FARMER MAC

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April 25, 2023

Via Electronic Mail to reg-comm@fca.gov
Joseph T. Connor
Acting Director
Office of Secondary Market Oversight
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Re: Advance Notice of Proposed Rulemaking – 12 CFR Part 652 – RIN 3052-AD51; Federal Agricultural Mortgage Corporation Funding and Fiscal Affairs; Risk-Based Capital Requirements; 88 Federal Register 4107 - 4111 (January 24, 2023)

Dear Mr. Connor:

The Federal Agricultural Mortgage Corporation (Farmer Mac or we) appreciates this opportunity to respond to the request for public comment on the referenced advance notice of proposed rulemaking (ANPRM) of the Farm Credit Administration (FCA) on the regulatory capital framework for Farmer Mac. Farmer Mac recognizes that capital management is a critical component of the safety and soundness of financial institutions. This letter provides observations and insights that we believe support the maintenance of Farmer Mac's existing regulatory capital framework.

We believe that Farmer Mac's current regulatory capital framework is robust and appropriately flexible to allow FCA to promote Farmer Mac's safe and sound operations without incorporating elements of regulatory capital frameworks applicable to other financial institutions that do not share Farmer Mac's unique business model and risk profile. This view is supported by FCA's conclusions in its detailed 2019 study of Farmer Mac's capital regime. As described in more detail in this letter and in the attached Annexes, Farmer Mac does not believe that applying the standardized approach to calculating risk-weighted assets under the Basel Framework or applying a new leverage ratio and leverage buffer to Farmer Mac would be appropriate.

I. Farmer Mac's Existing Capital Requirements

Farmer Mac's statutory charter (Title VIII of the Farm Credit Act of 1971) establishes three capital standards for Farmer Mac – minimum capital, critical capital, and risk-based capital. Farmer Mac must comply with the higher of the minimum capital requirement and the risk-based capital requirement. As of December 31, 2022, Farmer Mac exceeded its statutory capital requirements and was classified as within "level 1" (the highest compliance level). Farmer Mac has complied with those requirements as of the end of each fiscal quarter throughout the company's history.

Besides these statutory capital requirements, FCA adopted regulations in 2013 that added new regulatory capital requirements for Farmer Mac based on the Basel III Framework. The regulation requires Farmer Mac's capital plan to include a Basel-based Tier 1 ratio consisting of eligible components set forth in the Basel III framework using a risk-weighted assets approach that is appropriate given Farmer Mac's business activities and that is also consistent with broadly accepted banking practices and standards. The capital planning rule establishes minimum supervisory standards for Farmer Mac's capital planning process but is flexible enough to incorporate evolving "best practices" about capital management as Farmer Mac continually enhances its capital planning and modeling efforts in response to feedback from FCA.

In accordance with FCA's 2013 capital planning rule, Farmer Mac's board of directors has adopted a policy for maintaining a sufficient level of Tier 1 capital (retained earnings, paid-in capital, common stock, and qualifying preferred stock) as calculated under the Advanced Internal-Ratings Based (A-IRB or Advanced) approach. That policy requires a minimum Tier 1 capital ratio of at least 7.0 percent and a capital conservation buffer of additional Tier 1 capital of more than 2.5 percent, bringing the minimum Tier 1 capital ratio to 9.5 percent. The policy also restricts Tier 1-eligible dividends and any discretionary bonus payments if Tier 1 capital falls below specified thresholds. As of December 31, 2022, Farmer Mac's Tier 1 capital ratio was 14.9 percent and has increased systematically (through both retained earnings and opportunistic issuances of preferred stock) over the past five years, increasing from 13.4% as of December 31, 2018. Farmer Mac has complied with its capital adequacy policy since it was first adopted in 2014.

Overall, Farmer Mac's three different capital requirements (statutory minimum, risk-based capital stress test, and Tier-1 capital applying the Basel Framework) all provide different types of protections.[1] As a result, Farmer Mac has developed internal capital and stress testing models that are more comprehensive and provide additional information and protection than if Farmer Mac were subject to only one capital requirement. Taken together, these capital requirements provide highly instructive elements that provide responsive measures of protection under depictions of meaningful risk and potential future conditions.

In 2019, FCA conducted an extensive analysis of Farmer Mac's capital requirements. FCA found Farmer Mac's existing capital framework to be appropriate for Farmer Mac's unique business model: "**[T]he practical reality of both GSEs' capital requirements is that they generally follow the Basel framework. Also, both GSEs' capital provisions make appropriate adjustments to the Basel framework consistent with the differences in their business models and risk profiles.**" (See page 14 of results summary submitted by FCA to the House and Senate Agriculture Committees on June 18, 2019) (emphasis added). More detailed findings from FCA's capital study are summarized in Annex B to this letter.

In addition to regulatory reporting requirements about its capital levels, capital management, and risks related to capital through reports to FCA in call report schedules, Farmer Mac is subject to the periodic filing requirements of the Securities and Exchange Commission (SEC) as a publicly traded company. Those SEC filings transparently disclose and discuss, on at least a quarterly basis, the company's statutory minimum capital level, the amount of regulatory capital held above the statutory minimum amount, and Tier 1 capital ratio as calculated under the Advanced approach. Further, as a publicly traded company, Farmer Mac provides its investors with significant detailed information about the company on a regular basis and responds to investor questions on quarterly calls to discuss financial results, which introduces another element of transparency and market discipline. Farmer Mac's most recent robust public disclosures about its capital framework are included in Annex A to this letter.

II. Flexibility of the Current Capital Planning Rule to Reflect New Developments in the Basel Framework

The ANPRM suggests that Farmer Mac's regulatory capital regime may need to be revisited because of the length of time since FCA first adopted the capital planning rule in 2013. But we believe that this rule remains appropriate, and is effective even ten years later, because it provides FCA with flexibility about how to appropriately apply the Basel Framework to Farmer

[1] The statutory critical capital requirement is another capital requirement that applies to Farmer Mac. It is not included in the three key capital requirements referenced above because it is calculated based on the minimum capital requirement and is always lower than the minimum capital requirement. See Annex A for more information.

Mac's unique business model and risk profile. Indeed, Farmer Mac's regulatory capital requirements have been far from static since 2013, as Farmer Mac annually reviews its capital adequacy program with FCA and has consistently enhanced its regulatory capital framework with each revision to the Basel Framework.

In implementing FCA's capital planning rule, Farmer Mac adopted the Advanced approach and meets the necessary minimum requirements outlined by the Bank for International Settlements (BIS) in the Basel Framework. Farmer Mac has developed and maintains an internal rating system to assess the risk of borrower default and transaction-specific characteristics. These internal risk ratings are used to estimate the probability of default, loss given default, and exposure at default in the Basel regulatory framework. Over time, Farmer Mac has continued to develop and enhance its regulatory capital framework to align with updates and revisions to the Basel Framework. For example, Farmer Mac:

- Re-worked the standardized approach calculation and internally reviews output of both the advanced approach and the standardized approach.
- Implemented the Basel III securitization standard after completing the first FARM securitization transaction (output floor for risk-weighted assets after a credit risk transfer of 5%).
- Adopted Basel IV requirements introduced in 2017. Basel IV included improvements to standardized approaches for credit risk, credit valuation adjustment (CVA) risk, and operational risk. For 2023 and the Basel IV implementation, Farmer Mac has undertaken two separate but related activities:
    - Adopted new Basel IV requirements for input and output floors.
    - Developed a new master probability of default (PD) curve and loss given default (LGD) tiering based on data from Farmer Mac, the Farm Credit System (FCS), and Moody's Analytics for use in the A-IRB approach.

III. Capital Measurement Techniques

Farmer Mac has consistently advocated for the application of more sophisticated approaches to determining the appropriate risk-weighting for assets, such as the Basel Framework's A-IRB approach over more simplistic measures like the Standardized approach. The Standardized approach generally does not distinguish between the financial risks inherent in loans within the same loan asset class. Thus, generally, the capital requirement would be the same for all loan assets within a given asset class (e.g., a loan secured by agricultural real estate producing row crops would have the same capital allocation as a highly specialized processing facility secured by agricultural real estate). The more sophisticated approaches like the A-IRB represent the state-of-the-art in capital modeling, and a well-parameterized model will more realistically depict the risk of the portfolio and its performance against meaningful stress scenarios. This more realistic depiction of risk is important from a transparency perspective, as different portfolios may require different amounts of capital, and are best depicted by more granular risk models, with the A-IRB approach allowing for more efficient and explicit allocation of capital by risk. As FCA observed in its 2019 study on Farmer Mac's capital:

> In addition to the statutory minimum capital requirements and risk-based capital stress test, Farmer Mac uses the Basel III-type advanced internal ratings-based (advanced) approach, adjusted for its role as a secondary market institution. Farmer Mac uses this approach in its capital planning to determine how to capitalize for the financial risks inherent in loans. The advanced approach is more risk sensitive than the standardized approach because it specifically models at a more granular level the different risks in each asset type with similar risk characteristics to determine the risk weight and related capital charge. Farmer Mac's Basel-based advanced approach generally conforms to the Basel III technical specifications. . . . Farmer Mac is subject to statutory minimum capital requirements and a statutorily prescribed risk-based capital stress test. In accordance with FCA regulations, Farmer Mac uses the Basel advanced approach or a similar model-based risk-weighting approach in its capital planning because such approaches are appropriate for Farmer Mac's unique rural-focused secondary market business model and the product mix in its program portfolio. (page 13 of results summary)

Farmer Mac uses the Advanced approach for its regulatory capital framework. This approach estimates extreme credit losses using an estimated Probability of Default (PD), Expected Loss Given Default (ELGD), and Conditional Loss Given Default (CLGD) for each exposure. Under the Standardized approach, a financial institution must segregate agricultural loans into Residential or Commercial real estate, with additional distinction between exposures whose performance relies on cash flows generated by the property and those that do not. While certain collateral types may be more clearly distinguished as Residential, other Farm & Ranch assets may be more ambiguous and may be more appropriately classified as Commercial.

Under the Advanced approach, the need to distinguish Farm & Ranch loans between Residential and Commercial designations is eliminated, and the risk-weight for an exposure can be calculated using the formula prescribed by the BIS and based on the inputs for PD, ELGD, and CLGD. This simplifies the process and provides consistency across all segments and asset types and, more importantly, is a more accurate method for risk quantification. Additional regulatory capital requirements that vary from the Advanced approach could result in risk-weightings that do not accurately reflect the true risk of a given exposure.

IV. Leverage Ratio

Since 1996, Farmer Mac has operated under a statutory minimum capital level equal to the sum of 2.75 percent of the aggregate on-balance sheet assets and 0.75 percent of the aggregate off-balance sheet obligations.[2] This construct is essentially a leverage ratio and represents Congress's determination of the appropriate leverage based on Farmer Mac's business model. The primary justifications for Farmer Mac's permitted leverage are the ability of Farmer Mac to manage credit risk over a more diversified non-concentrated portfolio and the quality of loans eligible for Farmer Mac's secondary market activities, all of which are either (1) first mortgages on real property that meet rigorous appraisal, underwriting, appraisal, and documentation standards, (2) the guaranteed portions of certain loans guaranteed by the USDA backed by the full faith and credit of the United States, or (3) high quality rural infrastructure loans. The reduction of capital requirements for these types of assets is appropriate to the reduced risk inherent in those loans.[3]

As of December 31, 2022, Farmer Mac had $517 million of capital in excess of the minimum capital level required by statute. Farmer Mac has substantially increased this buffer over the past five years, with increases every year since December 31, 2018 when the buffer was $183 million over the minimum required amount.

The statutory minimum capital level contained in Farmer Mac's charter is the minimum leverage ratio requirement that Congress already determined to be most appropriate for Farmer Mac's unique business model. Therefore, the application of a new or additional leverage ratio requirement would be unnecessarily duplicative while also unduly constraining Farmer Mac's mission. A leverage ratio is an inherently simplistic measure that can have significant

[2] See Section 8.33 of Farmer Mac's charter; 12 U.S.C. 2279bb-2.

[3] Congress was aware that Farmer Mac's regulator would need to give special consideration to Farmer Mac's unique business model in exercising its examination authority over Farmer Mac. Section 8.11 of Farmer Mac's charter instructs FCA to consider: "the purposes for which [Farmer Mac] was created; the practices appropriate to the conduct of secondary markets in agricultural loans; and **the reduced levels of risk associated with appropriately structured secondary market transactions.**" (12 U.S.C. 2279aa-11(a)(2)) (emphasis added).

ramifications upon the management of other risks, most significantly, liquidity risk. To ensure appropriate liquidity over the statutory minimum, Farmer Mac holds excess capital and maintains a sizable liquidity portfolio of high-quality investments that serves as a contingency and provides excess liquidity well in excess of the required minimums.[4] It is noteworthy that Farmer Mac's minimum capital requirement of 2.75% for on-balance sheet assets applies to the Treasury securities and USDA Guaranteed Securities held by Farmer Mac, all of which are full faith and credit obligations of the United States. Without an adjustment for high-quality liquidity investment assets to a leverage ratio calculation, ***the imposition of a higher leverage ratio would create disincentives to maintain excess liquidity or to execute credit risk transfer and could therefore introduce a higher level of systemic risk, thereby defeating the very purpose of having a leverage ratio***. The recent wave of bank failures has demonstrated the need to have strong liquidity by holding a sufficient level of high-quality and short-duration assets that can be easily liquidated. Given the strong liquidity position of Farmer Mac, imposing an additional unadjusted leverage ratio would likely constrain Farmer Mac in fulfilling its mission to increase the accessibility of financing for American agriculture and rural infrastructure.

* * * * *

Farmer Mac has strategically and proactively worked to increase the capital base of its balance sheet, especially over the past five years. Farmer Mac's current regulatory capital framework – the Advanced approach under the Basel Framework coupled with a risk-based capital stress test developed by FCA and the statutory minimum requirement that amounts to a Congressionally-designed leverage ratio – allows Farmer Mac to operate in a safe and sound manner, while balancing its ability to fully deliver on its mission and to operate as a profitable publicly-traded, federally chartered institution. Indeed, under that framework, Farmer Mac has demonstrated that it is an adequately capitalized, transparent, and prudent company that enjoys favorable access to the debt and equity capital markets while successfully carrying out an important mission in support of rural America. The combination of existing statutory and regulatory capital requirements applicable to Farmer Mac has guided the company to maintain sufficient capital and reserves to protect its investors against both foreseeable risks and unexpected losses at no

[4] Farmer Mac maintains cash, cash equivalents, and other high-quality investment securities that can be drawn upon for liquidity needs. Farmer Mac must maintain a minimum of 90 days of liquidity under applicable FCA regulations. In accordance with the methodology for calculating available days of liquidity under those regulations, Farmer Mac maintained a monthly average of 368 days of liquidity throughout 2022 and had 324 days of liquidity as of December 31, 2022. As of December 31, 2022, Farmer Mac held $5.5 billion of assets in its liquidity investment portfolio.

cost to the U.S. Treasury while promoting public confidence and providing support for future growth in fulfillment of its mission.

We thank you for the opportunity to comment on the Advance Notice of Proposed Rulemaking. Farmer Mac appreciates FCA's careful consideration of these comments and the related supplementary information included in the Annexes to this letter in deciding whether to amend Farmer Mac's regulatory capital framework. I would also be pleased to discuss these matters further at your request.

Sincerely,

Bradford T. Nordholm
President and CEO

ANNEX A

Description of Farmer Mac's Current Capital Requirements
(as disclosed in Farmer Mac's Annual Report on Form 10-K
for the fiscal year ended December 31, 2022 filed with the SEC)

General Requirements. Farmer Mac's charter establishes three capital standards for Farmer Mac:

- Statutory minimum capital requirement. Farmer Mac's minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income) equal to the sum of 2.75% of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75% of Farmer Mac's aggregate off-balance sheet obligations, specifically including:
    - the unpaid principal balance of outstanding loan-backed securities guaranteed by Farmer Mac;
    - instruments issued or guaranteed by Farmer Mac that are substantially equivalent to securities guaranteed by Farmer Mac, including LTSPCs; and
    - other off-balance sheet obligations of Farmer Mac.

- Statutory critical capital requirement. Farmer Mac's critical capital level is an amount of core capital equal to 50% of the total minimum capital requirement at that time.

- Risk-based capital. The charter directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. Farmer Mac must comply with the higher of the minimum capital requirement and the risk-based capital requirement. The risk-based capital stress test promulgated by FCA is intended to determine the amount of regulatory capital (core capital plus the allowance for losses) that Farmer Mac would need to maintain positive capital during a ten-year period in which:
    - annual losses occur at a rate of default and severity "reasonably related" to the rates of the highest sequential two years in a limited U.S. geographic area; and
    - interest rates are shocked by the lesser of 600 basis points or 50% of the ten-year U.S. Treasury rate, and interest rates remain at such level for the remainder of the period.

The risk-based capital stress test then adds an additional 30% to the resulting capital requirement for management and operational risk. Farmer Mac's risk-based capital requirement as of December 31, 2022 was $204.2 million, and Farmer Mac's regulatory capital of $1.3 billion exceeded that amount by approximately $1.1 billion.

Enforcement Levels. Farmer Mac's charter directs FCA to classify Farmer Mac within one of four enforcement levels to determine compliance with the capital standards established by Farmer Mac's charter. As of December 31, 2022, Farmer Mac was classified as within level I – the highest compliance level.

Failure to comply with the applicable required capital level in the charter would result in Farmer Mac being classified as within level II (below the applicable risk-based capital level, but above the minimum capital level), level III (below the minimum capital level, but above the critical capital level) or level IV (below the critical capital level). If Farmer Mac were classified as within level II, III or IV, the charter requires the Director of OSMO to take specified mandatory supervisory measures and provides the Director with discretionary authority to take various optional supervisory measures depending on the level in which Farmer Mac is classified. The mandatory measures applicable to level II and level III include:

- requiring Farmer Mac to submit and comply with a capital restoration plan;
- prohibiting the payment of dividends if the payment would result in Farmer Mac being reclassified as within a lower level and requiring the pre-approval of any dividend payment even if the payment would not result in reclassification as within level IV; and
- reclassifying Farmer Mac as within one level lower if it does not submit a capital restoration plan that is approved by the Director, or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

If Farmer Mac were classified as within level III, then, in addition to the mandatory supervisory measures described above, the Director of OSMO could take any of the following discretionary supervisory measures:

- imposing limits on any increase in, or ordering the reduction of, any obligations of Farmer Mac, including off-balance sheet obligations;
- limiting or prohibiting asset growth or requiring the reduction of assets;
- requiring the acquisition of new capital in an amount sufficient to provide for reclassification as within a higher level;
- terminating, reducing, or modifying any activity the Director determines creates excessive risk to Farmer Mac; or
- appointing a conservator or a receiver for Farmer Mac.

Farmer Mac's charter does not specify any supervisory measures, either mandatory or discretionary, to be taken by the Director if Farmer Mac were classified as within level IV.

The Director of OSMO has the discretionary authority to reclassify Farmer Mac to a level that is one level below its then current level (for example, from level I to level II) if the Director determines that Farmer Mac is engaging in any action not approved by the Director that could result in a rapid depletion of core capital or if the value of property subject to mortgages backing securities guaranteed by Farmer Mac has decreased significantly.

Capital Adequacy Requirements. Under FCA's rule on capital planning, Farmer Mac must develop and submit to OSMO for approval annually a plan for capital that considers the sources and uses of Farmer Mac's capital, addresses capital projections under stress scenarios, assesses Farmer Mac's overall capital adequacy, and incorporates a Farmer Mac board-approved policy on capital adequacy. In accordance with this regulation, Farmer Mac's board of directors oversees a policy that requires Farmer Mac to maintain an adequate level of "Tier 1" capital, consisting of retained earnings, paid-in-capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocable to "non-program" investments that are not included in the Agricultural Finance and Rural Infrastructure Finance lines of business. Under this policy, Farmer Mac must maintain at all times a Tier 1 capital ratio of at least 7.0% of risk-weighted assets, calculated using an advanced internal ratings based asset risk weighting regime that is consistent with current Basel-based principles.

The policy also requires Farmer Mac to maintain a "capital conservation buffer" of additional Tier 1 capital of more than 2.5% of risk-weighted assets. If the capital conservation buffer drops to various levels at or below 2.5%, as shown in the table below, the policy requires Farmer Mac to restrict distributions of current quarter Tier 1-eligible dividends and any discretionary bonus payments to an amount not to exceed the corresponding payout percentage specified in the table below, which represents the percentage of the cumulative core earnings for the four quarters immediately preceding the distribution date:

Capital Conservation Buffer (percentage of risk-weighted assets)	**Payout Percentage** (percentage of four quarters' accumulated core earnings)
greater than 2.5%	No limitation
greater than 1.875% to and including 2.5%	60%
greater than 1.25% to and including 1.875%	40%
greater than 0.625% to and including 1.25%	20%
equal to or less than 0.625%	0% (no payout permitted)

These distribution restrictions would remain for so long as the Tier 1 capital conservation buffer remains at or below the minimum level of 2.5%, and Farmer Mac's board of directors may consider other factors, such as earnings presented in accordance with generally accepted accounting principles in the United States ("GAAP") and other regulatory requirements, in determining whether to restrict capital distributions, including dividends and bonus payments. As of December 31, 2022, Farmer Mac's Tier 1 capital ratio was 14.9%. The calculation of Farmer Mac's Tier 1 capital ratio does not include certain interest rate risk components of the risk weighting of assets, which reflects the fact that Farmer Mac pursues an approach to funding its assets with liabilities of similar duration and convexity characteristics and therefore does not bear material interest rate risk in its portfolio.

ANNEX B
Excerpts from FCA's 2019 Analysis of Farmer Mac's Capital
(submitted to Congress on June 18, 2019)

As required by the Section 5414 of the Agriculture Improvement Act of 2018 (commonly known as the 2018 Farm Bill), FCA conducted a study to analyze and compare the financial risks inherent in loans made, held, securitized, or purchased by the Farm Credit System (i.e., the FCS's banks and associations) and Farmer Mac. That study also analyzed and compared how these loan risks are required to be capitalized under statute and regulations. FCA submitted a results summary of the study to the House of Representatives Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry on June 18, 2019.

As summarized in FCA's cover letter accompanying the submission of the results summary to the two Congressional Agriculture Committees, FCA concluded that:

- "Compared with the System, Farmer Mac exhibits a significantly lower risk profile and this difference in risk profile is appropriate given their differing statutory authorities and business models."
- "Farmer Mac is subject to detailed statutory minimum capital requirements and a statutorily prescribed risk-based capital stress test. Our [FCA's] regulations require many components of the Basel capital framework, with adjustments for Farmer Mac's unique secondary market business model."

Some of the key findings included in the results summary about Farmer Mac's capital framework were:

- "Both GSEs provide financing to agriculture, rural utilities, and rural housing; however, they differ significantly in their statutory authorities, business models, lines of business, and risk profiles." (page 9 of results summary)
- "The loan risk comparison study confirms System institutions and Farmer Mac operate very different businesses and, accordingly, have appropriately different risk profiles. These different business models are a direct outgrowth of their differing statutory authorities. Titles I, II, and III of the Farm Credit Act direct System institutions to serve predominantly rural borrowers as primary lenders with direct borrower relationships and a broader scope of lending authorities than Farmer Mac. Title VIII of the Act directs Farmer Mac to provide a secondary market for agricultural real estate loans, certain government-guaranteed portions of loans, and rural utility loans." (page 10 of results summary)
- "As these [credit quality-related] metrics indicate, compared with the System, Farmer Mac has a significantly lower risk profile from a total portfolio perspective. This difference in the two GSEs' risk profiles is appropriate given their differing statutory authorities, business models, and large proportions of volume in lines of business that the

other is not engaged in." (page 11 of results summary; footnote 44 omitted explaining statistical significance)

- "In addition to the statutory minimum capital requirements and risk-based capital stress test, Farmer Mac uses the Basel III-type advanced internal ratings-based (advanced) approach, adjusted for its role as a secondary market institution. Farmer Mac uses this approach in its capital planning to determine how to capitalize for the financial risks inherent in loans. The advanced approach is more risk sensitive than the standardized approach because it specifically models at a more granular level the different risks in each asset type with similar risk characteristics to determine the risk weight and related capital charge. Farmer Mac's Basel-based advanced approach generally conforms to the Basel III technical specifications." (page 13 of results summary)
- "There are important differences in capital requirements that are driven by the two GSEs' [Farmer Mac and the FCS banks and associations] differing statutory purposes, lending authorities, and asset composition, among other factors." (page 13 of results summary)
- "Farmer Mac is subject to statutory minimum capital requirements and a statutorily prescribed risk-based capital stress test. In accordance with FCA regulations, Farmer Mac uses the Basel advanced approach or a similar model-based risk-weighting approach in its capital planning because such approaches are appropriate for Farmer Mac's unique rural-focused secondary market business model and the product mix in its program portfolio." (page 13 of results summary)
- "Differences in authorities, business mode[l]s, and business practices, as well as the magnitude of those differences as measured by credit metrics, support the GSEs' differing capital requirements, both statutory and regulatory." (page 14 of results summary)
- "In conclusion, our comparison of the loan risk and capital requirements indicates that the major differences between the two GSEs' statutory authorities, business models, and portfolio contents result in different risk profiles. Further, there are different statutory capital requirements applicable to the two GSEs. However, the practical reality of both GSEs' capital requirements is that they generally follow the Basel framework. Also, both GSEs' capital provisions make appropriate adjustments to the Basel framework consistent with the differences in their business models and risk profiles." (page 14 of results summary)