

News Release

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FCA Board Approves Guidance on Compensation Committees and Eligibility and Scope of Financing for Limited Liability Companies

McLEAN, Va., July 9, 2009 — The Farm Credit Administration (FCA) Board today approved guidance on two subjects: the compensation committees of Farm Credit System (FCS or System) institutions and the System's application of the agency's eligibility and scope-of-financing regulations to limited liability companies.

The guidance is provided in the form of bookletters, which are issued by agency officials to communicate FCA's legal interpretations and the agency's position on specific issues. They are available on the FCA Web site under the Additional Guidance link under Law and Regulations.

Compensation Committees

The purpose of the booklet, [Compensation Committees](#), is to ensure that compensation committees fully understand and fulfill their obligations to their institutions and their shareholders.

In 2006, FCA established a compensation committee regulatory requirement for the System's governance structure. The booklet helps advance the objectives of good governance by setting out FCA's expectations for compensation committees consistent with this regulatory requirement. It identifies the responsibilities of a System institution's board of directors in establishing a compensation committee's charter. It also identifies the committee's basic processes and operations and encourages the committee to be involved in annual compensation disclosures.

"Compensation committees are essential for ensuring executive compensation reflects the entirety of a System institution's financial performance both now and in the future," said FCA Chairman Leland A. Strom. "Now more than ever, it is critical for compensation committees to fully understand the long-term financial commitment and the assumptions that underlie compensation programs for their institutions," Strom said.

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FCA wants to make sure that System boards of directors are fully informed of the financial implications of compensation decisions at the time they are made and that they consult as needed with independent professionals and external legal counsel.

The booklet advises System institution boards to prudently manage the financial resources associated with compensation programs and to ensure that compensation disclosures are transparent.

As part of its proposal for financial regulatory reform, the Obama administration recommended that federal regulators issue standards and guidelines to better align executive compensation practices of financial firms with long-term shareholder value and to prevent compensation from providing incentives that could threaten an institution's safety and soundness.

Determining Eligibility and Scope of Financing for Limited Liability Companies

The booklet, [Determining Eligibility and Scope of Financing for Limited Liability Companies](#), clarifies that, since LLCs can qualify as eligible borrowers under FCA regulation 613.3000, FCA's eligibility and scope-of-financing regulations also apply to LLCs.

The LLC is a common legal entity used today by American farmers and ranchers for several reasons, including risk management, tax planning, and estate planning.

FCA issued this guidance because questions often arise concerning the applicability of regulations related to eligibility and scope of financing to LLCs. While the booklet restates FCA's long-held positions on the application of these rules, and does not create any new policy positions, the Agency has not previously issued any formal guidance addressing these issues specific to LLCs.

Frequently Asked Questions on Borrower Rights

In other business, the FCA Board heard a presentation on frequently asked questions (FAQs) regarding borrower rights. The FAQs address questions on the interpretation and application of FCA regulations in part 617, title 12, Code of Federal Regulations, regarding certain loan and collateral rights afforded to agricultural credit applicants and borrowers. Among these rights are the right to be informed promptly as to whether a loan application or restructuring request has been denied and the right to have any such denial reviewed by the System institution's Credit Review Committee.

"The statutory and regulatory borrower rights are consistent with sound business practices that produce good financial outcomes for System institutions and their borrowers," Strom noted. "These rights also provide important protections to borrowers who are denied credit or who are distressed and loan restructuring becomes a required consideration to help them remain in agriculture," Strom said.

The FAQs are designed to provide clear guidance to both System management and borrowers on the application of borrower rights. The majority of borrower rights address the servicing of loans that have become distressed. FCA is issuing updated FAQs to address questions raised over time by FCS institutions and borrowers.

The FAQs will soon be available on the FCA Web site under About FCA. For more information, also see the [Borrower Rights page](#) under About FCA.

Quarterly Report of the Office of Examination

In other business, the Board received a quarterly report from staff in the Office of Examination. The report discussed general economic conditions, developments in the farm sector, and the financial condition and performance of the FCS.

According to the report, the FCS remains in solid financial condition although a few institutions are experiencing challenges as a result of the heightened risk environment for agricultural lenders. The current stress is affecting the System's asset quality measures, which have deteriorated in recent quarters from historically strong levels.

The global recession and stress in certain industry sectors, such as ethanol, poultry, livestock, and dairy, were the primary drivers in the deterioration in the System's asset quality. It was also noted that the current environment was partly responsible for the slowing of FCS loan growth in the first quarter of 2009, which increased just 0.6 percent from year-end 2008.

While some credit quality deterioration has occurred, the System's capital levels remain adequate overall. The FCS was also able to meet its funding needs despite subdued demand for longer-term securities in financial markets. Because of its financial strength, the System is well positioned to meet the challenges of this more difficult economic environment.

In response to the heightened risk environment, the Office of Examination reported it has increased its presence at System institutions; raised staffing levels and examination focus on large shared assets; and issued examination guidance related to the emerging risks to the System.

During the closed session of today's Board meeting, Office of Examination staff provided the Board with an update on general and institution-specific oversight activities.

Notational Votes

Since the FCA Board meeting on June 11, three notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings.

1. On June 15, the FCA Board approved the plan and related disclosure of the Federal Land Bank Association of North Mississippi, FLCA, to obtain equalization beginning in 2010 of loan-making powers within its chartered territory in accordance with recent statutory revisions. The Board also approved the chartering of Mississippi, PCA, and granted preliminary approval to consolidate the FLBA of North Mississippi, FLCA, with Mississippi, PCA, to form Mississippi Land Bank, ACA. In addition, the Board approved changing the name of the FLBA of North Mississippi, FLCA, to Mississippi Land Bank, FLCA, when it becomes a subsidiary of the ACA.
2. On June 29, the FCA Board determined that AgriBank, FCB, may include 2009 subordinated notes in permanent capital and total surplus, provided certain limits and conditions are met. The Board also provided for the review and clearance of disclosures for AgriBank's subordinated debt.

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3. On July 8, the FCA Board approved the plan and related disclosure of the Federal Land Bank Association of South Alabama, FLCA, to obtain equalization beginning in 2010 of loan-making powers within its chartered territory in accordance with recent statutory revisions. The Board also approved the chartering of Alabama Ag Credit, PCA, and granted preliminary approval to consolidate the FLBA of South Alabama, FLCA, with Alabama Ag Credit, PCA, to form Alabama Ag Credit, ACA. In addition, the Board approved changing the name of the FLBA of South Alabama, FLCA, to Alabama Ag Credit, FLCA, when it becomes a subsidiary of the ACA.

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The Farm Credit Administration is the safety and soundness regulator of the cooperative Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). FCA charters, regulates, and examines the 102 banks, associations, and service corporations of the System and Farmer Mac. System institutions make loans to agricultural producers and their cooperatives nationwide. Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgage loans. Members of the FCA Board are Leland A. Strom, Chairman and CEO, and Nancy C. Pellett.

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