Fact Sheet

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

The Farm Credit Administration Board adopted a final rule today to revise its regulations governing the management of nonprogram investments at the Federal Agricultural Mortgage Corporation (Farmer Mac).

FCA 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 present several opportunities to update and strengthen these regulations. FCA will finalize only certain sections of the proposed rule, leaving other sections for future separate rulemakings covering liquidity management as well as revised standards of creditworthiness and investment eligibility, respectively.

Summary of Changes

652.5 Definitions: We make technical clarifications to the definitions of “Government agency” and “Government-sponsored agency” and finalize a new definition for “Office of Secondary Market Oversight.”

652.10 Investment Management: We add board policy requirements and enhanced internal controls of investments. We also revise required operational procedures through a section titled “Due Diligence.” We incorporate stress testing into the section and also strengthen our regulations over investment reporting to ensure the board will have sufficient information regarding investment portfolio practices and results.

652.15 Nonprogram Investment Purposes and Limitation: We finalize a new permissible purpose for nonprogram investments: Farmer Mac may make nonprogram investments to complement program activities. This recognizes that certain investments, such as investments with a rural focus that are backed by the full faith and credit of the U.S. government, could advance Farmer Mac’s mission. Farmer Mac will, however, need to seek FCA’s prior approval for any investments not explicitly authorized on the list of eligible investments.

The final rule allows Farmer Mac, when calculating the maximum amount of eligible investments it may hold, to exclude investments posted as margin against derivative exposures. We make this change because the Dodd-Frank Wall Street Reform and Consumer Protection Act may result in additional margin requirements for Farmer Mac, and we do not want to discourage the use of derivatives as an appropriate risk management tool.

652.25 Management of Ineligible and Unsuitable Investments: Under the final rule, the eligibility of investments will be determined only at the time of purchase. Investments that are eligible at the time of purchase remain eligible even if their credit quality deteriorates—though such events trigger additional reporting requirements.

652.30 Management of Interest Rate Risk: We finalize revisions that strengthen interest rate risk management. Farmer Mac will have to establish policies and procedures to, among other things, consider the nature and purpose of derivative contracts and establish derivative counterparty limits. We streamline the regulatory language to make it less prescriptive. The final rule also includes stress-testing requirements and extends those requirements to all investments as well as derivatives.

652.45 Temporary Regulatory Waivers or Modifications for Extraordinary Situations: We revise the provision authorizing FCA, if it determines that an extraordinary situation exists that necessitates a temporary regulatory waiver or modification, to provide relief from FCA's eligibility and liquidity reserve requirements. The revision authorizes FCA to take other actions as deemed appropriate.