S&P Global Ratings

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American AgCredit ACA

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American AgCredit ACA

Ratings Score Snapshot

Issuer Credit Rating
BBB+/Stable/--

SACP: bbb+ → **Support: 0** → **Additional factors: 0**

Anchor	bbb+	
Business position	Moderate	-1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB+/Stable/--

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
History of low loan losses and solid profitability.	Exposure to cyclical commodity prices and unpredictable agricultural conditions.
Access to favorably priced funding through CoBank.	Limited business diversification.
Strong risk-adjusted capital ratio.	Higher-than-peers growth, which could indicate greater risk appetite.

American AgCredit's solid credit history, good earnings, strong capital ratios, and substantial funding and borrowing capacity counterbalance its concentration in the cyclical agricultural sector and above-peer growth rates. The association's performance has been solid over the past several years, despite volatility in the agricultural markets. We expect American AgCredit (AAC) to continue to generate good earnings with strong asset quality and to maintain robust capital ratios over at least the next two years.

Although robust loan growth has weighed on capital ratios, they remain strong, buttressed by the 2021 issuance of preferred stock and subordinated debt. We expect AAC's S&P Global Ratings risk-adjusted capital (RAC) ratio to decline moderately in the next two years but remain within the 10%-15% range we consider strong. Earnings have remained strong, reflecting robust loan growth, low provisions, improving efficiency ratios, and the low-cost funding the association enjoys as a member of the Farm Credit System (FCS).

AAC's asset quality is consistently healthy, with a moderate amount of nonperforming loans and minimal loan losses. That said, nonperforming loans have increased in response to industrywide pressures. We think the loan portfolio, which consists entirely of agricultural loans--as mandated in AAC's charter--remains vulnerable to shifts in market conditions. However, we expect AAC's low loan losses will continue, given the association's conservative underwriting.

AAC, as an association within the FCS, benefits from access to readily available, low-cost funding. We expect it to maintain access to sufficient funding though its general funding agreement with CoBank, a funding bank within the FCS. However, we view on-balance-sheet liquidity as modest.

Outlook

The stable outlook indicates S&P Global Ratings' expectation that over at least the next two years, AAC will continue to report good earnings, maintain a RAC ratio of 10%-15%, and have uninterrupted access to funding and liquidity from CoBank. In addition, we expect asset quality measures will remain solid and underwriting will remain conservative even while AAC generates above-peer loan growth.

Downside scenario

We could lower our ratings on AAC if:

- Its RAC ratio fell below 10% and remained there,
- Credit quality metrics weakened substantially, or
- The association's high growth targets led it to loosen its underwriting standards, in our view.

Upside scenario

Conversely, we could raise our ratings on AAC if:

- Its capital ratios grew, with its RAC ratio sustained above 15%,
- The pace of balance sheet growth moderated, and
- Loan and revenue diversification improved.

We would also look favorably on an increase in the association's proportion of on-balance-sheet liquidity.

Anchor: Adjusted Based On AAC's Regulated Status, Low Competitive Risk, And Favorable Funding

Our starting point--or anchor--for our ratings on U.S. companies that we rate under our nonbank financial institutions criteria is 'bb+'. Because of AAC's public policy role, strong competitive position, access to government-related entity funding, and regulated status under the Farm Credit Administration, we raise its anchor to 'bbb+', three notches above our anchor for other finance companies and equal to that of U.S. banks.

Business Position: Solid Market Position Limited By Concentration Risk

AAC's solid market position as an agricultural lender in seven states and its role as an association operating within the FCS support its business position. With $21.9 billion in assets as of Dec. 31, 2023, AAC is the fifth-largest association in the FCS and the second largest in the CoBank district. However, its concentration in agricultural loans--with large exposures to vineyards and wineries, field crops, tree fruits and nuts, dairy, and other agricultural commodities--somewhat offsets these strengths.

AAC completed its merger with Farm Credit of New Mexico (FCNM), an association operating across New Mexico with $2.1 billion in assets, on Oct. 1, 2023. In our view, the acquisition modestly increased AAC's geographic reach, loan diversification, and capital ratios, while not significantly changing its financial risk or asset quality performance.

AAC's loan growth, spurred in part by its shift to digital lending and the acquisition of FCNM, has been high at an average of 15% annually over the past five years. We favorably view the deepening of the association's market share within its designated territory as a result of this growth. However, we also see such outsize growth as a sign of increased risk appetite. That said, AAC management has extensive experience in the agricultural lending industry and has managed risk adequately in recent years, as illustrated by its record of strong asset quality, supported by conservative underwriting.

Both American AgCredit FLCA and American AgCredit PCA are wholly owned subsidiaries of American AgCredit ACA. As of Dec. 31, 2023, American AgCredit FLCA and American AgCredit PCA collectively held nearly 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.

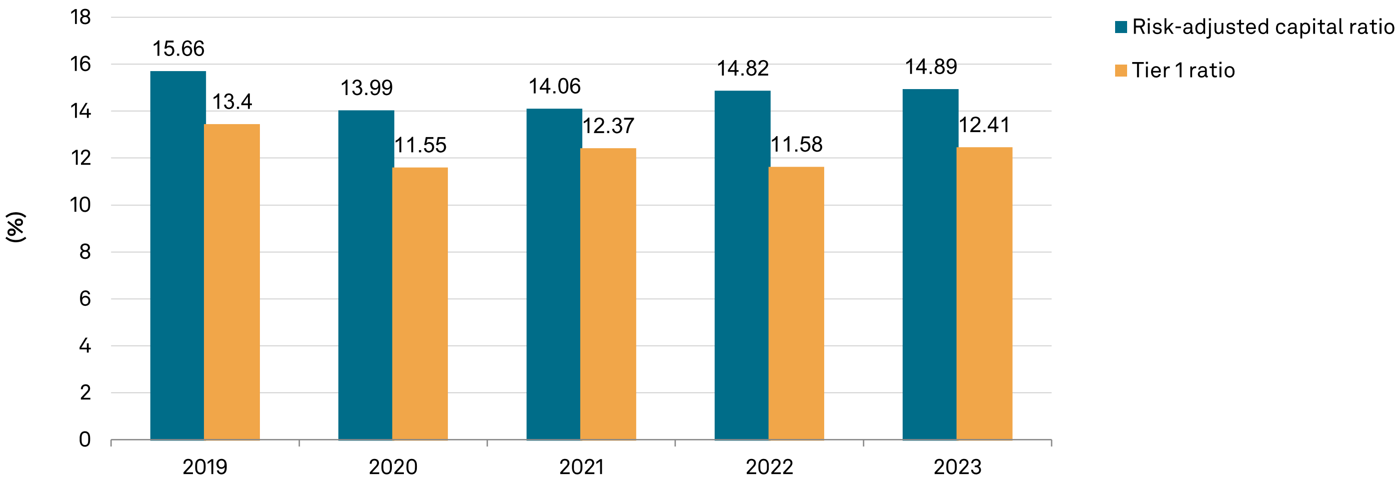
Capital And Earnings: Strong Risk-Based Capital

Our view of AAC's capital and earnings incorporates the company's high regulatory capital ratios, combined with low credit loss provisions and satisfactory retention of earnings after patronage payments. The acquisition of FCNM was accretive to AAC's capital, with the association's common equity Tier 1 ratio increasing to 11.14% at year-end 2023 from 10.09% at year-end 2022. However, we expect AAC's outsize loan growth to pressure capital ratios. About $300 million of preferred stock supplements AAC's capital base.

We calculated AAC's RAC ratio as 14.9% as of Dec. 31, 2023. We expect that continued above-average loan growth will outpace equity growth and that the RAC ratio will decline but remain strong at 12%-14% over the next two years.

Chart 1

American AgCredit ACA--S&P Global Ratings risk-adjusted capital versus Tier 1 ratio



Source: S&P Global Ratings.

The company pays a patronage, or refund, to its members of 50%-60% of earnings annually. We expect the company to continue to pay a similar percentage.

We also expect AAC to continue to generate healthy profitability and stable earnings measures over the next several years, with net interest income increasing, propelled by the addition of FCNM and continued, though moderating, loan growth; continued low provisions, given low net charge-offs (NCOs); and stable efficiency measures.

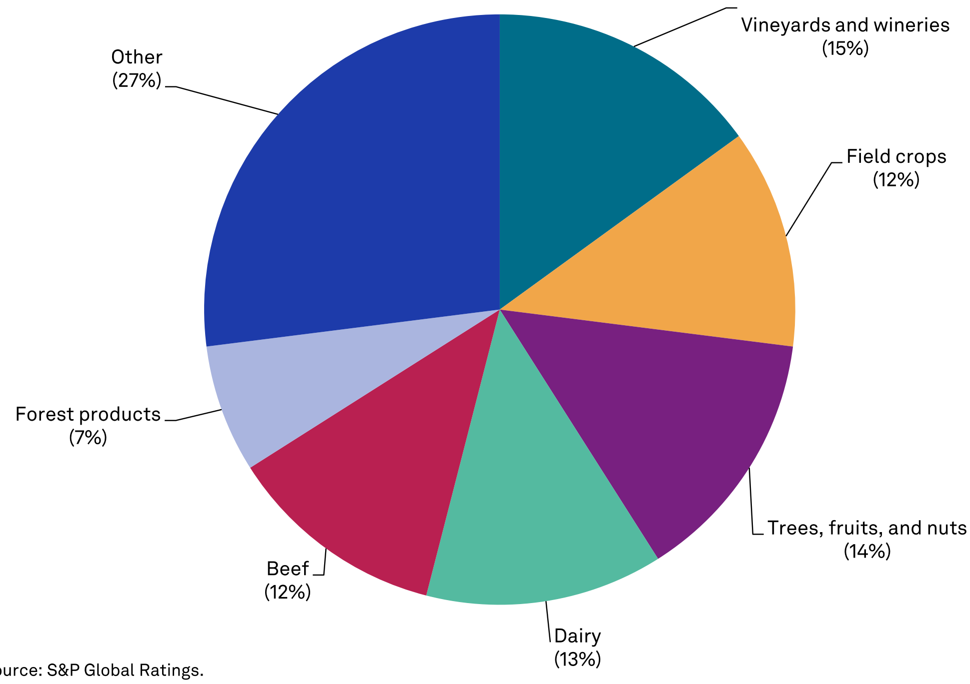
Risk Position: Good Asset Quality Measures

AAC's loan portfolio is somewhat more diversified by product, commodity type, and geography than those of many other associations. Geographically, the largest exposures are to California (46%), Kansas (10%), Colorado (8%), and New Mexico (6%), with the remainder of the portfolio spread across the U.S. and Guam.

The association engages in loan participations with other Farm Credit institutions to manage risk and improve portfolio diversification. About $5.1 billion of the loan portfolio was purchased and about $7.6 billion of total commitments were sold as of Dec. 31, 2023.

Chart 2

American AgCredit ACA--loan composition as of Dec. 31, 2023



Source: S&P Global Ratings.

We view AAC's loan credit quality as solid. Its nonperforming assets grew to 1.26% of loans and other real estate as of Dec. 31, 2023, reflecting global economic conditions, rising interest rates, and other industrywide pressures. NCOs have averaged only about 3 basis points (bps) annually in the past five years.

We think AAC's underwriting and concentration limits are conservative, as this record of minimal credit losses indicates. The association's allowance for credit losses declined following its adoption of Current Expected Credit Losses in January 2023. Although the reserve, which measured 0.10% of loans as of Dec. 31, 2023, is low on an absolute basis, we think it is appropriate relative to the low NCOs.

Funding And Liquidity: Concentrated Funding Source, Offset By Stable Access To Low-Cost Funding

Unlike most other FCS associations, AAC manages its funding through a block funding arrangement with CoBank (most associations match-fund through their funding banks). AAC determines its funding strategy and product offerings, and CoBank executes debt issuance via the Funding Corp. on its behalf.

Because AAC does not match-fund through CoBank, it manages its own interest rate risk. Board policies limit sensitivity to a 200 bps shift in interest rates to 10% of net interest income. As of Dec. 31, 2023, management estimated that a 200 bps rise in rates would increase net interest income by 2.2%, while a 200 bps decline would decrease net interest income by 2.9%.

As a part of its arrangement, AAC maintains liquidity coverage consistent with CoBank's requirements for 15, 30, 90, and 120 days of liquidity. CoBank allocates $4.8 billion of its investment portfolio to AAC for liquidity measurement purposes. In addition, AAC had access to the additional liquidity available through its direct note with CoBank. However, AAC held only $107 million of cash on the balance sheet as of Dec. 31, 2023.

We view favorably AAC's long-term general funding agreement with CoBank, one of the four banks making up the government-sponsored FCS, which lends to associations like AAC. The three-year running agreement provides a low-cost, stable, and primary funding source for AAC. The direct note with CoBank provides it with enough funding for its lending activity, up to a maximum borrowing base, which is redetermined every 15-18 months, though it can be renegotiated as needed. Although AAC is largely dependent on this primary source of funding, we see little risk that it would lose access to funding from CoBank, based on its long historical funding relationship with the bank since the founding of the FCS.

Moreover, the association's issuance of preferred stock and subordinated debt in June 2021 demonstrates its ability to tap additional funding sources if needed. We think AAC could likely obtain additional liquidity, if necessary, by issuing additional debt or preferred stock or through whole loan or participation sales.

Support: No Uplift To The SACP

While the rating incorporates the ongoing funding benefits that the association receives as a member of a GRE, we believe there is a low likelihood that the U.S. federal government would provide extraordinary support directly to AAC in the event of financial distress. Our view is that AAC's individual role is of limited importance to the federal government. In addition, we view AAC as having a limited link to the government. Its members privately own AAC, and the government has no history of providing extraordinary government support directly to associations like it. Therefore, the issuer credit rating does not incorporate any uplift for extraordinary government support.

Environmental, Social, And Governance

Social factors are a positive consideration in our credit rating analysis of AAC. As an association in the FCS, AAC benefits from low-cost funding, which helps it support rural communities and agriculture. Moreover, its cooperative structure prioritizes access and benefits for its member-owners and leads it to maintain strong risk-adjusted capital with less focus on short-term profitability.

Group Structure, Rated Subsidiaries, And Hybrids

We view American AgCredit FLCA and American AgCredit ACA as core subsidiaries to the parent, American AgCredit ACA. We expect AAC to support both entities under all foreseeable circumstances, if needed. We rate AAC's hybrid securities, including its subordinated debt and preferred stock, relative to its group stand-alone credit profile (SACP) because these instruments could face nonpayment risk before more senior instruments. As such, we rate the subordinated debt issued by the core subsidiaries 'BBB' (one notch below the group SACP for contractual subordination) and AAC's preferred stock 'BB+' (three notches below the group SACP for risk of deferral and coupon nonpayment).

Key Statistics

Table 1

American AgCredit ACA key figures

	--Year ended Dec. 31--				
(Mil. $)	**2023**	**2022**	**2021**	**2020**	**2019**
Adjusted assets	21,871.8	18,501.6	16,968.4	15,094.1	12,663.4
Customer loans (gross)	20,499.4	17,431.8	15,934.7	14,170.9	11,844.8
Adjusted common equity	3,206.2	2,538.1	2,382.6	2,214.1	2,113.9
Operating revenues	725.5	648.6	592.8	485.6	396.8
Noninterest expenses	326.7	277.6	235.0	228.8	190.7
Core earnings	362.5	342.9	343.1	247.3	200.7

Table 2

American AgCredit ACA business position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Return on average common equity	12.7	14.0	15.1	11.5	9.8

Table 3

American AgCredit ACA capital and earnings

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	12.4	11.6	12.4	11.6	13.4
S&P Global Ratings' RAC ratio before diversification	14.9	14.8	14.1	14.0	15.7
S&P Global Ratings' RAC ratio after diversification	10.8	13.1	10.1	10.0	11.1
Adjusted common equity/total adjusted capital	91.4	89.4	88.8	92.7	94.3
Net interest income/operating revenues	75.6	76.2	75.2	76.0	77.5
Fee income/operating revenues	2.3	2.6	4.3	4.5	3.5
Market-sensitive income/operating revenues	0.5	0.1	0.1	(0.7)	N/A
Cost to income ratio	45.0	42.8	39.6	47.1	48.1
Preprovision operating income/average assets	2.0	2.1	2.2	1.9	1.7
Core earnings/average managed assets	1.8	1.9	2.1	1.8	1.7

N/A--Not applicable.

Table 4

American AgCredit ACA risk position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	17.6	9.4	12.4	19.6	16.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	37.2	13.2	38.6	39.8	40.9
Total managed assets/adjusted common equity (x)	6.8	7.3	7.1	6.8	6.0
New loan loss provisions/average customer loans	0.1	0.1	0.0	0.1	0.0
Net charge-offs/average customer loans	0.1	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	1.3	1.1	0.5	0.5	0.5
Loan loss reserves/gross nonperforming assets	8.2	26.8	46.4	49.5	42.7

Table 5

American AgCredit ACA funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Long-term funding ratio	55.5	59.6	55.5	61.9	54.9
Stable funding ratio	53.1	56.7	53.0	59.4	52.9
Short-term wholesale funding/funding base	53.3	48.1	53.1	45.5	55.1
Broad liquid assets/total assets	0.5	0.3	0.0	0.4	0.5
Short-term wholesale funding/total wholesale funding	52.4	47.1	52.0	44.9	54.4

American AgCredit ACA--rating component scores

Issuer Credit Rating	**BBB+/Stable/--**
SACP	bbb+
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Moderate
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- CoBank ACB, Oct. 26, 2023
- Federal Farm Credit Banks, Oct. 9, 2023

Ratings Detail (As Of April 2, 2024)*	
American AgCredit, ACA	
Issuer Credit Rating	BBB+/Stable/--
Preferred Stock	BB+
Issuer Credit Ratings History	
19-May-2021	BBB+/Stable/--
Sovereign Rating	
United States	AA+/Stable/A-1+
Related Entities	
American AgCredit FLCA	
Issuer Credit Rating	BBB+/Stable/--
American AgCredit, PCA	
Issuer Credit Rating	BBB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.