News Release

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

For Immediate Release
NR 18-06 (03-08-2018)

Contact: Mike Stokke or Toni DeLancey,
703-883-4056
Email: info-line@fca.gov

FCA board adopts bookletter on lending and loan servicing controls

McLEAN, Va., March 8, 2018 — The Farm Credit Administration board today adopted a bookletter on lending and loan servicing controls. Booklettters are documents that FCA officials issue to communicate the agency's position on issues.

This bookletter conveys FCA's expectation that each Farm Credit System institution will continuously assess its lending and loan servicing controls to ensure the controls are effective and comply with FCA regulations. These controls help promote efficiency, reduce risk of asset loss, ensure reliable financial statements, and ensure compliance with laws and regulations.

The bookletter outlines practices institutions should use to guard against risks associated with making and servicing loans.

In other business, the board voted to approve a request by CoBank, ACB, to retire the stock of certain former borrowers. The request was approved under the 30-day prior approval provisions in FCA regulation 628.20(f)(2) and (3).

Report on the System's funding conditions

The FCA board received an update on the Farm Credit System's funding activity. According to the report, both the System's debt volume outstanding and its share of the nearly $2 trillion agency debt market continued to grow at about 1 percent a year. As of Dec. 31, 2017, the System's $265 billion in debt outstanding represented less than 15 percent of the agency debt market.

The update discussed trends in the System's interest rate spreads, the maturity profile of its outstanding debt, and the composition of its debt portfolio. The report also discussed the composition of the System's investment portfolio, which is held primarily to provide a ready source of liquidity in case the System's access to the debt market is interrupted.

FCS debt yields continued to increase in 2017 because the Federal Reserve increased the federal funds target range multiple times. The Federal Reserve's actions, coupled with strong signs of economic growth and the resulting impact on interest rates, greatly reduced opportunities to exercise call options on the System's callable debt.

-more-

In 2017, the System exercised only $5 billion in call options to issue lower-cost debt, compared with $58 billion in 2016. This large decrease in exercised call options, together with competitive pricing pressures on its assets, caused the System's net interest spread to compress.

Because the System's condition and performance remained solid in 2017, the System enjoyed favorable risk premiums on the debt it issued to investors. In addition, these risk premiums remained fairly constant even as FCS debt yields increased.

Notational votes

Since the Feb. 8 FCA board meeting, the following notational vote has occurred. Notational votes are actions taken by the FCA board between board meetings.

On Feb. 20, the board approved the abstract of FCA's spring 2018 submission for the Unified Agenda of Federal Regulatory and Deregulatory Actions and the Spring 2018 Regulatory Projects Plan.

###