from USDA/ERS *Fruit and Tree Nut* database.
Note: Market year beginning August.

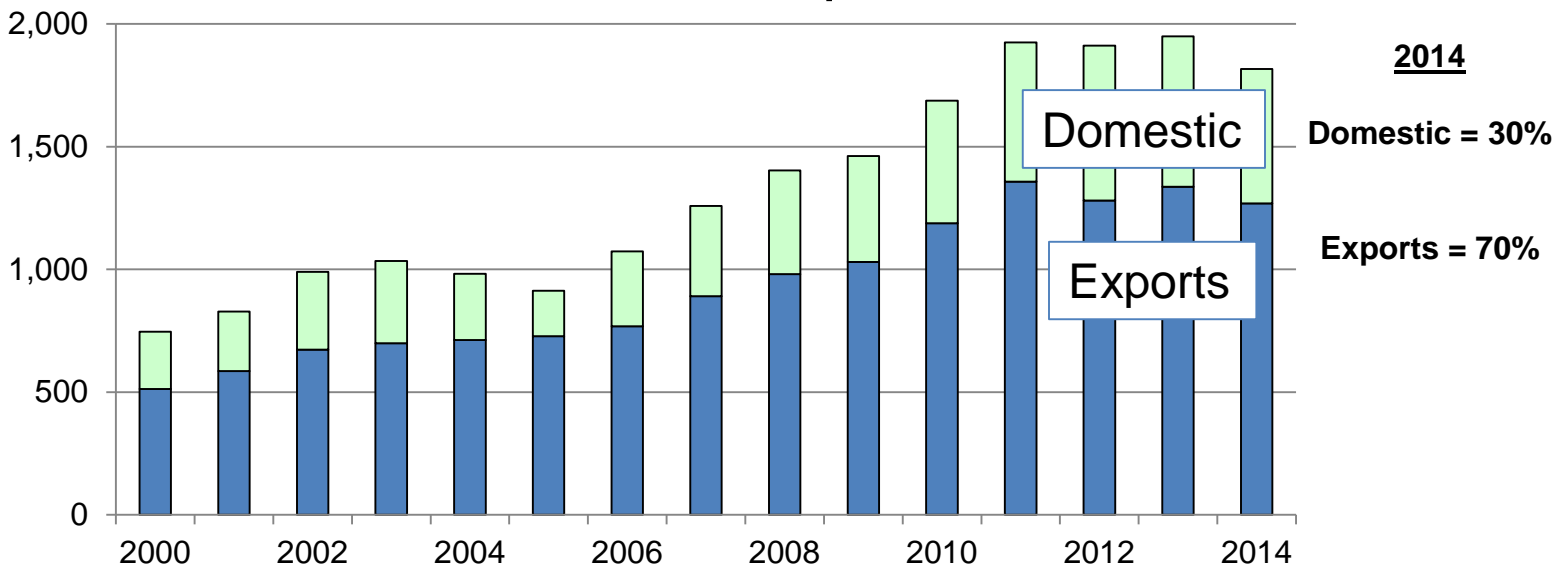


Exports rose sharply after 2006



Mil. pounds

U.S. almond shipments



Source: FCA-ORP from USDA/ERS *Fruit and Tree Nut* database.

Note: Market year beginning August.

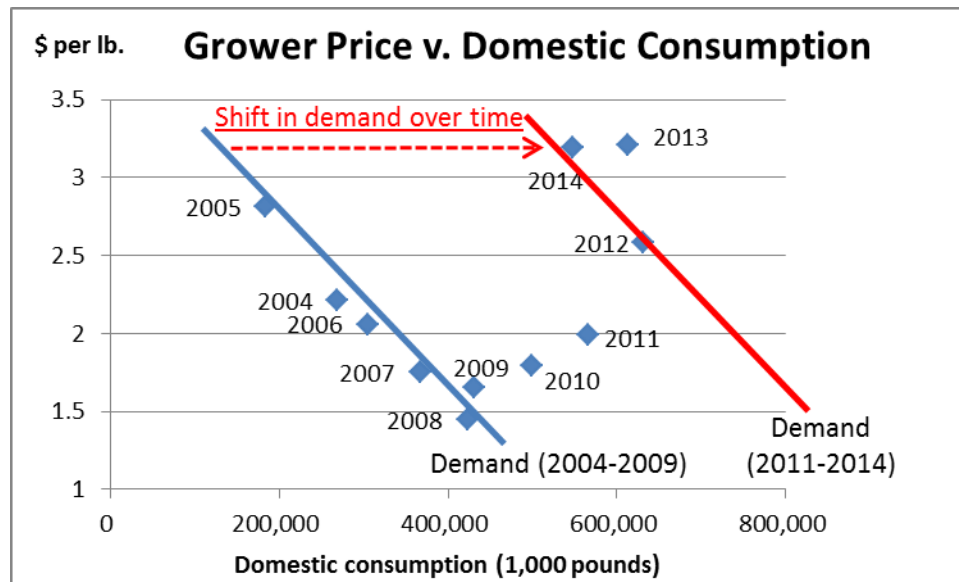


Domestic demand has increased...



Almond domestic demand

Consumers now buy *more* at *higher* prices.



Source: FCA-ORP using season-average grower prices and consumption published by USDA/ERS.

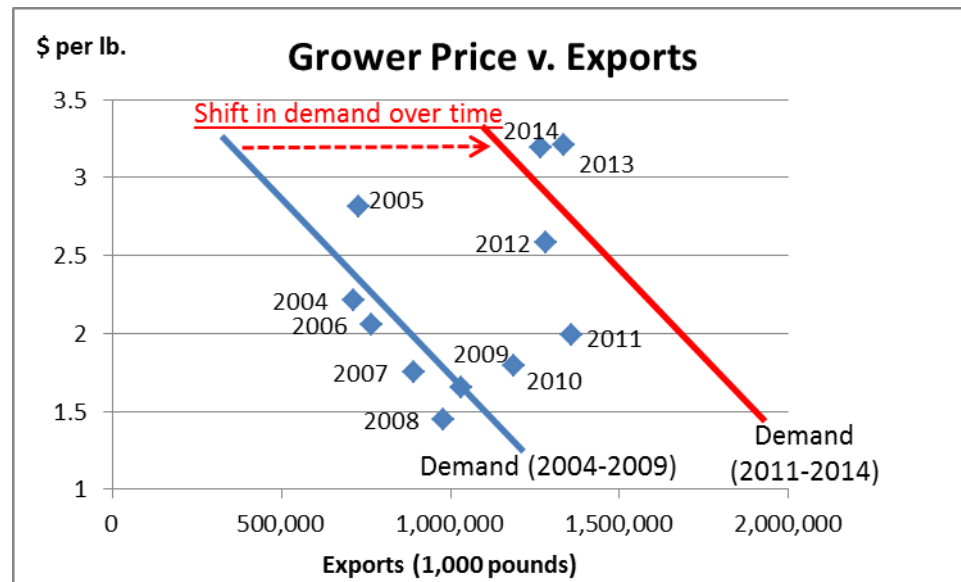


... as has export demand



Almond export demand

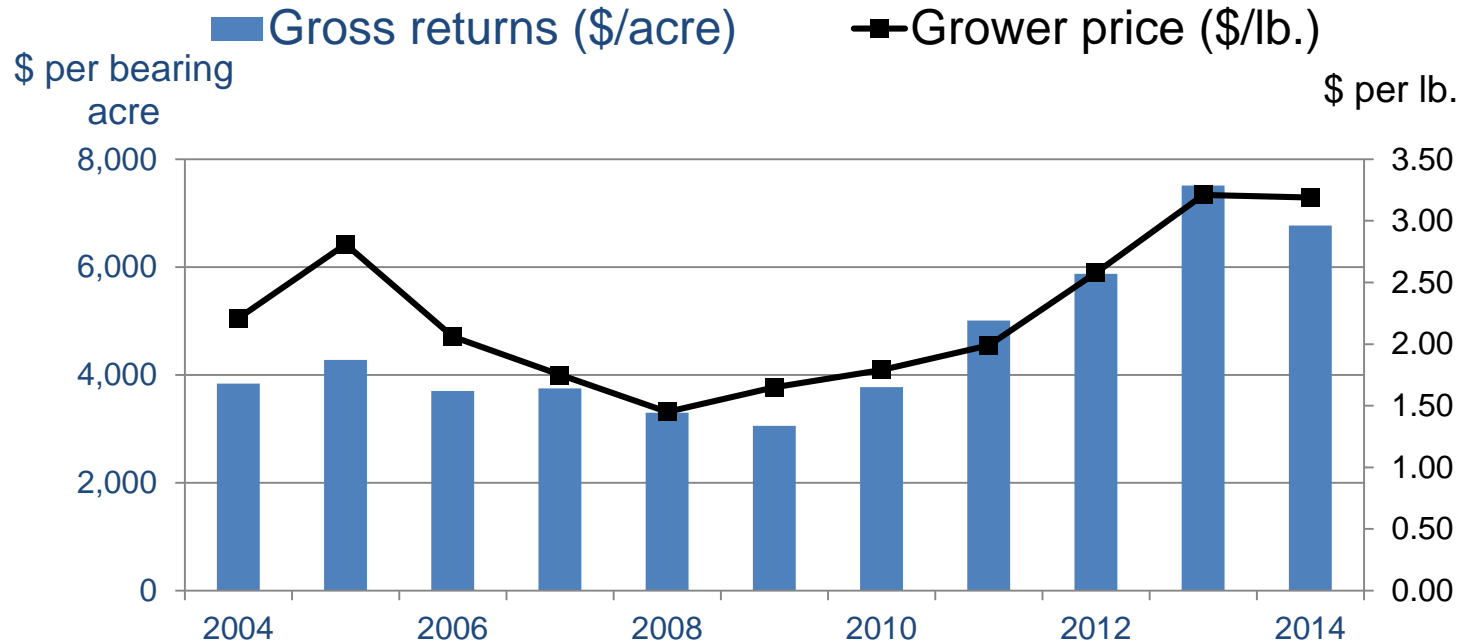
Foreign consumers now buy more at higher prices.



Source: FCA-ORP using season-average grower prices and exports published by USDA/ERS.



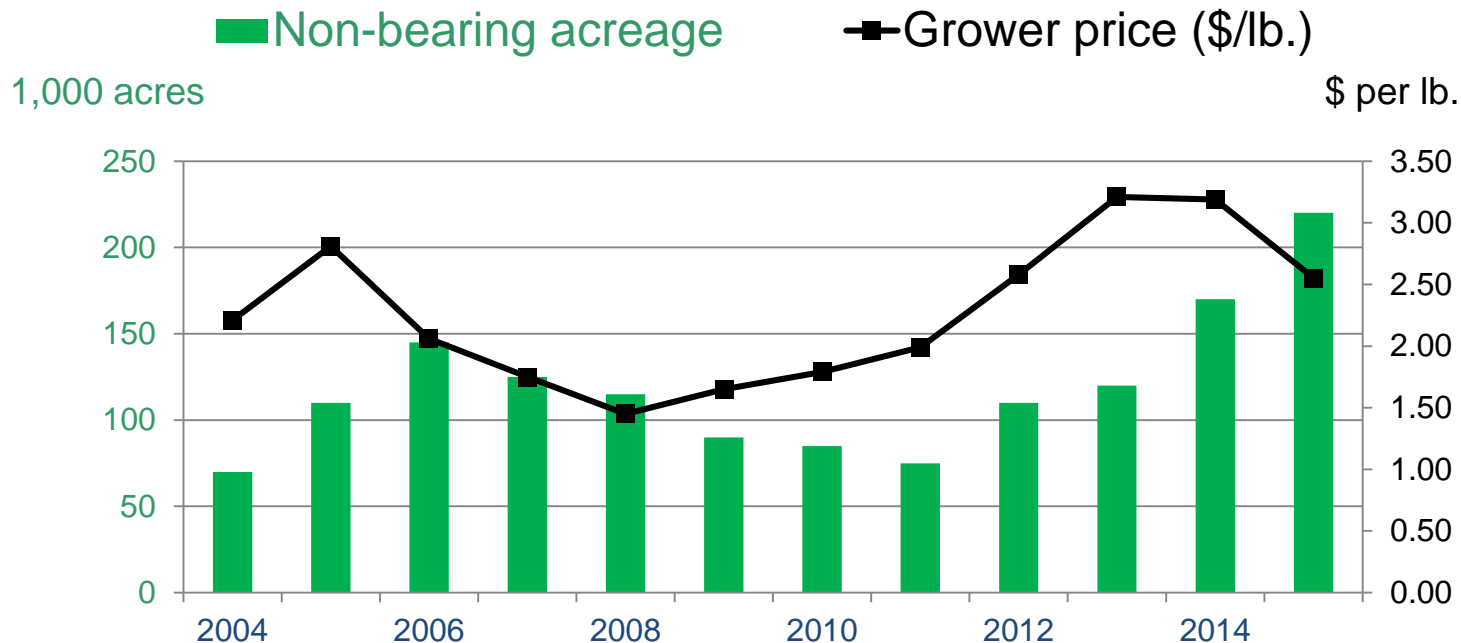
Grower returns rose sharply . . .



Source: FCA-ORP from USDA/ERS *Fruit and Tree Nut* database.
Note: Market year beginning August.



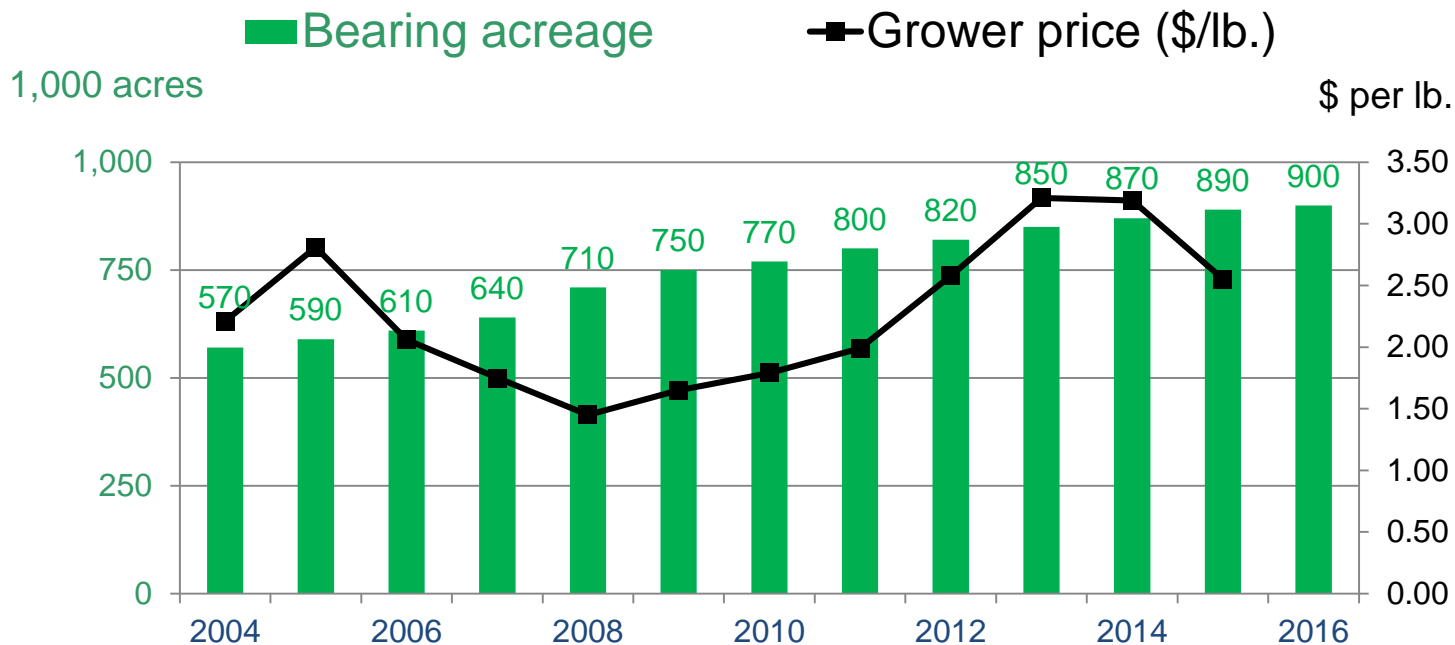
Non-bearing acreage is expanding



Source: FCA-ORP from acreage from Almond Board of California's *Almond Almanac 2015* and historical prices from USDA/ERS *Fruit and Tree Nut* database. Notes: 2015 price forecast = 80% of 2014 price; USDA estimate available in July 2016.



Bearing acreage edges up



Source: FCA-ORP using acreage from Almond Board of California's *Almond Almanac 2015* and historical prices from USDA/ERS *Fruit and Tree Nut* database. Note: 2015 price forecast = 80% of 2014 price.

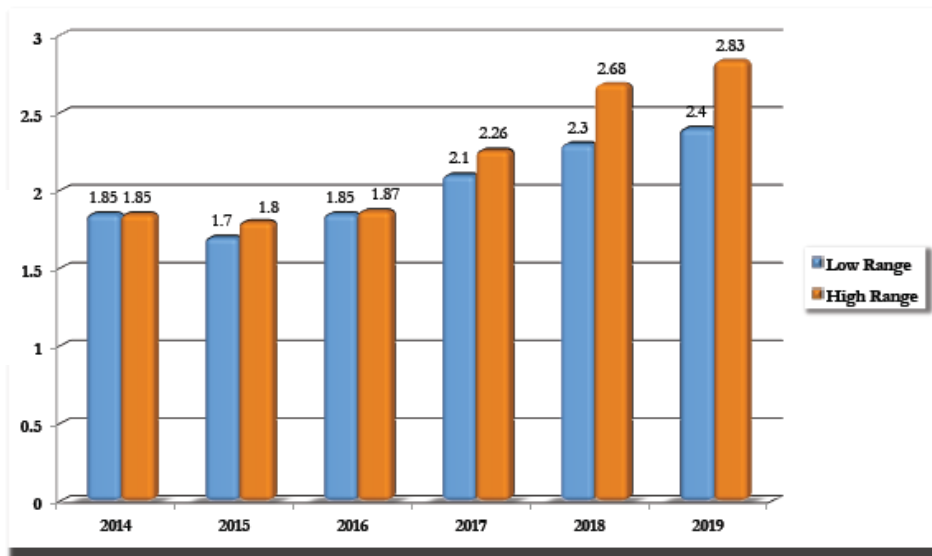


More acreage → larger crops



California Almond Crop Prospective Forecasts

Bil. lbs.



Source: Bill Morecraft, Blue Diamond Almonds, presentation at
USDA's Agricultural Outlook Forum, February 1, 2015.

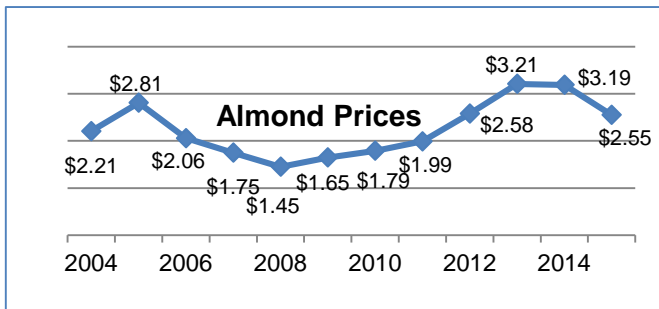


Larger crops → lower prices

Additional potential production

Year	Ave. change from 2014 crop (1.87 bil. lbs)	
2016	USDA forecast on 5/10/16	
2017	+330 mil. lbs.	+18%
2018	+640 mil. lbs.	+34%
2019	+765 mil. lbs.	+41%

Source: Bill Morecraft, Blue Diamond Almonds.



Average grower prices (USDA)

- 2004 – 2010 crops = \$1.96 per lb.
- 2011 – 2014 crops = \$2.74
- Based on recent demand-price relationship, grower prices for next several crop years could decline to \$2.00 – \$2.50 per lb. in order for the “market to clear”
- Possible alternative price outcomes:
 - Weaker: below \$2 per lb. with above-average yields or poor demand
 - Stronger: above \$2.50 with additional increases in demand





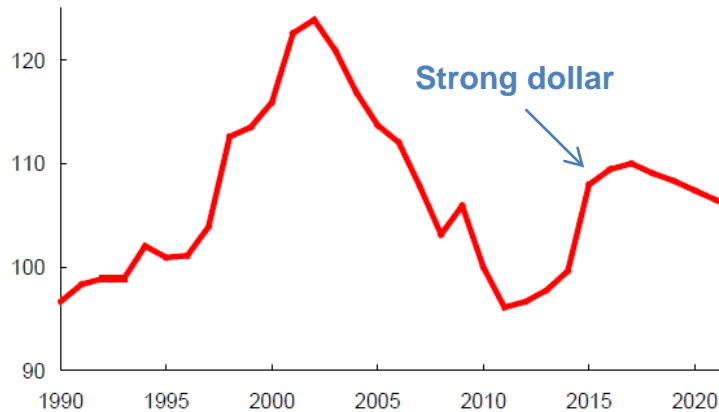
Factors affecting producers

- Positive
 - Industry marketing and promotions
 - Consumer income gain
- Negative
 - Strong dollar
 - Wholesale and export prices have been typically “sticky” – a faster downward adjustment would help move more product



U.S. agricultural trade-weighted dollar

Index values, 2010=100,
foreign currency per dollar



Source: USDA Baseline Projections, February 2016.



Breakeven returns to vary

- Almond prices at \$2.50 would result in a farm loss or gain, depending on farm yield.
- Prices near or below \$2.00 would result in a loss across all yield scenarios.

Almond Returns Above Total Costs, \$ per acre					
	Yield (lbs./acre)				
Farm price (\$/lb.)	1,800	2,000	2,200	2,400	Comment
\$1.45	(2,332)	(2,042)	(1,752)	(1,462)	Lowest price in last decade (2008)
\$2.00	(1,342)	(942)	(542)	(142)	
\$2.50	(442)	58	558	1,058	
\$3.21	836	1,478	2,120	2,762	Highest price in last decade (2013)

Source: FCA-ORP-AEPT using cost data from UC-Cooperative Extension (2012 almonds, 2012 and 2015 walnuts).

Note: Total almond cost for 2015 is calculated at \$4,942 per acre by applying the change in walnut cost of production between 2012 and 2015 (+34.5%) to the 2012 almond cost of production (\$3,675 per acre).





Limited ways to trim farm costs



2012 cost of production	\$/acre	% of total
Herbicide, insecticide, fungicide, rodenticide	\$93	8%
Fertilizer	\$371	10%
Irrigation	\$123	3%
Custom work needed (e.g., shake trees, sweep nuts, pollination)	\$1,132	31%
Labor	\$331	9%
Machinery	\$126	3%
Interest on operating capital	\$34	1%
Total operating costs	\$2,411	66%
Cash overhead (e.g., property tax, office expense, insurance)	\$357	10%
Non-cash overhead (e.g. land, establishment cost)	\$907	25%
TOTAL operating and overhead costs	\$3,675	100%

Source: University of California Cooperative Extension, 2012,

http://coststudyfiles.ucdavis.edu/uploads/cs_public/cb/be/cbbe6906-0b85-499c-98a5-c100c468fd6f/almondsprinklesv2012.pdf 18

Note: Latest data available. Walnut cost of production rose 34.5% between 2012 and 2015; implies \$4,942 per acre for almonds in 2015.



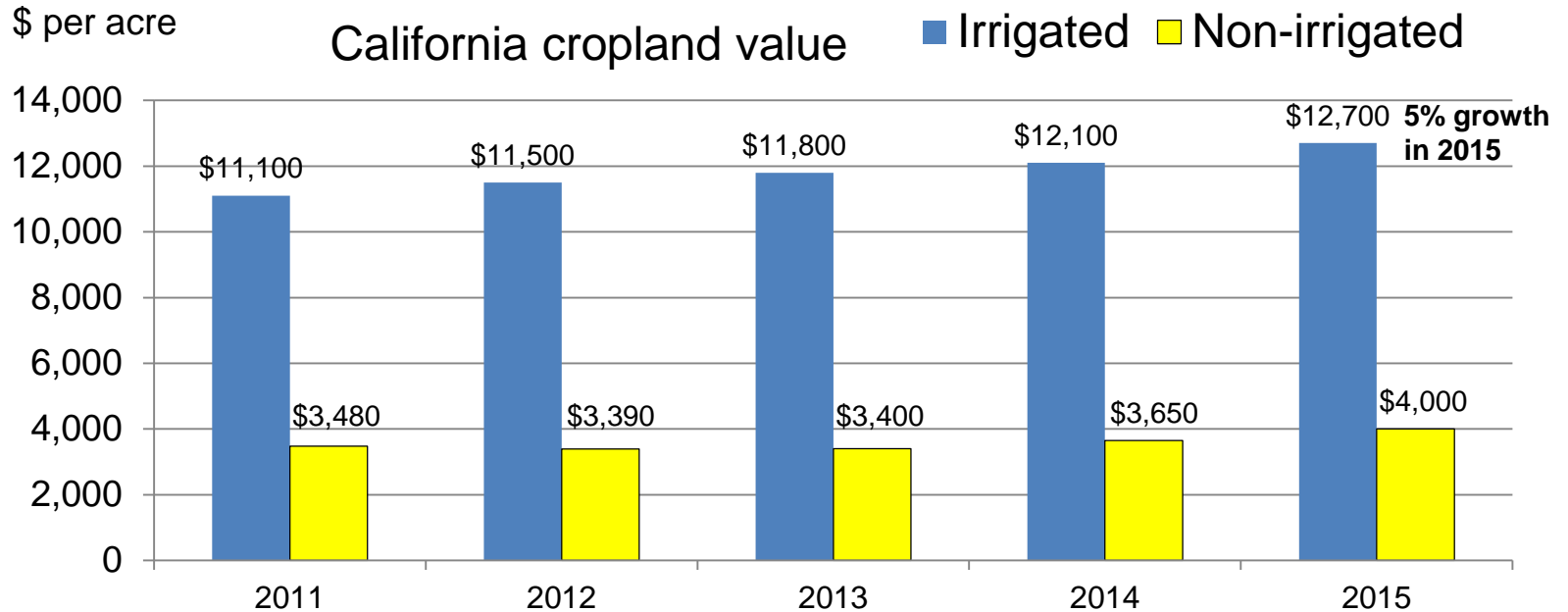
Water costs and current situation

- Short-term almond supply growth slowed by water issues
- Irrigation costs for walnuts increased from \$138 per acre in 2012 to \$270 in 2015 (+96%)
- Salt intrusion remains a problem
- Current water situation: improved in winter and spring; cooler spring weather also has been helpful





Modest rise in cropland value



Source: FCA-ORP from USDA/NASS *Land Values*, August 2015,
<http://www.usda.gov/nass/PUBS/TODAYRPT/land0815.pdf>



Managing risks in almond farming

- Federal crop insurance for yield loss
 - 83% of almond acreage insured in 2015
 - Catastrophic coverage is essentially free, additional coverage is subsidized
- USDA's Tree Assistance Program (TAP)
 - Free coverage for losses in excess of 15% to replant trees damaged by natural disasters
- Federal Marketing Order – Almond Board of California
 - Industry-funded market promotion and research
 - Volume regulation in times of low prices (last used in 1994)





Farm Credit System loans



	\$ million	% of FCS total
FCS loans - tree fruits, nuts and grapes	11,392	4.83%
Total FCS loans	235,890	100%

Source: 2015 Annual Information Statement of the Farm Credit System.



Conclusions

- Almond demand has strengthened over time
- Larger supplies ahead, prices to decline
- Potential for margin stress in next few years, particularly if almond grower prices drop to \$2 to \$2.50 per pound
- Overall exposure for FCS and Farmer Mac is limited via diversification
- No immediate concerns with credit quality



