

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Board Member
Leland A. Strom, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
September 12, 2013**

These minutes reflect the business transacted at the September 12, 2013, 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 10:25 a.m. Members of the Board present were:

**Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member**

The above named constitute 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 three 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 Chair Long Thompson reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Spearman moved to adopt the Agenda as published.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

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

Mr. Strom noted that the Agenda did include a portion 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. Spearman seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

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

OPEN SESSION

Approval of Minutes

Minutes for August 8, 2013 Regular Board Meeting (BM-12-SEPT-13-01)

Mr. Spearman moved to approve the minutes for August 8, 2013 Regular Board Meeting.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-12-SEPT-13-01)**

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

New Business

Proposed Merger of Lone Star, ACA and Texas Land Bank, ACA (BM-12-SEPT-13-02)

Tom Risdal of the Office of Regulatory Policy and **Jeff Pienta** of the Office of General Counsel presented the **Proposed Merger of Lone Star, ACA and Texas Land Bank, ACA**.

Board Chair Long Thompson opened the discussion for questions by the Board.

Board Chair Long Thompson asked that her written statement pertaining to the vote be attached as an exhibit to the minutes. (A copy is attached at Exhibit D.)

Board Chair Long Thompson asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chair Long Thompson called for a motion on the staff's recommendation regarding the proposed merger.

Mr. Strom moved that the Board approve the **Proposed Merger of Lone Star, ACA and Texas Land Bank, ACA**.

Mr. Spearman seconded the motion.

Board Chair Long Thompson asked if there was any further discussion.

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

The Secretary polled the Members and the motion carried unanimously. **(BM-12-SEPT-13-02)**

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

**Farmer Mac Capital Planning – Final Rule
(BM-12-SEPT-13-03)**

Joe Connor of the Office of Secondary Market Oversight and **Joy Strickland** of the Office of General Counsel presented the **Farmer Mac Capital Planning – Final Rule**.

Board Chair Long Thompson opened the discussion for questions by the Board.

Board Chair Long Thompson asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chair Long Thompson called for a motion on the staff's recommendation regarding the final rule.

Mr. Spearman moved that the Board approve the **Farmer Mac Capital Planning – Final Rule**.

Mr. Strom seconded the motion.

Board Chair Long Thompson asked if there was any further discussion.

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

The **Secretary** polled the Members and the motion carried unanimously. **(BM-12-SEPT-13-03)**

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

Reports

Quarterly Report on Economic Conditions and Farm Credit System 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 Farm Credit System Conditions.

Board Chair Long Thompson 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

Board Chair Long Thompson announced that the next topic on the Agenda was a closed session item pursuant to previous Board action.

The **Board Chair** instructed all members of the public to exit.

Board Chair Long Thompson convened the closed session of the meeting at 9:56 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 Chair** 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:

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member

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).

Reports

Office of Examination Quarterly Report

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

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

The closed session ended at 10:24 a.m.

ADJOURNMENT

There being no further business to come before the Board, **Board Chair Long Thompson** indicated she would entertain a motion to adjourn the meeting.

Mr. Strom moved that the meeting be adjourned.

Mr. Spearman seconded the motion.

Board Chair Long Thompson called the question.

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

The meeting adjourned at 10:25 a.m.

NOTATIONAL VOTE ACTIONS

There were three notational vote actions approved by the FCA Board from August 9, 2013, through September 11, 2013, as follows:

Item Number	Action Date	Voting Results	Subject
NV 13-21	08/28/2013	Approved	FCA Budget FY 2014 and FY 2015
NV 13-20	08/26/2013	Approved	Fall 2013 Unified Agenda and Regulatory Plan
NV 13-19	08/13/2013	Approved	Policy Statement #62 - EEO and Diversity - Annual Update

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on September 12, 2013.

_____/s/
Jill Long Thompson
Board Chair and Chief Executive Officer

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

Approved: October 10, 2013

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
September 12, 2013**

JILL LONG THOMPSON, Board Chair and Chief Executive Officer
KENNETH A. SPEARMAN, Board Member
LELAND A. STROM, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Aultman, Dale	X	X
Smulkstys, Inga	X	X
Corey, Kathryn	X	
Buccolo, Deb	X	
Johansen, Mark	X	X
Calhoun, Gaye	X	
Middleton, Russell	X	X
OCOO		
Hoffman, William	X	X
OCPA		
Stokke, Mike	X	X
Meaux, Willy	X	X
OSMO		
Rea, Laurie	X	X
Connor, Joe	X	X
OGC		
Rawls, Charles	X	X
Strickland, Joy	X	X
Pienta, Jeff	X	X
Donner, Mary Alice	X	X

OFFICE	OPEN SESSION	CLOSED SESSION
OE		
Coleman, Robert	X	X
Paulsen, Roger	X	X
Johnson, Hal	X	X
OIG		
Dean, Elizabeth	X	X
ORP		
Van Meter, Gary	X	X
Mardock, Barry	X	X
Gabriel, Steve	X	X
Wilson, Debbie	X	X
Fowlkes, Jerome	X	X
Risdal, Tom	X	
McPhail, Lihong	X	X
Edelstein, Jeremy	X	X
OMS		
Smith, Stephen	X	X
Gandy, Doug	X	
FCSIC		
Rubin, Howard	X	X
Pfitzinger, Rick	X	X
EEO & Inclusion		
Burlew, Thais	X	
GENERAL PUBLIC	3	

**PUBLIC ANNOUNCEMENT OF
 MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
 Farm Credit Administration Board
 Regular Meeting
 September 12, 2013**

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 September 12, 2013. 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.

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. In order to increase the accessibility to Board meetings, persons requiring assistance should make arrangements in advance by contacting 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 August 8, 2013

- New Business**
- 2 Proposed Merger of Lone Star, ACA and Texas Land Bank, ACA
- 3 Farmer Mac Capital Planning – Final Rule

- Reports**
- 4 Quarterly Report on Economic Conditions and Farm Credit System Condition and Performance

CLOSED SESSION

- 5 Office of Examination Quarterly Report¹

 September 4, 2013
 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 August 8, 2013 Regular Board Meeting

BM-12-SEPT-13-01

Effective Date: September 12, 2013

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for August 8, 2013, Regular Board Meeting as submitted.

DATED THIS 12th DAY OF SEPTEMBER 2013

BY ORDER OF THE BOARD

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

Statement
Jill Long Thompson, Board Chair
Farm Credit Administration Board Meeting
September 12, 2013

With the Board's vote today on the merger of two associations, we are again reminded of the fluidity that characterizes the financial sector, in general, and agriculture lending, in particular. As the arm's-length regulator tasked with ensuring the safety and soundness, as well as the mission service, of the Farm Credit System, we take very seriously the responsibility of evaluating and acting upon proposed consolidation within the System.

In considering such proposed mergers, I believe it is as important to consider the impact on the entire System, as it is to evaluate the impact on the specific territory being served by the merged institution. I know fellow Board Member Spearman, as well as FCA staff, share in this belief and commitment. It is no easy task, however, to evaluate the long-term impact on the System.

As we look to the future, I believe we have a responsibility to gather and analyze complete information that will help guide us on how best to serve agricultural borrowers today and tomorrow. We know that consolidation among the institutions can both improve efficiencies and reduce risk. In addition, we know that consolidation may also create challenges in meeting the credit needs of all eligible borrowers.

While further consolidation will likely always be a part of growth and change in the financial sector, it is important to "do it right." Toward that end, I look forward to working with my Board colleagues to reach out to the System and others to gather the information and data necessary to make decisions that will lead to the continued growth, strength, and soundness of the Farm Credit System. This cooperative System of agricultural lenders is so vital to the agriculture sector and rural communities in our country.

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Farmer Mac Capital Planning – Final Rule

BM-12-SEPT-13-03

Effective Date: September 12, 2013

THE FCA BOARD HEREBY:

- Adopts the final rulemaking that amends FCA capital planning rules pertaining to the Federal Agricultural Mortgage Corporation found at 12 CFR Part 652 Subpart B, and
- Authorizes staff to make any technical or grammatical changes that may be necessary before publication in the *Federal Register*.

DATED THIS 12th DAY OF SEPTEMBER 2013

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board



FCA Board Meeting

September 2013

Quarterly Report on FCS Condition

September 12, 2013

Stephen Gabriel
Hal Johnson





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



The economy continues to plod along



- GDP growth: 1.7 percent in Q2; Consensus forecast for 2013 is 1.5 percent
- Housing sector continues to recover—the question is its sustainability
- Job market continues slow healing
- Long-term interest rates are rising
- Eurozone moving out of recession—but, not out of the woods



The farm economy still looks healthy

- Gross farm income is expected to be flat; expenses continue to rise
- Net cash farm income to decline 10%; net farm income to rise 6%
- Farm assets to top \$3 trillion
- Farm debt to top \$300 billion





An expected large crop with uncertainties



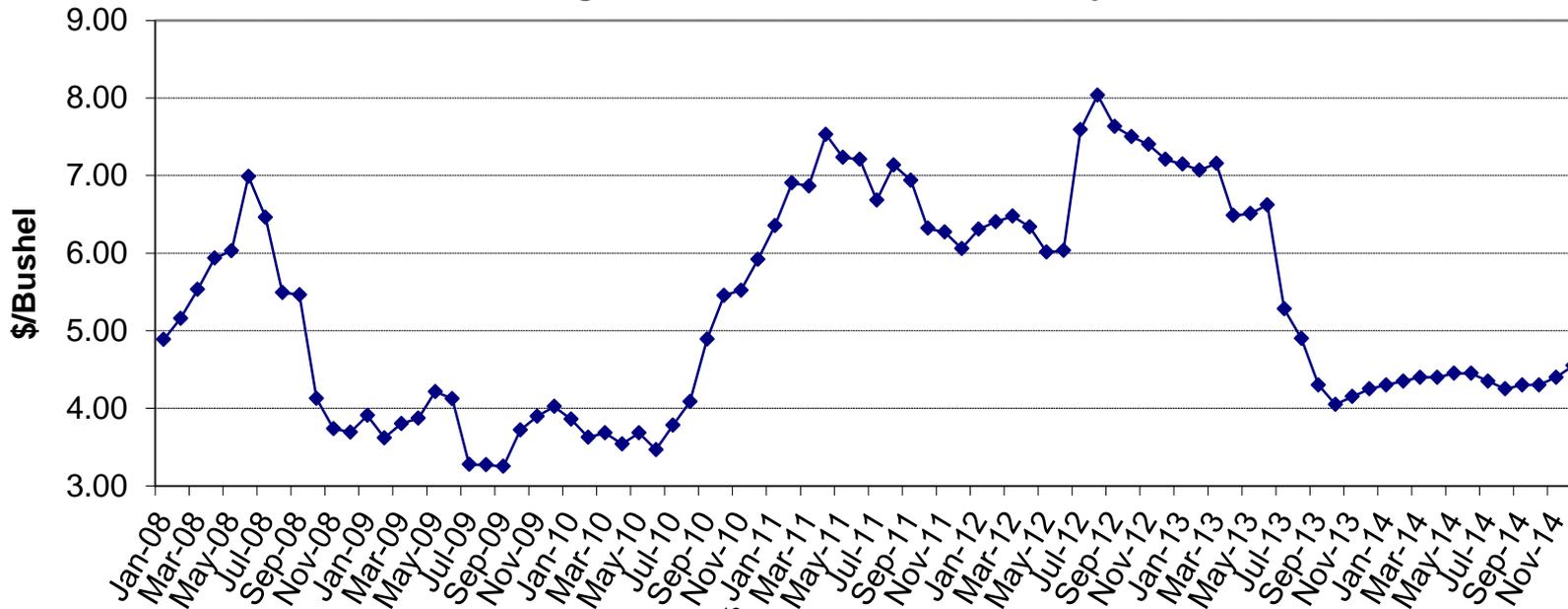
- Corn and soybean prices will be down in 2013/14, the amount of decline depends on final crop size
- Protein and dairy producers will see profits improve
- Crop farmers face narrower margins
- The farmland market will likely stall and may retreat



Are corn prices headed for a new normal?

8-Aug-13

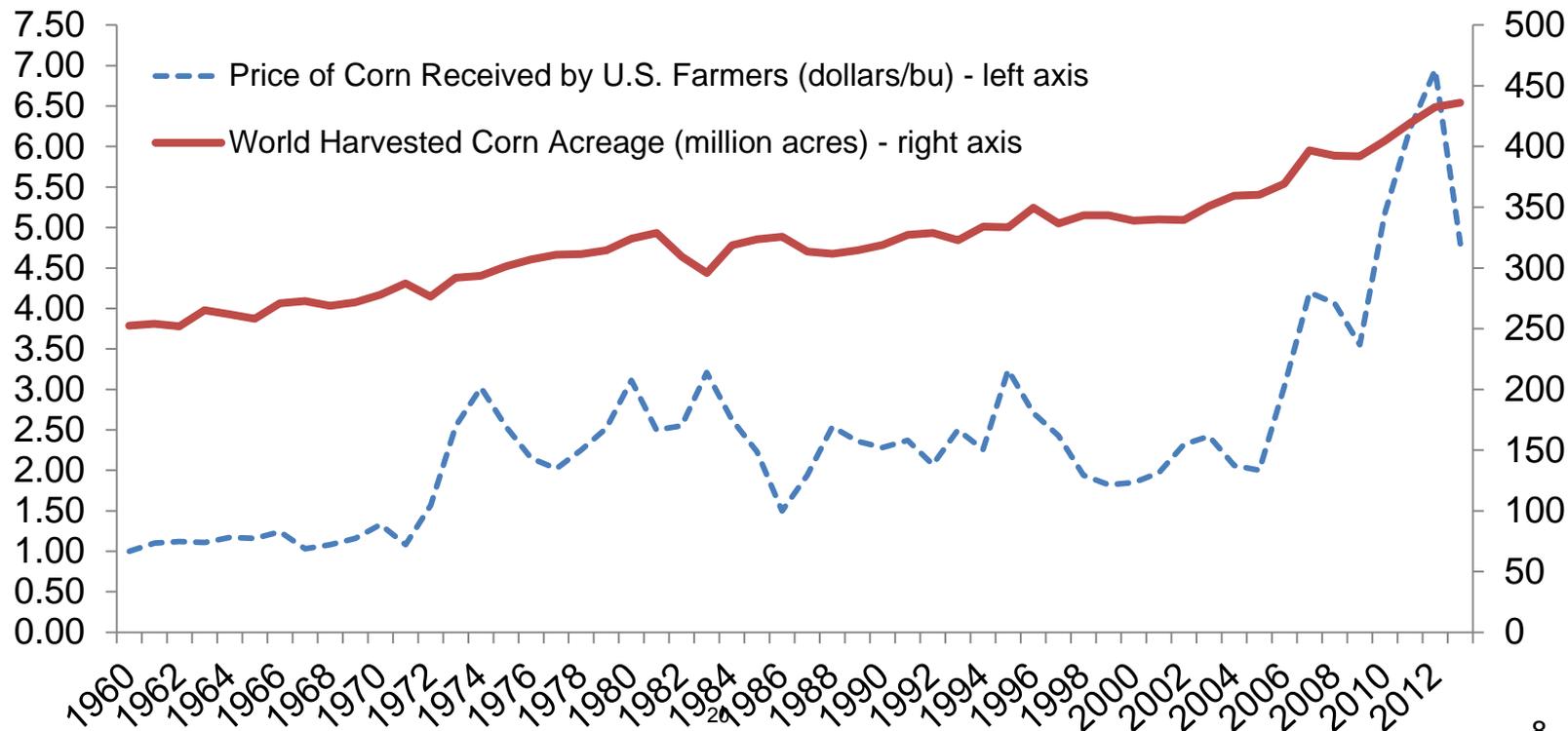
Nearby Corn Futures August 2013 Forward Informa Projection



Source: Informa Economics



Global acreage planted to corn has increased over 28% since 2002



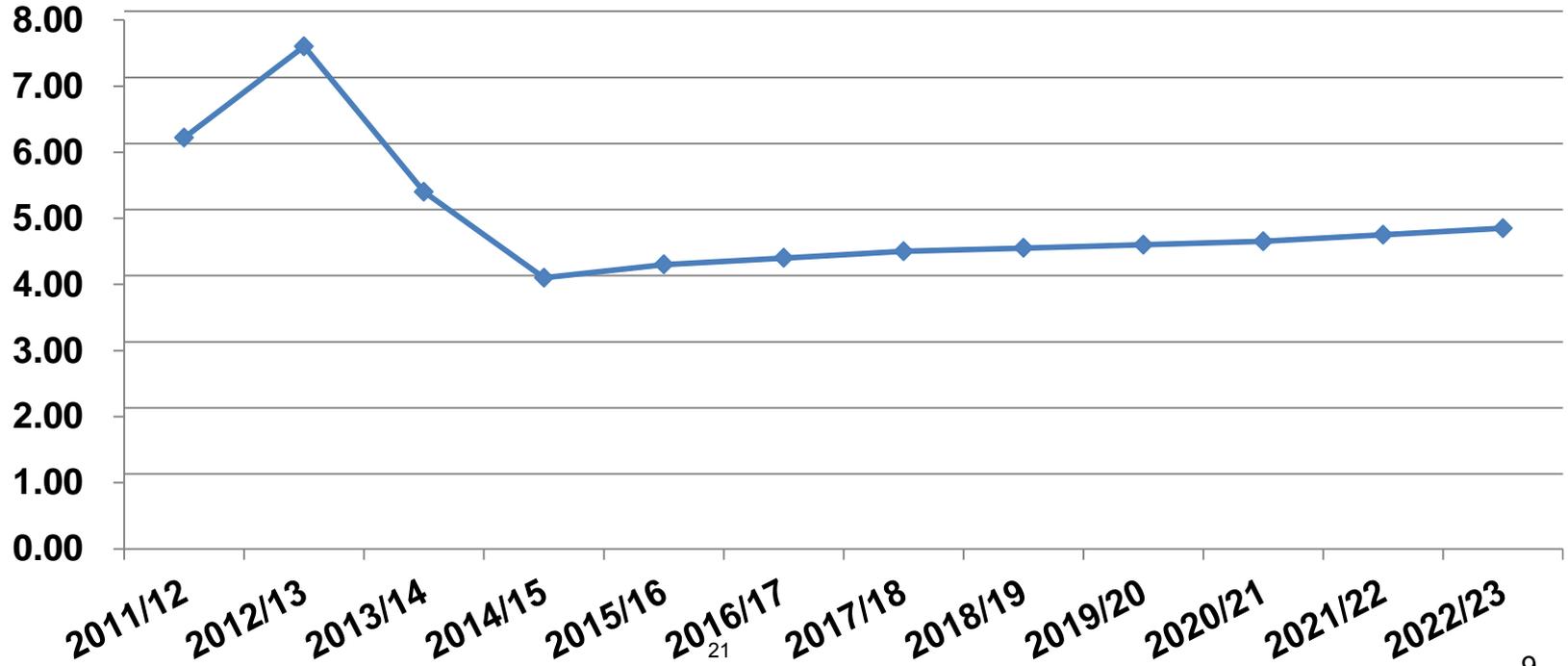
Source: USDA



The long-term outlook is for corn prices below \$5



USDA's Long-term Farm Corn Price Forecast (dollars/bu)



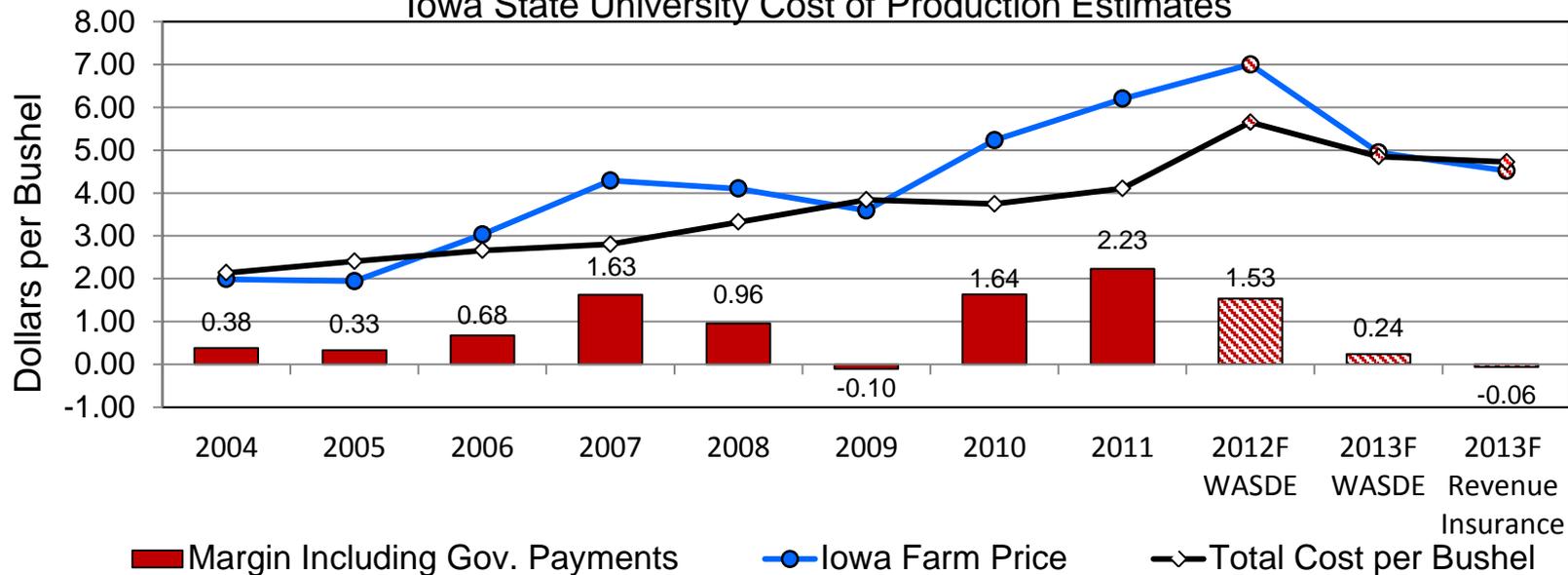
Source: USDA



Corn producers' margins will be pressured by lower prices



Iowa Season-average Corn Profit Margin Estimates¹
Iowa State University Cost of Production Estimates



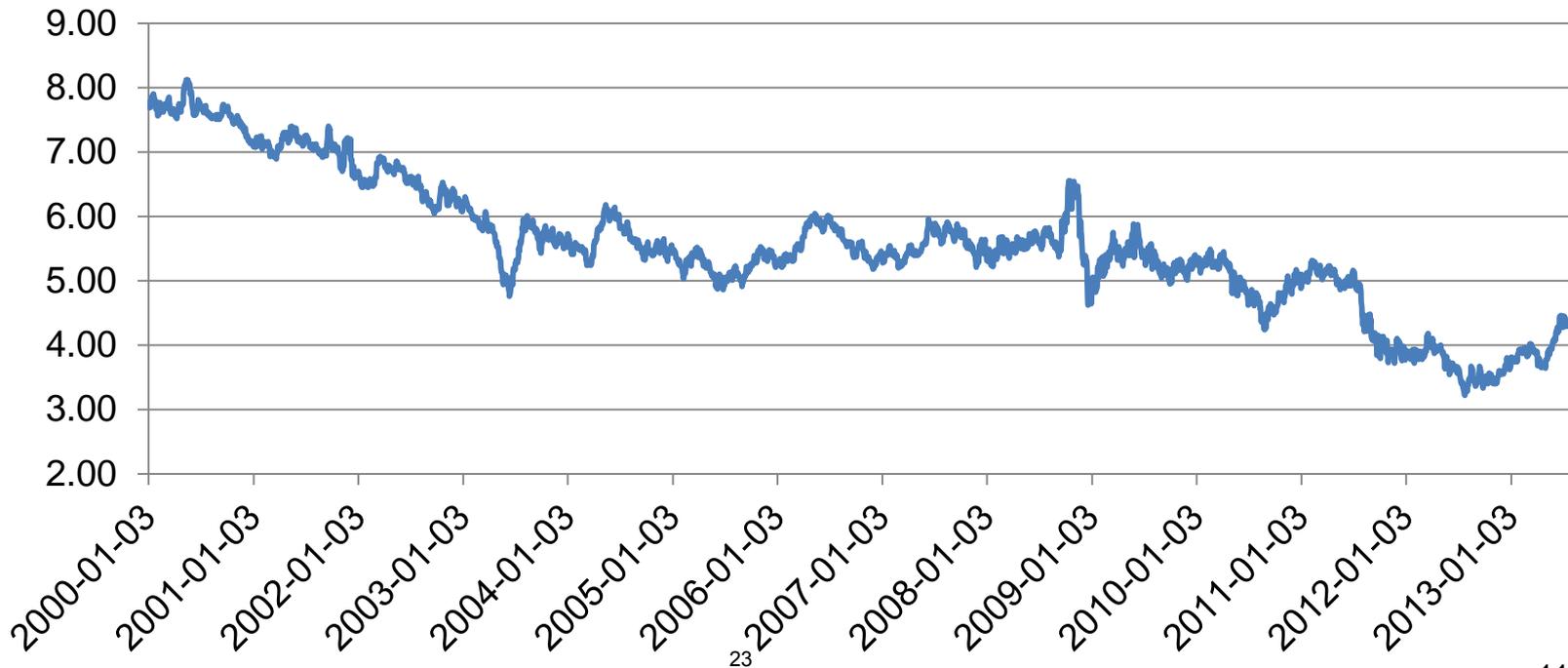
¹ 2004-2011 are the market season average price received by Iowa farmers. The 2012 and 2013 WASDE price estimates are adjusted for Iowa. The 2013 revenue insurance price is 80 % of the RMA corn revenue insurance price established in February. Margins reflect total production costs and actual average yields, except for 2013, which reflects USDA's 162 bu./acre yield estimate and a 168 bu./acre established yield for insurance coverage. 2013 cost estimates are preliminary.



Long-term interest rates have risen significantly and may continue



Moody's Seasoned Aaa Corporate Bond Yield, Daily, Not Seasonally Adjusted



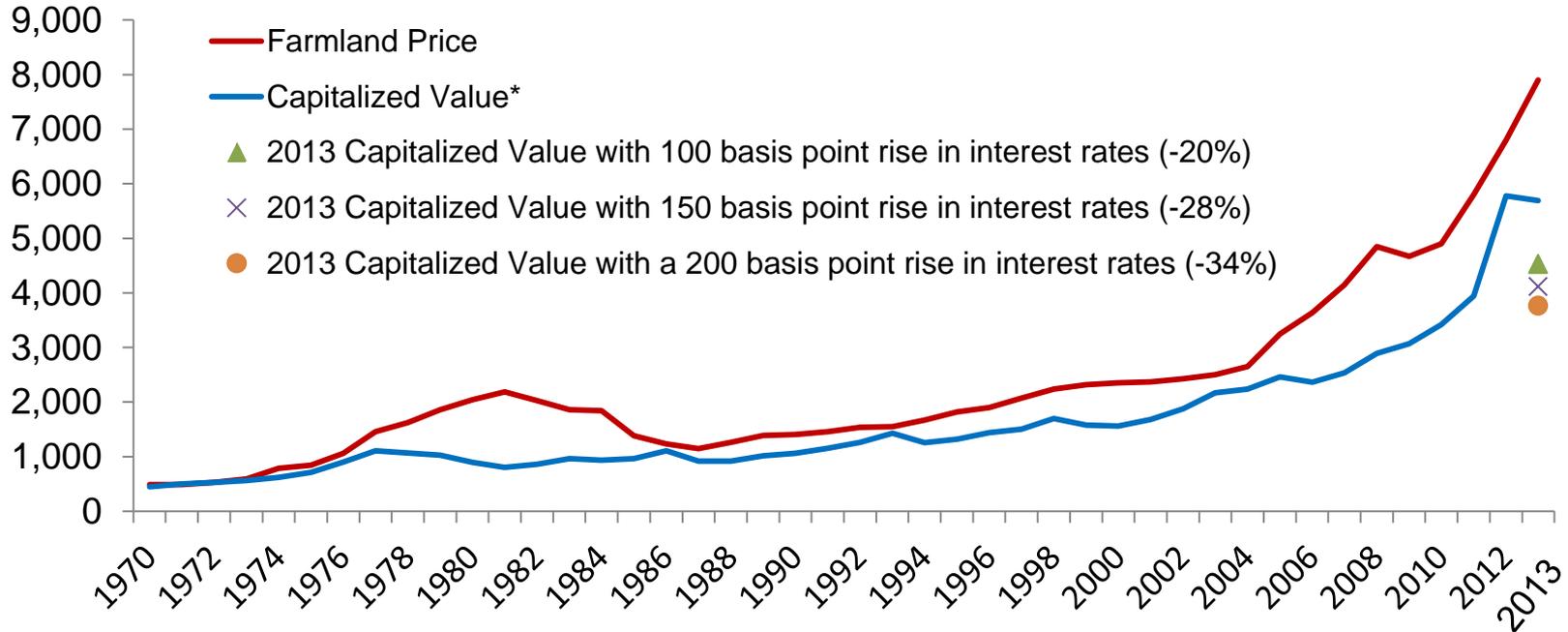
Source: Federal Reserve Bank of St. Louis



Higher interest rates plus lower corn prices will pressure land values



Average Illinois Cropland Values (\$/acre)



Source: USDA, NASS; Gary Schnitkey, University of Illinois; Federal Reserve Board; FCA

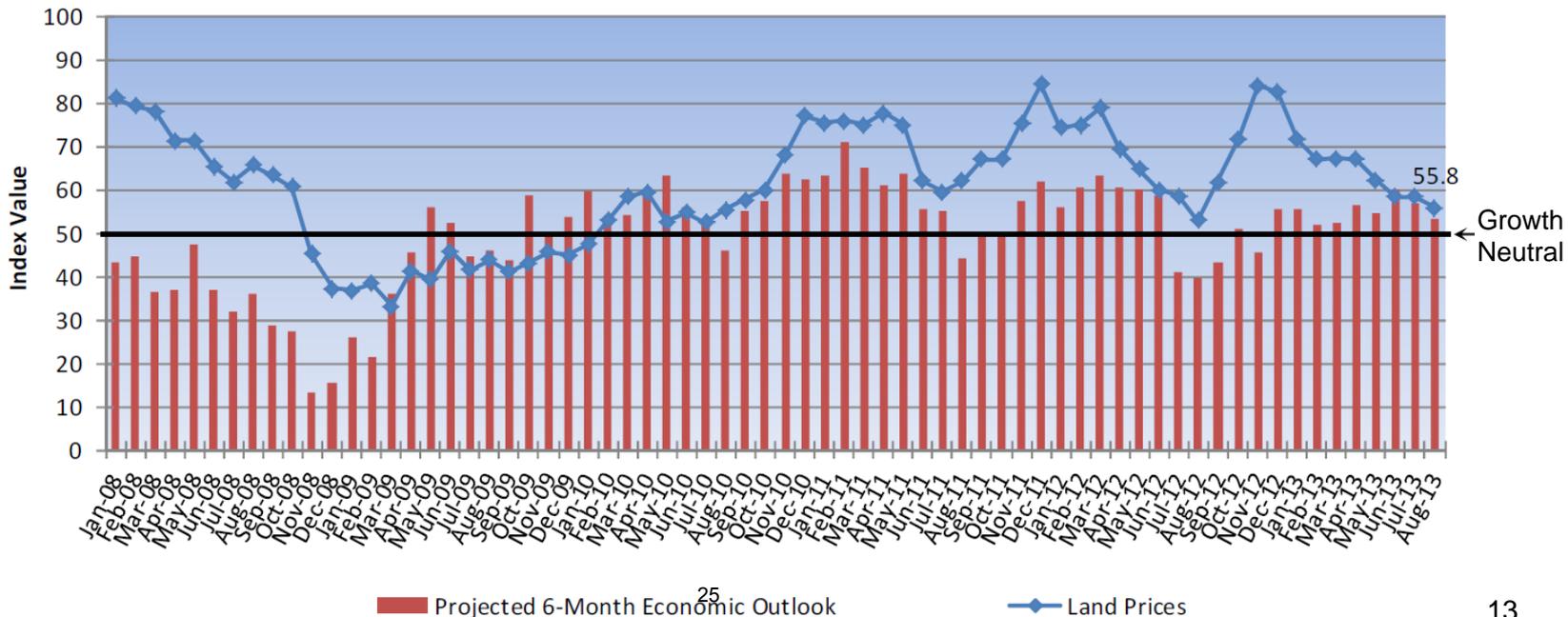
* Capitalized Value calculated by dividing the average cash rent by the average annual Moody's AAA corporate bond yield.



Farmland price growth continues to decelerate



Farmland-Price & Rural Economic Outlook Indices



Source: Creighton University's Farmland-Price Index



Risks to Watch

- Farmland values
- Size of 2013 crop and crop prices
- Long-term interest rate trends
- Grain farm profitability
- International trade protectionism
- Geopolitical turmoil (Egypt, Syria, Iran, N. Korea)





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
June 30, 2013

Hal Johnson
Office of Examination



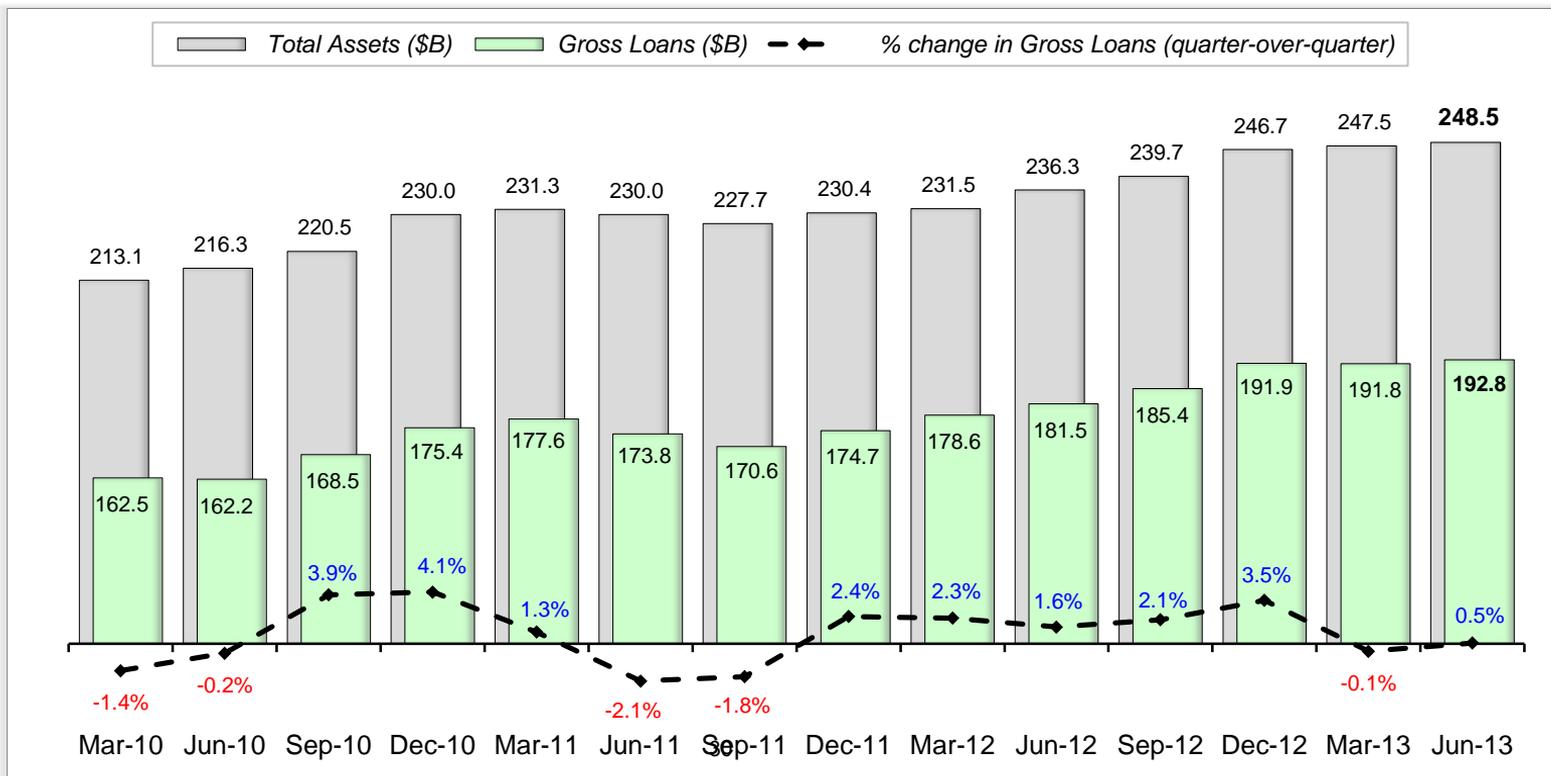
Topics

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





System growth slows from last year's pace

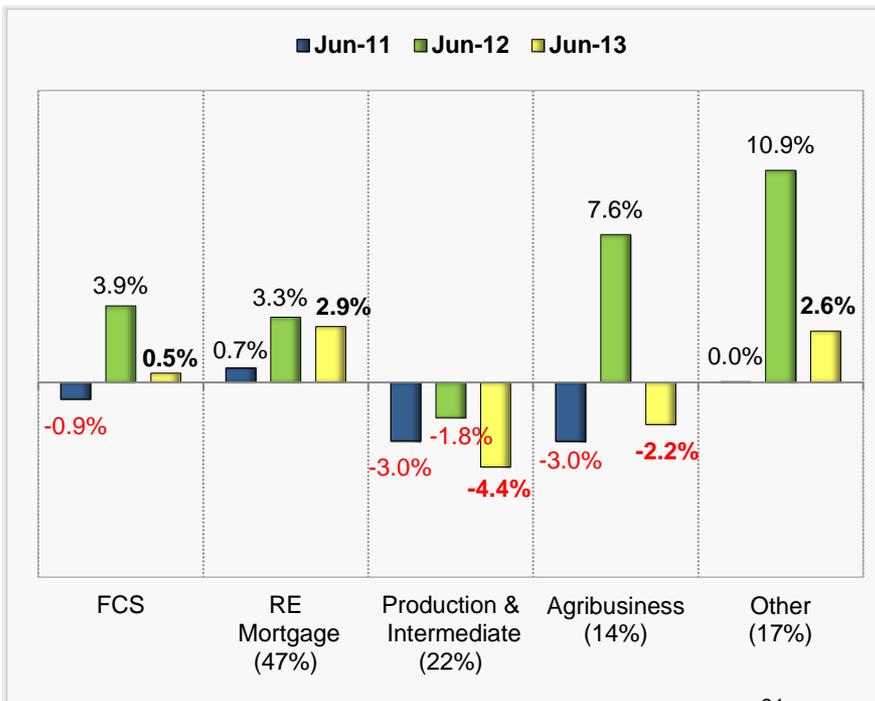




Loan balances up slightly year-to-date; growth primarily in RE lending

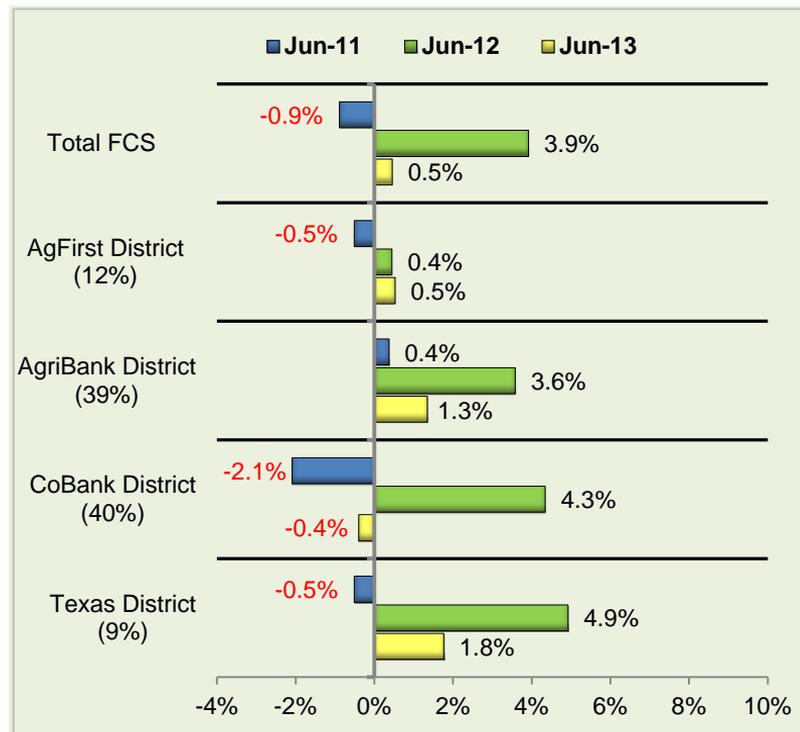


Loan Growth by Loan Type (% change year-to-date)



31

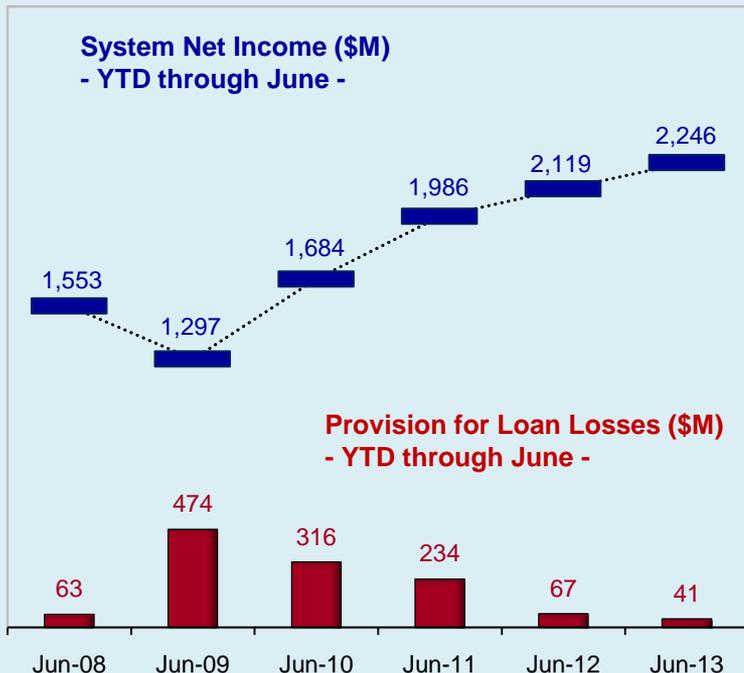
Loan Growth by District (% change year-to-date)



Source: FCS Quarterly Information Statements

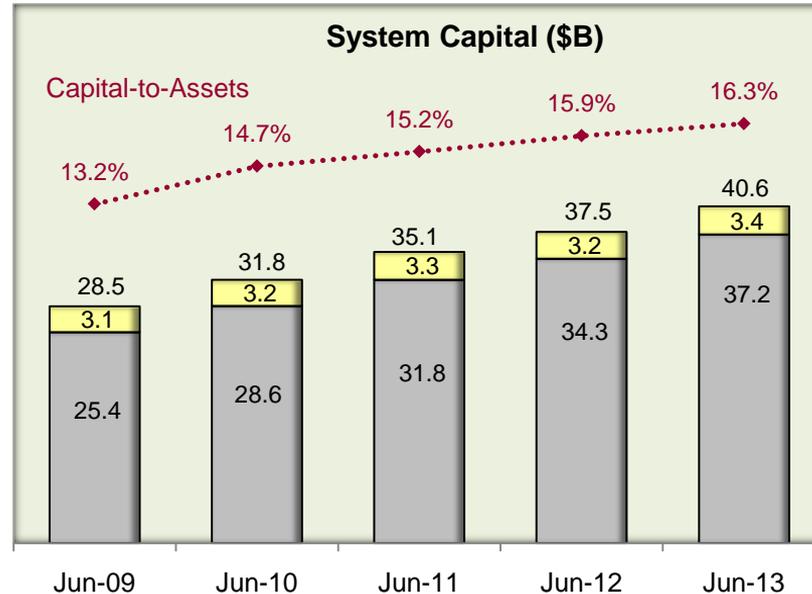


System post strong earnings, increased capital levels



32

Source: FCS Quarterly Information Statements



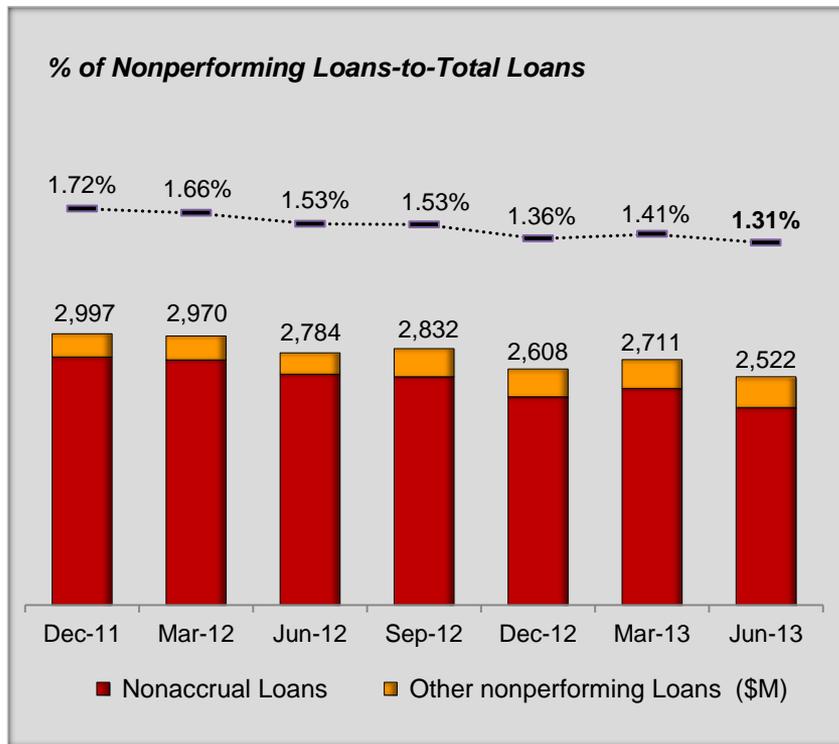
■ Total System Capital less Restricted ■ Restricted Capital

Restricted capital represents capital associated with the Insurance Fund.

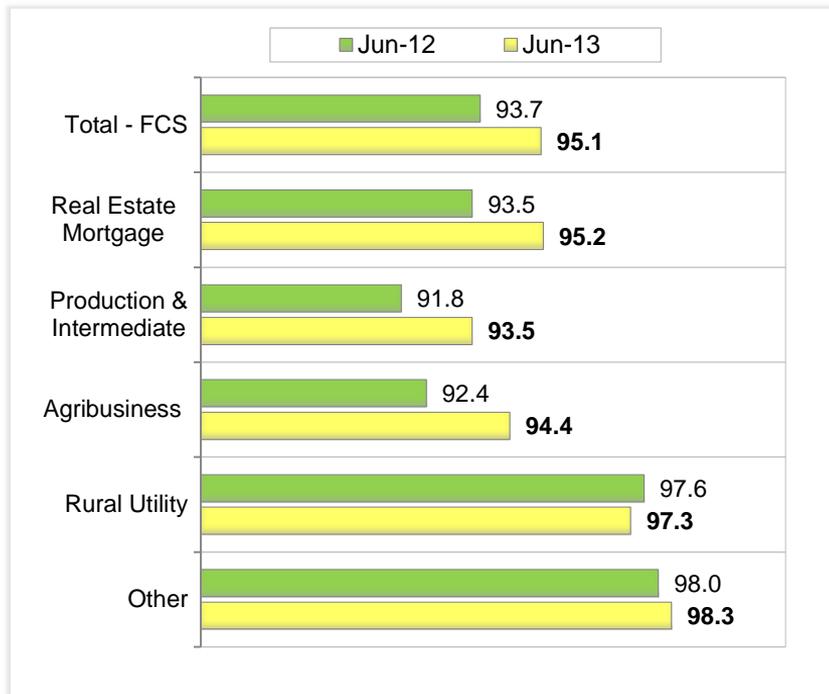
20



Portfolio credit quality continues to gradually improve



% of Loans Classified as Acceptable by Loan Type

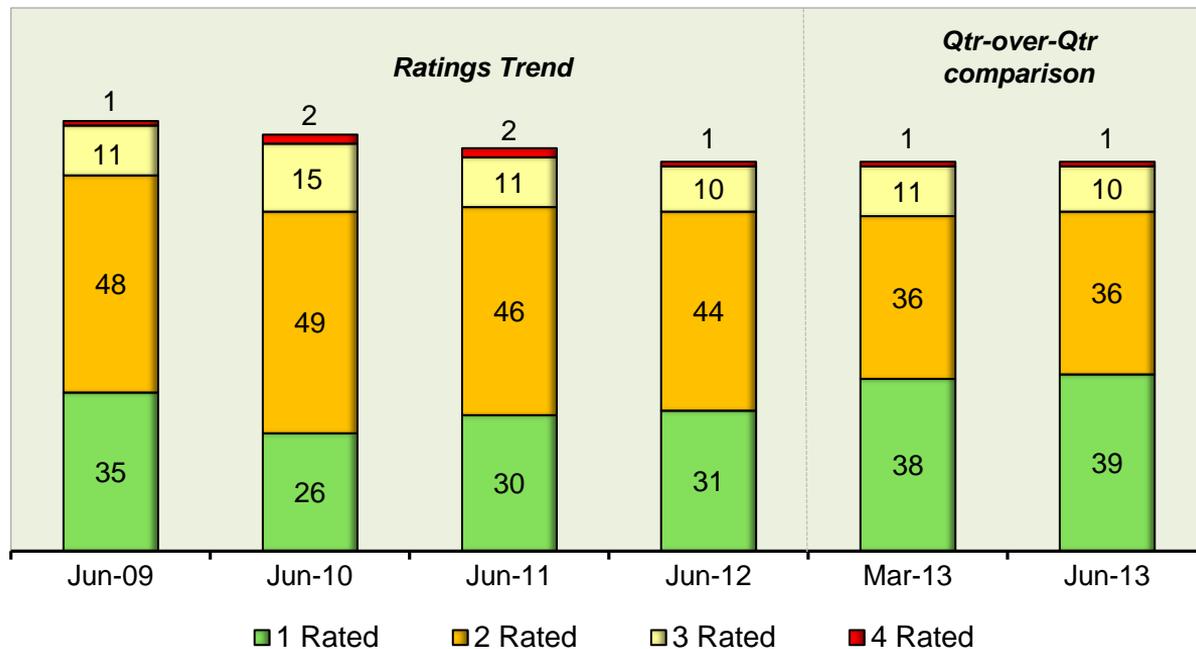




System FIRS ratings



Composite FIRS Ratings - System Banks & Associations



34

Source: FCA's FIRS ratings database



Summary and final points

- The U.S economy continues to improve – but slowly
- Crop production and price levels will be pivotal factor for agriculture in 2013
- Higher interest rates and lower crop prices will put downward pressure on farmland values
- The System's financial performance is strong; portfolio credit quality is generally good
- The System remains fundamentally safe and sound and is well-positioned for the challenges facing agriculture





Questions



THANK YOU



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 September 12, 2013, 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).

/s/

Charles R. Rawls
General Counsel

Date: September 12, 2013