S&P Global
Ratings

Research

Research Update:

Compeer Financial ACA Outlook Revised To Positive On Good Credit Performance And Very Strong Capital; Ratings Affirmed

April 14, 2022

Overview

- Compeer Financial ACA has extended its record of maintaining excellent asset quality, a conservative risk profile, and very strong capital and earnings.
- Compeer continues to diversify its loan portfolio geographically as one of the largest Agricultural Credit Associations in the Farm Credit System.
- We revised our outlook on Compeer to positive from stable and affirmed our 'BBB+' issuer credit ratings on Compeer and its core subsidiaries (Compeer Financial FLCA and Compeer Financial PCA).
- The positive outlook reflects the possibility we could raise the ratings if the association maintains a conservative risk appetite, very strong capital, good asset quality metrics, and does not experience outsize asset growth.

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Rating Action

On April 14, 2022, S&P Global Ratings revised the outlook on Compeer Financial ACA and its core subsidiaries (Compeer Financial FLCA and Compeer Financial PCA) to positive from stable. We also affirmed the 'BBB+' issuer credit ratings on Compeer and its core subsidiaries.

Rationale

We revised our outlook on Compeer as it has maintained very strong capital even with robust growth, excellent asset quality, and a conservative risk profile. Despite loan growth of 23% from year-end 2019 to year-end 2021, Compeer has maintained very strong capital levels, including a risk-adjusted capital (RAC) ratio of 15.5% as of Dec. 31, 2021. While strong loan growth weighed on its capital ratios over the past two years, Compeer issued preferred stock and subordinated debt in 2021, keeping regulatory capital levels well above regulatory minimums and higher than similarly-rated peers.

The association's conservative underwriting policies have kept net charge-offs to average customer loans under 10 basis points (bps) for the last 10 years. While the U.S. agricultural sector is highly cyclical, Compeer's diversified portfolio has historically resulted in less volatility than many U.S. commercial banks.

As an Agricultural Credit Association (ACA), Compeer historically has been concentrated in agricultural lending within its territory, but has been diversifying its loan portfolio by geography and type through its Agri-Access and capital markets business lines. As a Farm Credit association, Compeer has a designated lending territory throughout 144 counties in portions of Illinois, Minnesota, and Wisconsin. However, as of Dec. 31, 2021, only about 59% of the loan portfolio is within Compeer's core territory market and the remainder is geographically dispersed nationwide. Compeer utilizes its Agri-Access and capital markets businesses to provide additional geographic and agricultural product diversity to its loan portfolios.

The Agri-Access program provides correspondent lending programs to other financial institutions nationwide and allows Compeer to purchase participations in agricultural real estate loans and service loan portfolios of other institutional investors. Compeer's capital markets business partners with Farm Credit entities, banks, and other lenders to purchase loan participations and partner in syndicated loan transactions--providing better access to the agribusiness sector--resulting in additional portfolio diversity.

Credit quality metrics continue to improve from already good levels as nonperforming assets (NPAs) and adversely classified loans continue to decline. Adjusted NPAs to customer loans plus other real estate owned has declined to 57 bps as of year-end 2021 from 67 bps at year-end 2020. Cash grains remain the largest loan product segment for Compeer at 33% of the loan portfolio. Grain production last year varied throughout the district as growing conditions were influenced by regional weather. Overall, grain yields were near average, but strong grain demand and low inventory nationwide benefitted producers with favorable prices. This helped support the credit quality of the loan portfolio. Adversely, classified loans declined to 1.9% of total loans at year-end 2021, and represent only 12.4% of Tier 1 Capital, plus the allowance for loan losses, down from 18.9% the prior year.

Compeer's robust earnings and modest payout ratio allow for capital accretion. Compeer reported net income of $498 million in 2021, with a corresponding return on average assets of 2.0%. As a cooperative financial institution, Compeer pays patronage distributions to its customer-members. In 2021, total distributions (including cash patronage, redemption of allocated surplus, preferred stock dividends, and other distributions) were $213 million or about 43% of net income. In general, Compeer has historically maintained a modest total payout ratio between 40%-50%, which supports capital levels during robust loan growth periods.

Outlook

The positive outlook on Compeer Financial ACA reflects our expectation that we could raise the rating in the next two years if the association continues its good financial performance while maintaining its conservative risk profile. In particular, we expect Compeer to maintain a very strong RAC ratio above 15%, stable asset quality metrics with low credit losses, and steady asset growth.

We could revise our outlook on Compeer to stable if we expect the association to pursue more aggressive financial strategies--like aggressive loan growth that could materially pressure capital levels--particularly if the RAC ratio falls below 15% on a sustained basis. Additionally, we could revise the outlook to stable if the association loosens underwriting standards that leads to weaker credit performance.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Capital Farm Credit ACA, Dec. 23, 2021
- American AgCredit ACA, Oct. 20, 2021
- Federal Farm Credit Banks, Oct. 15, 2021
- CoBank ACB, Oct. 5, 2021
- Compeer Financial ACA, June 24, 2021
- Agribank FCB, Sept. 29, 2020

Ratings List

Ratings Affirmed	
Compeer Financial, ACA	
Preferred Stock	BB+
Compeer Financial PCA	
Subordinated	BBB
Compeer Financial, FLCA	
Subordinated	BBB

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Compeer Financial, ACA		
Compeer Financial, FLCA		
Compeer Financial PCA		
Issuer Credit Rating	BBB+/Positive/--	BBB+/Stable/--

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.