

Farm Credit Administration

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

INFORMATIONAL MEMORANDUM



September 4, 2014

To: The Chairman of the Board
The Chief Executive Officer
All Farm Credit System Institutions

From: Gary K. Van Meter, Director
Office of Regulatory Policy

A handwritten signature in black ink that reads 'Gary K. Van Meter'.

Subject: Guidance for Investment Requests under § 615.5140(e) of Farm Credit Administration Regulations

This Informational Memorandum (IM) provides guidance for the submission of requests by Farm Credit System (FCS or System) institutions for Farm Credit Administration (FCA or Agency) approval to purchase an investment, including a participation interest in or assignment of the investment, under the authority of § 615.5140(e) of FCA's regulations.¹ Section 615.5140(e) states "[y]ou may purchase and hold other investments that we approve. Your request for our approval must explain the risk characteristics of the investment and your purpose and objectives for making the investment."

This guidance provides general procedures that the FCA intends to follow when a request is received (Attachment A) and lists information for the requesting institution(s) to include in the request (Attachment B).

Institutions may submit the requests to FCA in hard copy or by e-mail. Documents submitted should be legible, complete, and include the required signatures. If documents are incomplete or illegible, we will notify the submitting institution that it must resubmit the request.

Any questions on this IM or its attachments should be directed to Gary K. Van Meter, Director, Office of Regulator Policy (ORP) at (703) 883-4026 or by e-mail to vanmeterg@fca.gov or Barry F. Mardock, Deputy Director, ORP, at (703) 883-4456 or by e-mail to mardockb@fca.gov.

¹ 12 CFR § 615.5140(e). This IM does not apply to the Federal Agricultural Mortgage Corporation, which is controlled by 12 CFR 652.20(e) with respect to eligible non-program investments.

ATTACHMENT A General Procedures

1. Each System institution purchasing an investment pursuant to § 615.5140(e), including a participation interest in, or an assignment of, an investment from another System institution or other person, must receive FCA approval before the purchase. The System institution should:
 - a. Deliver a Request Letter to:

If hard copy: Original and 5 copies	The Farm Credit Administration Secretary to the Board 1501 Farm Credit Drive McLean, VA 22102-5090
If by e-mail: With copy to:	Secretary to the Board@fca.gov ORP-DO@fca.gov
 - b. Provide the information listed in Attachment B.
 - c. Deliver the Request Letter to the FCA at least 60 calendar days before the planned investment purchase date or the date a commitment to invest must be made. FCA cannot commit to act on a request within 60 days, but that is the minimum amount of time needed to consider a request.
 - d. Consider whether a joint Request Letter with another System institution(s) and providing the information listed in Sections A and B of Attachment B at the same or different times is appropriate.
2. The FCA will send an acknowledgment letter to the System Institution upon receipt of the Request Letter. The acknowledgment letter will provide the institution the name, telephone number and e-mail address of FCA's contact for the request. During its review of the request, the FCA will contact the institution to request any additional information that may be needed to complete the Agency's review.
3. The FCA's action on a request will be based on the specific facts and circumstances and the information provided by the institution or others related to the investment transaction. We will notify the requesting institution of FCA's action on the request. The Agency will send its decision in writing to the chairman of the board of directors of the institution. If the request is approved, the decision may include conditions imposed by the FCA in connection with approving the request. If the request is disapproved, the FCA will state the reasons for its action.

4. The FCA Board action on a request will be published on the Agency's Web site with due care regarding privacy concerns regarding the parties to the investments.

ATTACHMENT B

Section A – Board Policy and Internal Control Considerations

Each System institution should submit information requested in this Section A only with its initial investment request—unless material changes in content necessitate updates.

- _____ 1. The resolution of the institution's board of directors (board) authorizing the institution to purchase and hold the type of investment that is the subject of this request.
- _____ 2. A copy of the board's approved policy on investments. The policy must be appropriate for the levels, types, and complexities of the institution's investments, and must comply with the requirements of § 615.5133 of FCA's regulations.
- _____ 3. Limits, including portfolio, obligor, project and maturity limits, that the institution will implement taking into consideration the institution's entire investment and loan portfolios.
- _____ 4. An assessment of the impact of the institution's investment activities on the institution's capacity to serve all creditworthy and eligible borrowers in the institution's market segments. Include a description of the market segments served by the institution and the level of penetration by the institution in those market segments.
- _____ 5. Procedures the institution has in place or will implement to:
 - _____ (a) Monitor investment risks and financial performance; and
 - _____ (b) Report to the institution's senior management and the board on the financial performance of investments (if different from or in addition to what is included in the institution's investment policy).
- _____ 6. Internal controls the institution has in place or will implement to ensure that the board's policy and implementing procedures for purchasing and managing investments are followed.
- _____ 7. If the institution requesting approval is a Farm Credit association, the affiliated Farm Credit bank's approval of the association's investment activities. Include with the approval:

- _____ (a) The bank's determination that the requesting association maintains sufficient capacity, including personnel and infrastructure, to manage investment risks, including operational, reputation, and legal risk, or any other safety and soundness risks that may arise from association investments;
- _____ (b) Limits, including portfolio, obligor, project and maturity limits, that the bank will condition its approval on or that the bank believes the association should implement, taking into consideration the institution's entire investment portfolio; and
- _____ (c) Any impact the investment portfolio would have on the direct loan conditions of the association (i.e. rate, fees, or other terms), based on the investments' risk ratings at purchase and during the time the association holds the investments, particularly if the financial performance of investments held deteriorates.

Section B – Regulatory and Safety and Soundness Considerations

Each System institution should submit information requested in this Section B with every individual investment request.

- _____ 1. A Request Letter signed by the institution's Chief Executive Officer (RL). Include this Attachment B, address each item listed below and indicate on the space provided where the information is provided, e.g., RL p. 1, 2 or 3 or Tab 1, 2, or 3, etc.
- _____ 2. The institution's purpose and objective for the investment and the amount the institution will invest.
- _____ 3. An explanation of how the investment is consistent with the board's approved policy on investments.
- _____ 4. A copy of the bank's approval that authorizes the requesting association to purchase the type of investment that is the subject of the request.
- _____ 5. An analysis of the risks associated with the investment, including operational, reputation, legal, and safety and soundness risks, and the institution's capacity to manage that risk.
- _____ 6. The characteristics of the investment that mitigate risk. For example, is the investment supported by a U.S. Government guarantee, unconditional or conditional?
- _____ 7. The institution's experience over the past three years with similar investments. Include an explanation of the financial performance of the investments and how long the institution held them.
- _____ 8. An assessment of the impact the investment would have on the institution's capacity to serve all creditworthy and eligible borrowers in the institution's market segments. List any current resources that will need to be deployed to adequately manage the investment.
- _____ 9. A description and estimate of the:
 - _____ (a) Revenues the institution expects to receive on the investment from purchase through maturity or disposition; and

- _____ (b) Costs the institution expects to incur in purchasing and managing the investment through maturity or disposition. Include the cost of any additional personnel and non-personnel resources that the institution will need.
- _____ 10. The institution's regulatory capital ratios before and after (estimated) the purchase of the investment and an estimate of the ratios post purchase under a scenario of the investment's total loss of value.
- _____ 11. An explanation of the investment's marketability based on its expected financial performance and if the investment's financial performance deteriorates.
- _____ 12. A description of the non-financial benefits of the investment for the institution and others. For example:
 - _____ (a) How will the investment benefit rural communities, businesses, or agriculture? Does the investment provide funds for rural community infrastructure? Provide specific information, when available, and reasonably supported estimates when specific information is not available.
 - _____ (b) How did the institution determine that the community or business is in a rural area (e.g. a federal agency statutory or regulatory definition)?
 - _____ (c) Is there any reasonable financing alternative?
 - _____ (d) How does the investment support the System's primary mission of providing credit and related services to all creditworthy agricultural producers?
 - _____ (e) Does the investment promote and support young, beginning, small, minority, entrants, or underserved agricultural producers? How?
- _____ 13. A discussion as to how the investment supports a project located in a rural area that is in the requesting or any other participating FCS institution's chartered territory. If there are no participating FCS institutions chartered to serve the territory in which the investment is located, please explain why.
- _____ 14. Identify the local, regional, state and federal economic development and other authorities that may have an interest in the investment or project or with which the institution has consulted.

- _____ (a) For investments that support a project included as part of a local or regional economic development plan, identify the plan and provide a copy of the plan or the relevant portion of the plan; and
- _____ (b) For investments that support a project not included as part of a local or regional economic development plan, explain any independent verification of the need for the project and provide evidence of the community's support and need for the project.
- _____ 15. An explanation of how the investment will be recorded in the institution's accounting System and on its financial statements under generally accepted accounting principles. Explain the characteristics, including purpose, structure and maturity, which make the transaction an investment under the Farm Credit Act and in the financial markets.
- _____ 16. Identify the lead investor for the investment or project and the person at that institution who may be contacted about the investment or project.
- _____ 17. Identify each FCS institution, other than the requesting institution, and each non-FCS financial institution that will participate in the investment and the amount of the investment each institution will purchase.
- _____ 18. A discussion of any impact the investment would have on the direct loan conditions of the association (i.e. rate, fees, or other terms), based on the investment's risk rating at purchase and during the time the association holds the investment, particularly if the financial performance of investments held deteriorate.
- _____ 19. Verify that legal counsel has or will review the proposed investment transaction documents for legal sufficiency, as applicable.
- _____ 20. Any additional information that the institution believes is relevant to FCA's consideration of the request.