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FCA board receives reports on Building Association financial audit, Farm Credit System funding activities, and FCA guidance

McLEAN, Va., May 14, 2020 — In its second virtual monthly meeting, the Farm Credit Administration board today received an auditor's report on the 2019 financial statements of the FCS Building Association. Cherry Bekaert LLP, an independent auditing firm, provided an unqualified opinion of the Building Association's financial statements for the years ended Dec. 31, 2019 and 2018.

According to the report, the Building Association's financial statements present fairly, in all material respects, the financial position of the FCS Building Association as of Dec. 31, 2019 and 2018, and the results of its operations and its cash flows for those years conformed with accounting principles generally accepted in the United States.

Report on the funding activities of the Farm Credit System

In other business, the board received an [update \(PDF\)](#) on the Farm Credit System's funding activities. According to the update, the System had \$314 billion in debt outstanding as of April 30, amounting to a 6.8% increase from year-end 2019. The System's share of the nearly \$2 trillion agency debt market was just under 16%, ranking second only to the Federal Home Loan Bank System, which held the dominant share at 56%. The update also discussed the following topics:

- The System's cost of debt, risk premiums, and various aspects of its debt portfolio, including composition, maturities, and callable activities for the first four months of 2020
- The System's investment holdings in terms of days of liquidity and composition (These investments provide the primary funding backup if the System's access to the debt market is interrupted.)
- The System's financial performance in the first quarter of 2020
- Impacts of the coronavirus on debt markets

The dominant influence on funding conditions in 2020 has been the rapid global spread of the coronavirus. The economic effects of the pandemic drove global debt yields and

equity markets down sharply, inducing a significant amount of volatility that severely constrained liquidity and the functioning of financial markets.

To try to counter these far-reaching impacts, the Federal Reserve cut the target range for the federal funds rate twice, on March 3 and 16, to a target range rate of 0% and 0.25%, respectively. Both cuts were unprecedented in that they occurred between meetings of the Federal Open Market Committee.

In addition, the Federal Reserve has announced numerous, in many cases unprecedented, other actions to facilitate the return of normal debt market functioning. Other central banks have joined the Federal Reserve in taking similar monetary policy actions. Also, significant fiscal stimulus actions have been implemented by the U.S. government.

The System's condition and performance has been solid since the end of 2019. Overall FCS debt yields have decreased substantially. The risk premiums required by investors for System debt remained generally favorable although they increased notably for longer-term debt maturities.

The Federal Reserve's actions in 2020 provided pronounced opportunities to exercise call options on the System's callable debt. As a result, the System has already exercised \$53 billion in call options to issue lower-cost debt, compared with \$54 billion during all of 2019. These actions have reduced the System's cost of debt, which in turn enhanced the System's net interest spread and net interest margin during the first quarter of 2020. As a result, the System's net income increased compared to the first quarter of 2019.

Report on COVID-19 guidance and the Paycheck Protection Program

The board also received a staff report on guidance the agency has provided to help System institutions respond to the COVID-19 pandemic, which has created some difficult challenges for farmers and ranchers and the System institutions that serve them.

In response, FCA has been providing regular guidance to System institutions. This guidance, which is posted on the [COVID-19 page](#) of the FCA website, enables institutions to better focus on serving farmers, ranchers, and other borrowers while still ensuring the safety and soundness of the System.

The report included an update on the System's participation in the Paycheck Protection Program, which was established by the U.S. Small Business Administration to authorize forgivable loans to small businesses to support payroll and certain other needs during the pandemic. The [Paycheck Protection Program page](#) on the FCA website answers System questions and provides guidance to help institutions make loans through the program.

Since the last board meeting, Congress has provided an additional \$310 billion for the Paycheck Protection Program. It is expected that System institutions will make approximately \$1 billion in loans through this program.

Closed session

During the closed session, the FCA board received a periodic report from the Office of Secondary Market Oversight.

Notational vote

Since the April 16 FCA board meeting, the following notational vote has occurred. Notational votes are actions taken by the FCA board between board meetings.

On May 8, the FCA board approved a request by CoBank, ACB, for a streamlined approval process that allows the bank to invest in certain healthcare-related bonds for a one-year period. The bonds must involve facilities in rural areas that have met the USDA's definition of an "essential community facility." The approval is subject to conditions, including a total limit of \$200 million in bonds.

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