FCA board receives quarterly report on conditions in agriculture and the Farm Credit System

McLEAN, Va., June 11, 2020 — At its monthly meeting today, the Farm Credit Administration board received a quarterly report on economic issues affecting agriculture, together with an update on the financial condition and performance of the Farm Credit System (System) as of March 31, 2020.

The U.S. economy appears to have turned the corner following its steep and rapid contraction following the COVID-19 outbreak. April’s high unemployment rate edged down slightly in May, and weekly initial unemployment claims continue to decline. Local economies have started to reopen, but the eventual economic rebound depends on the trajectory of the ongoing health crisis and consumer behavior.

For agricultural producers, market volatility has been high for both crop and livestock sectors. Crop returns continue to be under pressure this year because of plentiful supplies and expected strong production. The livestock sector has seen the most disruption during the crisis, but low corn prices have helped reduce feed expenses. The loss of restaurant and food service demand and livestock processing capacity disruptions lowered prices across the livestock marketing chain.

Commodity prices are rebounding somewhat as the food system adjusts and regains its footing. However, challenges remain with processing backlogs, continued cases of COVID-19 among farm and food processing workers, and uncertain demand prospects.

In the wake of the global COVID-19 outbreak, export expectations have weakened, particularly for bulk commodities such as soybeans, cotton, corn, and wheat. While exports of meat, particularly pork, have held up well so far this year, demand questions remain because of persistent trade tensions despite the agreement signed with China earlier this year.

Established farm support programs provide a safety net that works to varying degrees for different commodities. To supplement these programs, Congress and the USDA have provided additional support to the ag sector through the Coronavirus Food Assistance Program. This program will double the amount of expected government payments to the
farm sector in 2020. Direct payments of $16 billion have been designated to compensate for losses due to price declines and spoiled products. Payments will be based on inventory and sales in certain periods of early 2020, although not all producers will benefit.

As of March 31, 2020, the System was safe and financially sound. Portfolio loan quality remained largely unchanged since current events did not materially affect first quarter results. Strong quarterly earnings continued to support additional capital growth. The System also took actions to boost liquidity levels because of the volatility and uncertainty in the debt capital markets.

**Semiannual report on Office of Examination operations**

The board also received the semiannual report on Office of Examination operations. During the first six months of fiscal year 2020, FCA examiners conducted on-site activities at all 4 System funding banks, 45 associations, and 2 other related entities.

**Closed session**

During the closed session, the FCA board received a quarterly report from the Office of Examination.

**Notational vote**

Since the May 14 FCA board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA board between board meetings.

On May 28, the FCA board voted to adopt a 0% risk weight for loans that System institutions make through the Paycheck Protection Program (PPP). The board also approved removing PPP loans pledged to the Federal Reserve’s PPP Liquidity Facility from the tier 1 leverage ratios of System institutions. (See the informational memorandum supplement (PDF) issued on June 4.)

On June 1, the FCA board voted to extend its regulatory pause until at least July 10 to ensure that System institutions and FCA staff continue to focus all efforts on responding to the COVID-19 pandemic and to fulfilling their mission. (See the June 4 informational memorandum (PDF).) This pause means that the publication of the following rules, which were approved at the February board meeting, will be delayed until at least July 10:

- Proposed rule: Amendments to the tier 1/tier 2 capital framework
- Final rule: Criteria to reinstate nonaccrual loans
- Final rule: Eligibility criteria for outside directors

On June 8, the FCA board voted to authorize the chief financial officer to reduce the FY 2020 assessment by $3 million and to reallocate funds within the FCA budget to provide for expected leave liability, fund contractual services, provide for replacement equipment, and provide funds related to legal matters.

On June 9, the board approved delegating to the director of the Office of Regulatory Policy the authority to approve or deny new requests by System associations to purchase, in the secondary market, portions of loans fully and unconditionally guaranteed by USDA. The
board also authorized the director to extend existing approvals either until Dec. 31, 2020, or until a final rule on this topic would become effective, whichever would occur earlier.

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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.