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(vi) As applicable, OS MO's own pro forma estimates of Farmer Mac's potential losses, revenues, and resulting capital adequacy measurements under expected and stressful conditions, including but not limited to any stressed scenarios required under paragraphs (c)(2)(i)(A) and (c)(2)(ii) of this section, as well as the results of any other stress tests conducted by Farmer Mac or OS MO; and

(vii) Other information requested or required by OS MO, as well as any other information relevant to Farmer Mac's capital adequacy.

(e) *OS MO action on a capital plan.* (1) OS MO will review the capital plan and provide an assessment to Farmer Mac of the capital adequacy and planning process through its ongoing examination and oversight process.

(2) Upon a request by OS MO, Farmer Mac must provide OS MO with sufficient information regarding its planning assumptions, stress test strategies and results and any other relevant qualitative or quantitative information requested by OS MO to facilitate review of Farmer Mac's capital plan under this section.

(3) OS MO may require Farmer Mac to revise and re-submit its capital plan.

(f) *Farmer Mac response to OS MO's assessment.* Regardless of whether re-submission is required, Farmer Mac must take the results of the stress tests conducted under paragraphs (c)(2)(i)(A) and (c)(2)(ii) of this section (including any revisions required under paragraph (e)(3) of this section) as well as OS MO's assessment into account in making changes, as appropriate, to Farmer Mac's capital structure (including the level and composition of capital); its exposures, concentrations, and risk positions; any plans for recovery and resolution; and to improve overall risk management. Farmer Mac must document in writing its actions in response to the stress tests and assessment, as well as decisions not to take actions in response to any issues raised in the assessment.

[78 FR 65149, Oct. 31, 2013]

EFFECTIVE DATE NOTE: At 78 FR 65149, Oct. 31, 2013, § 652.61 was added, effective Jan. 3, 2014.

§ 652.62 Notice to OS MO of capital distributions.

(a) Farmer Mac must provide OS MO with notice 15 calendar days prior to a board consideration of a declaration of a capital distribution or any material changes in capital distributions policies.

(b) Except as provided in paragraph (c), notice under paragraph (a) of this section is not required with respect to capital distributions set forth (*i.e.*, specifically scheduled as to amount and timing along with a discussion of the planned distribution) in the capital plan or a regular periodic payment of dividends on common stock and preferred stock when there is no change in the amount of payment per share from the previous period.

(c) In the event that OS MO determines a capital plan has not adequately taken into account OS MO's assessment as required under § 652.61(f), the exception described in paragraph (b) of this section shall not apply, and Farmer Mac must provide notification of any and all capital distributions as set forth in paragraph (a) of this section.

[78 FR 65149, Oct. 31, 2013]

EFFECTIVE DATE NOTE: At 78 FR 65149, Oct. 31, 2013, § 652.62 was added, effective Jan. 3, 2014.

§ 652.65 Risk-based capital stress test.

You will perform the risk-based capital stress test as described in summary form below and as described in detail in appendix A to this subpart. The risk-based capital stress test spreadsheet is also available electronically at <http://www.fca.gov>. The risk-based capital stress test has five components:

(a) *Data requirements.* You will use the following data to implement the risk-based capital stress test.

(1) You will use Corporation loan-level data to implement the credit risk component of the risk-based capital stress test.

(2) You will use Call Report data as the basis for Corporation data over the 10-year stress period supplemented with your interest rate risk measurements and tax data.

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(3) You will use other data, including the 10-year Constant Maturity Treasury (CMT) rate and the applicable Internal Revenue Service corporate income tax schedule, as further described in appendix A to this subpart.

(b) *Credit risk.* The credit risk part estimates loan losses during a period of sustained economic stress.

(1) For each loan in the Farmer Mac I portfolio, you will determine a default probability by using the logit functions specified in appendix A to this subpart with each of the following variables:

(i) Borrower's debt-to-asset ratio at loan origination;

(ii) Loan-to-value ratio at origination, which is the loan amount divided by the value of the property;

(iii) Debt-service-coverage ratio at origination, which is the borrower's net income (on- and off-farm) plus depreciation, capital lease payments, and interest, less living expenses and income taxes, divided by the total term debt payments;

(iv) The origination loan balance stated in 1997 dollars based on the consumer price index; and,

(v) The worst-case percentage change in farmland values (23.52 percent).

(2) You will then calculate the loss rate by multiplying the default probability for each loan by the estimated loss-severity rate, which is the average loss of the defaulted loans in the data set (20.9 percent).

(3) You will calculate losses by multiplying the loss rate by the origination loan balances stated in 1997 dollars.

(4) You will adjust the losses for loan seasoning, based on the number of years since loan origination, according to the functions in appendix A to this subpart.

(5) You will calculate loss rates on rural utility loans as further described in Appendix A.

(6) You will further adjust losses for loans that collateralize the general obligation of AgVantage Plus volume, and for loans where the program loan counterparty retains a subordinated interest in accordance with Appendix A to this subpart.

(7) The losses must be applied in the risk-based capital stress test as specified in appendix A to this subpart.

(c) *Interest rate risk.* (1) During the first year of the stress period, you will adjust interest rates for two scenarios, an increase in rates and a decrease in rates. You must determine your risk-based capital level based on whichever scenario would require more capital.

(2) You will calculate the interest rate stress based on changes to the quarterly average of the 10-year CMT. The starting rate is the 3-month average of the most recent CMT monthly rate series. To calculate the change in the starting rate, determine the average yield of the preceding 12 monthly 10-year CMT rates. Then increase and decrease the starting rate by:

(i) 50 percent of the 12-month average if the average rate is less than 12 percent; or

(ii) 600 basis points if the 12-month average rate is equal to or higher than 12 percent.

(3) Following the first year of the stress period, interest rates remain at the new level for the remainder of the stress period.

(4) You will apply the interest rate changes scenario as indicated in appendix A to this subpart.

(5) You may use other interest rate indices in addition to the 10-year CMT subject to our concurrence, but in no event can your risk-based capital level be less than that determined by using only the 10-year CMT.

(d) *Cashflow generator.* (1) You must adjust your financial statements based on the credit risk inputs and interest rate risk inputs described above to generate pro forma financial statements for each year of the 10-year stress test. The cashflow generator produces these financial statements. You may use the cashflow generator spreadsheet that is described in appendix A to this subpart and available electronically at <http://www.fca.gov>. You may also use any reliable cashflow program that can develop or produce pro forma financial statements using generally accepted accounting principles and widely recognized financial modeling methods, subject to our concurrence. You may disaggregate financial data to any greater degree than that specified in appendix A to this subpart, subject to our concurrence.

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(2) You must use model assumptions to generate financial statements over the 10-year stress period. The major assumption is that cashflows generated by the risk-based capital stress test are based on a steady-state scenario. To implement a steady-state scenario, when on- and off-balance sheet assets and liabilities amortize or are paid down, you must replace them with similar assets and liabilities (AgVantage Plus volume is not replaced when it matures). Replace amortized assets from discontinued loan programs with current loan programs. In general, keep assets with small balances in constant proportions to key program assets.

(3) You must simulate annual pro forma balance sheets and income statements in the risk-based capital stress test using Farmer Mac's starting position, the credit risk and interest rate risk components, resulting cashflow outputs, current operating strategies and policies, and other inputs as shown in appendix A to this subpart and the electronic spreadsheet available at <http://www.fca.gov>.

(e) *Calculation of capital requirement.* The calculations that you must use to solve for the starting regulatory capital amount are shown in appendix A to this subpart and in the electronic spreadsheet available at <http://www.fca.gov>.

[71 FR 77253, Dec. 26, 2006, as amended at 73 FR 31940, June 5, 2008; 76 FR 23467, Apr. 27, 2011]

§ 652.70 Risk-based capital level.

The risk-based capital level is the sum of the following amounts:

(a) *Credit and interest rate risk.* The amount of risk-based capital determined by the risk-based capital test under § 652.65.

(b) *Management and operations risk.* Thirty (30) percent of the amount of risk-based capital determined by the risk-based capital test in § 652.65.

§ 652.75 Your responsibility for determining the risk-based capital level.

(a) You must determine your risk-based capital level using the procedures in this subpart, appendix A to this subpart, and any other supplemental instructions provided by us.

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You will report your determination to us as prescribed in § 652.90. At any time, however, we may determine your risk-based capital level using the procedures in § 652.65 and appendix A to this subpart, and you must hold risk-based capital in the amount we determine is appropriate.

(b) You must at all times comply with the risk-based capital levels established by the risk-based capital stress test and must be able to determine your risk-based capital level at any time.

(c) If at any time the risk-based capital level you determine is less than the minimum capital requirements set forth in section 8.33 of the Act, you must maintain the statutory minimum capital level.

§ 652.80 When you must determine the risk-based capital level.

(a) You must determine your risk-based capital level at least quarterly, or whenever changing circumstances occur that have a significant effect on capital, such as exposure to a high volume of, or particularly severe, problem loans or a period of rapid growth.

(b) In addition to the requirements of paragraph (a) of this section, we may require you to determine your risk-based capital level at any time.

(c) If you anticipate entering into any new business activity that could have a significant effect on capital, you must determine a pro forma risk-based capital level, which must include the new business activity, and report this pro forma determination to the Director, Office of Secondary Market Oversight, at least 10-business days prior to implementation of the new business program.

§ 652.85 When to report the risk-based capital level.

(a) You must file a risk-based capital report with us each time you determine your risk-based capital level as required by § 652.80.

(b) You must also report to us at once if you identify in the interim between quarterly or more frequent reports to us that you are not in compliance with the risk-based capital level required by § 652.70.