News Release

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

McLEAN, Va., July 11, 2024 — 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 June 2024.

As reported in the briefing (PDF), the System had $421 billion in debt outstanding as of June 30, 2024, amounting to a 1.2% increase from year-end 2023 and a 6.0% increase over the past 12-month period.

The System's share of the $1.966 trillion debt market for government-sponsored enterprises (GSEs) was 21.2% at year-end 2023, second only to the Federal Home Loan Banks' share of 61.1%. The System's total debt issuance has declined each of the last three years, down to just $281 billion for 2023, compared with $421 billion for 2020, a 33% overall decrease caused by higher interest rates and a prolonged inverted yield curve.

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 strategies
- The System's investment holdings (contingency funding) in terms of days of liquidity, composition, and impacts of the rapid change in interest rates
- Inflation concerns, central bank actions, ongoing military conflicts, and the impact of these factors on funding conditions so far in 2024 and going forward

As a result of the overall increase in interest rates, as well as the longest-lasting inverted yield curve on record, the System's funding costs have increased. Its opportunities to favorably exercise call options on its callable debt outstanding are extremely limited, and its ability to issue certain debt instruments is somewhat hampered as investors react to ongoing volatility in capital markets.

Both the increase in interest rates and the prolonged inverted yield curve have negatively affected the System's net interest spread, as well as its investment portfolio's market value. However, the System's net interest margin has improved recently, and risk premiums for System debt have decreased significantly from elevated levels in 2023 because of the reduced supply of GSE debt securities and the continued strength of the System's financial condition and performance.

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Notational votes

Since the June 13 FCA board meeting, three notational votes have occurred. Notational votes are actions the FCA board takes between board meetings.

On June 28, the FCA board approved revisions to Bookletter 070 (PDF) to provide guidance regarding the capital treatment for certain rural water and wastewater (RWW) facility exposures. The revised bookletter, which supersedes the original one adopted in 2018, continues to assign a reduced risk weight to certain RWW exposures that satisfy specified criteria.

It assigns the 100% corporate exposure risk weight to exposures involving RWW facilities that are under construction and not fully operational. It clarifies that the risk weights that take effect on Jan. 1, 2025, for certain high-volatility commercial real estate exposures will not apply to these construction exposures. The revised bookletter also removes the sunset provision in the original bookletter.

Also on June 28, the board voted to approve the revision and reissuance of Bookletter 064 (PDF) regarding investment asset management. The revised bookletter updates regulatory references and clarifies regulatory expectations in several key areas of investment management.

It also analyzes how significant market events in the past 15 years (such as the 2008 global financial crisis and COVID-19) have affected investment management at financial institutions. The reissuance of Bookletter 064 rescinds Bookletter 038, titled "Guidance Relating to Investment Activities," which was published on Nov. 26, 1997.

Bookletters communicate FCA's position on specific issues. These documents are available at FCA bookletters.

Finally, in a July 1 notational vote, the board authorized the chief financial officer to approve a reallocation of funds for the budgets of the Office of the Chief Financial Officer and the Office of Information Technology.

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