

Examination Philosophy

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| Effective Date: | 08-JUL-11 |
| Effect on Previous Action: | Responds to NV 93-04 (15-JAN-93) and Amends FCA Policy Statement 53 dated 15-JUL-93. Amends FCA-PS-53 dated 08-JUL-11. |
| Source of Authority: | Sections 5.9 and 5.19 of the Farm Credit Act of 1971, as amended. |

THE FARM CREDIT ADMINISTRATION (FCA or Agency) BOARD HEREBY ADOPTS THE FOLLOWING POLICY STATEMENT:

This policy provides a general philosophy and direction for the examination and oversight of the Farm Credit System (System).

The FCA Board provides for the examination and supervision of each System institution in accordance with the Farm Credit Act of 1971, as amended (the “Act”). The Board fulfills this responsibility primarily through the Office of Examination (OE). The FCA fulfills its supervision and examination responsibilities for Farmer Mac, a separate government-sponsored enterprise, through its Office of Secondary Market Oversight. OE develops oversight plans, conducts examinations, monitors the System’s condition, current and emerging risks, and develops supervisory strategies to ensure that the System operates in a safe and sound manner and fulfills its public policy purpose. The Act also provides that the Farm Credit System Insurance Corporation (FCSIC) Board of Directors should utilize FCA examiners to conduct examinations of System institutions, to the extent practicable.

Oversight and Examination

The FCA Board directs the maintenance of a “risk-based” approach to oversight and examination for System institutions, which maximizes OE’s effectiveness and strategically addresses the System’s safety and soundness and compliance with laws and regulations. The amount of examination resources devoted to a System institution and the scope of an examination will depend on an institution’s ability to identify and manage its risks. Accordingly, oversight and examination efforts will be heightened and accompanied by appropriate preventive, corrective, or enforcement actions when institutions are unable or unwilling to address material unsafe and unsound practices or comply with law and regulations. This risk-based approach is critical to maintaining shareholder, investor, and public confidence in the financial strength and future viability of the System.

Examination Staff and Communications

The risk-based approach must promote effective communications with System institutions. Examiners are an essential communication link with System institutions through ongoing institution oversight, on-site examinations, meetings with boards and management, and written reports and correspondence. The examination program shall therefore maintain adequately trained examiners who understand the unique risks and opportunities of agriculture, maintain an appropriate level of regulatory and financial industry experience and skills, and communicate and work effectively with System institutions to ensure

they remain safe and sound and able to fulfill their public policy purpose.

Reporting to the FCA Board

Annually, the Chief Examiner will provide the Board an annual oversight and examination plan (plan) for approval. This plan will:

- Assess the condition of and risks affecting the System at large and in specific institutions;
- Establish priorities and identify staffing, training, and budgetary needs;
- Include an examination schedule that ensures statutory requirements are met; and,
- Include operational objectives and strategies for meeting the plan.

The Chief Examiner will report semi-annually to the Board on the status of, and proposed adjustments to, the plan. The Chief Examiner will also report quarterly on the current condition of the Farm Credit System, emerging risks, and any necessary follow-up strategies.

DATED THIS 8th DAY OF JULY, 2011

BY ORDER OF THE BOARD

Dale L. Aultman
Secretary to the Board