Fact Sheet

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Fact Sheet on Farmer Mac Liquidity Management: Notice of Final Rulemaking

The Farm Credit Administration Board adopted a final rule on Oct. 10, 2013, to revise its regulations governing the management of liquidity risk at the Federal Agricultural Mortgage Corporation (Farmer Mac).

The purpose of the rule is as follows:

- To strengthen the management of liquidity risk at Farmer Mac
- To improve the quality of assets in its liquidity reserves
- To bolster its ability to fund its obligations and continue operations during market disruptions

We first issued these regulations in 2005 and proposed revisions in October 2011. The financial crisis that began in 2008 and recent developments in best practices highlight the need to update and strengthen these regulations.

In this final rule, we will finalize only certain sections of the proposed rule. Sections related to investment management were finalized in a rule published Nov. 5, 2012. We will finalize the remaining proposed sections in a later rulemaking on standards of creditworthiness and investment eligibility.

Summary of Changes

652.35 Liquidity Management: The new liquidity rule enhances FCA regulatory guidance regarding Farmer Mac board responsibilities and liquidity risk management policies. The rule also strengthens planning and reporting requirements at Farmer Mac. It includes two new planning requirements:

- A liability maturity management plan
- A contingency funding plan

A key component of liquidity risk is the risk that a market disruption could prevent the refinancing of maturing debt. A liability maturity management plan will help Farmer Mac manage the average maturity of its outstanding debt in relation to the risk of such an event occurring. A contingency funding plan will help Farmer Mac respond to a variety of liquidity stress events.

652.40 Liquidity Reserve Requirement and Supplemental Liquidity: We increased the minimum requirement for the liquidity reserve from 60 to 90 days of maturing obligations. In response to comments received to the proposed rule, we also restructured minimum liquidity requirements; this restructuring will make this rule more consistent with industry standards, as well as our regulations governing liquidity management at Farm Credit System banks.

The final rule requires progressively higher-quality liquid assets to meet progressively shorter time intervals of obligations within that new 90-day overall minimum:

- The amount of **Level 1 assets**, which include cash and short-term Treasury securities, must be sufficient to meet obligations maturing in the first 15 days from the date of measurement.
- The amount of **Level 2 assets**, which include longer-term Treasury securities, must be sufficient to fund an additional 15 days of maturing obligations.
- The amount of **Level 3 assets**, which include obligations of government-sponsored entities, must be sufficient to fund an additional 60 days of maturing obligations for a total of 90 days of liquidity.

“Supplemental liquidity” may include surplus assets from all three levels, as well as high-quality corporate debt and asset-backed securities. This layer of liquidity is an extra cushion of liquidity that will help Farmer Mac meet obligations beyond 90 days in accordance with its board-established risk tolerance.

In response to comments received, the final rule classifies assets guaranteed under U.S. Department of Agriculture loan programs (Farmer Mac II) as Level 3 assets, rather than as supplemental liquidity. The final rule restructures proposed discounts on nonprogram investments in order to simplify the calculation of days of liquidity.