

Farm Credit Administration

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June 10, 2009

To: Board of Directors
Each Farm Credit System Institution

From: Leland A. Strom
Chairman and Chief Executive Officer

Subject: Responding to Local Financial Institution Failures

A handwritten signature in blue ink that reads 'Leland A. Strom'.

In previous communications, I emphasized that Farm Credit Administration (FCA) staff has stepped up its efforts to monitor and respond to events that may arise in the current environment. I also expressed my commitment to communicate with you on matters that are important to the continued success of your institution and the Farm Credit System (FCS or System) service to farmers, ranchers, and rural communities in a safe and sound manner. Accordingly, as we move through these challenging times, I think it is appropriate to address the impact of non-FCS local financial institution failures.

While the System remains safe and sound, failures of other local, state, and federally chartered financial institutions continue to increase. Some of you are currently dealing with these challenging circumstances and likely several more will in the near future. As you are aware, the impact of these failures is felt well beyond the immediate customers and owners of those institutions.

Local financial institutions are often active in agricultural lending. When these local institutions fail, farmers and ranchers can be left seeking new lenders to meet their ongoing credit needs. Increasingly, these situations are raising questions regarding the local impact on agriculture and the FCS. Therefore, I encourage System institutions to take the following actions when faced with these situations in the future:

- FCS institutions headquartered in close proximity to a failed financial institution are often bombarded with inquiries from media, former borrowers of the failed institution, local politicians, and Congressional staff. I encourage you to designate within your institution an experienced and consistent contact to handle these types of inquiries.
- FCS institutions are encouraged to do all they reasonably can to assist these farmers and ranchers in a safe and sound manner. This means credit decisions should be consistent with the standards of your institution, as well as your institution's financial capacity to prudently provide loans to creditworthy borrowers of failed institutions. As appropriate, I encourage you to create an outreach program or some other appropriate forum to identify and assist displaced borrowers. You may want to consider proactively identifying and

contacting the failed institutions' customers and visiting with them about their financial situations and your institutions' lending programs.

- FCS institutions are strongly urged to maintain prudent credit standards that adequately recognize all the associated risks in agricultural lending when local failures occur. FCS institutions should not arbitrarily loosen or tighten their standards in response to a failed financial institution situation but should continually evaluate the adequacy of your institutions' underwriting practices in response to the changing risk conditions facing industry segments. FCS institutions should also consider funding loans using Farm Service Agency (FSA) guarantees for borrowers that do not meet your institution's normal underwriting standards but would meet FSA's guaranteed loan criteria.
- FCS institutions may consider bidding on sales of loan pools from failed financial institutions. While System institutions are not authorized to buy whole loans, they may be able to utilize their investment authorities to purchase appropriately structured investment securities after obtaining the necessary regulatory approvals. I expect FCS institutions to proceed cautiously in investment situations and contact FCA prior to making such investments.
- As FCS institutions evaluate credit applications from failed institutions' former borrowers, FCS institutions must not only determine the creditworthiness of each borrower but also determine the additional concentration risk, reputation risk, capital needs, and resource demands that funding these additional credits could create. Loan pricing should also be market-based and prudently reflect the borrower's credit risk profile.

I encourage FCS institutions to continue consistent, ongoing communications with the FCA. As I mentioned in previous communications, FCA will continue to support the System in fulfilling its mission, maintaining financial prudence, and providing strong governance of System institutions by boards of directors. FCA staff is available to respond to any questions regarding these situations. If you experience a failure of a financial institution in your chartered territory that affects eligible borrowers or the agricultural markets, please contact your assigned examiner-in-charge or Mike Stokke, Director, Office of Congressional and Public Affairs, at (703) 883-4056.

In closing, a local financial institution failure creates stress and difficult situations for the former customers of the institution and the local communities it served. In dealing with these circumstances, I ask for your careful consideration of the above items, which I believe are consistent with successfully accomplishing the System's mission as a Government-sponsored enterprise.

Copy to: Chief Executive Officer
Each Farm Credit System Institution