

Farm Credit Administration

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INFORMATIONAL MEMORANDUM



August 2, 1999

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

From: Marsha Pyle Martin
Chairman and Chief Executive Officer

Subject: Prior Approval of New Investment Activities

On May 13, 1999, the Farm Credit Administration (FCA) Board adopted amendments to regulations on eligible investments. These amendments (attached) became effective July 15, 1999. We encourage you to review them closely as the regulations provide Farm Credit System (FCS or System) institutions with several new investment authorities and clarify the investment authorities of associations. [The regulations are also available on our web page at www.fca.gov.](http://www.fca.gov) You will note that the regulations require each FCS institution to develop policies and procedures appropriate for the level and type of their investment activities.

FCS banks and associations may hold investments not listed on the chart of eligible investments. However, this can only be done with our approval. As noted in the preamble of the final investment regulations, we plan to initiate a regulation project concerning investments in mission-related assets. In the interim, and based on specific requests that you make, we will consider on a case-by-case basis the appropriateness of investments not otherwise authorized by the FCA regulations under § 615.5140(e).

Mission-related investments recently have been of particular interest to several of you. We consider "mission-related" investment activities as those that directly relate to agriculture, increase the flow of funds to farmers, ranchers, and rural areas, or otherwise support the ongoing mission of the Farm Credit System. For example, mission-related investment activities might include:

- Aggie bonds that help finance young, beginning, and small farmers;
- Revenue bonds that fund rural economic development;
- Short-term financing instruments (e.g., bankers acceptances, commercial paper or repurchase agreements) used to finance agricultural business activities and international trade;
- Investments in agricultural related enterprises (e.g., investments in joint ventures or strategic alliances); and
- Other on or off-balance sheet investments that support the mission of the FCS.

Our goal is to ensure that the System can continue to adjust to market demands and remain a major provider of financial services to agriculture and rural America. Thus, the FCA Board supports initiatives that will allow institutions to fulfill their mission to finance agriculture. This requires FCA to adopt a more flexible regulatory framework that fosters innovation necessary to meet changing customer needs and profiles within appropriate safety and soundness bounds.

Your request for our approval to make investments that are not specifically identified under our regulations should be accompanied by:

- A detailed description of the proposed investment;
- Your purpose and objectives for making the investment. For mission-related investment activities, your discussion should address how the proposed investment supports the mission of the FCS;
- A balanced discussion of market, credit, liquidity, business, financial, reputation, and legal risks;
- An assessment of the effect on your institution; and
- Other information you consider relevant.

Please submit your requests to me or Thomas G. McKenzie, Director, Office of Policy and Analysis. If you have any questions on this or the attached regulations, please feel free to contact either Laurie Rea, Senior Policy Analyst, at (703) 883-4498 or by e-mail at real@fca.gov, or Tom McKenzie at (703) 883-4277 or by e-mail at mckenziet@fca.gov.

Attachment

cc: Central Files/RPD Chron/RPD Subject Files/Board Secretary/OPA Chron/Rea/DiMuzio