(vii) The assumption of operating or other expenses, such as legal fees or insurance premiums.

(2) *Preferential transfer of capital* means a transfer of capital that is not available to all similarly situated affiliated associations.

(3) *Nonroutine transfer of capital* means a transfer of capital that is not available in the ordinary course of business.

(b) *Considerations for preferential or nonroutine transfers of capital.* Before authorizing a preferential or nonroutine transfer of capital, a bank board of directors must take into account and document whether:

(1) The transfer of capital is in the best interests of all of the shareholders;

(2) The bank will be able to achieve its capital adequacy and business plan goals after making the transfer of capital; and

(3) The transfer of capital is the "least cost" alternative available and will enable the association to maintain sound, adequate, and constructive service to borrowers.

(c) *Notification requirements.* At least 30 days before making a preferential or nonroutine transfer of capital to an affiliated association, banks must provide shareholders and the Chief Examiner of the Farm Credit Administration with a description of the transfer and the documentation required by paragraph (b) of this section.

[64 FR 49961, Sept. 15, 1999]

§ 615.5172 Production credit association and agricultural credit association investment in farmers' notes given to cooperatives and dealers.

(a) In accordance with policies prescribed by the board of directors of the Farm Credit Bank or agricultural credit bank and each production credit association and agricultural credit association (hereinafter association(s)), such association(s) may invest in notes, conditional sales contracts, and other similar obligations given to cooperatives and private dealers by farmers and ranchers eligible to borrow from such associations.

(b) Such notes and other obligations evidencing purchases of farm machinery, supplies, equipment, home appliances, and other items of a capital nature handled by cooperatives and private dealers will be eligible for purchase as investments.

(c) The total amount which an association may invest in such obligations at any one time shall not exceed 15 percent of the balance of its loans outstanding at the close of the association's preceding fiscal year. In addition, the total amount which an association may invest in such obligations that are originated by any one cooperative or private dealer, at any one time, shall not exceed 50 percent of association capital and surplus.

(d) All notes in which an association invests shall be endorsed with full recourse against the cooperative or dealer. The association shall contact each notemaker who meets the association's credit standards to encourage him to become a borrower.

[54 FR 1158, Jan. 12, 1989, as amended at 55 FR 24888, June 19, 1990; 55 FR 38313, Sept. 18, 1990. Redesignated at 58 FR 63056, Nov. 30, 1993]

§ 615.5173 Stock of the Federal Agricultural Mortgage Corporation.

Banks and associations of the Farm Credit System are authorized to purchase and hold Class B common stock of the Federal Agricultural Mortgage Corporation pursuant to section 8.4 of the Farm Credit Act.

[58 FR 63058, Nov. 30, 1993]

§ 615.5174 Farmer Mac securities.

(a) *General authority.* You may purchase and hold mortgage securities that are issued or guaranteed as to both principal and interest by the Federal Agricultural Mortgage Corporation (Farmer Mac securities). You may purchase and hold Farmer Mac securities for the purposes of managing credit and interest rate risks, and furthering your mission to finance agriculture. The total value of your Farmer Mac securities cannot exceed your total outstanding loans, as defined by § 615.5131(f).

(b) *Board and management responsibilities.* Your board of directors must adopt written policies that will govern your investments in Farmer Mac securities. All delegations of authority to specified personnel or committees must state the extent of management's authority and responsibilities for managing your investments in Farmer Mac securities. The board of directors must also ensure that appropriate internal controls are in place to prevent loss, in accordance with § 615.5133(e). Management must submit quarterly reports to the board of directors on the performance of all investments in Farmer Mac securities. Annually, your board of directors must review these policies and the performance of your Farmer Mac securities and make any changes that are needed.

(c) *Policies*. Your board of directors must establish investment policies for Farmer Mac securities that include your:

(1) *Objectives* for holding Farmer Mac securities.

(2) *Credit risk* parameters including:

(i) The quantities and types of Farmer Mac mortgage securities that are collateralized by qualified agricultural mortgages, rural home loans, and loans guaranteed by the Farm Service Agency.

(ii) Product and geographic diversification for the loans that underlie the security; and

(iii) Minimum pool size, minimum number of loans in each pool, and maximum allowable premiums or discounts on these securities.

(3) *Liquidity risk* tolerance and the liquidity characteristics of Farmer Mac securities that are suitable to meet your institutional objectives. A bank may not include Farmer Mac mortgage securities in the liquidity reserve maintained to comply with § 615.5134.

(4) *Market risk* limits based on the effects that the Farmer Mac securities have on your capital and earnings.

(d) *Stress Test*. You must perform stress tests on mortgage securities that are issued or guaranteed by Farmer Mac in accordance with the requirements of § 615.5141(b) and (c). If a Farmer Mac security fails a stress test, you must divest it as required by § 615.5143.

[64 FR 28899, May 28, 1999, as amended at 70 FR 51590, Aug. 31, 2005]

§ 615.5175 Investments in Farm Credit System institution preferred stock.

Except as provided for in § 615.5171, Farm Credit banks, associations and service corporations may only purchase preferred stock issued by another Farm Credit System institution, including the Federal Agricultural Mortgage Corporation, with the written prior approval of the Farm Credit Administration. The request for approval should explain the terms and risk characteristics of the investment and the purpose and objectives for making the investment.

[70 FR 53908, Sept. 13, 2005]

Subpart G—Risk Assessment and Management

SOURCE: 63 FR 39225, July 22, 1998, unless otherwise noted.

§ 615.5180 Interest rate risk management by banks—general.

The board of directors of each Farm Credit Bank, bank for cooperatives, and agricultural credit bank shall develop and implement an interest rate risk management program tailored to the needs of the institution and consistent with the requirements set forth in § 615.5135 of this part. The program shall establish a risk management process that effectively identifies, measures, monitors, and controls interest rate risk.

§ 615.5181 Bank interest rate risk management program.

(a) The board of directors of each Farm Credit Bank, bank for cooperatives, and agricultural credit bank is responsible for providing effective oversight to the interest rate risk management program and must be knowledgeable of the nature and level of interest rate risk taken by the institution.

(b) Senior management is responsible for ensuring that interest rate risk is properly managed on both a long-range and a day-to-day basis.

§ 615.5182 Interest rate risk management by associations and other Farm Credit System institutions other than banks.

Any association or other Farm Credit System institution other than banks, excluding the Federal Agricultural Mortgage Corporation, with interest rate risk that could lead to significant