

Farm Credit Administration

§ 652.35

Oversight no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement at § 652.20(a).

§ 652.25 Non-program investment purposes and limitation.

(a) Farmer Mac is authorized to hold eligible non-program investments listed under § 652.35 for the purposes of complying with the interest rate risk requirements of § 652.15, complying with the liquidity reserve requirements of § 652.20, and managing surplus short-term funds.

(b) Non-program investments cannot exceed the greater of \$1.5 billion or thirty-five (35) percent of program assets and program obligations, excluding 75 percent of the program assets that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Farm Credit Act of 1971, as amended.

§ 652.30 Temporary regulatory waivers or modifications for extraordinary situations.

Whenever the FCA determines that an extraordinary situation exists that necessitates a temporary regulatory waiver or modification, the FCA may, in its sole discretion:

(a) Modify or waive the minimum liquidity reserve requirement in § 652.20 of this subpart; and/or

(b) Modify the amount, qualities, and types of eligible investments that you are authorized to hold pursuant to § 652.25 of this subpart.

§ 652.35 Eligible non-program investments.

(a) You may hold only the types, quantities, and qualities of non-program investments listed in the following Non-Program Investment Eligibility Criteria Table. These investments must be denominated in United States dollars.

Non-Program Investment Eligibility Criteria Table

ASSET CLASS	FINAL MATURITY LIMIT	NRSRO ISSUE OR ISSUER CREDIT RATING REQUIREMENT	OTHER REQUIREMENTS	MAXIMUM PERCENTAGE OF TOTAL NON-PROGRAM INVESTMENT PORTFOLIO
(1) Obligations of the United States	None	NA	None	None
<ul style="list-style-type: none"> Treasuries Other obligations (except mortgage securities) fully insured or guaranteed by the United States Government or a Government agency. 				
(2) Obligations of Government-sponsored agencies	None	NA	None	None
<ul style="list-style-type: none"> Government-sponsored agency securities (except mortgage securities). Other obligations (except mortgage securities) fully insured or guaranteed by Government-sponsored agencies. 				
(3) Municipal Securities				
<ul style="list-style-type: none"> General obligations 	10 years	One of the two highest.	None	None
<ul style="list-style-type: none"> Revenue bonds 	5 years for fixed rate bonds and 10 years for index/floating rate bonds	Highest	None	15%
(4) International and Multilateral Development Bank Obligations	None	None	The United States must be a voting shareholder.	None
(5) Money Market Instruments				
<ul style="list-style-type: none"> Federal funds 	1 day or continuously callable up to 100 days	One of the two highest short-term.	None	None
<ul style="list-style-type: none"> Negotiable certificates of deposit 	1 year	One of the two highest short-term.	None	None
<ul style="list-style-type: none"> Bankers acceptances 	None	One of the two highest short-term.	Issued by a depository institution.	None
<ul style="list-style-type: none"> Prime commercial paper 	270 days	Highest short-term.	None	None
<ul style="list-style-type: none"> Non-callable term Federal funds and Eurodollar time deposits. 	100 days	Highest short-term.	None	20%
<ul style="list-style-type: none"> Master notes 	270 days	Highest short-term.	None	20%
<ul style="list-style-type: none"> Repurchase agreements collateralized by eligible investments or marketable securities rated in the highest credit rating category by an NRSRO. 	100 days	NA	If counterparty defaults, you must divest non-eligible securities as required under § 652.45.	None

Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section, and § 651.40 when applicable. "NA" means not applicable.

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ASSET CLASS	FINAL MATURITY LIMIT	NRSRO ISSUE OR ISSUER CREDIT RATING REQUIREMENT	OTHER REQUIREMENTS	MAXIMUM PERCENTAGE OF TOTAL NON-PROGRAM INVESTMENT PORTFOLIO
(6) Mortgage Securities				
• Issued or guaranteed by the United States or a Government agency.	None	NA	Stress testing under § 652.40.	None
• Government-sponsored agency mortgage securities.	None	One of the two highest.	Stress testing under § 652.40.	50%
• Non-Government agency or Government-sponsored agency securities that comply with 15 U.S.C. 77d(5) or 15 U.S.C. 78c(a) (41).	None	Highest	Stress testing under § 652.40.	15% combined
• Commercial mortgage-backed securities.	None	Highest	<ul style="list-style-type: none"> • Security must be backed by a minimum of 100 loans. • Loans from a single mortgagor cannot exceed 5% of the pool. • Pool must be geographically diversified pursuant to the board's policy. • Stress testing under § 652.40. 	
(7) Asset-Backed Securities secured by: <ul style="list-style-type: none"> • Credit card receivables • Automobile loans • Home equity loans • Wholesale automobile dealer loans • Student loans • Equipment loans • Manufactured housing loans 	None	Highest	Maximum of 5-year WAL for fixed rate or floating rate ABS at their contractual interest rate caps.	25% combined
(8) Corporate Debt Securities	5 years	One of the highest two for maturities greater than 3 years, and one of the highest three for maturities of three years or less.	Cannot be convertible to equity securities.	25%
(9) Diversified Investment Funds Shares of an investment company registered under section 8 of the Investment Company Act of 1940.	NA	NA	The portfolio of the investment company must consist solely of eligible investments authorized by this section. The investment company's risk and return objectives and use of derivatives must be consistent with FCA guidance and your investment policies.	None, if your shares in each investment company comprise less than 10% of your portfolio. Otherwise counts toward limit for each type of investment.

Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section, and § 651.40 when applicable. "NA" means not applicable.

(b) *Rating of foreign countries.* When investment is located outside the United States, the host country must

maintain the highest sovereign rating for political and economic stability by an NRSRO.

(c) *Marketable investments.* All eligible investments, except money market instruments, must be readily marketable. An eligible investment is marketable if you can sell it promptly at a price that closely reflects its fair value in an active and universally recognized secondary market. You must evaluate and document the size and liquidity of the secondary market for the investment at time of purchase.

(d) *Obligor limits.* (1) You may not invest more than 25 percent of your regulatory capital in eligible investments issued by any single entity, issuer or obligor. This obligor limit does not apply to Government-sponsored agencies or Government agencies. You may not invest more than 100 percent of your regulatory capital in any one Government-sponsored agency. There are no obligor limits for Government agencies.

(2) *Obligor limits for your holdings in an investment company.* You must count securities that you hold through an investment company towards the obligor limits of this section unless the investment company's holdings of the security of any one issuer do not exceed 5 percent of the investment company's total portfolio.

(e) *Preferred stock and other investments approved by the FCA.* (1) You may purchase non-program investments in preferred stock issued by other Farm Credit System institutions only with our written prior approval. You may also purchase non-program investments other than those listed in the Non-Program Investment Eligibility Criteria Table at paragraph (a) of this section only with our written prior approval.

(2) Your request for our approval must explain the risk characteristics of the investment and your purpose and objectives for making the investment.

§ 652.40 Stress tests for mortgage securities.

(a) You must perform stress tests to determine how interest rate changes will affect the cashflow and price of each mortgage security that you purchase and hold, except for adjustable

rate mortgage securities that reprice at intervals of 12 months or less and are tied to an index. You must also use stress tests to gauge how interest rate fluctuations on mortgage securities affect your capital and earnings. The stress tests must be able to measure the price sensitivity of mortgage instruments over different interest rate/yield curve scenarios and be consistent with any asset liability management and interest rate risk policies. The methodology that you use to analyze mortgage securities must be appropriate for the complexity of the instrument's structure and cashflows. Prior to purchase and each quarter thereafter, you must use the stress tests to determine that the risk in the mortgage securities is within the risk limits of your board's investment policies. The stress tests must enable you to determine at the time of purchase and each subsequent quarter that the mortgage security does not expose your capital or earnings to excessive risks.

(b) You must rely on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions. You must document the basis for all assumptions that you use to evaluate the security and its underlying mortgages. You must also document all subsequent changes in your assumptions. If at any time after purchase, a mortgage security no longer complies with requirements in this section, Farmer Mac's management must report to the Corporation's board of directors in accordance with § 652.10(g).

§ 652.45 Divestiture of ineligible non-program investments.

(a) *Divestiture requirements—(1) Initial divestiture requirements.* Within 6 months of this rule's effective date, you must divest of all ineligible non-program investments or securities unless we approve, in writing, a plan that authorizes you to divest the instruments over a longer period of time. An acceptable plan generally would require you to divest of the ineligible investments or securities as quickly as possible without substantial financial loss.

(2) *Subsequent divestiture requirements.* Subsequent to the initial divestiture