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

McLEAN, Va., April 14, 2022 — At its monthly meeting today, the Farm Credit Administration board received a quarterly report (PDF) on economic issues affecting agriculture, together with an update on the financial condition and performance of the Farm Credit System (System) as of Dec. 31.

The U.S. economy is experiencing its highest annual inflation in 40 years, driven by energy, shelter, vehicles, and food. The Federal Reserve has started to raise interest rates to try to curb inflation and is expected to begin reducing its balance sheet soon.

The war in Ukraine is impacting the U.S. economy through several channels. Although oil prices were already rising before the invasion, the invasion caused oil prices to jump. The United States and several other countries have banned oil imports from Russia, and several major oil companies have pulled out of the country. The cost and availability of fertilizer, which were already issues before the invasion of Ukraine, have also worsened because Russia is a major exporter of fertilizer, ammonia, and natural gas.

Grain markets have been impacted by both global and domestic factors. Russia and Ukraine are major exporters of wheat and corn, and both markets have been impacted. Ukraine is facing disruptions to planting and harvesting, and all its ports remain closed. Corn prices are at their highest point since 2013. Wheat prices jumped at the start of the war; prices have partially come down, but volatility remains high.

Drought in the western United States is also pressuring wheat prices, with the most recent crop progress report showing a significantly lower percentage of winter wheat rated good to excellent compared with the same time last year. California agriculture is also being impacted, with state water allocations expected to be cut to zero for the first time since 2014. In addition, pasture conditions and hay stocks are becoming an increasing concern for cow/calf producers.

Livestock margins are favorable but are squeezed by higher feed costs. Going forward, margins will also depend on factors such as drought, trade, and inflationary pressures on consumers.

The System reported strong financial results in 2021, with solid loan growth, higher earnings, and increased capital. (See the latest financial indicator data.) The System's loan portfolio continued to perform well in 2021, and credit quality continues to be very good. A strong

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increase in real estate mortgage lending was the primary driver of portfolio growth. Overall, System institutions are financially sound and well-positioned to meet the credit needs of U.S. farmers and ranchers.

Final rule on current expected credit losses methodology

In other business, the board approved a final rule that amends certain regulations to address changes in U.S. generally accepted accounting principles (U.S. GAAP). These amendments modify FCA's capital and other regulations, including certain regulatory disclosure requirements. This rulemaking finalizes the proposed rule published Sept. 23, 2019. (See the Aug. 8, 2019, news release (PDF) about the proposed rule.)

The final rule is effective on Jan. 1, 2023. In adopting the final rule, FCA seeks to accomplish the following:

- Ensure the Farm Credit System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology (CECL), which revises the accounting for credit losses under U.S. GAAP
- Ensure conforming amendments to other regulations accurately reference credit losses

Closed session

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

Notational votes

Since the March 10 FCA board meeting, three notational votes have occurred. Notational votes are actions the FCA board takes between board meetings.

On March 17, the board voted to give preliminary approval to the Plan of Voluntary Liquidation submitted by Delta Agricultural Credit Association and its wholly owned subsidiaries, Delta Federal Land Credit Association and Delta Production Credit Association.

On April 4, the board voted to give preliminary approval of the proposed plan of merger of AgChoice Farm Credit, ACA, and its wholly owned subsidiaries, with and into MidAtlantic Farm Credit, ACA, and its wholly owned subsidiaries. The continuing association will be renamed Horizon Farm Credit, ACA, with subsidiaries Horizon Farm Credit, PCA, and Horizon Farm Credit, FLCA. The board's approval is subject to certain conditions.

On April 11, the board approved a program of one-time, enhanced workforce benefits.

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