

Farm Credit Administration

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INFORMATIONAL MEMORANDUM



November 4, 2010

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

Chief Executive Officer
All Farm Credit System Institutions

From: Leland A. Strom
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Leland A. Strom', is written over the printed name.

Subject: Serving the Members of Farm Credit System Institutions

On October 14, 2010, the Farm Credit Administration (FCA) Board adopted Policy Statement FCA-PS-80, “*Cooperative Operating Philosophy—Serving the Members of Farm Credit System Institutions*” (Policy Statement). The Policy Statement reaffirms the FCA’s commitment to Farm Credit System (System) members’ participation in their institutions. It emphasizes that operating in a cooperative manner requires the boards of directors and management to engage, communicate with, and provide value-added benefits to members.

System institution boards and management that focus on serving their members ensure the institution maintains and embraces its mission of furnishing sound, adequate and constructive credit as a cooperative. Boards that use two-way communication with shareholders encourage participation in the institution by its entire member base. Institution boards that have exposure to all the agricultural sectors and various market segments of its member base are better able to make decisions that benefit the varied shareholder interests within its territory. As the boards and management of System institutions continue to build on their strong reputation as effective cooperatives, they are encouraged to consider the following perspectives on cooperative business practices in reaching out to their member-borrowers.

Engage Members as Owners

Engagement requires member-borrowers to be informed about their ownership rights, benefits, and participation opportunities in their institution. Members need to know and understand their rights and benefits of ownership and be informed of the many ways they can exercise those rights and participate in the control of their institution. A cooperative institution can inform and engage members through complete and transparent disclosures at loan origination, in periodic financial reports, and in other communications. Beyond disclosures, System institutions could

- Post the institution's bylaws on its Web site,
- Ensure shareholder petition rights are understood and fully supported,
- Inform members how they may bring matters to the attention of the board or the membership as a whole,
- Publish the voting results of any shareholder approval action in a timely manner, and
- Enhance member participation in shareholder meetings.

Shareholder meetings¹ provide members an opportunity to voice their concerns or issues with the board and management. System institutions could enhance member participation in these meetings by implementing technological opportunities for meeting attendance, polling members for their issues or suggested agenda items, holding a series of meetings at different locations, and subsequently informing the membership of the level of attendance and actions taken. Also, members should be informed of opportunities to participate in the governance of their institution, including serving on their institution's board of directors or nominating committee.

Communicate with Members

Member-focused cooperatives employ ongoing two-way communication with their membership. Directors have a duty to maintain open and direct communication with members, so that member interests are thoroughly considered and adequately represented. Directors should ask members about needed services and information. Effective boards use information obtained from members to establish strategic direction for their institutions and ensure daily business activities remain member focused.

System institutions should routinely communicate their mission, purpose, and cooperative philosophy. This includes informing members and the community of the benefits and services the institution provides. Each System institution should clearly identify itself as a cooperative and communicate how this structure reduces costs to members. Directors should also communicate the cooperative's responsibility to balance long-term service to members (a strong capital position) with value to the membership (patronage distributions).

System institutions, particularly those with large and dispersed territories, should consider using current technology and flexible approaches to facilitate communication and involvement. For example, institutions could use Webinars, conference calls, advisory committees, local informational sessions, and focus group meetings to enhance communications. Whatever the means, institutions should provide members numerous opportunities to communicate and interact with directors and management.

Provide Value-Added Benefits to Members

System institutions provide value-added benefits to members and their rural communities. These benefits should be designed to help members remain successful and, above all, encourage member interest in their institution. For example, System institutions are authorized to provide related services including estate planning, recordkeeping, tax planning and preparation, and farm business consulting.² System institutions may also offer seminars or training opportunities for members in these and other areas.

¹ System institutions provide several venues for member outreach and engagement including annual meetings, customer appreciation days, advisory meetings and focus group discussions.

² See 12 CFR Part 618, Subparts A and B.

When offering value-added benefits, System institutions should consider the entire member base, including those with small loan balances. For example, associations can offer training opportunities and programs that benefit young, beginning and small (YBS) farmers and ranchers, including business development, business planning, feasibility analysis, and financial management skills. In some cases, institutions could discount or waive the cost of these programs for YBS members to encourage participation.

System institutions should provide outreach, education, training, and information to all eligible borrowers and the communities in which they live and work. Outreach activities could be offered in conjunction with other organizations, such as state or national young farmer groups and agricultural colleges, state or national cooperative association leadership programs, and local chapters of 4-H and the National Future Farmers of America organization. Other possibilities include director training so they may better execute their fiduciary responsibilities on behalf of all members.³

Another value-added benefit to members and their families is for System institutions to be engaged corporate citizens in their rural communities. Institutions should support the sustainable development of their communities within the limits of their statutory authorities. As engaged corporate citizens, System institutions could partner with businesses, civic and charitable organizations, or other financial institutions to advance the economic health and well-being of the entire community.

In closing, System institution boards and management are challenged to embrace the spirit and intent of the cooperative operating philosophy Policy Statement and ensure that institutions maintain the focus of serving all member-borrower segments.

Any questions on this Informational Memorandum should be directed to Gary Van Meter, Deputy Director, Office of Regulatory Policy at (703) 883-4026 or by e-mail to vanmeterg@fca.gov, or to Thomas L. Dalton, Office of Regulatory Policy, at (703) 883-4460 or by e-mail to daltont@fca.gov.

³ The institution's management and board of directors should ensure that the services comply with all applicable statutes and regulations.