

MISSION INVESTMENTS UPDATE



FCA Board Meeting
September 11, 2008

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DISCUSSION TOPICS

- ❖ Legal Background and History
- ❖ Pilot Program Framework
- ❖ Pilot Program Update
- ❖ Results and Insights Gained

LEGAL BACKGROUND AND HISTORY

Howard Rubin
Senior Counsel
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STATUTORY AND REGULATORY FRAMEWORK

- ❖ Farm Credit Act
- ❖ System banks are authorized to make investments under sections 1.5(15) and 3.1(13)(A) of the Act
- ❖ Sections 2.2(10) and 2.12(18) allow associations to invest their funds as approved by their funding bank under FCA regulations
- ❖ FCA investment regulations ensure safety and soundness

MISSION INVESTMENTS

- ❖ Opportunities under current rules include:
 - Farmer Mac Securities
 - Investments in farmers' notes
 - USDA guaranteed obligations and certain other Governmental agency obligations benefitting rural areas
 - Certain municipal securities, agricultural equipment securities and asset-backed securities
 - Other investments approved by the FCA on a case-by-case basis

MISSION INVESTMENTS HISTORY

- ❖ May 1999 – FCA investment regulations updated and authorized
 - Approval of investments on case-by-case basis
- ❖ June 2004 - FCA issues additional investment guidance for
 - Municipal revenue bonds, aggie bonds, government agency issuances
- ❖ September 2004 – FCA workgroup identified challenges for rural market access to capital
- ❖ January 2005 – FCA issues guidance on pilot investment programs

PILOT PROGRAM FRAMEWORK

Conditions

- Ensure safe and sound investment management at each FCS institution
- Parameters ensure agricultural lending remains System's primary focus
 - ✗ Portfolio limit
 - ✗ Obligor limit
 - ✗ Maturity limit
- Must be structured as investment securities
- Excludes commercial loans or any instrument that is similar to a loan
- May 1, 2008, FCA issued a clarification of conditions and provided System institutions with a general framework for investment decisions

PILOT PROGRAM UPDATE

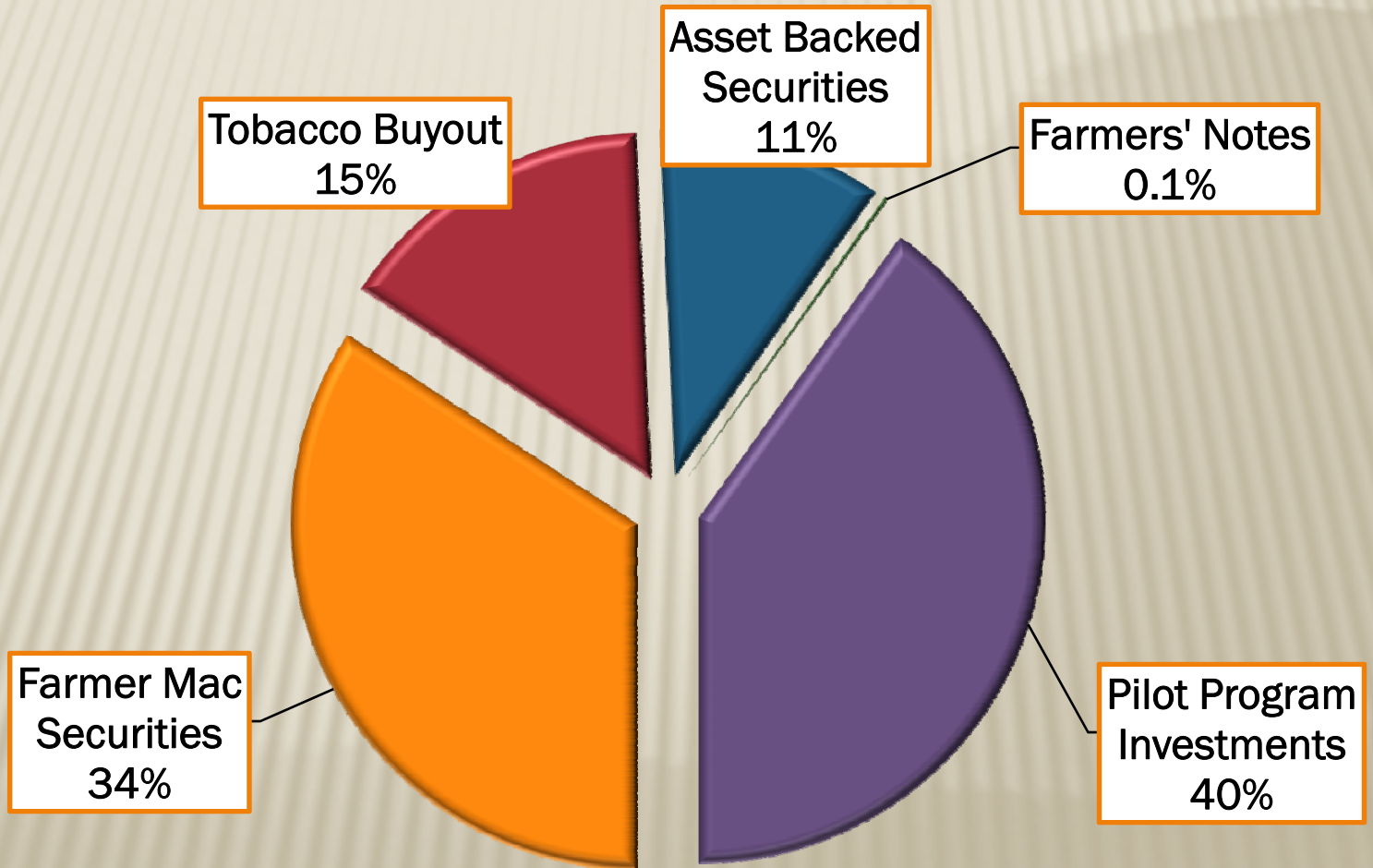
Dawn Johnson
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PILOT PROGRAM OBJECTIVES

- ❖ Stimulate economic growth and development in rural areas
- ❖ Advance the institutions' mission through asset and income diversification
- ❖ Recognize the need for different investment strategies to address the diverse needs of rural communities across America
- ❖ Establish reporting and oversight processes
- ❖ Provide opportunity to analyze financing gaps in rural markets

MISSION INVESTMENTS TOTALED \$4.8 BILLION AS OF JUNE 30, 2008

(Represented 2.3 percent of System assets)



MISSION INVESTMENTS UNDER PILOT PROGRAMS TOTALED \$1.9 BILLION

As of June 30, 2008
(Numbers in Thousands)



PILOT PROGRAM INVESTMENTS

Rural Housing Mortgage Securities

- ❖ Conforming first-lien residential mortgages originated by non-FCS lenders
- ❖ Guaranteed by a government agency or government-sponsored agency

Community Facilities

- ❖ Replacement of outdated, obsolete facilities supporting essential services
- ❖ Projects require multi-party collaborative efforts with Federal, state, regional, and municipal involvement

PILOT PROGRAM INVESTMENTS

Rural Lenders

- ❖ Collaborative model in partnership with banks
- ❖ Significant benefits to small rural community banks and lenders

Rural Development Authorities

- ❖ Lack of market liquidity impacting many municipal organizations
- ❖ Stand-by purchase agreements have assisted municipal organizations in accessing public financial markets

PILOT PROGRAM RESULTS

Insights Gained

- ❖ Mission investments remain small portion of FCS portfolio
- ❖ System proceeded cautiously and conservatively
- ❖ Projects successfully supported rural economic vibrancy by creating jobs and improving the economic well-being of rural areas
- ❖ Investments benefited rural interests instead of large companies with access to other markets



Questions?