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Fact Sheet on Farmer Mac investment eligibility: Final rule

The Farm Credit Administration board adopted a final rule today to revise regulations in 12 CFR Part 652 governing nonprogram investment eligibility at the Federal Agricultural Mortgage Corporation (Farmer Mac). These regulations define the criteria a nonprogram investment must meet for Farmer Mac to be allowed to invest in it.

The final rule removes references to credit ratings issued by nationally recognized statistical rating organizations (NRSROs) from the existing regulations. These ratings have been used to evaluate the creditworthiness of investments. The final rule replaces these ratings with provisions placing greater responsibility on Farmer Mac to perform its due diligence when analyzing prospective investments.

The rule has a compliance date of Jan. 1, 2019, or the effective date of the final rule, whichever is later.

Summary of final rule provisions

§ 652.10 Revised investment limits — The final rule modifies existing provisions governing minimum concentration limits for investment portfolio diversification by

- reducing the maximum investment exposure to any individual obligor to no more than 10 percent of regulatory capital unless the investments are an obligation of, or are fully guaranteed by, a U.S. government agency or a government-sponsored enterprise; and
- basing the calculation of an investment's compliance with diversification requirements on the carrying value of the investment.

§ 652.20 Removal of references to credit ratings — The final rule replaces fixed-asset class limits and the table of eligible asset classes, maturities, and NRSRO credit ratings with

- a list of eligible asset classes and general guidance for evaluating the relative creditworthiness of an investment, and
- a requirement that at least one investment counterparty must have “very strong capacity” to meet financial commitments and exhibit a very low risk of default.

This requirement shifts more due diligence responsibility to Farmer Mac, but it should not be interpreted as a change from the overall credit quality standards in place before the changes.

§ 652.23 Other nonprogram investments — The final rule clarifies the minimum components that Farmer Mac must include when submitting requests to FCA for making nonprogram investments that are not specified in the rule.

§ 652.25 Ineligible investments — The final rule clarifies that any investments deemed ineligible under the regulations must continue to be included in the overall regulatory limit on the investment portfolio's size. This would apply to investments that were ineligible at the time of purchase, as well as those that become ineligible at some point after purchase. The final rule removes quarterly reporting requirements for investments that become ineligible after purchase.

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