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United States General Accounting Office

GAO

Fact Sheet for the Honorable Richard H. Lehman, House of Representatives

November 1987

# FARM FINANCE

# Provisions for Secondary Markets for Farm Real Estate Loans in H.R. 3030

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-220507

November 5, 1987

The Honorable Richard H. Lehman
House of Representatives

Dear Mr. Lehman:

As requested on September 30, 1987, we are providing you with information on the secondary markets for agricultural real estate loans presented in H.R. 3030, the proposed Agricultural Credit Act of 1987, which was passed by the House of Representatives on October 6, 1987. As agreed with your office, this fact sheet provides information on the major provisions of two secondary markets for the sale of agricultural real estate loans described in Title III of the bill.

The elements used to highlight the major provisions of the bill are the same ones used to summarize earlier bills in our previous fact sheet entitled Farm Finance: Legislative Proposals for Secondary Markets for Farm Real Estate Loans (GAO/RCED-87-172FS, July 2, 1987) and our briefing report entitled Farm Finance: Secondary Markets for Agricultural Real Estate Loans (GAO/RCED-87-149BR, July 17, 1987). The elements include purpose of the market, market organization and operation, sources of funding for the market, cost to establish and operate the market, eligibility criteria for lenders, loan and underwriting criteria, market volume, regulatory oversight body and cost, targeted investors, risk bearers, and market duration.

To develop these elements we met with industry experts and discussed the types of information that should be considered to obtain a better understanding of a bill's potential impact on farmers, lenders, and the federal government. Not all of this information is available in the bill. Some of it is not typically included in legislation and can be fleshed out and refined by the administering agency within broad legislative guidelines.

In summary, the bill contains provisions to (1) create a secondary market for long-term agricultural real estate mortgage loans originated by both Farm Credit System (FCS) and other private lenders, (2) improve the operations of the existing secondary market for Farmers Home Administration (FmHA) guaranteed loans, including agricultural real estate loans, and (3) create a secondary market program exclusively for FCS loans, except for long-term agricultural real estate, with the possibility of making the program permanent and expanding it to include sales of long-term agricultural real estate loans after 1 year. A brief description of the three markets follows.

- -- To create a secondary market for long-term agricultural mortgage loans, the bill would establish the Federal Agricultural Mortgage Corporation, a federally chartered instrumentality of the United States, within the FCS. The corporation would guarantee the timely payment of principal and interest to holders of securities backed by pools of agricultural real estate loans made by lenders, including FCS institutions, banks, and insurance companies. The pool securities could either be issued by FCS institutions, their affiliates, or by other private entities. The securities would not be guaranteed by nor would they be an obligation of the United States, the Farm Credit Administration (FCA), or any instrumentality of the United States except the Federal Agricultural Mortgage Corporation. However, the Treasury could potentially incur losses by holding obligations of up to $1.5 billion in corporation debt.

- -- To improve the operation of the secondary market for FmHA-guaranteed loans, the bill would allow the Secretary of Agriculture to issue, or permit private entities to issue, loan pool certificates guaranteed by the Secretary and backed by FmHA-guaranteed loans. In reporting out the bill, the House Agriculture Committee indicated that adding a formal mechanism to aggregate loans and sell government guaranteed pools of loans would increase the liquidity of the loans as investments and attract a larger universe of potential buyers.

- -- To create a program exclusively for FCS loans, the bill authorizes FCS banks to issue securities backed by pooled loans, excluding long-term agricultural loans. The FCA would study the potential effects of such a market, including the potential sale of long-term agricultural loans in this market. The bill requires completion of the study within 1 year after its enactment. Because the bill does not contain detailed provisions for the program and that program would not currently create a market for long-term loans, we have not provided a further summary of the program in this report.

We have divided this briefing report into two sections. The first section provides information on the proposed Federal Agricultural Mortgage Corporation that would be created within the FCS. The second section provides information on the proposed expanded FmHA-guaranteed loan secondary market that would be administered by the Secretary of Agriculture. Appendix I summarizes the bill's provisions for the two secondary markets for agricultural real estate loans.

We are sending copies of this fact sheet to the chairmen of selected House and Senate Committees with jurisdictions in the agricultural, finance, banking, and securities areas; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. Copies will be available to others on request. Should you need further information, please contact me at (202) 275-5138.

Major contributors to this fact sheet are included in appendix II.

Sincerely yours,

Brian P. Crowley

Brian P. Crowley
Senior Associate Director

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## ABBREVIATIONS

| | |
|---|---|
| FCA | Farm Credit Administration |
| FCS | Farm Credit System |
| FmHA | Farmers Home Administration |
| GAO | General Accounting Office |
| RCED | Resources, Community, and Economic Development Division |

## SECTION 1

## CREATION OF THE FEDERAL AGRICULTURAL MORTGAGE CORPORATION

Date passed by the House of Representatives

October 6, 1987

Date to be established

Upon enactment.

Purpose

The purpose of this provision in the bill is to establish the Federal Agricultural Mortgage Corporation as an institution of the FCS. The purposes of the corporation would be to (1) certify agricultural mortgage marketing facilities and to provide for a secondary marketing arrangement for farm real estate mortgages that meet the corporation's underwriting standards in order to increase the availability of long-term agricultural credit at a stable interest rate, (2) provide greater liquidity and lending capacity to lenders for agricultural real estate, and (3) provide for new lending to facilitate capital market investments in long-term agricultural funding, including funds at fixed interest rates.

Organizational structure/market operation

Corporation and market structure

The primary functions of the corporation would be to (1) provide credit enhancement, which is a guarantee of timely payment of principal and interest, to holders of securities backed by pools of agricultural real estate loans that would be issued either by private entities or by FCS institutions or their affiliates, created for that purpose, to make those securities more marketable; (2) certify private entities and FCS institutions as eligible to receive credit enhancement from the corporation on pools of agricultural real estate loans; and (3) establish underwriting standards for loans to be pooled.

Within 60 days of enactment, the President, with the advice and consent of the Senate, would appoint an interim board of directors. The interim board's primary duty would be to arrange for an initial offering of the corporation's voting common stock to raise $20 million and to initiate actions to make the corporation operable until a permanent board is formed. The interim board would have nine members with one designated by the President as chairperson. Three of the nine members would be representatives of banks, other financial institutions, and insurance companies; three would be representatives of FCS institutions; two would be farmers;

and one would be a representative of the general public. The farmers and the representative of the general public could not have served as directors or officers of any financial institution. Not more than five members could be from the same political party.

After $20 million of initially offered voting common stock was purchased and fully paid, the interim board would arrange for the organization of a 13-member permanent board of directors. Six members would be appointed by the President, with the advice and consent of the Senate; three members would be elected by the stockholders that were banks, other financial institutions, and insurance companies; three members would be elected by stockholders that were FCS institutions; and one would be the Secretary of the Treasury or his designee. Of the six presidential appointees and the Secretary of the Treasury or his designee, only four could be from the same political party. Of the six, two would be farmers and two would be representatives of the general public. The two farmers and one of the general public representatives could not have served as directors or officers of any financial institution. The second representative of the general public could not currently be a director or officer of any financial institution and would have education, training, or experience in secondary financial markets. The President would appoint the chairperson of the board and the presidentially appointed directors would serve at the pleasure of the President. The other directors would be elected for terms ending at the time of the next annual meeting of the corporation after their election or when the members' successors took office.

Two classes of voting common stock would be created and offered, one only to banks, other financial institutions, and life insurance companies and the other only to institutions of the FCS. Once the permanent board had met, stock in either class could be issued only to agricultural mortgage loan originators and agricultural mortgage marketing facilities certified by the board to pool loans in the secondary market. Unless the board imposed restrictions, each class of stock would be transferable among institutions of the kind eligible to buy that class of stock.

Stockholders could be paid dividends. However, the dividends could not be declared or paid on the corporation's common stock while any corporation debt was outstanding to the Treasury and unless the board determined that adequate provision had been made for a reserve against losses. This reserve would be funded by fees for credit enhancement collected from the issuers of the pool securities.

<u>Mortgage marketing facilities' certification</u>

Not later than 120 days after the first meeting of the permanent board, the corporation would be required to issue standards for certification of agricultural mortgage marketing facilities, which would purchase agricultural real estate loans from loan originators, create securities or obligations backed by the loans, and market the securities or obligations. The standards would not be permitted to discriminate between or against FCS and non-FCS applicants desiring to become certified agricultural mortgage marketing facilities. Any FCS institution (other than the corporation), acting singly or in combination with other FCS institutions, could create affiliates that could apply for certification.

A certified agricultural mortgage marketing facility would have to meet the following requirements: (1) be an institution of the FCS or a corporation, association, or trust under federal or state law, (2) meet or exceed capital standards established by the board, (3) have as one of its purposes the sale or resale of securities representing interests in or obligations backed by pools of qualified agricultural mortgage loans that had been provided credit enhancement by the corporation, (4) demonstrate managerial ability that was acceptable to the corporation with respect to agricultural mortgage loan underwriting, servicing, and marketing, (5) adopt appropriate agricultural mortgage loan underwriting, appraisal, and servicing standards that met or exceeded uniform standards established by the board, and (6) permit the corporation to examine a certified facility's books, records, and loan files pertaining to the pooling and credit enhancement operations.

Not later than 60 days after receiving an application, the corporation would have to certify a facility that met these and whatever other standards the corporation had established. Certification would be for 5 years or less and could be revoked, after notice and an opportunity for hearing, for failure to continue to meet eligibility standards. Revocation would not affect the credit enhancement already extended to the facility.

FCS institutions would be permitted to enter into agreements with any certified facility (including those established as affiliates of FCS institutions) to sell the institutions' loans exclusively to or through the facility.

### Credit enhancement

Upon application by certified agricultural mortgage marketing facilities, the corporation would be authorized to provide credit enhancement--a guarantee of timely payment of principal and interest--on the facilities' securities or obligations representing interests in pools of qualified agricultural mortgage loans held by the facilities. At the time the corporation issued commitments to provide credit enhancement, the corporation would impose a fee on the certified agricultural mortgage marketing facility, on the basis of the amount of risk incurred by the corporation. The corporation's provision of credit enhancement would be subject to standards developed by the permanent board of directors and to other responsibilities stated in the bill.

At a minimum, the standards for issuance of credit enhancement would include the following diversification requirements: (1) loans in the pool must be secured by agricultural real estate that would be widely distributed geographically, (2) provisions must be made for wide variation in principal amounts of loans in the pool in such a way as to encourage inclusion of loans for small farms and family farmers, (3) a loan pool must be diversified to include loans for real estate used to produce a wide range of agricultural commodities, (4) the amount of any single loan could not exceed 2 percent of the total principal amount of the pool, and (5) inclusion in a pool of two or more loans to related borrowers would be prohibited. These standards and other underwriting standards could not go into effect until 30 legislative days or 90 calendar days--whichever is longer--after they had been submitted to the Congress.

The following responsibilities of and limitations on certified facilities would apply to obtain the corporation's credit enhancement: (1) the originator of any loan in the pool would be permitted to retain the right to service that loan, (2) the facility would ensure opportunities for minority-owned or -controlled investment banking firms, underwriters, and bond counsels to participate to a significant degree in any public offerings of securities, (3) the facility could not refuse to purchase qualified agricultural mortgage loans originating in states with borrowers' rights laws, (4) the facility would act in accordance with the standards of a prudent institutional lender to resolve defaults on loans in the pool, (5) the proceeds of any collateral, judgments, settlements, or guarantees received by the facility with respect to any loan in the pool would be applied, less cost of collection, first to reimburse the Secretary of the Treasury for any funds that the corporation had borrowed from the Treasury for credit enhancement payments on the pool and second to reimburse the corporation for any such payments made by it, (6) the loans would be sold to the facility without recourse to the originators, except to the extent the originators chose either to participate in a cash contribution reserve established in connection with such loans or to accept a subordinated participation interest in such loans, and (7) the facilities, with optional participation by the originators, would be required to establish a cash contribution reserve or subordinated participation interest of at least 10 percent of the principal amount of each loan included in each such pool to be applied against losses due to loan default.

A loan originator would become liable for a subordinated participation interest by agreeing to retain ownership of a portion of a loan that it sold to a facility for inclusion in a pool and agreeing further not to receive its share of principal or interest on any of those loans until full and timely payments of principal and interest had been made to all other holders of securities representing interests in the pool. Subordinated participation interests established by facilities, including optional participation by loan originators, would be not less than 10 percent of the principal amount of each loan in such pool.

A cash contribution reserve would be held by the facility. The reserve would be handled differently depending on whether loan originators had contributed to it. If a loan originator chose to contribute, the reserve could be invested only in government-issued, -guaranteed, or -insured securities. If loan originators did not contribute, the reserve could be invested however the corporation deemed appropriate. Contributions to the reserve, but not earnings on the contributions, would be required to be maintained as a segregated account. The facility and any loan originators that exercised their option to contribute to the reserve would be paid at least semiannually any earnings on the reserve in proportion to their contributions. However, the distribution of earnings would not be permitted to cause the reserve to fall below 10 percent of the total principal amount of loans in the pool. When drawing on the reserve to meet losses due to a loan default, the losses would be charged first to any contribution to the reserve by the originator of the defaulted loan before charging the contributions, if any, of other originators.

Before credit enhancement commitment would be activated, the certified agricultural mortgage marketing facilities would have to exhaust the cash contribution reserve or subordinated participation interest. Once these were exhausted, the portion of risk-based fees paid by facilities for credit enhancement and set aside by the corporation as a reserve against losses would be available to pay principal and interest to holders of securities.

If the facilities' cash contribution reserve or the subordinated participation interests were insufficient to make required payments and the corporation's risk-based fee fund were exhausted, the corporation would certify that these sources had been exhausted and that supplementary funds were required for credit enhancement. The corporation would then be authorized to issue, and the Secretary of the Treasury would purchase, obligations in an amount sufficient to meet the corporation's credit enhancement liabilities. The Secretary could not hold more than $1.5 billion of obligations issued by the corporation at any one time. The Secretary would set the interest rate on the obligations, taking into consideration the average interest rate on outstanding U.S. obligations, and would require that the corporation repurchase its obligations within a reasonable time.

Funding of the market

In addition to the initial $20 million of common stock sold, the corporation would be authorized to require each agricultural mortgage loan originator and each certified agricultural mortgage marketing facility to make nonrefundable capital contributions, in exchange for stock, that are reasonable and necessary to meet the administrative expenses of the corporation. The corporation could issue additional common stock but only to agricultural mortgage loan originators or certified agricultural mortgage marketing facilities.

The corporation could set aside as much of the risk-based fee that it would charge agricultural mortgage marketing facilities for guaranteeing loan pools as it deemed necessary for a reserve against losses. The corporation could permit the risk-based fees to be paid in installments over the life of the pool security. It could also charge fees to cover administrative costs.

Cost to establish

An initial capitalization of $20 million would be provided from the purchase of voting common stock by banks, other financial institutions, insurance companies, and FCS institutions.

Cost to operate

The bill does not estimate or limit operating cost.

Eligibility criteria for participating lenders

The bill defines an agricultural mortgage loan originator to be any FCS institution, bank, insurance company, business and industrial development company, savings and loan association, commercial finance company, trust company, credit union, association of agricultural producers, or other entity that originates and services agricultural mortgage loans. The corporation may not discriminate against small agricultural mortgage loan originators.

Lending criteria/underwriting standards

The bill defines agricultural real estate to mean a parcel or parcels of land used for the production of one or more agricultural commodities or products and consisting of a minimum acreage or producing minimum annual receipts as determined by the corporation. A qualified agricultural mortgage loan would be an obligation (1) secured by a fee simple or leasehold mortgage with status as a first lien on agricultural real estate located in the United States, (2) approved by a certified agricultural mortgage marketing facility as meeting the uniform underwriting and other standards established by the corporation in consultation with agricultural mortgage loan originators, (3) of a U.S. citizen (or a corporation or partnership the majority of which is held by U.S. citizens) that has training or farming experience, and (4) meeting the underwriting and other standards established by the corporation.

The underwriting standards could not go into effect until 30 legislative days or 90 calendar days (whichever is longer) after they had been submitted to the Congress.

At a minimum, the standards would require the following conditions be met: (1) the loan could not exceed $1.5 million (adjusted for inflation) unless secured by not more than 1,000 acres of agricultural real estate, (2) a loan-to-value ratio of 80 percent or less would be required, (3) appraisals to determine loan-to-value ratio would be based on the agricultural use of the land at the time of appraisal, (4) adequate standards would have been developed to protect the integrity of the appraisal process, (5) a borrower must demonstrate sufficient cash flow to adequately service the loan, and (6) sufficient documentation would be required. The bill also requires that the standards established by the corporation would not be used to discriminate against small agricultural mortgage loan originators or small agricultural mortgage loans of at least $50,000.

Volume of activity

The bill does not estimate or limit volume of activity.

Regulatory oversight body and cost

The corporation would be an institution of the FCS and subject to the regulatory authority of the FCA as to the safe and sound performance of the powers, functions, and duties vested in the corporation. (See 12 U.S.C. chap. 23, sub. ch. V, Part B.) In exercising its supervisory authority, FCA is to consider the purposes of the corporation, the practices appropriate to secondary markets in agricultural loans, and the reduced levels of risk in appropriately structured secondary market transactions.

The corporation would be required to publish an annual report containing financial statements prepared in accordance with generally accepted accounting principles and audited by an independent public accountant, and any other information prescribed by the FCA. The GAO could also perform a financial audit of the corporation on whatever basis the Comptroller General determined to be necessary.

The securities representing an interest in a pool of qualified agricultural mortgage loans for which credit enhancement had been provided by the corporation would be subject to the registration and other requirements of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940. The bill is silent concerning the application of state securities laws.

State laws limiting interest, discount points, finance charges, or other charges by agricultural lenders or certified facilities would not apply to loans or facilities in this program. States would have 3 years to pass laws to override the exemption from their existing laws but these state actions could not affect transactions that occurred before enactment of the new state laws.

The cost of regulation is not discussed in the bill. The FCA would assess the corporation for the cost of all its regulatory activities.

Targeted investors

Securities representing an interest in pools of qualified agricultural loans, for which the corporation had provided credit enhancement, would be designated as authorized investments under federal or state law for any person, trust, corporation, partnership, association, business trust, or business entity to the same extent as U.S.-issued or -guaranteed securities. Also for purposes of state laws that limit investments by private entities in obligations issued by the United States, these pool securities would be treated as such obligations. However, states would have 3 years to enact laws that could operate prospectively either to prohibit or limit investments in the securities issued under this bill.

Risk bearers

Securities would carry a statement that they are not guaranteed by or an obligation of the United States, the FCA, or any other instrumentality of the United States except the corporation. In addition, no other FCS institution would be liable for the corporation's credit enhancements. Once the facilities' subordinated participation interests or cash contribution reserves, the corporation's risk-based fee reserve, and any proceeds from the potential issue of $1.5 billion in debt obligations to the Treasury were exhausted, it appears that, barring any congressional or other mitigating actions, the investors that bought the corporation's loan-backed securities would bear the remaining credit risk.

Market duration

The bill does not contain a termination provision. The bill states that the corporation would continue until dissolved by an act of Congress.

## SECTION 2

## SECONDARY MARKET OPERATIONS FOR FARMERS HOME ADMINISTRATION GUARANTEED LOANS

### Date passed by the House of Representatives

October 6, 1987

### Date to be established

Upon issuance of final regulations by the Secretary of Agriculture.

### Purpose

The purpose of this provision in the bill is to improve the operation of the secondary market for loans guaranteed by FmHA, including agricultural real estate loans. In reporting out the bill, the House Agriculture Committee's report (HR 100-295) indicates that adding a formal mechanism to aggregate loans and sell government-guaranteed pools of loans would increase the liquidity of the loans as investments and attract a larger universe of potential buyers.

### Organizational structure/market operation

The bill applies generally to loans guaranteed by the FmHA under the Consolidated Farm and Rural Development Act (7 U.S.C. Chap. 50), including real estate, operating, and rural development loans. The bill would amend the act as follows. The portion of such loans made by private-sector lenders that would be guaranteed by the FmHA could be sold by the lender, and by any subsequent holder, in accordance with regulations on such sales issued by the Secretary of Agriculture, provided (1) all fees due the Secretary with respect to a guaranteed loan were paid in full before any sale and (2) the loan was fully disbursed to the borrower before the sale. After a loan was sold in the secondary market, the lender would remain obligated under the guarantee agreement with the Secretary and would be required to continue to service the loan according to the guarantee agreement. The Secretary would develop the necessary procedures for the facilitation, administration, and promotion of secondary market operations and for determining the increase of farmers' access to capital at reasonable rates and terms as a result of secondary market operations.

The Secretary could issue pool certificates representing ownership of part or all of the guaranteed portion of any loan guaranteed by the FmHA under the Consolidated Farm and Rural Development Act. Such certificates would be backed by a pool composed solely of the entire FmHA-guaranteed portion of such loans. The Secretary could permit approved private entities--market makers--to issue pool certificates on his behalf and could guarantee the timely payment of the principal and interest on such certificates. Such a guarantee would be limited to the extent of principal and interest on the guaranteed portions of loans that comprised the pools. The full faith and credit of the United States would be pledged to the payment of all amounts required to be paid under any guarantee of pool certificates issued by approved market makers.

On the adoption of final regulations, the Secretary would (1) provide for the central collection of registration information from all participating market makers for all loans and pool certificates sold by them, (2) before any sale of pool certificates, require the seller to disclose to each prospective purchaser information on the terms, conditions, and yield, (3) require each market maker to service all pools formed and participation sold and to provide specific information to the Secretary relating to collection and disbursement of funds, and (4) regulate market makers with regard to pool certificates sold.

Funding of the market

The bill speaks of a reserve fund, to be established by the Secretary to enable the guarantee to be self-funding but does not explain the mechanism for the reserve fund. The Secretary would be authorized to collect fees for the functions he is to perform after the adoption of final regulations, provided that he is not to collect any fee for the guarantee of a pool certificate. The fees would not be available to finance the program. Two existing revolving funds, the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund, both currently available to meet the Secretary's obligations on guaranteed loans under the Consolidated Farm and Rural Development Act, would apparently also be available to satisfy guarantees of pool certificates.

Cost to establish

The bill does not discuss the cost to establish the various provisions.

Cost to operate

The bill does not estimate or limit operating cost.

Eligibility criteria for participating lenders

The bill does not discuss eligibility criteria for participating market makers. For lenders, existing law provides that the Secretary may guarantee loans by any federally or state-chartered bank, savings and loan association, cooperative lending agency, or other legally organized lending agency. (See 7 U.S.C. 1929(h).)

## Lending criteria/underwriting standards

The bill does not discuss lending criteria/underwriting standards for participating market makers. Generally, borrowers must be farmers or ranchers in the United States who are citizens with training or experience that in the Secretary's judgment would ensure reasonable prospects of success, who are operating a family farm, and who cannot get credit elsewhere at reasonable rates and terms. (See 7 U.S.C. 1922.)

## Volume of activity

The bill does not estimate or limit volume of activity.

## Regulatory oversight body and cost

The Secretary of Agriculture would be required to issue regulations governing the operations of a secondary market for FmHA-guaranteed loans. The Secretary would be required to transmit an annual report to the Senate and House agriculture committees including specific information on the operations of the secondary market. The cost of regulation is not discussed in the bill.

## Targeted investors

The bill does not discuss potential targeted investors.

## Risk bearers

The United States would bear the credit, or default, risk of pool certificates issued by approved market makers and guaranteed by the Secretary of Agriculture. Such a guarantee would be limited to the extent of principal and interest on the guaranteed portions of loans that comprise the pools. It appears that, barring any congressional or other mitigating actions, the owner of the unguaranteed portion, would bear the credit risk. The House Agriculture Committee Report (HR 100-295) states that the guarantee of the pool certificates would not create any liability of the United States in addition to that already created by the FmHA guarantees of the individual loans in the pool.

## Market duration

The bill does not contain a termination provision.

SUMMARY OF SECONDARY MARKET PROVISIONS CONTAINED IN H.R. 3030, AS PASSED BY THE HOUSE OF REPRESENTATIVES ON OCTOBER 6, 1987

| Element in proposal | Federal Agricultural Mortgage Corporation | Secondary Market Operations for FmHA-guaranteed Loans |
|---|---|---|
| PURPOSE | To create a secondary market for farm mortgages, increase availability of long-term agricultural credit at a stable interest rate, provide liquidity, and facilitate funding of long-term agricultural investments. | To improve the operation of secondary market for FmHA-guaranteed loans, including agricultural real estate loans. |
| ORGANIZATIONAL STRUCTURE/ MARKET OPERATION | A federally chartered corporation within the FCS would certify private entities to issue, and would guarantee, obligations backed by pooled agricultural loans meeting the corporation's underwriting standards. Entities would establish a reserve in the amount of, or agree to accept ownership of, at least 10 percent of principal amount of each loan in the pool, with optional participation by loan originators, to assure payment of principal and interest on pool securities. The corporation would guarantee amounts not covered by those provisions. A 13-member permanent board would have 3 elected by FCS stockholders, 3 elected by non-FCS stockholders, 6 presidential appointees, and the Secretary of the Treasury. Loan pools could not exclude loans from states with borrowers' rights laws. No loan could exceed 2 percent of the pool. Diversity of loan amounts, crops, and locations would be required. | Secretary of Agriculture, either himself or through regulated private entities, could issue and guarantee payment of principal and interest on pool securities backed by the guaranteed portion of FmHA-guaranteed loans. |
| FUNDING OF THE MARKET | Funding would be provided by sale of 2 classes of voting common stock, one to non-FCS member institutions and the other to FCS institutions; capital contributions required of lenders and marketing facilities in return for stock; and risk-based fees required for credit enhancements. | Secretary of Agriculture would establish a reserve fund (source not specified). FmHA existing revolving funds could be used to meet pool certificate guarantees. |
| COST TO ESTABLISH | $20 million from stock. | Not specified. |
| COST TO OPERATE | Not estimated. | Not estimated. |
| ELIGIBILITY CRITERIA FOR PARTICIPATING LENDERS | Any entity that originates and services agricultural mortgage loans (includes insurance companies, banks, FCS institutions, and others). May not discriminate against small lenders. | Any legally organized lending agency. |

| Element in proposal | Federal Agricultural Mortgage Corporation | Secondary Market Operations for FmHA-guaranteed Loans |
|---|---|---|
| LENDING CRITERIA/UNDERWRITING STANDARDS | Loans must be to U.S. citizens with training or farming experience that can demonstrate adequate cash flow; be secured by a first lien on U.S. farmland; be no more than $1.5 million (adjusted for inflation) unless they are secured by 1,000 acres or less of agricultural real estate; have a loan-to-value ratio of 80 percent or less based on the use of the land at the time of the appraisal; and meet underwriting standards set by the corporation. The standards may not discriminate against small loans of at least $50,000. | Loans must be to U.S. citizen-farmers operating family farms, who have reasonable prospects of success and who cannot get credit elsewhere at reasonable rates. |
| VOLUME OF ACTIVITY | Not estimated. | Not estimated. |
| REGULATORY OVERSIGHT BODY AND COST | FCA would oversee operation of the market. GAO could perform financial audits. Securities would be subject to federal securities laws. The bill is silent on state securities laws. Securities would be exempt from state usury laws unless the states pass laws to override this exemption. | Secretary of Agriculture would issue regulations and report to the Congress annually. |
| INVESTORS TARGETED | The securities would be authorized investments to the same extent as federal obligations unless restricted by state law. | Not specified. |
| RISK BEARERS | The corporation would guarantee the timely payment of principal and interest not covered by the 10-percent commitment of the issuers. The guarantee would not obligate the government, but the corporation could borrow $1.5 billion from the Treasury if its own reserve were inadequate. | The government would guarantee timely payment of principal and interest on the FmHA-guaranteed portion of the loans. |
| MARKET DURATION | Until dissolved by law. | Contains no market duration provision. |

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