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

Overview

Key strengths	Key risks
A track record 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.
A strong risk-adjusted capital ratio.	Recent increases in nonaccrual loans and low loan loss reserves.

Our rating on American AgCredit ACA balances the company's solid credit history, good earnings, strong capital ratios, and substantial funding and borrowing capacity against its concentration in the cyclical agricultural sector and its high growth rates compared with its peers. The performance of American AgCredit (AAC) has been solid over the past several years, despite volatility in the agricultural markets. While we expect continued uncertainty in the U.S. agricultural sector due to potential trade disputes, we think AAC will continue to generate good earnings and maintain robust capital ratios over at least the next two years.

Although above average loan growth has weighed on capital ratios, they remain strong, buttressed by the 2021 issuance of preferred stock and subordinated debt. We expect that S&P Global Ratings' risk-adjusted capital (RAC) ratio for AAC will decline moderately in the next two years due to continued loan growth, but we also expect it to remain within the 10%-15% range we consider strong.

Earnings have remained solid, reflecting robust loan growth, low provisions, improving efficiency ratios, and the low-cost funding it enjoys as a member of the Farm Credit System (FCS).

AAC's asset quality metrics remain adequate, and our expectation is that loan losses will continue to be low. That said, nonperforming loan levels have increased in response to sectoral and industrywide pressures. We believe the loan portfolio, which consists entirely of agriculture-related loans as mandated in AAC's charter, remains vulnerable to shifts in market conditions. However, we expect that AAC's low levels of 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 that it will 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 our expectation that, over at least the next two years, AAC will continue to report good earnings, maintain a RAC ratio between 10% and 15%, and have uninterrupted access to funding and liquidity from CoBank.

In addition, we do not think trade tensions will have a substantial negative impact on the company. We think asset quality measures could decline modestly, but we also think they'll remain solid, and that AAC will maintain its conservative underwriting even while generating above-peer loan growth.

Downside scenario

We could lower our ratings on AAC if its RAC ratio were to fall below and remain lower than 10%, if credit quality metrics weakened substantially, or if we perceived that the association's high growth targets were leading it to loosen its underwriting standards.

Upside scenario

We could raise our ratings on AAC if its capital ratios grew and we believed its RAC ratio would remain above 15% on a sustainable basis, if the pace of balance sheet growth moderated, and if 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 Regulated Status, Low Competitive Risk, And Favorable Funding

Our starting point--or anchor--for our ratings on U.S. nonbank financial institutions is 'bb+'. Because of AAC's public policy role and its regulated status, we adjust its anchor to 'bbb+', three notches above our anchor for other finance companies and equal to the U.S. bank anchor.

This is to account for the Farm Credit Administration's regulatory oversight, the system's favorable funding through its close relationship with the U.S. government, the benefits received from the Farm Credit System Insurance Corp., and the system's strong competitive position in the U.S. agriculture market.

Business Position: A 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 $23.2 billion in assets as of Dec. 31, 2024, 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 has had high loan growth in recent years--an average of 13% annually over the past five years--spurred by growth in its corporate loan portfolio as well as by the 2023 acquisition of Farm Credit of New Mexico, a $2.1 billion asset association operating across New Mexico. We have a favorable view of the deepening of AAC's market share within its designated territory as a result of this growth.

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 it has managed risk adequately in recent years--as illustrated by its record of low loan losses, supported by conservative underwriting.

We also view its solid earnings and asset quality performance following the 2018-2019 period, when the industry was facing heightened tariffs, as an example of its conservative management.

Both American AgCredit FLCA and American AgCredit PCA are wholly owned subsidiaries of American AgCredit ACA. As of Dec. 31, 2024, American AgCredit FLCA and American AgCredit PCA collectively held nearly all of the group's assets and generated all of 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.

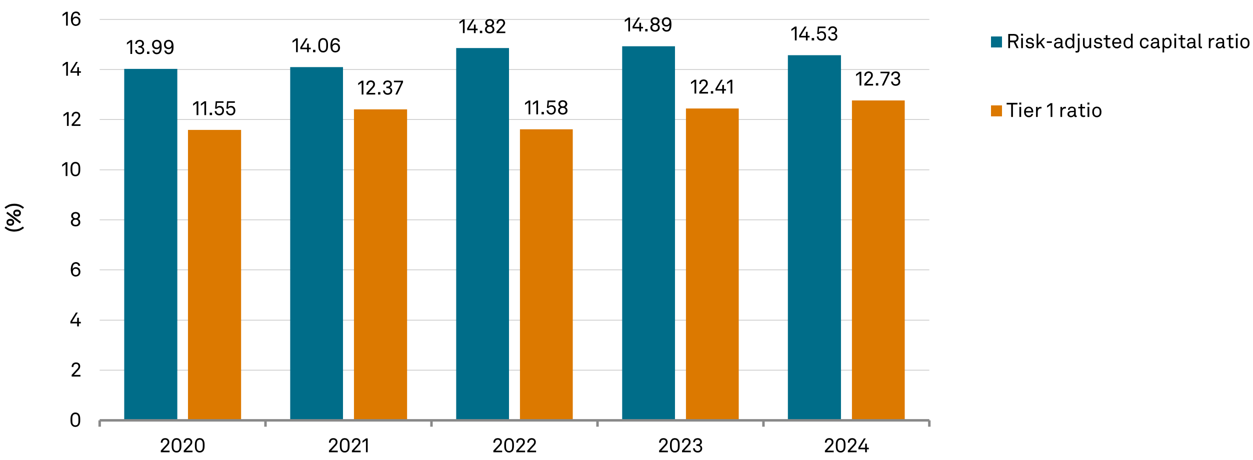
Capital And Earnings: Strong Risk-Based Capital

Our assessment 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 association's common equity Tier 1 ratio increased to 11.53% at year-end 2024 from 11.14% at year-end 2023. About $300 million of preferred stock supplements AAC's capital base.

We calculated AAC's RAC ratio as 14.5% as of Dec. 31, 2024. We believe loan growth will outpace equity growth, and we think the RAC ratio will decline over the next two years while remaining in the middle of the 10%-15% range we consider strong.

Chart 1

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



Source: S&P Global Ratings.

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

Our expectation is that AAC will continue to generate healthy profitability and stable earnings measures over the next several years. The company's return on average assets has consistently been above 1.70% over the last five years, which we view favorably. In our view, AAC will generate increased net interest income, propelled by continued (though moderating) loan growth, a slight increase in provisions given more normal levels of net charge-offs (NCOs), and stable efficiency measures.

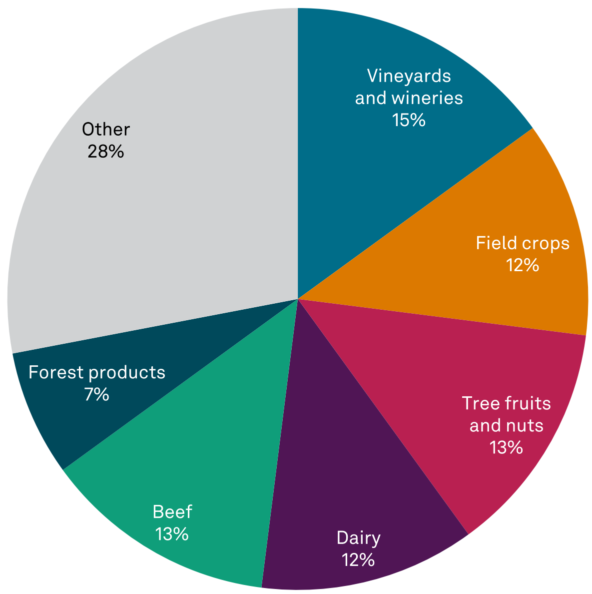
Risk Position: Good, But Softening, Asset Quality Measures

AAC's loan portfolio is somewhat more diversified by product and geography than the loan portfolios of many other associations. AAC's portfolio includes a number of different products and commodity types, and the largest geographic exposures are to California (46%), Kansas (9%), Colorado (8%), and New Mexico (6%). The remainder of the portfolio is spread across the other U.S. states and Guam.

The association engages in loan participations with other Farm Credit institutions to manage risk and improve portfolio diversification. About $5.6 billion of the loan portfolio was purchased and about $9.2 billion of total commitments were sold as of Dec. 31, 2024.

Chart 2

American AgCredit ACA--Loan composition as of Dec. 31, 2024



Source: S&P Global Ratings.

We continue to view AAC's loan credit quality as solid, although it has weakened in the past year. AAC's nonperforming assets grew to 2.11% of loans and other real estate as of Dec. 31, 2024, reflecting global economic conditions, stress in the tree fruits and nuts and wine sectors, and other industrywide pressures. About 53% of nonaccrual loans at the time were current as to principal and interest. NCOs rose to 0.22% of loans in 2024, and the annual average for the past five years has only been about 8 basis points (bps).

We believe 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 CECL (the current expected credit loss methodology) in January 2023. The reserve (0.18% of loans as of Dec. 31, 2024, by our measure) is low relative to nonaccruals and NCOs, in our view, and we expect that the association will increase it over the next two years.

However, we also expect that strong capital and earnings measures will provide the association with sufficient cushion to absorb needed provision increases.

Funding And Liquidity: A 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 issuances 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-bp shift in interest rates to 10% of net interest income. As of Dec. 31, 2024, management estimated that a 200-bp rise in rates would increase net interest income by 3.9%, while a 200-bp decline in rates would decrease net interest income by 3.6%.

As part of its arrangement, AAC maintains liquidity coverage consistent with CoBank's requirements for 15, 30, 90, and 120 days of liquidity. CoBank allocates $5.7 billion of its investment portfolio to AAC for liquidity measurement purposes. Moreover, AAC had access to the liquidity available through its direct note with CoBank. However, AAC held only a modest $98.5 million of cash on the balance sheet as of Dec. 31, 2024.

We view favorably AAC's long-term general funding agreement with CoBank, which is one of the four banks that make 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 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 likely could obtain additional liquidity, if necessary, by issuing additional debt or preferred stock, or through whole loan or participation sales.

Support: No Uplift To The Stand-Alone Credit Profile

The issuer credit rating does not incorporate any uplift for extraordinary government support.

While the rating incorporates the ongoing funding benefits that the association receives as a member of a government-related entity, we believe there's a low likelihood that the U.S. government would provide extraordinary support directly to AAC in the event of financial distress. Our assessment 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 support directly to associations like AAC.

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.

We view environmental factors as a key consideration, given that AAC is an agricultural lender. We assess and monitor the association's policies and how AAC incorporates these factors into its underwriting decisions.

We believe that AAC's governance structure is sound and represented throughout the association.

Group Structure, Rated Subsidiaries, And Hybrids

We view American AgCredit FLCA and American AgCredit PCA as core subsidiaries to the parent, American AgCredit ACA. We expect that AAC would 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. $)	**2024**	**2023**	**2022**	**2021**	**2020**
Adjusted assets	23,174.4	21,871.8	18,501.6	16,968.4	15,094.1
Customer loans, gross	21,779.1	20,499.4	17,431.8	15,934.7	14,170.9
Adjusted common equity	3,363.0	3,206.2	2,538.1	2,382.6	2,214.1
Operating revenue	788.8	725.5	648.6	592.8	485.6
Noninterest expenses	317.6	326.7	277.6	235.0	228.8
Core earnings	393.0	362.5	342.9	343.1	247.3

Table 2

American AgCredit ACA--Business position					
	--Year ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Return on average common equity	12.0	12.7	14.0	15.1	11.5

Table 3

American AgCredit ACA--Capital and earnings

	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Tier 1 capital ratio	12.7	12.4	11.6	12.4	11.6
S&P Global Ratings' RAC ratio before diversification	14.5	14.9	14.8	14.1	14.0
S&P Global Ratings' RAC ratio after diversification	10.7	10.8	13.1	10.1	10.0
Adjusted common equity/total adjusted capital	91.8	91.4	89.4	88.8	92.7
Net interest income/operating revenue	74.5	75.6	76.2	75.2	76.0
Fee income/operating revenue	3.2	2.3	2.6	4.3	4.5
Market-sensitive income/operating revenue	(0.5)	0.5	0.1	0.1	(0.7)
Cost-to-income ratio	40.3	45.0	42.8	39.6	47.1
Preprovision operating income/average assets	2.1	2.0	2.1	2.2	1.9
Core earnings/average managed assets	1.7	1.8	1.9	2.1	1.8

RAC--Risk-adjusted capital.

Table 4

American AgCredit ACA--Risk position

	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Growth in customer loans	6.2	17.6	9.4	12.4	19.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	35.8	37.2	13.2	38.6	39.8
Total managed assets/adjusted common equity (x)	6.9	6.8	7.3	7.1	6.8
New loan loss provisions/average customer loans	0.3	0.1	0.1	0.0	0.1
Net charge-offs/average customer loans	0.2	0.1	0.0	0.0	0.0
Gross nonperforming assets/customer loans plus other real estate owned	2.1	1.3	1.1	0.5	0.5
Loan loss reserves/gross nonperforming assets	8.3	8.2	26.8	46.4	49.5

RWA--Risk-weighted assets.

Table 5

American AgCredit ACA--Funding and liquidity

	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Long-term funding ratio	55.3	55.5	59.6	55.5	61.9
Stable funding ratio	53.0	53.1	56.7	53.0	59.4
Short-term wholesale funding/funding base	53.3	53.3	48.1	53.1	45.5
Broad liquid assets/total assets	0.4	0.5	0.3	0.0	0.4
Short-term wholesale funding/total wholesale funding	52.5	52.4	47.1	52.0	44.9

American AgCredit ACA--Rating component scores

Issuer Credit Rating	BBB+/Stable/--
SACP	bbb+
Anchor	bbb+
Economic risk	3

American AgCredit ACA--Rating component scores (cont.)	
Issuer Credit Rating	**BBB+/Stable/--**
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

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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: 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

- Federal Farm Credit Banks, Oct. 2, 2024
- CoBank ACB, Oct. 1, 2024

Ratings Detail (As Of March 20, 2025)*	
American AgCredit, ACA	
Issuer Credit Rating	BBB+/Stable/--
Preferred Stock	BB+

Ratings Detail (As Of March 20, 2025)*(cont.)	
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/--
Subordinated	BBB
American AgCredit, PCA	
Issuer Credit Rating	BBB+/Stable/--
Subordinated	BBB

*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.