

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Board Member
Jeffery S. Hall, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
March 10, 2016**

These minutes reflect the business transacted at the March 10, 2016, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act (Act), 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 10:04 a.m. Members of the Board present were:

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Member
Jeffery S. Hall, Member

The above named constitute the full Board.

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA and Farm Credit System Insurance Corporation (FCSIC); and four of the general public. (A list of staff attendees is attached as Exhibit A.)

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

Board Chairman Spearman reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Tonsager moved to adopt the Agenda as published.

Mr. Hall seconded the motion.

There being no further discussion, **Board Chairman Spearman** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

Mr. Hall noted that the Agenda did **not** include any items that should be discussed in closed session, as permitted by the Government in the Sunshine Act, and therefore moved that the entire meeting remain open to the public.

Mr. Tonsager seconded the motion.

There being no further discussion, **Board Chairman Spearman** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for February 11, 2016 (BM-10-MAR-16-01)

Mr. Tonsager moved to approve the minutes for February 11, 2016, FCA Regular Board Meeting.

Mr. Hall seconded the motion.

There being no further discussion, **Board Chairman Spearman** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-10-MAR-16-01)**

(A copy of the official "Board Action Item" is attached as Exhibit C.)

New Business

Final Rule: Capital – Tier 1/Tier 2 Framework (BM-10-MAR-16-02)

J.C. Floyd and **Jeremy Edelstein** of the Office of Regulatory Policy and **Becky Orlich** and **Jennifer Cohn** of the Office of General Counsel presented the **Final Rule: Capital – Tier 1/Tier 2 Framework**.

Board Chairman Spearman opened the discussion for questions by the Board, and asked that his written statement regarding the final rule be included in the minutes. (A copy is attached hereto as Exhibit D.)

Mr. Tonsager asked that his written statement regarding the final rule be included in the minutes. (A copy is attached hereto as Exhibit E.)

Mr. Hall asked that his written statement regarding the final rule be included in the minutes. (A copy is attached hereto as Exhibit F.)

Board Chairman Spearman asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chairman Spearman called for a motion on the staff's recommendation regarding the proposed rule.

Mr. Hall moved that the Board approve the Final Rule: Capital – Tier 1/Tier 2 Framework.

Mr. Tonsager seconded the motion.

Board Chairman Spearman asked if there was any further discussion.

There being no further discussion, **Board Chairman Spearman** called the question.

The **Secretary** polled the Members and the motion carried unanimously. **(BM-10-MAR-16-02)**

(A copy of the "Board Action Item" is attached as Exhibit G.)

Bookletter: Lending to Similar Entities
(BM-10-MAR-16-03)

Jeremy Edelstein of Office of Regulatory Policy and **Richard Katz** of the Office of General Counsel presented the **Bookletter: Lending to Similar Entities**.

Board Chairman Spearman opened the discussion for questions by the Board.

Mr. Hall asked that his written statement regarding the Bookletter be included in the minutes. (A copy is attached hereto as Exhibit H.)

Board Chairman Spearman asked if there was any further discussion and asked staff to provide their recommendation. Staff provided their recommendation.

Board Chairman Spearman called for a motion on the staff's recommendation regarding the proposed rule.

Mr. Tonsager moved that the Board approve the Bookletter: Lending to Similar Entities.

Mr. Hall seconded the motion.

Board Chairman Spearman asked if there was any further discussion.

There being no further discussion, **Board Chairman Spearman** called the question.

The **Secretary** polled the Members and the motion carried unanimously. **(BM-10-MAR-16-03)**

(A copy of the "Board Action Item" is attached as Exhibit I.)

ADJOURNMENT

There being no further business to come before the Board, **Board Chairman Spearman** indicated he would entertain a motion to adjourn the meeting.

Mr. Hall moved that the meeting be adjourned.

Mr. Tonsager seconded the motion.

Board Chairman Spearman called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

The meeting adjourned at 10:04 a.m.

NOTATIONAL VOTE ACTIONS

There were three notational vote actions approved by the FCA Board from February 12, 2016, through March 9, 2016 as follows:

Item Number	Action Date	Voting Results	Subject
NV 16-02	02/12/2016	Approved	Termination of an enforcement action involving a written agreement between FCA and a System institution—an Agricultural Credit Association. The agreement related to supervisory actions that FCA had taken on March 17, 2011, in accordance with section 5.25 of the Farm Credit Act. FCA determined that the weaknesses that necessitated the written agreement had been effectively addressed.
NV 16-03	03/04/2016	Approved	Request of AgStar Financial Services, ACA, to invest up to \$10 million in bonds to be issued by a regional healthcare center in South Dakota. The bonds will provide financing for renovations to and expansion of the hospital and clinic facilities. FCA placed conditions on AgStar in conjunction with this investment.
NV 16-04	03/08/2016	Approved	Request of Ag Credit, ACA, to invest \$3.9 million in bonds to be issued by a company to restart a biodiesel facility in Missouri. FCA placed conditions on Ag Credit in conjunction with this investment.

The undersigned hereby certify that the foregoing minutes are the official minutes of the Regular Meeting of the Farm Credit Administration Board held on March 10, 2016.

_____/s/_____
Kenneth A. Spearman
Board Chairman and Chief Executive Officer

_____/s/_____
Dale L. Aultman
Secretary to the Board

Approved: April 14, 2016

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
March 10, 2016**

Kenneth A. Spearman, Board Chairman and Chief Executive Officer
Dallas Tonsager, Board Member
Jeffery S. Hall, Board Member

OFFICE	OPEN SESSION
Office of the Board	
Aultman, Dale	X
Middleton, Russell	X
Corey, Kathryn	X
Kramp, Kevin	X
Laguarda, Wendy	X
Calhoun, Gaye	X
Buccolo, Debra	X
EEOI	
Burlew, Thais	X
OIT	
Golley, Jerald	X
COO	
Hoffman, William	X
OCPA	
Stokke, Mike	X
Meaux, Willy	X
OSMO	
Rea, Laurie	X
Hudson, Bruce	X
Greenlee, Angela (OE Examiner Serving in a Rotation)	X

OFFICE	OPEN SESSION
OGC	
Rawls, Charles	X
Donner, Mary Alice	X
Katz, Richard	X
Cohn, Jennifer	X
Orlich, Rebecca	X
OE	
Coleman, Robert	X
Paulsen, Roger	X
Sullivan, Don	X
OIG	
Dean, Elizabeth	X
ORP	
Van Meter, Gary	X
Mardock, Barry	X
Floyd, J.C.	X
Edelstein, Jeremy	X
Johansen, Mark	X
D'Antoni, Jeremy	X
Wilson, Christopher	X
Nerdahl, Tim	X
Iannetta, Salvatore	X
OMS	
Smith, Stephen	X
Fowlkes, Jerome	X
FCSIC	
Wynn, Wade	X
Rubin, Howard	X
GENERAL PUBLIC	4

**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT
Farm Credit Administration Board
Regular Meeting
March 10, 2016**

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b (e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held March 10, 2016. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

For Further Information Contact: Dale L. Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: This meeting of the Board will be open to the public (limited space available). Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact Dale L. Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

Approval of Minutes

- 1 February 11, 2016

New Business

- 2 Final Rule: Capital – Tier 1 / Tier 2 Framework
- 3 Bookletter: Lending to Similar Entities

March 1, 2016

Date

/s/

Dale L. Aultman
Secretary to the Board

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for February 11, 2016 Board Meeting

BM-10-MAR-16-01

Effective Date: March 10, 2016

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for February 11, 2016, Regular Board Meeting as submitted.

DATED THIS 10th DAY OF MARCH 2016

BY ORDER OF THE BOARD

/s/
Dale L. Aultman
Secretary to the Board

Statement
Kenneth A. Spearman, Board Chairman
Farm Credit Administration, March 10, 2016

On the Adoption of the Tier1/Tier2 Regulatory Capital Framework

The Capital Rule that we are voting to finalize today will update and modernize the Farm Credit Administration's capital requirements, and the language we use to discuss them, consistent with best industry practices and comparable with those of the U.S. banking sector. On becoming FCA Chairman, one of my priorities for this Board was to finalize this important rulemaking.

The FCA recognized that the Farm Credit System would benefit by conforming, where appropriate, to the standards of the Basel III framework and the Federal banking regulatory agencies' rules. This rule represents untold hours of work and research by the staff as to how best to apply Basel principles to the System's cooperative structure.

In this rule, I believe we have achieved a good balance between following Basel principles and giving the System the flexibility it needs to meet its mission as a government-sponsored enterprise. What's more, this rule will ensure that the System continues to remain safe and sound, which is our primary responsibility here at FCA.

Finalizing this rule was a difficult undertaking, and it was truly a team effort. I want to acknowledge the work and vision of my former Board colleagues who served during this rulemaking. Also, I want to thank Bill Hoffman and the senior staff for their work to ensure we had the resources to produce the comprehensive rule we have before us. I want to particularly acknowledge the members of the Capital Workgroup for their diligence in this effort: J.C. Floyd, Becky Orlich, Jennifer Cohn, Tim Nerdahl, Jeremy Edelstein, Chris Wilson, Curtis Bednarz, Ryan Hellen, Wade Wynn and Bill Dunn.

Statement
Dallas Tonsager, Board Member
Farm Credit Administration, March 10, 2016

On the Adoption of the Tier1/Tier2 Regulatory Capital Framework

First, I want to thank all the members of the capital workgroup who have worked so hard over the years on this very complex subject. I believe this rule is the most challenging regulation that the Agency has ever promulgated and staff has done a remarkably skillful job of developing it. I fully support this capital rule, which will accomplish a number benefits for the Farm Credit System that will extend to the farmers and ranchers that the System serves.

- First, by conforming our capital requirements to the Basel III guidance, the rule puts FCS capital standards on a par with that of the commercial banks, which in turn makes System capital more understandable and transparent to investors and should enhance the System's ability to issue debt in the capital markets.
- Yet even as this capital rule conforms to Basel III, it makes adjustments where necessary to recognize the cooperative structure of the Farm Credit System and its limited lending authorities to serve agriculture and rural America.
- The rule not only ensures that System capital will remain strong, but serves to enhance the strength of the System's capital through the use of a leverage ratio and buffers and appropriate risk-weighting measures.
- The FCS is well-positioned to adapt to these new capital requirements given the strong capital positions that exist throughout the System. As staff has noted, these new requirements will not lower the strong capital ratios that all four FCS banks and most associations currently enjoy.

There is still much work to be done to train FCA staff, and particularly our examiners, on all aspects of this complex rule. But I am confident that this task will be undertaken with the same skill and success that produced this challenging rule. I also am confident that our staff will work closely with System representatives to help make the transition to these new regulations as smooth as possible for System banks and associations.

Statement
Jeffery S. Hall, Board Member
Farm Credit Administration, March 10, 2016

On the Adoption of the Tier1/Tier2 Regulatory Capital Framework

Today's consideration of the proposed rule on the Tier1/Tier2 Regulatory Capital Framework is the culmination of a long and deliberate process. The long process was started by Chairwoman Nancy Pellet. In 2007 FCA issued an advanced notice of proposed rulemaking encouraging comments on updating risk weighting provisions. Under Chairs Lee Strom and Jill Long Thompson the agency issued an advance notice of proposed rulemaking on implementing regulatory capital standards modeled on Basel III.

There have been years of work that have gone in writing this rule and I appreciate that effort. I especially appreciate Chairman Spearman's leadership and perseverance to get the Agency to this important point with the vote today. This rule embodies his focus and commitment to internal controls. His willingness to reopen the comment period so that the new Board Members could have direct communication with the system on the proposal is a strong reason I am able to support the adoption of this rule.

From my first briefing almost a year ago it was obvious that the talented FCA staff writing this rule were deliberate and thoughtful. They are always willing to brief me and answer any questions and consider any suggestions. I appreciate them being responsive to my concerns that this rule not favor one business model over another and that small institutions be treated fairly.

This rule was very difficult to write. Implementing will not be easy. Change causes concern but we know that as of September 2015 every system institution will be able to comply with the requirements of the proposed rule. I encourage the system to let us know about implementation challenges. Communication only helps promote the safety and soundness of the system.

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Final Rule: Capital – Tier 1/Tier 2 Framework

BM-10-MAR-16-02

Effective Date: January 1, 2017

Approved Date: March 10, 2016

THE FCA BOARD HEREBY:

- Approves the Tier 1/Tier 2 Regulatory Capital Framework final rule that would add a new part 628 to the Farm Credit Administration's (FCA) regulations and amend parts 607, 611, 614, 615, 620, 624, and 627 to modify the regulatory capital requirements for Farm Credit System institutions and to eliminate references to credit ratings as required by section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.
- Authorizes FCA staff to make any technical or grammatical changes to the Tier 1/Tier 2 Regulatory Capital Framework final rule that may be necessary prior to publication in the *Federal Register*.

DATED THIS 10th DAY OF MARCH 2016

BY ORDER OF THE BOARD

_____/s/
Dale L. Aultman
Secretary to the Board

Statement
Jeffery S. Hall, Board Member
Farm Credit Administration, March 10, 2016

On the Adoption of Bookletter on Similar Entity Lending Authority

I support the adoption of Bookletter 67. It provides guidance to the system on the use of Similar Entity lending authority, guidance that the House Committee on Agriculture made clear was necessary during the Farm Credit Hearing on December 2, 2015. It was also brought up as a concern during my confirmation process earlier in the year.

The Similar Entity authority, which was authorized by Congress more than twenty years ago is an important risk mitigation and portfolio diversification tool. It helps the System provide credit in good times and in bad as the System's mission requires. The Bookletter encourages System institutions to develop or reevaluate policies, procedures and internal controls around the use of this authority. It also promotes greater transparency by expecting periodic reports to System bank and association board members.

Similar Entity lending, by definition, is a loan where Farm Credit System institutions can not extend credit under traditional authorities. Similar Entity lending authority is important to the safety and soundness of the Farm Credit System. It becomes even more important during times when many parts of the traditional portfolio are under stress. Members of Congress have made it clear that not all legal uses of the Similar Entity authority are appropriate. Some Similar Entity lending, while legal, calls into doubt the System's focus on its statutory mission.

With this Bookletter, the FCA Board has taken an important step towards addressing the wishes of the authorizing committees. While I believe that more direction could have been included in addressing the reputation risks associated with Similar Entity lending, I will support the adoption of Bookletter 67 and use the increased examination and reporting requirements to monitor whether I believe additional guidance is necessary.

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Bookletter: Lending to Similar Entities

BM-10-MAR-16-03

Effective Date: March 10, 2016

THE FCA BOARD HEREBY:

- Approves the Bookletter – 067 – Similar Entity Lending that will provide guidance to Farm Credit System institutions that purchase participations in loans originated by non-System lenders to qualified similar entity borrowers. This guidance includes FCA’s expectations for policy, procedures, and internal controls that System institutions should have.
- Authorizes FCA staff to make any technical or grammatical changes to Bookletter – Similar Entity Lending that may be necessary prior to publication.

DATED THIS 10th DAY OF MARCH 2016

BY ORDER OF THE BOARD

_____/s/_____
Dale L. Aultman
Secretary to the Board