FARM CREDIT ADMINISTRATION

12 CFR Part 652

RIN 3052–AC56

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

AGENCY: Farm Credit Administration.

ACTION: Proposed rule.

SUMMARY: The Farm Credit Administration (FCA, Agency, us, or we) proposes to amend our regulations governing the Federal Agricultural Mortgage Corporation (Farmer Mac or the Corporation) in the areas of non-program investments and liquidity. We are proposing to modify the specific requirements supporting our objective to ensure that Farmer Mac maintains adequate liquidity to withstand stressful conditions in accordance with board-established risk tolerance and holds only high-quality, liquid investments in its liquidity reserve. We also propose to expand the allowable purposes of Farmer Mac's non-program investments to include investments that would add value to Farmer Mac's operations by complementing its program activities. Further, we request comments on the best approach for compliance with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or DFA), which requires us to remove all references to and requirements relating to credit ratings and to substitute other appropriate standards of creditworthiness. Finally, we propose significant reorganizing of sections to make the flow of the issues covered more logical.

DATES: You may send us comments by January 17, 2012.

ADDRESSES: We offer a variety of methods for you to submit comments on this proposed rule. For accuracy and efficiency reasons, commenters are encouraged to submit comments by email 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:

- *Email:* Send us an email 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:* Laurie A. Rea, Director, 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 email addresses to help reduce Internet spam.

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION:

I. Objective

The objective of this proposed rule is to ensure the safety and soundness and continuity of Farmer Mac operations for the purpose of furthering its public mission. To achieve this objective FCA is proposing to:

- Revise the permissible purposes of non-program investments;
- Modify the type, quality, maximum remaining term and maximum amount of non-program investments [1] that may be held by Farmer Mac;
- Strengthen diversification requirements, including portfolio limits on specific types of investments and counterparty exposure limits;
- Revise board policy and stress testing requirements;
- Modify the non-program investment portfolio limit;
- Revise the computation, and level of the minimum, liquidity reserve requirement;
- Reduce the regulatory burden associated with investments that fail to meet eligibility criteria after purchase or are otherwise unsuitable;
- Seek public input on approaches to remove reliance on credit ratings in compliance with section 939A of the Dodd-Frank Act; and
- Reorganize the regulations to make the flow of the issues covered more logical by delineating more clearly among sections governing investment management, interest rate risk management, and liquidity risk management.

II. Introduction

On May 19, 2010, we published an advance notice of proposed rulemaking (ANPRM) that considered revisions to Farmer Mac's non-program investment and liquidity requirements.[2] The 45-day comment period ended on July 6, 2010. After considering the comments we received on this ANPRM, we now propose revisions to these requirements.

III. 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.

A guiding principle for FCA in establishing regulations governing Farmer Mac is to maintain an appropriate balance between the Corporation's mission achievement and risk. Specifically, the intent of this regulation is to allow Farmer Mac to sufficient flexibility to fully serve its customers and provide an appropriate return for investors while ensuring that it engages in safe and sound operations. We believe achieving an appropriate balance between mission achievement and risk should provide a high degree of certainty that Farmer Mac will continue to make its products available to serve customers without the need to issue debt to the Department of Treasury or seek any other form of government financial assistance.[3]

Existing FCA regulations currently authorize Farmer Mac to invest in non-program investments for three purposes;

[1] Section 652.5 defines ''non-program investments'' as investments other than those in (1) ''qualified loans'' as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended (Act), or (2) securities collateralized by ''qualified loans.'' Section 8.0(9) is codified at 12 U.S.C. 2279aa.

[2] 75 FR 27951.

[3] Under certain specific adverse circumstances, Farmer Mac is authorized to issue debt to the Department of the Treasury to meet obligations on guarantees. *See* section 8.13 of the Act (12 U.S.C. 2279aa–13).

to manage short-term surplus funds, to comply with interest rate risk requirements, and to comply with liquidity reserve requirements.[4] Liquidity is a firm's ability to meet its obligations as they come due without substantial negative impact on its operations or financial condition. The availability of an appropriately sized portfolio comprised of highly liquid assets is necessary for the Corporation to conduct its business and to achieve its statutory purposes. Moreover, we believe that Farmer Mac's liquidity reserve portfolio, while it must be low risk, can appropriately include investments that provide a positive return on the portfolio and still fulfill the investment purposes authorized by regulation under most market conditions.

Liquidity risk is the risk that the Corporation could become 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, and other contingent liquidity events. Contingent liquidity events include significant changes in overall economic conditions, events that would impact the market's perception of Farmer Mac (such as reputation risks and legal risks), and 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 and AgVantage Plus bond guarantees.

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 includes market risk, credit risk, and cash management, as well as earnings performance.[5] Moreover, as discussed below, we propose to permit investments that complement program activities, even if those investments may not contribute significantly to liquidity risk management. The inclusion of investments of this nature highlights the distinction between investment management and liquidity risk management.

IV. General Discussion of Letters Commenting on the ANPRM

We received four comment letters on the ANPRM, one each from the Farm Credit Council (Council), AgFirst Farm Credit Bank (AgFirst), Farm Credit West ACA (Farm Credit West), and Farmer Mac. We discuss in this preamble those comments that pertain to changes we are proposing or to certain provisions where we propose no changes. Some of the questions in our ANPRM, however, were very general and theoretical and discussed potential policy options that we have elected not to propose in this rulemaking. We do not discuss comments submitted in response to those questions, but we will consider them in future rulemakings as appropriate.

The Council commented generally that Farmer Mac's liquidity requirements should be commensurate with its funding risk and equivalent to the liquidity standards required for Farm Credit System (System) lenders engaged in similar activities. The Council's letter also included detailed comments to many of the specific questions raised in the ANPRM, and it identified specific instances where the Council believes the Farmer Mac regulations should be more closely aligned with those governing the System. Ag First's and Farm Credit West's letters concurred with the opinions expressed in the Council's comment letter, and Ag First's letter also included several specific comments.

In response to commenters, we agree, in general that the liquidity requirements governing Farmer Mac and the System should be consistent, and alignment is appropriate in certain areas. However, we also believe that Farmer Mac's business model, which focuses on secondary market activities (as opposed to the wholesale and retail lending models of FCS banks), combined with the other differences in their authorizing statutes, provide ample justification for differences in certain areas of their regulatory structures. We address the Council's and AgFirst's specific comments, including specific areas of alignment and differentiation, below in the section-by-section discussion.

In its comment letter, Farmer Mac agreed that the ANPRM identified important questions relating to liquidity. It believes, however, that a number of these questions relate specifically to policies and procedures that should be set at its board level. It therefore reserved specific comments until FCA issues a proposed rule, and it instead submitted two conceptual level comments for FCA's consideration.

Farmer Mac first suggested that ''any proposed regulation should establish broad guidelines that lead to prudent risk management rather than being prescriptive.'' Farmer Mac stated that in an economic environment that could change from 1 minute to the next, its ability to respond quickly to market forces and adjust its use of a range of asset classes is critical. It expressed concern that rigid and narrow eligibility criteria and amounts for its liquidity portfolio could lead to limited options and thus result in greater concentrations of relatively higher risk asset classes or particular assets. It recognized the FCA's regulatory responsibility to ensure safety and soundness, but it believes the onus of establishing appropriate specific policies and procedures should be left to its board and management.

We agree that Farmer Mac's board of directors is ultimately accountable and responsible for effective implementation of prudent policies and practices. Nonetheless, as the Corporation's prudential regulator, we are charged with establishing an appropriate regulatory and supervisory framework to promote the long-term viability and safety and soundness of the Corporation as well as achievement of its public mission.

Farmer Mac encouraged FCA to consider the 2010 Interagency Policy Statement on Funding and Liquidity Risk Management adopted by the other Federal banking regulatory agencies.[6] Farmer Mac stated that this policy outlines a comprehensive yet flexible regulatory policy for funding and liquidity risk that promotes safety and soundness and yet allows for differences in board-approved policies across financial institutions as well as across market and economic environments. Farmer Mac further stated that regulations should allow for adherence in a variety of market situations to ensure real safety and soundness and, for this reason, regulations that establish guidelines or parameters, together with an examination process that tests board-approved policies and procedures,

[4] 12 CFR 652.25.

[5] We view the management of non-program investment earnings performance as including both the avoidance of underperforming appropriate benchmarks for this portfolio as well as avoiding performance that is excessive relative to appropriate benchmarks—as excessive returns can reasonably be viewed as indications of excessive liquidity risk. We discuss this concept at length in our ANPRM, at 75 FR 27952–53. We continue to study this concept but do not propose regulatory guidance regarding the establishment of such benchmarks at this time.

[6] *See* 75 FR 13656, Mar. 22, 2010. These agencies are the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUS).

would be the best framework for ensuring that Farmer Mac continues to maintain adequate amounts and types of liquidity.

In response to Farmer Mac's request that FCA consider the Interagency Policy Statement, we note that there are many similarities between that Statement and this proposed rule, particularly with respect to the definition of highly liquid assets, stress testing requirements, and contingency funding plans. In addition, this proposed rule has also, where appropriate, drawn on guidance issued to international regulators by the Basel Committee on Banking Supervision (Basel Committee) on the topic of liquidity risk management.[7]

However, both the Interagency Policy Statement and the guidance issued by the Basel Committee apply to a very large and diverse group of financial institutions with wide variation in structure, size, and complexity of operations. That breadth of covered institutions necessitates that any Interagency Policy Statement providing guidance to all of them must be general in its content.

OSMO's role as regulator of one institution provides the opportunity to be more specific in its guidance. Nonetheless, we generally agree with Farmer Mac's main point to preserve as much of the flexibility embedded in the Interagency Policy Statement as is appropriate.

Farmer Mac's second conceptual level comment is that, since its liquidity portfolio will continue to be a large part of its balance sheet, any new regulatory approach should recognize the tradeoff between the need for liquidity and the need for ''asset income'' (*i.e.,* earnings). Farmer Mac states that prudent business practices cannot ignore the need to provide some return on investments, given the necessary size of its portfolio. Farmer Mac believes the need for return on its investments is even more critical because of the statutory requirements that it hold minimum capital of 275 basis points against the investments.[8] Farmer Mac asserted the importance of balancing the costs of ''a strong liquidity position with the economic interests of Farmer Mac's customers and other stakeholders that serve rural America.'' Farmer Mac suggests this need for regulatory balance is even more critical in volatile financial markets, when asset prices or expected returns can change suddenly. The Corporation further states that regulations that establish ''guidelines'' rather than prescriptive ''narrow targets or asset classes'' would provide Farmer Mac the flexibility to respond appropriately to volatile markets and ''prudently reduce risk by adjusting policies and changing the asset mix to eliminate illiquid assets, while maintaining an appropriate return.'' Farmer Mac asserts that ultimately, this will lead to the safest and most liquid portfolio possible.

In response to this point, we agree that our regulations should recognize the tradeoff between the need for liquidity and the need for a reasonable return on assets. This concept is central to this rulemaking and we discussed the policy implications of the risk and return tradeoff in detail in the ANPRM.[9] There, we noted that the balance we target in the revised regulations is intended to serve all Farmer Mac stakeholders, who include not only customers who serve the financing needs of rural America and investors who require a return on investment, but also taxpayers. Liquidity risk management is a specified purpose of the non-program investment portfolio. Income, while acceptable within a reasonable range, is not a purpose of the non-program investment portfolio. Accordingly, our guiding principle is that high liquidity attributes must generally take precedence over earnings generation in Farmer Mac's non-program investment portfolio.

V. Section-by-Section Discussion of Proposed Revisions

We propose to reorganize the rule considerably and provide the following table to orient the reader to the proposed reorganization. The left column of the table contains the existing rule's section headings and the right column contains the proposed reorganization of section sequence and heading changes.

Existing regulations	Proposed reorganization
§ 652.1 Purpose.	§ 652.1 Purpose.
§ 652.5 Definitions.	§ 652.5 Definitions.
§ 652.10 Investment management and requirements.	§ 652.10 Investment management.
§ 652.15 Interest rate risk management and requirements.	§ 652.15 Non-program investment purposes and limitation.
§ 652.20 Liquidity reserve management and requirements.	§ 652.20 Eligible non-program investments.
§ 652.25 Non-program investment purposes and limitation.	§ 652.25 Management of ineligible and unsuitable investments.
§ 652.30 Temporary regulatory waivers or modifications for extraordinary situations.	§ 652.30 Interest rate risk management.
§ 652.35 Eligible non-program investments.	§ 652.35 Liquidity management.
§ 652.40 Stress tests for mortgage securities.	§ 652.40 Liquidity reserve requirement and supplemental liquidity.
§ 652.45 Divestiture of ineligible non-program investments.	§ 652.45 Temporary regulatory waivers or modifications for extraordinary situations.

We will address each section below in the order it appears in these proposed regulations and discuss, where applicable, the rationale for the reorganization. Generally, the proposed reorganization is meant to address sequentially as completely as possible the three major categories of management governed in the rule: Investment management; interest rate risk management; and liquidity management.

Throughout this regulation, we propose minor technical, clarifying, and non-substantive language changes that we do not specifically discuss in this preamble.

A. Section 652.1—Purpose

We propose to delete the first sentence of this section as unnecessary. There is no need to list the topics of the subpart.

B. Section 652.5—Definitions

To enhance clarity of the rule, we propose to add a definition of ''cash'' to

[7] ''Principles for Sound Liquidity Risk Management and Supervision,'' Basel Committee on Banking Supervision, September 2008, and ''International framework for liquidity risk management, standards and monitoring,'' Consultative Document, Basel Committee on Banking Supervision, December 2009. These documents can be found on the Basel Committee's Web site at *http://www.bis.org/bcbs.*

[8] Section 8.33 of the Act (12 U.S.C. 2279bb–2).

[9] 75 FR 27952–53, May 19, 2010.

mean cash balances held at Federal Reserve Banks, proceeds from traded-but-not-yet-settled debt, and the insured amount of balances held in deposit accounts at Federal Deposit Insurance Corporation-insured banks.

We also propose to add definitions for two newly proposed planning requirements, the Liability Maturity Management Plan and the Contingency Funding Plan, which are discussed below in the discussion of § 652.35.

We propose to delete the definition of ''liquid investments,'' as well as the definition of ''marketable'' in current § 652.20(c), and to replace those terms with a description of the term ''highly marketable'' in § 652.40(c). This term is addressed in the discussion of that section.

We propose to add a definition of ''liquidity reserve.'' This new definition is described in the discussion of proposed § 652.40.

Finally, we are proposing several technical changes. We propose to correct an erroneous regulatory reference in the definition of *affiliate.* We propose to clarify the definitions of *FCA, Government agency,* and *Government-sponsored agency.* And we define *OSMO* to mean FCA's Office of Secondary Market Oversight.

C. Section 652.10—Investment Management

Section 652.10 would continue to require Farmer Mac to establish and follow certain fundamental practices to effectively manage risks in its investment portfolio. The recent crisis and its lingering effects have re-emphasized the importance of sound investment management, and we believe that strengthened regulation would further insure the safe and sound management of investments. Accordingly, we are proposing the revisions discussed herein. In addition, we propose minor technical, clarifying, and non-substantive language changes to this section that we do not specifically discuss in this preamble.

We propose to revise the section heading to delete ''and requirements'' as it should be understood that the regulations contain requirements.

1. Section 652.10(a)—Responsibilities of the Board of Directors

In § 652.10(a), we propose to add the requirement that the Farmer Mac board of directors affirmatively validate the sufficiency of investment policies to ensure the board's full and in-depth understanding of, and control over, the policies.

2. Section 652.10(b)—Investment Policies—General Requirements

Section 652.10(b) lists the items that the board's investment policy must address, and it includes every requirement of § 652.10. Because we propose to change some of those requirements, we also propose to change the listing, to clarify our expectations as to the appropriate content of the board's policies. We discuss below the requirements we propose to revise.

In addition, we propose to move existing § 652.10(c)(2), which requires that Farmer Mac's records or minutes must document any analyses used in formulating policies or amendments of policies, to § 652.10(b). With this move, this requirement would no longer be limited to policies governing market risk; it would apply to all investment management policies.

3. Section 652.10(c)—Investment Policies—Risk Tolerance

Our proposed changes in this section add greater specificity to our expectations regarding our existing requirements. These proposed changes are intended to provide clarity to our expectations but are not intended to fundamentally change the requirements.

Proposed § 652.10(c)(1) requires Farmer Mac's investment policies to establish risk limits for credit risk. Policies would have to include credit quality standards, limits on counterparty risk, and risk diversification standards that appropriately limit concentrations based on geographical area, industry sectors, or asset classes or obligations with similar characteristics. Policies would also have to address management of relationship brokers, dealers and investment bankers, as well as collateral management related to margin requirements on repurchase agreements.

Proposed § 652.10(c)(2) requires Farmer Mac's investment policies to establish risk limits for market risk as the value of its holdings may decline in response to changes in interest rates or market conditions. Exposure to market risk is measured by assessing the effect of changing rates and prices on either the earnings or economic value of an individual instrument, a portfolio, or the entire Corporation.

4. Section 652.10(e)—Internal Controls

In § 652.10(e)(2), we propose adding to the list of personnel whose duties and supervision must be separated from personnel who execute investment transactions. These additional personnel are those who post accounting entries, reconcile trade confirmations, and report compliance with investment policy. We believe this additional separation is a best practice that Farmer Mac must have in place to ensure controls are sufficient and appropriate.

In § 652.10(e)(4), we propose to require Farmer Mac to implement an effective internal audit program to review, at least annually, its investment controls, processes, and compliance with FCA regulations and other regulatory guidance. The internal audit program would specifically have to include a review of Farmer Mac's process for ensuring all investments are eligible and suitable for purchase under its board's investment policies. We believe this requirement provides important guidance on Agency expectations regarding internal oversight of these operations.

5. Section 652.10(f)—Due Diligence

Proposed § 652.10(f) would cover the pre-purchase analysis, ongoing value determination, quarterly stress testing, and pre-sale value verification that Farmer Mac must perform on each non-program investment that it purchases. This provision would combine in one location requirements that are now primarily in existing § 652.10(f) and § 652.40 and in other provisions as well. It would also contain a more detailed description of the due diligence procedures that are required for investments, but we do not intend to change the fundamental intent of the provision.

a. Section 652.10(f)(1)—Pre-Purchase Analysis

Proposed § 652.10(f)(1) would require Farmer Mac to satisfy certain requirements for each investment that it wishes to purchase. Proposed § 652.10(f)(1)(i) sets forth pre-purchase requirements regarding the objective, eligibility, and suitability of investments. This provision would require Farmer Mac, before it purchases an investment, to document the Corporation's investment objective.[10]

Proposed § 652.10(f)(1)(i) would also require Farmer Mac to conduct sufficient due diligence to determine whether the investment is eligible under § 652.35 and suitable under its board-approved investment policies and to document the investment's eligibility and suitability. ''Suitability'' is a term that is new to our regulations. A non-program investment is ''suitable'' if it is eligible under § 652.35(a) and conforms to Farmer Mac board policy. A non-

[10] A similar requirement is currently contained in § 652.15(d)(5), and we therefore propose to delete that provision.

program investment is unsuitable if it is eligible but does not conform to Farmer Mac board policy.

Finally, proposed § 652.10(f)(1)(i) would require Farmer Mac's investment policies to fully address the extent of pre-purchase analysis that management must perform for various types, classes, and structure of investments.

In proposed § 652.10(f)(1)(ii), we would retain from existing § 652.10(f)(1) the requirement that prior to purchase, Farmer Mac must verify the value of an investment (unless it is a new issue) with a source that is independent of the broker, dealer, counterparty, or other intermediary to the transaction.

In proposed § 652.10(f)(1)(iii), we would require Farmer Mac to document its risk assessment of each investment, including, at a minimum, an evaluation of credit risk, market risk, and liquidity risk. In its evaluation of credit risk, § 652.10(f)(1)(iii)(A) would require Farmer Mac to consider, as applicable, the nature and type of underlying collateral, credit enhancements, complexity of the structure, and any other available indicators of the risk of default.

In its evaluation of market risk, § 652.10(f)(1)(iii)(B) would require Farmer Mac to consider how various market stress scenarios including, at a minimum, potential changes in interest rates and market conditions (such as changes in market perceptions of creditworthiness), are likely to affect the cash flow and price of the instrument, using reasonable and appropriate methodologies for stress testing for the type or class of instrument to ensure the investment complies with risk limits established in its investment and interest rate risk policies.

We note that in our existing regulations, the pre-purchase stress testing requirement is combined with a quarterly portfolio stress testing requirement in § 652.40, which is a standalone stress testing regulation. With the intent of improving the organization of the regulations, we have moved the pre-purchase and quarterly stress testing requirements into the paragraph covering due diligence in our investment management regulation (§ 652.10) and have separated the two stress tests in that paragraph to make clearer the difference in stress tests to evaluate individual securities prior to purchase and quarterly stress tests conducted on the investment portfolio.[11]

Existing § 652.40 imposes stress testing requirements only on mortgage securities and requires consideration of interest rate risk scenarios only. The pre-purchase stress testing requirements in proposed § 652.10(f)(1)(iii)(B) would apply to all non-program investments, including Treasury securities, and they would more broadly include market stress scenarios such as changes in market conditions, including market perceptions of creditworthiness, as well as stressed interest rate scenarios. We believe that all investments must be stress tested to provide for a comprehensive and internally consistent analytical framework from which to evaluate the risks in the investment portfolio. In addition, we believe that a broader consideration of changes in market conditions is necessary because of the potential for a direct impact on liquidity of adverse changes in those conditions.

In its response to a question in our ANPRM about stress testing, the Council stated that stress testing should be an integral part of managing liquidity and that regulatory requirements should focus on requiring entities to regularly test various stress scenarios unique to their own balance sheet and potential liabilities. The Council further stated that an institution with a relatively low level of liquidity risk might appropriately accept relatively more risk in its liquidity portfolio, while the opposite might be true for an institution with more liquidity risk. We agree generally with these statements and consider them to be generally consistent with our proposals in the area of stress testing.

In its evaluation of liquidity risk, § 652.10(f)(1)(iii)(C) would require Farmer Mac to consider the investment structure, the depth of the market, and Farmer Mac's ability to liquidate the position under a variety of economic scenarios and market conditions.

b. Section 652.10(f)(2)—Ongoing Value Determination

Proposed § 652.10(f)(2) retains the requirement from the existing provision that at least monthly, Farmer Mac must determine the fair market value of each investment in its non-program investment portfolio and the fair market value of its entire non-program investment portfolio.

c. Section 652.10(f)(3)—Quarterly Stress Testing

As discussed above, we propose moving our non-program investment quarterly stress-testing requirements into § 652.10(f)(3), as part of our due diligence requirements, and removing existing § 652.40 as a standalone stress testing regulation. As with the pre-purchase stress testing discussed above, the proposed rule would impose the quarterly stress testing requirement on all non-program investments, including Treasury securities.

Existing § 652.40 is limited to interest rate stress scenarios. Proposed § 652.10(f)(3)(ii) recognizes that there are stress scenarios other than interest rate risk that could also impact the value or marketability of investments including, at a minimum, changes in market conditions (including market perceptions of creditworthiness).

The revisions would also include a change to the requirement that all stress testing assumptions be supported by verifiable information; we propose to qualify this requirement with ''to the maximum extent practicable'' to recognize that modeling treatments could require assumptions for which insufficient supporting data or information exists, thus requiring management to apply reasonable judgment. Moreover, Farmer Mac would be required to document the basis for all assumptions used.

6. Section 652.10(g)—Reports to the Board of Directors

We propose revisions to § 652.10(g), which specifies information that executive management must report to the board or a board committee each quarter. The requirements would be fundamentally unchanged but the language would be modified to add clarifying detail to FCA expectations. The following would have to be reported:

- Plans and strategies for achieving the board's objective for the investment portfolio;
- Whether the investment portfolio effectively achieves the board's objectives;
- The current composition, quality, and liquidity profile of the investment portfolio;
- The performance of each class of investments and the entire investment portfolio, including all gains and losses incurred during the quarter on individual securities sold before maturity and why they were liquidated;
- Potential risk exposure to changes in market interest rates as identified through quarterly stress testing and any

[11] In the proposal, the quarterly stress testing requirement would be located at § 652.10(f)(3). We would delete § 652.40 as a stand-alone stress testing regulation. In addition, the proposed regulation would impose stress testing in § 652.30(c)(3), as part of interest rate risk management, and in § 652.35(e)(3)(v), as part of the contingency funding plan (CFP). We expect that Farmer Mac will integrate these stress testing requirements to the extent appropriate.

other factors that may affect the value of the investment holdings;

- How investments affect Farmer Mac's capital, earnings, and overall financial condition; and
- Any deviations from the board's policies. These deviations must be formally approved by the board of directors.

D. Section 652.15—Non-Program Investment Purposes and Limitation

We propose to renumber existing § 652.25 as § 652.15. We propose in paragraph (a) to add a new permissible purpose for non-program investments—investments that complement program business activities. This purpose would recognize that certain investments, such as investments with a rural focus that are backed by the full faith and credit of the United States Government, could advance Farmer Mac's mission. This provision would not add any new eligible investments to our authorized list; Farmer Mac would still need to seek FCA's prior approval for any investments not explicitly authorized on the list of eligible investments.

Section 8.3(c)(12) of the Act permits Farmer Mac to ''purchase or sell any securities or obligations * * * necessary and convenient to the business of the Corporation.'' We believe this proposed broadening of investment purposes is compatible with Farmer Mac's statutory mandate and consistent with congressional intent.

Neither the proposed purpose nor any of the three existing purposes authorize Farmer Mac to accumulate investment portfolios for arbitrage activities or to engage in trading for speculative or primarily capital gains purposes. Realizing gains on sales before investments mature is not a regulatory violation as long as the profits are incidental to the specified permissible investment purposes. Farmer Mac must ensure that its internal controls, required under § 652.10(e), ensure that eligible investments purchased under § 652.20(a) clearly fulfill one or more of the purposes authorized under § 652.15(a).

In addition, we propose to change the current regulatory maximum non-program investment parameters in paragraph (b) to delete the alternate maximum of a fixed $1.5 billion. While we continue to believe that excessive or inappropriate use of non-program investments is not consistent with the Corporation's statutory mission and status as a Government-sponsored enterprise (GSE), we believe the maximum investment parameter of 35 percent of program volume alone is sufficient and that there is no longer a need for the $1.5 billion ceiling on that maximum calculation. This proposed change is based on Farmer Mac's growth since the $1.5 billion ceiling was established in 2005.

We also propose to permit Farmer Mac to exclude investments pledged to meet margin requirements for derivative transactions (collateral) when calculating the 35-percent investment limit under paragraph (b).[12] We note that investments that are pledged as collateral do not count toward Farmer Mac's compliance with its liquidity reserve requirement.[13] We propose this change because the Dodd-Frank Act may result in additional margin requirements for Farmer Mac and we do not want to discourage the use of derivatives as an appropriate risk management tool.

E. Section 652.20—Eligible Non-Program Investments

Under the current rule, Farmer Mac may purchase and hold the eligible non-program investments listed in § 652.35(a). This list permits Farmer Mac to invest, within limits, in an array of highly liquid investments while providing a regulatory framework that can readily accommodate innovations in financial products and analytical tools.

The recent financial crisis resulted in substantial turmoil in the financial markets. Based on this experience, we now propose amendments that would clarify the characteristics of eligible investments, eliminate certain investments, and reduce portfolio limits where appropriate. In addition, we ask questions about the most effective way to comply with section 939A of the DFA. As discussed in greater detail below, that provision requires each Federal agency to revise all regulations that refer to or require reliance on credit ratings to assess creditworthiness of an instrument to remove the reference or requirement and to substitute other appropriate creditworthiness standards. We also propose to renumber this regulation as § 652.20.

1. Section 652.20(a)

We propose revisions to the language in the introductory paragraph of paragraph (a). The existing language authorizes Farmer Mac to hold only the types, quantities, and qualities of investments that are listed. Like our existing regulation, our proposal would permit institutions to purchase only those investments that satisfy the eligibility criteria in § 652.35 (which would be renumbered as § 652.20). An investment that does not satisfy the eligibility criteria would not be eligible for purchase and would be subject to the divestiture requirements of proposed § 652.25(a) if it were purchased.[14]

In a change from our existing approach, however, eligibility would be determined only at the time of purchase. An investment that satisfies the eligibility criteria at the time of purchase but that subsequently failed to satisfy the eligibility criteria would not become ineligible and would not have to be divested. Instead, Farmer Mac would be permitted to retain the investment subject to certain requirements. As discussed below, in our discussion of our proposed amendments to § 652.25, we believe this change would reduce regulatory burden without creating safety and soundness concerns.

In addition, existing § 652.35(a) states that all investments must be denominated in United States dollars. We propose to relocate this language to paragraph (b) of redesignated § 652.20.

The table in § 652.35(a) currently provides that a specified nationally recognized statistical rating organizations (NRSRO) credit rating is a criterion for eligibility for a number of asset classes, including municipal securities, money market instruments, mortgage securities, asset-backed securities, and corporate debt securities. Section 939A of the Dodd-Frank Act requires us to remove this criterion and to substitute other appropriate creditworthiness standards. Below, we discuss possible approaches as to how we can comply with this requirement. We do not propose any revisions to this criterion at this time.

Finally, we discuss general comments on the table, received in response to the ANPRM. In the ANPRM, we asked, ''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 also invited comment on appropriate changes within each asset class regarding final maturity limit, credit rating requirement, portfolio

[12] Paragraph (b) permits Farmer Mac to hold eligible non-program investments, for specified purposes, up to 35 percent of program volume.

[13] Under existing § 652.20(b), all investments held for the purpose of meeting the liquidity reserve requirement must be free of liens or other encumbrances. As discussed below, we propose a more detailed version of this requirement at § 652.40(b).

[14] In this context, ''purchase'' would include an acquisition such as a swap of one security in exchange for another. This interpretation is consistent with our interpretation of the existing rule.

concentration limit, and other restrictions.

The Council suggested making ''limited changes'' to the portfolio limits, stating that the financial markets, and specifically the market for mortgage securities, have arguably suffered through severe crisis and System entities have emerged in a solid financial position. The Council believes that existing limits, particularly on non-Agency mortgage securities, arguably prevented System entities from focusing on higher return sectors that would have resulted in larger losses. The Council suggested that the Farmer Mac regulations should be ''closely aligned with existing limits for other Farm Credit entities.''

In our discussion below, we discuss the revisions we propose by eligible asset class, and we respond to the Council's general comments above as well as their specific comments on particular asset classes.

a. Section 652.20(a)(1)—Obligations of the United States

Existing § 652.35(a)(1)(which would become § 652.20(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 a Government agency without limitation.[15] We note that Ginnie Mae securities fall under this provision.

In the ANPRM, we asked, ''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 its comments, the Council stated that ''Treasury securities with longer dated maturities have the potential to provide less liquidity due to sensitivities to changes in interest rates.''

We propose no change to this regulation. Although we agree with the Council that the value of longer term Treasuries can vary due to interest rate risk, we deal with interest rate risk in a separate section of these regulations. In this section, our concern is focused on differences in liquidity due to differences in trading volume and bid/ask spreads between on-the-run and off-the-run Treasury securities.

b. Section 652.20(a)(2)—Obligations of Government-Sponsored Agencies

Existing § 652.35(a)(2)(which would become § 652.20(a)(2)) permits Farmer Mac to invest in obligations of Government-sponsored agencies,[16] including Government-sponsored agency securities and other obligations fully insured or guaranteed by Government-sponsored agencies (but not mortgage securities). The only limitation currently imposed on these non-mortgage security investments is found in § 652.35(d)(1), which precludes Farmer Mac from investing more than 100 percent of its regulatory capital in any one Government-sponsored agency.[17]

In the ANPRM we asked, ''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 Council stated that it is appropriate to maintain portfolio limits on securities issued by the Federal National Mortgage Corporation (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and even Government National Mortgage Corporation (Ginnie Mae) securities, which enjoy explicit government backing. The Council noted that the Federal government is currently contemplating regulatory GSE reform through the legislative process in this area.

We do not propose concentration limits on exposures to Government-sponsored agencies based on historical experience, including that observed in recent years, that the value of GSE debt has not declined materially even when the GSE has been under significant stress.

Our proposal would limit investments in Government-sponsored agency obligations to senior debt securities. We believe counterparty exposures to Government-sponsored agencies should be confined only to the highest quality investments and should not include subordinated debt or hybrid equity issuances.

c. Section 652.20(a)(3)—Municipal Securities

Existing § 652.35(a)(3) (which would become § 652.20(a)(3)) authorizes investments 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 limitations. The maturity limit is also longer for general obligations.

In the ANPRM we asked whether it would be ''more appropriate for our regulation to limit both sub-categories [of municipal securities] equally?'' The Council stated that historically, general obligation bonds have been less risky than revenue bonds because of the taxing authority of the underlying issuer but also stated that in the recent economic downturn, the safety of many of these general obligation issues have been called into question due to the financial strains on many State and local governments. Accordingly, the Council commented that all municipal securities should carry similar limits.

We agree. We also believe, in light of the ongoing financial strain at the municipal level, that additional limitations on municipal securities, whether general obligations or revenue bonds, are warranted. Accordingly, we propose to authorize investment in municipal securities only if the securities have a maximum remaining maturity of 10 years or less at the time of purchase and the investments do not exceed 15 percent of the total non-program investment portfolio.

d. Section 652.20(a)(4)—International and Multilateral Development Bank Obligations

Section 652.35(a)(4) (which would become § 652.20(a)(4)) currently authorizes investments in obligations of international and multilateral development banks, provided the United States is a voting shareholder. Examples of eligible banks include the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and the North American Development Bank. Other highly rated banks working in concert with the World Bank to promote development in various countries are also eligible, subject to the shareholder-voting requirement above. There is no maturity limit or portfolio limit.

We propose to revise this provision to authorize investment in such obligations with similar constraints as those applied to municipal securities. The nature of the obligations in this asset class is similar to municipal obligations in that the ultimate creditors

[15] The proposed rule would make a minor, non-substantive change to the language in this provision to reflect the slightly revised definition of ''Government agency'' we propose in § 652.5. We intend no change in meaning with this proposed revision.

[16] Section 652.5 defines Government-sponsored agency as an agency, instrumentality, or corporation chartered or establish to serve public purposes specified by the United States Congress but whose obligations are not explicitly guaranteed by the full faith and credit of the United States, including but not limited to any Government-sponsored enterprise. We propose a minor, technical change in this definition.

[17] In light of the proposed changes to this provision, we propose to delete the § 652.35(d)(1) limitation. We discuss that proposal below.

are a diverse group of governments with varying credit characteristics. While we view this asset class as generally strong credits, we do not believe its strength is equivalent to U.S. Treasuries, and therefore some limits are appropriate. On that basis, we propose a 10-year limit on their maximum maturity remaining at purchase and a portfolio concentration limit of 15 percent of Farmer Mac's total non-program investment portfolio.

e. Section 652.20(a)(5)-–Money Market Instruments

Existing § 652.35(a)(5) (which would become § 652.20(a)(5)) permits institutions to invest in repurchase agreements that satisfy specified conditions. If the counterparty defaults, the regulation requires the institution to divest non-eligible securities in accordance with the divestiture requirements of § 652.45. Under our proposal, as discussed above, an eligible investment could not become ineligible, and would not be required to be divested. Accordingly, we propose to delete this divestiture requirement.

f. Section 652.20(a)(6)—Mortgage Securities

Existing § 652.35(a)(6) (which would become § 652.20(a)(6)) requires stress testing of all mortgage securities. As discussed above, proposed § 652.10(f) would require stress testing on all investments held in Farmer Mac's portfolio. Accordingly, we propose to delete the specific stress-testing requirement for mortgage securities.

The first asset class listed in existing § 652.25(a)(6) is mortgage securities that are issued or guaranteed by the United States or a Government agency. We propose to revise this asset class description to refer to mortgage securities that are fully guaranteed or fully insured by a Government agency. The deletion of ''United States'' is a technical, non-substantive change, because we propose to include ''United States'' in the definition of ''Government agency'' in § 652.5. The addition of the word ''fully'' makes clear that this asset class includes only mortgage securities that are fully backed by the full faith and credit of the United States. If the United States Government issues a mortgage security that is not fully guaranteed or fully insured by the full faith and credit of the United States Government, it is not eligible under this asset class.

The third asset class listed in existing § 652.35(a)(6) authorizes investments in non-Government agency or Government-sponsored agency securities that comply with 15 U.S.C. 77d(5) or 15 U.S.C. 78c(8)(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 propose technical, non-substantive changes to the language describing this asset class, for clarity. Furthermore, in this preamble we refer to these securities using the shorthand reference non-Agency mortgage securities.

In the ANPRM, we invited comment on whether it is appropriate to continue to include non-Agency mortgage securities collateralized by ''jumbo'' mortgages as an eligible liquidity investment. The Council commented that while these are not as liquid as agency collateralized mortgage obligations, and despite the fact that this sector is currently under stress, it believes the sector can provide viable diversification and should develop stronger credit quality over time with improved underwriting and increased credit enhancements. We do not propose to remove this asset class from the list of eligible investments at this time, but we will continue to evaluate the appropriateness of including this asset class.

However, to reduce credit default risk that may be associated with certain positions in non-Agency mortgage securities, we propose to require that a position in such a security would be eligible only if it is the senior-most position at the time of purchase. The FCA considers a position in a non-Agency mortgage security to be the senior-most position only if it currently meets both of the following criteria:

- No other remaining position in the securitization has priority in liquidation. Remaining positions that are the last to experience losses in the event of default and which share those losses pro rata meet this criterion.
- No other remaining position in the securitization has a higher priority claim to any contractual cash flows. Remaining positions that have the first priority claim to contractual cash flows (including planned amortization classes), as well as those that share on a pro rata basis a first priority claim to cash flows meet this criterion.

The tranche that is the senior-most position at the time Farmer Mac is considering purchase is not necessarily the same tranche that was in the senior-most position at the time of issue. Farmer Mac should be careful not to be misled by the labeling of tranches as ''super senior'' or ''senior'' in a prospectus (or on market reporting services). Farmer Mac may purchase non-Agency mortgage-backed securities (MBS) only if the securities satisfy the above two criteria at the time of purchase.

Further, the existing rule's concentration limit for non-Agency mortgage securities is 15 percent when combined with another asset class—commercial mortgage-backed securities. However, because of our belief that commercial mortgage-backed securities pose undue risk due to the nature of the underlying collateral and the particularly weak performance of this asset class during the financial crisis, we propose to delete these securities as an eligible asset class. Given the existing rule's combined portfolio concentration limit of 15 percent for these two asset classes, we propose to set the portfolio concentration limit for non-Agency securities at 10 percent.

g. Section 652.20(a)(7)—Asset-Backed Securities

Existing § 652.35(a)(7) (which would become § 652.20(a)(7)) authorizes Farmer Mac to invest in asset-backed securities (ABS) secured by credit card receivables; automobile loans; home equity loans; wholesale automobile dealer loans; student loans; equipment loans; and manufactured loans. The maximum weighted average life (WAL) [18] for fixed rate or floating rate ABS at their contractual interest rate caps is 5 years, and all ABS combined are limited to 25 percent of Farmer Mac's non-program investment portfolio.

In its comment letter, AgFirst noted that the existing 25-percent portfolio limit is higher than the 20 percent permitted for other System institutions.[19] AgFirst stated that there should be movement toward consistency. AgFirst further stated that ABS suffered from severe market deterioration during the recent credit crisis and that bringing the limit down to that in place for other System institutions would help reduce concentration risk.

Because we agree with AgFirst's comment, and because of the relative lack of liquidity of all ABS in the wake of the recent financial crisis, we propose to reduce the portfolio limit to no more than 15 percent (combined) of Farmer Mac's total investment portfolio and to

[18] Generally, the WAL is the average amount of time required for each dollar of invested principal to be repaid, based on the cashflow structure of an ABS and an assumed level of prepayments. Nearly all ABS are priced and traded on the basis of their WAL, not their final maturity dates.

[19] *See* § 615.5140(a)(6).

limit any single collateral type to no more than 5 percent.[20] In addition, given the significant instability in the ABS market in recent years, we propose a maximum WAL of 7 years for floating rate ABS with current coupon rates below their contractual interest rate cap.

h. Section 652.20(a)(8)—Corporate Debt Securities

Existing § 652.35(a)(8) (which would become § 652.20(a)(8)) authorizes investment in corporate debt securities, limited to 25 percent of Farmer Mac's total non-program investment portfolio. In its comment letter, AgFirst noted that the existing limit is higher than the 20 percent permitted for other System institutions.[21] AgFirst stated that there should be movement toward consistency. AgFirst further stated that corporate debt securities suffered from severe market deterioration during the recent credit crisis and that bringing the limit down to that in place for other System institutions would help reduce concentration risk.

Because we agree with this comment, we propose to reduce the portfolio limit to 20 percent in total. In addition, we propose to limit corporate debt securities in any one of the industry sectors defined by the Global Industry Classification Standard (GICS) to no more than 10 percent of Farmer Mac's total investment portfolio.[22] While financial services sector was not the only industry sector hit hard by the recent financial crisis, there were sectors, *e.g.,* utilities, that were not as severely impacted. Sector diversification limits provide enhanced guidance regarding the Agency's expectations for portfolio diversification.

In the ANPRM, we asked whether is it appropriate to allow investments in subordinated debt as the current rule does. The Council stated it does not think subordinated debt is an appropriate investment for purposes of liquidity. It based its comment on lack of liquid markets for subordinated debt as well as the lack of expertise in most financial institutions to research and evaluate the risk of individual issuers.

We generally agree with this comment and propose to limit eligible corporate debt securities to senior debt securities only. We note that, while we do not deem perfect consistency with regulations governing other System institutions to be appropriate in all cases, all of our proposed changes to investment in corporate debt securities are consistent with those recently proposed for other System institutions.[23]

i. Section 652.20(a)(9)—Diversified Investment Funds

Existing § 652.35(a)(9) (which would become § 652.20(a)(9)) authorizes investment in diversified investment funds with the stipulation that the funds' holdings must consist solely of eligible investments as defined by this section of the rule. The existing rule contains no portfolio concentration limit so long as the shares in each investment company comprise less than 10 percent of Farmer Mac's portfolio. If the shares comprise more than 10 percent, the fund's holdings are counted toward the limits for each asset class set forth in this section.

Under the existing rule, Farmer Mac could invest 100 percent of its non-program investment portfolio in 10 different funds. We believe this would not allow for sufficient diversification of the portfolio. Therefore, we propose to add a portfolio concentration limit with two components; no more than 50 percent of the total portfolio could be comprised of diversified investment funds and no more than 10 percent of the total portfolio could be in any single fund.

In addition, we believe that in the existing rule the term ''diversified investment funds'' could be interpreted to include closed-end funds, which are typically exchange-traded. We propose to add language stating that only open-end funds are eligible, in order to reduce the possibility that investments are purchased for potentially speculative purposes.

2. Dodd-Frank Act Compliance

In July 2010, the President signed into law the Dodd-Frank Act to strengthen regulation of the financial industry in the wake of the financial crisis that unfolded in 2007 and 2008. Section 939A of the DFA requires the following:

- Each Federal agency must review (i) all of its regulations that require the use of an assessment of the creditworthiness of a security or money market instrument, and (ii) any references to or requirements in its regulations regarding credit ratings.
- Each Federal agency must modify its regulations to remove any reference to or requirement of reliance on credit ratings and to substitute in the regulations such standards of creditworthiness as the agency determines is appropriate. In making this determination, the agency must seek to establish, to the extent feasible, uniform standards of creditworthiness.

We have completed our review of FCA regulations that impose creditworthiness requirements or that refer to or require the use of credit ratings. Existing § 652.35 is one such regulation; it requires minimum NRSRO credit ratings for many categories of investments—including municipal securities, certain money market instruments, non-Agency mortgage securities, asset-backed securities, and corporate debt securities—for them to be eligible.

We do not propose a method to replace NRSRO credit ratings in this rulemaking while we continue to focus our research on appropriate alternatives to them. We note that FCA has already published an ANPRM soliciting public input on the requirements of section 939A as it applies to the Agency's Risk-Based Capital Stress Test (RBCST) which sets regulatory minimum capital requirements for Farmer Mac.[24] FCA has also published a Notice of Proposed Rulemaking seeking comments on how section 939A should be applied to the eligibility regulation governing other System institutions [25]—a regulation that is very similar to this one. Moreover, several other Federal regulators have also issued ANPRMs on this topic.[26]

In the discussion below, we explore various approaches that could be considered for assessing creditworthiness as a determinant of eligibility.[27] We may want to propose several of these approaches in concert with one another.

First, our regulation could specify financial measurements, benchmark indexes, and other measurable criteria against which institutions could evaluate the creditworthiness of their

[20] These limits are consistent with those recently proposed for the other System institutions. *See* 76 FR 51289, Aug. 18, 2011.

[21] *See* § 615.5140(a)(7).

[22] GICS was developed by Morgan Stanley Capital International and Standard and Poor's. The GICS is an industry analysis framework for investment research portfolio management and asset allocation. The GICS structure consists of 10 sectors, 24 industry groups, 68 industries, and 154 sub-industries. More information can be found at *http://www.mscibarra.com/products/indices/gics.*

[23] 76 FR 51289, Aug. 18, 2011.

[24] 76 FR 35138, June 16, 2011.

[25] 76 FR 51289, Aug. 18, 2011.

[26] For example, the OCC, the Federal Reserve, the FDIC, and the OTS issued an ANPRM at 75 FR 52283, Aug. 25, 2010. The Federal Housing Finance Agency issued an ANPRM at 76 FR 5292, Jan. 31, 2011.

[27] In addition, existing § 652.35(b), which we propose to renumber as § 652.20(c), provides that whenever the obligor or issuer of an eligible investment is located outside the United States, the host country must maintain the highest sovereign rating for political and economic stability by an NRSRO. The DFA requires us to replace that NRSRO standard with an appropriate substitute. The following discussion also applies to that provision.

investments. For example, the regulation might specify certain ranges within the total range of those measurements to stratify or rank relative levels of creditworthiness using labels such as ''Highest'' and ''Second Highest''—and establish the level within that ranking below which investments would be deemed insufficiently creditworthy for investment by Farmer Mac. Farmer Mac would need to ensure that these criteria were met for an investment to be eligible at the time of purchase and continue to satisfy the eligibility requirements and otherwise remain a suitable investment over the period it is held. Some of the factors that could be considered in establishing these criteria are as follows:

- Credit spreads (*i.e.,* whether it is possible to demonstrate that a position in certain investments is subject to a minimal amount of credit risk based on the spread between the security's yield and the yield of Treasury or other securities, or based on credit default swap spreads that reference the security);
- Default statistics (*i.e.,* whether providers of credit information relating to securities express a view that specific securities have a probability of default consistent with other securities with a minimal amount of credit risk);
- Inclusion on an index (*i.e.,* whether a security or issuer of the security is commonly included as a component of a recognized index of instruments that are subject to a minimal amount of credit risk or are deemed by FCA to be sufficiently comparable to securities on an index based on specific criteria);
- Priorities and enhancements (*i.e.,* the extent to which a security includes credit enhancement features, along with an evaluation of the relative strength of the enhancements, such as overcollateralization and reserve accounts, or has priority under applicable bankruptcy or creditors' rights provisions);
- Price, yield and/or volume (*i.e.,* whether the price and yield of a security or a credit default swap that references the security are consistent with other securities that are subject to a minimal amount of credit risk and whether the price resulted from active trading); and
- Asset class-specific factors (*e.g.,* in the case of structured finance products, the risk characteristics of the specific underlying collateral).

Should FCA consider any of the above as useful sources from which to derive evaluative criteria that could replace NRSRO credit ratings? Are there other sources of information that should be included? More specifically, should the creditworthiness standard include specific standards for probability of default (PD) and loss given default (loss severity)? If so, why, and where could the agency source such data to derive such probabilities and loss severity standards? Also, should this vary by asset class and/or type of investment? Finally, would it be appropriate to combine this approach with one or more of the other approaches discussed below, and if so, which ones, and why?

As a second alternative (or in combination with the first approach), our regulation could require Farmer Mac to develop its own internal assessment process or system for evaluating the creditworthiness of investments. One way to structure such a system could be to quantify expected loss rates and stratify creditworthiness categories by range of expected loss. This would require Farmer Mac to provide convincing evidence that probability of default and loss given default estimates are reasonably accurate. Any such internal evaluation system might need to be frequently recalibrated based on changes in the marketplace.

Is this second approach—an FCA-approved internal Farmer Mac system—one that we should consider? If so, what principles should be applied in creating such a system, and why? Would the amount of resources needed to establish and maintain such a system potentially be overly burdensome to Farmer Mac? Would it be appropriate to combine this approach with one or more of the other approaches and if so, which ones, and why?

As a third alternative, FCA could develop regulations that would require Farmer Mac to use third party assessments to assess creditworthiness. Organizations other than NRSROs may have the capability to evaluate creditworthiness, and this evaluation could be considered in Farmer Mac's creditworthiness assessment. We also believe that the DFA does not prohibit Farmer Mac from looking to the NRSROs as a tool for assessing creditworthiness. If Farmer Mac does so, however, it should evaluate the quality of third party assessments, including consideration of whether issuers or investors pay the rating fees. In either case, as we have seen in the recent crisis, reliance on third party analysis can be problematic and cannot be used in isolation. Accordingly, if we were to require this approach, it would be in concert with one or more of the other approaches.

Is this third-party approach one that we should consider? What reliable third party sources exist? Should we distinguish between issuer-paid third party sources and investor-paid third party sources and, if so, how? How might we combine this approach with one or more of the other approaches to create an optimal regulatory structure?

Unlike the proposed regulations governing the RBCST,[28] this proposal's system of ranking investment creditworthiness need not be quantified in terms of specific expected loss rates. However, since a ranking based on expected loss rates could become available as a result of the rulemaking associated with the RBCST, we note that this system might also be applicable for purposes of these regulations governing liquidity and investment management. Moreover, if it were, it would add consistency to our regulations which, while not a necessity, is highly desirable.

3. Changes to Remainder of § 652.20

a. Section 652.20(b)—Dollar Denomination

As discussed above, we propose to relocate to paragraph (b) the requirement, currently contained in the introductory paragraph of § 652.35(a), that all investments must be denominated in United States dollars.

b. Section 652.20(d)—Obligor Limits

We have discussed the risks of investment concentrations and the benefits of a well-diversified and high quality investment portfolio. In § 652.35(d)(1) of the existing rule, 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. However, the obligor limit does not currently apply to Government agencies or Government-sponsored agencies. Instead, we currently prohibit Farmer Mac from investing more than 100 percent of its regulatory capital in any one Government-sponsored agency. There are no obligor limits for Government agencies.

In the ANPRM we asked whether the obligor limits provide for an adequate level of diversification and specifically whether, in light of the uncertainty associated with the current conservatorships of both Fannie Mae and Freddie Mac, it is appropriate to maintain a higher obligor limit for Government-sponsored agencies.

Both the Council and AgFirst stated that for obligors other than Government agencies or Government-sponsored agencies, obligor limits should be reduced to 20 percent of total capital to be consistent with the limits on other System institutions. In a recent NPRM

[28] 76 FR 35138, June 16, 2011.

governing the other System institutions, FCA proposed that these obligor limits should be reduced from 20 percent to 15 percent.[29] We agree that consistency with other System institutions is appropriate in this case. We also believe 15 percent would help to ensure sufficient diversification among obligors. Accordingly, we propose to reduce the current obligor limit for non-Government agencies and non-Government-sponsored agency obligors from 25 percent to 15 percent of regulatory capital.

For Government-sponsored agencies, the Council stated that investment limits should be set at 50 percent of the total portfolio, in alignment with the limits placed on the System. The Council stated that the government support recently provided to Fannie Mae and Freddie Mac is very similar to that which would be provided to a government agency and that, because of the importance to the Federal government of the role filled by Fannie Mae and Freddie Mac, it appears this strong support will continue. The Council states that if future legislation weakens the ''implicit'' guarantee, the investment limits can be revisited at that time. The Council also stated that restrictions on Fannie Mae and Freddie Mac securities under regulatory liquidity requirements may cause institutions to take additional prepayment and extension risk in return for lower spreads by forcing the institutions to purchase Ginnie Mae securities, which have weaker cashflow stability and lower spreads as compared to similar Fannie Mae and Freddie Mac securities.

While we may not agree with every detail of the supporting justification of the Council's position, we agree that our existing 50-percent investment portfolio limit for Government-sponsored agency mortgage securities in existing § 652.35(a)(6) is appropriate, and we propose no change to that limit.

In addition, we believe that that obligor limits for obligations that are issued or guaranteed as to principal and interest by Government-sponsored agencies are not warranted due to the relatively low credit risk of Fannie Mae and Freddie Mac mortgage securities. Accordingly, we propose to delete the prohibition on Farmer Mac's investment of more than 100 percent of its regulatory capital in any one Government-sponsored agency.[30]

c. Section 652.20(e)—Other Investments Approved by FCA

Under the current regulation at § 652.35(e), with our prior written approval, Farmer Mac may purchase non-program investments in preferred stock issued by other System institutions and in other non-program investments that are not listed in § 652.35(a). We propose to revise paragraph (e) to require prior FCA approval for all investments not listed in paragraph (a), with no separate mention of FCS preferred stock. As the safety and soundness regulator for Farmer Mac, we have concerns regarding concentration and systemic risk that arise from Farmer Mac investments in large amounts of preferred stock issued by System institutions, and Farmer Mac should not expect that we will approve such investments without a compelling reason.

No change is proposed from the existing rule's requirement that Farmer Mac's request for FCA approval to invest in other non-program investments must explain the risk characteristics of the investment and the Corporation's purpose and objective for making the investment. If we approve the investment, we would notify Farmer Mac of any conditions we would impose, as well as the appropriate discount on any such investments for purposes of complying with minimum liquidity standards set forth in proposed § 652.40.

F. Section 652.40—Stress Tests for Mortgage Securities

Because we propose to relocate our stress-testing requirements to § 652.10(f), we also propose to remove this standalone, stress-testing section from our regulations.

G. Section 652.25—Management of Ineligible and Unsuitable Investments

We propose to delete existing § 652.45, which is labeled ''Divestiture of Ineligible Non-Program Investments,'' and to replace it with § 652.25, which would be labeled ''Management of Ineligible and Unsuitable Investments.''

Existing § 652.45(a)(2) requires Farmer Mac to dispose of an investment that is ineligible (under the existing § 652.35 criteria) within 6 months unless we approve, in writing, a plan that authorizes divestment over a longer period of time. An acceptable divestiture plan generally must require Farmer Mac to dispose of the ineligible investment as quickly as possible without substantial financial loss. Until it actually disposes of the ineligible investment, Farmer Mac must report on specified matters to its board of directors and to FCA at least quarterly.[31]

As part of effective risk management of investments, we expect the Corporation to exit its position or develop a strategy to reduce risk exposure stemming from investments that were eligible at purchase but are no longer suitable. As part of its risk management process we would expect Farmer Mac to evaluate the potential for additional unrealized losses or write-downs under expected and stressed conditions. The risk management process for investments should be dynamic and robust. Thus, we are modifying our approach to ensure the Corporation has sufficient flexibility to manage its position and mitigate losses which may not necessarily be achieved through a forced divesture during a specific time period.

Accordingly, proposed § 652.25(b) would no longer require Farmer Mac, for an investment that satisfied the eligibility criteria set forth in § 652.20 (renumbered from § 652.35) when purchased but that no longer satisfies them,[32] to divest of the investment within 6 months unless FCA approves a divesture plan authorizing a longer divestiture period. Rather, Farmer Mac would be required to notify the OSMO promptly, and the investment would be subject to specified requirements that are discussed below. These requirements would also apply to investments that become ineligible as result of changes to the investment eligibility regulations proposed herein.

Section 652.25(b) would also require prompt notification to the OSMO when an investment that satisfies the § 652.20(a) eligibility criteria is not suitable because it does not satisfy the risk tolerance established in the institution's board policy pursuant to § 652.10(c), and the investment would be subject to the same specified requirements discussed below.

Proposed § 652.25(a) provides that an investment that does not satisfy the § 652.20 eligibility criteria at the time of purchase is ineligible. Under the proposal (as under the existing regulation), Farmer Mac may not purchase ineligible investments. If Farmer Mac did purchase an ineligible investment, it would be required to notify us promptly and to divest of the

[29] 76 FR 51289, Aug. 18, 2011.

[30] We note that the other FCS institutions do not have an obligor limit for Government-sponsored agencies, and no such limit is proposed in the recent NPRM. *See* § 615.5140(d)(1) of our regulations and 76 FR 51289, Aug. 18, 2011.

[31] Existing § 652.45(a)(1) pertains to the divestiture requirements of investments that became ineligible when the divestiture regulation initially became effective in 2005. Because there is no longer a need for these initial divestiture requirements, we propose to delete them.

[32] These investments would no longer be considered ''ineligible.''

investment no later than 60 days after discovering that the investment is ineligible unless we approved, in writing, a plan that authorized divestiture over a longer period of time.[33]

Although it is not stated in the regulation, we clarify here that an acceptable divestiture plan would have to require Farmer Mac to dispose of the investment as quickly as possible without substantial financial loss. The plan would also have to contain sufficient analysis to support continued retention of the investment, including its impact on the institution's capital, earnings, liquidity, and collateral position. Our decision would not be based solely on financial loss and would include consideration of whether the investment was purchased by mistake or through the deliberate action of a Farmer Mac employee. Until Farmer Mac divested of the investment, it would be subject to the same specified requirements discussed below.

Furthermore, we emphasize that any purchase of an ineligible investment would indicate weaknesses in Farmer Mac's internal controls and due diligence and would trigger increased FCA oversight if it occurs. We expect such a purchase to occur extremely rarely, if ever.

The specified requirements that would apply to investments retained by Farmer Mac that are ineligible, that no longer satisfy the eligibility requirements, or that are unsuitable are specified in § 652.25(c). We believe these specified requirements are warranted by safety and soundness concerns.

Proposed § 652.25(c)(1) contains reporting requirements. Each quarter, Farmer Mac would be required to report to FCA and to its board on the status of all such investments. The report would have to demonstrate that impact that the investments may have on the Corporation's capital, earnings, and liquidity position. Additionally, the report would have to address how the Corporation planned to reduce its risk exposure from these investments or exit the position.

Proposed § 652.25(c)(2) contains other proposed requirements. We propose that the investments may not be used to fund Farmer Mac's liquidity reserve or supplemental liquidity required under § 652.40 and that they must continue to be included in the investment portfolio limit established in § 652.15(b).

[33] In this context, ''purchase'' would include an acquisition such as a swap of one ineligible security for another.

Finally, proposed § 652.25(d) would reserve FCA's authority to require Farmer Mac to divest of any investment at any time for safety and soundness purposes. The timeframe FCA sets would consider the expected loss on the transaction (or transactions) and the impact on Farmer Mac's financial condition and performance. Because the proposed rule would not require divestiture of any investment that was eligible when purchased, FCA must reserve the authority to require divestiture of investments when necessary.

H. Section 652.30—Interest Rate Risk Management

We propose to reorganize the rule by moving provisions governing ''Interest Rate Risk Management and Requirements'' found in the existing rule at § 652.15 to new § 652.30. We propose to revise the name of this section by deleting ''and requirements'' because the words are unnecessary since all sections of the regulation either define or describe requirements. This same deletion and reasoning is proposed to several other section headings.

In this section, we propose in paragraph (a) two minor syntactical changes without any resulting substantive change. We propose to delete existing paragraph (b), which provides that Farmer Mac's management must ensure that interest rate risk is properly managed on both a long-range and a day-to-day basis, because we establish the ultimate responsibility for interest rate risk management at the board level in paragraph (a) and we believe it should be understood that the board would delegate proper interest rate risk management to management.

In paragraph (c)(2), we propose to require that the interest rate risk management policy identify the causes of interest rate risk and set appropriate quantitative limits consistent with a clearly articulated board risk tolerance. We believe this improves the clarity of requirements for board policy as compared with the existing corresponding regulation, at § 615.15(d)(2), which requires the policy to identify and analyze the cause of interest rate risks within Farmer Mac's existing balance sheet structure. In paragraph (c)(3), we propose to replace the word ''shock'' with ''stress'' to make it consistent with stress testing terminology used throughout this subpart and to remove any uncertainty about whether we intend interest rate stress testing to be somehow fundamentally different from other stress testing referred to in this subpart—we do not. In other words, board policies and risk tolerance thresholds for interest rate risk should be generally consistent with the levels applied to stress testing policies referenced in other sections of this subpart.

We further propose in this paragraph to enhance guidance on stress testing of interest rate risk by specifying that the results of stress tests must gauge the sensitivity of capital, earnings, and liquidity to interest rate stress scenarios. We further propose to specify that the methodology applied must be appropriate for the complexity of the structure and cash flows of the instruments held.

We also propose to require interest rate risk management policies to consider the nature and purpose of derivative contracts and establish counterparty concentration limits for derivatives. We propose this change in furtherance of the emphasis on derivatives counterparty risk management in Title VII of the Dodd-Frank Act and due to the significant use of derivatives by Farmer Mac to modify synthetically the term structure of its debt.

As with our quarterly stress testing requirement under § 650.10(f)(3), we propose to require that all assumptions applied in this stress test rely, to the maximum extent practicable, on verifiable information, in recognition that modeling treatments could require assumptions for which insufficient data or information exists. In addition, Farmer Mac would be required to document the basis for all assumptions.

We propose to clarify in proposed paragraphs (d)(4) and (d)(5) the appropriate roles of the board and of management.

We propose to delete existing paragraph (d)(5) because we propose to require Farmer Mac to document its objective when purchasing eligible investments in § 652.10(f)(1) of this subpart. We believe the placement of this requirement is more logical in that section.

Given that proposed deletion, we propose to re-number all paragraphs that follow in the existing § 652.15 accordingly with minor clarifying changes to their wording.

I. Section 652.35—Liquidity Management

As part of the proposed re-ordering of sections in this subpart, we propose to move and rename existing § 652.20 ''Liquidity Reserve Management and Requirements'' to § 652.35 ''Liquidity Management.''

We also propose to reorganize the rule by moving provisions governing the minimum liquidity requirements found at existing § 652.20(a) to a new section, § 652.40, to be named ''Liquidity Reserve Requirement and Supplemental Liquidity.''

1. Section 652.35(a)—Liquidity Policy—Board Responsibilities

We propose to begin this section with paragraph (a) ''Liquidity Policy—Board Responsibilities'' (currently found at § 652.20(d)). We propose only minor revisions to that paragraph, none of which are substantive. One of these revisions is a proposed requirement that Farmer Mac's liquidity policy must be consistent with its investment management policies, including the level of the board's risk tolerance in these areas.

2. Section 652.35(b)—Policy Content

We propose to renumber existing § 652.20(e) as § 652.35(b). We propose to change the section heading from ''Liquidity Reserve Policy Content'' to ''Policy Content'' and to make several minor syntactical changes. We also propose to add paragraph (b)(10), a liability maturity management plan (LMMP), and paragraph (b)(11), a contingency funding plan (CFP). The rationale and expectations for the LMMP and CFP proposals are explained in detail in the discussions of § 652.35(d) and § 652.35(e), respectively, below.

3. Section 652.35(c)—Reporting Requirements

Newly proposed paragraphs (c)(1)(i) and (c)(1)(ii) of § 652.35 contain, with some minor revisions, the Farmer Mac periodic and special board reporting requirements currently found at paragraphs (f) and (g), respectively, of § 652.20(f). Newly proposed § 652.35(c)(2) contains the FCA special reporting requirement currently found at § 652.20(g).

4. Section 652.35(d)—Liability Maturity Management Plan

In the ANPRM, we asked if it would be appropriate to require Farmer Mac to establish a debt maturity management plan. The question was whether such a plan would be appropriate in light of the marginal funding instability that results from relying primarily on shorter term debt—even when the maturity is extended synthetically. 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 (under normal yield curve conditions, as discussed in the ANPRM). 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.

The minimum days-of-liquidity reserve requirement also includes incentives to this same end of diversifying the term structure of Farmer Mac's debt. This additional planning requirement would augment the days-of-liquidity measurement and reinforces the importance of management of the term structure of debt and other obligations as a key component of the liquidity risk management.[34]

The Council commented supportively, stating that each institution should have a funding strategy that provides for effective diversification of sources and tenors of funding and that maturity concentrations increase liquidity risk.

Because we agree that Farmer Mac should have such a funding strategy, we now propose a new paragraph § 652.35(d), which would require Farmer Mac's board to adopt a liability maturity management plan (LMMP) that establishes a funding strategy that provides for effective diversification of the sources and tenors of funding.[35]

This proposed § 652.35(d) sets forth specific contents and internal controls to be included in the LMMP. Under the proposal, the LMMP must:

- Include targets of acceptable ranges of the proportion of debt issuances maturing within specific time intervals;
- Reflect the Farmer Mac board's liquidity risk tolerance;[36] and
- Consider components of the Corporation's funding strategy that offset or contribute to liquidity risk associated with debt maturity concentrations.

The LMMP is intended to become a risk management tool that contributes to the management of, for example, targets for the term structure of debt. As the portion of total debt maturing within some appropriate short-term time interval increases, the amount of liquidity stress that would be experienced under a scenario of a disruption in Farmer Mac's access to debt markets (*i.e.,* refunding risk) would likely also increase. We would expect the LMMP to place appropriate limits on that risk consistent with the board's risk tolerance level as defined in other areas of investment and liquidity risk management.

We propose to refer to this plan as an LMMP rather than as a debt maturity management plan, as we discussed in the ANPRM, to make it more general, in contemplation of the possibility that Farmer Mac could use funding instruments that might not strictly take the form of debt. For example, the LMMP would have to address the use of swaps to synthetically extend debt tenors to offset liquidity risk. However, the LMMP would also have to recognize that the counterparty risk added through those swap positions contributes to liquidity risk due to the exposure to defaults of these counterparties generally (in terms of reduced expected cash inflows) as well as through the concentration of swap exposure to individual swap counterparties. The LMMP should also consider the potential expense (and even the potential infeasibility in certain scenarios) of replacing defaulted swap positions under stressful market conditions. Finally, if overall funding strategy also includes additional swap positions that synthetically shorten the effective maturity of debt positions, these positions and counterparty exposures too would have to be reflected in the LMMP.

5. Section 652.35(e)—Contingency Funding Plan

In the ANPRM, we asked whether it would be appropriate for our regulations to require a liquidity contingency funding plan (CFP). If so, we asked how specific the regulation should 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.[37]

The Council commented in support of such a requirement, stating that each institution should maintain, regularly update, and test a formal liquidity contingency funding plan that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. The Council stated that such

[34] We discussed this concept in our ANPRM at 75 FR 27953–27954.

[35] As discussed above, proposed § 652.35(b)(10) would require that the LMMP be contained in Farmer Mac's liquidity policy.

[36] Although not specified in the rule, guidance must be focused on the avoidance of maturity concentrations that would cause the Corporation to exceed the board's risk tolerance.

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

a plan should delineate policies to manage a range of stress environments, establish clear lines of responsibility, and articulate clear implementation and escalation procedures. Further, it should be regularly tested and updated to ensure that it is operationally sound.

We agree with this comment and we now propose a new § 652.35(e) imposing CFP requirements. We view these proposed CFP requirements as prudent and integral to an organized and systematic approach to managing liquidity risk and ensuring ongoing compliance with board policy pertaining to liquidity risk—as well as generally consistent with the spirit of the guidance issued in the Interagency Policy Statement and by the Basel Committee and, thus, with emerging industry best practices.[38]

In § 652.35(e)(1) we propose to require Farmer Mac to have a CFP to ensure sources of liquidity are sufficient to fund normal operating requirements under a variety of stress events, which we specify in paragraph (3)(v) and discuss below.[39]

Section 652.35(e)(2) would require Farmer Mac's board of directors to review and approve the CFP at least once each year and to make adjustments to reflect changes in the results of stress tests, the Corporation's risk profile, and market conditions. Under the CFP, Farmer Mac would have to maintain unencumbered and highly marketable assets as described in paragraphs (b) and (c) of § 652.40 in its liquidity reserve sufficient to meet its liquidity needs based on estimated cash inflows and outflows for a 30-day time horizon under a stress scenario that is sufficiently acute as to be consistent with the level of the board's risk tolerance.

This effectively creates an additional liquidity metric to the traditional days-of-liquidity metric in the existing rule—which is retained, though revised, in this proposed rule.[40] The difference between the two metrics lies in the stress scenario considered in each. The existing days-of-liquidity metric compares highly marketable assets (appropriately discounted) to actual maturing debt over a given time interval at the date of calculation. In essence the stress applied is a lack of access of debt markets. The requirement proposed in § 652.35(e)(2) is based on an appropriately estimated, more comprehensive, stress scenario specifically calibrated to the board's established risk tolerance level. We propose this additional regulatory standard to achieve better consistency with the objectives and recommendations envisioned under Basel III.[41]

Under § 652.35(e)(3), the CFP would have to:

- Be customized to the financial condition and liquidity risk profile of Farmer Mac, the board's liquidity risk tolerance, and the Corporation's business model;
- Identify funding alternatives that can be implemented as access to funding is reduced. For example, it would have to include, at a minimum, collateral pledging arrangements to secure funding and possible capital-raising initiatives;
- Establish a process for managing events that imperil the Corporation's liquidity. The process must assign appropriate personnel and executable action plans to implement the CFP; and
- Require periodic stress testing that analyzes the possible impacts on Farmer Mac's cash flows, liquidity position, profitability, and solvency for a wide variety of stress scenarios. Stress scenarios would have to be established and defined by the board and should be consistent with those applied in other areas of the Corporation's risk analysis, *i.e.,* those proposed in § 652.10 (Investment Management) and § 652.30 (Interest Rate Risk Management). The basis for assumptions must be documented and well-reasoned. The stress scenarios would have to be at a level of severity consistent with the board's risk tolerance and include scenarios such as market disruptions; rapid increase in contractually required loan purchases; unexpected requirements to fund commitments or revolving lines of credit or to fulfill guarantee obligations; difficulties in renewing or replacing funding with desired terms and structures; requirements to pledge collateral with counterparties; or reduced access to debt markets as a result of asset quality deterioration (including both program assets and non-program assets). FCA would also retain the discretion to require certain specific stress scenarios in response to changes in market and economic outlooks.

To satisfy these requirements, the CFP would have to set forth specific policies, procedures, and action steps (including which asset classes will be sold under specific scenarios) with designated responsibilities, to address a range of contingent scenarios that are internal to Farmer Mac or external, such as sector-wide or market-wide disruptions. For example, the CFP should include an external communications plan for how the Corporation will manage press inquiries during a liquidity event. Poor external communications during a liquidity event could directly, if inadvertently, increase the severity of the event. FCA could use its reservation of authority to require specific stress scenarios to be used, for example, in response to developments in the Agency's outlook for Farmer Mac's business environment.

J. Section 652.40—Liquidity Reserve Requirement and Supplemental Liquidity

Existing § 652.20(a) requires Farmer Mac to hold cash, eligible non-program investments, and/or Farmer Mac II assets (all subject to specified discounts) to maintain sufficient liquidity to fund a minimum of 60 days of maturing obligations, interest expense, and operating expenses. The purpose of this minimum liquidity requirement is to enable Farmer Mac to continue its operations if its access to the capital markets were impeded or otherwise disrupted.

As discussed in the ANPRM, we recognize that a drawback of the ''days-of-liquidity'' metric is that it provides no projected information; a large days-of-liquidity today provides little or no information about what the measurement might be even the following day. For example, a bank with 150 days-of-liquidity today might issue a very large volume of discount notes the following day that mature in 100 days. This issuance could significantly reduce the days-of-liquidity calculated only the day before. A well-managed financing operation will evaluate the days-of-liquidity metric against its short-term anticipated funding needs, *i.e.,* how that measurement might change in the very near future. A funding strategy that combines short-term debt with long-term swaps could make the days-of-liquidity measurement highly volatile under plausible scenarios.

Both the Council and AgFirst commented that that the days-of-liquidity approach to liquidity management is appropriate and widely used. We received no comments suggesting alternative metrics, and we do not propose any such alternative. We note, however, that the proposed LMMP

[38] 75 FR 13656, Mar. 22, 2010, and ''Principles for Sound Liquidity Risk Management and Supervision,'' Basel Committee on Banking Supervision, *http://www.bis.org/bcbs,* respectively.

[39] As discussed above, proposed § 652.35(b)(1) would require that the CFP be contained in Farmer Mac's liquidity policy.

[40] Days-of-liquidity is discussed below.

[41] Page 3 of ''Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring'' Basel Committee on Banking Supervision, December 2010, *http://www.bis.org/bcbs.*

discussed above would contribute to management of the shortcomings in the days-of-liquidity metric.

1. Section 652.40(a)—General

In contrast to current regulation, proposed § 652.40(a) (which would replace existing § 652.20(a) in the existing regulations) would require Farmer Mac to maintain a liquidity reserve equal to at least 90 days of maturing obligations and other borrowings. In its comment letter, AgFirst suggested that a 90-day liquidity reserve would lead to improved liquidity risk management as well as to consistency with System bank practices.

We established the current 60-day minimum in 2005 as part of our first rulemaking governing Farmer Mac's liquidity risk management. We set the minimum lower than minimums discussed in the regulatory literature at the time, *e.g.,* regulations governing other Farm Credit System institutions, to avoid unintended consequences on Farmer Mac's operations as we introduced this regulation for the first time. Farmer Mac has since increased its liquidity position substantially and in our view a higher minimum would advance the Corporation's safety and soundness.

In addition to the proposed increase in the minimum requirement, we propose to simplify the components of the calculation of days-of-liquidity in proposed § 652.40(a) by including only obligations and other borrowings [42] and to no longer include interest obligations or operational expenses. While those obligations are deemed no less relevant, the increased minimum will, we believe, more than compensate for the exclusion of these obligations from the calculation while gaining the benefit of reduced complexity in the regulatory structure. Thus, while we do not suggest that the effects of the increased requirement and the simplified calculation are perfectly offsetting, we note that there is such an overall offsetting effect and that a net increase in the standard is intended.

The liquidity reserve could be comprised only of cash and of specified, highly marketable investments that are discussed below. Also as discussed below, the investments would have to be discounted as specified.

We also propose in § 652.40(a) to require Farmer Mac to maintain supplemental liquidity as required by the table in paragraph (d) of this section. As discussed below, the supplemental liquidity requirement in the table at paragraph (d) would require Farmer Mac to maintain assets to fund obligations maturing after 90 calendar days in an amount necessary to meet its board liquidity policy. As discussed below, supplemental liquidity could be comprised of cash, eligible investments, and qualifying securities backed by Farmer Mac program assets (loans); the investments and qualifying securities would have to be discounted as specified.

2. Section 652.40(b)—Unencumbered

In proposed § 652.40(b), we would require that all investments and qualifying securities used to meet the liquidity reserve and supplemental liquidity requirements must be unencumbered, and we propose a description of the term ''unencumbered.'' This requirement would replace the requirement in existing § 652.20(b) that investments held to meeting the liquidity reserve requirement must be free of liens or other encumbrances.

We propose this new terminology to bring greater clarity and precision to this requirement. We propose the term unencumbered to mean free of lien and not pledged either explicitly or implicitly in any way to secure, collateralize, or enhance the credit of any transaction. Investments held as a hedge against any other exposure would also not be unencumbered.

As noted throughout this preamble, FCA considers the guidance of other regulators in developing its policy proposals and evaluates their benefits and appropriateness for Farmer Mac. We note that the Liquidity Coverage Ratio standard recommended by Basel includes various forms of funding commitments and contingency funding commitments of the regulated entity.[43] We request comment on whether such commitments should be incorporated into the minimum liquidity reserve requirements in this rule. Specifically with regard to Farmer Mac, should Long-term Standby Purchase Commitments (LTSPC) be considered contingent obligations and some portion of the outstanding LTSPC volume be included in the days-of-liquidity calculation? Should its revolving lines of credit be included among these and, if so, what proportion? Should an estimated draw on its commitments on processing facilities, if any, be included in obligations?

3. Section 652.40(c)—Highly Marketable

In proposed § 652.40(c) we relocate and replace the requirement currently found at § 652.35(c) that non-program investments be readily marketable with the requirement that investments held for the purpose of meeting the liquidity reserve minimum must be highly marketable. An investment is considered to be highly marketable if it possesses the following characteristics:

- It is easily and immediately convertible to cash with little or no loss in value;
- It has low credit and market risk;
- It has ease and certainty of valuation; and
- Except for money market instruments, it is listed on a developed and recognized exchange market and is able to be sold or converted to cash through repurchase agreements in active and sizable markets.

The first three characteristics are consistent with the expectations of the other regulators concerning highly liquid investments.[44] The final characteristic is unchanged from the existing rule.

The newly proposed language clarifies that the requirement applies only to investments included in the liquidity reserve and not to all eligible investments generally. The relocation of this requirement to a regulation dealing with liquidity from one governing eligible investments generally further emphasizes the scope of the requirement. In addition, investments held to provide supplemental liquidity would not have to meet the ''highly marketable'' test. We note that our interpretation of the term ''immediate'' in the description of ''highly marketable'' will consider the overall quality of the investment. For example, if an investment is both backed by the full faith and credit of the United States Government but also thinly traded, its conversion at little or no loss in value may be uncertain within a single trading day, yet very certain within a very small number of days. Such very high credit-quality investments would qualify for Level 1 or Level 2 depending on a conservative estimate of the number of days required—and not be relegated to supplemental liquidity simply on the basis that liquidation could take a very small number of days.

[42] The term ''other borrowings'' is used to make clear that all forms borrowing should be included even if some do not technically take the form of debt, such as obligations under repurchase agreements.

[43] Page 12 of ''Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring,'' *http://www.bis.org/bcbs.*

[44] *See* Interagency Policy Statement, 75 FR 13658, 13664, Mar. 22, 2010.

4. Section 652.40(d)—Composition of Liquidity Reserve and Supplemental Liquidity

The existing liquidity requirement, at § 652.20(a), requires Farmer Mac to hold sufficient cash, eligible non-program investments, and/or Farmer Mac II assets sufficient to fund at least 60 days of maturing obligations, interest expense, and operating expenses. The requirement does not currently differentiate among the relatively different liquidity characteristics of different types of investments.

We asked in the ANPRM whether it would be appropriate to establish a subcategory of the minimum days-of-liquidity requirement that would include assets that would not lose liquidity value in a market downturn, such as cash and Treasury securities, that would be sufficient to meet maturing obligations for a lesser number of days. In its comment letter, the Council stated that augmentation of liquidity through a short-term liquidity calculation contemplating cash and highly liquid investment securities is part of a prudent liquidity strategy. AgFirst commented that the days-of-liquidity approach to liquidity management can be enhanced by including subcategories of minimum days provided by different types of assets, and it noted that it and the other System banks have adopted a tiered liquidity system such as this.

We agree with these comments and propose to strengthen the existing days-of-liquidity requirement by adopting a tiered approach to the liquidity requirement.

Proposed § 652.65(d) would require Farmer Mac to continuously maintain Level 1 and Level 2 investments sufficient to meet the 90-day minimum liquidity requirement. It would also require Farmer Mac to maintain supplemental liquidity in an amount necessary to meet its board's liquidity policy.

Level 1 investments would be the most liquid investments. Investments that would qualify as Level 1 investment are cash, Treasury securities, other Government agency obligations, Government-sponsored agency securities (except mortgage securities) that mature within 60 days, and diversified investment funds comprised exclusively of Level 1 instruments.

Under the proposal, only Level 1 instruments could be used to fund obligations maturing in calendar days 1 through 30. In addition, at least 15 days must be comprised only of cash or instruments with remaining maturities of less than 3 years.

Level 2 investments, while still highly marketable, are deemed to be generally less liquid than Level 1 instruments. Investments that qualify as Level 2 instruments include Level 1 instruments to the extent Level 1 qualifying volume exceeds 30 days of maturing obligations, Government-sponsored agency securities (excluding mortgage securities) with maturities exceeding 60 days, Government-sponsored agency mortgage securities (excluding Farmer Mac's own securities), money market instruments maturing within 90 days, and diversified investments funds with holdings comprised entirely of Level 1 or Level 2 instruments.

Under the proposal, the third tier of liquidity investments are those that can be held for supplemental liquidity. Supplemental liquidity investments are used to fund obligations maturing after 90 calendar days, as necessary to meet the Farmer Mac board's liquidity policy.

Investments that can be held for supplemental liquidity include all eligible investments, as well as qualifying securities backed by Farmer Mac program assets (loans) guaranteed by the USDA, excluding the portion that would be necessary to satisfy obligations to creditors and equity holders in Farmer Mac II LLC. We consider this portion to be encumbered and therefore not appropriate for inclusion in supplemental liquidity under § 652.65(b). These are generally the investments that are counted toward the liquidity reserve requirement under existing § 652.20(a).

5. Section 652.40(e)—Discounts

Existing § 65.20(c) specifies discounts for various classes of investments in the liquidity reserve, including money market instruments, floating and fixed rate debt and preferred stock securities, diversified investment funds, and Farmer Mac II assets. In the ANPRM, we asked whether, in the wake of recent disruptions in financial markets, it would be appropriate to re-evaluate these discounts to reflect better the risk of diminished marketability of liquid investments under adverse conditions. We asked commenters to identify any changes they believed we should make. In addition, we specifically asked whether the discount currently applied to Farmer Mac II securities is appropriate. We also asked whether we should consider basing discounts on credit ratings.

We received no comments on our general question about discounts or on our question about Farmer Mac securities. The Council did comment that discounts should not be based on credit ratings, because the market value of a security (discounts applied to market values) is a timelier and more accurate reflection of liquidity and risk than credit ratings are. For this reason, and also because of section 939A of the DFA, we agree that discounts should not be based on credit ratings.

In proposed § 652.40(e), we propose discounts that better fit the proposed tiered structure of the minimum liquidity reserve requirement. We believe the proposed discounting structure results in reduced complexity in the regulation.

The proposed discounts are as follows:

- Multiply cash and overnight investments by 100 percent.
- Multiply Treasury securities by 97 percent of their market value. This would be a lessening of the current discount for Treasury securities which, along with all other fixed rate debt securities, are currently multiplied by 90 percent.[45] This level is reasonably consistent with discounts applied by the Federal Reserve;[46] and
- Multiply all other Level 1 qualifying investments by 95 percent of their market value (even if some of these instruments are counted toward the Level 2 liquidity reserve requirements due to a surplus of Level 1 qualifying instruments over the Level 1 liquidity reserve requirements). We believe this discount level is likely to be lower than the average discount applied to this portion of Farmer Mac's portfolio historically, but we believe it is warranted by the relative liquidity of these instruments;[47]
- Multiply all Level 2 investments by 93 percent of their market value, except the volume of Level 1 qualifying investments that exceed the Level 1 liquidity reserve requirement and is therefore applied to the Level 2 liquidity reserve requirement. This level is

[45] Section 652.20(c)(5).

[46] Information on Federal Reserve collateral margins can be found at *http://www.frbdiscountwindow.org*. Click on the link to Collateral Margins Table.

[47] The reason we use the term ''Level 1 qualifying instruments'' is to make clear that if Farmer Mac holds cash, Treasuries, and other Level 1 investments such that a portion of that Level 1 qualifying investment volume exceeds the 30 calendar days required of Level-1 investment volume and therefore is available to cover a portion of the 60-day Level 2 requirement, those Level 1 qualifying investments will not be discounted at seven percent as all other Level 2 investments but rather at the applicable Level 1 discount. This ensures equal discounting treatment regardless of whether Level 1 investments are applied to the Level 1 or Level 2 requirement. It also removes the potential incentive for Farmer Mac to reduce the proportion of higher liquidity assets that qualify as Level 1 instruments in excess of the Level 1 minimum requirement that it might prefer to hold absent this regulatory structure.

similar to the existing rule's treatment of such investments with similar cash flows; and

- Multiply all other investments held for supplemental liquidity by 85 percent of market value, except:
- Multiply the volume of Level 1-qualifying investments that exceed the Level 1 or Level 2 liquidity reserve requirement by 95 percent;
- Multiply the volume of Level 2 qualifying investments that exceed the Level 2 liquidity reserve requirements by 93 percent; and
- Multiply securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act by 75 percent, the same as the existing discount.

We believe the 15-percent supplemental liquidity discount is warranted in light of our proposal not to require these investments to be ''highly marketable.'' Moreover, this requirement is also based on guidance in Basel III.[48]

The proposed 25-percent discount for Farmer Mac II assets is unchanged from the existing rule.

6. Section 652.40(f)—Reservation of Authority

In § 652.40(f), we propose to reserve the right, on a case-by-case basis, to require Farmer Mac to adjust its treatment of instruments (assets) in its liquidity reserve and supplemental liquidity so that it has liquidity that is sufficient and commensurate for the risks its faces. This reservation of authority enables FCA to respond to adverse financial, economic, or market conditions by requiring Farmer Mac, on a case-by-case basis, to:

- Increase the specified discounts that are applied to any individual security or any class of securities due to changes in market conditions or marketability of such securities;
- Shift individual or multiple securities from one level of the liquidity reserve to another, or between one of the levels of the liquidity reserve and supplemental liquidity, based on the performance of such asset(s), or based on financial, economic, or market conditions affecting the liquidity and solvency of Farmer Mac;
- Change portfolio concentration limits in § 652.20(a); or
- Take any other action that we deem necessary to ensure that Farmer Mac has sufficient liquidity to meet its financial obligations as they come due.

This reservation of authority would enable FCA to respond to adverse financial, economic, or market conditions by giving us the authority to require Farmer Mac to maintain liquidity that is sufficient and commensurate for the risks its faces.

K. Section 652.45-–Temporary Regulatory Waivers or Modifications for Extraordinary Situations

We propose to relocate existing § 652.30, which authorizes FCA to modify or waive regulatory investment management and liquidity management requirements in extraordinary situations, to new § 652.45. We believe this location is more appropriate for this provision.

In addition to the existing specific modifications and waivers the provision authorizes, we propose to authorize FCA to take other actions as deemed appropriate. This added authority would give FCA additional flexibility to address extraordinary situations.

VI. Regulatory Flexibility Act

Farmer Mac has assets and annual income in excess of the amounts that would qualify it as a small entity. Therefore, Farmer Mac is not a ''small entity'' as defined in the Regulatory Flexibility Act. Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), the FCA hereby certifies that the proposed rule will not have a significant economic impact on a substantial number of small entities.

List of Subjects in 12 CFR Part 652

Agriculture, Banks, Banking, Capital, Investments, Rural areas.

For the reasons stated in the preamble, part 652 of chapter VI, title 12 of the Code of Federal Regulations is proposed to be amended as follows:

PART 652—FEDERAL AGRICULTURAL MORTGAGE CORPORATION FUNDING AND FISCAL AFFAIRS

1. Subpart A, consisting of §§ 652.1 through 652.45, is revised to read as follows:

Subpart A—Investment Management

Sec.
652.1 Purpose.
652.2 Definitions.
652.10 Investment management.
652.15 Non-program investment purposes and limitation.
652.20 Eligible non-program investments.
652.25 Management of ineligible and unsuitable investments.
652.30 Interest rate risk management.
652.35 Liquidity management.
652.40 Liquidity reserve requirement and supplemental liquidity.
652.45 Temporary regulatory waivers or modifications for extraordinary situations.

Authority: Secs. 4.12, 5.9, 5.17, 8.11, 8.31, 8.32, 8.33, 8.34, 8.35, 8.36, 8.37, 8.41 of the Farm Credit Act (12 U.S.C. 2183, 2243, 2252, 2279aa–11, 2279bb, 2279bb–1, 2279bb–2, 2279bb–3, 2279bb–4, 2279bb–5, 2279bb–6, 2279cc); sec. 514 of Pub. L. 102–552, 106 Stat. 4102; sec. 118 of Pub. L. 104–105, 110 Stat. 168; sec. 939A of Pub. L. 11–203, 124 Stat. 1326, 1887.

Subpart A—Investment Management

§ 652.1 Purpose.

The purpose of this subpart is to ensure safety and soundness, continuity of funding, and appropriate use of non-program investments considering the Federal Agricultural Mortgage Corporation's (Farmer Mac or Corporation) special status as a Government-sponsored enterprise (GSE). The subpart contains requirements for Farmer Mac's board of directors to adopt policies covering the management of non-program investments, funding and liquidity risk, and interest rate risk. The subpart also requires Farmer Mac to comply with various reporting requirements.

§ 652.5 Definitions.

For purposes of this subpart, the following definitions will apply:

Affiliate means any entity established under authority granted to the Corporation under section 8.3(c)(14) of the Farm Credit Act of 1971, as amended.

Asset-backed securities (ABS) mean investment securities that provide for ownership of a fractional undivided interest or collateral interests in specific assets of a trust that are sold and traded in the capital markets. For the purposes of this subpart, ABS exclude mortgage securities that are defined below.

Cash means cash balances held at Federal Reserve Banks, proceeds from traded-but-not-yet-settled debt, and the insured amount of balances held in deposit accounts at Federal Deposit Insurance Corporation-insured banks.

Contingency Funding Plan (CFP) is described in § 652.35(e).

Eurodollar time deposit means a non-negotiable deposit denominated in United States dollars and issued by an overseas branch of a United States bank or by a foreign bank outside the United States.

Farmer Mac, Corporation, you, or your means the Federal Agricultural Mortgage Corporation and its affiliates.

FCA, our, us, or we means the Farm Credit Administration.

[48] Page 9 of ''Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring,'' December 2010, *http://www.bis.org/bcbs*.

Final maturity means the last date on which the remaining principal amount of a security is due and payable (matures) to the registered owner. It does not mean the call date, the expected average life, the duration, or the weighted average maturity.

General obligations of a state or political subdivision mean:

(1) The full faith and credit obligations of a state, the District of Columbia, the Commonwealth of Puerto Rico, a territory or possession of the United States, or a political subdivision thereof that possesses general powers of taxation, including property taxation; or

(2) An obligation that is unconditionally guaranteed by an obligor possessing general powers of taxation, including property taxation.

Government agency means the United States Government or an agency, instrumentality, or corporation of the United States Government whose obligations are fully and explicitly insured or guaranteed as to the timely repayment of principal and interest by the full faith and credit of the United States Government.

Government-sponsored agency means an agency, instrumentality, or corporation chartered or established to serve public purposes specified by the United States Congress but whose obligations are not explicitly insured or guaranteed by the full faith and credit of the United States Government, including but not limited to any Government-sponsored enterprise.

Liability Maturity Management Plan (LMMP) is described in § 652.35(d).

Liquidity reserve is described in § 652.40.

Long-Term Standby Purchase Commitment (LTSPC) is a commitment by Farmer Mac to purchase specified eligible loans on one or more undetermined future dates. In consideration for Farmer Mac's assumption of the credit risk on the specified loans underlying an LTSPC, Farmer Mac receives an annual commitment fee on the outstanding balance of those loans in monthly installments based on the outstanding balance of those loans.

Market risk means the risk to your financial condition because the value of your holdings may decline if interest rates or market prices change. Exposure to market risk is measured by assessing the effect of changing rates and prices on either the earnings or economic value of an individual instrument, a portfolio, or the entire Corporation.

Maturing obligations mean maturing debt and other obligations that may be expected, such as buyouts of LTSPCs or repurchases of agricultural mortgage securities.

Mortgage securities mean securities that are either:

(1) Pass-through securities or participation certificates that represent ownership of a fractional undivided interest in a specified pool of residential (excluding home equity loans), multifamily or commercial mortgages, or

(2) A multiclass security (including collateralized mortgage obligations and real estate mortgage investment conduits) that is backed by a pool of residential, multifamily or commercial real estate mortgages, pass-through mortgage securities, or other multiclass mortgage securities.

(3) This definition does not include agricultural mortgage-backed securities guaranteed by Farmer Mac itself.

Nationally recognized statistical rating organization (NRSRO) means a rating organization that the Securities and Exchange Commission recognizes as an NRSRO.

Non-program investments mean investments other than those in:

(1) ''Qualified loans'' as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended; or

(2) Securities collateralized by ''qualified loans.''

OSMO means FCA's Office of Secondary Market Oversight.

Program assets mean on-balance sheet ''qualified loans'' as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended.

Program obligations mean off-balance sheet ''qualified loans'' as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended.

Regulatory capital means your core capital plus an allowance for losses and guarantee claims, as determined in accordance with generally accepted accounting principles.

Revenue bond means an obligation of a municipal government that finances a specific project or enterprise, but it is not a full faith and credit obligation. The obligor pays a portion of the revenue generated by the project or enterprise to the bondholders.

Weighted average life (WAL) means the average time until the investor receives the principal on a security, weighted by the size of each principal payment and calculated under specified prepayment assumptions.

§ 652.10 Investment management.

(a) *Responsibilities of the board of directors.* Your board of directors must adopt written policies for managing your non-program investment activities. Your board must also ensure that management complies with these policies and that appropriate internal controls are in place to prevent loss. At least annually, your board, or a designated committee of the board, must review and affirmatively validate the sufficiency of these investment policies. Any changes to the policies must be adopted by the board. You must report any changes to these policies to the OSMO within 10 business days of adoption.

(b) *Investment policies—general requirements.* Your investment policies must address the purposes and objectives of investments, risk tolerance, delegations of authority, internal controls, due diligence, and reporting requirements. Furthermore, the policies must include reporting requirements and approvals needed for exceptions to the board's policies. Investment policies must be sufficiently detailed, consistent with, and appropriate for the amounts, types, and risk characteristics of your investments. You must document in the Corporation's records or minutes any analyses used in formulating your policies or amendments to the policies.

(c) *Investment policies—risk tolerance.* Your investment policies must establish risk limits for the various types, classes, and sectors of eligible investments. These policies must ensure that you maintain prudent diversification of your investment portfolio and that your asset allocations and investment portfolio strategies do not expose the Corporation's capital or earnings to excessive risk of loss. Risk limits must be based on the Corporation's objectives, capital position, and risk tolerance. Your policies must identify the types and quantity of investments that you will hold to achieve your objectives and control credit, market, liquidity, and operational risks. Your policies must establish risk limits for the following four types of risk:

(1) *Credit risk.* Your investment policies must establish:

(i) Credit quality standards, limits on counterparty risk, and risk diversification standards that limit concentrations as follows: Concentration limits must be based on a single or related counterparty(ies). Concentration limits must also be based on geographical area, industry sectors, or asset classes or obligations with similar characteristics.

(ii) Criteria for selecting brokers, dealers, and investment bankers (collectively, securities firms). You must buy and sell eligible investments with more than one securities firm. As part of your review of your investment policies required under paragraph (a) of this section, your board of directors, or a designated committee of the board, must review the criteria for selecting securities firms. Any changes to the criteria must be approved by the board. Also, as part of your review required under paragraph (a) of this section, the board, or a designated committee of the board, must review existing relationships with securities firms and determine whether to continue your relationships with them. Any changes to the existing relationships with securities firms must be approved by the board.

(iii) Collateral margin requirements on repurchase agreements. You must regularly mark the collateral to market and ensure appropriate controls are maintained over collateral held.

(2) *Market risk.* Your investment policies must set market risk limits for specific types of investments and for the investment portfolio.

(3) *Liquidity risk.* Your investment policies must describe the liquidity characteristics of eligible investments that you will hold to meet your liquidity needs and the Corporation's objectives.

(4) *Operational risk.* Investment policies must address operational risks, including delegations of authority and internal controls in accordance with paragraphs (d) and (e) of this section.

(d) *Delegation of authority.* All delegations of authority to specified personnel or committees must state the extent of management's authority and responsibilities for investments.

(e) *Internal controls.* You must:

(1) Establish appropriate internal controls to detect and prevent loss, fraud, embezzlement, conflicts of interest, and unauthorized investments.

(2) Establish and maintain a separation of duties and supervision between personnel who execute investment transactions and personnel who post accounting entries, reconcile trade confirmations, report compliance with investment policy, and approve, revalue, and oversee investments.

(3) Maintain records and management information systems that are appropriate for the level and complexity of your investment activities.

(4) Implement an effective internal audit program to review, at least annually, your investment controls, processes, and compliance with FCA regulations and other regulatory guidance. Your internal audit program must specifically include a review of your process for ensuring all investments are eligible and suitable for purchase under your board's investment policies.

(f) *Due diligence*—(1) *Pre-purchase analysis*—

(i) *Objective, eligibility, and suitability.* Before you purchase an investment, you must document your investment objective. In addition, you must conduct sufficient due diligence to determine whether the investment is eligible under § 652.20 and suitable under your board-approved investment policies, and you must document the investment's eligibility and suitability. Your investment policies must fully address the extent of pre-purchase analysis that management must perform for various types, classes, and structure of investments.

(ii) *Valuation.* Prior to purchase, you must verify the value of the investment (unless it is a new issue) with a source that is independent of the broker, dealer, counterparty or other intermediary to the transaction.

(iii) *Risk assessment.* You must document your risk assessment of each investment. Your risk assessment must at a minimum include an evaluation of:

(A) *Credit risk.* As applicable, you must consider the nature and type of underlying collateral, credit enhancements, complexity of the structure, and any other available indicators of the risk of default.

(B) *Market risk.* You must consider how various market stress scenarios including, at a minimum, potential changes in interest rates and market conditions (such as changes in market perceptions of creditworthiness), are likely to affect the cash flow and price of the instrument, using reasonable and appropriate methodologies for stress testing for the type or class of instrument to ensure the investment complies with risk limits established in your investment and interest rate risk policies.

(C) *Liquidity risk.* Your evaluation of liquidity risk must consider the investment structure, depth of the market, and ability to liquidate the position under a variety of economic scenarios and market conditions.

(2) *Monthly fair value determination.* At least monthly, you must determine the fair market value of each investment in your portfolio and the fair market value of your whole investment portfolio.

(3) *Quarterly stress testing.*

(i) You must stress test your entire investment portfolio on a quarterly basis. If your portfolio risk exceeds your investment policy limits, you must develop a plan to reduce risk and comply with your investment policy limits.

(ii) Your stress tests must be comprehensive and appropriate for the risk profile of your investment portfolio and the Corporation. At a minimum, the stress tests must consider how potential changes in interest rates and market conditions (including market perceptions of creditworthiness) are likely to affect the cash flow and price of the instrument. The methodology that you use to analyze investment securities must be appropriate for the complexity, structure, and cash flows of the investments in your portfolio. The stress tests must enable you to determine that your investment securities, either individually or on a portfolio-wide basis, do not expose your capital, earnings, or liquidity to excessive risks. You must rely to the maximum extent practicable on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions, when you apply your stress tests. Your assumptions must be conservative and you must document the basis for all assumptions that you use to evaluate the security and its underlying collateral. You must also document all subsequent changes in your assumptions.

(4) *Presale value verification.* Before you sell an investment, you must verify its value with a source that is independent of the broker, dealer, counterparty, or other intermediary to the transaction.

(g) *Reports to the board of directors.* At least quarterly, executive management must report on the following to the board of directors or a designated committee of the board:

(1) Plans and strategies for achieving the board's objectives for the investment portfolio;

(2) Whether the investment portfolio effectively achieves the board's objectives;

(3) The current composition, quality, and liquidity profile of the investment portfolio;

(4) The performance of each class of investments and the entire investment portfolio, including all gains and losses that you incurred during the quarter on individual securities that you sold before maturity and why they were liquidated;

(5) Potential risk exposure to changes in market interest rates as identified through quarterly stress testing and any other factors that may affect the value of your investment holdings;

(6) How investments affect your capital, earnings, and overall financial condition;

(7) Any deviations from the board's policies. These deviations must be formally approved by the board of directors.

§ 652.15 Non-program investment purposes and limitation.

(a) Farmer Mac is authorized to hold eligible non-program investments listed under § 652.20 for the purposes of enterprise risk management, including complying with the interest rate risk requirements in § 652.30 and the liquidity requirements in § 652.40; managing surplus short-term funds; and complementing program business activities.

(b) Non-program investments cannot exceed 35 percent of program assets and program obligations, excluding qualifying securities that are both guaranteed by the United States Department of Agriculture and included as a potential source of supplemental liquidity in § 652.40(d). When calculating the total amount of non-program investments under this section, exclude investments pledged to meet margin requirements on derivative transactions.

§ 652.20 Eligible non-program investments.

(a) You may purchase only the investments that satisfy the eligibility criteria in this section. An investment that does not satisfy the eligibility criteria at the time of purchase is not eligible for purchase and is subject to the requirements of § 652.20(a) if purchased. An investment that satisfies the eligibility criteria at the time of purchase but subsequently fails to satisfy the eligibility criteria is subject to the requirements of § 652.25(b).

Asset class	Final maturity limit	NRSRO Issue or issuer credit rating requirement	Other requirements	Maximum percentage of total non-program investment portfolio
(1) Obligations of the United States	None	NA	None	None.
• Obligations (except mortgage securities) fully insured or guaranteed by a Government agency.				
(2) Obligations of Government-sponsored agencies.	None	NA	Senior debt securities only.	None.
• Government-sponsored agency securities (except mortgage securities).				
• Other obligations (except mortgage securities) fully insured or guaranteed by Government-sponsored agencies.				
(3) Municipal Securities				
• General obligations	10 years	One of the two highest.	None	15%.
• Revenue bonds	10 years	Highest	None	15%.
(4) International and Multilateral Development Bank Obligations.	10 years	None	The United States must be a voting shareholder.	15%.
(5) Money Market Instruments				
• Federal funds	1 day or continuously callable up to 100 days.	One of the two highest short-term.	None	None.
• Negotiable certificates of deposit	1 year	One of the two highest short-term.	None	None.
• Bankers acceptances	None	One of the two highest short-term.	Issued by a depository institution.	None.
• Prime commercial paper	270 days	Highest short-term	None	None.
• Non-callable term Federal funds and Eurodollar time deposits.	100 days	Highest short-term	None	20%.
• Master notes	270 days	Highest short-term	None	20%.
• Repurchase agreements collateralized by eligible investments or marketable securities rated in the highest credit rating category by an NRSRO.	100 days	NA		None.
(6) Mortgage Securities				
• Fully insured or guaranteed by a Government agency.	None	NA		None.
• Government-sponsored agency mortgage securities.	None	One of the two highest.		50%.
• Securities that are not fully insured or fully guaranteed by a Government agency or Government-sponsored agency and that comply with 15 U.S.C. 77d(5) or 15 U.S.C. 78c(a)(41).	None	Highest	Senior-most position only.	10%.

Asset class	Final maturity limit	NRSRO Issue or issuer credit rating requirement	Other requirements	Maximum percentage of total non-program investment portfolio
(7) Asset-Backed Securities secured by: • Credit card receivables • Automobile loans • Home equity loans • Wholesale automobile dealer loans • Student loans • Equipment loans • Manufactured housing loans	None	Highest	Maximum of 5-year WAL for fixed rate or floating rate ABS at their contractual interest rate caps. Maximum of 7-year WAL for floating rate ABS that remain below their contractual interest rate caps.	15% in total, and no more than 5% of any single collateral type.
(8) Corporate Debt Securities	5 years	One of the highest two for maturities greater than 3 years, and one of the highest three for maturities of three years or less.	Senior debt securities only. Cannot be convertible to equity securities.	20% in total, and no more than 10% in any one of the 10 industry sectors as defined by the Global Industry Classification Standard (GICS).
(9) Diversified Investment Funds Shares of an investment company registered under section 8 of the Investment Company Act of 1940.	NA	NA	Open-end funds only The portfolio of the investment company must consist solely of eligible investments authorized by this section. The investment company's risk and return objectives and use of derivatives must be consistent with FCA guidance and your investment policies.	50% in total. No more than 10% in any single fund.

Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section. ''NA'' means not applicable.

(b) *Denomination.* All investments must be denominated in United States dollars.

(c) *Rating of foreign countries.* Whenever the obligor or issuer of an eligible investment is located outside the United States, the host country must maintain the highest sovereign rating for political and economic stability by an NRSRO.

(d) *Obligor limits.*

(1) You may not invest more than 15 percent of your regulatory capital in eligible investments issued by any single entity, issuer or obligor, except that there are no obligor limits on obligations (including mortgage securities) that are issued or guaranteed as to principal and interest by Government agencies or Government-sponsored agencies.

(2) *Obligor limits for your holdings in an investment company.* You must count securities that you hold through an investment company toward the obligor limits of this section unless the investment company's holdings of the security of any one issuer do not exceed 5 percent of the investment company's total portfolio.

(e) *Other investments approved by the FCA.*

(1) You may purchase and hold other non-program investments only with our prior written approval. Your request for our approval must explain the risk characteristics of the investment and your purpose and objectives for making the investment.

§ 652.25 Management of ineligible and unsuitable investments.

(a) *Investments ineligible when purchased.* Investments that do not satisfy the eligibility criteria set forth in § 652.20 at the time of purchase are ineligible. You may not purchase ineligible investments. If you determine that you have purchased an ineligible investment, you must notify the OSMO promptly after such determination and must divest of the investment no later than 60 calendar days after the determination unless we approve, in writing, a plan that authorizes you to divest of the investment over a longer period of time.

(b) *Investments that no longer satisfy eligibility criteria or are unsuitable.* If an investment (that satisfied the eligibility criteria set forth in § 652.20 when purchased) no longer satisfies the eligibility criteria, or if an investment is unsuitable under your board's policy, you must notify the OSMO promptly.

(c) *Requirements for investments that are ineligible, no longer satisfy eligibility criteria, or are unsuitable.*

(1) *Reporting requirements.* Each quarter, you must report to the OSMO and your board on the status of investments identified in paragraph (a) or (b). Your report must demonstrate the impact that these investments may have on the Corporation's capital, earnings, and liquidity position. Additionally, the report must address how the Corporation plans to reduce its risk exposure from these investments or exit the position(s).

(2) *Other requirements.* Investments identified in paragraph (a) or (b) may not be used to fund your liquidity reserve or supplemental liquidity required under § 652.40. These investments must continue to be

included the investment portfolio limit established in § 652.15(b).

(d) *Reservation of authority.* FCA retains the authority to require you to divest of any investment at any time for safety and soundness reasons. The timeframe set by FCA for such required divestiture will consider the expected loss on the transaction (or transactions) and the impact on the Corporation's financial condition and performance.

§ 652.30 Interest rate risk management.

(a) The board of directors of Farmer Mac must provide effective oversight (direction, controls, and supervision) of interest rate risk management and must be knowledgeable of the nature and level of interest rate risk taken by Farmer Mac.

(b) The board of directors of Farmer Mac must adopt an interest rate risk management policy that establishes appropriate interest rate risk exposure limits based on the Corporation's risk-bearing capacity and reporting requirements in accordance with paragraphs (c) and (d) of this section. At least annually, the board of directors, or a designated committee of the board, must review the policy. Any changes to the policy must be approved by the board of directors. You must report any changes to the policy to the OSMO within 10 business days of adoption.

(c) The interest rate risk management policy must, at a minimum:

(1) Address the purpose and objectives of interest rate risk management;

(2) Identify the causes of interest rate risk and set appropriate quantitative limits consistent with a clearly articulated board risk tolerance;

(3) Require management to establish and implement comprehensive procedures to measure the potential impact of these risks on the Corporation's projected earnings and market values by conducting interest rate stress tests and simulations of multiple economic scenarios at least quarterly. Your stress tests must gauge how interest rate fluctuations affect the Corporation's capital, earnings, and liquidity position. The methodology that you use must be appropriate for the complexity of the structure and cash flows of your on- and off-balance sheet positions, including the nature and purpose of derivative contracts, and establish counterparty risk thresholds and limits for derivatives. It must also ensure an appropriate level of consistency with the stress-test scenarios considered under § 652.10(f)(3). Assumptions applied in stress tests must be conservative and, to the maximum extent practicable, must rely on verifiable information. You must document the basis for all assumptions that you use.

(4) Describe and authorize management to implement actions needed to achieve Farmer Mac's desired risk management objectives;

(5) Ensure procedures are established to evaluate and document, at least quarterly, whether actions taken have actually met the Corporation's desired risk management objectives;

(6) Identify exception parameters and approvals needed for any exceptions to the policy's requirements;

(7) Describe delegations of authority; and,

(8) Describe reporting requirements, including exceptions to policy limits.

(d) At least quarterly, management must report to the Corporation's board of directors, or a designated committee of the board, describing the nature and level of interest rate risk exposure. Any deviations from the board's policy on interest rate risk must be specifically identified in the report and approved by the board, or a designated committee of the board.

§ 652.35 Liquidity management.

(a) *Liquidity policy—board responsibilities.* Farmer Mac's board of directors must adopt a liquidity policy, which may be integrated into a comprehensive asset-liability management or enterprise-wide risk management policy. The risk tolerance embodied in the liquidity policy must be consistent with the investment management policies required by § 652.10 of this part. The board must ensure that management uses adequate internal controls to ensure compliance with its liquidity policy. At least annually, the board of directors or a designated committee of the board must review and affirmatively validate the sufficiency of the liquidity policy. The board of directors must approve any changes to the policy. You must provide a copy of the revised liquidity policy to the OSMO within 10 business days of adoption.

(b) *Policy content.* Your liquidity policy must contain at a minimum the following:

(1) The purpose and objectives of liquidity reserves;

(2) A listing of specific asset classes and characteristics that can be used to meet liquidity objectives;

(3) Diversification requirements for your liquidity reserve portfolio;

(4) Maturity limits and credit quality standards for non-program investments used to meet the minimum liquidity requirements of § 652.40 (d);

(5) The minimum and target (or optimum) amounts of liquidity that the board has established for Farmer Mac, expressed in days of maturing obligations;

(6) The maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, expressed as a percentage of program assets and program obligations;

(7) Exception parameters and post approvals needed with respect to the liquidity reserve;

(8) Delegations of authority pertaining to the liquidity reserve;

(9) Reporting requirements which must comply with the requirements under paragraph (c) of this section;

(10) A liability maturity management plan (LMMP), as described in § 652.35(d); and,

(11) A contingency funding plan (CFP), as described in § 652.35(e).

(c) *Reporting requirements*—(1) *Board reporting*—

(i) *Periodic.* At least quarterly, Farmer Mac's management must report to the Corporation's board of directors or a designated committee of the board describing, at a minimum, the status of the Corporation's compliance with board policy and the performance of the liquidity reserve portfolio.

(ii) *Special.* Management must report any deviation from the bank's liquidity policy, or failure to meet the board's liquidity targets immediately to the board.

(2) *OSMO reporting.* Farmer Mac must report, in writing, to the OSMO no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement at § 652.40.

(d) *Liability maturity management plan.* Your board must adopt a LMMP that establishes a funding strategy that provides for effective diversification of the sources and tenors of funding. The LMMP must:

(1) Include targets of acceptable ranges of the proportion of debt issuances maturing within specific time periods;

(2) Reflect the board's liquidity risk tolerance; and

(3) Consider components of the Corporation's funding strategy that offset, or contribute to, liquidity risk.

(e) *Contingency funding plan*—

(1) *General.* Farmer Mac must have a CFP to ensure sources of liquidity are sufficient to fund normal operating requirements under a variety of stress events described in paragraph (e)(3)(iv) of this section.

(2) *CFP requirements.* The board of directors must review and approve the CFP at least once each year and must make adjustments to reflect changes in the results of stress tests, the

Corporation's risk profile, and market conditions. Under the CFP, Farmer Mac must maintain unencumbered and highly marketable assets as described in paragraphs (b) and (c) of § 652.40 in its liquidity reserve sufficient to meet its liquidity needs based on estimated cash inflows and outflows for a 30-day time horizon under a stress scenario that is sufficiently acute as to be consistent with the level of the board's risk tolerance.

(3) The CFP must:

(i) Be customized to the financial condition and liquidity risk profile of Farmer Mac, the board's liquidity risk tolerance, and the Corporation's business model;

(ii) Identify funding alternatives that can be implemented as access to funding is reduced;

(iii) Establish a process for managing events that imperil Farmer Mac's liquidity. The process must assign appropriate personnel and executable action plans to implement the CFP; and,

(iv) Require periodic stress testing that analyzes the possible impacts on Farmer Mac's cash flows, liquidity position, profitability, and solvency for a wide variety of stress scenarios. Stress scenarios must be established and defined by the board and consistent with those applied in other areas of the Corporation's risk analysis. Assumptions applied must be conservative and their basis documented. The stress scenarios must be at a level of severity consistent with the board's risk tolerance and include scenarios such as market disruptions; rapid increase in contractually required loan purchases; unexpected requirements to fund commitments or revolving lines of credit or to fulfill guarantee obligations; difficulties in renewing or replacing funding with desired terms and structures; requirements to pledge collateral with counterparties; or reduced access to debt markets as a result of asset quality deterioration (including both program assets and non-program assets). FCA may, at its discretion, require certain specific stress scenarios in response to changes in market and economic outlooks.

§ 652.40 Liquidity reserve requirement and supplemental liquidity.

(a) *General.* Farmer Mac must maintain a liquidity reserve in accordance with paragraph (d) of this section sufficient to fund 90 days of the principal portion of maturing obligations and other borrowings at all times. The liquidity reserve must be comprised only of cash and investments, eligible under § 652.20, that are specified under paragraph (d) of this section. Farmer Mac must also maintain supplemental liquidity as required by paragraph (d) of this section. Supplemental liquidity must be comprised of cash, investments that are eligible under § 652.20, and qualifying securities backed by Farmer Mac program assets (loans) as specified in paragraph (d) of this section. Investments and qualifying securities comprising the liquidity reserve and supplemental liquidity must be discounted in accordance with paragraph (e) of this section.

(b) *Unencumbered.* All investments and qualifying securities held for the purpose of meeting the liquidity reserve and supplemental liquidity requirements of this section must be unencumbered, meaning free of lien, not pledged either explicitly or implicitly in any way to secure, collateralize, or enhance the credit of any transaction, and not held as a hedge against any other exposure.

(c) *Highly marketable.* All investments that Farmer Mac holds for the purpose of meeting the liquidity reserve minimum requirements of this section must be highly marketable. For purposes of this section, an investment is highly marketable if it possesses the following characteristics:

(1) It is easily and immediately convertible to cash with little or no loss in value;

(2) It has low credit and market risk;

(3) It has ease and certainty of valuation; and

(4) Except for money market instruments, it is listed on a developed and recognized exchange market and is able to be sold or converted to cash through repurchase agreements in active and sizable markets.

(e) *Composition of liquidity reserve and supplemental liquidity.* Farmer Mac must continuously maintain Level 1 and Level 2 investments described in the table below sufficient to meet the 90-day minimum liquidity requirement in paragraph (a) of this section. Farmer Mac must also maintain supplemental liquidity as required by the table below.

Level 1 Investments: Instruments used to fund obligations maturing in calendar days 1 through 30. At least 15 days of the Level 1 requirement must be comprised of cash or instruments with remaining maturities of less than 3 years.	• Cash. • Treasury securities. • Other Government agency obligations. • Government-sponsored agency securities (excluding mortgage securities) that mature within 60 days. • Diversified Investment Funds comprised exclusively of Level 1 instruments.
Level 2 Investments: Instruments used to fund obligations maturing in calendar days 31 through 90.	• Additional amounts of Level 1 Instruments. • Government-sponsored agency securities (excluding mortgage securities) with maturities exceeding 60 days. • Government-sponsored agency mortgage securities (excluding Farmer Mac securities). • Money Market instruments maturing within 90 days. • Diversified Investment Funds comprised of Level 1 or 2 instruments.
Supplemental Liquidity: Assets to fund obligations maturing after 90 calendar days in an amount necessary to meet board liquidity policy in accordance with § 652.35.	• Eligible investments under § 652.20. • Qualifying securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture (excluding the portion that would be necessary to satisfy obligations to creditors and equity holders in Farmer Mac II LLC).

(e) *Discounts.* The liquid assets of the liquidity reserve and supplemental liquidity are discounted as follows:

(1) Multiply cash and overnight investments by 100 percent;

(2) Multiply Treasury securities by 97 percent of the market value;

(3) Multiply all other Level 1 qualifying instruments by 95 percent of their market value, even if some of these instruments are counted toward the

Level 2 liquidity reserve requirements due to a surplus of Level 1 qualifying instruments over the Level 1 liquidity reserve requirements.

(4) Multiply all Level 2 Instruments by 93 percent of the market value, except the volume of Level 1 qualifying instruments that exceeds the Level 1 liquidity reserve requirement and is therefore applied to the Level 2 liquidity reserve requirement, as described in paragraph (e)(3) of this section; and

(5) Multiply all other investments held for supplemental liquidity by 85 percent of market value, except:

(i) The volume of Level 1 qualifying instruments that exceeds the Level 1 or Level 2 liquidity reserve requirements, as described in paragraph (e)(3) of this section; and

(ii) The volume of Level 2 qualifying instruments that exceeds the Level 2 liquidity reserve requirements, as described in paragraph (e)(4) of this section; and,

(iii) Multiply securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act by 75 percent.

(f) *Reservation of authority.* FCA reserves the right, on a case-by-case basis, to require Farmer Mac to adjust its treatment of instruments (assets) in its liquidity reserve and supplemental liquidity so that it has liquidity that is sufficient and commensurate for the risks it faces. This reservation of authority enables FCA to respond to adverse financial, economic, or market conditions by requiring Farmer Mac, on a case-by-case basis, to:

(1) Increase the discounts specified in paragraph (e) of this section that are applied to any individual security or any class of securities due to changes in market conditions or marketability of such securities;

(2) Shift individual or multiple securities from one level of the liquidity reserve to another, or between one of the levels of the liquidity reserve and supplemental liquidity based on the performance of such asset(s), or based on financial, economic, or market conditions affecting the liquidity and solvency of Farmer Mac;

(3) Change portfolio concentration limits in § 652.20(a); or

(4) Take any other action that the Farm Credit Administration deems necessary to ensure that Farmer Mac has sufficient liquidity to meet its financial obligations as they come due.

§ 652.45 Temporary regulatory waivers or modifications for extraordinary situations.

Whenever the FCA determines that an extraordinary situation exists that necessitates a temporary regulatory waiver or modification, the FCA may, in its sole discretion:

(a) Modify or waive the minimum liquidity reserve requirement in § 652.40 of this subpart;

(b) Modify the amount, qualities, and types of eligible investments that you are authorized to hold pursuant to § 652.20 of this subpart; and/or

(c) Take other actions as deemed appropriate.

Dated: November 10, 2011.

Dale L. Aultman,

Secretary, Farm Credit Administration Board.

[FR Doc. 2011–29690 Filed 11–17–11; 8:45 am]

BILLING CODE 6705–01–P