# FCA Board Meeting

## June 2016

# Quarterly Report on FCS Condition

## June 9, 2016

**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**

# Economic growth continues to underwhelm

**Consensus Forecasts (percent)**

Red indicates forecast

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GDP growth*** | 0.6 | 3.9 | 2.0 | 1.4 | 0.8 | 2.2 | 2.5 | 2.4 | 2.3 | 2.3 | 2.2 | 2.2 |
| **CPI*** | -2.9 | 2.4 | 1.4 | 0.8 | -0.3 | 1.9 | 2.2 | 2.3 | 2.1 | 2.4 | 2.3 | 2.4 |
| **Unemployment rate** | 5.6 | 5.4 | 5.2 | 5.0 | 4.9 | 4.9 | 4.8 | 4.7 | 4.7 | 4.6 | 4.6 | 4.5 |
| **10 Yr T-Bond** | 2.0 | 2.4 | 2.0 | 2.2 | 1.8 | 1.9 | 2.1 | 2.3 | 2.5 | 2.6 | 2.7 | 2.9 |

Source: Consensus Economics, Inc.

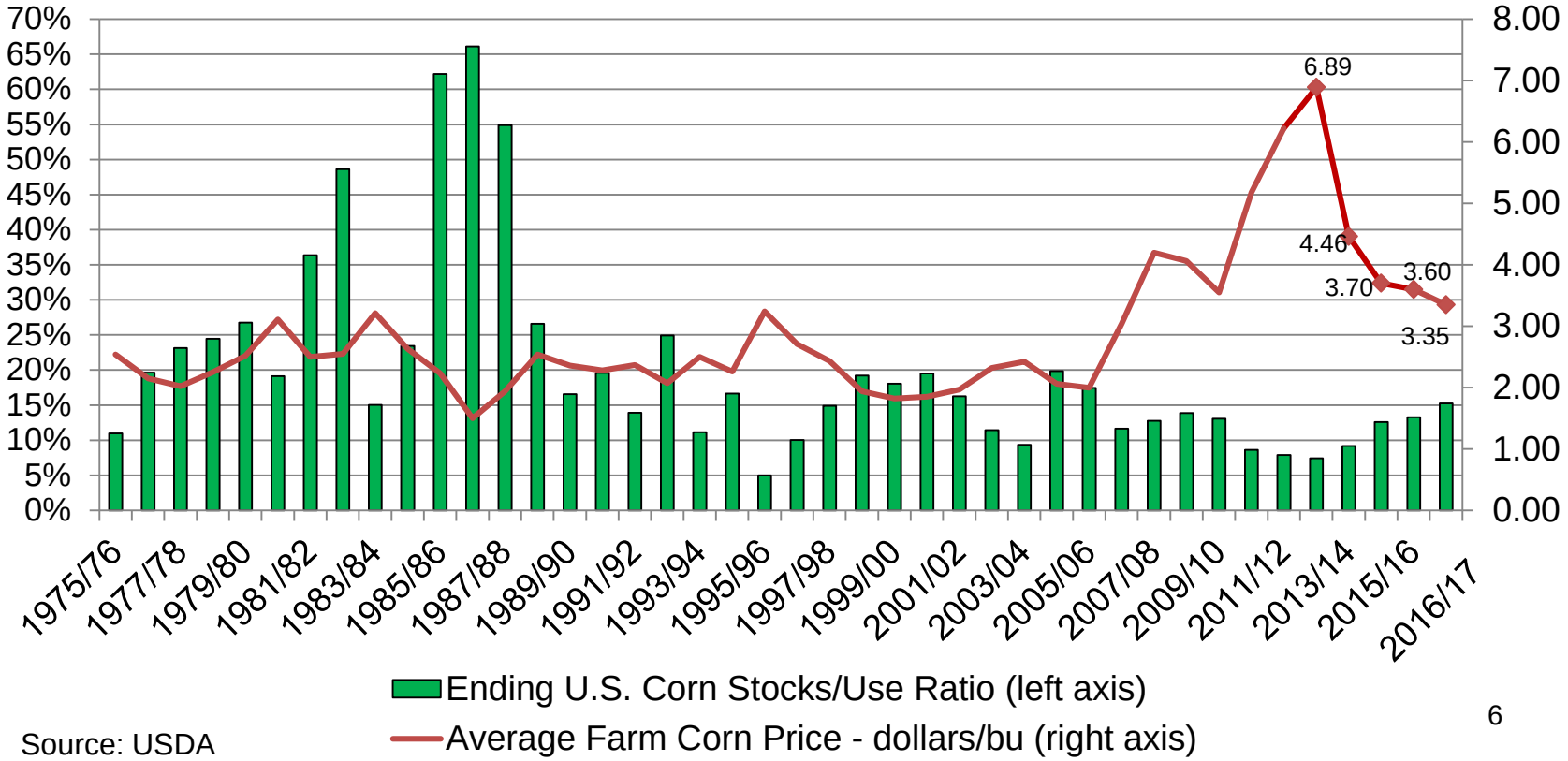
Survey date - May 9, 2016

* % change from prior quarter, seasonally adjusted annual rate

# Farm sector developments and concerns

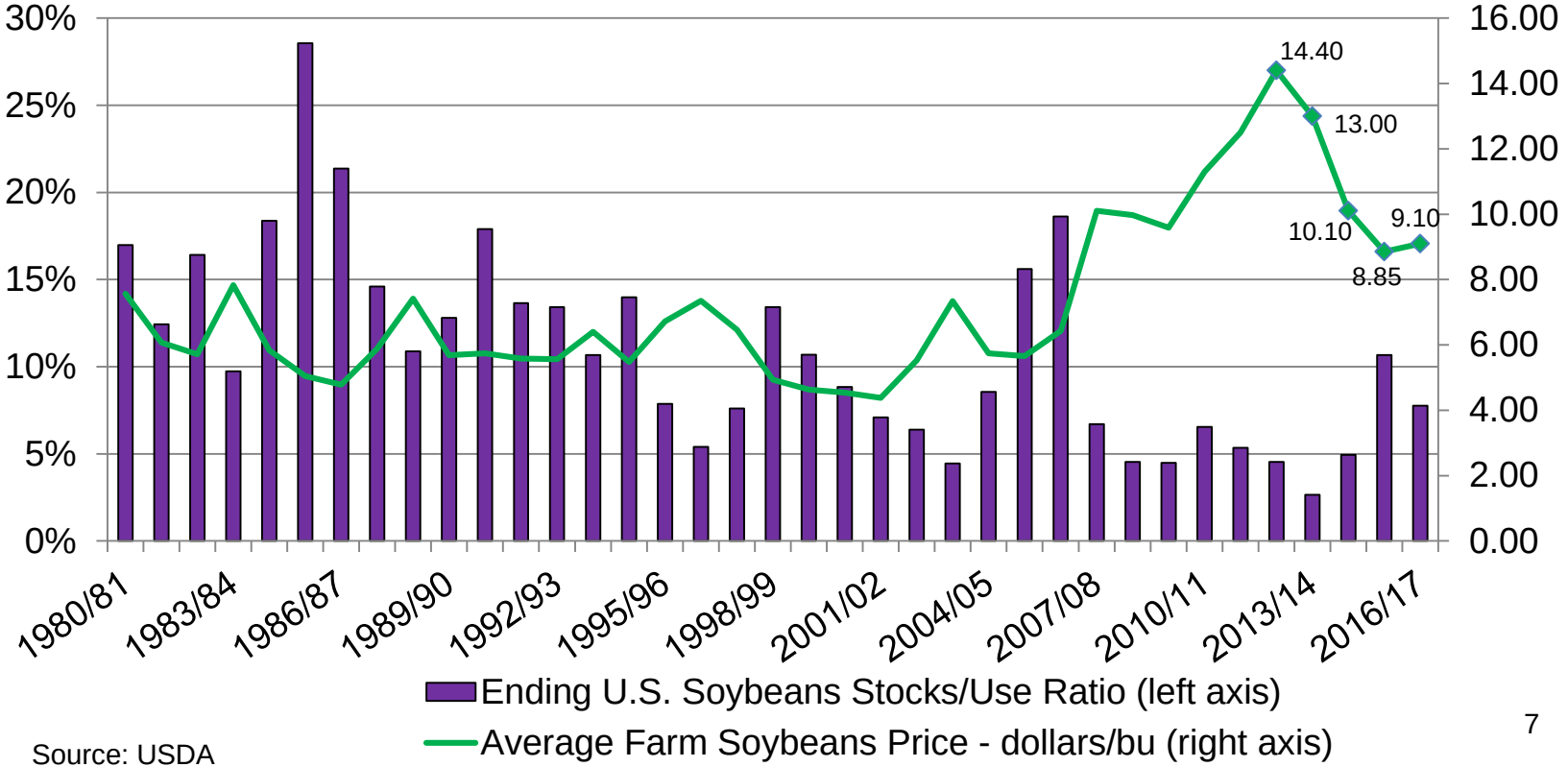
- Planting progress is generally good
- South American weather boosts soybean/corn futures
- USDA projects a record corn crop in 2016
- Production growth in the protein and dairy sectors is pressuring prices and margins
- There are signs of emerging credit problems
- Continued farmland market weakness

# USDA projects a record corn crop and greater stocks



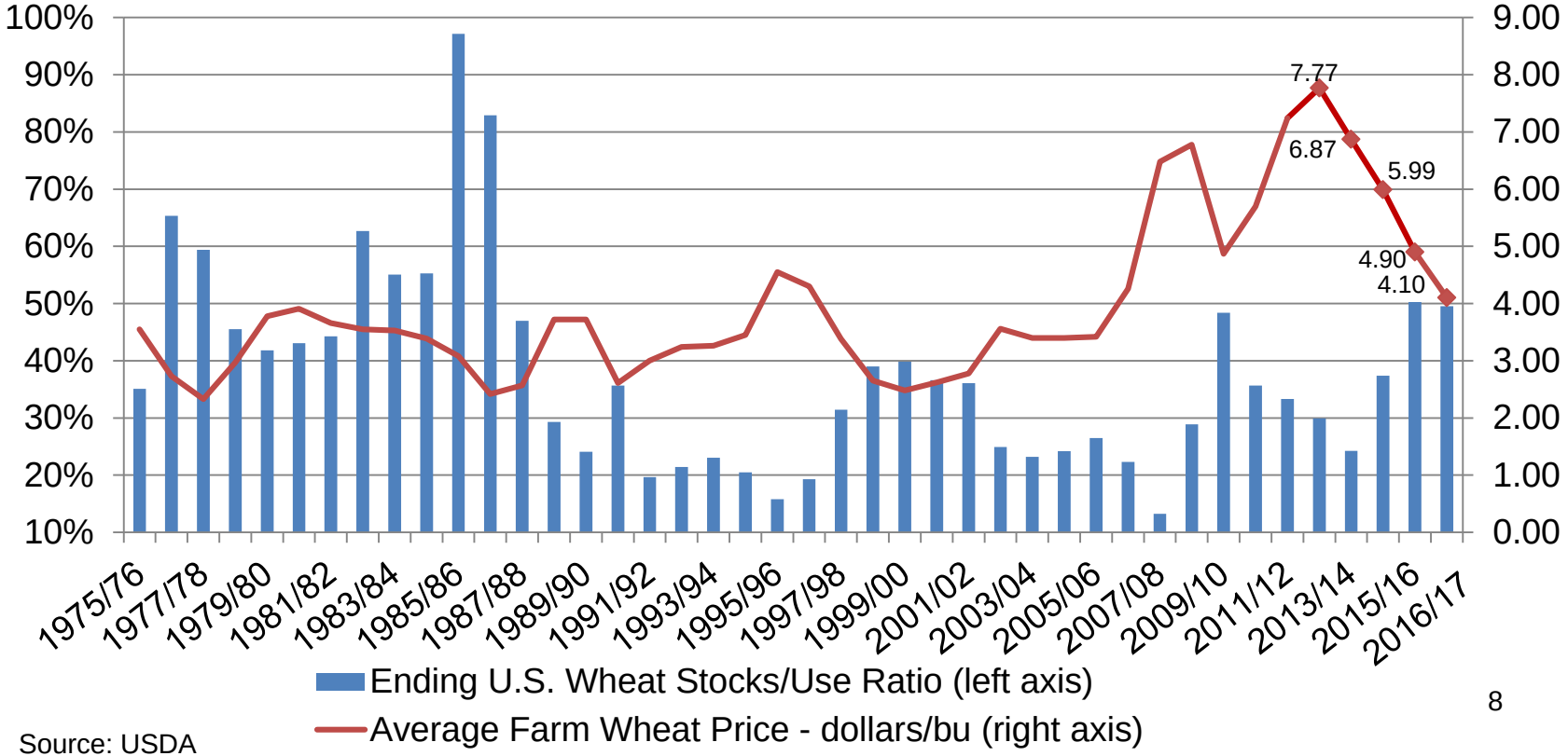

Source: USDA

# Reduced soybean plantings; more exports strengthen price prospects




Source: USDA

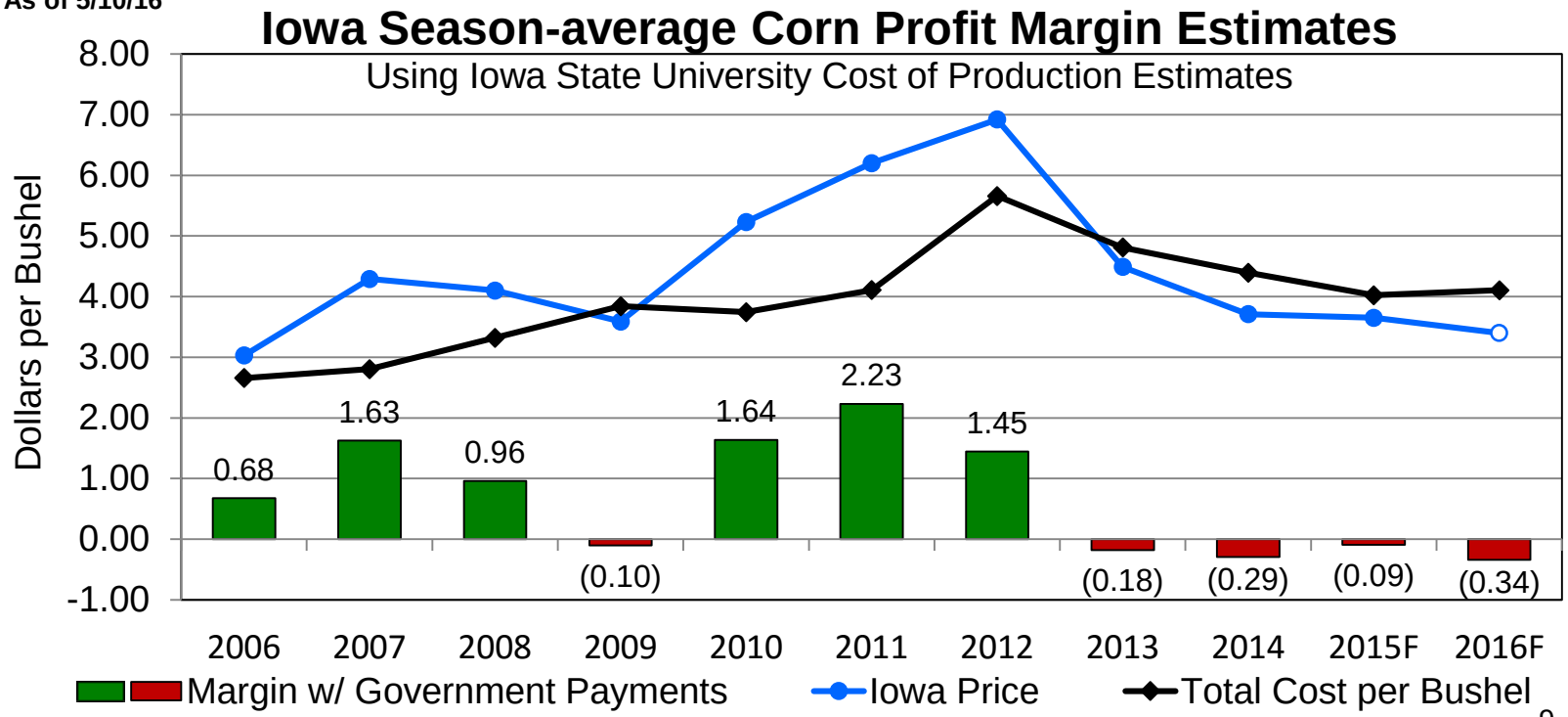
# Large wheat supplies continue to weigh on prices




Source: USDA

# Corn profit margins face fourth year in the red

As of 5/10/16

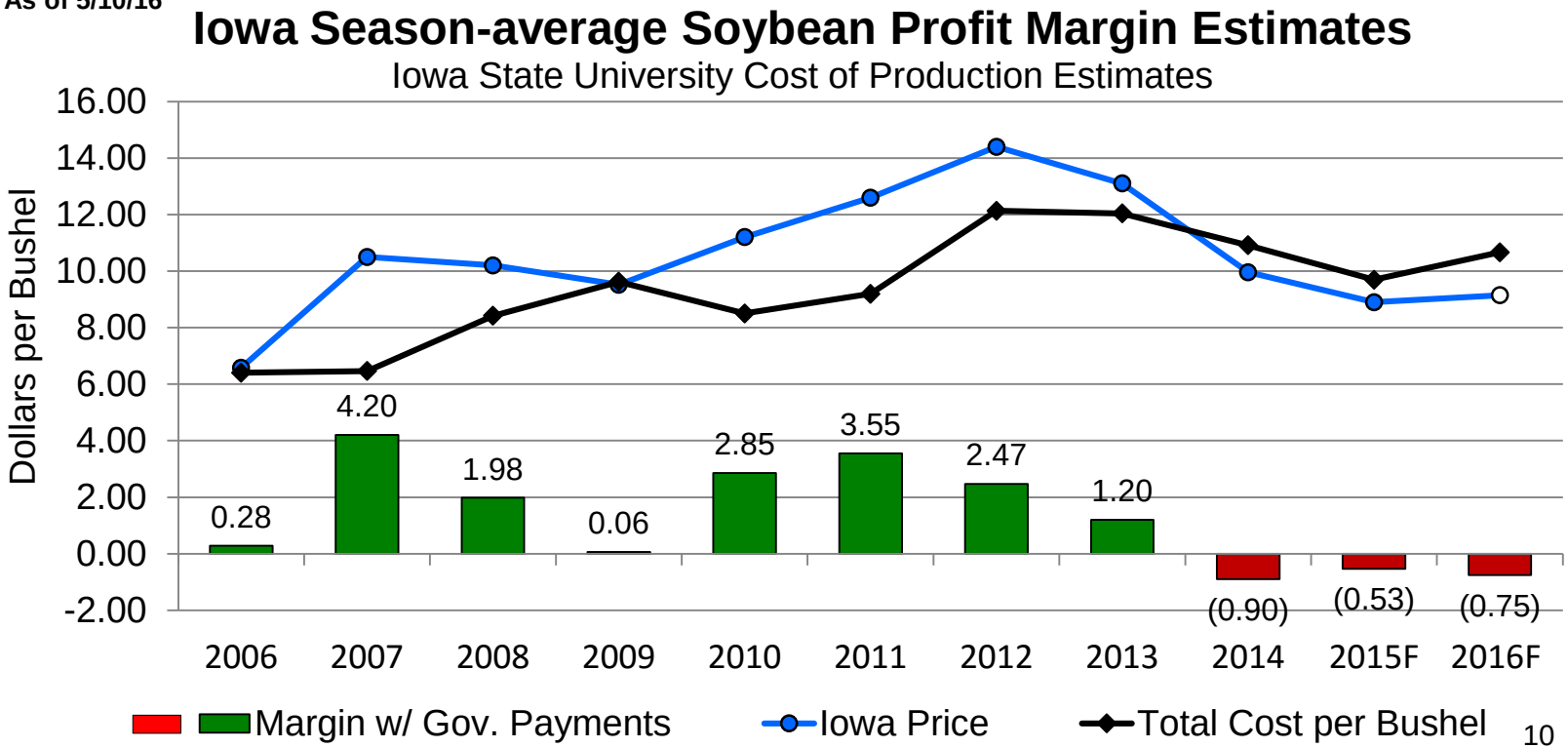





Source: FCA-ORP-AEPT using data from USDA and Iowa State University.

# Current price outlook suggests tight margins for soybean producers

As of 5/10/16



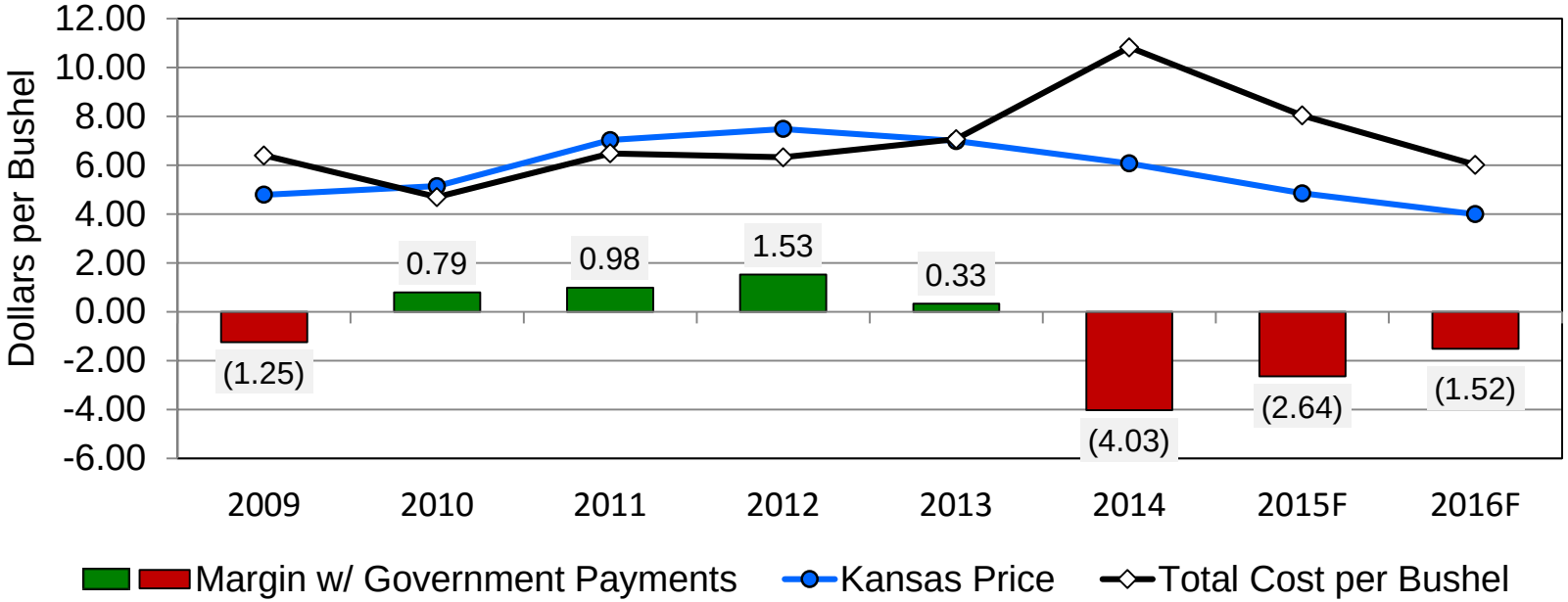

Source: FCA-ORP-AEPT using data from USDA and Iowa State University.

# Large supplies pressure wheat prices and profit margins

As of 5/10/16

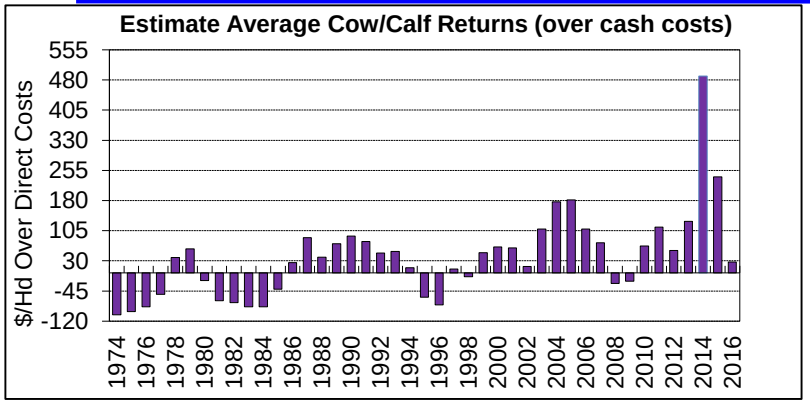
## Kansas Season-average Wheat Profit Margin Estimates

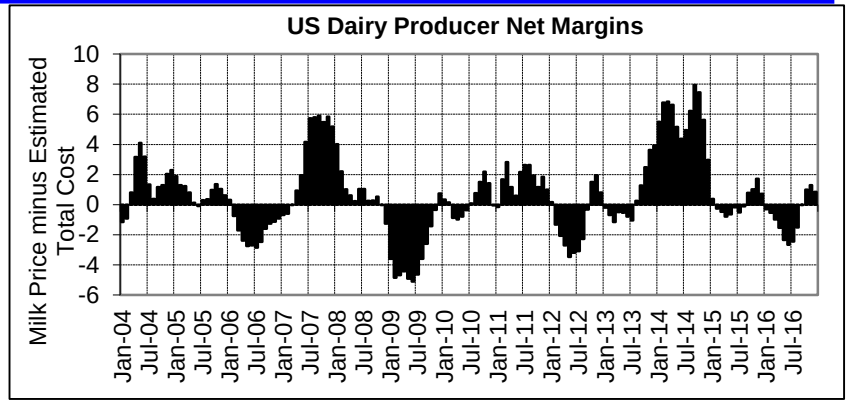
Kansas State University Cost of Production Estimates

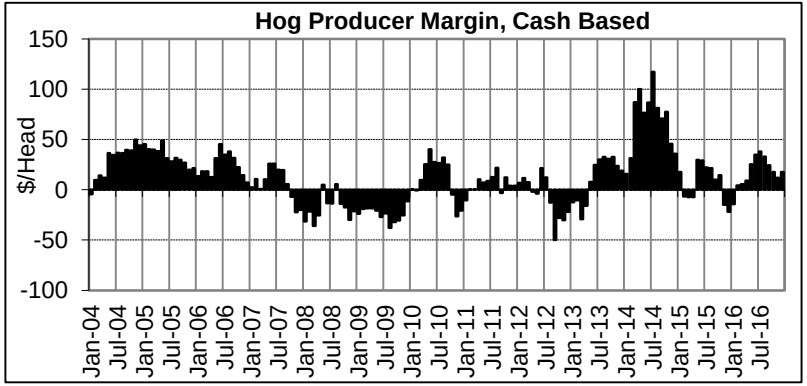


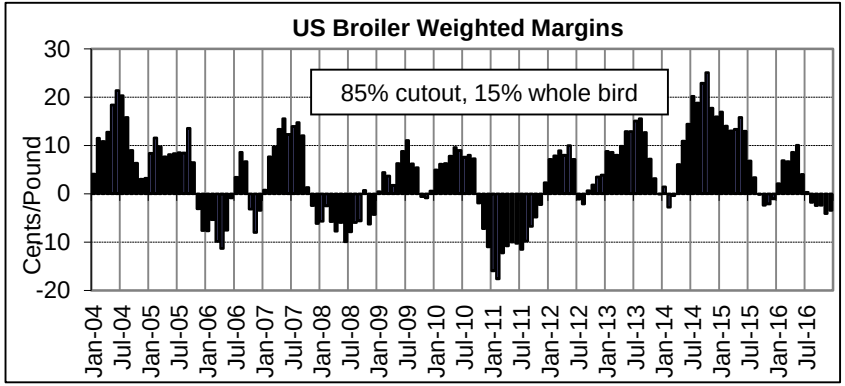

Source: FCA/ORP/AEPT using data from USDA and Kansas State University.

# Ample production pressures protein and dairy prices and profits



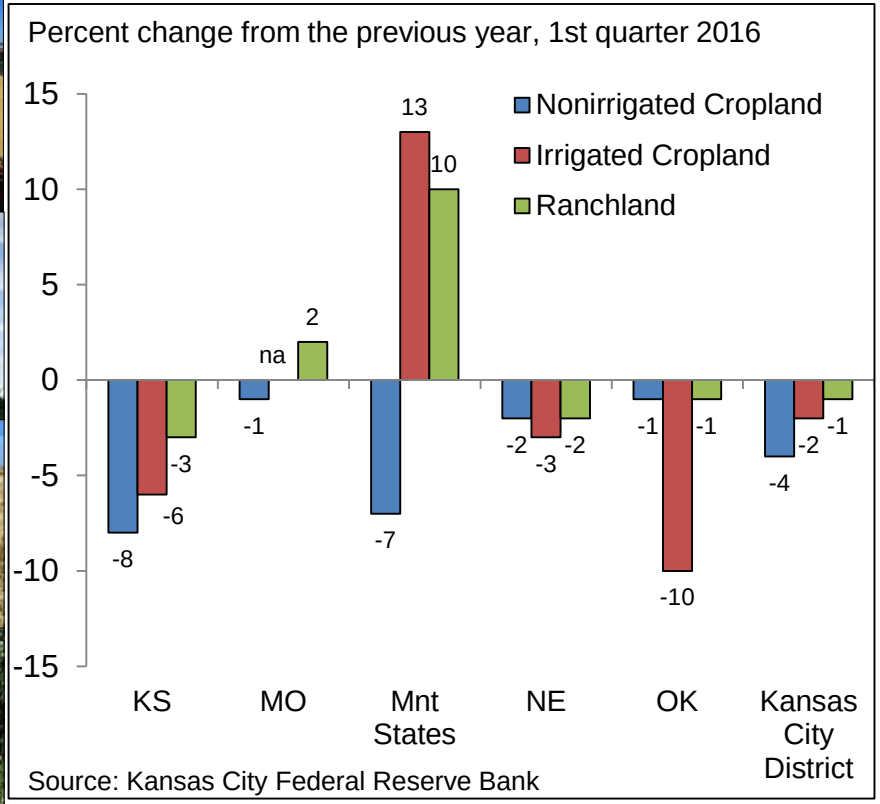



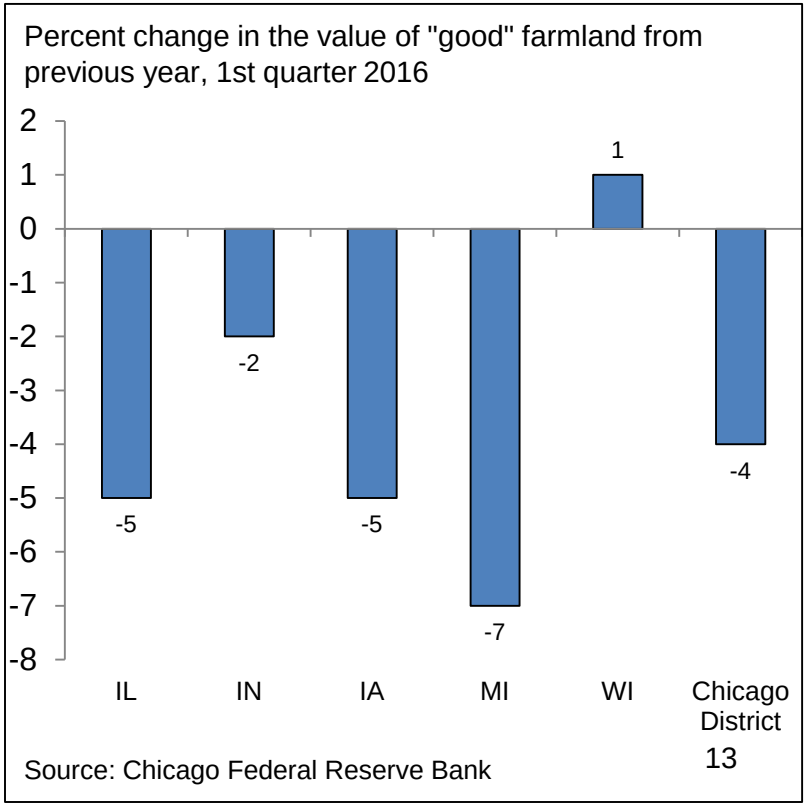




Source: Informa Economics

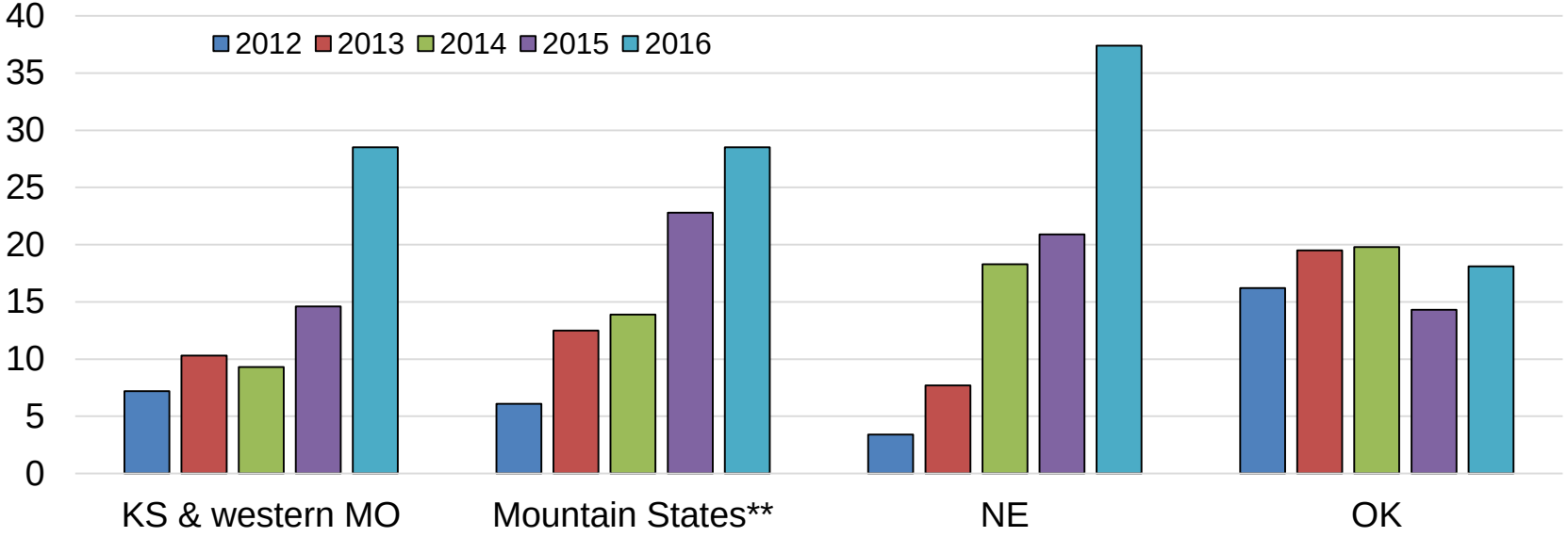
# Farmland prices continue soft in the Corn Belt and Plains



# There is evidence of rising carryover debt

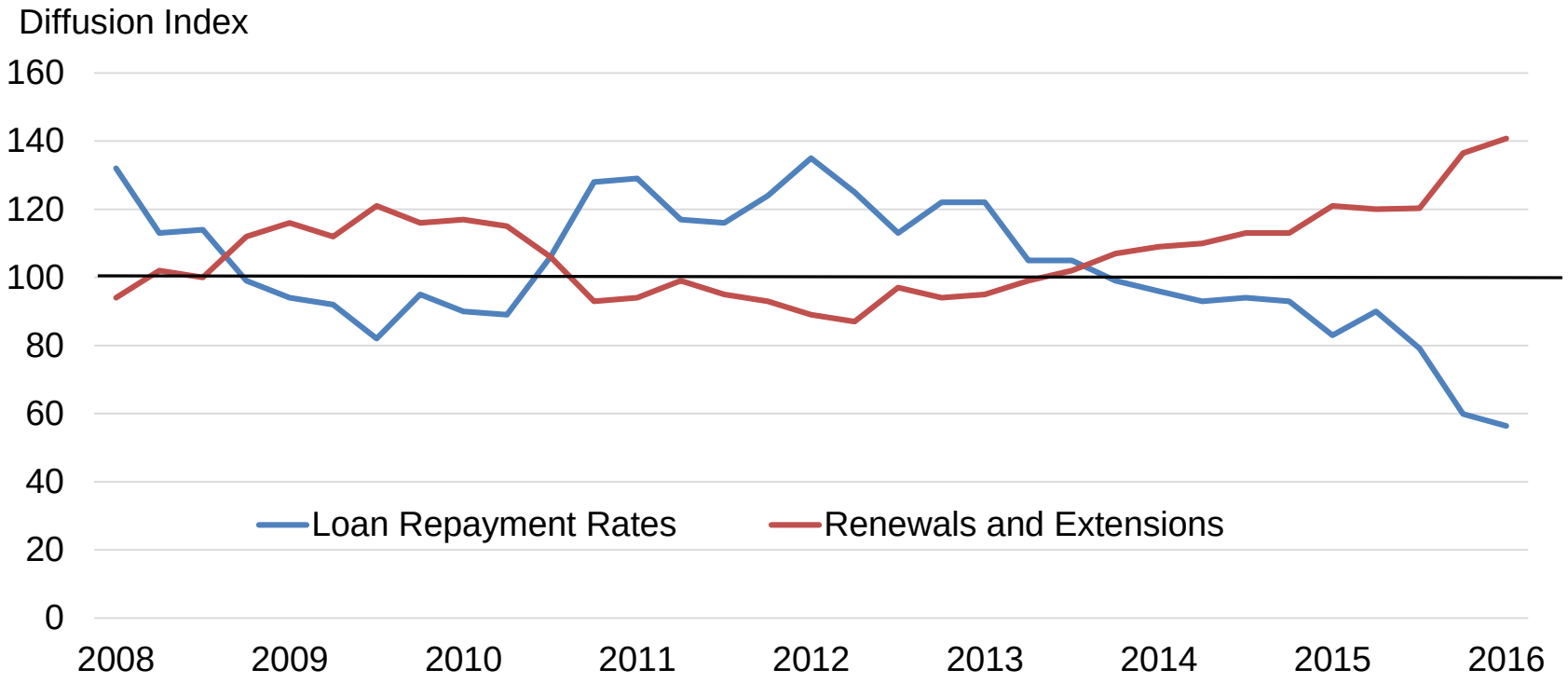
Borrowers with an increase in carryover debt, 1st quarter (percent*)




* Average response of banks in each region.
** Mountain States include Colorado, northern New Mexico and Wyoming.

Source: Ag Credit Survey, Federal Reserve Bank of Kansas City

# Commercial banks show signs of emerging credit issues




Source: Ag Credit Survey, Federal Reserve Bank of Kansas City

# Risks to watch

- Growing conditions this summer
- Interest rates
- Strength of the dollar
- Deteriorating agricultural credit quality
- Market response to U.S. presidential election
- Geopolitical developments

# Questions

**THANK YOU**

# Farm Credit System Condition and Performance

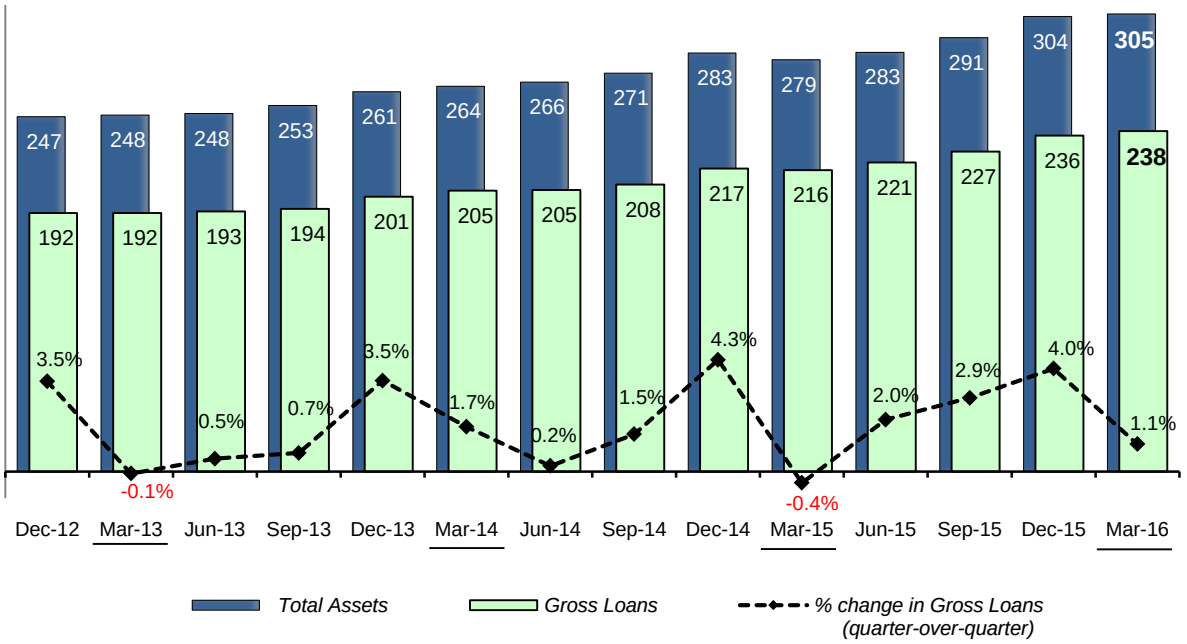
## as of March 31, 2016

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

# Topics

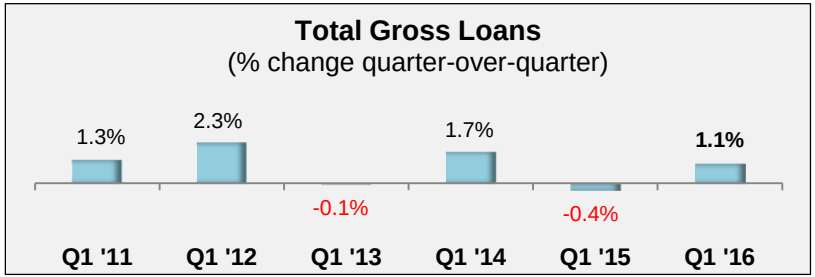
- System Growth
- Loan Portfolio
- Earnings
- Capital
- FIRS

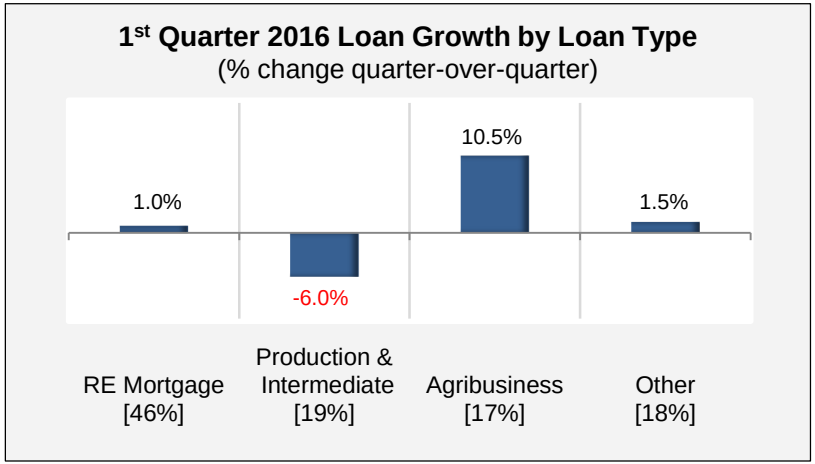
# Balances inch higher in the 1st quarter




Source: FCS Quarterly Information Statements

# Loan growth influenced by seasonal factors




**Loan Growth by District** (% change quarter-over-quarter)

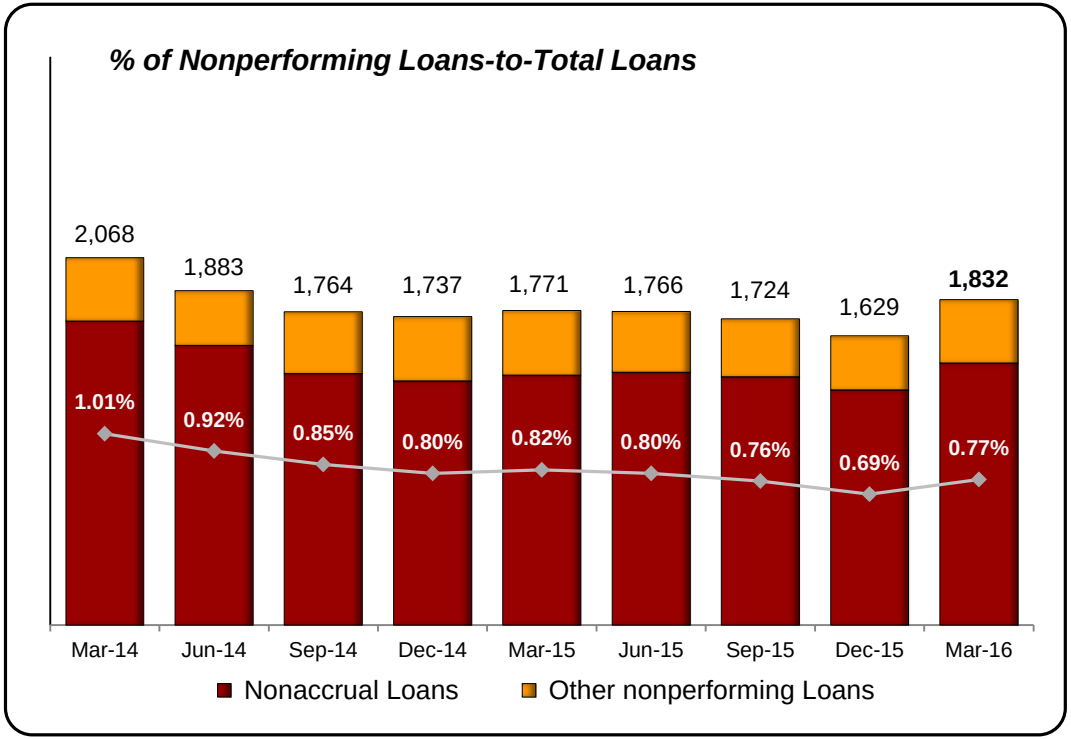
| District | Mar-14 | Mar-15 | Mar-16 |
|---|---|---|---|
| **AgFirst District** (11%) | -0.2% | -1.0% | **0.3%** |
| **AgriBank District** (39%) | -1.1% | -1.9% | **0.3%** |
| **CoBank District** (41%) | 5.2% | 0.8% | **2.0%** |
| **Texas District** (9%) | 1.3% | 1.6% | **2.3%** |
| **Total System** | 1.7% | -0.4% | **1.1%** |

Source: FCS Quarterly Information Statements

# Portfolio credit quality continues to be strong; risk measures edge upwards

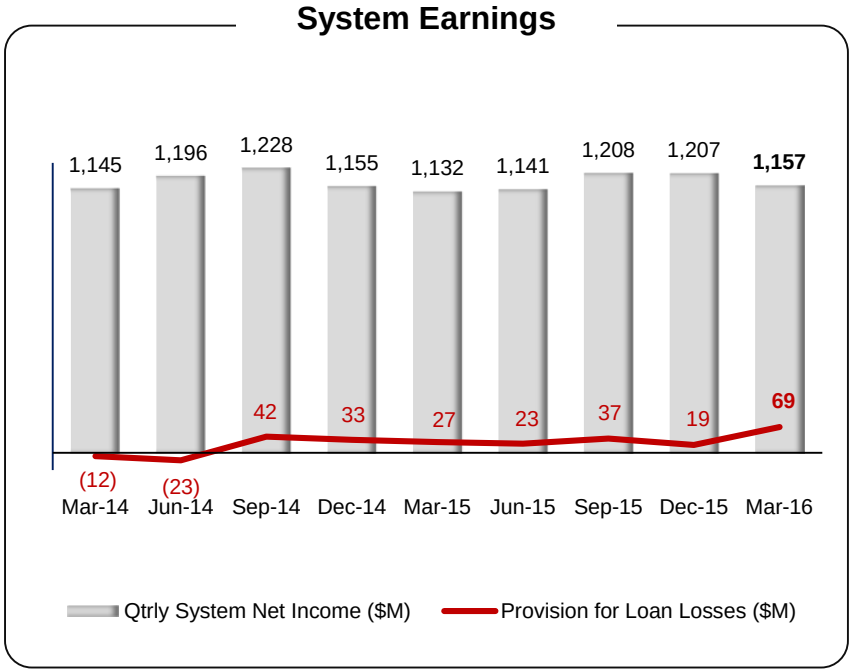
**Portfolio Credit Quality**
as of March 2016

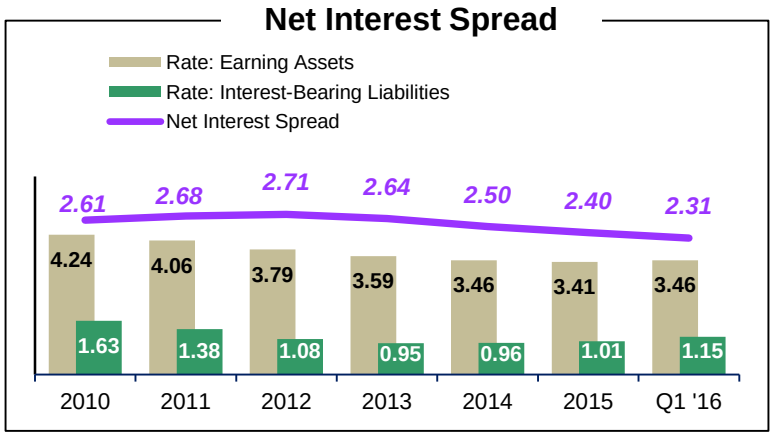
- Nonperforming loans equaled 0.77% of System loans outstanding
- Over 95% of System loans were classified as Acceptable
- Loan delinquencies were 0.32% of accruing loans
- The System's allowance for loan losses equaled 74% of nonperforming loans
- Total capital and the allowance for loan losses represented 21.6% of System loans at quarter-end

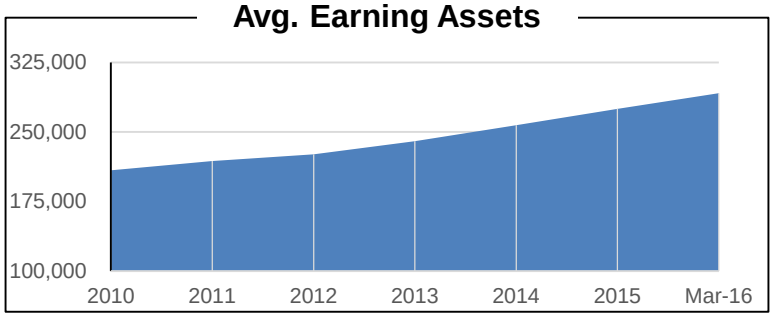



Source: FCS Quarterly Information Statements

# System reports solid 1st quarter financial results



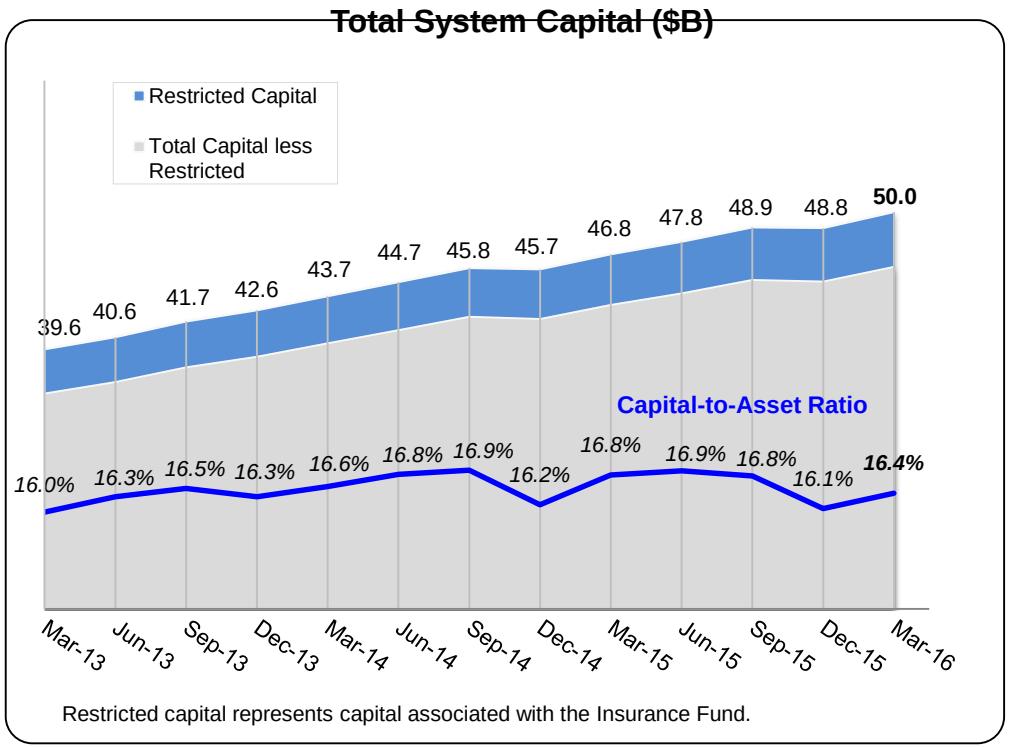




Source: FCS Quarterly Information Statements

# Strong earnings support continued growth in capital

**Capital and Liquidity**
as of March 2016

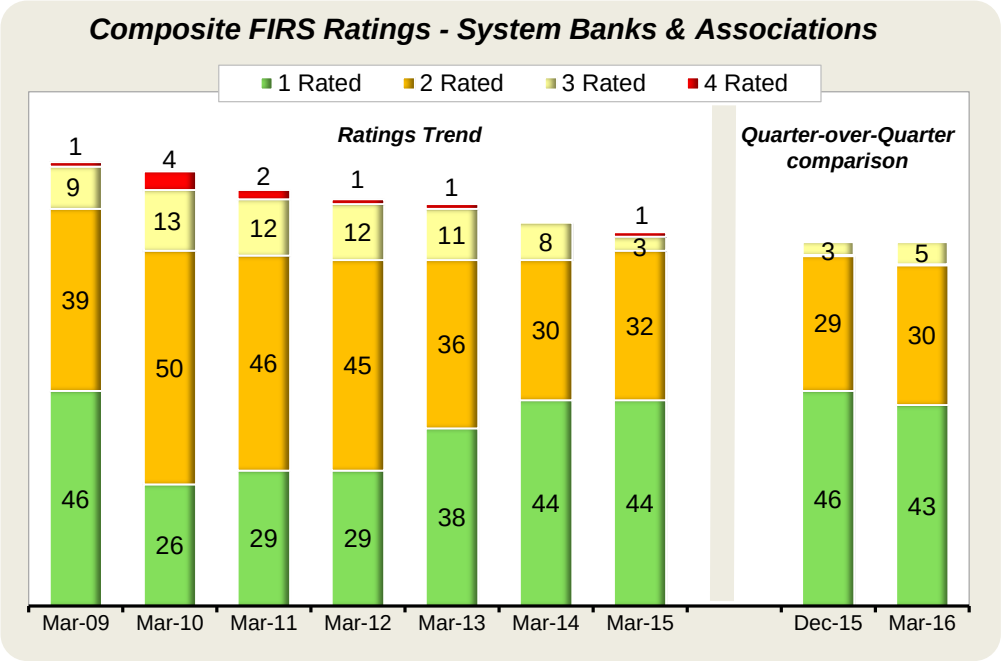
- System capital as a percentage of total assets was 16.4% compared to 16.1% at year end 2015
- Surplus as a percentage of total capital equaled 82.4%
- System liquidity equaled 172 days of coverage. Days of available liquidity for the four funding banks ranged from 144 days to 216 days.




Restricted capital represents capital associated with the Insurance Fund.

Source: FCS Quarterly Information Statements

# System FIRS ratings




## FIRS Ratings

- Composite FIRS ratings slip compared to the previous quarter
- 94% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated institutions account for less than 1.2% of total System assets

Source: FCA's FIRS ratings database

# Summary and final points

- Challenges for agriculture:
  - General economic factors – *lackluster economic growth in the U.S. and abroad, strong dollar, rising interest rates*
  - Farm sector concerns – *stress on cash grain producers, Midwest farmland values, shrinking margins for dairy and protein sectors*
- The System continues to be safe and financially sound
- Portfolio credit risk remains low but loan quality expected to deteriorate
- System institutions remain well-positioned for the current risk environment with favorable earnings and strong capital levels

# Questions

**THANK YOU**