

Farm Credit Administration

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INFORMATIONAL MEMORANDUM



January 12, 2012

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 for Fiscal Year 2012

The Office of Examination establishes a National Oversight Plan (NOP) to direct our oversight of areas where we have a specific emphasis for the upcoming year. These NOP focus areas are in addition to our ongoing examination and oversight activities. This memorandum summarizes the NOP direction and it is consistent with the Farm Credit Administration's commitment to provide timely information on emerging and significant risk areas. I also believe this information is beneficial for each board of directors as it completes its business plan priorities for 2012.

While agriculture has experienced record earnings, and it has been a bright spot for economic recovery, this performance has not been even across all sectors and both the economic and risk environment continue to be volatile as we begin fiscal year 2012. These conditions affect all aspects of agriculture, whether they stem from real estate values, input costs, commodity prices, weather events, or international economic events. The Farm Credit System (FCS) is well-positioned financially to manage or absorb these risks; however, we will remain focused on evaluating risk management practices to ensure the FCS is prepared for the long-term implications of the volatility. The Office of Examination defined its NOP and oversight focus around these conditions and established the following topics as priorities for 2012:

1. Loan Portfolio Management;
2. Collateral Risk Management;
3. Profitability and Repayment Capacity; and
4. Public Mission.

The Loan Portfolio Management (LPM) and Collateral Risk Management strategies have not changed from prior NOPs. We have made considerable progress in redefining our examination guidance and our examination activities in these critical areas. The Office of Examination previously issued LPM modules on Managing Risk Concentrations, Loan Underwriting, and

Stress Testing and examiners have been applying this guidance during 2010-11. Recently, we issued examination guidance on Collateral Risk Management. You should expect examiners to continue to evaluate your LPM with an added emphasis on collateral risk management programs during 2012 and 2013. Please review this new module and consider how your institution's risk management practices address this topic with the record changes that have been occurring in agricultural real estate values. This guidance should be viewed as a forward-looking risk management tool for the board and management.

The Profitability and Repayment Capacity strategy will include an evaluation of systemic and prospective risks that may impact borrower profitability and repayment capacity. As noted previously, the System's operating environment is volatile. This strategy will further explore and define these risks, identify systemic trends and challenges, incorporate input from others, and provide a basis for future communications, examination programs, and analyses.

The Public Mission strategy is focused on assessing FCS institutions' fulfillment of their chartered mission to provide credit and related services to all eligible, creditworthy customers. This strategy will include an evaluation of compliance with mission-related regulations. It will also include surveying FCS programs' effectiveness in providing constructive credit as a Government Sponsored Enterprise and its diversity and inclusion in lending programs.

Please use this information to better understand the priorities that we believe are critically important to the safety and soundness of FCS institutions. You should distribute copies of this memorandum to your fellow board members and discuss its contents with the Audit Committee chairman, other board committees, and your executive management team. Please contact your designated examiner-in-charge or me at (703) 883-4246 (colemanr@fca.gov) if you have any questions.

Copy to:

Chief Executive Officer, All Farm Credit System Institutions
Chief Executive Officer, Farm Credit Council
Chief Executive Officer, Farm Credit Council Services
Chief Executive Officer, Federal Agricultural Mortgage Corporation