purchase and hold Farmer Mac securities for the purposes of managing credit and interest rate risks, and furthering your mission to finance agriculture. The total value of your Farmer Mac securities cannot exceed your total outstanding loans, as defined by §615.5131(f).

(b) Board and management responsibilities. Your board of directors must adopt written policies that will govern your investments in Farmer Mac securities. All delegations of authority to specified personnel or committees must state the extent of management’s authority and responsibilities for managing your investments in Farmer Mac securities. The board of directors must also ensure that appropriate internal controls are in place to prevent loss, in accordance with §615.5133(e). Management must submit quarterly reports to the board of directors on the performance of all investments in Farmer Mac securities. Annually, your board of directors must review these policies and the performance of your Farmer Mac securities and make any changes that are needed.

(c) Policies. Your board of directors must establish investment policies for Farmer Mac securities that include:

(1) Objectives for holding Farmer Mac securities.

(2) Credit risk parameters including:

(i) The quantities and types of Farmer Mac mortgage securities that are collateralized by qualified agricultural mortgages, rural home loans, and loans guaranteed by the Farm Service Agency.

(ii) Product and geographic diversification for the loans that underlie the security; and

(iii) Minimum pool size, minimum number of loans in each pool, and maximum allowable premiums or discounts on these securities.

(3) Liquidity risk tolerance and the liquidity characteristics of Farmer Mac securities that are suitable to meet your institutional objectives. A bank may not include Farmer Mac mortgage securities in the liquidity reserve maintained to comply with §615.5134.

(4) Market risk limits based on the effects that the Farmer Mac securities have on your capital and earnings.

(d) Stress Test. You must perform stress tests on mortgage securities that are issued or guaranteed by Farmer Mac in accordance with the requirements of §615.5141(b) and (c). If a Farmer Mac security fails a stress test, you must divest it as required by §615.5143.

[64 FR 28899, May 28, 1999, as amended at 70 FR 51590, Aug. 31, 2005]

EFFECTIVE DATE NOTE: At 77 FR 66374, Nov. 5, 2012, §615.5174 was amended by removing the reference “615.5131(f)” in paragraph (a) and adding in its place, the reference “615.5131”; revising paragraph (d); and adding paragraph (e), effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session. For the convenience of the user, the added and revised text is set forth as follows:

§615.5174 Farmer Mac securities.

* * * * *

(d) Stress Test. You must perform stress tests, in accordance with §615.5133(f)(1)(iii) and §615.5133(f)(4), on mortgage securities, issued or guaranteed by Farmer Mac, that are backed by loans that you did not originate.

(e) You. Means a Farm Credit bank, association, or service corporation.

§615.5175 Investments in Farm Credit System institution preferred stock.

Except as provided for in §615.5171, Farm Credit banks, associations and service corporations may only purchase preferred stock issued by another Farm Credit System institution, including the Federal Agricultural Mortgage Corporation, with the written prior approval of the Farm Credit Administration. The request for approval should explain the terms and risk characteristics of the investment and the purpose and objectives for making the investment.

[70 FR 53908, Sept. 13, 2005]

Subpart G—Risk Assessment and Management

SOURCE: 63 FR 39225, July 22, 1998, unless otherwise noted.

§615.5180 Interest rate risk management by banks—general.

The board of directors of each Farm Credit Bank, bank for cooperatives,
§ 615.5180 Bank interest rate risk management program.
(a) The board of directors of each Farm Credit bank must develop, implement, and effectively oversee an interest rate risk management program tailored to the needs of the institution and consistent with the requirements set forth in §615.5135 of this part. The program shall establish a risk management process that effectively identifies, measures, monitors, and controls interest rate risk.
(b) Senior management is responsible for ensuring that interest rate risk is properly managed on both a long-range and a day-to-day basis.
(c) The board of directors of each Farm Credit bank must adopt an interest rate risk management section of an asset/liability management policy that establishes interest rate risk exposure limits as well as the criteria to determine compliance with these limits. At a minimum, the interest rate risk management section must establish policies and procedures for the bank to:
   (1) Address the purpose and objectives of interest rate risk management;
   (2) Identify and analyze the causes of risks within its existing balance sheet structure;
   (3) Measure the potential effect of these risks on projected earnings and market values by conducting interest rate shock tests and simulations of multiple economic scenarios at least on a quarterly basis and by considering the effect of investments on interest rate risk based on the results of the stress testing required under §615.5135(f)(4);
   (4) Describe and implement actions needed to obtain its desired risk management objectives;
   (5) Identify exception parameters and approvals needed for any exceptions to the requirements of the board’s policies;
   (6) Describe delegations of authority;
   (7) Describe reporting requirements, including exceptions to limits contained in the board’s policies;
   (8) Consider the nature and purpose of derivative contracts and establish counterparty risk thresholds and limits for derivatives.

§ 615.5181 Bank interest rate risk management program.
(a) The board of directors of each Farm Credit bank, bank for cooperatives, and agricultural credit bank is responsible for providing effective oversight to the interest rate risk management program and must be knowledgeable of the nature and level of interest rate risk taken by the institution.
(b) Senior management is responsible for ensuring that interest rate risk is properly managed on both a long-range and a day-to-day basis.

EFFECTIVE DATE NOTE: At 77 FR 66374, Nov. 5, 2012, §615.5180 was revised, effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session. For the convenience of the user, the revised text is set forth as follows:

§ 615.5180 Bank interest rate risk management program.
(a) The board of directors of each Farm Credit bank must develop, implement, and effectively oversee an interest rate risk management program tailored to the needs of the institution. The program shall establish a risk management process that effectively identifies, measures, monitors, and controls interest rate risk. The board of directors of each Farm Credit bank must be knowledgeable of the nature and level of interest rate risk taken by the institution.
(b) Senior management is responsible for ensuring that interest rate risk is properly managed on both a long-range and a day-to-day basis.
(c) The board of directors of each Farm Credit bank must adopt an interest rate risk management section of an asset/liability management policy that establishes interest rate risk exposure limits as well as the criteria to determine compliance with these limits. At a minimum, the interest rate risk management section must establish policies and procedures for the bank to:
   (1) Address the purpose and objectives of interest rate risk management;
   (2) Identify and analyze the causes of risks within its existing balance sheet structure;
   (3) Measure the potential effect of these risks on projected earnings and market values by conducting interest rate shock tests and simulations of multiple economic scenarios at least on a quarterly basis and by considering the effect of investments on interest rate risk based on the results of the stress testing required under §615.5135(f)(4);
   (4) Describe and implement actions needed to obtain its desired risk management objectives;
   (5) Identify exception parameters and approvals needed for any exceptions to the requirements of the board’s policies;
   (6) Describe delegations of authority;
   (7) Describe reporting requirements, including exceptions to limits contained in the board’s policies;
   (8) Consider the nature and purpose of derivative contracts and establish counterparty risk thresholds and limits for derivatives.

§ 615.5182 Interest rate risk management by associations and other Farm Credit System institutions other than banks.

Any association or other Farm Credit System institution other than banks, excluding the Federal Agricultural Mortgage Corporation, with interest rate risk that could lead to significant declines in net income or in the market value of capital shall comply with the requirements of §§615.5180 and 615.5181. The interest rate risk management program required under §615.5181 shall be commensurate with the level of interest rate risk of the institution.

EFFECTIVE DATE NOTE: At 77 FR 66375, Nov. 5, 2012, §615.5182 was revised, effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session. For the convenience of the user, the revised text is set forth as follows:

§ 615.5182 Interest rate risk management by associations and other Farm Credit System institutions other than banks.

Any association or other Farm Credit System institution other than Farm Credit banks, excluding the Federal Agricultural Mortgage Corporation, with interest rate risk that could lead to significant declines in net income or in the market value of capital