

Research Update:

Compeer Financial FLCA And Compeer Financial PCA Assigned 'BBB+' Ratings; Outlook Stable; Proposed Debt Rated 'BBB'

May 6, 2021

Overview

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

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Rating Action

On May 6, 2021, S&P Global Ratings assigned 'BBB+' long-term issuer credit ratings to Compeer Financial FLCA and Compeer Financial PCA. The outlook on both is stable. We also assigned a 'BBB' rating to Compeer Financial FLCA and Compeer Financial PCA's proposed joint issuance of subordinated debt.

Rationale

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

Both Compeer FLCA and Compeer PCA are wholly owned subsidiaries of Compeer Financial ACA. As of March 31, 2021, Compeer FLCA and Compeer PCA collectively held approximately 98% of the

group's assets, and the remainder were held by the parent. Compeer FLCA provides long-term real estate mortgage loans, and Compeer PCA provides short-term and intermediate-term loans to agricultural borrowers. Furthermore, these subsidiaries jointly provide 99% of the group's net income.

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

As one of the largest agricultural credit associations in the U.S., Compeer Financial ACA's performance has been stable over the past several years, despite volatility in the agricultural markets caused by changes in U.S. trade policies and the COVID-19 pandemic.

We rated Compeer FLCA and Compeer PCA's proposed subordinated debt due 2031 one notch below the group SACP to reflect contractual subordination. Compeer FLCA and Compeer PCA are co-obligors on the debt, and the parent acts as a guarantor. The company intends to use the proceeds for general corporate purposes, including a reduction in the balance outstanding under the wholesale loan from Agribank FCB.

Outlook

The stable outlook mirrors that on the parent, Compeer Financial ACA. So long as the rating on the parent is unchanged, we would change our ratings on Compeer FLCA and Compeer PCA only if we were to alter our view of the subsidiaries' strategic importance to their parent, which we view as very unlikely.

Downside scenario

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

Upside scenario

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

Related Criteria

- 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
- 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

- 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

New Rating

Compeer Financial PCA

Subordinated Debt	BBB
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Compeer Financial, FLCA

Subordinated Debt	BBB
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New Rating; CreditWatch/Outlook Action

Compeer Financial PCA

Issuer Credit Rating	BBB+/Stable/--
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Compeer Financial, FLCA

Issuer Credit Rating	BBB+/Stable/--
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