News Release

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FCA Board Adopts Proposed Rule to Amend Regulations on Lending and Leasing Limits and Risk Management

McLEAN, Va., July 8, 2010 — The Farm Credit Administration (FCA) Board today adopted a proposed rule that would lower the lending and leasing limit on loans and leases to a single borrower or lessee from the current limit of 25 percent of an institution's lending and leasing limit base to no more than 15 percent of the base. The revised limit would apply to Farm Credit System (FCS or System) institutions with title I (long-term) and title II (short- and intermediate-term) lending authorities under the Farm Credit Act of 1971, as amended.

The rule also proposes to require System institutions to adopt written policies to measure, limit and monitor exposures to concentration risks caused by the institutions' lending and leasing activities.

FCA is proposing the rule because of changes to the System's structure and because of the System's growth and the expansion of its lending authorities and practices since the current regulations became effective in 1994.

Following a 30-day period for congressional review, the proposed rule will be published in the Federal Register and posted in the Pending Regulations section of FCA's website at www.fca.gov. The proposed rule will be open for comment for 60 days. For more information, see the attached fact sheet on lending and leasing limits and risk management.

In other business, the FCA Board approved a Bookletter identifying issues that System banks would be expected to address when they apply to FCA for approval of a merger. The Board wants to ensure that merger applications identify and comprehensively address all the broad implications that a bank merger may present. FCA, which must approve a plan of merger involving System institutions, would expect banks to clearly and fully address the following three broad issues in any merger application:

- The size-concentration risk that the larger bank would create for the continuing bank's shareholders and the System as a whole, including the impact on the System's repayment of joint and several debt obligations and protections available to investors in System debt

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- How the resulting bank and the System would be structurally safe and sound for the long term, including the long-term compatibility of the shareholder associations with the business philosophy of the bank

- How the proposed merger furthers intra-System collaboration and coordination on intra-System operations; furthers the System's government-sponsored enterprise (GSE) mission, including service to eligible borrowers; and safeguards the American taxpayer in the financial performance and mission service of the System as a GSE

For more information about the Bookletter, see the attached fact sheet on FCS bank merger applications.

Reports

The Board received three reports from the Office of Examination (OE). A quarterly report on the FCS and a semiannual report on OE operations were presented in the open session, and a report on supervisory, enforcement and oversight activities was presented in the closed session.

The quarterly report on the FCS highlighted economic conditions and risks facing the System and discussed the condition and performance of the System for the first quarter of 2010. According to this report, the outlook for the general economy has improved but remains uncertain. A number of potential global risks were identified that could adversely affect agriculture and the FCS. Overall, the risk environment remains elevated for the FCS.

During the first quarter of 2010, the System's loan portfolio decreased by 1.4 percent as challenging economic conditions continued to reduce loan demand. Despite the risks it faces, the System remains fundamentally sound, has reliable access to funding, and continues to build capital and to generate strong earnings.

System asset quality is satisfactory overall; the level of adverse assets and nonaccruals, although elevated, remains essentially unchanged from the prior quarter. Only one System institution received a lower Financial Institution Rating System risk rating in the most recent quarter. However, given the current risk environment, some additional deterioration in asset quality is possible.

According to the semiannual report on its operations, OE is operating as planned and continues to increase its on-site presence at FCS institutions. Significant and proactive examination guidance has been provided to examiners and to the System on safety and soundness issues. OE is building staffing levels to maintain a corps of seasoned examiners.

Notational Votes

Since the FCA Board meeting on June 10, four notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings.

1. On June 11, the FCA Board voted to approve revised functional statements for the agency's Office of Examination and Office of Management Services. The revised statements reflect organizational changes that have been made in the offices since the statements were last approved in 2007. They also reflect minor changes in duties.

2. On June 15, the Board voted to modify guidance provided to U.S. AgBank, FCB, in fall 2009 regarding the appropriate treatment of reperforming securities—that is, residential

mortgage-backed securities that were at one time included in a different pool of securities but were removed because of delinquency and other performance issues and later included in a different security after they began to perform again. The guidance identifies the specific conditions under which U.S. AgBank, FCB, may continue to include nonagency reperforming securities in its liquidity reserve.

3. On June 24, the FCA Board voted to allow AgFirst Farm Credit Bank to risk-weight at 100 percent the senior-most positions in certain investment securities and to allow the bank to make pro rata dollar-for-dollar deductions in its core surplus ratio calculation for subordinated positions in certain securities that require dollar-for-dollar deductions. The Board also voted to clarify the treatment of certain reperforming securities and to clarify how to calculate regulatory capital ratios for securities that are ineligible for the ratings-based approach and are not the senior-most position.

4. On June 25, the Board authorized the FCS Building Association to amend the existing lease to expand FCA's Dallas field office and to approve a transfer of funds to be used for office furnishings and technology.

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