

Farm Credit Administration

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INFORMATIONAL MEMORANDUM



December 2, 2010

To: Chairman, Board of Directors
All Farm Credit System Institutions

From: Samuel R. Coleman, Director and Chief Examiner
Office of Examination

A handwritten signature in black ink that reads 'Samuel R. Coleman'.

Subject: National Oversight Plan for Fiscal Year 2011

Consistent with recent Farm Credit Administration (FCA or Agency) communications, we are committed to providing continued guidance and oversight on emerging and significant risk areas. Each year the Office of Examination develops a National Oversight Plan to detail strategies for addressing critical risks or other focus areas in the Farm Credit System (System). The National Oversight Plan for fiscal year 2011 remains substantially unchanged from last year's plan and we will continue to focus on seven risk topics which address material or emerging risk issues. These risk topics include:

1. Loan Portfolio Management,
2. Large, Complex, and Shared Assets,
3. Collateral Risk Management,
4. Compensation Programs and Corporate Governance,
5. Borrower Rights and Compliance,
6. Financial Management, and
7. Counterparty Risk.

The Office of Examination believes the risk topics identified in the National Oversight Plan for 2010 remain relevant in today's risk environment. The topics underscore the importance of strong and consistent risk management practices in an environment that includes severe industry stress, significant commodity price volatility, expected future interest rate increases, and increased collateral risk.

I would like to specifically highlight the collateral risk topic. Collateral risk has increased substantially in many parts of the country given the significant increase in agricultural real estate prices and stress in certain agricultural and real estate sectors and specialty industries (e.g., dairy, ethanol, etc.). To prepare for the potential impact of the elevated risk, the board of directors should clearly understand the nature and amount of collateral risk in their loan portfolio and ensure the necessary controls are in place to identify, manage, and report this risk. Collateral risk has been the subject of several FCA communiqués during the past several years and it has been a risk topic in prior National Oversight Plans. I encourage each board of directors to review and monitor their institution's collateral risk exposures and re-evaluate the

adequacy of risk management practices, including the appropriateness of underwriting practices.

Review the attached December 16, 2009, Informational Memorandum, and use its content to discuss your institution's operations and conditions with your board and management team. The questions included in that memorandum will be used by FCA examiners in upcoming examination activities.

Please use this information to better understand the priorities that we believe are critically important to the safety and soundness of Farm Credit System institutions. Distribute copies of this memorandum and attachment to your fellow board members and discuss its contents with the Audit Committee chairman, other board committees, and your executive management team. You should also provide copies of this memorandum to the managers of the internal audit and credit review programs. If you have any questions about this memorandum, please contact your designated examiner-in-charge or me at (703) 883-4246 (colemanr@fca.gov).

Attachment

Copy to:

Chief Executive Officer, All Farm Credit System Institutions
Chief Executive Officer, Farm Credit Council
Chief Executive Officer, Farm Credit Council Services