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

Farm Credit Administration Considers Revisions to Capital Rules

McLEAN, Va., June 14, 2007 — The Farm Credit Administration (FCA or Agency) Board voted today to approve an advance notice of proposed rulemaking (ANPR) related to capital adequacy requirements for the Farm Credit System (FCS or System).

FCA is considering revisions to its capital rules, including changes that would more closely align its minimum capital requirements with the risks to which FCS institutions are exposed.

Current FCA capital regulations require FCS institutions to assign each of their assets to one of five risk-weight categories for the purpose of computing their regulatory capital ratios. For example, certain high-quality investments are assigned to the 20 percent risk-weight category, whereas most farm loans are assigned to the 100 percent risk-weight category. Using this five-category framework, FCS institutions determine the amount of capital they are required by regulation to maintain.

However, in light of recent advances in banking and capital market practices, the current framework may be outdated. FCA's objective is to develop a regulatory capital framework for FCS institutions that better reflects these advances and more closely aligns its capital requirements with the relative risks inherent in System institutions.

By issuing this ANPR, the Agency is seeking comments that might help it fashion a proposed rule to improve the risk sensitivity of its capital rules, as well as to make other changes. The questions posed in this ANPR reflect some of the recent proposals made by other Federal financial regulators, but they are also tailored to fit the System's unique structure and mission.

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An ANPR is a preliminary notice, published in the Federal Register, announcing that an agency is considering a regulatory action. These notices are issued when an agency believes it needs to gather more information before announcing a notice of proposed rulemaking.

In other business, the Board heard three quarterly reports. The Office of Management Services presented a report on the Agency's second quarter budget status and the status of two technology-related initiatives. The FCS Building Association informed the Board of plans to increase the square footage of the FCA field office in Bloomington, Minnesota; to schedule comprehensive security assessments at each FCA office; and to make scheduled building improvements in McLean, Virginia. During closed session, the Office of Secondary Market Oversight, which oversees the Federal Agricultural Mortgage Corporation, presented its quarterly report.

Notational Votes

The FCA Board approved three notational votes since its May 10 meeting. Notational votes are actions taken by the FCA Board between Board meetings.

- On May 21, the Board voted to approve revisions to the functional statements of several FCA offices.
- On May 25, after having conducted a review of all regulatory actions on FCA's Unified Agenda, the Board concluded that none of its regulatory actions would be considered a "significant regulatory action" as defined by Executive Order 12866. Therefore, the Board determined that it would not be required to submit a regulatory plan under that order.
- On May 30, the Board voted to allow CoBank, ACB, to include subordinated debt in permanent capital and total surplus and to exclude it from total liabilities when computing its net collateral ratio. However, the Board also imposed certain limitations.

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