



For Immediate Release
NR 17-05 (03-09-17)

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FCA Board Receives Report on Farm Credit System Funding Conditions

McLEAN, Va., March 9, 2017 — The Farm Credit Administration board received a report on the Farm Credit System's (FCS or System) funding conditions. The report discussed recent factors impacting the overall \$2 trillion agency debt market.

Both the System's debt volume outstanding and its portion of the agency debt market have been growing steadily. As of Dec. 31, 2016, the System's \$258 billion in debt outstanding represented 13 percent of the agency debt market.

The report discussed how various factors have affected the cost of System debt, the processes it uses to issue debt, its ability to issue debt, and investor sentiment toward System debt. These factors include domestic and foreign monetary policies, recently implemented financial regulations, and the System's long-standing strong financial performance.

The report discussed trends in the System's interest rate spreads, the maturity profile of its outstanding debt, and the composition of its debt portfolio. It also discussed the composition of the System's investment portfolio, the primary purpose of which is to provide a ready source of liquidity in case the System's access to the debt market is interrupted.

According to the report, FCS debt yields have increased since December 2015 when the Federal Reserve increased the federal funds target range from the level set in December of 2008.

However, substantial volatility in 2016 gave the System the opportunity to exercise call options on \$58 billion of callable debt, which was \$5 billion more than the two previous years combined. Despite this sizeable spike in call volume, the System's net interest spread continued to decrease because of competitive pricing pressures on its assets.

Because the System's condition and performance remained solid in 2016, the System enjoyed favorable risk premiums on the debt it issued to investors. In addition, these risk premiums remained fairly constant even as FCS debt yields generally increased.

Notational Votes

Since the February FCA board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA board between board meetings.

- On Feb. 16, the board granted preliminary approval of the proposed plan of merger of Badgerland Financial, ACA, and its wholly owned subsidiaries, and 1st Farm Credit Services, ACA, and its wholly owned subsidiaries, with and into AgStar Financial Services, ACA, and its wholly owned subsidiaries. The continuing association will be renamed Compeer Financial, ACA, with subsidiaries Compeer Financial, PCA, and Compeer Financial, FLCA. The board's approval is subject to certain conditions. If the voting stockholders of the three associations vote to approve the plan of merger and all conditions for final approval are met, the merger will take effect on July 1, 2017.
- On March 6, the board granted preliminary approval of the proposed plan of merger of United FCS, ACA, and its wholly owned subsidiaries, with and into AgCountry Farm Credit Services, ACA, and its wholly owned subsidiaries. The continuing association will be AgCountry. The board's approval is subject to certain conditions. If all requirements for the final approval are satisfied, the merger will take effect on July 1, 2017.
- On March 8, the board removed the regulatory capital conditions and limitations it had previously imposed on System institutions' outstanding issuances of preferred stock and subordinated debt to outside investors (i.e., investors other than the cooperative member-borrowers of the institutions) and confirmed the regulatory capital treatment of these issuances under FCA's new tier 1/tier 2 capital rule. The new capital rule became effective on Jan. 1, 2017.

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The Farm Credit Administration is the safety and soundness regulator of the Farm Credit System. The System consists of two government-sponsored enterprises — a nationwide network of cooperative banks and associations established in 1916, and a secondary market entity known as the Federal Agricultural Mortgage Corporation (Farmer Mac) that was established in 1988. The System's borrower-owned banks and associations provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible and creditworthy borrowers. Farmer Mac provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA board are Dallas P. Tonsager, board chairman and CEO; Jeffery S. Hall; and Kenneth A. Spearman.

Note: FCA news releases are available on the web at www.fca.gov.