

FCA-PS-80 [BM-14-OCT-10-02](75 FR 64728, 10/20/2010) 10/14/2010

Cooperative Operating Philosophy -- Serving the Members of Farm Credit System Institutions

THE FCA BOARD HEREBY ADOPTS THE FOLLOWING POLICY STATEMENT:

**Cooperative Operating Philosophy—Serving the Members of
Farm Credit System Institutions
FCA-PS-80 [BM-14-OCT-10-02]**

Effective Date: 14-OCT-10.

Effect on Previous Actions: None.

Source of Authority: Preamble and section 1.1 of the Farm Credit Act of 1971, as amended.

Cooperative Commitment

The Farm Credit Administration (FCA) is committed to the cooperative structure under which Farm Credit System (System) institutions are required to operate.¹ The FCA emphasizes cooperative principles by advancing regulatory proposals that encourage farmer, rancher, and cooperative borrowers to participate in the management, control, and ownership of their institutions.² The FCA also emphasizes cooperative principles in the examination function and Financial Institution Rating System (FIRS) used to categorize the safety and soundness of System institutions.³

The FCA supports cooperative values that encourage member participation in System institutions. Cooperatives are, by definition, entities with a “member focus.” They are owned and controlled by their members, and the members benefit from doing business with their cooperatives. Cooperative entities that focus on serving and fulfilling the needs of their members often realize greater participation in their institutions. While System institutions have strong reputations as effective cooperatives, they should build on this tradition through a cooperative business culture that goes beyond that required by statute and regulation.

History

The System is a Government-sponsored enterprise of cooperative institutions owned and controlled by their member-borrowers.⁴ Prior to establishment of the System, a political consensus had been forming in Congress on a need for an improved system of credit delivery to agriculture. When Congress established the System in 1916,⁵ it determined that the cooperative structure was the best model for furnishing sound, adequate and constructive credit and closely related services to rural areas.⁶ Subsequent Farm Credit legislation, including the Farm Credit Act of 1971, as amended, has reaffirmed the cooperative nature of the System.

Policy on Implementing a Cooperative Operating Philosophy — Serving the Members

The System, through its cooperative structure, makes competitive credit available to creditworthy farmers, ranchers, producers and harvesters of aquatic products, and their cooperatives. The FCA believes the following three core cooperative principles are the foundation of the System’s structure:⁷

- 1) The cooperative is owned by its members.⁸
- 2) The cooperative is controlled by its members.
- 3) The members benefit from doing business with, and participating in, the management, control, and ownership of their institution.

While business practices may change over time, these underlying cooperative principles have sufficient flexibility to ensure changes in best practices remain member focused. System institutions should apply cooperative business practices in a manner that best serves their members and meets their mission as Government-sponsored enterprises, while continuing to operate in a safe and sound manner, by

- 1) Engaging members as owners,
- 2) Communicating with members, and
- 3) Providing value-added benefits to members.

Serving the Members of Farm Credit System Institutions

Operating in a cooperative manner requires the boards of directors and management to engage, communicate, and provide value-added benefits to members. System institutions should proactively identify opportunities to reach out to member-borrowers beyond the lending and related services relationship.⁹

Many System institutions have been innovative and diligent in maintaining a cooperative philosophy in their business operations. The FCA encourages System institutions to continue and further their efforts to uphold a cooperative business culture. In addition, the FCA Board challenges the board and management of each System institution to periodically review and update their cooperative philosophies and practices and ensure that they maintain the focus to serve the members.

DATED THIS 14TH DAY OF OCTOBER 2010

BY ORDER OF THE BOARD

Roland E. Smith
Secretary,
Farm Credit Administration Board.

¹See § 615.5230, “Implementation of cooperative principles.”

²See FCA Policy Statement “Regulatory Philosophy” (FCA-PS-59), dated June 8, 2005.

³Under FIRS, each institution is assigned composite and component ratings based on an evaluation of the adequacy of Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to market risk (commonly referred to as “CAMELS”). Composite and component ratings are assigned based on a 1 to 5 numerical scale, with 1 being the highest rating indicating the strongest level of performance and risk management practices and the least degree of supervisory concern. Within the Management component, FCA qualitatively rates the use of cooperative principles in the conduct of business activities. Please visit www.fca.gov for further information on FIRS.

⁴The Preamble and section 1.1 of the Farm Credit Act of 1971, as amended (Act), Pub. L. 92-181, 85 Stat. 583.

⁵The Federal Farm Loan Act, Pub. L. 64-158, 39 Stat. 360.

⁶The cooperative structure of the System was viewed by Congress as providing greater safeguards than other structures under consideration at the time.

⁷The International Co-operative Alliance (ICA), an independent, non-governmental association, has issued a statement on cooperative identity in which they espouse seven principles as guidelines for cooperatives to put their values into practice. Those seven principles are voluntary and open membership, democratic member control, member economic participation, autonomy and independence, training and information, cooperation among cooperatives, and concern for community. The principles can be found on the ICA Web site, www.ica.coop.

⁸Under 4.3A of the Act, borrower-members of a System institution acquire voting stock at loan origination and hold allocated equities generated by patronage distributions from net earnings. Borrower-members’ voting stock and allocated equities are at-risk investments.

⁹At a later date, the FCA will issue an Informational Memorandum to share its perspective on cooperative business practices that System institutions could use to reach out to their member-borrowers.