

News Release

Farm Credit Administration
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FCA Board Solicits Public Input Regarding Possible Changes to Regulatory Nonprogram Investment and Liquidity Requirements for Farmer Mac

McLEAN, Va., May 13, 2010 — The Farm Credit Administration (FCA) Board today adopted an advance notice of proposed rulemaking (ANPR) to solicit public input on possible changes to regulations governing the liquidity and investment management of the Federal Agricultural Mortgage Corporation (Farmer Mac).

During 2008, the markets in corporate debt and asset-backed securities experienced significant volatility, which affected many financial institutions, including Farmer Mac. FCA is considering ways to strengthen the requirements for Farmer Mac's liquidity to ensure that the institution can continue to meet its obligations as they come due without substantial impact on its operations or financial condition.

FCA seeks input on the following topics:

- Whether to augment the current minimum liquidity standard by setting an additional liquidity standard for cash and Treasury securities—the highest-quality investments. The current standard requires Farmer Mac to hold a broad array of high-quality, marketable investments to provide liquidity for a minimum of 60 days. A supplemental reserve consisting of only the highest-quality investments and providing a minimum number of days of liquidity would strengthen Farmer Mac's ability to meet its obligations in the event of a market disruption.
- Whether and how to make liquidity risk evaluation more responsive to possible earnings and risk benchmarks.
- Whether to revise requirements related to debt maturity, credit ratings, and portfolio concentration limits.
- Whether current obligor limits are sufficient.

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- Whether broader requirements are needed for stress testing the liquidity investment portfolio.

An ANPR is a preliminary notice, published in the Federal Register, announcing that an agency is considering a regulatory action. These notices are issued when an agency believes it needs to gather more information before announcing a notice of proposed rulemaking.

The comment period for the ANPR is 45 days. Comments may be submitted by electronic mail to reg-comm@fca.gov, through the Pending Regulations section of FCA's website at www.fca.gov, or through the federal government web portal at www.regulations.gov. Comments also may be sent by mail to Joseph T. Connor, Associate Director for Policy and Analysis, Office of Secondary Market Oversight, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090. The public may read submitted comments at the FCA office in McLean, Va., or on FCA's website at www.fca.gov.

In other business, the FCA Board approved a Bookletter providing guidance to Farm Credit System (FCS or System) institutions on evaluating strategies for, and risks involving, the pricing and structuring of loans. Since the System generates most of its earnings from loans, the pricing and structuring of loans can be critical to an institution's earnings. Among other topics, the Bookletter discusses differential pricing, pricing flexibility, liquidity, loan structure, and patronage.

Quarterly Reports

The Board heard two quarterly reports, one by staff from the Office of Management Services (OMS) and one by staff from the Office of Examination (OE).

The OMS report discussed the Agency's budget status through March 31, 2010, and provided an update on staffing levels. The report also discussed the agency's Continuity of Operations Plan, as well as efforts to test the plan.

The OE report discussed current agricultural economic conditions and their impact on the financial condition and performance of the FCS. According to the report, the outlook for agriculture remains mixed. Although the outlook has improved for certain agricultural sectors such as hogs and cattle, concerns remain for the dairy, ethanol, and housing-related industries. With lower grain prices and higher input costs, reduced margins for grain producers are likely.

For 2009, loan growth was a modest 2.1 percent primarily because of reduced loan demand as a result of uncertain economic conditions. However, despite the challenging operating environment, the System remains fundamentally sound and has been able to meet its funding needs, build capital, and post solid earnings. Asset quality of System institutions continues to be satisfactory overall, but the level of adverse assets and nonaccruals remains elevated, with some additional deterioration in asset quality expected in the coming months.

The number of System institutions receiving a lower Financial Institution Rating System risk rating has increased. As a result, FCA remains focused on the System's mitigation and management of risk through increased examination and oversight of the portfolios, management actions, and internal controls of System lenders.

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Notational Votes

Since the FCA Board meeting on April 8, two notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings.

1. On April 15, the FCA Board voted to approve the final rule to implement the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act). The final rule requires FCS institution employees who act as residential mortgage loan originators to register with the Nationwide Mortgage Licensing System and Registry, to renew the registration annually, to routinely update pertinent information, and to obtain a unique identifier. Under the final rule, System institutions must adopt and follow written policies and procedures that require their residential mortgage loan originators to comply with the requirements in the final rule. FCA and the other five agencies involved in the joint rulemaking plan to issue a joint press release at a later date.
2. On April 26, the FCA Board granted preliminary approval of the request to merge AgCredit of South Texas, ACA, and its subsidiaries with and into Texas AgFinance Farm Credit Services and its subsidiaries. Provided all conditions are met and the voting stockholders approve the merger as proposed, the merger will occur on July 1, 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 99 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.