



[6705-01-P]

FARM CREDIT ADMINISTRATION

12 CFR Chapter VI

[NV-20-02]

Oversight of the Federal Agricultural Mortgage Corporation

AGENCY: Farm Credit Administration.

ACTION: Policy statement.

SUMMARY: The Farm Credit Administration (FCA) Board recently approved a new Policy Statement on Oversight of the Federal Agricultural Mortgage Corporation.

DATES: [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Laurie A. Rea, Director, Office of Secondary Market Oversight, Farm Credit Administration, 1501 Farm Credit Drive, McLean Virginia 22102-5090, (703) 883-4280.

SUPPLEMENTARY INFORMATION: The FCA is responsible for examining, regulating, and supervising the Farm Credit System (FCS or System), which includes Farmer Mac. Good agency governance practices require the FCA Board to establish general strategy and direction to the Office of Secondary Market Oversight (OSMO) for the examination, regulation, and supervision of Farmer Mac. This policy also

establishes OSMO's responsibility to implement the annual risk-based examination program, and develop regulations and other guidance, as needed.

The text of the new Policy Statement is set forth below in its entirety. All FCA Board policy statements may be viewed on FCA's Web site. From www.fca.gov, select "Laws & Regulations," then select "FCA Handbook," then select "FCA Board Policy Statements."

OVERSIGHT OF THE FEDERAL AGRICULTURAL MORTGAGE CORPORATION

FCA-PS-35

EFFECTIVE DATE: January 16, 2020.

SOURCE OF AUTHORITY: Sections 5.9, 5.19, 8.1, and 8.11 of the Farm Credit Act of 1971, as amended.

THE FARM CREDIT ADMINISTRATION BOARD HEREBY ADOPTS THE FOLLOWING POLICY STATEMENT:

This policy provides the general strategy and direction to the Office of Secondary Market Oversight (OSMO) for the examination, regulation, and supervision of the Federal Agricultural Mortgage Corporation (Farmer Mac or Corporation).

BACKGROUND

The Farm Credit Administration (FCA or Agency) is an independent Federal agency responsible for examining, regulating, and supervising the Farm Credit System (FCS or

System), which includes Farmer Mac. FCA ensures that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America. Farmer Mac is a government-sponsored enterprise with the mission of providing a secondary market for agricultural real estate mortgage loans, rural housing mortgage loans, and rural utility cooperative loans. The duties of the Corporation are defined in Section 8.1(b) of the Farm Credit Act of 1971, as amended (Act).

The OSMO provides for the examination, regulation, and supervision of the activities of Farmer Mac and its affiliates to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO was established by Section 8.11 of the Act and ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

RESPONSIBILITIES

The OSMO is managed by a full-time Director selected by the FCA Board. The Director is responsible for the examination and supervision of Farmer Mac and its affiliates. The Director plans, organizes, and controls the operations of the OSMO in accordance with the policies and

procedures of FCA. The Director oversees the implementation of the annual risk-based examination program, the development of regulations, and the formation of other guidance, as needed. The Director develops guidance to communicate to Farmer Mac regulatory interpretations and expectations for compliance.

The Director implements the FCA Board's strategic goals and objectives related to Farmer Mac, appraises Board members of significant issues, and identifies specialized resources within and outside FCA to address the priorities and activities established in the operating and performance plan. The Director provides appropriate responses to audit reports from the FCA's Inspector General and establishes and maintains internal controls for the OSMO. The Director reports to the FCA Board on policy and rulemaking, and to the Chief Executive Officer, or a Board designate, on office administrative matters.

RISK-BASED EXAMINATION

Section 8.11(b) (1) and (2) of the Act requires FCA to examine the financial transactions of Farmer Mac no less than once each year. To ensure efficiency and effectiveness, the FCA Board directs a "risk-based" approach to the oversight and examination of System institutions, including Farmer Mac.

OSMO oversees and evaluates Farmer Mac on an ongoing basis to timely identify and monitor emerging risks and issues, and to facilitate efficient and effective risk-based examination activities. Pursuant to Section 8.11(a)(2), the Director must consider the reduced levels of risk associated with appropriately structured secondary market transactions. Through its oversight and examination activities, OSMO establishes a supervisory strategy and reporting requirements for effective analysis and evaluation of Farmer Mac's risks and financial performance. Additionally, OSMO ensures that Farmer Mac complies with laws and regulations, and that the Corporation's reports accurately reflect its condition.

In accordance with the risk-based examination approach, OSMO focuses oversight efforts and resources on those areas that could materially impact Farmer Mac's safety and soundness. OSMO determines the scope and depth of examination activities based on current conditions and risk assessments, and uses a wide range of sources to identify areas of risk.

The Director will develop procedures on operating parameters and responsibilities, including a quality assurance review, for the comprehensive annual examination process.

COMMUNICATIONS

OSMO will issue an annual communication to Farmer Mac, which identifies risk topics that will be emphasized in ongoing examination, monitoring, and planning activities. OSMO will issue Examination Activity Letters to Farmer Mac to communicate the findings of significant examination activities. At the end of each annual examination cycle, OSMO will issue a Report of Examination.

FINANCIAL INSTITUTION RATING SYSTEM

OSMO will use the Financial Institution Rating System (FIRS) as outlined in FCA Board Policy Statement 72 to evaluate and categorize the safety and soundness of Farmer Mac on an ongoing, uniform, and comprehensive basis. Based on the conclusions reached during the examination process and ongoing monitoring activities, OSMO will assign ratings for each component factor and assign a composite rating that reflects the condition and overall safety and soundness of Farmer Mac. The rating will be revised periodically to reflect Farmer Mac's condition. The FIRS analysis provides OSMO with valuable information to assess risk and allocate resources.

RISK-BASED CAPITAL

Section 8.32 of the Act directs the Director to establish a risk-based capital stress test (RBCST). The RBCST calculates the amount of regulatory capital for the Corporation that is sufficient to maintain positive working capital during a 10-year period under prescribed credit risk and interest rate risk scenarios. The RBCST estimates credit losses on agricultural mortgages and rural utility loans owned, or under Farmer Mac Standby Commitments, as well as loans serving as collateral for AgVantage bonds (collectively, program volume). The statute also provides that the Director may examine and revise the RBCST. The RBCST results, coupled with other analyses and information, will be used to evaluate Farmer Mac's capital adequacy and long-term resiliency.

ENFORCEMENT LEVEL RATING

Section 8.35 of the Act requires the Director to determine and document an enforcement level classification for Farmer Mac "on not less than a quarterly basis, and as appropriate for a discretionary classification." Further,

Section 8.35(a) outlines the enforcement levels and directs the following:

Upon determining the Corporation is within Level II or III, the Director shall provide written notice to Congress and the Corporation:

- that the Corporation is within such level;
- that the Corporation is subject to the provisions of section 8.36 or 8.37, as applicable; and
- stating the reasons for the classification of the Corporation within such level.

SUPERVISION AND ENFORCEMENT PROCEDURES

Section 8.11(a) (1) of the Act authorizes the Director to develop mandatory and discretionary supervision and enforcement procedures for Farmer Mac or its directors, officers, or employees. To the extent possible, the OSMO enforcement procedures will parallel the procedures developed by the Office of Examination. OSMO will identify any necessary distinctions and develop supplemental procedures for Farmer Mac.

If Farmer Mac, or its directors, officers, or employees, is unable or unwilling to address material

unsafe and unsound practices, or if there is a serious statutory or regulatory violation, OSMO will pursue an appropriate supervisory or enforcement action.

The Director also has responsibilities under Section 8.37 of the Act for supervisory actions when Farmer Mac is classified as within Level III based on regulatory capital levels.

REGULATORY PHILOSOPHY

The OSMO will develop regulations consistent with Farmer Mac's role to serve as a secondary market for agricultural credit, and to increase liquidity and lending capacity in the agricultural marketplace. Consistent with FCA Board Policy Statement 62, these regulations will: (1) be necessary to implement the law; (2) support achieving Farmer Mac's mission; and (3) ensure Farmer Mac's safety and soundness. The regulations will support the secondary market and promote increased availability and affordability of competitive credit.

FCA STAFF ASSIGNED TO OSMO

Section 8.11(f) of the Act states that the supervision of the powers, functions, and duties of Farmer Mac is to be performed, to the extent practicable, by personnel who are not responsible for the supervision of the System banks and

associations. Thus, to safeguard the integrity of the oversight of Farmer Mac from any conflicts of interest that may arise, individuals working on rotational assignments and FCA examiners assigned to the annual Farmer Mac examination must sign OSMO's Conflict-of-Interest Questionnaire form annually.

ASSESSMENT

Section 8.11(d) of the Act directs FCA to assess Farmer Mac for the cost of any regulatory activities, including the cost of any examination. The Director, in coordination with the FCA Chief Financial Officer, will establish procedures for the financial assessment of Farmer Mac. The assessment process should consider the agency's resources used to accomplish supervisory and oversight requirements based on the Corporation's size, activities, and risk profile.

REPORTING TO THE FCA BOARD

Annually, the Director will provide the FCA Board an oversight and examination plan (plan) for approval. This plan will:

- Identify risks affecting Farmer Mac;
- Establish priorities and identify staffing, training, and budgetary needs;

- Include an examination schedule that ensures statutory requirements are met; and
- Include operational objectives and strategies.

The Director will also report on proposed new and amended regulations and implement any necessary follow-up strategies as directed by the FCA Board.

DATED THIS 16TH DAY OF JANUARY 2020

BY ORDER OF THE BOARD

Dale Aultman
Secretary,
Farm Credit Administration Board.

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