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Contact: Mike Stokke or Emily Yaghmour,
703-883-4056
Email: info-line@fca.gov

FCA board receives briefing on funding conditions for the Farm Credit System

McLEAN, Va., Nov. 10, 2022 — At its monthly meeting today, the Farm Credit Administration board received a briefing on funding conditions for the Farm Credit System (FCS or System) as of Sept. 30.

According to the [briefing \(PDF\)](#), the System had \$378 billion in debt outstanding as of Sept. 30, 2022, amounting to a 7.1% increase from year-end 2021. Despite the increase, the System's share of the \$1.75 trillion debt market for government-sponsored enterprises (GSEs) decreased from 24.6% to 21.6%.

The increase in the System's debt outstanding was largely overshadowed by a major rebound in the overall GSE debt outstanding (including FCS debt). The rebound was driven by a resurgence in debt outstanding by the Federal Home Loan Banks System, which increased its debt outstanding by 56% to \$1.0 trillion as of Sept. 30, 2022. The System's total debt issuance through the nine months that ended on Sept. 30 was \$298 billion, compared with \$418 billion for all of 2021.

The briefing also discussed the following topics:

- The System's cost of debt, risk premiums, and various aspects of its debt portfolio, including composition, maturities, issuance activities, and its LIBOR transition.
- The System's investment holdings (contingency funding) in terms of days of liquidity, as well as the impact of the rapid change in interest rates on the System's investments.
- Global inflation, the ongoing military conflict in Eastern Europe, COVID-19, and the impact of these factors on funding conditions so far in 2022.

The extraordinary accommodative monetary policy actions taken by the Federal Reserve and other central banks since the onset of COVID-19 in early 2020 have been dramatically curtailed in 2022 as global inflationary concerns have become paramount. The increasing strength of global economies, coupled with high inflation, prompted the Federal Reserve and other central banks in early 2022 to begin aggressively reducing many of the accommodative policies put in place in response to the widespread economic damage from COVID-19.

The Federal Reserve's actions to increase the target Fed Funds rate from a range of 0% to 0.25% in March 2022 to a range of 3.75% to 4% at its November meeting have contributed

significantly to the overall increase in interest rates, with a corresponding increase in the FCS debt yield curve. As a direct result, the System's funding costs have increased and opportunities to exercise call options on its callable debt outstanding have become extremely limited. Funding costs have also increased because the System's ability to issue certain debt instruments has been somewhat hampered by investor concerns about ongoing volatility in the capital markets.

The increases in interest rates negatively affected the System's net interest spread and net interest margin for the first three quarters of 2022, and contributed to increased risk premiums for System debt despite the System's continued strong financial condition and performance.

FCS Building Association 2023 budget and assessments

In other news, the FCA board also approved the FCS Building Association's 2023 operating budget, as well as its budget for capital improvements and major building repairs. In addition, the board approved an assessment of FCS banks to cover Building Association expenses for 2023.

Notational votes

Since the Oct. 13 FCA board meeting, no notational votes have occurred. Notational votes are actions the FCA board takes between board meetings.

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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), which 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.