



For Immediate Release
NR 19-12 (7-11-2019)

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

FCA board receives staff briefing on guidance being developed for model risk management

McLEAN, Va., July 11, 2019 — At its monthly meeting today, the Farm Credit Administration board received a report about guidance FCA staff is developing to help Farm Credit System institutions manage model risk.

“Model risk” refers to risks associated with the computer models that institutions use to measure financial risks. Institutions often base business and strategic decisions on outputs and reports from models. If the models are faulty or used incorrectly, they can lead to significant financial losses.

FCA staff is developing new guidance to replace a June 17, 2002, informational memorandum titled [Computer-Based Model Validation Expectations \(PDF\)](#). The new guidance would create two tiers:

- Basic guidance for all System institutions
- Detailed guidance for institutions whose use of models presents greater risk

Having two levels of guidance would enhance model risk management without creating unnecessary regulatory burden.

The guidance under development would be similar to guidance issued over the past decade by three other federal financial regulators — the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

During the meeting, the board offered feedback to members of staff to incorporate as they continue to develop the guidance.

Notational votes

Since the June 12 FCA board meeting, the following notational vote has occurred. Notational votes are actions taken by the FCA board between board meetings.

On June 25, the FCA board approved a request by Compeer Financial, ACA, for a streamlined approval process that allows the association to invest in certain healthcare-related bonds for a one-year period. The bonds must involve facilities in rural areas that have met the USDA's definition of an "essential community facility." The approval is subject to conditions, including a total limit of \$150 million in bonds.

###

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 Jeffery S. Hall and Glen R. Smith.

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