



## **FCA Launches Monthly Newsletter**

Welcome to the Farm Credit Administration *Newsline*. We'll be coming to you monthly with news of interest about FCA. We invite your comments and suggestions. You can contact us by phone (703-883-4056), e-mail (info-line@fca.gov), or write to us. The address is: Office of Congressional and Public Affairs, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090.

## **U.S. Court of Appeals Rules Favorably on FCA Customer Regulations**

On January 19, 1999, the United States Court of Appeals for the District of Columbia substantially upheld FCA's regulations governing eligibility and scope of Farm Credit System (FCS) financing. The lawsuit was originally filed by the Independent Bankers Association of America and the American Bankers Association on April 9, 1997. Their complaint concerned FCA's Customer Regulations that became effective March 11, 1997.

On November 24, 1997, the United States District Court for the District of Columbia issued a decision finding that the FCA "had acted well within its regulatory authority in each of the five sections in question." The bankers filed an appeal on January 20, 1998.

The Court of Appeals upheld FCA on four of the six areas challenged by the bankers. The Court upheld two of the three challenged provisions of the farm-related business regulation by affirming FCA's removal of limitations that permitted financing only for custom-type services and the elimination of restrictions on the sale of goods. The Court also upheld the revisions of eligibility for processing and marketing loans, and the provision amending regulations governing lending to service cooperatives. In issuing its decision, the Court stated that with "the exception of regulations governing rural housing and certain Farm Credit Bank loans to farm-related businesses, we hold that the agency's regulations are consistent with the statute's language and congressional intent."

The Court qualified provisions of the regulations governing farm-related businesses and rural housing. Loans to farm-related businesses by FCS lenders that offer only long-term mortgage loans must be limited to financing land, buildings, equipment, and initial working capital, according to the opinion. The Court also disagreed with the provision that permitted the FCS to finance rural homes for borrowers who are not rural residents.

FCA Board Chairman and CEO Marsha Pyle Martin said, "The two exceptions will not significantly hinder the ability of FCS institutions to serve agriculture and rural America." She noted that rural home loans account for less than 3 percent of all FCS lending, and loans to non-rural residents under the new customer regulation would have been a very minimal part of that 3 percent. Martin also said the exception regarding certain farm-related business loans has no effect on short and intermediate FCS lenders, such as ACAs and PCAs, in making loans to farm-related businesses.

Regarding FCA's handling of the two exceptions, Martin said, "We plan to provide guidance to FCS institutions consistent with the Court's ruling."

## **New Reporting Requirements for YBS Borrowers Issued**

This month, FCA issued new reporting requirements for the Farm Credit System on lending to young, beginning, and small farmers and ranchers and harvesters of aquatic products (YBS borrowers). These requirements will provide a more complete picture of the System's lending to these borrowers.

Over the past year, FCA leaders met with the System's YBS Task Force to share and discuss information on the topic. These exchanges benefited both organizations' efforts to improve data collection and reporting. "We've adopted new definitions for YBS borrowers that we believe will more accurately reflect the level of service being provided by the System," said Thomas G. McKenzie, director of FCA's Office of Policy and Analysis. The request for data includes a questionnaire that will provide us with information on the type of business

activities System institutions have with YBS borrowers. For example, FCS will report special interest rate programs and coordination of YBS credit and related service programs with other Farm Credit institutions, state or federal government agencies or programs, farm groups, and others," McKenzie added.

Under the new definitions, a young farmer is 35 years or younger, a beginning farmer has 10 years or less farming, ranching, or aquatic experience, and a small farmer generates less than \$250,000 in annual gross agricultural sales. "The National Commission on Small Farms also uses \$250,000 in annual gross agricultural sales as the best way to classify small farms," McKenzie noted. In addition, an individual loan to a small borrower will be reported in one of four loan size categories: \$0 - \$50,000; \$50,001 - \$100,000; \$100,001 - \$250,000; and \$250,001 and greater.

"While we encourage System banks and associations to use the new definitions for the 1998 report, we realize that not every institution will be able to fully report under these new definitions," McKenzie said. "So we've provided for a phase-in period that will give System banks and associations until January 1, 2001, to modify procedures to collect the requested data. Reports for the year 2001 must be prepared using the new definitions," he added.

Farm Credit banks must submit data for the 1998 report on lending to YBS borrowers by April 1.

## **Audio Tapes Available of Loan Portfolio Management Symposium**

The Farm Credit Administration held a highly successful Loan Portfolio Management Symposium last month in Falls Church, Virginia. If you missed the Symposium but are interested in the presentations, you're in luck. We audio taped all of the Symposium sessions. You can purchase the 14 taped sessions individually for \$9 each or as a complete conference set for \$100 by contacting Audio Archives International, Inc., 3043 Foothill Blvd., Ste. 2, La Crescenta, CA 91214; or by telephone at 800-747-8069 or 818-957-0874; and by fax at 818-957-0876. You can also find information on ordering the audio tapes on FCA's Website at <http://www.fca.gov>.

Nearly 300 people attended the Symposium, which focused on "managing risks - creating opportunities." FCA Board Member Ann Jorgensen addressed the group by offering her perspectives on rural America. "I believe there are creditworthy financing opportunities in rural America," she said, "and the challenge is to examine the risk and reward of these opportunities with new vigor." Jorgensen said it is important to look at the rural market as a whole and make investments in critical areas that will ultimately strengthen the local and territorial economies.

Topics covered at the conference included: the future of U.S. farm policy; emerging trends in agricultural lending; stress testing your farm loan portfolio; credit rating systems; lender liability and environmental risk; risk diversification; collateral risk; and internal controls and loan underwriting.

## **Examination Focus Areas Announced for FY 1999-2000**

As a part of the FCA Strategic Plan, examination focus areas are identified each fiscal year to assist examiners in setting the scope of FCS institution examinations. FCA Chief Examiner Roland Smith said we are sharing the focus areas with FCS institutions to help them better understand FCA's examinations. For the FY 1999-2000 period, the focus areas are:

- **Year 2000** - One of the most significant issues confronting FCS institutions is the ability of their information systems to be Year 2000 compliant.
- **Emerging Risk** - Greater price and income volatility and changes in the comparative advantages for some commodities likely will characterize the new market environment for U.S. farmers.
- **Young, Beginning, and Small Farmers Program, and Minority Farmers** - Examination programs will assess each institution's program for furnishing sound and constructive credit and related services to young, beginning, small, and minority farmers, ranchers, and harvesters of aquatic products.
- **Credit Delivery** - Lending practices continue to be an area of examination emphasis. In particular, scorecard lending and limited documentation programs are new endeavors to expand market share that could result in excessive risk, if not carefully implemented and executed. An institution's underwriting standards may also become outdated given the dynamics and demographics of the current agricultural lending environment.

"In addition to the focus areas, we consider the conditions unique to each FCS institution when determining the examination's scope and allocated resources," Smith said.

## Regulation and Policy Update

- FCA received more than two dozen comments in response to its request for information and guidance on how to reduce regulatory burden on Farm Credit System institutions. This was in response to the FCA Board's August 11, 1998 Statement on Regulatory Burden requesting comments on regulations and policies that duplicate other requirements, are ineffective, or impose burdens that are greater than the benefits received. The comment deadline was January 19. Staff is now reviewing and categorizing the comments.
- On January 14, the FCA Board adopted a policy statement that urges institutions to work with pork producers affected by pork prices falling to their lowest level in 50 years. The policy statement encourages FCS institutions to exercise proper risk controls and management oversight. It also points out that System institutions have flexibility to provide relief that may include: extending the terms of loan repayment; restructuring a borrower's debt obligations; easing some loan documentation or credit-extension terms for new loans to certain borrowers; or requesting FCA to grant relief from specific regulatory requirements.
- At its January meeting, the FCA Board adopted a proposed rule on Farm Credit Bank Assistance to Associations that would remove the Agency's prior approval of financial assistance provided to associations by Farm Credit banks. In place of the existing prior approval requirements, the proposed rule requires notification of the assistance to both the FCA and bank shareholders.
- FCA Board members will consider two regulations before the end of March. If proposed, the regulation on Release of Information would conform FCA regulations to Department of Justice guidance and clarify procedures for processing requests for exempt information. A final regulation on Farm Credit System Board Compensation Limits would remove Agency prior approval for certain instances in which bank director compensation can exceed the adjusted maximum.

## In Brief . . .

**Carl A. Clinefelter was named director of the Office of Secondary Market Oversight by the FCA Board.** He will provide regulatory oversight, examination, and supervision of the Federal Agricultural Mortgage Corporation, better known as Farmer Mac. He succeeds George D. Irwin who retired. Clinefelter came to FCA in 1980 from the Federal Intermediate Credit Bank of New Orleans. Before being named to his new position, he was the assistant director of the Office of Policy and Analysis. He earned BA and MBA degrees from Auburn University.

**Roger Paulsen was selected for a temporary assignment as Executive Assistant for new FCA Board Member Michael Reyna.** Before joining FCA in 1983, Paulsen was with the Federal Land Bank of St. Louis. He also served 3 years as branch manager of the Federal Land Bank Association of Southeastern Illinois. Currently on loan from the Office of Examination's Special Examination & Supervision Division, Paulsen is a graduate of Southern Illinois University at Carbondale.

**Three new publications were recently issued by FCA.** *Loan Portfolio Management* is a publication of particular interest to Farm Credit institution board members, CEOs, and credit officers. It describes 10 major components of an effective loan portfolio management program. The *1998 FCA Annual Report* includes a summary of the Agency's performance, major actions, and financial condition for the fiscal year, ending September 30, 1998. The *FCA Strategic Plan for FY 1998-2003* describes the Agency's long-term policy and management goals along with the level of performance FCA will achieve over the next 5 years. Copies of the publications are available at no cost from FCA's Office of Congressional and Public Affairs, 1501 Farm Credit Drive, McLean, VA 22102-5090; phone, 703-883-4056; fax, 703-790-3260; or e-mail, info-line@fca.gov. Copies can also be downloaded from FCA's Website.

The *FCA Newsline* is a publication of the Farm Credit Administration. Suggestions, comments or questions should be sent to: Editor; Office of Congressional and Public Affairs; Farm Credit Administration; 1501 Farm Credit Drive; McLean, VA 22102-5090; Phone: 703-883-4056; Fax: 703-790-3260; E-mail: info-line@fca.gov; Website <http://www.fca.gov>.

The Farm Credit Administration is the Federal agency responsible for the regulation and examination of the Farm Credit System, a nationwide network of cooperatively owned agricultural lending institutions and their service organizations.

## Newsline Interview with Michael M. Reyna

*Reyna was sworn in as a member of the FCA Board on October 22, 1998, and later was elected chairman of the Farm Credit System Insurance Corporation (FCSIC) Board. Before joining FCA, he was USDA's Rural Development State Director for California.*

**Newsline:** Would you tell our readers something about your background before coming to FCA and how your experience at USDA prepared you for your current role?

**Reyna:** I come to FCA with extensive professional experience and a solid set of personal values. Early in my career, I spent roughly 10 years advising the California Legislature on financial services regulation, in addition to other issues. For the past 6 years, I worked at USDA in a position that was similar to being the CEO of a \$2.5 billion financial institution. At heart, I'm a lender and I believe that gives me insight into the challenges faced by System CEOs in their day-to-day activities. I know that they care deeply about agriculture and rural America, and I do too. I think this perspective will make me a better Board member. Moreover, throughout my life, my guiding values have been a commitment to excellence, an appreciation for diversity of approach, and a sense of fairness and caring. These core values are what lead me to be engaged and govern how I interact with people and on issues. I believe they will be a tremendous source of strength as I consider issues before the Board.

**Newsline:** How should the Farm Credit System adapt as the financial world changes?

**Reyna:** I believe one of the biggest dangers facing the System in the future is that it could become isolated in an increasingly interrelated and connected financial environment. I believe System institutions should take every opportunity to build or create strategic partnerships and alliances with other institutions, inside and outside the System itself. For example, participation loans with USDA and other lenders are a good way to share risk and reap benefits, including (1) holding on to a valued customer that might otherwise "grow" away or (2) serving a new customer that, for one reason or another, couldn't be served before. Some System institutions are leading the way in these areas today; others should follow this example. To continue to be successful in the future, the System will need to keep pace with their customers as well as keep pace with other financial institutions. All financial institutions are revisiting their strategies regularly; so should System institutions. There is no substitution for knowing and meeting the needs of your customers.

**Newsline:** What challenges do you see facing the Farm Credit System in the next 5 years?

**Reyna:** I see both challenges and opportunities for the Farm Credit System in the coming years. A few of these include:

1. Continued instability in world financial markets and further concentration in the agricultural industry;
2. Increased competition from inside and outside the System;
3. Continued drive towards modernization and greater efficiencies; and
4. Expanding new markets in rural America.

Fundamentally, the System has always been a leader in creating innovative new products for the markets it serves. I have no doubt it will continue to do so in the future.

**Newsline:** What do you see as the biggest challenge facing FCA in the next 5 years?

**Reyna:** One of our biggest challenges is cost containment of FCA's budget while recruiting, hiring, and retaining well-qualified, trained staff. I know that FCA has gone through a downsizing process, which is similar to what I went through at USDA. I think the Agency should be commended for the cost cutting that it has undertaken. I personally don't want to get in a situation where we have to cut staff to meet the rising salary cost and other budget expenses. We must always look for ways to do our job better, smarter, and cheaper. I'm confident we can do that.

**Newsline:** What do you see as your greatest challenge as a member of the FCA Board?

**Reyna:** I believe the greatest challenge is to avoid an "ivory tower" mentality. In other words, a mentality that says, in effect, "I have all the answers." I want to work closely with people within the System to make the System better and stronger. To do this I plan to make myself accessible and available to System individuals. I firmly believe that if the System is successful, then we as regulators are successful too.

**Newsline:** As the new chairman of FCSIC, do you foresee any change in direction for that organization?

**Reyna:** As chairman, I am committed to meeting the mandates that have been outlined in law by Congress. First and foremost, that means we must ensure the timely payment of principal and interest on System issued debt. All other activities of FCSIC support this primary mission. To do otherwise, would create a "crisis of confidence" that would be unacceptable. Hand-in-hand with our primary mission is ensuring that the statutorily prescribed minimum two-percent base amount keeps pace with System growth and risks. I'm confident that the FCSIC Board will take appropriate action to see that this happens.