



Mission-Related Investments 2006 Annual Report

FCA Board Meeting - May 10, 2007

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Agenda

I) Introduction

II) Mission-Related Investments

III) Investments in Rural America Pilot Programs

- Overview
- Summary of Investment Activity
- Insights Gained
- Looking Ahead



Introduction

Investing in Rural America's Future to:

- Improve the quality of life in rural areas
- Provide young and starter farmers greater access to capital
- Improve infrastructure and supply systems
- Support projects that create off-farm jobs
- Provide liquidity to other rural lenders

Mission-Related Investments

Consistent with the authorities of the Farm Credit Act, the Farm Credit System has a history of safely and soundly purchasing investments that benefit agriculture and rural communities. . . .

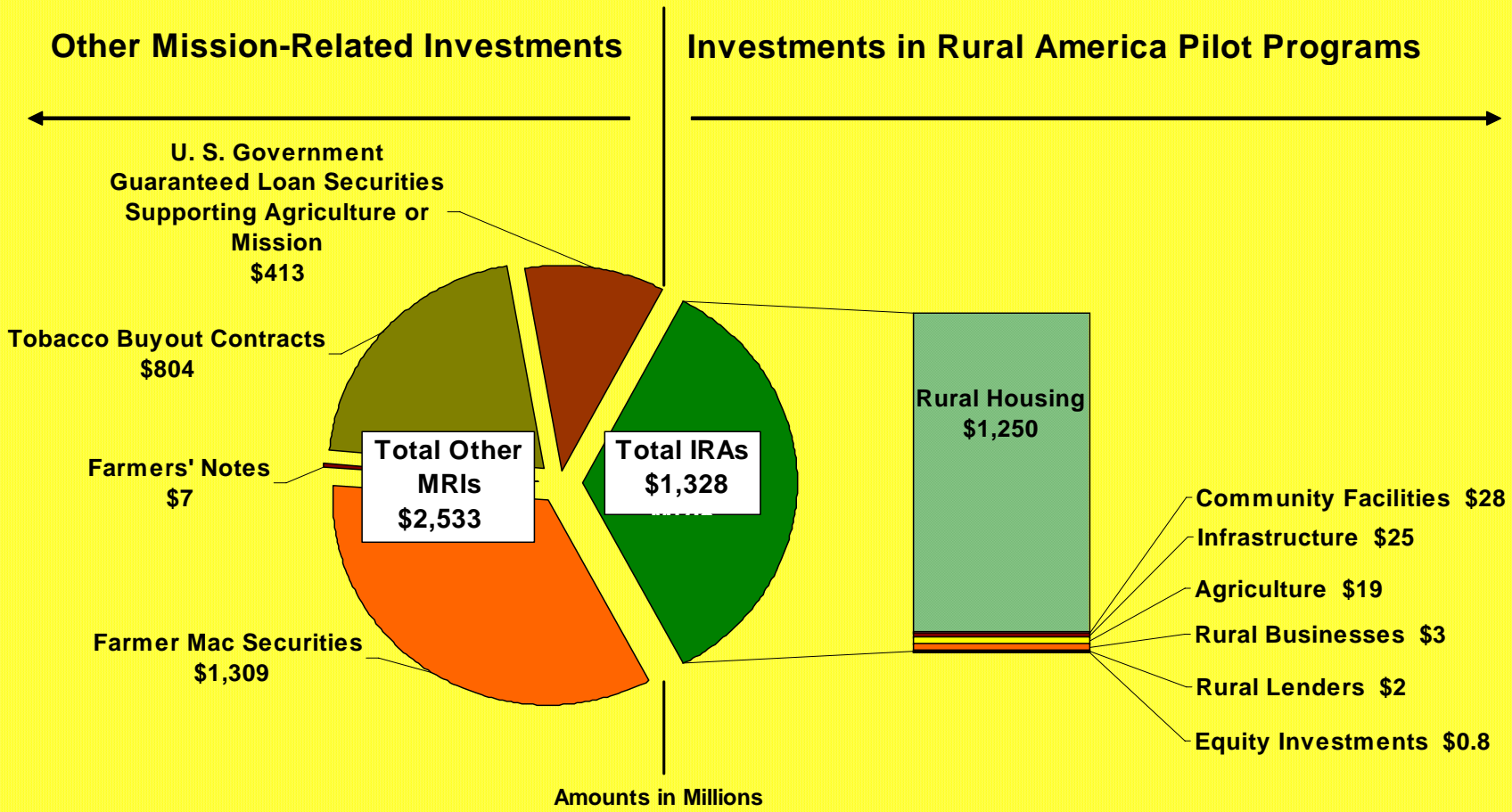
- Farmers' Notes—1966
- Agency and municipal securities and other investments approved by FCA—1971
- Farmer Mac Securities—1987
- Agricultural equipment ABS—1999
- Investments in rural America pilot programs—2005



Mission-Related Investments

\$3.9 Billion Outstanding at Year-End 2006

96 Percent Guaranteed by U.S. Government or Government-Sponsored Enterprises





IRA Pilot Programs An In-Depth Look

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IRA Pilot Programs Overview

All System institutions have pilot program authority

- 13 total pilot programs approved
 - 3 programs are district-wide programs and one program includes two districts
- 17 institutions held IRA securities at year-end under the pilot programs

Pilot Program Regulatory Framework and Oversight

- Case-by-case approval conditions
- Investment purpose, structure, management and capitalization
- Ensure programs are administered in a safe and sound manner, comply with legal requirements and focus on mission
- Subject to ongoing FCA examination and reporting



IRA Pilot Programs Facilitating Rural Homeownership

Rural Housing Mortgage-Backed Securities - \$1.3 billion

- 3 pilot programs authorized 3 banks to purchase RHMS
- RHMS are guaranteed and supported by conforming first-lien rural residential mortgages
- Loans originated by non-System lenders in rural areas defined by the Farm Security and Rural Investment Act of 2002 or eligible rural housing loans originated by the System
- Intended to provide additional liquidity in the rural housing loan market
- Improve cost-effective credit to rural homeowners



IRA Pilot Programs Fulfilling Rural Needs

Essential Community Facility Bonds (\$28.1 million)

Healthcare Facilities

- Fund improvement of rural critical access hospitals
- Provide health services to residents in economically disadvantaged areas
- Assist low income patients with needed dental services

Adolescent Centers and Schools

- Provides housing and essential services to troubled adolescents and foster care youth



IRA Pilot Programs

Rural Infrastructure and Revitalization

Water Treatment Plant Bond (\$1.4 million)

- Improved water and sewer service
- Enhanced infrastructure to attract businesses and job opportunities for economically distressed rural county

Rural Economic Development Bonds (\$2.2 million)

- Improved essential services to residents relocating as a result of Hurricane Katrina
- Revitalization and economic development in partnership with rural community



IRA Pilot Programs

Partnering with Rural Lenders and Growing Rural Entrepreneurs

Commercial Bank Bonds (\$2.2 million)

- Provides access to longer term funds for rural credit needs
- Increases capacity to finance larger rural development projects
- Preserves borrower relationships for lenders

Rural Entrepreneurs

- *FarmStart, LLP* provides capital for starter farmers and cooperatives
- Rural venture capital funds focus on equity capital needs of small rural businesses

IRA Pilot Programs

Investments Dispersed Geographically





Insights Gained and Looking Ahead

Laurie Rea, CFA
Office of Regulatory Policy



IRA Pilot Programs

Insights Gained

Power of Partnerships

- Successful rural development projects include multiple partners (communities, lenders, federal, state and local governments/agencies)
- Successful partnerships take time and commitment
- Rural development is about cooperation not competition
- Focus is on rural communities and beneficiaries
- FCS institutions and boards have extensive local networks and community involvement that facilitate sound partnerships



IRA Pilot Programs

Insights Gained

Implementation is Key

- Use of outside expertise to build internal experience
- Focus on internal policies and procedures supports prudent investment decisions
- Commitment to training

Sound Risk Management

- Cautious and reasonable risk taking within pilot program parameters
- High use of guarantees and other credit enhancements
- Building IRA investment portfolio slowly



IRA Pilot Programs Looking Ahead

Communication and Feedback

- Internal
- External

Examination & Oversight

- Continue to enhance processes and procedures
- Measure risks and evaluate investment management
- Test compliance with pilot program parameters

Measuring Progress

- Document benefits and impact to rural areas
- Evaluate whether programs are meeting their intended objectives

Policy Development

- Regulatory framework through the public notice and comment



Questions?

Thank you