

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Board Member
Leland A. Strom, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
May 8, 2014**

These minutes reflect the business transacted at the May 8, 2014, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act (Act), 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 10:41 a.m. Members of the Board present were:

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and six members of the general public. (A list of staff attendees is attached as Exhibit A.)

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

Board Chair Long Thompson reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Spearman moved to adopt the Agenda as published.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

Mr. Strom noted that the Agenda did included portions of the meeting that should be closed to the public as permitted by the Government in the Sunshine Act and therefore moved that the meeting be closed at that point.

Mr. Spearman seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for April 10, 2014 (BM-8-MAY-14-01)

Mr. Spearman moved to approve the minutes for the April 10, 2014, regular Board Meeting.

Mr. Strom seconded the motion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-8-MAY-14-01)**

(A copy of the “Board Action Item” is attached as Exhibit C.)

New Business

Capital – Tier 1/Tier 2 Framework, Proposed Rule (BM-8-MAY-14-02)

J.C. Floyd of the Office of Examination and **Becky Orlich** and **Jennifer Cohn** of the Office of General Counsel presented the Capital – Tier 1/Tier 2 Framework, Proposed Rule.

Board Chair Long Thompson asked that her written statement pertaining to the vote be attached as an exhibit to the minutes. (A copy is attached at Exhibit D.)

Mr. Spearman asked that his written statement pertaining to the vote be attached as an exhibit to the minutes. (A copy is attached at Exhibit E.)

Mr. Strom asked that his written statement pertaining to the vote be attached as an exhibit to the minutes. (A copy is attached at Exhibit F.)

Board Chair Long Thompson asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Mr. Strom moved that the Board approve the Capital – Tier 1/Tier 2 Framework, Proposed Rule.

Mr. Spearman seconded the motion.

Board Chair Long Thompson asked if there was any further discussion.

There being no further discussion, **Board Chair Long Thompson** called the question.

The **Secretary** polled the Members and the motion carried unanimously. **(BM-8-MAY-14-02)**

(A copy of the "Board Action Item" is attached as Exhibit G.)

Reports

Ethics Update Report

Wendy Laguarda and **Jeff Pienta** of the Office of Office of General Counsel presented the Ethics Update Report.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of the PowerPoint presentation is attached as Exhibit H.)

Farm Credit System Building Association Auditor's Report on 2013 Financial Audit

Rick Albrecht, President of the FCSBA, and **Craig Hunter** and **Brynn McNeil** of Cherry Beakert, LLP presented the FCS Building Association Auditor's Report on 2013 Financial Audit.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There was no further discussion.

(A copy of the PowerPoint presentation is attached as Exhibit I.)

Before convening the closed session, **Board Chair Long Thompson** announced a 5 minute break, without objection.

CLOSED SESSION

Board Chair Long Thompson announced that the next topic on the Agenda was a closed session item pursuant to previous Board action and asked members of the public to exit.

Board Chair Long Thompson convened the closed session of the meeting at 10:13 a.m. and instructed the **Secretary** to activate the electronic recording device so that the proceedings of the closed session were properly recorded as required by the Government in the Sunshine Act.

Board Chair Long Thompson then instructed the **General Counsel** to furnish the **Secretary** with a certification, pursuant to 5 U.S.C. § 552b(f), that the portions of the meeting held in closed session may be properly closed to the public.

(A copy of the Certification is attached hereto as Exhibit J.)

Members of the Board present were:

Jill Long Thompson, Board Chair and Chief Executive Officer
Kenneth A. Spearman, Member
Leland A. Strom, Member

The above named constitute the full Board.

Others present included **Dale Aultman**, Secretary to the Board; and **Charles Rawls**, General Counsel. (A list of staff attendees is attached hereto as Exhibit A).

Reports

Office of Secondary Market Oversight – Quarterly Update

Bruce Hudson of the Office of Secondary Market Oversight presented a quarterly update of activities.

Board Chair Long Thompson asked if there were any questions or further discussion from the Board.

There was no further discussion.

Executive Session with External Auditor

The **Board Chair** announced that the next topic on the Agenda was a closed executive session pursuant to previous Board action and 5 U.S.C. § 552b(c)(2).

The **Board Chair** instructed all to exit except for Board Members, Executive Assistants, the General Counsel, and the Secretary to the Board so that the Board could meet with Craig Hunter and Brynn McNeil as approved by the Board previously.

ADJOURNMENT

There being no further business to come before the Board, **Board Chair Long Thompson** called for a motion to adjourn the meeting.

Mr. Spearman moved that the meeting be adjourned.

Mr. Strom seconded the motion.

Board Chair Long Thompson called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

The meeting adjourned at 10:41 a.m.

NOTATIONAL VOTE ACTIONS

There were two notational vote actions approved by the FCA Board from April 11, 2014 through May 7, 2014, as follows:

Item Number	Action Date	Voting Results	Subject
NV 14-08	04/28/2014	Approved	Farm Credit of Southern Colorado, ACA, Class H Stock
NV 14-09	04/28/2014	Approved	Pre-Clearance of CoBank, ACB, Non-Cumulative Perpetual Preferred Stock

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held May 8, 2014.

_____/s/_____
Jill Long Thompson
Board Chair and Chief Executive Officer

_____/s/_____
Dale L. Aultman
Secretary to the Board

Approved: June 12, 2014

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
May 8, 2014**

JILL LONG THOMPSON, Board Chair and Chief Executive Officer
KENNETH A. SPEARMAN, Board Member
LELAND A. STROM, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION	EXECUTIVE SESSION
Office of the Board			
Aultman, Dale	X	X	X
Corey, Kathryn	X		
Smulkstys, Inga	X	X	X
Calhoun, Gaye	X		
Johansen, Mark	X	X	X
Buccolo, Deb	X		
Middleton, Russell	X		X
COO			
Hoffman, William	X	X	
OCPA			
Stokke, Mike	X	X	
Quinn, Christine	X	X	
Meaux, Willy	X		
Yaghmour, Emily	X		
OSMO			
Rea, Laurie	X	X	
Hudson, Bruce		X	
Connor, Joe		X	
OGC			
Rawls, Charles	X	X	X
Strickland, Joy	X	X	
Donner, Mary Alice	X	X	
Laguarda, Wendy	X		
Pienta, Jeff	X		
Orlich, Becky	X		
Cohn, Jennifer	X		

OFFICE	OPEN SESSION	CLOSED SESSION	EXECUTIVE SESSION
OE			
Coleman, Robert	X	X	
Burke, Cindi	X		
Connolly, Rachel	X		
Doerr, Benjamin	X		
Eccles, Jared	X		
Hatzmann, Colin	X		
Krawczewski, Jerome	X		
Morgan, Matt	X		
Ocheltree, Skyler	X		
Pick, Vania	X		
Swanson, John	X		
Tetreault, Jake	X		
Tillman, Jarvis	X		
Muller, Jody	X		
DeMarco, Sal	X		
Hale, Joe	X		
Anderson, Michael	X	X	
Floyd, J.C.	X		
OIG			
Gallo, Katherine	X	X	
Cherry Beakert, LLP			
Hunter, Craig	X		X
McNeil, Brynn	X		X
ORP			
Van Meter, Gary	X	X	
Edelstein, Jeremy	X	X	
McPhail, Lihong	X	X	
OMS			
Smith, Stephen	X	X	
Fowlkes, Jerome	X	X	
Shaffer, Jeannie	X		

OFFICE	OPEN SESSION	CLOSED SESSION	EXECUTIVE SESSION
FCSIC			
Rubin, Howard	X	X	
Pfitzinger, Rick	X	X	
FCSBA			
Albrecht, Rick	X		
GENERAL PUBLIC	6		

**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
May 8, 2014**

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b(e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held May 8, 2014. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

For Further Information Contact: Dale L. Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: Parts of this meeting of the Board will be open to the public (limited space available), and parts will be closed to the public. Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact Dale L. Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

- 1 **Approval of Minutes**
April 10, 2014
- 2 **New Business**
Capital – Tier 1/Tier 2 Framework, Proposed Rule
- 3 **Reports**
Ethics Update Report
- 4 Farm Credit System Building Association Auditors’ Report on 2013 Financial Audit

CLOSED SESSION

- 5 Office of Secondary Market Oversight Quarterly Report¹

EXECUTIVE SESSION

- 6 Executive Session – FCS Building Association Auditors’ Report²

April 28, 2014

Date

/s/

Mary Alice Donner
Acting Secretary to the Board

¹ Session Closed-Exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).

² Session Closed – Exempt pursuant to 5 U.S.C. Section 552b(c)(2)

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for April 10, 2014 Board Meeting

BM-8-MAY-14-01

Effective Date: May 8, 2014

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for the April 10, 2014, regular Board Meeting as submitted.

DATED THIS 8th DAY OF MAY 2014

BY ORDER OF THE BOARD

_____/s/_____
Dale L. Aultman
Secretary to the Board

Statement
Jill Long Thompson, Board Chair
Farm Credit Administration Board Meeting
May 8, 2014

I am very proud of the work of FCA staff, and also the commitment of my fellow Board Members, that have led to this Proposed Capital Rule we are considering today. Growing up on a family farm, I remember learning at an early age the importance of having “at least two ways to pay for something.” It was much later as a Business student in college that I began to understand the meaning and importance of capital.

Capital is important to both lenders and borrowers. In a cooperative network of borrower-owned lending institutions, the capital structure necessary to achieve safety and soundness has its own unique characteristics.

We have revised our capital regulations over time to reflect changing statutes, business conditions, and widely accepted conventions. These proposed regulations are designed to improve the quality of System capital and to make our capital regulations comparable with those of the regulators of other financial institutions. We have adapted the Basel III framework to the System’s unique characteristics, its cooperative structure and GSE mission. Cooperative principles require current borrowers to provide the capital for the safe operation of the System. This proposed rule adapts the Basel III framework for use with the System. We invite comments on all aspects of our proposal, but particularly on those adaptations we have made to accommodate the unique features of the System.

Statement
Kenneth A. Spearman, Board Member
Farm Credit Administration Board Meeting
May 8, 2014

Madam Chair, I want to thank you for making the modernization of the System's capital regulations a priority. Capital is the lifeblood of any financial institution. The proposed rule we are considering today should not only strengthen the safety and soundness of the System, but also ensure the System's ability to successfully serve and fulfill its public mission as a GSE for generations of farmers and ranchers to come.

While I believe the FCA's current capital regulations have served the System and its borrower/owners well, I believe it is appropriate for the Agency to modernize the System's capital requirements to make them comparable to the Basel III framework and the rules that the U.S. banking agencies have adopted, but also to ensure that the rule take into account the cooperative structure and the organization of the System. This proposed rule attempts to strike a balance between the Basel III framework goals and the System's unique cooperative structure.

Finally, I want to thank the staff who have spent untold hours developing this Proposed Rule. I've had excellent briefings from Bill Dunn, Becky Orlich, Gary Van Meter, Jennifer Cohn and J.C. Floyd during the development of the rule.

Statement
Leland A. Strom, Board Member
Farm Credit Administration Board Meeting
May 8, 2014

Today, the FCA Board is considering a Notice of Proposed Rulemaking that would revise our regulatory capital requirements for the Farm Credit System banks and associations to include tier 1 and tier 2 risk-based capital ratio requirements, a tier 1 leverage requirement, a capital conservation buffer, revised risk weightings and additional public disclosure requirements. The revisions to the risk weights would include an alternative to the use of credit ratings, as required by section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The FCA's objectives in proposing this rule are:

- To modernize capital requirements while ensuring that institutions continue to hold enough regulatory capital to fulfill their mission as a government-sponsored enterprise.
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules take into account the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In the past several years, the Federal banking agencies have been taking important steps to protect the banking system from future financial crises such as the one that occurred from 2007 to 2009. In its work on Basel III, the Basel Committee raised the resilience of the banking sector by strengthening the regulatory capital framework. While it is important to address the issues that resulted in the financial crisis, it is also important to keep the unique cooperative structure of the Farm Credit System in mind as we consider this proposed rule. While the goal of this rulemaking process is to ensure a resilient Farm Credit System, I am also cognizant of the need to create an appropriate balance between sufficient capital requirements and meeting customer/shareholder value expectations. FCA's capital regulations should result in a framework that provides for safe and sound operations in addition to a level playing field.

An item of particular interest is proposed changes to risk weightings for OFIs (other financing institutions). In this proposed rule we assign either a 20 percent or 100 percent risk weight to loans made to OFIs. As a result, it removes the current intermediate risk weighting of 50 percent for those OFIs that do not qualify for the 20 percent risk weight but have similar attributes. It is important to ensure that this proposed capital treatment does not have a detrimental effect on the System's funding of OFIs, and I am hopeful that the question we have proposed will result in comments that will further our analysis of this issue.

I want to thank FCA staff for the exhaustive efforts in compiling this proposed rule, and for their responsiveness in addressing the numerous items I have raised during the process. I look forward to reviewing the comments we receive during the comment period.

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

**Capital – Tier 1/Tier 2 Regulatory Capital Framework
Proposed Rule
BM-8-MAY-14-02**

Effective Date: **May 8, 2014**

THE FCA BOARD HEREBY:

- Approves the proposed rule that would add a new part 628 to FCA’s regulations and amend parts 607, 614, 615, and 620, to modify the regulatory capital requirements for System banks and associations.; and
- Authorizes staff to make any technical or grammatical changes that may be necessary prior to publication in the *Federal Register*.

DATED THIS 8th DAY OF MAY 2014

BY ORDER OF THE BOARD

_____/s/_____
Dale L. Aultman
Secretary to the Board



Ethics Update Report

Wendy Laguarda, DAEO

Charlie Rawls, ADAEO

Jeff Pienta, DEO



- 2014 Ethics Strategic Priorities
& Initiatives

2

Strengthening our Ethics Outreach & Accountability

- Ethics Topic for Supervisors
- Meetings with Office Staff
- Ethics Posters
- Meeting with OGE Desk Officer

Other Initiatives

- Financial Disclosure Filings
- Annual Ethics Training
- Ethics Counseling

- Thank you
- Questions

Cherry Bekaert LLP

FCS Building Association Report Regarding Financial Statement Audit for the Year Ended December 31, 2013

Audit Team

Craig Hunter, Partner

Brynn McNeil, Manager



FCS Building Association

► Overview of Audit Results

- We have completed our audit procedures related to the FCS Building Association's year ended December 31, 2013 financial statements.
- Our procedures and scope were substantially consistent with our planned audit strategy and we did not experience any significant problems during the audit process.
- We issued an unqualified (clean) opinion on the Company's financial statements (note new required format)
- We received excellent cooperation from the Company's personnel.

General Financial Statement Comments

- ▶ Strong Balance Sheet as of December 31, 2013
 - Cash reserve balance of \$1.6 million
 - Current Ratio of 3 to 1
 - Total Liabilities to Equity Ratio 1 to 13

- ▶ Operating loss for the year ended December 31, 2013, as budgeted

- ▶ No new or unusual transactions noted for fiscal year 2013

- ▶ No significant new disclosures noted for fiscal year 2013

Areas of Focus for the 2013 Audit

- ▶ Procedures with respect to internal control
- ▶ Leasing activities
- ▶ Capital expenditures and repairs and maintenance
- ▶ Related party transactions (FCSBA and FCA)
- ▶ We identified no significant deficiencies or material weaknesses

Required Communications

- ▶ The auditor's responsibility under generally accepted auditing standards – reasonable assurance that financial statements are materially correct
- ▶ Significant accounting policies are disclosed in Note 2 of the F/S's
- ▶ We have considered management judgments and accounting estimates included in the financial statements and believe them to be reasonable
- ▶ There were no disagreements with management during the engagement
- ▶ There were no major issues discussed with management prior to our being retained
- ▶ No irregularities or fraud identified as part of our audit



CERTIFICATE OF CLOSED MEETING

The General Counsel, in accordance with the Government in the Sunshine Act, 5 U.S.C. §552b(f)(1), hereby certifies that the Farm Credit Administration Board regular meeting of May 8, 2014 was properly closed to the public on the basis of the exemptions set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).
- Information related solely to the internal practices of an Agency – 5 U.S.C. §552b(c)(2).

/s/
Charles R. Rawls
General Counsel

Date: May 8, 2014