

§ 652.55

§ 652.55 General.

You must hold risk-based capital in an amount determined in accordance with this subpart.

§ 652.60 Corporation board guidelines.

(a) Your board of directors is responsible for ensuring that you maintain total capital at a level that is sufficient to ensure continued financial viability and—provide for growth. In addition, your capital must be sufficient to meet statutory and regulatory requirements.

(b) No later than 65 days after the beginning of Farmer Mac's planning year, your board of directors must adopt an operational and strategic business plan for at least the next 3 years. The plan must include:

- (1) A mission statement;
- (2) A review of the internal and external factors that are likely to affect you during the planning period;
- (3) Measurable goals and objectives;
- (4) Forecasted income, expense, and balance sheet statements for each year of the plan; and,
- (5) A capital adequacy plan.

(c) The capital adequacy plan must include capital targets necessary to achieve the minimum, critical and risk-based capital standards specified by the Act and this subpart as well as your capital adequacy goals. The plan must address any projected dividends, equity retirements, or other action that may decrease your capital or its components for which minimum amounts are required by this subpart. You must specify in your plan the circumstances in which stock or equities may be retired. In addition to factors that must be considered in meeting the statutory and regulatory capital standards, your board of directors must also consider at least the following factors in developing the capital adequacy plan:

- (1) Capability of management;
- (2) Strategies and objectives in your business plan;
- (3) Quality of operating policies, procedures, and internal controls;
- (4) Quality and quantity of earnings;
- (5) Asset quality and the adequacy of the allowance for losses to absorb potential losses in your retained mortgage portfolio, securities guaranteed as

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to principal and interest, commitments to purchase mortgages or securities, and other program assets or obligations;

(6) Sufficiency of liquidity and the quality of investments; and,

(7) Any other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities, or other conditions warranting additional capital.

§ 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.

(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