§ 1980.320 Interest rate.

The interest rate must not exceed the established, applicable usury rate. Loans guaranteed under this subpart must bear a fixed interest rate over the life of the loan. The rate shall be agreed upon by the borrower and the Lender and must not be more than the current Fannie Mae rate as defined in § 1980.302(a) of this subpart. The Lender must document the rate and the date it was determined.

4. Section 1980.353 (c)(4) is revised to read as follows:

§ 1980.353 Filing and processing applications.

(c) * * *

(4) Anticipated loan rates and terms, the date and amount of the Fannie Mae rate used to determine the interest rate, and the Lender's certification that the proposed rate is in compliance with § 1980.320 of this subpart.

* * * * *

Dated: April 30, 2010.

Tammye Treviño,

Administrator, Rural Housing Service.

[FR Doc. 2010–11383 Filed 5–18–10; 8:45 am]

BILLING CODE 3410–XV–P

FARM CREDIT ADMINISTRATION

12 CFR Part 652

RIN 3052–AC56

Federal Agricultural Mortgage Corporation Funding and Fiscal Affairs; Farmer Mac Investments and Liquidity

AGENCY: Farm Credit Administration.

ACTION: Advance notice of proposed rulemaking (ANPRM).

SUMMARY: The Farm Credit Administration (FCA, Agency, us, or we) is considering amending our regulations governing the Federal Agricultural Mortgage Corporation (Farmer Mac or the Corporation) non-program investments and liquidity requirements. The objective of these regulations is to ensure that Farmer Mac holds an appropriate level of high-quality, liquid investments to maintain a sufficient liquidity reserve, invest surplus funds, and manage interest rate risk.

DATES: You may send us comments by July 6, 2010.

ADDRESSES: We offer a variety of methods for you to submit comments on this advanced notice of proposed rulemaking. For accuracy and efficiency reasons, commenters are encouraged to submit comments by e-mail or through the Agency's Web site. As facsimiles (fax) are difficult for us to process and achieve compliance with section 508 of the Rehabilitation Act, we are no longer accepting comments submitted by fax. Regardless of the method you use, please do not submit your comment multiple times via different methods. You may submit comments by any of the following methods:

- *E-mail:* Send us an e-mail at *reg-comm@fca.gov*.
- *FCA Web site: http://www.fca.gov*. Select "Public Commenters," then "Public Comments," and follow the directions for "Submitting a Comment."
- *Federal eRulemaking Portal: http://www.regulations.gov*. Follow the instructions for submitting comments.
- *Mail:* Joseph T. Connor, Associate Director for Policy and Analysis, Office of Secondary Market Oversight, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102–5090.

You may review copies of all comments we receive at our office in McLean, Virginia, or on our Web site at *http://www.fca.gov*. Once you are in the Web site, select "Public Commenters," then "Public Comments," and follow the directions for "Reading Submitted Public Comments." We will show your comments as submitted, but for technical reasons we may omit items such as logos and special characters. Identifying information that you provide, such as phone numbers and addresses, will be publicly available. However, we will attempt to remove e-mail addresses to help reduce Internet spam.

FOR FURTHER INFORMATION CONTACT:

Joseph T. Connor, Associate Director for Policy and Analysis, Office of Secondary Market Oversight, Farm Credit Administration, McLean, VA 22102–5090, (703) 883–4280, TTY (703) 883–4056; or

Jennifer A. Cohn, Senior Counsel, Office of General Counsel, Farm Credit Administration, McLean, VA 22102–5090, (703) 883–4020, TTY (703) 883–4020.

SUPPLEMENTARY INFORMATION:

I. Objective

The objective of this ANPRM is to solicit public comments on revisions and updates to Farmer Mac's non-program investment and liquidity management regulations in light of investment and liquidity risk issues that arose during the recent financial crisis. With the benefit of information gained through this ANPRM and our internal analysis, we will consider changes to the regulations to enhance their fundamental objective: to ensure the safety and soundness and continuity of Farmer Mac operations.

II. Background

Congress established Farmer Mac in 1988 as part of its effort to resolve the agricultural crisis of the 1980s. Congress expected that establishing a secondary market for agricultural and rural housing mortgages would increase the availability of competitively priced mortgage credit to America's farmers, ranchers, and rural homeowners.

In addition to serving its investor-stakeholders, Farmer Mac, like all Government-sponsored enterprises (GSEs), has a public policy purpose embedded in its corporate mission that arises from having been created by an act of Congress. The public policy component of its mission explicitly includes its service to customer-stakeholders (farmers, ranchers, rural homeowners, and rural utility cooperatives, all through their lenders).[1] The public policy component also includes protection of taxpayer-stakeholders. The latter arises from Farmer Mac's ability to issue debt to the Department of the Treasury to cover guarantee losses under certain circumstances.[2] These two public policy components of Farmer Mac's mission are, in some respects, counterbalancing, as we now explain.

A fundamental premise of finance is the natural positive relationship between risk and expected return. This means that when Farmer Mac increases its expected return, it also increases its risk of loss; the opposite is true when risk decreases. More return, in general, will better position Farmer Mac to reduce the rates it charges customers (a benefit to those stakeholders) and increase its earnings (a benefit to investor-stakeholders). However, the risk Farmer Mac assumes to earn a greater return increases the risk to others, including ultimately taxpayers, and thus adds an offsetting cost to these earnings benefits.

In general, a guiding principle for FCA in establishing regulations is to maintain an appropriate balance between these costs and benefits, *i.e.,* attempting to maximize Farmer Mac's ability to serve its customers and provide an appropriate return for investors while ensuring that it engages in safe and sound operations, thereby providing a high degree of certainty that Farmer Mac will continue to be able to make its products available to serve

[1] *See* title VIII of the Farm Credit Act of 1971, as amended (Act), 12 U.S.C. 2279aa–2279cc *et seq.*)

[2] *See* section 8.13 of the Act.

customers and will never need to issue debt to the Department of Treasury.

Liquidity is a firm's ability to meet its obligations as they come due without substantial negative impact on its operations or financial condition. While the management of Farmer Mac's non-program investment portfolio and its liquidity risk are closely linked, they are not synonymous. Management of the non-program investment portfolio, and specifically the associated market risk, is one component under the general heading of liquidity risk management. Liquidity risk is the risk that the Corporation is unable to meet expected obligations (and reasonably estimated unexpected obligations) as they come due without substantial adverse impact on its operations or financial condition. Reasonably estimated liquidity risk should consider scenarios of debt market disruptions, asset market disruptions such as industry sector security price risk scenarios, as well as contingent liquidity events. Contingent liquidity events include significant changes in overall economic conditions, or events that would impact the market's perception of Farmer Mac such as reputation risks and legal risks, as well as a broad and significant deterioration in the agriculture sector and its potential impact on Farmer Mac's need for cash to fulfill obligations under the terms of products such as Long-Term Standby Purchase commitments.

Farmer Mac's primary sources of liquidity are the principal and interest it receives from non-program and program investments and its access to debt markets. The sale of non-program investments—which consist of investment securities, cash, and cash equivalents—provides a secondary source of liquidity cushion in the event of a short-term disruption in Farmer Mac's access to the capital markets that prevents Farmer Mac from issuing new debt. The sale of Farmer Mac's program investments in agricultural mortgages, rural home loans, and rural utility cooperative loans could provide additional liquidity, although the amount of liquidity provided by these instruments in times of stress is uncertain. The reason for that uncertainty is that, with the exception of the subset of these investments that are guaranteed by the United States Department of Agriculture (USDA),[3] we are not aware of significantly active markets in which to sell them. As a result, FCA regulations do not currently recognize any liquidity value in Farmer Mac's program book of business (with the exception of a discounted amount of the Farmer Mac II volume).

During 2008, the markets in corporate debt and asset-backed securities experienced significant value reductions in response to the general seizing up of these markets. For financial regulators, these events highlighted the need to reevaluate the requirements for liquidity risk management. This experience also has triggered broad re-evaluation of liquidity risk management among institutions and regulators globally—including a re-evaluation of the degree of confidence that is assumed in corporate policies and regulatory guidance regarding the availability of markets for debt issuance and asset sales under stressful economic or market conditions. We are interested in public response to questions regarding FCA regulatory requirements related to Farmer Mac's management of market risk, liquidity risk, and funding risk.

III. Section-by-Section Questions for Public Comment

A discussion of our existing regulations (which became effective in the third quarter of 2005), along with our questions about changes we are considering to these regulations, follow. For ease of use, Section IV., at the end of this document, lists the key questions asked throughout this section.

A. Section 652.10—Investment Management and Requirements

Effective risk management requires financial institutions to establish: (1) Policies; (2) risk limits; (3) mechanisms for identifying, measuring, and reporting risk exposures; and (4) strong corporate governance including specific procedures and internal controls. Section 652.10 requires Farmer Mac to establish and follow certain fundamental practices to effectively manage risks in its investment portfolio.

This provision requires Farmer Mac's board of directors to adopt written policies that establish risk limits and guide the decisions of investment managers. Board policies must establish objective criteria so investment managers can prudently manage credit, market, liquidity, and operational risks. Investment policies must provide for specific risk limits and diversification requirements for the various classes of eligible investments and for the entire investment portfolio. Risk limits must be based on Farmer Mac's business mix, capital position, the term structure of its debt, the cash flow attributes of both on- and off-balance sheet obligations and risk tolerance capabilities. Risk tolerance can be expressed through several parameters such as duration, convexity, sector distribution, yield curve distribution, term structure of debt, credit quality, risk-adjusted return, portfolio size, total return volatility, or value-at-risk.[4] Farmer Mac must use a combination of parameters to appropriately limit its exposure to credit and market risk. The policies must also establish other controls—such as delegation of responsibilities, separation of duties, timely and effective valuation practices, and routine reporting—that are consistent with sound business practices.

1. Earnings Performance and Risk Benchmarks

We have questions regarding several areas of § 652.10. Our first general area of discussion pertaining to this section concerns the usefulness of adding regulatory guidance to benchmark earnings performance and risk profiles of the investment portfolio to evaluate liquidity risk and non-program investment management. Section 652.10(c) requires Farmer Mac's board to establish investment risk limits, and § 652.10(g) requires Farmer Mac's management to report to the board on investment performance and risk. The regulation does not, however, include specific requirements regarding acceptable levels of either earnings performance (such as the spread over cost of funds or the spread over an appropriate yield benchmark) or risk (such as measured by historical variation of returns or as implied by changes in earnings levels).

Risk is measured in terms of the uncertainty (*i.e.,* volatility) of the expected earnings stream. Inferences about real-time changes in risk can be drawn from the real-time changes in prices, *i.e.,* the yield the market demands on the instruments at any point in time. An increase in return demanded by investors implies greater risk. In this discussion, we use return measurements as a proxy for relative risk measurements.

Earnings spreads are performance indicators with implications regarding relative risk. For example, in times of market turbulence, investors may prefer

[3] Farmer Mac's program investments in loans that are guaranteed by the USDA as described in section 8.0(9)(B) of the Act, and which are securitized by Farmer Mac, are known as the "Farmer Mac II" program.

[4] Duration measures a bond's or portfolio's price sensitivity to a change in interest rates. Convexity measures the rate of change in duration with respect to a change in interest rates. Yield curve distribution refers to the distribution of the portfolio's investments in short-, intermediate-, or long-term investments. Term structure of debt refers to the distribution of the Corporation's debt maturities over time. Value-at-risk is a methodology used to measure market risk in an investment portfolio.

debt issued by Farmer Mac simply because it is GSE debt—a "flight to quality"—and not because of any positive developments in Farmer Mac's business. With its debt in greater demand, its cost of funds would decrease. The coupon interest Farmer Mac receives on its investments would continue at its previous level.[5] The result would be a widening in the spread between Farmer Mac's earnings rates and its cost of funds. Would this scenario clearly imply an increase in Farmer Mac's liquidity risk?

To ensure an appropriate level of earnings performance while limiting risk to an acceptable level, should our regulations (and/or Farmer Mac board policy) specify earnings performance benchmarks and some acceptable band of earnings performance above and below such benchmarks? The benchmark could be used to evaluate investment portfolio earnings and risk. Earnings performance that is too low compared to the benchmark would indicate a need for improved management of earnings performance, and earnings performance that is too high indicating unacceptable levels of liquidity risk, or credit risk, or both? A detailed explanation and more detailed questions follow.

Investor behavior is an indicator of relative risk in the market. For purposes of this explanation, we divide the universe of investors into two general categories by risk tolerance—either risk-seeking or risk-averse. In periods of "flight to quality," two changes occur in investor behavior relative to the pre-turbulence baseline: (1) Risk-seeking investors demand higher yields (and theoretically the increase is specifically higher liquidity premium or credit premium, or both)[6] and (2) risk-averse investors accept lower yields from perceived higher-quality issuers. In periods of "flight to quality," interest rates on non-GSE debt securities would tend to move up, while interest rates on GSE debt would tend to move down. For Farmer Mac, this has two implications: (1) Its cost of funds declines; and (2) the liquidity risk in its non-program investments increases. The latter occurs because the market's view of the relative liquidity and credit strength of marketable securities has deteriorated—which is why investments purchased in a more normal environment would then sell at discount to par in order to provide risk-seeking investors with the increased liquidity/credit premiums they require.[7]

The market's perception of liquidity and credit quality constantly fluctuates. Therefore, a key question is: Is there some level of increased earnings spread (relative to an appropriate spread benchmark) that could reasonably be assumed to indicate an unacceptable amount of increased liquidity risk? We do not believe that an institution should be penalized for a decline in the liquidity of what had previously been acceptable investments due to events over which it had no influence. However, should the regulations (or board policy) recognize the reduced liquidity in the investment portfolio and guide management's response to steer the institution back toward a more acceptable level of liquidity risk? *If so, how might Farmer Mac's liquidity management policy establish limits around an investment portfolio benchmark, either statically or dynamically, to reflect the potential changes in investment value that can occur in stressful market or economic environments?*

There may be market-based measures such as spreads (and the amount of time over which unusually wide or narrow spreads are sustained) that would be more dynamic indicators of liquidity risk and enhance the recognition of, and response to, significantly increased risks through discounting procedures that are indexed to major changes in such indicators. Dynamic indicators could be included in Farmer Mac board policy and, when exceeded, simply instruct management to steer the portfolio back toward the targeted indicator level over some period of time. From a conceptual perspective, a dynamic indicator showing an unusually wide spread may indicate increased risk in the liquidity value of the investment portfolio. Further, an unusual degree of narrowing of spreads (that occurs despite no change in Farmer Mac's financial position) may indicate reduced risk in the liquidity value of the investment portfolio. Therefore, a dynamic indicator based on earnings spreads of eligible securities might be used to establish limits that would trigger a rebalancing of the investment portfolio. This rebalancing would help ensure that the portfolio maintains stability in market value even under stressful conditions.[8]

We recognize that one possible complicating factor to such spread limits might be the inability in some cases to clearly identify the underlying funding instruments (and therefore the costs) of a given subset of Farmer Mac's investments. Therefore, return levels (*i.e.,* yields) might offer another indication of relative risk. Yield thresholds might be an alternative for a dynamic threshold to help ensure that portfolio liquidity risk does not exceed acceptable levels. For example, would it be appropriate for Farmer Mac to set triggers based on weighted-average yield thresholds set at some level above a benchmark eligible investment portfolio return—which, when triggered, would require management to rebalance the investment portfolio (or asset class within the portfolio)?

2. Contingency Liquidity Funding Plan

Our second area of discussion pertaining to this regulation concerns § 652.10(c)(3). That provision requires that Farmer Mac's investment policies describe the liquidity characteristics of eligible investments that it will hold to meet its liquidity needs and objectives, but it does not require liquidity contingency funding planning. Such plans are generally regarded as a key component of good corporate governance, and Farmer Mac currently has a contingency funding plan in place. *Would it be appropriate for our regulations to require a liquidity contingency funding plan? If so, how specific should the regulation be regarding required components of the plan versus simply requiring that the plan reasonably reflect current standards, for example, those specified by the Basel Committee on Banking Supervision?*[9]

3. Debt Maturity Management Plan

Third, the maturity structure of Farmer Mac's debt is a key driver of its liquidity position at any given time and

[5] The scenario ignores interest rate effects which could influence the spread in either direction depending on the circumstances, and also the impact of any new investments over the period.

[6] Yields are generally viewed as containing four compensation components: (1) The risk-free rate (which includes a load for expected inflation), (2) credit premium over the risk-free rate, which compensates the investor for default risk, (3) liquidity premium over the risk-free rate, which compensates the investor for the risk that he will be unable to sell the investment quickly at, or near, par, and (4) premium associated with the value of embedded options (if any). For purposes of this explanation, we assume option-adjusted spreads to remove the impact on spreads of changes in the value of embedded options.

[7] Excluding Treasury and GSE investments with regard, at least, to credit risk.

[8] In addition, another scenario may be worth considering. Is there a plausible scenario under which Farmer Mac's cost of funds would drop precipitously enough to increase earnings spreads above some wide threshold over benchmark spreads that would be due solely to positive developments in Farmer Mac's business, and therefore have no implications on the liquidity risk of its investments?

[9] "Principles for Sound Liquidity Risk Management and Supervision", Basel Committee on Banking Supervision, Bank for International Settlements, September 2008 (or successor document, in the future). This document can be found at *http://www.bis.org/publ/bcbs144.htm.*

a key input to the calculation of its minimum liquidity reserve requirement (discussed in Section III.B. of this preamble). Under normal yield curve conditions, long-term debt—debt maturing in greater than 1 year—is more costly than short-term debt—debt maturing in less than 1 year. Long-term debt, however, is generally viewed as adding stability and strength to a corporation's liquidity position compared to short-term debt given the need to frequently roll over such debt.

Farmer Mac's term structure of debt, as published in its balance sheet, has normally been heavily weighted in short-term debt. Farmer Mac often synthetically extends the term of much of its short-funded debt using swap contracts, which results in a lower net cost of funds compared to simply issuing longer term debt. The fact that these combinations of debt and derivative positions behave like longer term debt contributes to the stability and strength of its liquidity position. However, the practice adds counterparty risk on the swaps and short-term debt rollover risk to Farmer Mac's overall liquidity risk position compared to issuing long-term debt.

In light of the marginal funding instability that results from relying primarily on shorter term debt—even when the maturity is extended synthetically—would it be appropriate to require Farmer Mac to establish a debt maturity management plan? If so, how might such a requirement be structured?

We recognize that the minimum daily liquidity reserve requirement includes incentives to this same end of moderating the term structure of debt. However, this question asks specifically whether this additional requirement would appropriately augment the minimum daily liquidity reserve requirement and partially compensate for some of the shortcomings of that measurement discussed in Section III.B. of this preamble.

4. Evidence of Market for Program Investments

Finally, as discussed above, we are aware of no significantly active markets in which Farmer Mac could sell its program investments held on-balance sheet (other than Farmer Mac II assets), and therefore the amount of liquidity provided by these investments is uncertain. We recognize that Farmer Mac from time to time has sold these instruments successfully in the past. Moreover, the principal and interest cash flows on these assets provide liquidity in the normal course of business. *In light of the foregoing, should the availability of a liquid market for Farmer Mac's program investments be considered in the Corporation's liquidity contingency funding plan?*[10]

B. Section 652.20(a)—Minimum Daily Liquidity Reserve Requirement

The minimum daily liquidity reserve requirement found at § 652.20(a) requires Farmer Mac to hold eligible liquidity instruments such as cash, eligible non-program investments, and/or Farmer Mac II assets (subject to certain discounts) to fund its operations for a minimum of 60 days.[11]

This "days-of-liquidity" metric, while useful, has drawbacks. Perhaps foremost among those drawbacks is that this metric contains information about a single point-in-time, but it provides no projected information. A large days-of-liquidity measurement today provides little or no information about what the measurement might be tomorrow.

Are there other metrics or approaches that might improve upon, augment, or appropriately replace days-of-liquidity as currently used in § 652.20(a)? For example, in the current days-of-liquidity calculation, once discounts have been applied to assets, each liquid asset dollar (net of discounts) is viewed (for purposes of the calculation) as being of equal quality and liquidity value. However, clearly there is greater liquidity value in, for example, the amount of undiscounted cash dollars in that total than there is in the dollars associated with corporate debt securities. Under the current rule, the debt securities are discounted at either 5 percent or 10 percent for purposes of estimating liquidity value, but the actual amount realized in a sale would depend on many factors. If stress developed suddenly in the market, the debt securities might be worth considerably less than the discounted amounts, but the cash dollars would not change.

Therefore, to recognize greater differences in the liquidity value of different asset classes, and to augment the minimum days-of-liquidity requirement, would it be appropriate to establish a subcategory of the minimum days-of-liquidity requirement that would include, for example, only cash or Treasury securities in the definition of "primary liquid assets" but also set a smaller minimum required number of days? Recognizing that liquidity risk cannot be eliminated for Farmer Mac, could a "primary" days-of-liquidity minimum add significant certainty to Farmer Mac's liquidity policies at an acceptable cost? We recognize that the return on such investments is likely to be lower than Farmer Mac's funding costs, which would create a drag on earnings. *If such a requirement is warranted, what would be the appropriate number of minimum primary days-of-liquidity, balancing the benefits gained from maintaining these higher quality liquid assets against their higher cost?*

C. Section 652.20(c)—Discounts

Section 652.20(c) requires Farmer Mac to apply specified discounts to all investments in the liquidity portfolio, other than cash and overnight investments, in order to reflect the risk of diminished marketability of even these liquid investments under adverse market conditions. The investments that must be discounted include money market instruments, floating and fixed rate debt and preferred stock securities, diversified investment funds, and Farmer Mac II assets. In the wake of the recent disruptions in financial markets, we are considering whether a more conservative view of the discounts is appropriate.

At the same time, we recognize that deep discounts, if actually realized during a liquidation, impact not only Farmer Mac's ability to meet obligations in a timely manner, but also its capital position. In other words, the loss on sale of these assets at extremely deep discounts could, at large volumes, have a very detrimental impact on capital levels.

Thus, in setting this policy, there is a trade-off between setting deeper, more conservative discounts versus the alternative of excluding those assets from eligibility (or, in the case of Farmer Mac II assets, excluding them from the liquidity reserve) because appropriately deep discounts might reasonably be so deep that, if realized, they could destabilize Farmer Mac's capital position. *In light of these concerns, would it be appropriate to re-evaluate the discounts in § 652.20(c) to better reflect the risk of diminished marketability of liquid investments under adverse conditions? If so, which ones and what would be the appropriate degree of change? In particular, we request public comment on whether the discount currently applied on Farmer Mac II securities is appropriate.*

In addition, the existing, relatively coarse discounting schedule could

[10] Section 652.10, on investment management and requirements, currently governs only non-program investment activities. This would be a new requirement governing the liquidity of Farmer Mac's program investments.

[11] The purpose of this minimum daily liquidity reserve requirement is to enable Farmer Mac to continue its operations if its access to the capital markets were impeded or otherwise disrupted.

overlook important liquidity-quality characteristics of individual investments. *Would it be appropriate to refine the schedule of discounts in § 652.20(c)? For example, there is no difference in the discounts applied to AAA-rated versus AA-rated corporate debt securities.* Conversely, is the coarseness of the current discount schedule more desirable because of its simplicity?

D. Section 652.35(a)—Eligible Non-Program Investments

The current rule provides Farmer Mac with a broad array of eligible high-quality, liquid investments while providing a regulatory framework that can readily accommodate innovations in financial products and analytical tools.

Farmer Mac may purchase and hold the eligible non-program investments listed in § 652.35 to maintain liquidity reserves, manage interest rate risk, and invest surplus short-term funds. As we stated in our preamble adopting this rule, only investments that can be promptly converted into cash without significant loss are suitable for achieving these objectives.[12] We further stated our intent that all eligible investments be either traded in active and universally recognized secondary markets or valuable as collateral.[13] For many of the investments, the regulation requires that they not exceed certain maximum percentages of the total non-program investment portfolio. We established these portfolio caps to limit credit risk exposures, promote diversification, and encourage investments in securities that exhibit low levels of price volatility and liquidity risk. In addition, the table sets single obligor limits to help reduce exposure to counterparty risk.

Would the experience gained during the financial markets crisis of 2008 and 2009 justify adjustments to many of the portfolio limits in § 652.35 to add conservatism to them and improve diversification of the portfolio? We invite comments on appropriate changes for each asset class, final maturity limit, credit rating requirement, portfolio concentration limit, and other restrictions. We also request comment on several specific provisions, as follows.

1. Section 652.35(a)(1)—Obligations of the United States

Section 652.35(a)(1) permits Farmer Mac to invest in Treasuries and other obligations (except mortgage securities) fully insured or guaranteed by the United States Government or Government agency without limitation. *Given that Farmer Mac might not always hold the "on the run" (i.e., highest liquidity) issuance of Treasury securities, would imposing maximum maturity limitations enhance the resale value of these investments in stressful conditions?*

2. Section 652.35(a)(2)—Obligations of Government-Sponsored Agencies

In light of the recent financial instability of Government-sponsored agencies such as Fannie Mae and Freddie Mac, would it be appropriate to revise this section to put concentration limits on exposure to these entities in § 652.35(a)(2)?[14]

3. Section 652.35(a)(3)—Municipal Securities

Section 652.35(a)(3) authorizes investment in municipal securities. Currently, revenue bonds are limited to 15 percent or less of Farmer Mac's total investment portfolio, while general obligations have no such limitation. The maturity limits and credit rating requirements are also more generous for general obligations. *The requirements in § 652.35(a)(3) carry the implied assumption that general obligation bonds are always less risky than revenue bonds. But is that always the case?* In the scenario of severe economic recession, could a municipal issuer's tax base erode faster than the revenues on a bridge or toll road, for example? *Would it be more appropriate for our regulation to limit both sub-categories equally?*

4. Section 652.35(a)(6)—Mortgage Securities

Section 652.35(a)(6) authorizes investments in non-Government agency or Government-sponsored agency securities that comply with 15 U.S.C. 77(d)5 or 15 U.S.C. 78c(a)(41). These types of mortgage securities are typically issued by private sector entities and are mostly comprised of securities that are collateralized by "jumbo" mortgages with principal amounts that exceed the maximum limits of Fannie Mae or Freddie Mac programs. *We invite comment on whether it is appropriate to include mortgage securities collateralized by "jumbo" mortgages as an eligible liquidity investment.*

5. Section 652.35(a)(8)—Corporate Debt Securities

Section 652.35(a)(8) authorizes investment in corporate debt securities. The rule does not contain concentration limits related to industry sector exposure. We request comment on whether such industry sector exposure limits should be added. *Further, is it appropriate to allow investments in subordinated debt as the current rule does? If so, is it appropriate that subordinated debt receives discounts and investment limits at the same level as more senior types of corporate debt?*

E. Section 652.35(d)(1)—Obligor Limits

An appropriate level of diversification is a key attribute of a liquidity investment portfolio. In § 652.35(d)(1), we prohibit Farmer Mac from investing more than 25 percent of its regulatory capital in eligible investments issued by any single entity, issuer, or obligor. Government-sponsored agencies have a different obligor limit; Farmer Mac may not invest more than 100 percent of its regulatory capital in any one Government-sponsored agency. There are no obligor limits for Government agencies.

Do the obligor limits in § 652.35(d)(1) generally provide for an adequate level of diversification? Specifically, in light of the uncertainty associated with the current conservatorships of both Fannie Mae and Freddie Mac, is it appropriate to maintain a higher obligor limit for Government-sponsored agencies?

F. Section 652.40—Stress Tests for Mortgage Securities

In the current rule, stress-testing requirements apply to one type of asset—mortgage securities—and one type of stress—interest rate risk.[15] *Is the scope of the stress-testing requirement adequate, or should it be broadened to apply to the entire investment portfolio (both individually and at a portfolio level)? Should the scope of the stress-testing be expanded to include market price risks due to factors other than interest rate changes?* We refer to both firm-specific risks and systemic risks. Firm-level risks include operational fraud, deteriorating program asset quality, and negative media coverage. Systemic risks include industry sector shocks such as occurred on September 11, 2001, with payment system disruption, or asset class as was seen in the financial services sector in 2007 and

[12] 70 FR 40641 (July 14, 2005).

[13] *Id.*

[14] Under § 652.35(a)(2), Government-sponsored agency mortgage securities, but no other such securities, are limited to 50 percent of Farmer Mac's total non-program investment portfolio. In addition, § 652.35(d)(1) bars Farmer Mac from investing more than 100 percent of its regulatory capital in any one Government-sponsored agency.

[15] By interest rate risk, we refer to the price sensitivity of mortgage instruments over different interest rate/yield curve scenarios, including prepayment and interest rate volatility assumptions—as described in current § 652.40.

2008. *If the scope of required stress-testing is expanded, what types and severity of liquidity event scenarios should be tested, and how should forward-looking cash-flow projections be built around these scenarios?*

IV. List of Key Questions

• To ensure an appropriate level of earnings performance while limiting risk to an acceptable level, should our regulations (and/or Farmer Mac board policy) specify earnings performance benchmarks and some acceptable band of earnings performance above and below such benchmarks? If so, how might Farmer Mac's liquidity management policy establish limits around an investment portfolio benchmark, either statically or dynamically, to reflect the potential changes in investment value that can occur in stressful market or economic environments?

• Would it be appropriate for our regulations to require a liquidity contingency funding plan? If so, how specific should the regulation be regarding required components of the plan versus simply requiring that the plan reasonably reflect current standards, for example, those specified by the Basel Committee on Banking Supervision?

• In light of the marginal funding instability that results from relying primarily on shorter term debt—even when the maturity is extended synthetically—would it be appropriate to require Farmer Mac to establish a debt maturity management plan? If so, how might such a requirement be structured?

• Should the availability of a liquid market for Farmer Mac's program investments be considered in the Corporation's liquidity contingency funding plan?

• Are there other metrics or approaches available that might improve upon, augment, or appropriately replace days-of-liquidity as currently used in § 652.20(a)? For example, to recognize greater differences in the liquidity value of different asset classes, and to augment the minimum days-of-liquidity requirement, would it be appropriate to establish a subcategory of the minimum days-of-liquidity requirement that would include, for example, only cash or Treasury securities in the definition of "primary liquid assets" but also set a smaller minimum required number of days? If such a requirement is warranted, what would be the appropriate number of minimum primary days-of-liquidity, balancing the benefits gained from maintaining these higher quality liquid assets against their higher cost?

• Would it be appropriate to re-evaluate the discounts in § 652.20(c) in order to better reflect the risk of diminished marketability of liquid investments under adverse conditions? If so, which ones and what would be the appropriate degree of change? In particular, we request public comment on whether the discount currently applied on Farmer Mac II securities is appropriate. Would it be appropriate to refine the schedule of discounts in § 652.20(c)? For example, there is no difference in the discounts applied to AAA-rated versus AA-rated corporate debt securities.

• Would the experience gained during the financial markets crisis of 2008 and 2009 justify adjustments to many of the portfolio limits in § 652.35 to add conservatism to them and improve diversification of the portfolio? We invite specific comments on appropriate changes for each asset class, final maturity limit, credit rating requirement, portfolio concentration limit, and other restrictions.

Given that Farmer Mac might not always hold the "on the run" (*i.e.,* highest liquidity) issuance of Treasury securities, would imposing maximum maturity limitations enhance the resale value of these investments in stressful conditions?

In light of the recent financial instability of Government-sponsored agencies such as Fannie Mae and Freddie Mac, would it be appropriate to revise this section to put concentration limits on exposure to these entities in § 652.35(a)(2)?

The requirements in § 652.35(a)(3) carry the implied assumption that general obligation bonds are always less risky than revenue bonds. But is that always the case? Would it be more appropriate for our regulation to limit both sub-categories equally?

We invite comment on whether it is appropriate to include mortgage securities collateralized by "jumbo" mortgages as an eligible liquidity investment.

Further, is it appropriate to allow investments in subordinated debt as the current rule does? If so, is it appropriate that subordinated debt receives discounts and investment limits at the same level as more senior types of corporate debt?

• Do the obligor limits in § 652.35(d)(1) generally provide for an adequate level of diversification? Specifically, in light of the uncertainty associated with the current conservatorships of both Fannie Mae and Freddie Mac, is it appropriate to maintain a higher obligor limit for Government-sponsored agencies?

• Is the scope of the stress-testing requirement adequate, or should it be broadened to apply to the entire investment portfolio (both individually and at a portfolio level)? Should the scope of the stress-testing be expanded to include market price risks due to factors other than interest rate changes? If the scope of required stress-testing is expanded, what types and severity of liquidity event scenarios should be tested, and how should forward-looking, cash flow projections be built around these scenarios?

V. Conclusion

We welcome comments on all provisions of this notice, even if we did not request specific comments on those provisions.

Dated: May 13, 2010.

Roland E. Smith,

Secretary, Farm Credit Administration Board.

[FR Doc. 2010–12012 Filed 5–18–10; 8:45 am]

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DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. FAA–2010–0478; Directorate Identifier 2008–NM–090–AD]

RIN 2120–AA64

Airworthiness Directives; Airbus Model A300 B4–600, B4–600R, and F4–600R Series Airplanes, and Model C4–605R Variant F Airplanes (Collectively Called A300–600 Series Airplanes); and Model A300 and A310 Series Airplanes

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Notice of proposed rulemaking (NPRM).

SUMMARY: We propose to adopt a new airworthiness directive (AD) for the products listed above. This proposed AD results from mandatory continuing airworthiness information (MCAI) originated by an aviation authority of another country to identify and correct an unsafe condition on an aviation product. The MCAI describes the unsafe condition as: Two cases of complete nose landing gear (NLG) shock absorber bolts failure were reported to the manufacturer. In both cases, the crew was unable to retract the gear and was forced to an In Flight Turn Back. In one case, the aircraft experienced a low speed runway excursion. The root cause of the bolts failure has been identified