

Farm Credit Administration

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INFORMATIONAL MEMORANDUM



February 2, 2005

To: Chairman, Board of Directors
Chief Executive Officer
Each Farm Credit System Institution

From: Thomas G. McKenzie, Director
Office of Examination

Subject: Report on Violations of Consumer, Borrower Rights, and Flood Insurance Regulations

Attached is a summary report on violations of consumer, borrower rights, and flood insurance regulations identified by Farm Credit Administration (FCA) examiners while performing examinations of Farm Credit System institutions. This report shows trends in the number and types of violations that have been identified in examinations over the past 5 fiscal years.

In general, the results show an increase in both the number of violations and the percent of institutions examined where violations of some type were noted. In most cases, the underlying and recurring cause of the violations involves oversight by loan officers, insufficient training and understanding of the regulations, and weak internal controls.

Although corrective actions were implemented, I encourage the board and management of each Farm Credit institution to take appropriate measures to ensure future compliance with all applicable regulations. Management controls should be in place to detect and prevent violations. If not already performed, periodic internal audits should be conducted and results reported to the board or board audit committee to ensure controls are working properly. Internal audits and your scope of review should be reassessed to reverse the general upward trends in violations observed by examiners.

If you have any questions, please feel free to contact the Director of your respective FCA Field Office, or Leslie Fridley, fridleyl@fca.gov, Office of Examination, at (703)883-4168.

Attachment