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Proposed Rule on Loan Purchases from FDIC

The Farm Credit Administration (FCA) proposes an amendment to its regulations to allow Farm Credit System (System) institutions with direct-lending authority to purchase loans from the Federal Deposit Insurance Corporation (FDIC). In accordance with the eligibility and scope-of-financing requirements that are contained in the Farm Credit Act of 1971, as amended, and FCA regulations, System institutions would be allowed to purchase loans made to farmers, ranchers, aquatic producers or harvesters of aquatic products, and eligible cooperatives.

FCA is proposing this rule in response to questions from the FDIC, System institutions, and others as to whether System institutions could provide a source of credit and liquidity to farmers whose operations are financed with agricultural or cooperative loans affected by commercial bank failures.

The proposed rule would:

1. Permit System institutions with direct-lending authority to purchase individual, or pools of, eligible loans from the FDIC.
2. Require due-diligence reviews before and after the loan purchases to determine if the loans meet the eligibility and scope-of-financing requirements of the Act and FCA regulations.
3. Require that a System association obtain approval from its funding bank for individual loans or pools of agricultural loans that exceed 10 percent of the association's total capital.
4. Require the System institution to offer membership status to borrowers whose loans are purchased, provided the loans meet the eligibility and scope-of-financing requirements of the Act and FCA regulations.
5. Require System institutions to provide borrower rights to borrowers with distressed agricultural loans.
6. Require divestiture, when financially feasible, of loans purchased (a) that are ineligible or (b) that are eligible but whose borrowers elect not to become members of the System institution.
7. Allow System institutions, which have authority to make long-term mortgage loans or short- and intermediate-term production loans, to purchase loans outside their chartered territory without receiving permission to do so from the System institutions in whose territories the loans are held. However, the purchasing System institutions would be required to notify these institutions of the purchase.