



FCA Board Meeting June 2020

Quarterly Report on FCS Condition June 11, 2020

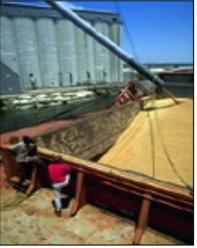
**Dennis A. Shields
Hal Johnson**

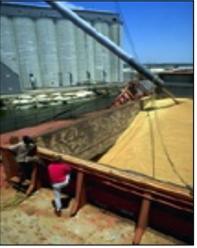




Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Economic indicators
 - Commodities and trade
 - Government response for agriculture sector
- ▶ FCS Condition and Performance
 - System growth and loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields

Chief Economist

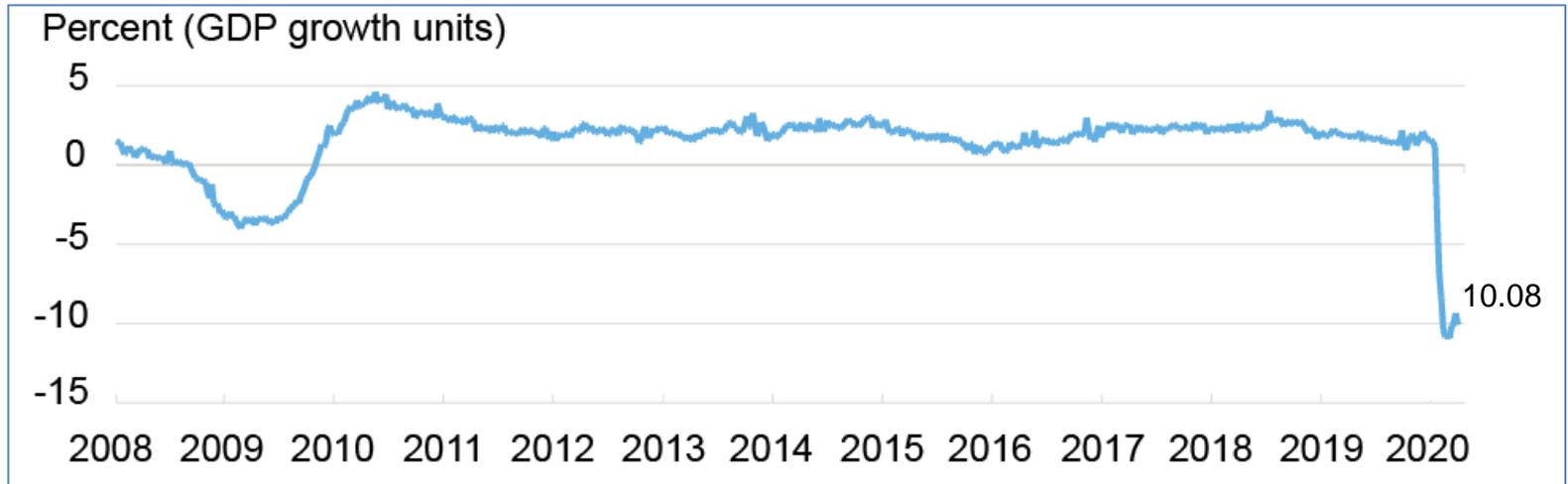
Office of Data Analytics and Economics



U.S. economy appears to turn the corner after steep contraction



Weekly Economic Index



Source: Federal Reserve Bank of New York, <https://www.newyorkfed.org/research/policy/weekly-economic-index>.



High unemployment rate edged lower in May

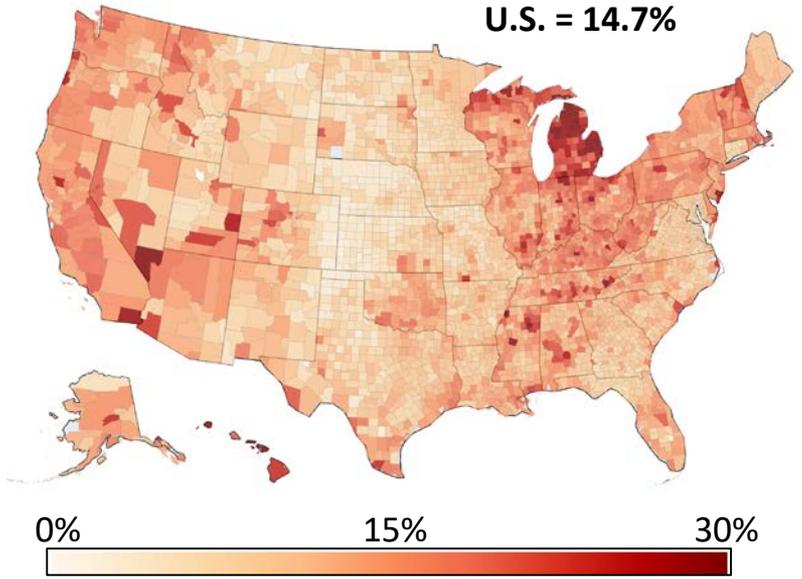


	Feb 2020	April 2020	May 2020
Employed	158.8 mil.	133.4 mil.	137.2 mil.
Unemployed	5.8 mil.	23.1 mil.	21.0 mil.
Unemploy. rate	3.5%	14.7%	13.3%

Unemployment insurance claims for 11 weeks through 5/30 were approximately 42.6 million.

Personal income in April rose 10.5% from the previous month, after falling 2.2% in March. Increases in government social benefits more than offset decreases in other sources of income.

Unemployment rate by county in April 2020



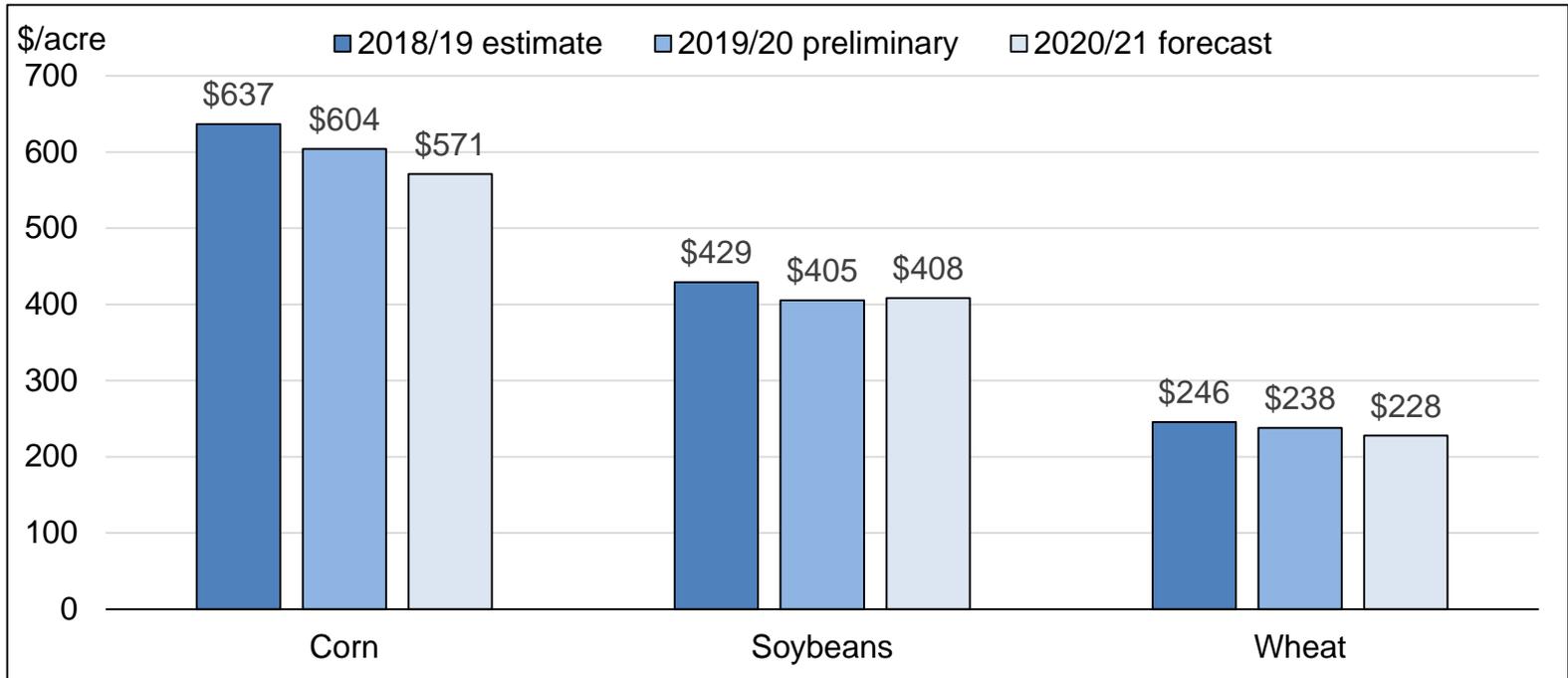
Source: FCA analysis of U.S. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empsit.a.htm>;
 insurance claims from <https://www.dol.gov/ui/data.pdf>; personal income from <https://www.bea.gov/news/2020/personal-income-and-outlays-april-2020>.



Crop returns will be under pressure in 2020/21



Market returns in \$ per acre



Source: Data from May 2020 WASDE, USDA.

Note: Market return equals season-average farm price times average U.S. yield.



Livestock sector contends with major processing disruption, but low corn prices help

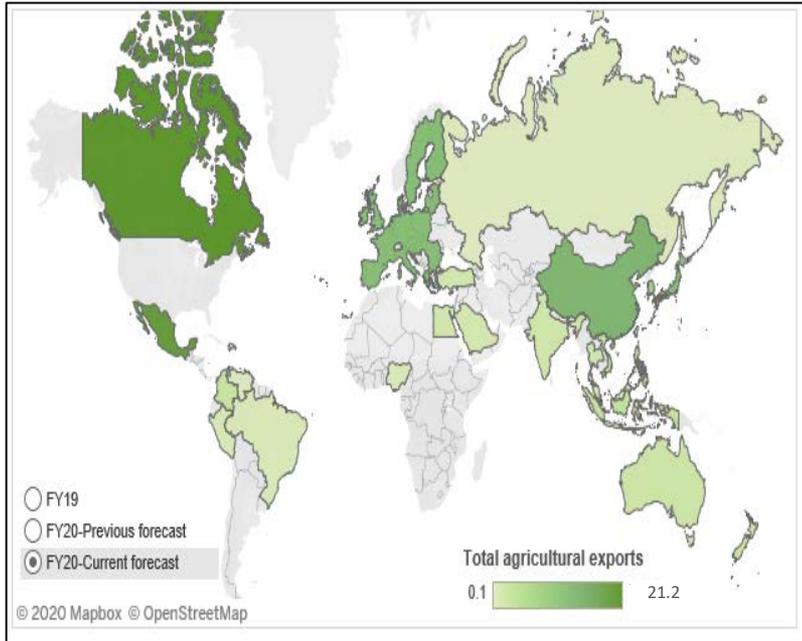
- ▶ Livestock prices have rebounded some in recent weeks, but challenges remain with processing backlogs and uncertain demand prospects.
- ▶ Cow-calf margins for 2020 will hinge on calf prices this fall (supported by low corn prices) and pasture conditions (dry in parts of the Plains and West).
- ▶ Feedlots are weathering the backlog of cattle; returns are highly mixed: hedged cattle are turning profits in June while unhedged animals are losing money.
- ▶ Hog margins were negative for every week of April, with producers losing \$20 per head. Breeding herd liquidation will reduce market hog supplies later this year.
- ▶ Dairy margins deteriorated quickly with negative returns in April and May not seen since 2009 or 2012. Margins are expected to remain in the red through at least June.
- ▶ For broilers, prices for major cuts and whole birds have generated weak margins. A low feed cost environment benefits broiler integrators.





U.S. agricultural export expectations have downshifted in the wake of COVID-19

Fiscal year U.S. agricultural exports (\$ bil.)



	2019	2020 forecast	
	Actual	Issued in February	Issued in May
Canada	\$20.9	\$21.5	\$21.2
Mexico	\$19.0	\$19.8	\$19.8
China	\$10.1	\$14.0	\$13.0
Europe	\$13.2	\$12.9	\$12.1
Japan	\$12.1	\$12.0	\$12.0
World	\$135.5	\$139.5	\$136.5

Source: USDA/ERS.

Note: Forecast as of May 29, 2020.



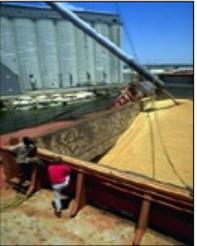


USDA's Coronavirus Food Assistance Program (CFAP) will bolster farm income in 2020

- ▶ CFAP delivers \$16 billion in direct payments to producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19.
- ▶ Not all producers will receive payments – based on inventory and sales in certain periods of early 2020.

Commodity	Beef cattle	Dairy	Hogs	Non-specialty crops	Specialty crops	Other sectors
CFAP amount	\$5.1 bil.	\$2.8 bil.	\$1.6 bil.	\$3.5 bil.	\$2.4 bil.	\$0.7 bil.
Approx. % of 2019 cash receipts	7.5%	7.0%	6.9%	4.8%	3.1%	not avail.

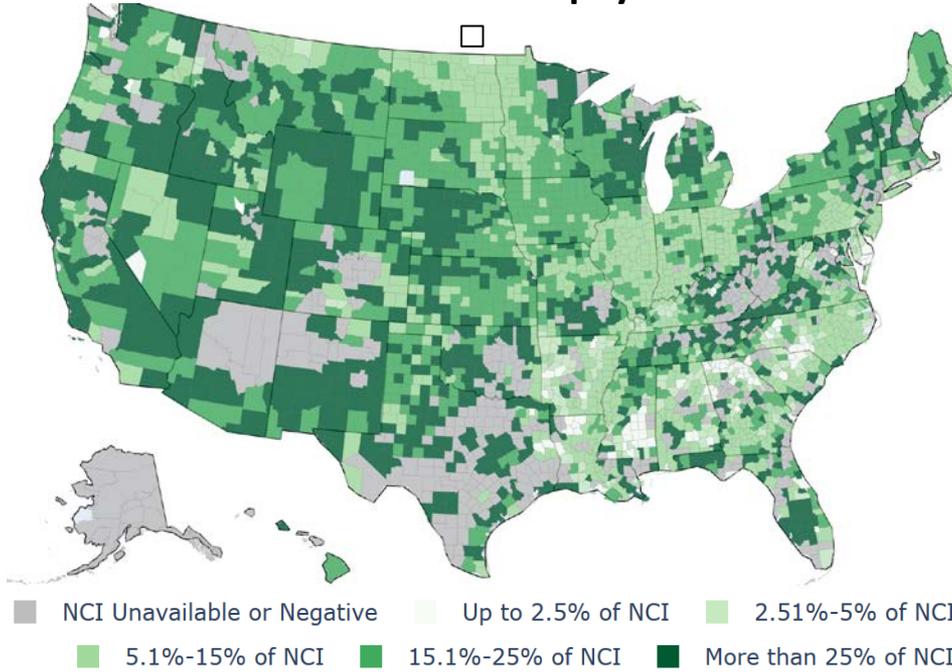
- ▶ \$3 billion in purchases for distribution of fresh produce, dairy, and meat products through food banks and others.





CFAP payments represent sizable support for U.S. farm sector

Ratio of estimated 2020 CFAP payments to net cash income (NCI)



FCS district footprint using county estimates	Ratio of CFAP payments to net cash income
AgFirst	9%
AgriBank	16%
Texas	22%
CoBank	24%
U.S. total	18%

Source: FCA analysis of USDA national payment estimates by commodity, and USDA production, acreage, and inventory statistics; net cash income from 2017 Census of Agriculture. Note: Excludes payments to “other sectors.” 10



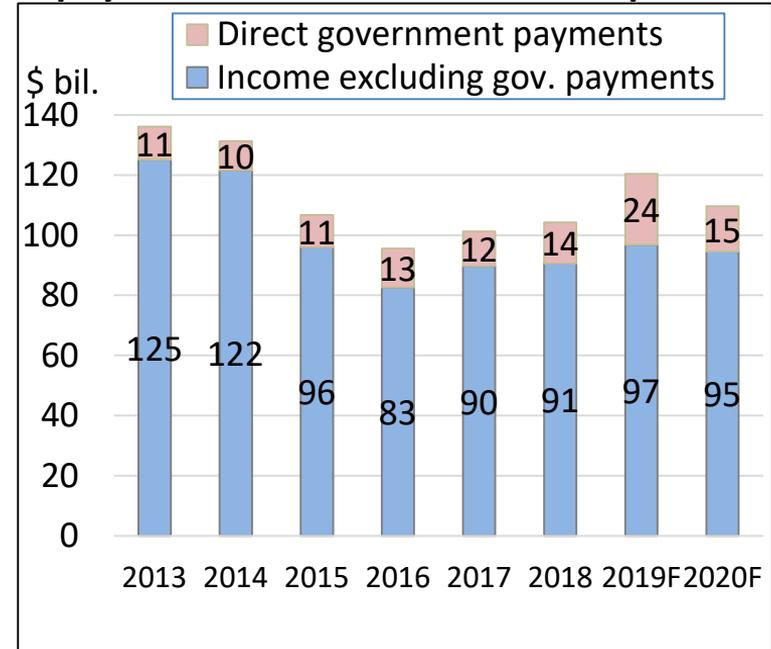


CFAP will double the amount of government payments to farm sector in 2020

- ▶ Prior to COVID-19, USDA expected \$15 billion in government payments for 2020.
- ▶ With CFAP, the farm sector will receive an additional \$16 billion in government payments.
- ▶ Net effect on total farm income will depend on impacts from reduced farm prices on cash receipts during the rest of 2020.
- ▶ A potential “Round 2” of CFAP could offset more market losses.



Net cash farm income excluding 2020 CFAP payments and COVID market impacts



Source: USDA/ERS, February 5, 2020.



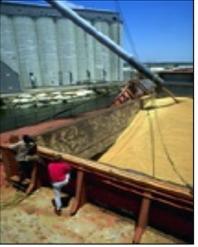
Concluding comments

- ▶ Economic recovery is underway and consumers are re-emerging; negative impacts continue for off-farm income prospects.
- ▶ Food system is adjusting and regaining its footing.
- ▶ Some commodity futures prices have returned to early March levels; notable exceptions include corn and hogs.
 - Major crop supplies remain plentiful and markets are weak; producers will continue to depend on regular farm program payments and additional assistance enacted this spring (and possibly this summer).
 - Protein sector is recovering from an epic disruption; export demand is relatively good for pork; foodservice demand is picking up.
 - For specialty crops, availability of farm workers is a concern.
- ▶ Government payments will support many producers in 2020.

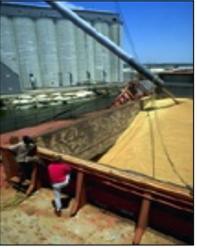




Questions



THANK YOU



Farm Credit System Condition and Performance

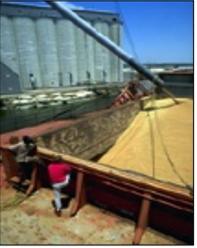
as of
March 31, 2020

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Portfolio credit quality
- ▶ Earnings
- ▶ Capital | Liquidity
- ▶ FIRS

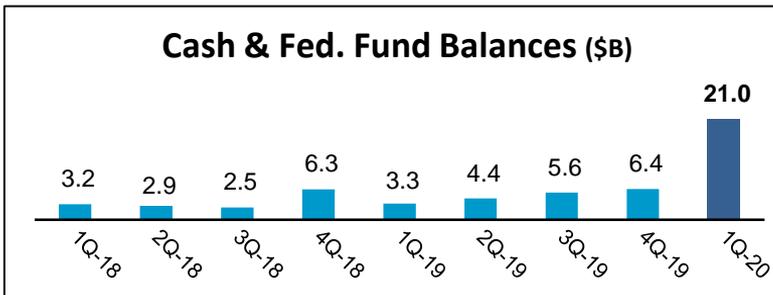
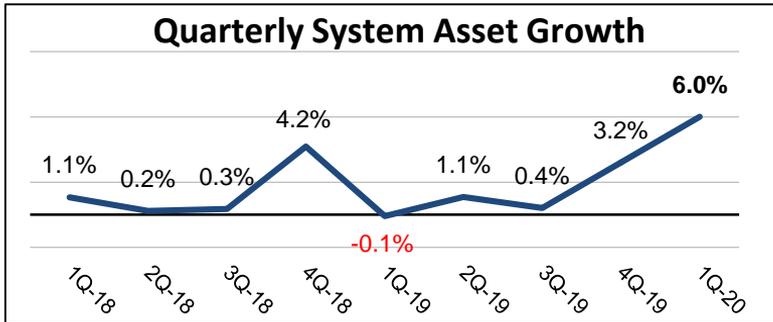




System assets grew by 6% in 1st quarter as Banks build liquidity levels

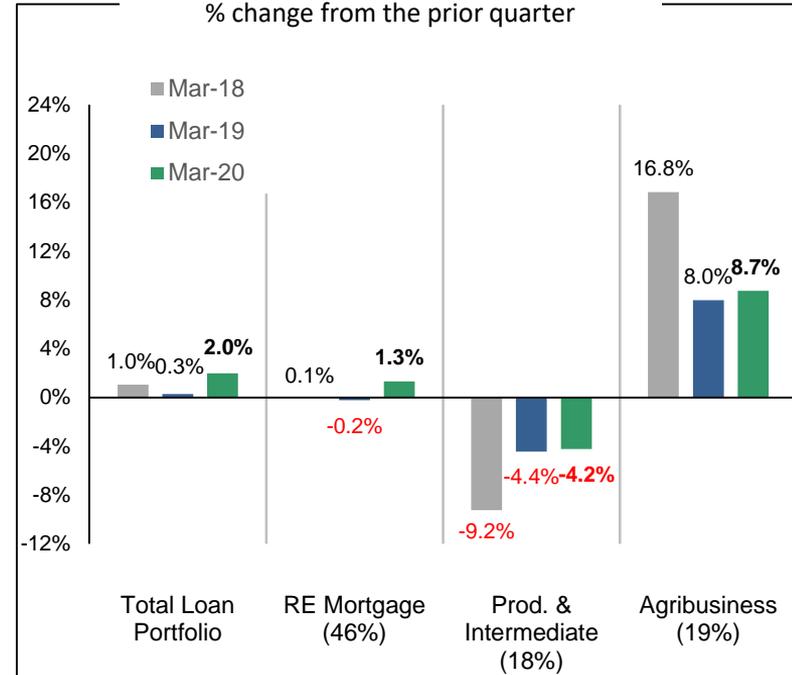


Total Assets 3/31/20	\$387.3	+6.0% Qtr	Gross Loans 3/31/20	\$292.6	+2.0% Qtr
	billion	+11.1% 12M		billion	+6.7% 12M



Loan Growth by Loan Type

% change from the prior quarter



Source: FCS Information Statements

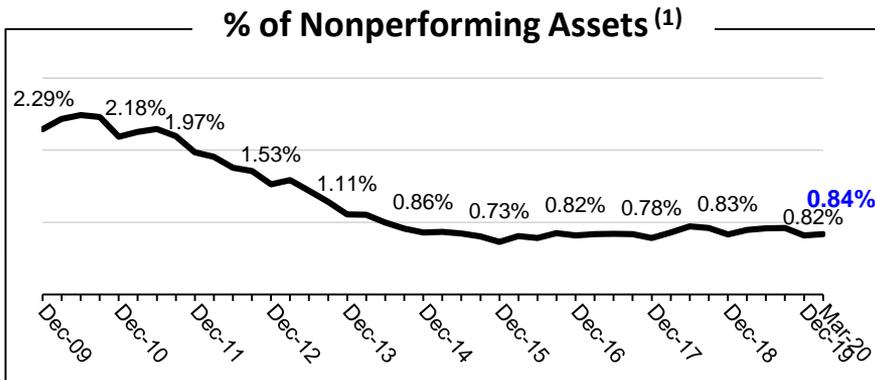


Credit risk indicators largely unchanged in the 1st quarter; COVID-19's impact not yet evident



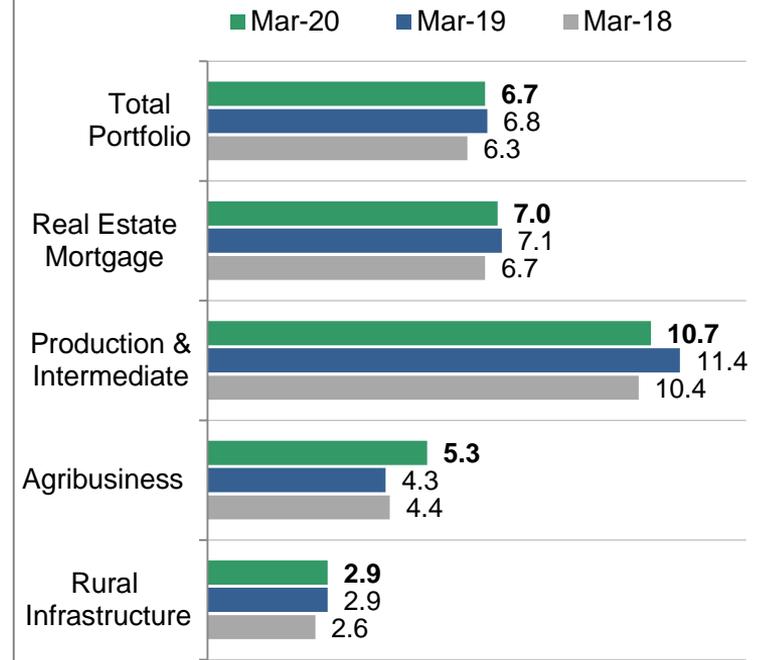
Nonperforming Assets (3/31/20)	\$2.451 billion	Qtr Chg. + \$104M or +4.4%
		12 Mnth Chg. Unchanged
Delinquencies ⁽¹⁾ (3/31/20)	0.46%	Q4 '19 0.30%
		Q1 '19 0.48%

(1) accruing loans 30 days or more past due as a % of accruing loans



(1) calculated as a percentage of gross loans outstanding and other property owned (OPO)

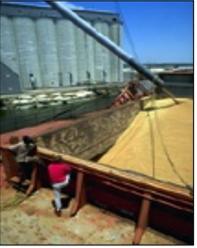
% of Loans Classified less than Acceptable



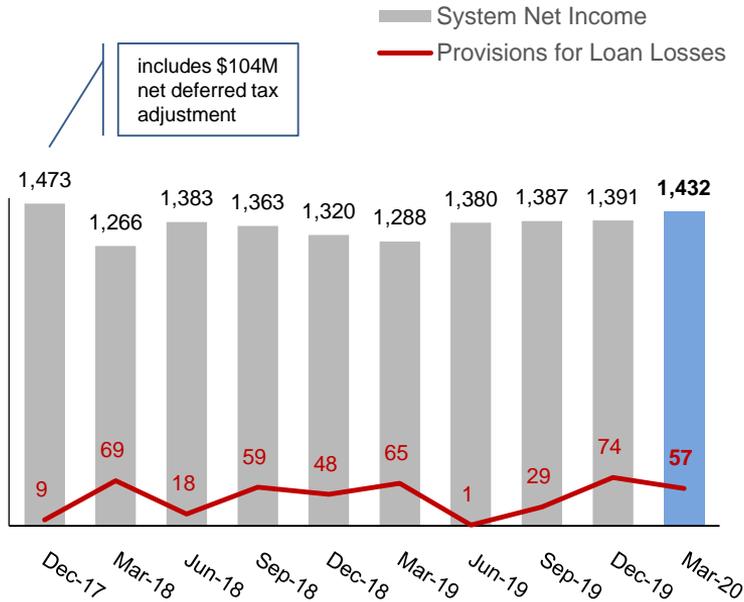
Source: FCS Information Statements



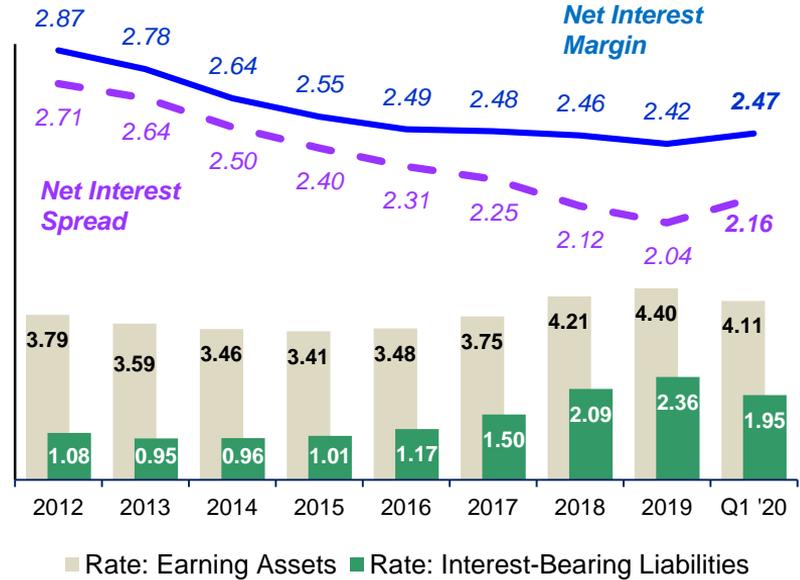
System reported strong 1st quarter earnings



Quarterly System Earnings (\$M)



Net Interest Spread | Net Interest Margin



Source: FCS Information Statements



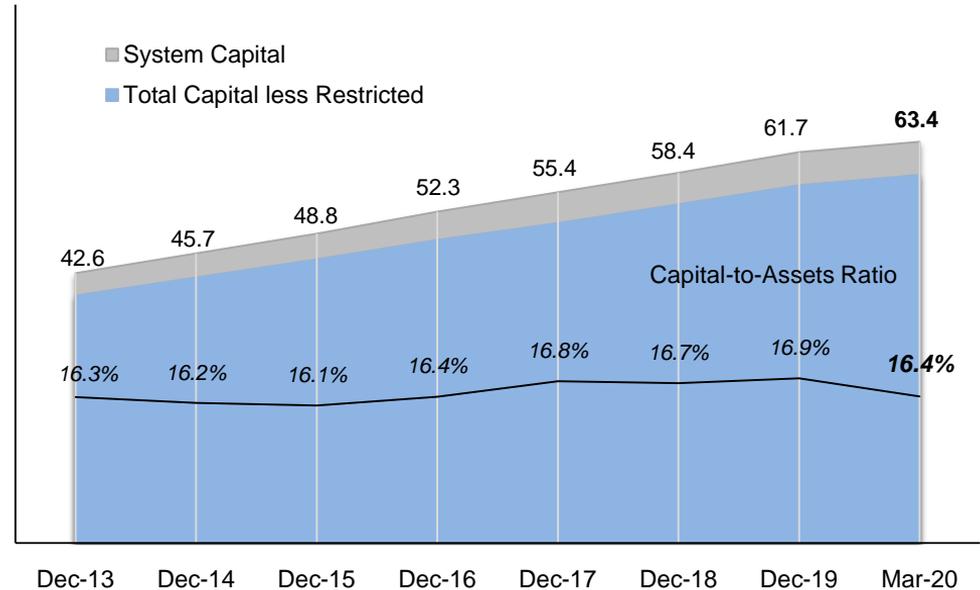
Continued capital growth; strong liquidity

Capital and Liquidity

(as of March 31, 2020)

- ▶ Total Regulatory Capital levels:
Banks | 15.2% to 18.1%
Associations | 12.6% to 38.2%
- ▶ Days of available liquidity for the 4 funding banks ranged from 163 to 240 days
- ▶ Capital and the Allowance for Loan Losses as a % of loans for the combined districts ranged from 18.1% to 22.6%

Total System Capital (\$B)



Note: Restricted capital represents capital associated with the Insurance Fund.

Source: FCS Information Statements



System FIRS ratings

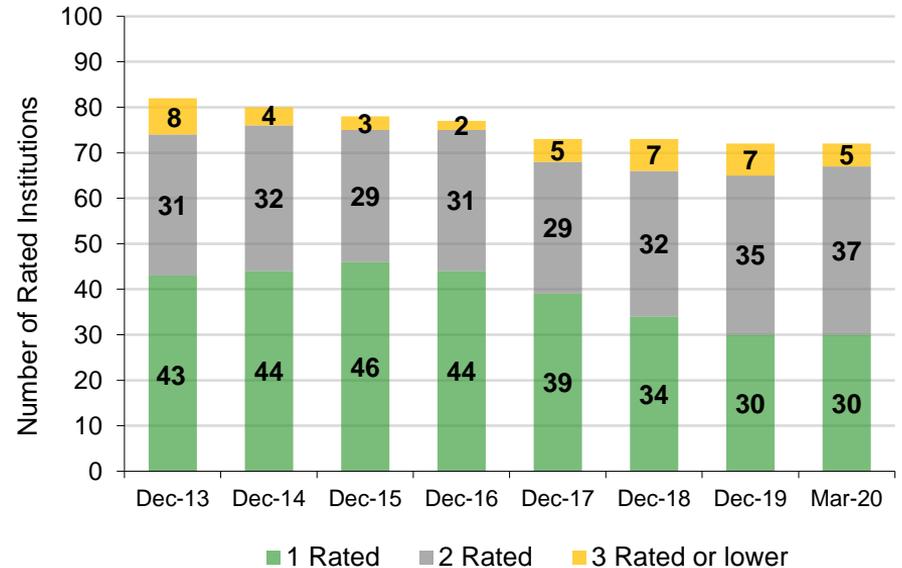


FIRS Ratings

(based on 3/31/20 financial reporting)

- ▶ Composite FIRS ratings are a reflection of the System's strong financial position and acceptable portfolio credit quality
- ▶ Over 90% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower account for less than 1.5% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



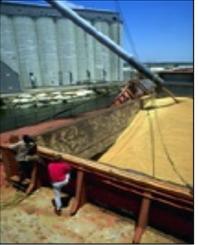
Summary and final points

- ▶ COVID-19 has had a profound and far-reaching impact on the U.S. economy.
- ▶ Agricultural producers are facing extremely challenging and volatile market conditions.
- ▶ Although the effect of current events was not yet evident in the 1st quarter, a broad range of agricultural sectors are under significant stress.
- ▶ System institutions are financially sound, strongly capitalized, and well-positioned to continue to support U.S farmers and ranchers.





Questions



THANK YOU