

News Release

Farm Credit Administration
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FCA Board Approves Notice and Request for Comments on Proposed Joint and Several Liability Reallocation Agreement

McLEAN, Va., August 12, 2010 — The Farm Credit Administration (FCA) Board today approved a Notice and Request for Comments on a proposed agreement among the five Farm Credit System (FCS or System) banks and the Federal Farm Credit Banks Funding Corporation. The agreement would establish a procedure for nondefaulting System banks to pay maturing System-wide debt on behalf of defaulting banks prior to a statutory joint and several call by FCA. The agreement would provide for allocating such payments according to the banks' relative System-wide debt obligations.

In the unlikely event that one or more of the five System banks default and the Farm Credit Insurance Fund is not sufficient to cover all of the defaulting banks' obligations, the nondefaulting banks are jointly and severally liable to pay the obligations. Under the Farm Credit Act of 1971, as amended (Act), obligations to be paid under a joint and several call by FCA would be apportioned among the nondefaulting banks according to each bank's share of the available excess collateral held by the banks. The Act provides subrogation rights to banks for the amount of obligations paid by the banks.

In 2007, FCA amended its priority of claims regulation to give System banks the same subrogation rights for payments made under a joint and several liability reallocation agreement among the banks that the banks would have if they had made payments under statutory joint and several calls, provided that the agreement is approved by FCA.

The System banks submitted a draft joint and several liability reallocation agreement to FCA in June. The banks believe the agreement is more equitable than statutory joint and several calls because it allocates liability according to a bank's debt obligations rather than on the basis of its excess collateral. The banks also believe that the reallocation agreement will benefit the System overall by promoting higher capital levels.

The Notice and Request for Comments will be published in the Federal Register and posted in the Pending Regulations and Notices section of FCA's website at www.fca.gov. The notice and request for comments will be open for comment for 30 days.

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Reports

In other business, the Board heard two reports. The first was an update on the System's mission-related investments, and the second was a quarterly report by the Office of Management Services.

According to the mission-related investments report, the FCS institutions held \$4.5 billion in mission-related investments as of December 31, 2009, with 87.3 percent of this volume guaranteed by the U.S. government or government-sponsored enterprises. FCS institutions held \$2.8 billion in mission-related investments under statutory and regulatory authorities, including \$1.3 billion in Federal Agricultural Mortgage Corporation agricultural mortgage-backed securities, \$696 million in tobacco buyout successor-in-interest contracts, and \$799 million in asset-backed and agricultural equipment securities.

FCA's Investments in Rural America pilot program provides additional opportunities for mission-related investments. It gives FCS institutions greater flexibility to partner with agriculture and rural lenders in making investments in rural communities. The investments are used to improve infrastructure and quality of life and to stimulate economic growth and development in rural America.

Under the Investments in Rural America pilot program, FCS institutions held investments totaling \$1.9 billion at year-end 2009, including \$1.2 billion in rural housing mortgage securities; \$635 million in rural development debt securities, which includes agribusiness investments; \$12 million in credit-linked agricultural notes; and \$5 million in equity investments.

The quarterly report provided by the Office of Management Services discussed the agency's budget status through June 30, 2010; provided an update on FCA's Human Capital Plan and its Information Resources Plan; and presented the results of the Eagle Horizon 2010 emergency preparedness exercise.

Notational Votes

Since the FCA Board meeting on July 8, one notational vote has occurred. Notational votes are actions taken by the FCA Board between Board meetings.

On July 12, the FCA Board voted not to object to the disclosure materials to be used in the issuance by Farm Credit Bank of Texas of up to \$300 million of Class B perpetual noncumulative subordinated preferred stock, Series 1.

Enforcement Action Removed

Based on a previous FCA Board action, an enforcement action on an FCS institution was terminated effective June 30, 2010.

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The Farm Credit Administration is the safety and soundness regulator of the cooperative Farm Credit System and the Federal Agricultural Mortgage Corporation (Farmer Mac). FCA charters, regulates, and examines the 98 banks, associations, and service corporations of the Farm Credit System, which makes loans to agricultural producers and their cooperatives nationwide. FCA also examines and regulates Farmer Mac, which provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA Board are Leland A. Strom, Chairman and CEO; Kenneth A. Spearman; and Jill Long Thompson.

Note: FCA news releases are available at www.fca.gov.