

## News Release

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**For Immediate Release**  
NR 11-07 (04-14-11)

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### **FCA Board Approves Proposed Rule to Promote Diversity in Business Planning and Final Rule on Risk-Based Capital Stress Test**

McLEAN, Va., April 14, 2011 — The Farm Credit Administration (FCA or Agency) Board today approved a proposed rule on operating and strategic business planning to require that Farm Credit System (FCS or System) institutions develop human capital and marketing plans that emphasize diversity and inclusion. The FCA Board also approved a final rule revising the Risk-Based Capital Stress Test (RBCST) for the Federal Agricultural Mortgage Corporation (Farmer Mac).

#### **Proposed Rule on Operating and Strategic Business Planning**

The proposed rule would amend FCA's regulations to require the operational and strategic business plan of each FCS institution to include a human capital plan. The plan is to include strategies to achieve diversity and inclusion within the institution's workforce, management, and governance structure, as well as an assessment of the progress the institution has made in achieving greater diversity. The proposed rule would also require each human capital plan to contain an assessment of the strengths and weaknesses of the institution's workforce, management, and governance structure, and a description of the institution's workforce and management succession programs.

The proposed rule would also require each System institution to implement a marketing plan that describes the institution's chartered territory by geographic region, types of agriculture practiced, and market segment. The marketing plan is to contain strategies for providing the institution's products and services to all creditworthy and eligible persons, with specific attention towards diversity and inclusion within each market segment, as well as an assessment of the progress the institution has made in achieving greater diversity.

#### **Final Rule Revising the RBCST for Farmer Mac**

The RBCST (Version 4.0) final rule would revise the stress test to incorporate rural utility program business into the credit loss estimation component of the test and would revise the

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existing treatment of AgVantage Plus program volume and related structures to recognize a reduction in the risk-mitigation provided by counterparty general obligations.

The rule updates the existing risk model to account for the authority of Farmer Mac to finance rural utility loans and to revise the treatment of general obligations that serve as credit enhancement features to certain program investment structures. This rule also revises the treatment of counterparty risk on nonprogram investments by adjusting the earnings haircuts applied to those investments to keep the model internally consistent with revisions made to stressed historical corporate bond default and recovery rates.

## **Reports**

In other business, the Office of Examination (OE) presented its quarterly report on the condition of the Farm Credit System. The report discussed current agricultural conditions, with special focus on Japan as a trading partner, as well as the financial condition and performance of the FCS in 2010. According to the report, while the outlook for agriculture remains favorable, there are a number of factors that could alter the economic outlook for the U.S. agricultural sector. Current challenges and risks facing agriculture include volatile commodity prices, rising input costs, and rising farmland values. Though average land prices receive support from current economic fundamentals, changing conditions could lead to an adjustment in the future.

Despite the challenging operating environment, the System remains fundamentally safe and sound, is well capitalized, has reliable access to funding, and continues to generate strong earnings. For 2010, the System's loan portfolio grew by 6.4 percent, primarily as a result of rising commodity prices in the second half of the year, which resulted in increased working capital requirements and, to a lesser extent, increased demand for real estate mortgage loans. The System also recorded strong earnings in 2010, up 22.6 percent as a result of higher net interest margins and lower provision for loan losses compared with 2009. System credit quality is satisfactory, with credit quality measures showing some improvement as the pork and ethanol sectors improved. Composite Financial Institution Rating System ratings remained steady and supervisory activities and enforcement actions remain focused on a limited number of institutions.

## **Closed Session**

During the closed session, the Board received a report from OE on new and existing supervisory and oversight issues regarding specific FCS institutions. The report highlighted FCA's supervisory strategies and the progress of certain institutions in addressing and correcting issues related to their condition and operations.

## **Notational Votes**

Since the March 10, 2011, FCA Board meeting, four notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings.

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1. On March 11, the Board approved the Regulatory Enforcement Committee recommendation (11-03) to pursue a formal enforcement action against an agricultural credit association (ACA).
2. On March 31, the Board approved a request by Northwest Farm Credit Services to join AgDirect, LLP, as the fourth original partner and investor. In February, the FCA Board had previously approved the joint request of Farm Credit Services of America, ACA; Greenstone Farm Credit Services; and Badgerland Financial, ACA, as well as their respective subsidiaries, to invest in AgDirect, LLP.
3. On April 11, the Board approved a proposed rule to implement sections 731 and 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As required by the act, the proposed rule is being issued jointly with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Federal Housing Finance Agency. The proposed rule would require swap entities regulated by the five agencies to collect minimum amounts of initial margin and variation margin from counterparties to non-cleared swaps and non-cleared security-based swaps and to comply with other requirements. The proposed rule would also require FCS institutions, including Farmer Mac, that are not swap entities to collect margin from swap entities when they enter into non-cleared derivatives transactions with them.
4. On April 12, the Board approved the Regulatory Enforcement Committee recommendation (11-04) to pursue a formal enforcement action against an agricultural credit association.

### **Enforcement Actions Implemented**

1. On March 14, FCA entered into a supervisory agreement (11-01) with an agricultural credit association that requires the ACA to take actions to address issues identified previously in FCA's examination.
2. On March 17, FCA entered into a supervisory agreement (11-02) with an agricultural credit association that requires the ACA to take actions to address issues identified previously in FCA's examination.
3. On March 17, FCA entered into a supervisory agreement (11-03) with an agricultural credit association that requires the ACA to take actions to address issues identified previously in FCA's examination.

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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 96 banks, associations, service corporations and special-purpose entities of the Farm Credit System, which makes loans to agricultural producers and their cooperatives nationwide. This includes 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 on the Web at [www.fca.gov](http://www.fca.gov).