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## INFORMATIONAL MEMORANDUM



February 23, 2026

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

From: Kevin Kramp, Director  
Office of Regulatory Policy

Subject: Guidance for System associations on using investment authorities and managing investment risk

The Farm Credit Administration is issuing this informational memorandum to update guidance regarding assets that Farm Credit System (System) associations may purchase and hold under FCA regulation § 615.5140(b).<sup>1</sup>

System institutions<sup>2</sup> may hold eligible investments for specific purposes set forth in our regulations.<sup>3</sup> The purpose of this informational memorandum is to clarify the investment authority of System associations and to discuss sound practices for managing investment risk.

This informational memorandum supersedes, clarifies the information in, and replaces the following informational memoranda, all of which have been rescinded:

- Zero Percent Capital Risk Weighting of Guaranteed Portions of Loans Bought in the Secondary Market, issued on October 17, 2006
- USDA Guaranteed Investments, issued on March 22, 2011
- USDA Guaranteed Investments (as clarified and modified), issued on June 30, 2011
- Association Investments, issued on May 16, 2012

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<sup>1</sup> For further guidance about investment management practices at System banks, associations, and service corporations, see [Revised Bookletter 64 \(PDF\)](#), published July 11, 2024. This document applies to any service corporation chartered under Part E of Title IV of the [Farm Credit Act of 1971](#), as amended (the Farm Credit Act), that manages investments on an association's behalf.

<sup>2</sup> Although the Federal Agricultural Mortgage Corporation (Farmer Mac) is a System institution under the Farm Credit Act, this informational memorandum does not apply to Farmer Mac, which is governed by separate investment regulations at [§ 652, Subpart A](#).

<sup>3</sup> See [§§ 615.5132](#) and [615.5140](#). Section [615.5132](#) is applicable to System banks. Section [615.5140 part \(a\)](#) is applicable to System banks, and [part \(b\)](#) is applicable to System associations.

In addition, the following informational memoranda are rescinded:

- Prior Approval of New Investment Activities, issued on August 2, 1999
- Investments in Rural America, issued on June 25, 2004
- Investments in Rural America — Pilot Investment Programs, issued on January 11, 2005

## Eligible association investments and risk management

### *Understanding what makes investment authorities distinct*

Several statutory provisions and their implementing regulations establish separate and distinct lending and investment authorities for System institutions chartered and operating under different titles of the Farm Credit Act of 1971, as amended (Farm Credit Act).<sup>4</sup> Generally, the *lending* authorities of associations encompass loan origination, loan participation, and the purchase and sale of other interests in such loans.<sup>5</sup>

Investment authorities are distinct from lending authorities. Eligible investments for associations under part 615 generally fall into four categories:

- Securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies, provided the securities meet a general risk management purpose. Examples include, but are not limited to, SBA 7(a) loan pools,<sup>6</sup> mortgage-backed securities fully guaranteed by the U.S. government,<sup>7</sup> and Treasuries.
- The USDA guaranteed portions of loans originated by non-System lenders.<sup>8</sup>
- Mortgage securities issued or guaranteed as to both principal and interest by Farmer Mac.<sup>9</sup>
- Investments approved on a case-by-case basis or for mission-related purposes. You must seek prior approval from FCA<sup>10</sup> and explain the risk characteristics, purpose, and objectives for making the investment.

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<sup>4</sup> Several provisions of the Farm Credit Act specifically authorize System lenders to buy and sell obligations of, or obligations insured by, the United States or any agency thereof. See Sections 1.5(15), 2.2(11), 2.12(17), and 3.1(13)(A).

<sup>5</sup> See [Part 614 — Loan Policies and Operations](#).

<sup>6</sup> If your institution is a holder of SBA guaranteed pool certificates, you need to report these securities on Call Report Schedule RC-B as fully guaranteed securities of the U.S. government and its agencies.

<sup>7</sup> A mortgage-backed security guaranteed by a government-sponsored enterprise (GSE) would *not* meet the requirements of [§ 615.5140\(b\)\(1\)](#) because a GSE does not provide a guarantee for the timely payment of principal and interest by the U.S. government or one of its agencies.

<sup>8</sup> See [85 FR 62945 \(PDF\)](#) (Oct. 6, 2020) and [§ 615.5140\(b\)\(2\)\(ii\)](#). The regulation authorizes the purchase of only the guaranteed portions of the loans, not the unguaranteed portions.

<sup>9</sup> See [§ 615.5174](#). Two provisions of this regulation — [§§ 615.5174\(b\)](#) and [\(c\)](#) — require System lenders and service corporations to have separate policies for investing in Farmer Mac mortgage securities. Farmer Mac agricultural mortgage-backed securities should be reported as fully guaranteed GSE securities on Schedule RC-B.

<sup>10</sup> See [Guidance for Investment Requests under § 615.5140\(e\) of Farm Credit Administration Regulations \(PDF\)](#) for more information on the prior approval process. Also see [§ 615.5140\(e\)](#).

As a System association, you should not apply the same risk management requirements to all government guaranteed assets; if your internal policies, procedures, and due diligence practices apply the same requirements to all government guaranteed assets, they are not consistent with regulation. Due diligence for investments and underwriting practices for loans must comply with the regulations governing the respective authority under which your association acquired the asset. Investments must comply with part 615, and loans must comply with part 614.

For this reason, if your association purchases assets (including USDA guaranteed loan portions) under investment authorities,<sup>11</sup> you should conduct your due diligence in accordance with investment management due diligence requirements.<sup>12</sup> For instance, an important distinction between requirements lies in the first step of the process. Underwriting a loan begins with determining eligibility of the borrower and scope of financing for the loan, neither of which is required for an investment.

#### *Determining whether an asset may be acquired as an investment*

Determining whether an asset may be acquired under FCA investment regulations begins with evaluating the nature and source of the guarantee. Your policy and procedures should ensure that risk management expectations, including those for due diligence, underwriting, and portfolio limitations, are specific to the regulatory authority governing the assets you plan to purchase. Your policy and procedures should also address a process for independently supporting the authority you are using.

#### *Using the appropriate call report schedules for investments*

It is also important to correctly distinguish loans from investments in your call report.<sup>13</sup> Assets that are originated or acquired under an association's lending authorities in part 614 and assets purchased under investment authorities in part 615 are reported on different call report schedules.<sup>14</sup> Your guidance, processes, and controls should address correct call reporting for the asset acquired, based on the asset type and authority used.

#### *Purchasing investments for risk management purposes only*

With your funding bank's approval, your association may purchase investments for risk management purposes, which must be addressed and documented.<sup>15</sup> You should address the purpose as an objective in your investment policies and procedures and document it as part of your pre-purchase due diligence. It is a best practice to document the risk

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<sup>11</sup> These authorities are contained under [§ 615.5140\(b\)\(2\)](#).

<sup>12</sup> These requirements are outlined under [§ 615.5133\(h\)](#).

<sup>13</sup> U.S. government agencies are authorized to guarantee or insure loans that lenders originate to individuals or small businesses. Under accounting standards, these federally guaranteed assets are usually classified as loans. Current FCA regulations authorize System associations to hold USDA-guaranteed portions of loans originated by non-System lenders as investments, but not those guaranteed by other federal agencies. USDA guarantee programs are authorized because they are compatible with the System's statutory mission to finance agriculture and certain other activities in rural America.

<sup>14</sup> You can find detailed call report instructions in the [Uniform Call Report Manual \(PDF\)](#).

<sup>15</sup> Approval from the funding bank for an association's investment program is required under [§ 615.5140\(b\)\(1\)](#). Documented risk management purpose is required under [§ 615.5140\(b\)\(3\)](#).

management purpose and adherence to your investment objectives on an asset-by-asset basis for each investment transaction.<sup>16</sup>

### *Tailoring the investment management process to your portfolio*

Regardless of the investment type, your investment management processes must be appropriate for the size, complexity, and level of activity within your portfolio.<sup>17</sup> Association investments purchased under part 615 are subject to a 10% portfolio limit based on total outstanding loans.<sup>18</sup>

## **The Small Business Administration (SBA) and USDA secondary markets**

### *Using the SBA secondary market program*

The SBA secondary market for 7(a) loans<sup>19</sup> was created by Congress as the primary liquidity channel available to 7(a) lender participants that wish to sell the cashflow from the guaranteed portion of an SBA 7(a) loan to investors.

The SBA secondary market includes sales of the following:

- The SBA-guaranteed portion of individual 7(a) loans
- Certificates representing the ownership of SBA-guaranteed portions of loans that have been assembled into an SBA-approved pool (SBA pool certificates)

System associations are authorized to invest in only SBA pool certificates, which are securities, and not in individual loans.<sup>20</sup> Single loan purchases under investment authority are granted only for fully guaranteed USDA loan portions. Therefore, to purchase a single SBA loan in the secondary market, you must do so under your lending authorities, which means you must first confirm that the loan is eligible.

The SBA secondary market is generally large, with an extensive network of broker-dealers and investors for the SBA pool certificates. If you choose to purchase these certificates, it is part of your due diligence to understand the nature of the market and the underlying collateral of the certificates.<sup>21</sup>

### *Using the USDA secondary market*

The secondary market for USDA loans is structurally different from the SBA secondary market. The USDA does not extensively pool and securitize loans. Instead, it guarantees

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<sup>16</sup> As discussed in [Revised Bookletter 64 \(PDF\)](#), our regulations provide for flexibility in the template for certain investment types. However, a template alone does not provide sufficient documentation for how an investment contributes to managing risk under [§ 615.5140\(b\)\(3\)](#).

<sup>17</sup> See [§ 615.5140\(b\)\(3\)\(i\)](#).

<sup>18</sup> See [§ 615.5140\(b\)\(4\)](#). USDA guaranteed portions of loans authorized for purchase using investment authority under [§ 615.5140\(b\)\(2\)](#) count in the numerator of this portfolio limit calculation.

<sup>19</sup> The 7(a) loan program is SBA's primary guaranteed business loan program for providing financial assistance to small businesses.

<sup>20</sup> Under [§ 615.5140\(b\)\(1\)](#), SBA investments must be securities specifically assembled into an SBA pool to be eligible.

<sup>21</sup> See [§ 615.5140\(b\)\(3\)\(iv\)](#). As an association, you must consider and evaluate factors unique to the nature of the investment that could impact your risk-bearing capacity.

portions of loans that various lenders originate, and these guaranteed loan portions are sold in secondary markets. The USDA secondary guaranteed loan market is smaller than the markets for other investment securities you may purchase under part 615.

The USDA guarantees different types of loans under different programs. Examples of loans that the USDA guarantees are farm loans, Business and Industry, Water and Waste Disposal, Community Facilities, and Rural Energy for America Program loans.<sup>22</sup> While these assets are usually classified under generally accepted accounting principles as loans and not investments, FCA regulations authorize System associations to purchase and report these USDA guaranteed loan portions as investments for risk management purposes.

As a System association, you can use this authority to support your mission to rural America by investing in USDA guaranteed loans. However, you should consider and research market depth and the liquidity aspects of USDA guaranteed loan portions. If the need arose to sell these assets, you may need to sell them at a substantial discount because their liquidity might be impaired.

In addition, pricing, risk, and return information for the USDA guaranteed loan portion market may not be as readily available or standardized as it is for more liquid and larger secondary markets. There often is no third-party service for establishing market values. Observable market inputs based on the winning bids of broker-dealers are often limited. Therefore, you should establish risk limits and guidelines in your policies and procedures to appropriately consider the liquidity and secondary market characteristics of these assets.

#### *Understanding the liquidity and credit risk implications of government guaranteed assets*

To be able to support the risk management purpose of the investment, you need to understand the secondary market and underlying program information, including how purchase of these investments impacts your association's overall liquidity and credit risk profile.<sup>23</sup>

Even if you are not using the investment to manage liquidity, you should be aware of its liquidity characteristics to make sure the investment is consistent with your association's risk profile. Holding such government guaranteed assets serves different purposes and carries its own unique risk management issues that you need to consider both at the time you purchase the assets and while they remain in your portfolio.

#### **Understanding the risks associated with different types of guarantees**

The SBA and USDA programs are examples of programs that provide direct and unconditional U.S. government agency guarantees to secondary market purchasers that become "registered holders" in accordance with the requirements of those agencies.<sup>24</sup> While these government guarantees reduce the risk for all and afford a useful risk management

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<sup>22</sup> See, for example, [7 C.F.R. §§ 762.103](#) and [5001.450](#).

<sup>23</sup> See [§ 615.5140\(b\)\(3\)\(iii\)](#).

<sup>24</sup> See [7 C.F.R. 762.103](#) for USDA guaranteed farm loans and [7 C.F.R. 5001.450](#) for USDA guaranteed rural development loans. See also [13 C.F.R. 120.620](#) for SBA guaranteed pool certificates that System associations are authorized to purchase under [§ 615.5140\(b\)\(1\)](#).

tool, you must understand the difference between conditional and unconditional guarantees<sup>25</sup> and establish the type of guarantee as part of your due diligence process.

Conditionally guaranteed assets are not eligible under your investment authorities although they may be eligible under your lending authorities. For example, if rather than becoming a registered holder in accordance with USDA requirements, you simply purchase a participation interest in a loan that has a conditional USDA guarantee, the nature of your risk exposure is different.<sup>26</sup>

With a conditional guarantee, the guarantee could be null and void due to negligent servicing. This is in contrast with purchasing government interest certificates under the SBA or guarantee assignments under the USDA,<sup>27</sup> both of which provide an unconditional guarantee regardless of servicing and would continue to remain eligible under your investment authorities.

Another risk to keep in mind is that, unlike the SBA's guarantee of pool certificates, the USDA does not guarantee the *timely* payment of principal and interest of the guaranteed loan portions. Upon default of a USDA guaranteed loan portion, there may be a short delay until you are made whole, and the USDA will cover the interest accruing for only a specified period of time, typically 90 days, after you have demanded repurchase by the lender.<sup>28</sup>

Another risk with timely payment occurs when the lender of record assigns a holder of record. If the transfer paperwork isn't completed properly, processing of the payment may be delayed.

### **Managing risk from acquiring guaranteed assets at a premium**

You should ensure that your association's risk management practices address the risk from acquiring guaranteed assets at a premium. The board investment policy should effectively communicate limits on premium risk exposure. The policy should limit premium risk on three levels:

- Single loans
- Pooled loans
- Overall portfolio

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<sup>25</sup> Under [§ 628.32\(a\)\(1\)\(i\)\(B\)](#), the portion of an exposure that is directly and unconditionally guaranteed by the U.S. government, its central bank, or a U.S. government agency is assigned a 0% risk weight.

<sup>26</sup> See [§ 628.32\(a\)\(1\)\(ii\)](#). The portion of an exposure that is conditionally guaranteed by the U.S. government, its central bank, or a U.S. government agency is assigned a 20% risk weight. Associations can purchase conditionally guaranteed assets only under lending authorities.

<sup>27</sup> Accounting for the guaranteed portions of SBA and USDA loan sales falls under Accounting Standards Codification (ASC) 860, Transfers and Servicing. When you buy a portion of a loan from the secondary market, you have bought a participating interest in an assignment. If your institution is a holder of SBA "Guaranteed Interest Certificates" or assignments of guaranteed portions of USDA loans, you must report these items in Call Report Schedule RC as loans.

<sup>28</sup> Your association should check with the program information for the specified time period because this can vary based on the type of program.

The policy should also define premium risk limits relative to the potential impact on the overall financial condition or performance of your investment portfolio.<sup>29</sup> You should tailor quantitative risk limits to your association's financial condition and performance, including its unique interest rate risk (IRR) exposure, and you should review and adjust it as necessary as conditions change.<sup>30</sup>

While your eligible investments may exhibit low or no credit risk,<sup>31</sup> your association may face a loss on the premium portion of the guaranteed loan if the loan is paid off or defaults before the premium has been amortized. Any loss on the premium paid for an investment in portions of USDA guaranteed loans will be your association's responsibility, and you should recognize it as part of the IRR profile of the investment.

In addition, you should capture this risk as part of your stress testing, which at a minimum measures the price sensitivity of investments over a range of possible interest rate scenarios.<sup>32</sup> Be sure to tailor stress tests to the nature of the risk. For guaranteed investments purchased at a premium, stress testing must be sufficient to show potential premium losses and their impact on earnings if premiums are not recouped.<sup>33</sup> It's important to note that the potential for significant premium losses likely indicates that the investments are not appropriate for risk management purposes.

The internal rates of return you use to evaluate an investment purchase, particularly for investments purchased at a premium, should be used to support your investment decision, not just to meet reporting requirements.<sup>34</sup> It's also important to note that your prepayment assumptions significantly impact your investment analysis. Acquiring assets at a premium impacts your association's earnings, regardless of whether an asset is paid ahead of schedule.

However, as stated above, prepayment risk is notable for investments purchased at a premium, and it can negatively impact earnings. You should regularly evaluate and reassess the prepayment assumptions used in your risk modeling and repurchase analysis. The frequency and level of your review of modeling assumptions should be reasonable in the context of market conditions, risk exposure, and the rate environment.<sup>35</sup> If evaluating amortization of the premium is a key component of your investment model, you should also continually evaluate these assumptions, consistent with general model risk management principles.

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<sup>29</sup> This would be related to market risk principles and limits established in [615.5133\(c\)\(2\)](#).

<sup>30</sup> See [Bookletter-072 Interest Rate Risk Management](#) for more information for management of IRR.

<sup>31</sup> The portion of the loan purchased at a premium is not guaranteed. Therefore, the premium portion should be risk-weighted 100 percent consistent with corporate exposures for agricultural and consumer loans under [§ 628.32\(f\)\(1\)\(i\)](#).

<sup>32</sup> See [§ 615.5133\(h\)\(4\)](#).

<sup>33</sup> See [Revised Bookletter 64 \(PDF\)](#) for more information on tailoring stress testing consistent with the investment type.

<sup>34</sup> USDA guaranteed financial instruments purchased under investment authorities would be summarized under Schedule RC-B.5. You should include the amount outstanding, activity during the quarter, and information on the premiums paid. Similar information must be reported for SBA guaranteed financial instruments purchased under investment authorities in Schedule RC-B.5.

<sup>35</sup> See [Stress testing expectations](#), an informational memorandum issued September 8, 2023, for more information on challenge and review of stress testing frameworks, models, and results.

## Mitigating your IRR exposure

Your risk management processes must allow you to identify instances of IRR where investment assets are not match-funded and to ensure that you adequately analyze these risks consistent with your association's IRR policies and procedures.<sup>36</sup> Through the direct note with your funding bank, your association's investment and loan assets can generally be match-funded with the corresponding liability to align repricing and rate characteristics.

However, investment assets may have characteristics that cannot be identically match-funded; this is particularly true for pooled securities, which have repricing characteristics that are not as common as those for traditional System loans. For example, USDA variable-rate loans can reset quarterly, and there may not be a corresponding quarterly reset product offered by the funding bank. This can result in repricing risk. It can also produce spread compression, which may cause investment portfolios to yield a negative spread.

In addition, basis risk can occur if the interest rate product of the investment is tied to a different index or benchmark than the one used for the funding offered by your funding bank, even if the repricing interval or maturity is the same.

Therefore, your risk management practices, including prepurchase due diligence and ongoing analysis, should consider how investment assets will be funded and what risk exposures may be present if you have asset-liability mismatches resulting from investment activities. You should not allow IRR exposure from investments that could lead to significant declines in net income or the market value of capital to pose an undue risk to your association because that would run counter to risk management requirements.<sup>37</sup>

## Contact

If you have questions about this informational memorandum, please contact any of the following:

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<sup>36</sup> See [§ 615.5182](#). Associations with investments with IRR that could lead to significant declines in the net income or market value of capital must comply with the requirements of [§ 615.5180](#).

<sup>37</sup> See [§ 615.5140\(b\)\(3\)\(ii\)](#).