McLEAN, Va., March 14, 2019 — At its monthly meeting today, the Farm Credit Administration board approved a bookletter to provide guidance to the Federal Agricultural Mortgage Corporation (Farmer Mac) on the management of interest rate risk. Bookletters are documents that FCA officials issue to communicate the agency’s position on issues.

The bookletter describes the policies, procedures, and internal controls that Farmer Mac should have in place to manage its exposure to interest rate risk. It outlines the respective responsibilities of the board of directors and senior management.

Interest rate risk is the risk that changes in interest rates could adversely affect an institution’s financial condition.

Report on the System’s funding conditions

The FCA board received an update on the Farm Credit System’s funding activity. According to the update, the System had $282 billion in debt outstanding as of Dec. 31, 2018, amounting to a 6.2 percent increase from year-end 2017. The System’s share of the $1.8 trillion agency debt market was 15 percent, ranking second only to the Federal Home Loan Bank System, which held a 56 percent share. The update also discussed the following topics:

- The System’s cost of debt, risk premiums, and various aspects of its debt portfolio, including composition, maturities, and issuances.
- The System’s investment holdings in terms of days of liquidity; these investments provide the primary funding backup if the System’s access to the debt market is interrupted.
- The scheduled phase-out of the London Interbank Offered Rate as a pricing index at the end of 2021 and the proposed domestic integration of the Secured Overnight Financing Rate in its place.

Overall the System’s condition and performance remained solid in 2018, fostering continued favorable risk premiums on its debt. In addition, these risk premiums remained fairly constant, even as overall FCS debt yields increased substantially.
FCS debt yields increased in 2018 largely because the Federal Reserve raised the federal funds target range four times during the year. The Federal Reserve’s actions, coupled with strong economic growth and the resulting impact on interest rates, nearly eliminated any opportunity to exercise call options on the System’s callable debt. The System exercised only $29 million in call options to issue lower-cost debt.

Competitive pricing pressures on System assets, coupled with the System’s rising cost of debt, compressed the System’s net interest spread significantly. Nevertheless, the System’s net income continued to grow.

Notational votes

The following are two notational votes that have occurred. Notational votes are actions taken by the FCA board between board meetings.

- On Feb. 28 the board approved CoBank, ACB’s request to redeem the stock of 11 former borrowers of the bank in the amount of $10,875.
- On March 5 the board approved the abstract of FCA’s spring 2019 submission for the Unified Agenda of Federal Regulatory and Deregulatory Actions and the Spring 2019 Regulatory Projects Plan.

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The Farm Credit Administration is the safety and soundness regulator of the Farm Credit System. The System consists of two government-sponsored enterprises — a nationwide network of cooperative banks and associations established in 1916, and a secondary market entity known as the Federal Agricultural Mortgage Corporation (Farmer Mac) that was established in 1988. The System’s borrower-owned banks and associations provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible and creditworthy borrowers. Farmer Mac provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA board are Dallas P. Tonsager, board chairman and CEO; Jeffery S. Hall; and Glen R. Smith.

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