

Glen R. Smith, Chairman and Chief Executive Officer
Jeffery S. Hall, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
October 8, 2020**

These minutes reflect the business transacted at the October 8, 2020, virtual regular meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act, 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The virtual meeting began at 9:00 a.m. and concluded at 11:19 a.m.

Members of the Board present were:

Glen R. Smith, Chairman and Chief Executive Officer
Jeffery S. Hall, Member

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

Chairman Smith announced that this meeting of the Board is a virtual meeting, and personnel are teleworking due to the COVID 19 pandemic. He also welcomed Inspector General **Wendy Laguarda**, who was in the Board Room with the Chairman, both practicing safety precautions.

Chairman Smith asked personnel to join him in the Pledge of Allegiance while the U.S. Flag was displayed on the presentation screen.

Chairman Smith asked the Secretary to the Board to conduct a roll call and to address a few technical and protocol items.

The **Secretary** conducted a roll call and addressed technical and protocol items.

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

Chairman Smith reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Hall moved to adopt the Agenda as published.

Chairman Smith seconded the motion.

There being no further discussion, **Chairman Smith** called the question.

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

Mr. Hall noted that the Agenda *did* include portions of the meeting that should be closed to the public as permitted by the Government in the Sunshine Act and therefore moved that meeting be closed as shown on the Agenda.

Chairman Smith seconded the motion.

There being no further discussion, **Chairman Smith** called the question.

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

OPEN SESSION

Approval of Minutes

Minutes for September 10, 2020 Regular Board Meeting (BM-8-OCT-20-01)

Mr. Hall moved to approve the minutes for the September 10, 2020, FCA Regular Board Meeting.

Chairman Smith seconded the motion.

There being no further discussion **Chairman Smith** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-8-OCT-20-01)**

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

Reports

SOFR vs LIBOR: Key Differences and Resulting Challenges for a LIBOR Transition

Clayton Milburn of the **Office of Regulatory Policy** presented SOFR vs LIBOR: Key Differences and Resulting Challenges for a LIBOR Transition.

Chairman Smith asked if there were any questions or further discussion from the Board Members or Executive Assistants.

There were no further questions or discussion.

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

CLOSED SESSION

Chairman Smith noted that this was a Closed Session and asked **OIT staff** to disconnect the outside visitors, and asked FCA and FCISIC staffs to leave the virtual meeting if they do not normally observe the closed session.

Chairman Smith asked **OIT staff** to ensure that outside visitors had been disconnected so the Board could meet in Closed Session with the Office of Secondary Market Oversight.

OIT Staff confirmed that outside visitors had been disconnected.

Chairman Smith convened the closed session of the meeting at 9:56 a.m. and instructed **OIT Staff** to start recording so that the proceedings of the Closed Session were properly recorded as required by the Government in the Sunshine Act.

OIT Staff Confirmed that the recording had started.

Chairman Smith then instructed the **Secretary** to note the start time and 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.

The **Secretary** noted the start time of the closed session, indicated he had the **General Counsel's** certification, and called the roll. (Attendees are shown on Exhibit A.)

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

Office of Secondary Market Oversight Periodic Report

Laurie Rea and **Bill Bravenec** of the **Office of Secondary Market Oversight** presented the OSMO Oversight Periodic Report starting at 9:59 a.m.

Chairman Smith asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

ADJOURNMENT

There being no further business to come before the Board, **Chairman Smith** indicated he would entertain a motion to adjourn the meeting.

Mr. Hall moved that the meeting be adjourned.

Chairman Smith seconded the motion.

Chairman Smith called the question.

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

The meeting adjourned at 11:19 a.m.

NOTATIONAL VOTE ACTION

There was one notational vote action approved by the FCA Board from September 10, 2020, through October 7, 2020 as follows:

Item Number	Action Date	Voting Results	Subject
NV 20-28	9/29/2020	Approved	Oversight and Examination Plan – Office of Examination FY 2021

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on October 8, 2020.

/s/
Glen R. Smith
Board Chairman and Chief Executive Officer

/s/
Dale Aultman
Secretary to the Board

Approved: November 19, 2020

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
October 8, 2020**

Glen R. Smith, Board Chairman / CEO

Jeffery S. Hall, Board Member

OFFICE	OPEN SESSION	CLOSED SESSION
Office of the Board		
Smith, Glen	X	X
Hall, Jeff	X	X
Morris, James	X	X
Donner, Mary Alice	X	X
Roque-Brehm, Awilda	X	
Calhoun, Gaye	X	
Aultman, Dale	X	X
COO		
Coleman, Robert	X	X
OIT		
Golley, Jerald	X	X
Matos, Ricardo	X	X
Versace, Jerry	X	X
OCPA		
Stokke, Michael	X	X
Middleton, Russell	X	X
OGC		
Rawls, Charles	X	X
Kramp, Kevin	X	X
OE		
Waldron, Ashley	X	X
Bednarz, Curtis	X	X
ODAE		
D'Antoni, Jeremy	X	X
OIG		
Laguarda, Wendy	X	X
Miller, Kevin	X	X
OSMO		
Rea, Laurie	X	X
Hudson, Bruce	X	X
Greenlee, Angela	X	X
Del Moral, Jeremy	X	X
Thomus, Elu (on rotational assignment)	X	X
Connor, Joe	X	X
Bravenec, Bill	X	X

OFFICE	OPEN SESSION	CLOSED SESSION
ORP		
Grahn, David	X	X
Milburn, Clayton	X	
Edelstein, Jeremy	X	
OCFO		
Smith, Stephen	X	X
Gandy, Doug	X	X
OAS		
Bell, Vonda	X	X
FCSIC		
Rubin, Howard	X	
Powalski, Lynn	X	
Wynn, Wade	X	
Grimaldi, Andrew	X	
GENERAL PUBLIC	8	N/A

Farm Credit Administration

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



**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT**

**Farm Credit Administration Board
Regular Meeting
October 8, 2020**

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 October 8, 2020, from 9:00 a.m. until such time as the Board may conclude its business. *Note: Because of the COVID-19 pandemic, we will conduct the board meeting virtually. If you would like to observe the open portion of the virtual meeting, see instructions below for board meeting visitors.*

Attendance: To observe the open portion of the virtual meeting, go to FCA.gov, select "Newsroom," then "Events." There you will find a description of the meeting and a link to "Instructions for board meeting visitors." See SUPPLEMENTARY INFORMATION for further information about attendance requests.

Contact: Dale 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, and parts will be closed. If you wish to observe the open portion, follow the instructions above in the "Attendance" section at least 24 hours before the meeting. If you need assistance for accessibility reasons or if you have any questions, contact Dale Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are as follows:

OPEN SESSION

Approval of Minutes

- 1 September 10, 2020

Reports

- 2 SOFR vs LIBOR: Key Differences and Resulting Challenges for a LIBOR Transition

CLOSED SESSION

- 3 Office of Secondary Market Oversight Periodic Report¹

_____/s/
Dale Aultman
Secretary to the Board

September 28, 2020
Date

¹ Closed session is exempt pursuant to 5 U.S.C. Section 552b(c)(8) and (9).

Farm Credit Administration

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

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for September 10, 2020

BM-8-OCT-20-01

Effective Date: October 8, 2020

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for September 10, 2020.

DATED THIS 8th DAY OF OCTOBER 2020

BY ORDER OF THE BOARD

/s/
Dale Aultman
Secretary to the Board



SOFR vs. LIBOR:

Key Differences and Resulting Challenges for a LIBOR Transition

FCA Board Meeting

October 8, 2020

Clayton Milburn, Senior Financial Analyst
Office of Regulatory Policy
Finance and Capital Markets Team



Discussion:

- Contrasting SOFR and LIBOR**
- Using SOFR for Loan Products – Challenges and Potential Solutions**
- Market Status – SOFR Based Lending**
- Development of Loan Products in the Farm Credit System**



Baseline: *What is a Benchmark Interest Rate?*

- Reflect the cost of borrowing money in different markets.
- Regularly updated interest rates that are publicly accessible.
- Calculated by an independent body.

“The data used to construct a Benchmark should be... anchored by observable transactions entered into at arm’s length...”
(IOSCO Principles for Financial Benchmarks, 2013)



SOFR vs. LIBOR



	SOFR	LIBOR
Market Represented	Treasury Repo	Bank Unsecured Wholesale Financing
Maturity Points	Overnight Only	Overnight, 1-week, 1-month, 2-months, 3-months, 6-months and 12-months
Underlying Transactions	Overnight Repo	Unsecured Deposits, Primary Issuance CP and CD's.
Collateral	U.S. Treasury Securities	Unsecured
Relative Market Depth	\$1 Trillion Daily	< \$500 Million Daily
Term Structure	No	Yes
Credit Sensitive Component	No	Yes

SOFR Loan Product Challenges



- Using an overnight rate in a market accustomed to term rates.
- Using a risk free rate in a market accustomed to a credit sensitive benchmark.
- Keeping Loan Pricing, Funding, and Hedging in Sync.
- Having the systems and capabilities to support new products with new conventions.

Overnight Rate Considerations



- SOFR based products use an average of the daily indications over the reset period (1-month, 3-months, 6-months, etc.).
- LIBOR based products “fix” the rate paid at the start of the interest period based on forward looking term rates corresponding to the reset period.
- With LIBOR – the interest due is known at the start of the payment period.
- With SOFR – whether or not the interest due for the payment period is known at the outset *depends...*



Overnight Rate Considerations



	LIBOR	SOFR – In Advance	SOFR – In Arrears
Rate Known at Start of Billing Period?	Yes	Yes	No
Bill Rate Lags Market Rate?	Possibly	Yes	No
Can Be Used for Consumer or FCS Floating Rate Loans?*	Yes	Yes	Depends*
Hedged with Cleared Derivative Products?	Yes	No	Yes

**The use of “in arrears” conventions may be appropriate for some segments like syndicated credits to capital markets participants, but present challenges for other borrower segments.*



Overnight Rate Challenges

- Gaining borrower acceptance of averaged rates.
- Having systems in place to perform the necessary computations.
- Aligning product conventions with disclosure requirements and standards.
- The “push / pull” between funding providers (market investors) and borrowers.



Market Developments and Potential Solutions

- FRBNY Published SOFR Averages (30, 90, and 180 days) and a mathematical index to derive an average for any period.
- ARRC recommended conventions (e.g., look-backs, lock-outs, etc.) for specified market segments.
- Intent to develop a Term SOFR rate.

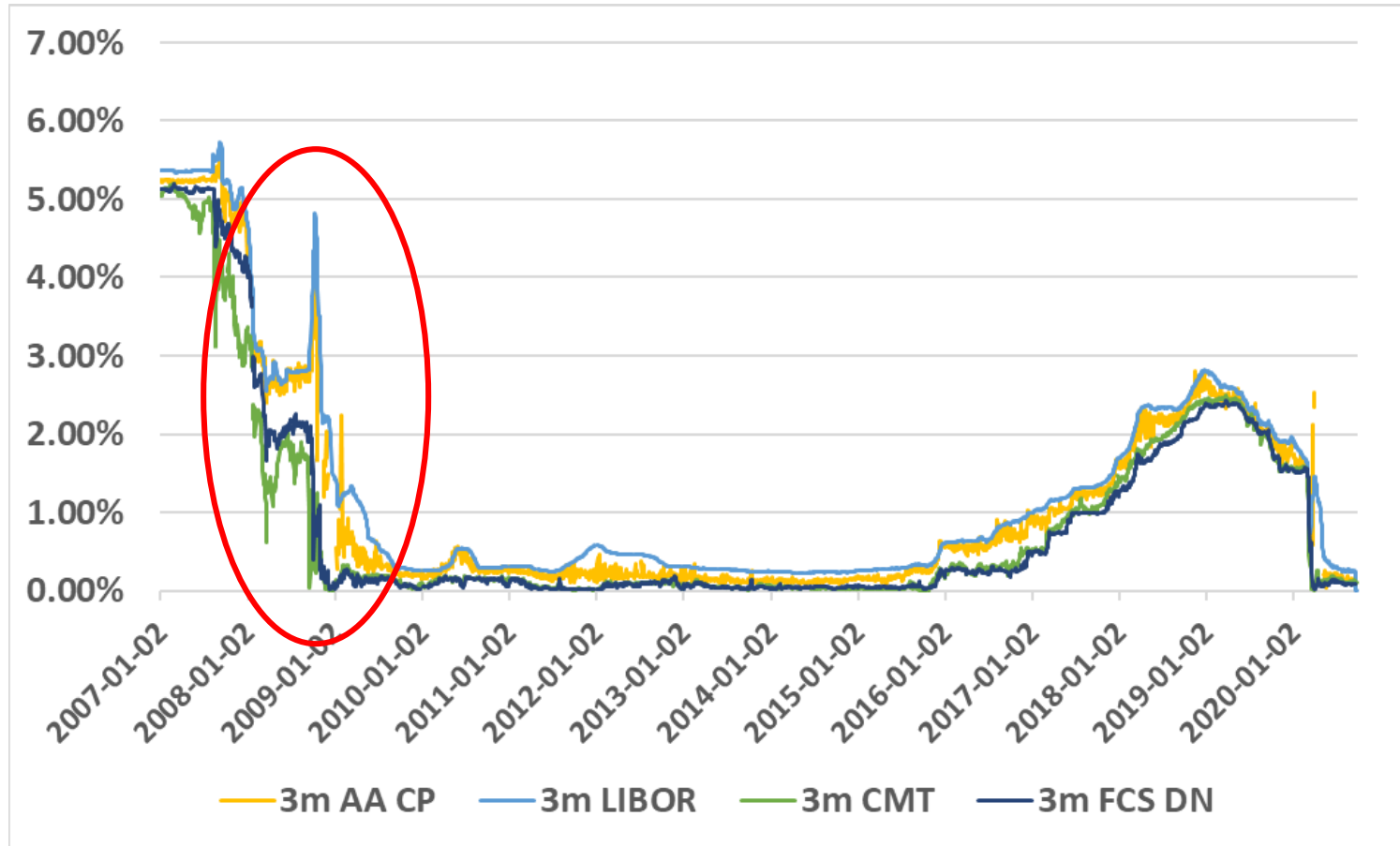


Risk Free vs. Credit Sensitive Rates

- In theory, LIBOR allowed “cost plus” pricing, without requiring borrowers to take on exposure to the price impacts of their lender’s own specific credit risk.
- As credit spreads on bank funding increase due to economic stress, assets tied to LIBOR repriced in tandem with funding.
- SOFR reflects rates on borrowings secured by U.S. Treasury Securities – a safe haven asset during times of economic stress.
- As credit spreads on bank funding increase in times of stress, the SOFR benchmark rate will tend to decrease, dropping yields on assets tied to SOFR.



Risk Free Rate Challenges





Risk Free Rate Challenges



- Challenges in pricing SOFR based products.
- SOFR countercyclicality and potential impacts on commitment utilization.
- Balance sheet management constraints.



Market Developments & Potential Solutions



- FRBNY Private Sector Working Group to evaluate development of a credit sensitive add-on for SOFR.
- Exploration of alternative indexes for certain rate products.
- Not likely to be resolved prior to the end of 2021.



Market Status – SOFR Based Lending

- Slow to no movement to date, within the System and Broadly.
- Many lenders anticipate bringing SOFR products to market and begin SOFR based lending in the first quarter of 2021.
- Fannie Mae and Freddie Mac pushing SOFR based ARMS.
- The market may potentially move to a wider range of rates (beyond SOFR) for loan products.



System SOFR Product Development

- SOFR Based Administered Variable Rates.
- FCS 1-Month Forward SOFR Index.
- SOFR In Arrears.
- SOFR in Advance.*

Closing Thoughts



- The switch from LIBOR to SOFR is not “plug-and-play.” The differences in the rates themselves present multiple challenges to be overcome.
- System institutions continue to develop products to facilitate the transition.
- The SOFR products we see today will likely continue to evolve in response to market developments.

Farm Credit Administration

1501 Farm Credit Drive
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(703) 883-4000



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 October 8, 2020, was properly closed to the public on the basis of the exemption set forth below:

- Supervisory and Oversight Activities of FCS Institution(s) – 5 U.S.C. § 552b(c)(8) and (9).

October 8, 2020
Date

/s/
Charles R. Rawls
General Counsel