



Farm Credit Administration Update

2010 Farm Credit Council Annual Meeting

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Topics

- **Economic and Credit Conditions**
- **Emerging Issues and Risks**
- **Risk Level of System Institutions**
- **Weaknesses Causing Unsatisfactory FIRS Ratings**
- **Supervision and Enforcement**
- **Examination and Supervisory Focus**
- **Agency Strategic Issues**



Today's Environment



- **Economic Recovery Not Yet Self-Sustaining**
- **Financial Market Crisis Passed, Unwinding of Government Involvement Looms**
- **Funding Spreads & Access Improving**
- **Commodity & Input Price Volatility Continues**
- **Export Markets Improving**
- **Some Ag Sectors Under Stress**



Emerging Issues May Increase System Risk Levels

- **Public & Legislative Priorities May Affect Agriculture**
- **Fiscal & Monetary Action May Affect Financial Markets**
- **Rise in Bank Failures May Affect Credit Availability**
- **Volatile Grain & Farm Input Prices May Affect Margins**

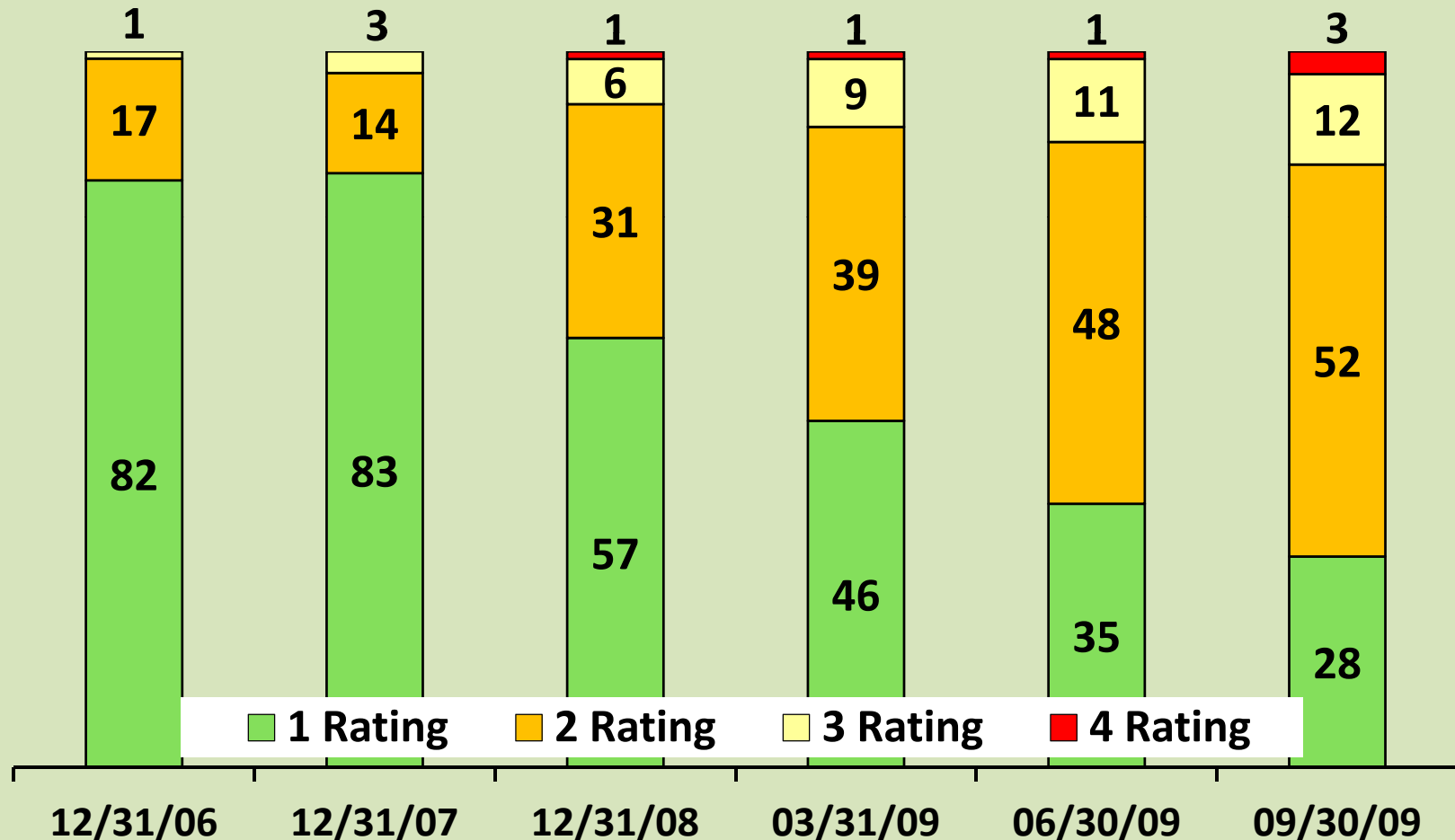




FIRS Ratings Indicate Elevated Risk Levels

Composite Financial Institution Rating System (FIRS) Ratings

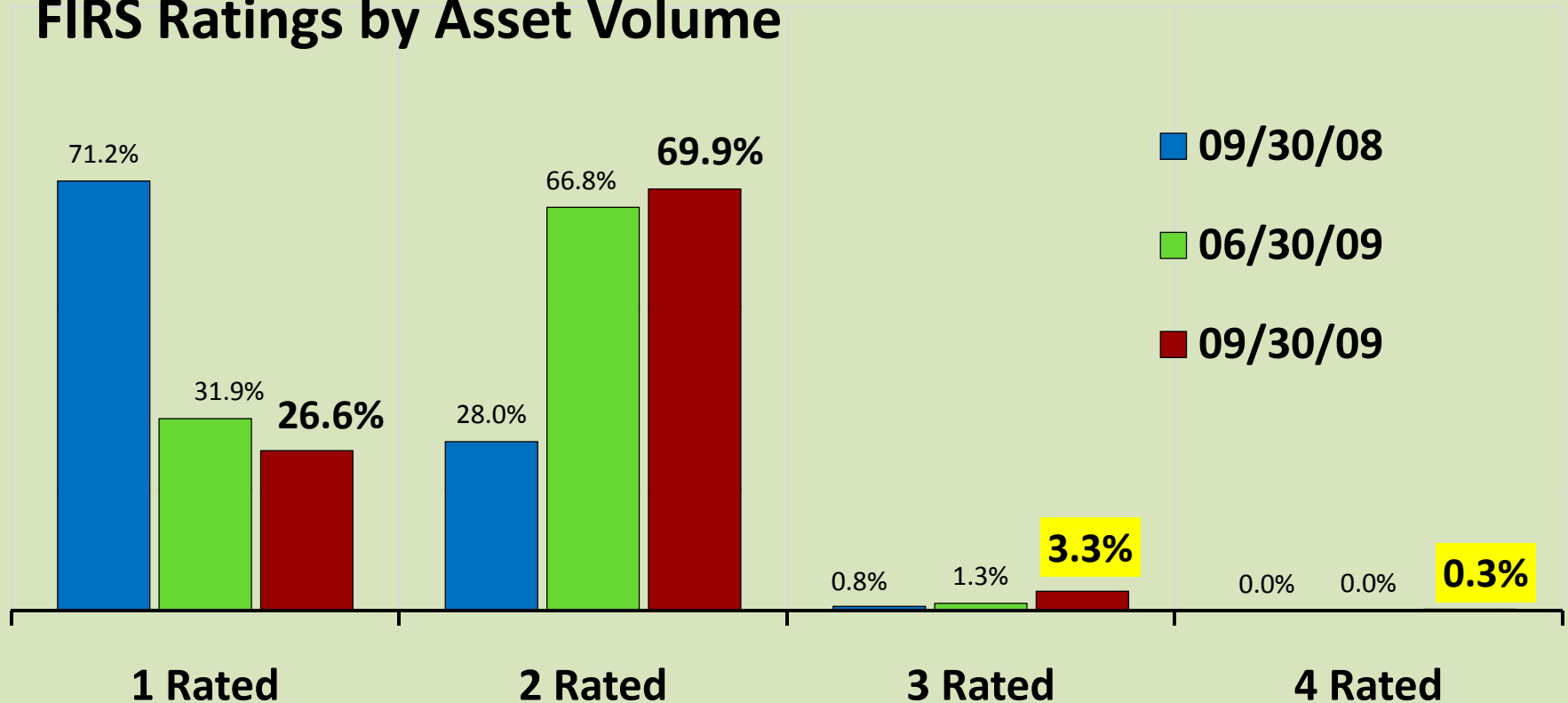
Number of rated institutions





Asset Volume Showing Increased Level of Risk

FIRS Ratings by Asset Volume



Gross assets excluding intra-System eliminations.

- **Special Supervision: 12 Institutions for \$10.7 Billion**
- **Enforcement Actions: 3 Institutions for \$733.4 Million**



Contributing Factors for Unsatisfactory Ratings

- 10. Risk Funds Relative to Risk Levels**
- 9. Allowance Process**
- 8. Rapid, Unplanned & Unbalanced Growth**
- 7. Reporting to Institution Boards & FCA**
- 6. Internal Controls & Credit Review Programs**



Contributing Factors for Unsatisfactory Ratings

- 5. Portfolio Concentrations & Understanding of Risks**
- 4. Risk Identification** (accuracy and timeliness)
- 3. Underwriting & Credit Administration**
- 2. Management Accountability, Expertise & Depth**
- 1. Board Oversight & Governance**



Levels of FCA Supervision

Enforcement

(Typically Rated 3 or lower)

Special Supervision

(Typically Rated 2 or 3)

Normal Supervision

(Typically Rated
1 or 2)



Green Zone – Normal Supervision Level

- **A “1” or “2” Composite FIRS rating**
- **Examination Division Responsible for Supervisory Oversight**
- **Financial Condition Satisfactory**
- **Demonstrated Willingness & Ability to Correct Identified Weaknesses**



Yellow Zone – Special Supervision Level

- **A Weak “2” or “3” Composite FIRS rating**
- **Serious Weaknesses**
- **Board & Management Willing & Able to Take Decisive Corrective Action**
- **Supervisory Letter with Required Actions, at a Minimum**
- **Risk Supervision Division Assumes Oversight Role**
- **Regulatory Enforcement Committee Involved & Reviews Actions Taken**



Red Zone – Enforcement Level

- **Enforcement Action Needed to Correct Unsafe & Unsound Conditions or Violations of Law or Regulation**
- **Regulatory Enforcement Committee Assumes Oversight Role**
- **Enforcement Action Requires FCA Board Approval**



Enforcement Actions

- **Written Agreement**
- **Order to Cease and Desist**
- **Temporary Order to Cease and Desist**
- **Removal, Suspension & Prohibition**
- **Civil Money Penalties**
- **Capital or Borrower Rights Directive**
- **Conditions on Mergers and other Approval Actions**
- **Conservatorship or Receivership**



FCA Examination and Supervisory Focus

- **Supervision of High Risk Institutions**
- **Mitigation and Management of Risk**
- **National Oversight Plan Key Areas**
 - **Loan Portfolio Management**
 - **Large, Complex, and Shared Assets**
 - **Collateral Risk Management**
 - **Liquidity Risk and Balance Sheet Management**



Agency Long-Term Strategic Issues

- **Safety and Soundness**
- **Service to Creditworthy Customers**
- **Regulatory Capital Requirements**
- **Executive Compensation Programs**
- **System Leadership on Merger Issues**
- **Effective Communication with FCS**
- **Develop Strong Inter-Governmental Relationships**



Thank You!

Questions?