News Release

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

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Contact: Martha Schober or Christine Quinn,
703-883-4056
E-mail: info-line@fca.gov
Web site: www.fca.gov

FCA Board Approves Final Rule on Governance Requirements; Agency Receives Clean Audit Opinion for 12th Consecutive Year

McLEAN, Va., January 6, 2006 — The Farm Credit Administration (FCA or Agency) Board today approved a final rule that revises the Agency's governance regulations for Farm Credit System (FCS or System) banks and associations. The rule will help promote the continued safety and soundness of the System by establishing governance standards throughout the FCS, strengthening the independence of System institution boards, fostering the increased involvement of member-borrowers in System operations, and improving transparency in public disclosures.

FCA Chairman and CEO Nancy C. Pellett said, "This regulation provides consistent standards of governance, which is key to ensuring the continued safety and soundness of the Farm Credit System. The FCA Board and I are confident that this rule achieves the correct balance of flexibility, reflecting the unique cooperative structure of the System, while preserving the confidence of FCS member-stockholders, investors, and the public."

While many System banks and associations have already voluntarily implemented governance practices, the final rule establishes regulatory requirements designed to further the System's mission of providing credit to agriculture and rural America. The rule incorporates public comments received after the FCA Board approved a proposed rule on governance in December 2004.

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The final rule is designed to enhance the collective expertise and skills of System boards of directors, and help them better fulfill their fiduciary and oversight responsibilities that are the essential components of good governance. The regulation requires that a financial expert serve as a director on the boards of all System banks and association; smaller associations may retain an independent outside financial advisor who reports to the board in that capacity.

The final rule also enhances the independence of the boards of directors by requiring that at least two outside directors serve on the board of each FCS bank and on the board of any FCS association with assets over $500 million and more than 5 member-elected directors. Smaller institutions must continue to have at least one outside director. System institutions are also directed to develop and implement policies on director qualifications; implement training for directors that is appropriate to the institution; and conduct annual self-evaluations. All System institutions are required to have an audit committee with at least one member who is a financial expert, and a compensation committee to oversee the institution's compensation program.

Further, the final rule improves the level of public disclosure by requiring directors and senior officers to disclosure in the annual report other business interests when serving on the board of that business or employed as an officer of the business. Each bank and association must also provide an information statement to its shareholders at least 10 days before any annual meeting or director election.

The cooperative principles of the FCS are underscored by the requirement that each System bank and association have a nominating committee, comprised of voting stockholders, to nominate candidates for open director positions. At least 60 percent of all directors must be elected by the voting stockholders.

A fact sheet more fully describing the final rule is available on FCA's Web site at www.fca.gov. Click on News and Events, then News Releases, then 2006, then 01/06/2006. A PDF of the fact sheet is attached at the bottom of this news release.

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The final rule will be effective 30 days after publication in the *Federal Register* during which either or both houses of Congress are in session. The effective date for compliance with board composition requirements and bank nominating committees is delayed for one year from the effective date of the final rule.

In other business, the FCA Board received a report on the audit of the Agency's financial statements for fiscal year 2005. The report highlights that the Agency has received a clean, unqualified audit opinion for the twelfth year in a row. The full Performance and Accountability Report is available on FCA's Web site at www.fca.gov.

Since the December 8 FCA Board meeting, two substantive notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings, usually to meet statutory time limits.

The FCA Board approved increasing the limit on compensation for Farm Credit bank directors to reflect their increased fiduciary, governance, and reporting duties and responsibilities. The action underscores the important role of a board of directors in ensuring that an institution operates in a safe and sound manner.

The FCA Board also approved a study of the loan syndication and assignment markets. The study will help determine whether FCA should modify its approach to loan syndications and assignments to reflect significant changes in the markets, and to ensure that the Agency implements policies consistent with the System's statutory requirement to provide credit to agriculture and rural America.

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