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## Outlook for Energy Costs

Ever since the Arab oil embargo in the 1970s, the price of gasoline has erupted periodically into the forefront of American politics, with elected leaders seeking to convince voters they were doing everything possible to lessen pain at the pump. From President Carter donning a sweater to tell Americans the energy crisis was “the moral equivalent of war,” to President Obama calling on Congress to boost civil and criminal penalties for market speculators, energy policy has regularly taken center stage.

When gasoline prices surged nearly 50 cents earlier this year, every Republican running for president blamed Obama’s energy policies for high prices, saying his administration has been hostile to drilling for fossil fuels and wasted billions in bad investments in green energy. The president retorted that oil production has risen steadily during his term and that conservation and investment in renewables are keys to lessening the nation’s future dependence on volatile oil markets.

Could a more aggressive drilling policy lower gas prices? Are oil speculators to blame? Is green energy the future?

With the price of crude oil hovering around \$100 per barrel and a gallon of gasoline peaking at more than \$4 per gallon in some areas in April, *OUTLOOK* asked Jerry Taylor, a senior fellow and economist at the Washington-based Cato Institute who has written extensively on a wide variety of energy and environmental issues, to weigh in on the outlook for energy costs.

***OUTLOOK: Where are oil prices now relative to their trading range over the past couple of years, and where do you expect them to go over the course of the year?***

**Jerry Taylor:** The spot price in January 2009 was about \$43 a barrel and reached \$126 this past March. It’s now eased back by a few dollars a barrel. Predicting where the price will go next is essentially impossible. Oil prices are very volatile because small changes in quantities supplied or demanded can have large effects on price. In the short run, meaning a time frame of months, a 1 percent change in quantity supplied or demanded has at least a 10 percent to 30 percent effect on price.

**About this article**

Jerry Taylor is a senior fellow at the Cato Institute. He is a frequent contributor to *The Wall Street Journal* and *National Review* and appears regularly on CNBC, NPR, Bloomberg Radio, the BBC, and Fox News. His op-eds on public policy have appeared in *The Washington Post*, *The New York Times*, *The Los Angeles Times* and other major dailies. Taylor has served on several congressional advisory bodies and testifies frequently on Capitol Hill regarding various energy and environmental policy matters. He is the author or coauthor of numerous Cato policy studies addressing energy taxes, the oil market, electricity regulation, energy efficiency, renewable energy, sustainable development, and trade and the environment. He is also an adjunct scholar at the Institute for Energy Research.

**OUTLOOK: How do higher oil prices flow through the U.S. economy? What are the impacts on gasoline prices? As you know, the U.S. economy is struggling with very low GDP growth. What kind of negative macroeconomic impact do you foresee if oil prices spike sharply?**

**JT:** Crude price changes are reflected quickly in gasoline prices. That being said, however, the relationship between oil prices and the macroeconomy remains unsettled. There are economic research papers that argue because wages and prices are more flexible now than in the 1970s and the use of energy per unit of GDP is now much lower than in the 1970s, the effects of oil shocks on the economy are now lower than a generation ago. But other economists disagree, arguing that the effect of oil prices on the macroeconomy is now the same or greater than a generation ago.

**OUTLOOK: Are U.S. policies to blame for this recent spike in prices?**

**JT:** What you've had for some time is rising demand for crude oil globally and the inability of suppliers to keep up with that demand. The primary drivers of crude oil prices in the United States are world demand curves. There's actually very little that Barack Obama can be held accountable for on that front.

**OUTLOOK: Who are the primary consumers of energy on the global market today?**

**JT:** North America and Europe still consume a great deal of energy, but their demand for oil has stagnated or, in the case of Europe, actually fallen in recent years. Even U.S. consumption of oil is down from 2005, although it has crept up somewhat since the height of the recent recession. So the primary drivers of growing world demand for crude oil are elsewhere, with industrializing China and India leading the way. But even in the rest of the world outside of Asia, demand for oil is rising significantly and that trend is likely to continue.

**OUTLOOK: A lot of the energy policy debate in the U.S. turns on whether or not we should be doing more to exploit domestic oil sources. How aggressively should the U.S. be pursuing oil exploration at home?**

**JT:** Even if the United States opened all of the lands currently off limits to the oil sector, the drilling there would increase global crude oil supplies by only a small amount. If you do the math, the additional drilling might reduce global prices by 1.5 percent, assuming the estimates of recoverable crude oil are correct.

The argument that prices would come down dramatically if we only opened up the Arctic National Wildlife Refuge and our coastal areas off of California, Florida and elsewhere simply isn't true.

And so the argument that prices would come down dramatically if we only opened up the Arctic National Wildlife Refuge and our coastal areas off of California, Florida and elsewhere simply isn't true. We'd have more crude on the market, of course, but in a 78-80 million barrels-a-day global market that continues to expand because of economic growth in places like India and China, it wouldn't make that much difference.

***OUTLOOK: So are arguments about opening up more areas to drilling not compelling?***

**JT:** The case for drilling in the Gulf of Mexico or in Alaska is that the wealth creation from the drilling is far greater than any likely environmental costs or any other secondary external costs as well. Wealth creation is the whole point of the U.S. economy, and a lot of wealth could be generated through drilling in places currently off limits to the industry.

***OUTLOOK: So the sizeable increase in U.S. oil production in the past few years – up an estimated 120,000 barrels a day last year alone – is a good thing even if it hasn't lowered prices dramatically?***

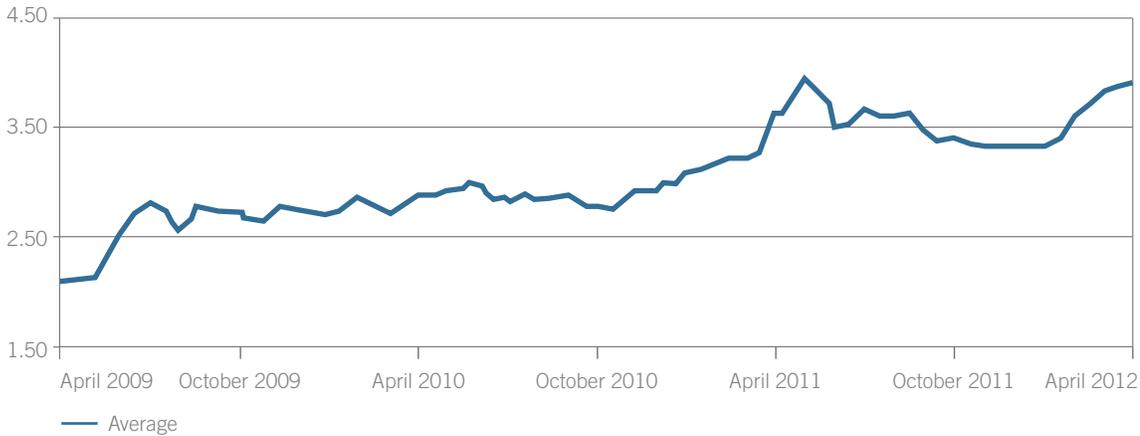
**JT:** That's absolutely correct. There's more wealth being created, more profit being made and more economic activity. But it also demonstrates my point: Even as U.S. production has gone up it hasn't really arrested the rise of international crude oil prices.

***OUTLOOK: That's of course in contrast to the natural gas market, in which prices have plummeted in recent years.***

**JT:** Exactly true. The crude oil market is more of a global market than the natural gas market and that's related to transportation costs. It's relatively pricey to move natural gas from North America to Europe, for example. So we have a collection of smaller regional markets where the internal supply and demand dictate price. In the U.S., because of the fact that we've been the innovators in hydraulic fracturing, horizontal drilling and other practices we've been able to unleash a lot of natural gas on the market.

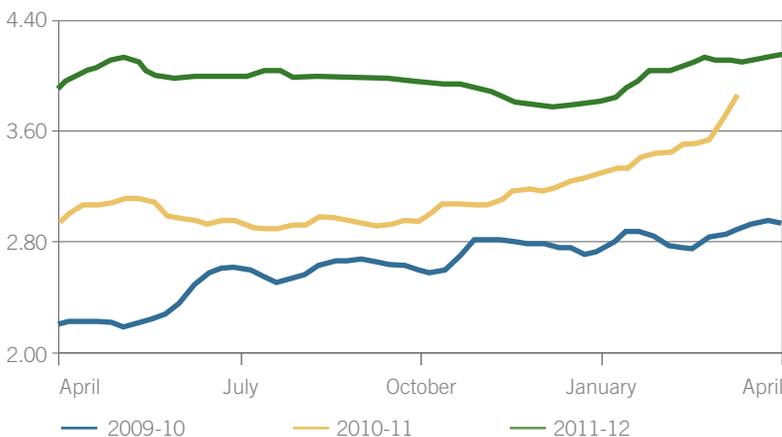
## U.S. RETAIL REGULAR GASOLINE PRICES

Dollars per Gallon



## U.S. ON-HIGHWAY DIESEL FUEL PRICES

Dollars per Gallon



Source: U.S. Department of Energy

**OUTLOOK:** *President Obama recently called for greater federal oversight of oil markets, arguing that oil speculators have boosted the price of crude oil. Do you believe that?*

**JT:** The contention that speculators are behind gasoline price increases at present is a contention without evidence. If speculation were involved, one would expect to see a buildup in oil inventories. That's because speculators are essentially making cash bets on the future price of crude oil; they are not actually taking delivery of any crude. Hence, the only means by which speculators could influence supply or demand of crude is if the futures price

becomes so high that market actors buy crude in spot markets, store it somewhere, and then sell it into the future. This often happens when futures prices go high, but we are not seeing any unusual increases in oil inventories at present.

If speculators were driving oil prices higher, they would essentially be reallocating crude oil from times of relative plenty to times of relative scarcity. This would be a good thing. But there's no sign that it's happening now.

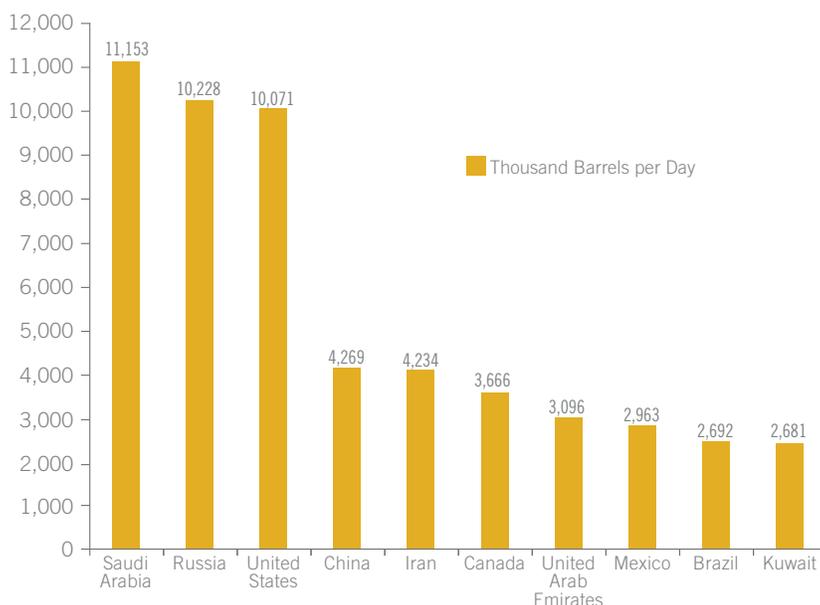
**OUTLOOK:** *The Keystone Pipeline already transports crude oil from Canada to multiple destinations in the United States but proposed expansions of the pipeline have been delayed because of political pressure and environmental concerns. Would building these extensions help lower oil and gas prices?*

**JT:** The Obama administration’s position in opposition to Keystone is primarily focused on what might happen were there a leak in the pipeline above the Ogallala Aquifer. I have read hydrologists from the University of Nebraska and elsewhere whose analyses dismiss those arguments. The concerns of the administration and its environmentalist allies are largely overwrought. It’s hard to envision their worst case scenarios playing out, considering that third parties with no particular ax to grind don’t seem particularly alarmed.

On the other hand, Republicans like to offer job creation figures of tens of thousands or, if they get relatively undisciplined in their arguments, even 100,000 jobs. The figures are based on dodgy math using dramatic multipliers regarding job creation – the sort of calculations they thunder against when the environmental left uses them to justify green energy subsidies. And they’re right to thunder against such calculations because once you see multipliers in play you’re seeing a lot of charlatanism, for the most part.

The math is sloppy also because a lot of the job creation that Republicans have counted includes jobs that have already come and gone. In other words, they’re calculating construction of the total pipeline, much of which has already been undertaken and completed, rather than the jobs at the margin that might be created by finishing the project in Nebraska and a couple of other places where the line is at issue. So if you look closely at Republican arguments for job creation they sort of fall apart.

## TOP OIL PRODUCERS



For the year 2011  
Source: U.S. Energy Information Administration

To argue that the Keystone Pipeline is a fundamental part of an economic recovery program is either the rhetoric of someone who is not too bright or who thinks you are not too bright.

It looks to me as if we're talking about creating maybe 3,000 or 4,000 jobs. That's not to diminish the case for the pipeline. The case for the pipeline is that it's a wealth-creating exercise that makes profit and that those things should generally go forward. But to argue that the Keystone Pipeline is a fundamental part of an economic recovery program is either the rhetoric of someone who is not too bright or who thinks you are not too bright.

***OUTLOOK: Doesn't energy security come into play in the debate over Keystone?***

**JT:** There are a number of specific problems I have with energy security rhetoric, which resonates just as much with the left as the right. The reason I'm not persuaded is that even if there's a disruption abroad in a place from which we don't import crude oil – the U.S. does not import crude oil from Iran, for example – that fact doesn't protect us in the slightest. Let's say something happens to Iranian production, perhaps war with Israel or civil unrest. If so, global oil prices will leap. Since oil is fungible, all crude oil will become more expensive. The fact that we didn't import from Iran will make no difference whatsoever. Energy independence does not protect us from bad events abroad.

Then there's a broader point that is often overlooked. Even if energy independence somehow could cripple oil exporters whom we don't like – such as Venezuela and Iran – how do we know what replaces them will be much better? I can imagine a world in which low crude oil prices knocked off Vladimir Putin's regime in Russia and replaced it with something better. In Saudi Arabia, however, if the house of Saud were to fall because oil prices were so low they couldn't maintain stability, it looks to me that a more hostile government might replace it as opposed to one more amenable to U.S. interests. So it's not altogether obvious to me that low crude oil prices, even if we could engineer them, and even if that would undermine these regimes, would necessarily produce a world we like. Remember, in the 1990s oil prices were a fraction of what they are today – they tended to be in the teens as opposed to over \$100 a barrel – and yet regimes did not fall. There is a great deal of excessive optimism about what we can do about these regimes via the oil markets.

Even if we stipulate that energy independence is a worthwhile goal, subsidizing wind energy and solar and geothermal or whatever might be the flavor of the day isn't going to get us there.

***OUTLOOK: Can energy independence be reached through subsidies for green energy – for wind and solar and for electric car batteries?***

**JT:** Let's assume for a moment that energy independence is a good thing. I don't actually accept that argument, as you've probably realized. I think the argument for buying energy abroad is the same as for buying anything else abroad. If we can get "X" more cheaply by buying abroad, then we create more wealth by doing so rather than by buying from a domestic producer. So the case against energy independence is the case against protectionism generally. But even if we stipulate that energy independence is a worthwhile goal, subsidizing wind energy and solar and geothermal or whatever might be the flavor of the day isn't going to get us there. Those technologies primarily produce electricity. Crude oil is not imported to produce electricity. We use only about 3 percent of crude oil for electricity generation. Oil is used very predominantly in transportation and industrial markets.

Now environmentalists might say we could harness that electricity with batteries and move cars that way. Well, possibly. But it would take an awful lot of renewable energy to run all of those batteries and it would be a heckuva lot cheaper to use domestic natural gas or coal. Moreover, electric cars are a trivial part of the market at the moment and will almost certainly continue to be so.

What environmentalists are doing is taking advantage of the fact that most Americans don't really understand energy markets. They think of energy as one giant bucket of BTUs, and that's not the case.

***OUTLOOK: Environmentalists might counter that government has a pretty good track record in leveraging new technologies through taxpayer-funded investments.***

**JT:** The problem is that we don't have a reasonable counterfactual to examine in the examples they raise. So, for example, the Breakthrough Institute argues that innovations in natural gas drilling, including fracking, were driven by government investment. President Obama repeated this claim in his State of the Union address. But are we really going to believe that absent some of these government R&D projects the revolution in drilling techniques would not have occurred? We don't know that. We can't possibly know that.

**WHERE THE U.S. IMPORTS ITS CRUDE OIL**

COUNTRY	THOUSAND BARRELS PER DAY
Canada	2,324
Saudi Arabia	1,465
Mexico	1,099
Venezuela	759
Nigeria	529
Colombia	510
Iraq	403
Ecuador	299
Angola	283
Russia	275

As of September 2011  
 Source: U.S. Energy Information Administration

There is a lot of evidence that when government gets involved in an R&D project it is often because a private actor would rather have government pay for it than have his shareholders pay for it. So it doesn't follow that because government paid for something that it wouldn't have occurred otherwise.

Secondly it's very unclear to what extent at the margin government activity was really key in fracking. There is evidence that government was involved in some of the related R&D but it is also true that the fellow who was the principal driver behind the new techniques spent 20 years trying to noodle his way through various problems. So to what extent did government help? We don't know. We just get aggregate numbers of how much was spent followed by claims that this expenditure was crucial and vital.

The government throws so much money around the American economy that we can play a game of three degrees of separation and link almost every activity back to some project that received federal money. If we are going to give the government credit for every activity that can be traced back to a federal dollar then we don't live in a free economy, we live in an economy where the government is the driver of every activity. And we intuitively know that's not correct.

**OUTLOOK: Won't China pull ahead of us in green technology if we don't subsidize it?**

**JT:** That's an argument that protectionists always make. It was the argument we heard for why we had to subsidize the auto industry if we were going to keep up with Japan in the 1990s. We always hear that some other global entity is subsidizing "X" and we must too or we will be buried. These arguments have been around since time immemorial and virtually every economist with a PhD and an IQ above dishwasher has blasted them apart.

It doesn't follow that just because another government is doing something stupid that we must do likewise or be left in the dust of economic history.

**OUTLOOK:** *Some supporters of subsidies for green energy maintain that consumers don't always realize how much they could save if they bought, say, solar panels or hybrid vehicles.*

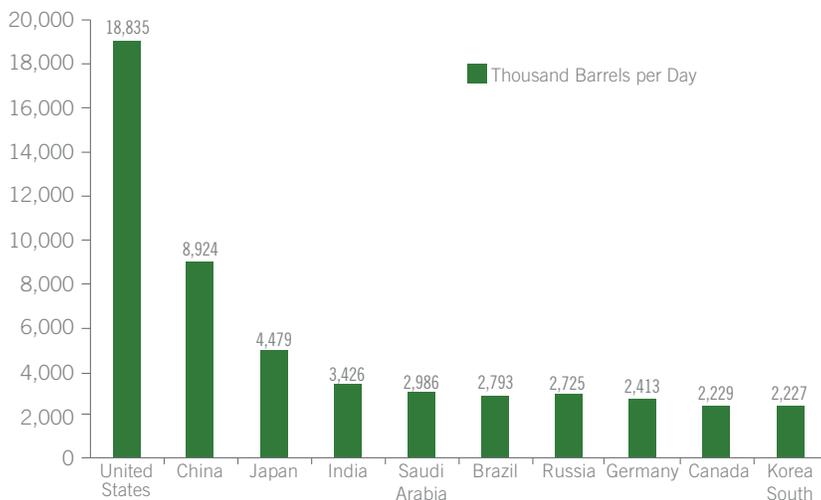
**JT:** If consumers needed subsidies, or carrots and sticks, to act rationally, then free markets would never have triumphed over centralized markets. We know that the government does not know better than we do how to efficiently order our lives. If the government could efficiently exercise that power, the Soviet Union would have won the Cold War. So the relevant question is, is there a market failure at work in a specific case?

What's the market failure in energy conservation? There's virtually none that I can see. People know how much cars cost. They know how much fuel costs. They can do the math and see, for example, whether the tradeoff for a fuel-efficient car is worth it. And we need to look at the opportunity costs. Maybe they can make 7 percent by investing in conservation but make 14 percent investing the money elsewhere. Since we don't know the universe of opportunity costs we can't a priori assume that a lack of investment in X, which otherwise looks profitable, is an efficient outcome. This is the same problem with central planning. Central planners, no matter how well informed or well intentioned, just cannot have enough information to judge whether a private act was or was not efficient.

But to the extent economists have studied this issue they have generally found good evidence that consumers do act rationally in these energy markets, that they do apply reasonable discount rates and that they do invest in energy conservation when it makes economic sense.

But let's assume that consumers are not informed enough to make good decisions in energy markets. In that case, the correct response is to better inform consumers with information campaigns, not start ordering them around. If lack of information is the problem then better information is the answer through disclosure and labeling laws.

## TOP OIL CONSUMERS



For the year 2011  
Source: U.S. Energy Information Administration

***OUTLOOK: Energy Secretary Steven Chu, before he was nominated, said, “Somehow we have to figure out how to boost the price of gasoline to the levels in Europe.” And he’s hardly alone in feeling that Americans don’t pay the full cost that oil consumption imposes on society. Should government in the U.S. be taxing gas consumption at much higher levels, the way Europe does?***

**JT:** There’s a rich literature on the external costs of energy consumption and it depends on which energy you’re talking about. If you’re talking about crude oil, for example, there are those who believe there are large national security costs associated with protecting crude oil production – which gets us back to the energy independence argument. Most economists who have looked at this find very little evidence that our imports impose external costs on third parties, but politicians pushing various agendas are not always persuaded by the findings.

In the environmental area, I think we have better information to go on. It is reasonable to believe that the environmental costs of energy consumption are not fully incorporated into the price. We know they are somewhat incorporated into the price because we do mandate anti-pollution and abatement requirements on factories that produce and consume energy, but there’s still reason to believe that they’re not fully internalized.

But most economists who look at this estimate the non-internalized costs of pollution work out to about 25 cents per gallon of gasoline. And most of those costs have to do with congestion and accidents and things like that, not pollution. But if you want to reduce congestion you should charge people for using roads at busy times, not increase the cost of gasoline.

So energy may be underpriced and it may not be, but if it is, it’s not by much. It’s not as if we priced energy correctly that we’d see a world of solar and wind power. We wouldn’t see anything like that. ■

# Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 04/30/12. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

## KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

## ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

### US Treasury Securities

2012	GDP	CPI	Funds	2-year	10-year
Q1	2.20%	2.50%	0.10%	0.30%	2.00%
Q2	2.30%	2.40%	0.13%	0.30%	2.10%
Q3	2.40%	2.20%	0.13%	0.30%	2.20%
Q4	2.60%	2.10%	0.13%	0.40%	2.30%
2013	GDP	CPI	Funds	2-year	10-year
Q1	2.40%	2.10%	2013 Projections Not Currently Available		

## PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

## IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.48%	0.50%	0.67%	1.10%	1.53%	2.05%
0.25	0.40%	0.49%	0.73%	1.19%	1.62%	2.12%
0.50	0.52%	0.54%	0.81%	1.30%	1.73%	2.20%
0.75	0.51%	0.56%	0.90%	1.40%	1.82%	2.28%
1.00	0.54%	0.59%	1.00%	1.51%	1.93%	2.36%
1.50	0.61%	0.70%	1.23%	1.72%	2.12%	2.51%
2.00	0.73%	0.91%	1.48%	1.94%	2.32%	2.66%
2.50	1.02%	1.21%	1.76%	2.19%	2.51%	2.80%
3.00	1.31%	1.50%	2.03%	2.44%	2.71%	2.94%
4.00	1.90%	2.06%	2.56%	2.80%	3.02%	3.17%
5.00	2.33%	2.47%	2.89%	3.11%	3.24%	3.35%

## HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

## FORWARD FIXED RATES

### Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	5	5	6	5
90	5	11	13	12
180	5	16	22	21
365	16	34	45	41

Costs are stated in basis points per year.

## SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

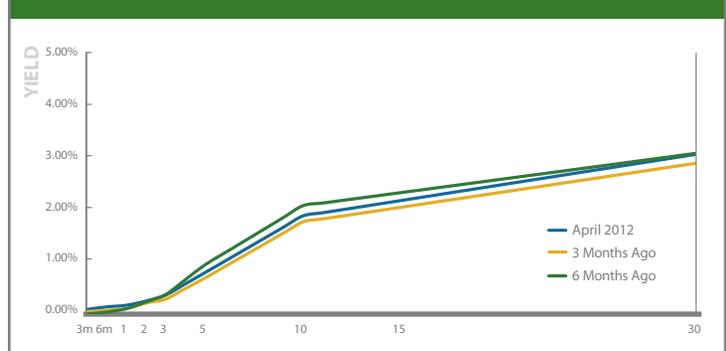
## 3-MONTH LIBOR



## RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

## TREASURY YIELD CURVE





### About CoBank

CoBank is a cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at [www.cobank.com](http://www.cobank.com).

*Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.*

## CoBank Reports First Quarter Financial Results

### U.S. AgBank Merger Delivers Immediate Benefits Net Earnings Increase 9 Percent To \$230.5 Million

CoBank, a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States, this month announced financial results for the first quarter of 2012.

Results for the quarter reflected the impact of CoBank's January 1, 2012 merger with U.S. AgBank, through which the bank acquired U.S. AgBank's assets and liabilities, including approximately \$20 billion in wholesale loans to 25 Farm Credit associations. The merger increased average loan volume as well as net interest income, net income and certain other key measures of financial performance. The positive impact from the merger more than offset a year-over-year decline in agribusiness lending, caused by lower average prices for grains and other commodities and reduced inventory financing requirements at agricultural cooperatives.

Including the impact of the merger, CoBank's quarterly net income rose 9 percent to \$230.5 million, compared with \$212.1 million in the first quarter of last year. Net interest income for the quarter was \$313.1 million, compared with \$301.2 million a year ago. Average loan volume for the first quarter was \$69.4 billion, compared to \$54.9 billion for the same period in 2011.



Robert B. Engel

"As expected, our merger with U.S. AgBank is delivering immediate financial benefits," said Robert B. Engel, president and chief executive officer. "Over time, those benefits will become even more significant, given the increased financial strength of the combined bank and market conditions that will continue to be unpredictable.

We're very pleased with our results for the quarter, and remain focused on meeting the borrowing needs of customers across all the industries we finance."

At quarter end, 1.02 percent of the bank's loans were classified as adverse assets, compared with 1.25 percent at December 31, 2011. Nonaccrual loans decreased to \$125.0 million, compared to \$134.9 million at the end of the year. During the first quarter, the bank recorded a \$5.0 million provision for loan losses, compared to \$12.5 million in the first quarter of 2011.



David P. Burlage

“Credit quality in CoBank’s loan portfolio is at historically high levels,” said David P. Burlage, CoBank’s chief financial officer. “Conditions are generally strong in the U.S. rural economy and most of the industries we serve. Additionally, we saw further improvement to credit quality in the first quarter due to the addition of U.S. AgBank’s high quality wholesale association loan portfolio.”

The bank’s allowance for credit losses now totals \$545.4 million, or 1.66 percent of non-guaranteed loans outstanding excluding loans to Farm Credit associations.

Capital and liquidity levels at CoBank remain well in excess of regulatory minimums. As of March 31, 2012, shareholders’ equity totaled \$6.0 billion, and the bank’s permanent capital ratio was 15.32 percent, compared with the 7.00 percent minimum established by the Farm Credit Administration (FCA). At quarter end, cash and investments totaled \$18.8 billion and days liquidity was 180 days. No impairment losses in the investment portfolio were taken during the quarter.

Engel noted that, despite strong financial performance in the first quarter, CoBank continues to face challenges to revenue growth. Lower commodity prices and changing farmer delivery patterns have diminished the need for and level of seasonal borrowing by agricultural cooperatives, and continued weakness in the housing market and overall economy is suppressing capital investment and demand for credit from rural infrastructure providers. In addition, many farmers and ranchers around the country are currently opting to finance operations with cash rather than credit, reducing loans at Farm Credit associations served by the bank.

“Demand for loans in the industries we serve is, as always, closely tied to external economic factors and conditions, many of which remain volatile and uncertain,” Engel said. “Under the guidance of our board, we continue to build the financial strength of the bank, provide our customers with exceptional value and manage the enterprise for the long term.” ■