

Research Update:

# American AgCredit FLCA, American AgCredit PCA Rated 'BBB+'; Joint Subordinated Debt At 'BBB'; Preferred Stock At 'BB+'

June 4, 2021

## Overview

- American AgCredit FLCA and American AgCredit PCA are wholly owned subsidiaries of American AgCredit ACA and collectively account for nearly all its assets and operations.
- We think both are core subsidiaries that would receive extraordinary support from the parent, American AgCredit ACA, under any foreseeable circumstances.
- We therefore assigned our 'BBB+' issuer credit rating to American AgCredit FLCA and American AgCredit PCA, in line with our rating on the parent and the 'bbb+' group stand-alone credit profile, and assigned a 'BBB' rating to their announced subordinated debt issuance. We also assigned a 'BB+' rating to American AgCredit ACA's announced issuance of preferred stock.
- The stable outlook mirrors our stable outlook on the parent.

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## Rating Action

On June 4, 2021, S&P Global Ratings assigned 'BBB+' long-term issuer credit ratings to American AgCredit FLCA and American AgCredit PCA. The outlook on both is stable. We also assigned a 'BBB' rating to American AgCredit FLCA and American AgCredit PCA's announced joint issuance of subordinated debt, and a 'BB+' rating to American AgCredit ACA's announced issuance of preferred stock.

## Rationale

Our ratings on American AgCredit FLCA and American AgCredit PCA reflect our view that they are core subsidiaries to the parent, American AgCredit ACA (BBB+/Stable/--). We expect American AgCredit ACA to support both American AgCredit FLCA and American AgCredit PCA under all foreseeable circumstances, if needed. Therefore, our issuer credit ratings on American AgCredit FLCA and American AgCredit PCA are equal to the 'bbb+' group stand-alone credit profile (SACP).

Both American AgCredit FLCA and American AgCredit PCA are wholly owned subsidiaries of American AgCredit ACA. As of March 31, 2021, American AgCredit FLCA and American AgCredit PCA collectively held approximately all the group's assets and generated all its net income. American AgCredit FLCA provides long-term real estate mortgage loans, and American AgCredit PCA provides short-term and intermediate-term loans to agricultural borrowers.

We do not view American AgCredit FLCA's and American AgCredit PCA's governance, strategic planning, and risk management as separate from the parent, and we think these subsidiaries are fully integrated and consolidated from management's perspective. The entities are separate primarily for legal, regulatory, and tax reasons.

American AgCredit ACA's performance has been solid in recent years, despite volatile agricultural markets caused by changes in U.S. trade policies and the COVID-19 pandemic. We expect American AgCredit to continue generating good earnings, with strong asset quality, and maintain healthy capital ratios over at least the next two years. Although we expect the new issues of preferred stock and subordinated debt will increase American AgCredit's regulatory and S&P Global Ratings' risk-adjusted capital ratios in the near term, we expect that these ratios will revert to current levels given its above average rate of loan growth.

We rated American AgCredit FLCA and American AgCredit PCA's proposed subordinated debt, due 2036, one notch below the group SACP to reflect contractual subordination. American AgCredit FLCA and American AgCredit PCA are co-obligors on the debt, and the parent acts as a guarantor. We rated the proposed preferred stock offering of American AgCredit ACA three notches below the group SACP to reflect the risk of deferral and coupon nonpayment. The company intends to use the proceeds of both issues for general corporate purposes, including reducing the balance outstanding under the wholesale loan from CoBank FCB and to fund loans for its eligible borrowers.

## **Outlook**

The stable outlook mirrors the parent, American AgCredit ACA. As long as the rating on the parent is unchanged, we would change our ratings on American AgCredit FLCA and American AgCredit PCA only if we were to alter our view of the subsidiaries' strategic importance to their parent, which we view as very unlikely. Our stable outlook on American AgCredit ACA reflects our expectation that over at least the next two years, AAC will continue to report good earnings, maintain an S&P Global Ratings RAC ratio of 10%-15%, and have uninterrupted access to funding and liquidity from CoBank. Additionally, we expect asset quality will remain solid as the U.S. emerges from the COVID-19 pandemic.

## **Downside scenario**

We could lower our ratings on American AgCredit FLCA and American AgCredit PCA if we were to downgrade American AgCredit ACA. Although it is highly unlikely, we could also downgrade American AgCredit FLCA and American AgCredit PCA if we no longer considered these entities core subsidiaries of American AgCredit ACA.

## **Upside scenario**

We could raise our ratings on American AgCredit FLCA and American AgCredit PCA if we were to upgrade the rating on American AgCredit ACA, reflecting its increased ability to support the subsidiaries if needed.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- American AgCredit ACA Assigned 'BBB+' Rating; Outlook Stable, May 19, 2021
- Compeer Financial FLCA And Compeer Financial PCA Assigned 'BBB+' Ratings; Outlook Stable; Proposed Debt Rated 'BBB', May 6, 2021
- Capital Farm Credit ACA's \$200 Million Preferred Stock Rated 'BB', Jan. 13, 2021
- Capital Farm Credit ACA, Jan. 12, 2021
- Capital Farm Credit ACA Assigned 'BBB' Rating; Outlook Stable, Jan. 11, 2021
- CoBank ACB, Oct. 15, 2020
- Federal Farm Credit Banks, Oct. 2, 2020
- AgriBank FCB, Sept. 29, 2020
- Compeer Financial, ACA, April 20, 2020

## Ratings List

\*\*\*\*\* American AgCredit, ACA \*\*\*\*\*

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### New Rating

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### American AgCredit FLCA

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Subordinated	BBB
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**American AgCredit, ACA**

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Preferred Stock	BB+
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**American AgCredit, PCA**

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Subordinated	BBB
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**New Rating; CreditWatch/Outlook Action**

**American AgCredit FLCA**

**American AgCredit, PCA**

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Issuer Credit Rating	BBB+/Stable/--
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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