

# Module: Assets

## Section: Other Financing Institutions

### EM-350

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#### Introduction

District banks (Banks) are permitted to enter into discount arrangements with non-Farm Credit System (System) lenders. These non-System lenders, referred to as Other Financial Institutions (OFIs) are often commercial banks or agricultural credit cooperatives. In order to discount agricultural or aquatic loans made by OFIs, they must be non-real estate loans of a type that could have been made by a Production Credit Association or Agricultural Credit Association.

The Farm Credit Act and FCA Regulations require that OFIs be treated equitably in their discount relationships with the Banks. FCA Regulation 12 CFR Part 614, Subpart P, addresses OFI eligibility requirements and prescribes parameters on the operational aspects of the discount relationship between the Banks and OFIs.

#### Examination Objectives

Determine the OFI's eligibility to discount loans with the Bank.

Determine that the Bank is complying with the Act and FCA regulations.

Assess the Bank's identification and management of risk in loans discounted from OFIs.

Determine if OFIs are treated equitably.

#### Examination Procedures

The scope and depth of examination testing depends in part on the materiality of loans and discounts to OFIs. Consistent with risk-based examination principles, examiners should add, delete, or modify the following procedures in conducting the examination of the OFI program and the quality of the loan assets discounted.

1. In coordination with the examiner assigned loan portfolio management, review the Bank's policies addressing OFI lending operations to ensure they provide adequate direction from the board and are consistent with FCA Regulation 12 CFR Part 614, Subpart P.
2. Review the practices utilized by the Bank to manage the risks in its OFI relationships. These practices should include:
  - a. An internal program to review and classify loans discounted from OFIs;
  - b. Monitoring the financial condition of OFIs; and
  - c. Appropriate financing agreements with the OFI(s) that address significant financial and operational requirements and comply with the requirements of FCA Regulation 12 CFR § 614.4590.
3. Obtain a list of OFIs which have established a discount relationship with the Bank to determine the number of OFIs discounting loans with the Bank and the amount of discounts outstanding.

4. Verify the eligibility of OFIs by completing workpaper FCA 3015.
5. Review any OFIs where discounting has been suspended, revoked, or denied and ensure the Bank has adhered to the requirements of FCA Regulation 12 CFR § 614.4555 and § 614.4650.
6. Review a sample of interest rates, fees, and capitalization requirements charged to OFIs to ensure equitable treatment as required by FCA Regulation 12 CFR § 614.4640.
7. Weigh the results of the examination of the Bank's OFI program and the quality of the loan assets discounted, and draw tentative conclusions giving consideration to cause, effect, materiality, and results of other related examination work.
8. Discuss tentative conclusions and examination findings with examiners responsible for the assets evaluation.
9. Discuss items of concern, scope of work performed, and conclusions with the examiner in-charge and with the appropriate Bank manager. Obtain a response regarding the cause(s) of deficiencies or weaknesses and anticipated corrective actions.
10. Prepare a leadsheet or other summary document to provide workpaper support for the work performed and the conclusions reached.