



FEDERAL FARM CREDIT BANKS

# FUNDING CORPORATION

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## *Press Release*

Friday, May 1, 2020

### **FARM CREDIT SYSTEM REPORTS FIRST QUARTER 2020 COMBINED RESULTS**

For 2:00 p.m. (EDT) Release

NEW YORK - The Farm Credit System today reported that combined net income increased 11.2% to \$1.4 billion for the first quarter of 2020, as compared with \$1.3 billion for the same period of the prior year.

“System institutions have taken comprehensive actions to support their employees, member-borrowers and rural communities in response to the COVID-19 pandemic. Despite significant disruptions in the global capital markets and an extremely challenging agricultural environment, the System’s first quarter results were strong,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “The System has maintained access to the debt capital markets and has built liquidity in response to very difficult external conditions. The first quarter results reflect limited impact from COVID-19. However, we expect the impact of the pandemic will evolve over time as our member-borrowers are presently experiencing unprecedented disruptions in the agricultural supply and demand chains. Funding during this difficult time will be critical. Our strong balance sheet and robust capital levels provide the System the ability to continue to serve our mission of providing a reliable source of credit to qualified member-borrowers.”

#### **Results of Operations**

##### **First Quarter 2020 Compared to First Quarter 2019**

Net interest income was \$2.2 billion for the first quarter of 2020, as compared with \$2.0 billion for the first quarter of 2019. The increase in net interest income primarily resulted from an increase in the net interest spread and a higher level of average earning assets, driven largely by increased loan volume. Average earning assets grew \$16.2 billion or 4.8% to \$354.2 billion for the first quarter of 2020, as compared with the first quarter of 2019.

The net interest margin increased seven basis points to 2.47% for the quarter ended March 31, 2020, as compared with 2.40% for the same period of the prior year. Positively impacting net interest margin was an increase in net interest spread of 16 basis points to 2.16%, as compared with the first quarter of 2019. The increase in net interest spread was primarily due to lower debt costs as the Banks were able to take advantage of the substantial downward move in interest rates across the yield curve and called debt totaling \$38 billion during the first quarter of 2020, as compared with \$4 billion for the same period of the prior year. The increase in the net interest margin was partially offset by a nine basis point decrease in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized a provision for loan losses of \$57 million for the first quarter of 2020, as compared with \$65 million during the first quarter of 2019. The provision for loan losses for the first quarter of 2020 primarily reflected a higher level of overall lending activity and increases in the general reserves due to the potential losses inherent in our loan portfolio from the COVID-19 pandemic's impact on the global economy, agriculture and borrowers. The provision for loan losses for the first quarter of 2019 primarily reflected a higher level of overall agribusiness lending activity and a modest deterioration in credit quality in that sector. The first quarter 2019 provision for loan losses also included industry-specific reserves related to the dairy and grain industries.

Noninterest income increased \$31 million or 20.9% to \$179 million for the first quarter of 2020, as compared with the first quarter of 2019, primarily due to increases in net gains on derivative transactions of \$21 million, loan-related fee income of \$14 million and other noninterest income of \$13 million. Partially offsetting these increases in noninterest income was a \$21 million increase in losses on extinguishment of debt between the three-month periods.

Noninterest expense increased \$52 million or 6.6% to \$834 million for the first quarter of 2020, as compared with the first quarter of 2019, primarily due to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased \$23 million primarily as a result of annual merit increases and higher staffing levels at certain System institutions. Other operating expense increased \$25 million due to increases in information technology and other various administrative expenses.

The provision for income taxes was \$47 million and \$39 million for the first quarter of 2020 and 2019. The increase in the provision for income taxes was primarily due to increased earnings attributable to taxable business activities. As a result, the effective tax rate increased to 3.2% for the first quarter of 2020 from 2.9% for the first quarter of 2019.

#### First Quarter 2020 Compared to Fourth Quarter 2019

Net income remained relatively unchanged at \$1.4 billion for the first quarter of 2020, as compared with the fourth quarter of 2019. Net income for the first quarter of 2020 reflected an increase in net interest income of \$75 million and decreases in noninterest expense of \$62 million and the provision for loan losses of \$17 million. Net interest income for the first quarter of 2020 was positively impacted by a two basis point increase in the net interest margin to 2.47%. The decrease in the first quarter of 2020 in noninterest expense was largely due to decreases in incentive compensation, purchased services and other operating expenses. Negatively impacting net income for the first quarter of 2020 was a provision for income taxes of \$47 million as compared to a benefit from income taxes of \$28 million for the fourth quarter of 2019, as well as a decrease in noninterest income of \$38 million. The benefit from income taxes in the fourth quarter of 2019 was due to a significant one-time benefit resulting from amendments of prior year tax returns to realize the benefit of certain equipment leasing transactions. The decrease in noninterest income was primarily the result of a decrease in financially related services income of \$67 million due to the seasonality of crop insurance revenue, partially offset by increases in other noninterest income of \$28 million and net gains on derivative transactions of \$10 million.

## **Loan Portfolio Activity**

Gross loans increased \$5.6 billion or 2.0% to \$292.6 billion at March 31, 2020, as compared with \$287.0 billion at December 31, 2019. The increase primarily resulted from an increase in real estate mortgage and agribusiness loans, offset in part by a decrease in production and intermediate-term loans. The primary driver of the increase in real estate mortgage loans was financing for new and existing customers. Agribusiness loans increased primarily due to borrowers drawing on their revolving lines of credit to add liquidity to their balance sheets in response to the current economic environment. The decrease in production and intermediate-term loans was primarily driven by seasonal repayments.

## **Credit Quality**

The System's accruing loan volume was \$290.7 billion at March 31, 2020, as compared with \$285.1 billion at December 31, 2019. Nonaccrual loans remained unchanged at \$1.9 billion at March 31, 2020, as compared to December 31, 2019. At March 31, 2020, 55.2% of nonaccrual loans were current as to principal and interest, as compared with 60.1% at December 31, 2019.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) increased \$104 million during the first quarter of 2020 to \$2.5 billion at March 31, 2020. This increase was driven by accruing loans 90 days or more past due that grew \$90 million in the first quarter. These loans are traditionally at their highest level at the end of the first quarter due to the seasonal payment pattern of the System's real estate mortgage and production and intermediate-term loans. These nonperforming assets represented 0.84% of the System's loans and other property owned at March 31, 2020 and 0.82% at December 31, 2019.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of loans and accrued interest receivable were 96.6% at March 31, 2020 and 96.5% at December 31, 2019. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased to 0.46% at March 31, 2020, as compared with 0.48% at March 31, 2019.

The allowance for loan losses was \$1.8 billion both at March 31, 2020 and December 31, 2019. Net loan charge-offs of \$6 million were recorded during the first quarter of 2020, as compared with \$11 million for the first quarter of 2019. The allowance for loan losses as a percentage of total loans was 0.63% at both March 31, 2020 and December 31, 2019. The allowance for loan losses was 75% of the System's total nonperforming assets and 97% of nonaccrual loans at March 31, 2020, as compared with 77% and 95% at December 31, 2019. Total capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled \$65.2 billion at March 31, 2020 and \$63.5 billion at December 31, 2019, and represented 22.3% of System loans at March 31, 2020, as compared with 22.1% at December 31, 2019.

## **Liquidity and Capital Resources**

Cash and investments (principally all of which were held for liquidity purposes) were \$84.0 billion at March 31, 2020 and \$68.3 billion at December 31, 2019. The Banks increased their highly liquid holdings to protect against the volatile market conditions resulting from the impact of the COVID-19 pandemic and to position the System to respond to the actual and anticipated liquidity needs of our borrowers. The System's liquidity position provided for 197 days coverage

of maturing debt at March 31, 2020, as compared with 177 days coverage at December 31, 2019.

Total capital increased \$1.6 billion during the first quarter of 2020 to \$63.4 billion. The System's retained earnings increased \$1.1 billion to \$50.1 billion during the first quarter of 2020 due to net income earned and retained as well as a \$63 million transfer of restricted capital to retained earnings as a result of excess insurance funds returned by the Farm Credit System Insurance Corporation (a U.S. government-controlled independent entity). Accumulated other comprehensive loss decreased \$576 million during the first quarter of 2020 as a result of a decrease in interest rates, which increased the fair value of existing fixed-rate investment securities. Capital as a percentage of total assets decreased to 16.4% at March 31, 2020, as compared with 16.9% at December 31, 2019, reflecting the increases in liquidity and loan volume.

### **Impact of COVID-19**

The full effects of the COVID-19 pandemic are evolving and unpredictable. The rapid and diffuse spread of COVID-19 has and continues to have severe negative impacts on, among other things, financial markets, liquidity, economic conditions and trade for an unknown period of time, which could in turn have an adverse impact on the results of operations or financial condition of the System. The severity of the impact may be worsened if businesses and schools remain closed and "stay at home" orders continue for prolonged periods or there is a recurrence causing continued disruption in supply and demand chains for agricultural products. We continue to monitor and evaluate the impact of the pandemic on our employees, operations, investments, financial results and member-borrowers.

### **About the Farm Credit System**

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow through the four Banks and 68 affiliated Associations. Farm Credit has been fulfilling this mission for over a century by providing farmers with the capital they need to make their businesses successful and by financing vital infrastructure and communication services that rural communities need to create jobs and drive economic growth. For more information about the Farm Credit System please visit [farmcredit.com](http://farmcredit.com).

### **Additional Information**

Copies of this press release, as well as other financial information regarding the System, including its annual and quarterly information statements, are available on the Federal Farm Credit Banks Funding Corporation's website at [farmcreditfunding.com](http://farmcreditfunding.com).

For further information and copies of annual and quarterly information statements, contact:

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## **Forward-Looking Statements**

Any forward-looking statements in this press release are based on current expectations and are subject to uncertainty and future changes in circumstances that include, but are not limited to, COVID-19 related risks and uncertainties posed to our business, results of operations and financial condition including our various regulatory ratios such as capital and liquidity. The ultimate impact will depend on future developments including the scope, duration, extent and severity of the pandemic and the continued response by governments, businesses and individuals. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in the System's annual and quarterly information statements. The System undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**FARM CREDIT SYSTEM  
COMBINED FINANCIAL STATEMENT DATA  
(in millions)**

**STATEMENT OF CONDITION DATA**

	<b>March 31, <u>2020</u> (unaudited)</b>	<b>December 31, <u>2019</u> (audited)</b>
Cash and investments	\$ 83,961	\$ 68,266
Loans	292,606	286,964
Less: allowance for loan losses	<u>(1,847)</u>	<u>(1,806)</u>
Net loans	<u>290,759</u>	<u>285,158</u>
Accrued interest receivable	2,545	2,864
Other assets	4,842	3,869
Restricted assets	<u>5,212</u>	<u>5,202</u>
Total assets	<u><u>\$387,319</u></u>	<u><u>\$365,359</u></u>
Systemwide Debt Securities:		
Due within one year	\$132,241	\$114,127
Due after one year	<u>182,621</u>	<u>179,411</u>
Total Systemwide Debt Securities	314,862	293,538
Other bonds	1,839	1,961
Other liabilities	<u>7,268</u>	<u>8,130</u>
Total liabilities	<u><u>323,969</u></u>	<u><u>303,629</u></u>
Preferred stock	3,170	3,121
Capital stock	1,889	2,009
Additional paid-in-capital	3,738	3,738
Restricted capital	5,212	5,202
Accumulated other comprehensive loss	(764)	(1,340)
Retained earnings	<u>50,105</u>	<u>49,000</u>
Total capital	<u><u>63,350</u></u>	<u><u>61,730</u></u>
Total liabilities and capital	<u><u>\$387,319</u></u>	<u><u>\$365,359</u></u>

**STATEMENT OF INCOME DATA**

	<b>For the Quarter Ended <u>March 31,</u> (unaudited)</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
Interest income	\$3,638	\$3,761
Interest expense	<u>(1,447)</u>	<u>(1,735)</u>
Net interest income	2,191	2,026
Provision for loan losses	(57)	(65)
Noninterest income	179	148
Noninterest expense	<u>(834)</u>	<u>(782)</u>
Income before income taxes	1,479	1,327
Provision for income taxes	<u>(47)</u>	<u>(39)</u>
Net income	<u><u>\$1,432</u></u>	<u><u>\$1,288</u></u>

**FARM CREDIT SYSTEM  
COMBINED FINANCIAL STATEMENT DATA  
(in millions)**

**Statement of Condition Data - Five Quarter Trend**

	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Cash and investments	\$ 83,961	\$ 68,266	\$ 67,070	\$ 66,096	\$ 64,902
Loans	292,606	286,964	276,112	276,229	274,151
Less: allowance for loan losses	<u>(1,847)</u>	<u>(1,806)</u>	<u>(1,750)</u>	<u>(1,755)</u>	<u>(1,768)</u>
Net loans	<u>290,759</u>	<u>285,158</u>	<u>274,362</u>	<u>274,474</u>	<u>272,383</u>
Accrued interest receivable	2,545	2,864	3,339	2,840	2,627
Other assets	4,842	3,869	4,083	4,063	3,812
Restricted assets	<u>5,212</u>	<u>5,202</u>	<u>5,122</u>	<u>5,047</u>	<u>4,966</u>
Total assets	<u><b>\$387,319</b></u>	<u><b>\$365,359</b></u>	<u><b>\$353,976</b></u>	<u><b>\$352,520</b></u>	<u><b>\$348,690</b></u>
Systemwide Debt Securities	\$314,862	\$293,538	\$282,861	\$283,538	\$281,080
Other bonds	1,839	1,961	2,085	1,571	1,529
Other liabilities	<u>7,268</u>	<u>8,130</u>	<u>6,672</u>	<u>6,186</u>	<u>6,359</u>
Total liabilities	<u><b>323,969</b></u>	<u><b>303,629</b></u>	<u><b>291,618</b></u>	<u><b>291,295</b></u>	<u><b>288,968</b></u>
Preferred stock	3,170	3,121	3,168	3,181	3,187
Capital stock	1,889	2,009	1,985	1,959	1,928
Additional paid-in-capital	3,738	3,738	3,738	3,712	3,712
Restricted capital	5,212	5,202	5,122	5,047	4,966
Accumulated other comprehensive loss	(764)	(1,340)	(1,005)	(1,094)	(1,484)
Retained earnings	<u>50,105</u>	<u>49,000</u>	<u>49,350</u>	<u>48,420</u>	<u>47,413</u>
Total capital	<u><b>63,350</b></u>	<u><b>61,730</b></u>	<u><b>62,358</b></u>	<u><b>61,225</b></u>	<u><b>59,722</b></u>
Total liabilities and capital	<u><b>\$387,319</b></u>	<u><b>\$365,359</b></u>	<u><b>\$353,976</b></u>	<u><b>\$352,520</b></u>	<u><b>\$348,690</b></u>

**Statement of Income Data – Five Quarter Trend (unaudited)**

<b>For the three months ended:</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>
Interest income	\$3,638	\$3,666	\$3,788	\$3,804	\$3,761
Interest expense	<u>(1,447)</u>	<u>(1,550)</u>	<u>(1,703)</u>	<u>(1,765)</u>	<u>(1,735)</u>
Net interest income	2,191	2,116	2,085	2,039	2,026
Provision for loan losses	(57)	(74)	(29)	(1)	(65)
Noninterest income	179	217	174	172	148
Noninterest expense	<u>(834)</u>	<u>(896)</u>	<u>(795)</u>	<u>(786)</u>	<u>(782)</u>
Income before income taxes	1,479	1,363	1,435	1,424	1,327
(Provision for) benefit from income taxes	<u>(47)</u>	<u>28</u>	<u>(48)</u>	<u>(44)</u>	<u>(39)</u>
Net income	<u><b>\$1,432</b></u>	<u><b>\$1,391</b></u>	<u><b>\$1,387</b></u>	<u><b>\$1,380</b></u>	<u><b>\$1,288</b></u>