Fact Sheet

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Fact Sheet on Rural Community Investments Proposed Rule

The Farm Credit Administration (FCA) Board approved a proposed rule that would authorize each Farm Credit System (FCS or System) institution to purchase and hold debt and equity investments in rural communities outside of urbanized areas under prescribed conditions.

The proposed rule is patterned after pilot programs that FCA has authorized over the past three years. Investments made under these pilot programs have provided greater access to capital for economic development initiatives, while adding liquidity to rural financial markets.

Conditions in Rural Communities

Many rural communities are struggling to retain economic viability and vitality, which can provide economic opportunities and a better quality of life for their residents, including farm families. Rural communities face numerous demographic, social, and economic challenges in meeting the needs of their residents. As a result, many of these communities find it difficult to provide the essential facilities, infrastructure, services, and jobs that their residents need. Rural communities depend on a combination of government and private-sector financial sources to provide the necessary capital to fund rural development projects. However, in many cases, no single financial entity is able to provide rural communities with whole-project funding, which is necessary for essential projects.

Purpose of the Proposed Rule

The proposed rule is designed to give System institutions flexibility to "provide for an adequate and flexible flow of money into rural areas," as noted in the preamble to the Farm Credit Act of 1971, as amended (Act). In addition, the Act authorizes the FCS to hold investments that FCA approves by regulation.

The proposed rule would authorize System institutions, in partnership with governments and non-System financial institutions, to purchase securities issued for projects that support community facilities, infrastructure, and core services and for projects that create jobs for rural residents.

Proposed Rule

The proposed rule would authorize FCS banks, associations, and service corporations to purchase investments in debt securities for specific purposes and equity investments in venture capital funds and rural business investment companies. Investments in rural communities under the proposed rule would be limited to the following:

- Rural communities <u>outside</u> of “urbanized areas” as determined by the latest decennial census of the U.S. Census Bureau. The U.S. Census Bureau defines rural communities as having fewer than 50,000 residents.
- Debt securities for qualified investment purposes and projects that provide capital for
    - essential community facilities such as hospitals, health care facilities, emergency facilities and equipment, and schools;
    - basic transportation infrastructure projects that provide funding for roads, bridges, and other public transportation systems;
    - revitalization of rural communities after a disaster and assistance to rebuild areas recovering from disasters where an emergency has been declared pursuant to law;
    - rural development projects that are guaranteed by the federal government or sponsored by state or local governments; and
    - non-System financial institutions for rural development lending.
- Equity investments in venture capital funds and rural business investment companies that provide capital investments in entrepreneurial operations that promote economic development and create job opportunities in rural areas.
- Other investments approved by FCA upon a written request by a System institution that describes the investment, explains its risk characteristics, and demonstrates how the investment is consistent with the System’s statutory mandate to serve agriculture and rural communities.

Investment Management Controls

Sound investment management practices prescribed by § 615.5133 would apply to rural community investments under the proposed rule. Additionally, the principal restrictions that the proposed rule imposes on rural community investments are as follows:

- All rural community investments at any System institution could not exceed 150 percent of its total surplus.
- No System institution may invest more than 15 percent of its total surplus in debt securities issued by a single obligor, except government-guaranteed securities.
- All rural community investments would have maturities of 20 years or fewer except for investments guaranteed by the United States or its agencies, which could have maturities of up to 40 years.

These controls ensure that investments in rural communities do not adversely affect the safety and soundness of System institutions. They also enforce the Act and prevent the FCS from moving away from its primary mission of lending to agriculture.