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FCA Board Issues a Final Rule Amending the Criteria that Processing and Marketing Operations Must Meet to Qualify for FCS Financing

McLEAN, Va., April 10, 2008 — The Board of the Farm Credit Administration (FCA or Agency) voted today to issue a final rule amending the criteria that processing and marketing operations must meet to qualify for Farm Credit System (FCS) financing under titles I and II of the Farm Credit Act of 1971, as amended.

The purpose of the final rule is to enable FCS institutions to be more responsive to the changing ownership structures of processing and marketing operations and to more effectively meet the credit needs of eligible borrowers as they pursue value-added opportunities.

The current rule provides that a legal entity engaged in processing or marketing is eligible to borrow if eligible borrowers own more than 50 percent of the voting stock or equity. In a proposed rule that the Board approved in September of 2006, the Agency proposed three new criteria to determine eligibility for a legal entity.

The first criterion determines eligibility for financing of processing or marketing operations by measuring the extent to which eligible borrowers control the entity. The second criterion determines eligibility by measuring the commitment of eligible borrowers to the processing or marketing entity. The third criterion determines eligibility by the extent to which the processing or marketing entity is an extension or outgrowth of an eligible borrower’s production operation.

The Agency received more than 5,000 public comments in response to the proposed regulation. As a result of these comments, the proposed rule was revised to clarify the new eligibility criteria. The final rule also contains policy and reporting requirements that FCS institutions must meet when making loans to processing and marketing operations.

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In a separate action, the Board approved a final rule revising FCA regulations governing the Risk-Based Capital Stress Test (RBCST) for the Federal Agricultural Mortgage Corporation (Farmer Mac). Farmer Mac was created by the Agricultural Credit Act of 1987 to provide a secondary market for agricultural real estate and rural housing mortgage loans.

The RBCST calculates the minimum amount of regulatory capital that Farmer Mac is required to hold.

The new version of the RBCST (1) adds a component to recognize the risk-reducing characteristics of structures such as Off-Balance-Sheet AgVantage, a new guarantee product that accounts for a growing percentage of Farmer Mac’s program volume; (2) adds a component to recognize counterparty risk on nonprogram investments; and (3) revises the estimated carrying costs of nonperforming loans.

These rules will be effective 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date will be published in the Federal Register.

Report

In other business, the FCA Board heard a report by Cherry, Bekaert & Holland, the independent auditing firm that recently completed an audit of the financial statements of the FCS Building Association (FCSBA). The FCSBA received an unqualified audit opinion for the year ending December 31, 2007. The auditors noted no unusual issues pertaining to the financial statements and management practices.

Notational Votes

Since the March 13 FCA Board meeting, five notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings.

1. On March 14, the Board voted not to object to the issuance of $250 million of series C noncumulative subordinated perpetual preferred stock by CoBank, ACB, (CoBank) to qualified institutional buyers or accredited investors.

2. Also on March 14, the Board authorized the Director of the Office of Regulatory Policy to approve plans submitted by AgFirst Farm Credit Bank; the Farm Credit Bank of Texas; or associations affiliated with these banks to divest themselves of specific investments made under the Rural America Bond pilot program that no longer meet the conditions of approval.
3. On March 20, the Board voted to extend the comment period for the advance notice of public rulemaking in which the public was asked to comment on possible regulatory changes to the capital rules for FCS institutions. The comment period, which was originally scheduled to end on March 31, is now scheduled to close on December 31, 2008.

4. On March 27, the Board authorized CoBank to temporarily include in core surplus a portion of its allocated equities subject to certain limits and conditions.

5. On April 4, the Board determined the regulatory capital treatment of up to $1 billion of subordinated debt that CoBank proposed to issue to qualified institutional buyers or accredited investors.

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The Farm Credit Administration is the safety and soundness regulator of the cooperative Farm Credit System. FCA charters, regulates, and examines the 106 banks, associations, and service corporations of the FCS. System institutions make loans to agricultural producers and their cooperatives nationwide. Members of the FCA Board are Nancy C. Pellett, Chairman and CEO; Dallas P. Tonsager; and Leland A. Strom.

Note: FCA news releases are available on the FCA Web site at www.fca.gov.