

## Compeer Financial ACA

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# Compeer Financial ACA

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

Anchor	bbb+		ALAC support	0	<b>Issuer credit rating</b>     <b>BBB+/Stable/--</b>
Business position	Moderate	-1	GRE support	0	
Capital and earnings	Strong	+1	Group support	0	
Risk position	Adequate	0	Sovereign support	0	
Funding	Adequate	0			
Liquidity	Adequate				
CRA adjustment		0			

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

## Credit Highlights

### Issuer Credit Rating

BBB+/Stable/--

### Overview

#### Key strengths

Strong risk-adjusted capital ratio

Access to favorably priced funding through AgriBank

Historically, strong credit risk management

#### Key risks

Concentrated lending to agricultural sector, given its charter

Somewhat limited geography, although nationwide footprint continues to expand

Exposure to cyclical commodity prices and unpredictable agricultural conditions

***Compeer Financial ACA's capital ratios have fallen, but we expect its S&P Global Ratings' risk-adjusted capital ratio will remain in the range we consider strong.*** In the past several years, Compeer's risk-weighted assets (RWAs) rose on strong loan growth pressuring capital ratios. The association also built less equity than in previous years, as earnings fell in 2023 on higher provisions for loan losses and were relatively flat in 2024, with provisions remaining elevated. We expect the S&P Global Ratings risk-adjusted capital (RAC) ratio (13.2% at year-end 2024) and regulatory capital ratios will be stable in 2025, with RWA growth moderating somewhat from prior years, and for risk migration to slow.

Compeer's and farmers' operating performances could come under pressure from the impact of countertariffs on the agricultural sector. However, it's uncertain what the impact would be and what offsetting measures the government could take. From a capital standpoint, we view Compeer as well positioned to withstand market strain. We would expect some increase in government aid to support farmers, given other recent government programs, such as the assistance programs the U.S. Department of Agriculture (USDA) put in place following the 2018 tariffs. Farmers remain in a decent financial position and have sufficient equity and liquidity to provide flexibility to cope with weather events and some tariff-related pressures.

***The pace at which adverse assets have been rising will slow.*** In the past couple of years, Compeer experienced credit quality deterioration, mostly isolated in its AgTech Financing and Capital Markets Group (CMG) units. The company has since tightened underwriting where required and continues to address the issue. We expect the pace at which adverse assets have been growing will slow. The broader loan portfolio remains in relatively good shape.

***As an agricultural credit association (ACA), Compeer is concentrated in agriculture but continues to add geographic diversity through the Agri-Access and CMG programs.*** Compeer has a designated lending territory in Illinois, Minnesota, and Wisconsin. That leaves it with higher industry concentration risk than that of most regional banks. However, with about 46% of its loan portfolio outside this region, up from about 35% in 2017, geographic diversification has improved. It also has diversified the types of agricultural businesses it lends to, in part through the Agri-Access program and CMG business.

***Compeer will continue to benefit from its relationship with AgriBank, which allows it to readily access funding.*** As a farm credit association, Compeer's primary funding source is its line of credit with its Farm Credit System (FCS) bank, AgriBank FCB. Compeer is able to match-fund its loans for the most part with low-cost borrowings, which primarily neutralize interest rate risk, and maintain a relatively stable net interest margin. As a non-depository institution, Compeer does not face the risk of deposit flight and higher deposit costs. Although we view on-balance-sheet liquidity as slim, we do not expect Compeer will lose access to its AgriBank funding.

## Outlook

The stable outlook indicates S&P Global Ratings' expectation that Compeer will continue to generate strong earnings with manageable asset quality metrics over the next two years. We expect capital measures will remain relatively stable, with an S&P Global Ratings RAC ratio firmly in the range of 10%-15%, which we consider strong. Operating performance could come under pressure from countertariffs, although we expect government support to the agricultural sector will offset some pressure. We expect operating performance to remain relatively solid.

### Downside scenario

We could lower the ratings on Compeer if we expect:

- Aggressive loan growth could put meaningful pressure on the RAC ratio closer to our adequate range of 7%-10%, or
- Growth resulting from loosening underwriting standards leads to further weakening of credit performance.

### Upside scenario

We could raise the ratings if the association unexpectedly boosts its capital ratios and we expect its S&P Global Ratings RAC ratio to rise above 15% on a sustainable basis. An upgrade would also be contingent on maintenance of good asset quality and earnings.

## Anchor: In Line With The Anchor For U.S. Banks

Our anchor for our rating on Compeer is 'bb+', in line with that for other U.S. companies that we rate under our nonbank financial institutions criteria. Because of Compeer's public policy role, access to government-related entity funding, and regulated status, we raise its anchor to 'bbb+', three notches above our anchor for other finance companies and equal to that of U.S. banks. This is to account for the Farm Credit Administration's (FCA's) regulatory oversight, the company's favorable funding through its position in the FCS, and its strong competitive position.

Peers include AgTexas Farm Credit Services, American AgCredit ACA, Capital Farm Credit ACA, CoBank ACB, and AgriBank. Ratios and figures are as of Dec. 31, 2024, unless otherwise specified.

## Business Position: Geographic And Industry Loan Concentration

Our assessment of Compeer's business position reflects the association's good market position in three states as an agricultural lender in the FCS and solid track record. We balance those strengths against Compeer's concentration in agricultural lending, with large exposures to cash grains, farm real estate, dairy, and swine.

Compeer is structured as a cooperative, owned by client stockholders to whom it provides loans and other services, with \$34.7 billion in assets, including \$30.5 billion in loans. The association has retail operations in over 35 office locations, serving 144 counties in Illinois, Minnesota, and Wisconsin. Lending to several less-correlated agricultural sectors helps mitigate its agricultural concentration.

Approximately 46% of Compeer's loan portfolio is outside of its designated service territory. Through loan syndications, CMG focuses on generating revenue and loan volume. In addition, Compeer provides correspondent lending programs with financial institutions that are dispersed throughout the U.S. under the trade name Agri-Access, primarily focused on purchasing participations in agricultural real estate loans and leases. It also services loan portfolios for other institutional investors. This provides portfolio diversification, helps reduce concentration risk, and provides growth. We expect CMG and Agri-Access will continue to fuel growth outside of the designated territory.

Compeer's net interest income makes up about 74% of revenues, with noninterest income, like patronage income and other fee income, providing good revenue diversification. This compares favorably with peers' approximately 21% median noninterest income.

For many grain clients, 2023 and 2024 were difficult years. Grain industry benchmarks showed net earnings below the three-year average in 2024. On a positive note, Compeer's grain portfolio is geographically diversified, helping lower the risk of weather unpredictability. Although farmland tends to be the greatest fixed asset of most grain farm operations and tied to interest rates, we do not view it as a major area of risk because of Compeer's strong first-lien positions and low loan to value (LTV) ratios (58% average). We expect the association will continue to broadly diversify asset growth across business units in 2025 (both retail and wholesale). The USDA estimates that direct government payments to U.S. farm producers could amount to more than \$40 billion in 2025 (not including tariff relief).

## Capital And Earnings: Capital Ratios Have Fallen But Should Remain Strong

In the past several years, capital ratios have fallen but are still what we consider strong. Compeer's S&P Global Ratings RAC ratio decreased to 13.2% in 2024 from 13.4% in 2023 and 14.7% in 2022. The Common Equity Tier 1 (CET1) regulatory capital ratio fell to 12.3% in 2024 from 12.6% in 2023 and 13.2% in 2022. We expect stable performance in 2025 due to slower RWA growth.

Capital ratios have fallen due to strong loan growth, strong patronage distributions, the redemption of \$100 million of preferred shares, and elevated provisions that lowered earnings. Compeer is required to invest in AgriBank's capital stock as a condition of borrowing. The investment requirement last increased in 2024 to 3.1% from 3% the previous year. We expect the RAC ratio to be relatively stable in 2025 and remain between 10%-15%, which we consider strong. This reflects our expectation of lower RWA growth than in prior years and slower credit migration. Quality of capital is strong, with the association's adjusted common equity to total adjusted capital at 98% versus the peer average of 91.5%.

Compeer's 41% cost-to-income ratio (by our calculation) is materially more favorable than the U.S. regional banks' median, given the association does not need to maintain an extensive branch network, but is higher than that of some farm credit peers. Profitability, measured by core earnings to operating revenue, at 47% is very strong compared with that of most U.S. regional banks, though meaningfully below the 60% peer average. We expect operating performance to be slightly more favorable in 2025 as a result of strong revenue growth and slowing credit quality migration, offset somewhat by operating expense growth and slightly higher patronage distributions. Overall, we expect earnings to register modestly higher in 2025 than in 2024.

Compeer pays patronage to its customer-members. Total equity distributions were lower at \$205.4 million in 2024 compared with \$210.3 million in 2023 and included cash patronage, redemptions of nonqualifying equities, preferred stock dividends, and other distributions. We expect patronage distributions will be slightly higher in 2025.

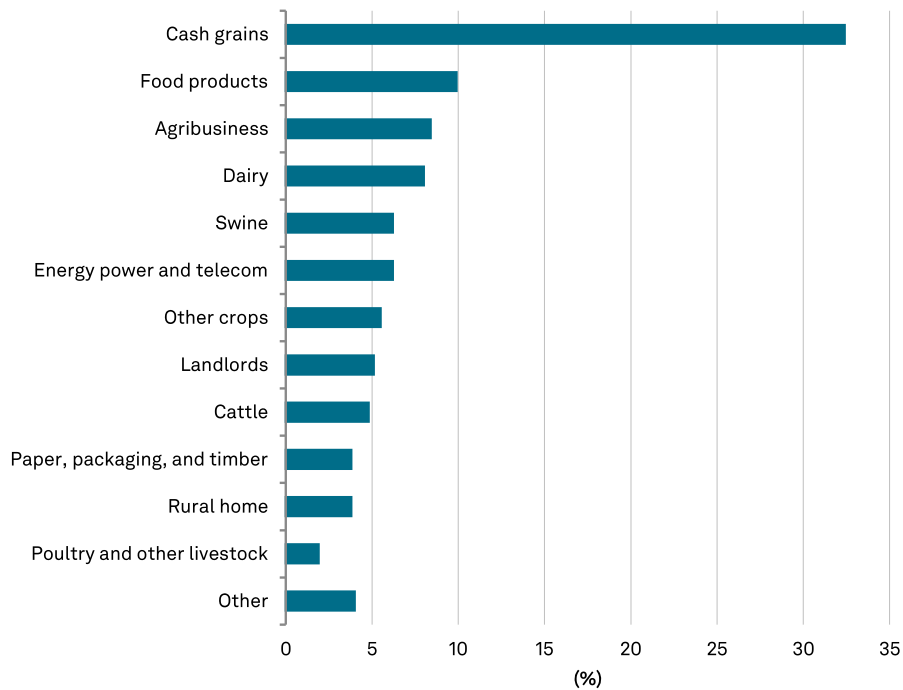
In a hypothetical severe stress test scenario that includes an agricultural element, designed and mandated by the FCA, Compeer's CET1 and total capital ratios would decrease by approximately 230 basis points (bps) and 120 bps, respectively, over a two-year period, but would remain above the association's operating ranges of 10%-13% (CET1) and 12%-14% (total capital).

## Risk Position: Concentrated In Agricultural Lending

Compeer's loan portfolio is highly concentrated to the agriculture industry, although specific commodity concentrations are not outsize. Most sectors have been able to adjust to a tighter margin environment and elevated costs. Growth in global grain investment remains a significant headwind for producers. Pressures on the association's AgTech Financing portfolio continued into 2024 with rising net charge-offs (NCOs); however, credit quality metrics remained within historical ranges and the portfolio is very small, representing approximately 1.3% of loans. We expect adverse assets will rise only modestly in 2025, as Compeer has tightened its underwriting standards to better align with its conservative risk appetite.

**Chart 1****Compeer Financial ACA--Loan composition by segment**

As of Dec. 31, 2024

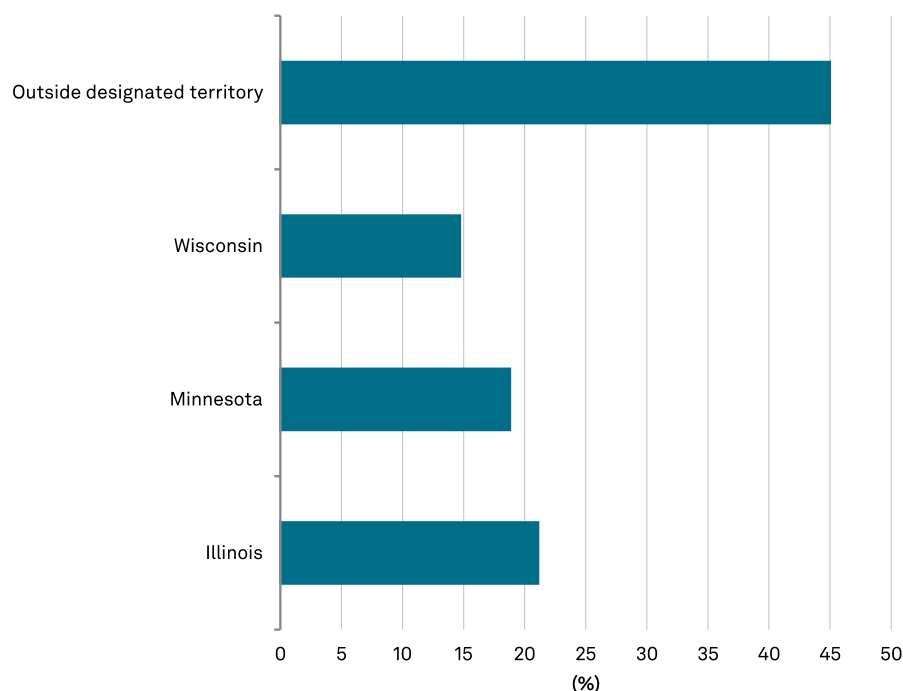


Source: Company filings, S&amp;P Global Ratings.

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**Chart 2****Compeer Financial ACA--Loan composition by region**

As of Dec. 31, 2024



Source: Company filings, S&amp;P Global Ratings.

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In recent years, Compeer has chosen to use capital to expand the loan portfolio above historical growth levels. Recent asset quality issues have surfaced in the AgTech Financing portfolio. A new program launched in 2021, offering real estate, operating, and term loans, along with leases to ag retail partners at point of sales. The CMG business unit was affected by a limited number of loans. Compeer has been enhancing its underwriting processes and tightening credit standards. Due to the changes made in the AgTech Financing program, Compeer does not expect the stress experienced during 2023-2024 will continue at the same level in 2025. The broad-based portfolio remains relatively strong, and the out-of-territory borrowers appear to be maintaining satisfactory credit quality.

Nonperforming assets rose to 117 bps (peer average of 78 bps) in 2024 from 85 bps in 2023. However, the NCO ratio at 27 bps (peer average of 11 bps) was relatively unchanged year-over-year and compared more favorably with that of U.S. regional banks. Although provisions for loan losses remained elevated in 2024, we expect lower provisions in 2025, reflecting expected credit quality improvement. The ratio of loan loss reserves to gross nonperforming loans, at about 32%, remains weak relative to that of similarly rated U.S. regional banks and compares with a peer average of about 79%. The collective reserve was largely stable throughout 2024. Specific reserves for a small number of larger accounts, along with credit issues in the AgTech Financing unit, were the key drivers of the 2024 allowance.

We believe a significant drop in commodity prices and farmland values would stress asset quality more meaningfully,

leading to higher losses and weaker earnings. Conservative LTV ratios (average LTV is 58% on new mortgages) have generally mitigated shocks to agricultural prices. Conservatism is reflected in prudent underwriting parameters at loan origination, with Compeer generally limiting lending to no more than 65% of value.

## **Funding And Liquidity: Concentrated But Stable Wholesale Funding Through The FCS**

As the association is a nondepository financial institution, its primary funding source is a wholesale credit agreement with AgriBank, one of four FCS wholesale funding banks. Although on-balance-sheet liquidity is intentionally limited, Compeer has approximately \$1.9 billion of unused borrowing capacity with AgriBank, with little risk it would lose access to AgriBank funding.

Compeer's \$45 billion line of credit with AgriBank (maturity October 2027) is renewable every three years. In 2021, the association issued preferred stock and subordinated debt, but due to its structure as a farm credit association, it relies overwhelmingly on AgriBank for funding. In 2023, Compeer redeemed \$100 million, or half, of its preferred stock, which makes up a small part of its capital structure, and did not replace it.

Because Compeer relies almost completely on AgriBank for funding and does not hold significant liquid assets, it has a stable funding ratio of 74%, based on our calculation; this is weaker than that of most rated commercial banks. The same is true for the other farm banks and associations we rate (average 69%). That said, the stability of the funding from AgriBank lessens the risk.

Compeer in effect is a beneficiary of the government-sponsored entity status of AgriBank and the FCS. Through AgriBank, Compeer is ultimately able to access the low-cost funds that the FCS raises from the market. As part of its cooperative structure, AgriBank currently requires Compeer to maintain an investment equal to 3.1% of the average quarterly balance of its notes payable. In addition, Compeer's agreement with AgriBank incorporates covenants related to performance, credit quality, and capital levels, such that should these deteriorate, the cost of funding would increase.

We view Compeer's on-balance-sheet liquidity as limited, given its modest \$1.9 billion investment portfolio, primarily government-guaranteed securities. We calculate Compeer's broad liquid assets to short-term wholesale funding at only 0.2x but in line with that of peers. This shortfall largely reflects Compeer's small securities portfolio and the funding structure of farm credit associations. Nevertheless, we view liquidity as adequate due to \$1.9 billion of unused borrowing capacity with AgriBank.

## **Support: No Uplift To The Rating**

Although the rating incorporates the ongoing funding benefits the association receives as an AgriBank owner, we believe there is a low likelihood that the U.S. federal government would provide extraordinary support directly to Compeer in the event of financial distress. Our assessment is that Compeer's individual role is of limited importance to the federal government. In addition, we view the association as having a limited link to the government. Its members

privately own Compeer, 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.

## Additional Rating Factors

None.

## Environmental, Social, And Governance

Environmental factors are a key consideration, given that Compeer is an agricultural lender. We are assessing and monitoring the association's policies and how Compeer incorporates this issue into its underwriting decisions. We believe that Compeer's governance structure is sound and permeated through the organization. Social factors are a positive consideration in our credit rating analysis of Compeer. As an association in the FCS, Compeer 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 RAC with less focus on short-term profitability.

## Group Structure, Rated Subsidiaries, And Hybrids

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

## Key Statistics

**Table 1**

Compeer Financial ACA--key figures					
--Fiscal year-end Dec. 31--					
(Mil. \$)	2024	2023	2022	2021	2020
Adjusted assets	34,717	31,900	29,673	27,008	24,942
Customer loans (gross)	30,589	28,290	26,725	24,515	22,637
Adjusted common equity	5,042	4,773	4,503	4,220	3,943
Operating revenues	1,010	1,018	902	856	797
Noninterest expenses	412	400	375	349	312
Core earnings	473	465	503	489	433

**Table 2**

<b>Compeer Financial ACA--business position</b>					
	<b>--Fiscal year-end Dec. 31--</b>				
<b>(%)</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Return on average common equity	9.65	10.05	11.57	12.04	11.35

**Table 3**

<b>Compeer Financial ACA--capital and earnings</b>					
	<b>--Fiscal year-end Dec. 31--</b>				
<b>(%)</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Tier 1 capital ratio	12.66	13.13	13.95	14.64	14.69
S&P Global Ratings' risk-adjusted capital (RAC) ratio before diversification	13.20	13.41	14.70	15.48	15.75
S&P Global Ratings' RAC ratio after diversification	9.91	10.06	10.87	11.37	11.51
Adjusted common equity/total adjusted capital	98.06	97.95	95.75	95.47	97.53
Net interest income/operating revenues	74.04	69.59	67.70	64.55	65.87
Fee income/operating revenues	10.91	10.40	11.28	13.46	12.08
Market-sensitive income/operating revenues	(0.36)	(0.57)	(0.21)	(0.28)	0.07
Cost to income ratio	40.78	39.33	41.54	40.80	39.10
Preprovision operating income/average assets	1.80	2.01	1.86	1.95	2.06
Core earnings/average managed assets	1.42	1.51	1.77	1.88	1.84

**Table 4**

<b>Compeer Financial ACA--risk position</b>					
	<b>--Fiscal year-end Dec. 31--</b>				
<b>(%)</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Growth in customer loans	8.13	5.85	9.01	8.30	13.57
Total diversification adjustment/S&P Global Ratings' risk-weighted assets before diversification	33.16	33.24	35.29	36.11	36.77
Total managed assets/adjusted common equity (x)	6.89	6.68	6.59	6.40	6.33
New loan loss provisions/average customer loans	0.39	0.41	(0.04)	(0.06)	0.13
Net charge-offs/average customer loans	0.27	0.26	0.00	0.04	0.08
Gross nonperforming assets/customer loans + other real estate owned	1.17	0.85	0.43	0.57	0.67
Loan loss reserves/gross nonperforming assets	31.51	31.36	46.24	45.25	58.42

**Table 5**

<b>Compeer Financial ACA--funding and liquidity</b>					
	<b>--Fiscal year-end Dec. 31--</b>				
<b>(%)</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Long-term funding ratio	72.12	72.29	72.49	72.65	72.43
Stable funding ratio	73.84	73.43	73.26	73.44	73.67
Short-term wholesale funding/funding base	32.84	32.83	32.81	32.79	33.00
Broad liquid assets/short-term wholesale funding (x)	0.20	0.18	0.16	0.15	0.17
Broad liquid assets/total assets	5.41	4.92	4.37	4.11	4.60
Short-term wholesale funding/total wholesale funding	32.73	32.70	32.54	32.50	32.84

Compeer Financial 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

- 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings Detail (As Of April 22, 2025)\*

### Compeer Financial, ACA

Issuer Credit Rating	BBB+/Stable/--
Preferred Stock	BB+

### Issuer Credit Ratings History

27-Apr-2023	BBB+/Stable/--
14-Apr-2022	BBB+/Positive/--
05-Jun-2018	BBB+/Stable/--

## Ratings Detail (As Of April 22, 2025)\*(cont.)

**Sovereign Rating**

United States	AA+ / Stable / A-1+
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**Related Entities****Compeer Financial, FLCA**

Issuer Credit Rating	BBB+ / Stable / --
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Subordinated	BBB
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**Compeer Financial PCA**

Issuer Credit Rating	BBB+ / Stable / --
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Subordinated	BBB
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\*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.

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