

#### 8. "Similar Financial Assistance" for OFIs

Section 1.7(b)(1) of the Act expressly authorizes Farm Credit banks to "extend other similar financial assistance" to both OFIs and FCS associations that extend short- and intermediate-term credit to their customers. Several commenters asked us to clarify exactly what constitutes "similar financial assistance." Similar financial assistance includes lease financing, the issuance of guarantees, surety bonds, and the issuance of standby letters of credit. These all are services that Farm Credit banks routinely provide to their direct lender associations and; therefore, they are also acceptable forms of financial assistance that Farm Credit banks may offer their OFIs. Our explanation is consistent with guidance that we previously offered Farm Credit banks on this issue. At this time, no regulatory amendment is necessary to clarify the meaning of "similar financial assistance" in section 1.7(b)(1) of the Act.

#### 9. Establishment of OFI Lending Limits

In 1998, former § 614.4565 was repealed, which imposed a lending limit on the amount of credit that any OFI could extend to a single credit risk with FCS funds. At the time, we acknowledged that certain OFIs would remain subject to lending limits that their primary regulator imposes under applicable Federal or state law. The preamble to the final rule stated that we expect each Farm Credit bank to prudently manage risk exposures to concentrations in OFI loan portfolios through underwriting standards and the general financing agreements (GFAs) executed with the OFIs.<sup>16</sup>

After the FCA repealed former § 614.4565, some Farm Credit banks considered imposing a lending limit on both FCS associations and OFIs that is lower than the lending limit that: (1) Section 614.4353 establishes for System direct lender associations; and (2) Federal or state laws place on depository institutions. During this rulemaking, two commenters asked us to enact a new regulation that would forbid Farm Credit banks from imposing a lending limit on OFIs that is lower than the limit established by applicable Federal or state law. The FCA declines this request because it is inconsistent with safety and soundness. Each Farm Credit bank may establish, by underwriting standards and GFAs, limits on its exposure to concentrations in the loan portfolios of both FCS

associations and OFIs that are more stringent than lending limits imposed by statute or regulation, as long as it does not favor FCS associations over OFIs.

#### 10. Eligible Collateral Pledged To Support an OFI's Discounting Arrangements With a Farm Credit Bank

Currently, § 614.4570 requires a secured lending relationship between each Farm Credit bank and every OFI. Under § 614.4570(b)(2), each FCB or ACB must perfect its security interest in any and all obligations and the proceeds thereunder that the OFI pledges as collateral, in accordance with applicable state law. Additionally, § 614.4570(c) allows each FCB and ACB to require its OFIs to pledge supplemental collateral to support the lending relationship.

These commenters asked the FCA to amend § 614.4570(b) so OFIs could pledge long-term agricultural mortgage loans as primary collateral to their FCS funding bank. According to the commenters, this approach would provide OFIs with an additional source of funding for agricultural mortgages.

The FCA denies this request because it is incompatible with section 1.7(b) of the Act, which requires OFIs to use funds from a Farm Credit bank only for the purpose of extending short- and intermediate-term credit to eligible borrowers for authorized purposes under section 2.4(a) and (b) of the Act. OFIs may, however, pledge agricultural mortgages to Farm Credit banks as supplemental, but not primary, collateral under § 614.4570(c).

Section 614.4570(c) requires each FCB and the ACB to develop policies and loan underwriting standards that establish uniform and objective requirements for determining the need and amount of supplemental collateral or other credit enhancements that each OFI must pledge to its System funding bank as a condition for obtaining credit. The amount, type, and quality of supplemental collateral or other credit enhancements specified by such policies and procedures must be proportional to the level of risk that the OFI poses to the System funding bank. Provisions in the GFA or the security agreement govern collateral pledged by each OFI to its System funding bank.

#### 11. Improving the Relationship Between Farm Credit Banks and OFIs

Several commenters offered various suggestions for improving the relationship between Farm Credit banks and prospective and existing OFIs. These suggestions are confidence-building measures that will attract more OFIs to rely on Farm Credit banks as a

source of funding and liquidity. These ideas could improve relations between existing OFIs and their funding banks and encourage prospective OFIs to establish funding and discount relationships with Farm Credit banks.

New regulations or policies promulgated by the FCA are not required to implement these ideas for improving the OFI program. Instead, these suggestions request Farm Credit banks to take the initiative and reach out to existing and prospective OFIs. The FCA uses this opportunity to convey the commenters' ideas to Farm Credit banks and provide them with guidance about measures that could make this program more appealing to OFIs. The FCA encourages Farm Credit banks to develop internal programs and initiatives that:

- a. Establish outreach programs for contacting prospective OFIs and providing them with information about the bank's services;

- b. Routinely publish updated information about its products and services for OFIs, and its underwriting standards, funding terms and conditions, and pricing guidelines for OFI loans;

- c. Allow OFI representatives to observe meetings of the bank's board of directors;

- d. Promote better communication through roundtable discussions, focus groups, and public discussions that bring OFIs, associations, and other interested parties together to discuss issues of mutual interest;

- e. Work with OFIs to identify and remove administrative barriers that hinder OFI access;

- f. Allow FCS associations to act as intermediaries and servicing agents on extensions of credit from the funding bank to OFIs, as discussed earlier; and

- g. Identify best practices for OFIs.

The FCA is strongly committed to the success of the OFI program. OFIs are an important component of the mission of Farm Credit banks to finance agriculture. By adopting the internal programs and initiatives described above, Farm Credit banks can attract more OFIs to rely on the FCS as a source for funding and liquidity which, in turn, will provide eligible farmers, ranchers, aquatic producers and harvesters, farm-related businesses, and rural homeowners with more plentiful and affordable credit, as Congress intended. The FCA may provide additional guidance to Farm Credit banks about improving the OFI program through bookletters, informational memoranda, and the Office of the Ombudsman.

<sup>16</sup> See 63 FR 36541, 36545 (July 7, 1998).