

Farm Credit Administration

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INFORMATIONAL MEMORANDUM



April 20, 2000

To: Chairman, Board of Directors
The Chief Executive Officer
All Farm Credit System Banks and Associations

From: Thomas McKenzie, Director
Office of Policy and Analysis

Subject: Dates of Submission of Corporate Applications

Section 7.11 of the Farm Credit Act of 1971, as amended (Act), requires any plan of merger, transfer of lending authority, dissolution, or termination be submitted to the Farm Credit Administration Board (Board) before submission to the voting stockholders. The Board must take action within 60 calendar days or the institution can present its proposal directly to stockholders for a vote without Board approval.

Substantial changes are occurring within the Farm Credit System through chartering actions approved by the FCA. The significance of these actions, as well as the expected number of applications to be received, call for changes in the way we will accept and consider all corporate applications. The Board will consider corporate applications at its regularly scheduled monthly meetings. However, FCA staff can approve and expedite certain routine and low risk mergers that result in an institution with gross loans less than \$500 million, as described below.

Because we anticipate receiving a number of corporate applications this year and next, we believe it's helpful to review how we will handle these requests. These directions only apply to applications for mergers or consolidations and associations wanting to restructure to establish a parent and subsidiaries. Separate guidance will be issued in the near future for applying for a national charter or cross title authorities.

EXPEDITED PROCESSING FOR NONCOMPLEX, NONCONTROVERSIAL, AND LOW-RISK APPLICATIONS

The Board delegated to staff the authority to approve applications from associations that are judged noncomplex, noncontroversial, and low risk. We can approve applications from associations seeking to merge or consolidate and those wanting transfers of direct lending authority from either a Farm Credit Bank or an Agricultural Credit Bank to a Federal Land Bank Association. Applications for mergers or consolidations approved under authority of Section 7.8

of the Act or applications for the transfer of direct lending authority approved under Section 7.6 of the Act are considered noncomplex, noncontroversial, and low risk if they meet all the following:

- The applicant association has a current Financial Institution Rating System rating of 1, 2 or 3 (provided a 3-rated association is not operating under a formal enforcement action);
- The continuing or resulting association has a gross loan volume of \$500 million or less;
- The application is easily determined to be consistent with the Act and regulations governing its approval, and
- There are no policy- or precedent-setting decisions embedded in the request.

The Risk Analysis Division (RAD), within the Office of Policy and Analysis, is responsible and accountable for the timely processing of all corporate applications. RAD's goal is to respond to complete applications that meet the above criteria within 40 calendar days. For those applications, associations should send to us only one original and two copies. If after review of the application RAD discovers it does not meet the criteria for delegated approval, the proposal will be approved by the Board and will be subject to the 60-day rule. You may submit applications, at anytime, which meet the above criteria. If a review by RAD staff discovers any application is incomplete, the material is incorrect or contains errors, or does not comply with regulatory requirements, the application will not be approved and the association will need to resubmit it. We urge you to consult with RAD staff even before you send a formal application to avoid miscommunications and to gain additional insight into our submission requirements.

PROCESSING OF OTHER APPLICATIONS

Restructuring affects the delivery of services to the borrower as well as safety and soundness and viability of the institution. Therefore, except for those applications that we can approve as described above, the Board will consider all other corporate applications at its regularly scheduled public meetings. The Board meets the second Thursday of each month. To allow us enough time to deal with these larger and more complex corporate requests, we ask you to submit all required materials on the dates shown in the Attachment, allowing the maximum time period for our review. The dates listed in the Attachment are the Friday or Monday closest to 60 days before the Board meeting. These dates are subject to change. Please check our website www.fca.gov periodically for updates to application submission dates. We request your cooperation in this effort as you plan your board meetings and stockholder votes. If an institution must make an exception to the submission dates listed in the Attachment, please call the director of RAD, Ed Harshbarger at (703) 883-4067 or send an e-mail to harshbargere@fca.gov, to let him know the expected date of arrival.

Restructuring Requests from Existing ACAs

Applications from Agricultural Credit Associations (ACAs) wanting to restructure their organizations to establish operating subsidiaries are not subject to the 60-day statutory review, unless they also include a merger or consolidation request. Applications for restructuring from ACAs will be approved by the Board at regularly scheduled meetings. Every effort will be made to approve applications that are consistent with previously approved ACA restructures within 60 days. To improve consistency in your submissions, please follow the checklist provided for this

type of restructuring, dated August 1999. Copies are available by calling (703) 883-4455 or by visiting our website www.fca.gov. Applications that are not the same as the sample model application, or have new policy issues imbedded in them, are not eligible for our expedited procedures as described in the Informational Memorandum dated July 29, 1999. If the restructuring application includes a merger request, we ask you to send materials to us according to the schedule in the Attachment. All merger or consolidation requests will be processed within the statutory time frame if the application is complete and contains all the necessary information, complies with regulations, and does not contain any new legal issues.

Requests to Establish an ACA from Existing PCAs and FLBAs/FLCAs

Applications from existing PCAs and FLBAs/FLCAs wanting to establish an ACA parent and operating subsidiaries will be considered as a consolidation under Section 7.8 of the Act and, thus, will be subject to the 60-day rule. The Board will also approve these applications at its regularly scheduled meetings. The consolidation to form the ACA will be processed within the required 60 days, if the application is complete and disclosure materials are accurate and adequately inform the shareholders about the vote they are being asked to cast. For guidance, applicants should follow the checklist for association mergers and consolidations, issued as an Informational Memorandum on January 30, 1997, and the ACA Restructuring Checklist issued August 1999, to the extent applicable.

For further information, please call C. Edward Harshbarger, Director, Risk Analysis Division, Office of Policy and Analysis at (703) 883-4067, or Elna J. Luopa, Senior Corporate Analyst, Risk Analysis Division, Office of Policy and Analysis at (703) 883-4431.

Attachment

cc: Central Files/RAD Chron/RAD Subj/Bd. Secy./L. Markowitz:Q:\RA\Corporate/Informational Memorandum.doc