FARM CREDIT SYSTEM INSURANCE CORPORATION
POLICY STATEMENT CONCERNING
THE MANAGEMENT AND DISPOSITION OF OWNED ASSETS
DATED: JUNE 8, 2022

Background

The Farm Credit Act of 1971, as amended (Act) established the Farm Credit System Insurance Corporation (FCSIC or Corporation) to protect the investors in Systemwide and consolidated securities issued by Farm Credit System (System) banks.[1] The Corporation may, from time to time, hold an interest in various types of assets. These assets may come under the control of the Corporation in its capacity as receiver or they may be assets held in its corporate capacity.[2] The Corporation may also, from time to time, liquidate assets that have come under the control of the Corporation in its capacity as receiver or assets acquired in its corporate capacity.

Section 4.12(b) of the Farm Credit Act of 1971, as amended (Act), states that the Farm Credit Administration (FCA) Board shall have exclusive power and jurisdiction to appoint a receiver or conservator. The receiver or conservator for a System institution other than the Federal Agricultural Mortgage Corporation (FAMC) shall be the Corporation.[3] As a receiver of a System institution, it is likely that the Corporation will take control of some, if not all, of the institution's assets.

Section 5.61(a) of the Act authorizes the Corporation, in its sole discretion, to purchase the assets of a bank or direct lender association in order to facilitate a merger or consolidation. In addition, FCSIC in its corporate capacity may choose to purchase certain assets in order to prevent the placing of an institution into receivership, to restore the institution to normal operation, or to reduce the risk to the Corporation when severe financial conditions threaten the System.

Section 5.61(b) of the Act sets forth the separate authority of the Corporation to, in its discretion, liquidate or sell any part of the assets of any System institution that have been placed in receivership or assets acquired in FCSIC's corporate capacity.

FCSIC will ensure that assets it owns, or controls are adequately valued, insured, and inspected for potential environmental hazards. FCSIC's primary objective in disposing of assets is to minimize losses to the Farm Credit Insurance Fund (Insurance Fund) or the receivership estate. FCSIC staff need to establish an appropriate, timely and orderly marketing process that minimizes losses to the Insurance Fund or the receivership estate with the goal of returning assets to the private sector.

Proper and efficient valuation of assets under FCSIC's purview by qualified appraisers is essential to accomplishing this objective. For purposes of this Policy Statement, we consider an "appraisal" to be a written statement, independently and impartially prepared, by a qualified appraiser setting an opinion of the market value of property as of a specific date supported by the

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[1] The Agricultural Credit Act of 1987, Pub. L. No. 100-233 (1988), amended the Farm Credit Act of 1971 to establish the Farm Credit System Insurance Corporation. (12 USC §§ 2277a-1 *et seq*.)
[2] This policy statement does not apply to conservatorships. In a conservatorship, the institution's policies and procedures would generally be followed in setting environmental hazard, insurance and appraisal requirements, except as those policies and procedures are modified by the Corporation acting as conservator.
[3] FCSIC may also act as receiver or conservator for FAMC if appointed by the FCA Board.

analysis of relevant market information.[4] Although appraisals do not provide indisputable evidence of value, they do provide a reasonable basis for determining the course of action with respect to a given asset. In particular, this type of valuation is useful in making a determination of whether to sell property for a specific price. Appraisal costs generally are less than 1% of market value for a property and when properly conducted provide an objective independent evaluation of a property's value.

Ensuring adequate property and liability insurance coverage for owned or controlled assets is vital to protect FCSIC's interests. Failure to secure adequate insurance coverage may result in significant, unexpected, and avoidable losses to the Corporation.

Environmental issues have the potential to adversely affect the value of assets and to create liabilities if assets subject to environmental contamination are acquired. This Policy Statement provides environmental hazard risk guidance to FCSIC staff to avoid actions that may potentially result in losses or liabilities while fostering compliance with all relevant environmental laws and regulations.

Policy Statement

Appraisals

Appraisals are required for real property or tangible personal property collateral that support nonperforming loans[5] greater than $400,000 and for real property or tangible personal property[6] held by the Corporation valued greater than $400,000 unless there is a government guarantee in place. For properties with book values greater than $5 million, the Corporation will obtain two appraisals to be ordered contemporaneously. Generally, new appraisals will not be required on property pledged as collateral where the associated loan is current and performing. If the appraisal for collateral supporting a performing loan is older than 18 months FCSIC should determine whether the appraisal meets FCSIC's appraisal standard or consider getting a valuation report completed by a qualified evaluator.

FCSIC staff will rely upon a valuation report, completed by a qualified evaluator, in a format sufficient to establish the property's market value, for properties with book values less than $400,000. On a case-by-case basis, the Chief Operating Officer (COO) of FCSIC has delegated authority to provide exceptions, in writing, to the requirements of this policy statement for properties with book values greater than $400,000. For example, in a receivership there may be an opportunity to conduct a bulk sale of loan assets to maximize value and reduce the holding period, making the requirement to obtain an appraisal on each asset unnecessary.

Insurance

The Corporation's policy is to maintain adequate property and liability insurance coverage on: (1) all property or other assets acquired during the liquidation process; (2) collateral under the control of

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[4] This is also the definition used in FCA rules. *See,* 12 C.F.R. § 614.4240(b).

[5] A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full.

[6] For purposes of this policy statement, the term "tangible personal property" means all assets that are not real estate and are not "intangible property." For purposes of this policy statement, "intangible property" includes, without limitation, franchises, trademarks, patents, copyrights, goodwill, equities, securities, loans, interests in loans, loan participations, contracts and other nonphysical assets. Examples of tangible personal property include, without limitation, livestock, equipment, vehicles, furniture, and tools.

the Corporation;[7] and (3) any property that may be held by the Corporation through the normal course of business for which coverage is appropriate. Assets should be insured using a blanket/multi-peril insurance policy from an insurer with a Financial Strength Rating from A.M. Best Company of B+ or better and is licensed to provide coverage in the state where the asset is located. Certain types of assets, for example growing crops or livestock, may be excluded from a blanket/multi-peril policy, in which case the Corporation should endeavor to obtain separate coverage. When coverage is appropriate and cost effective, the Corporation, as receiver, may assume insurance contracts on assets where coverage already exists. Further, the Corporation will not self-insure owned assets unless sufficient portfolio diversification or cost savings is achieved to justify the risk of self-insurance.

The COO of FCSIC has delegated authority to provide exceptions, in writing, to the requirements of this paragraph on a case-by-case basis.

Environmental Assessments

The Corporation will require completion of a Phase I Environmental Site Assessment (ESA) that meets the standards outlined by the American Society for Testing and Materials (ASTM) for all assets greater than one acre. The Phase I ESA will need to also include sampling for Business Environment Risks (asbestos, radon, mold, and petrol products) and a determination on whether the property is considered a Special Resource as these are beyond the scope of standard Phase 1 ESAs.

The Corporation shall solicit the expertise of an environmental hazard expert for all environmental issues. The Corporation must consult legal counsel, environmental consultants, or other experts throughout the environmental risk assessment process. The Corporation shall seek advice of outside attorneys to assist in complying with environmental laws and regulations and specifically with environmental warranty and disclosure issues related to asset sales. For example, specialists are required for the completion of an ASTM Phase I ESA or to meet the requirements of the Environmental Protection Agency's "all appropriate inquiry rule," which states that the individual conducting the investigation and signing the report must meet the definition of an "Environmental Professional."[8] This rule establishes, among other things, protection from cleanup for a new owner of property as long as the owner meets certain statutory requirements. Therefore, FCSIC shall ensure that outside experts meet necessary qualifications in order to limit FCSIC's liability.

The Corporation will rely on the advice of environmental experts in determining remediation efforts, if any.

Sale of Assets

When disposing of assets as a receiver, FCSIC must comply with the requirements of 12 U.S.C. 2277a-10c(b)(13)(E) (section 5.61C(b)(13)(E) of the Act).[9] For all asset sales it is the Board's

[7] This applies in instances where borrowers fail to maintain adequate insurance coverage under the terms of their loan contracts and agreements.

[8] *See* 40 C.F.R. § 312.20. *See also* 40 C.F.R. § 312.10 (defining "Environmental Professional").

[9] 5.61C(b)(13)(E) provides:(E) DISPOSITION OF ASSETS.—In exercising any right, power, privilege, or authority as receiver in connection with any sale or disposition of assets of any System institution for which the Corporation is acting as receiver, the Corporation shall, to the maximum extent practicable, conduct its operations in a manner

goal to dispose of assets as soon as practicable in order to return assets to the private sector where they can be more productive while minimizing losses to the Insurance Fund or the receivership estate. FCSIC will liquidate assets in an orderly manner to achieve the most favorable rate of return. Initial market prices will be established based on the appraised value of the asset or other approved valuation method. In general, the Corporation will attempt to sell assets for cash. However, in situations where private financing is not readily available, the Corporation will consider providing financing for the sale of certain assets on a case-by-case basis. During specified periods of marketing, purchase offers may be accepted within defined levels of appraised value in accordance with delegations of authority. In cases where assets prove difficult to liquidate, the Corporation may sell assets whenever an offer is received that is determined to reflect market value as established through an adequate marketing effort, regardless of appraised value.

The Board delegates to the COO of the Corporation authority to make asset disposition decisions in all cases where the estimated market value of the asset is less than or equal to $25.0 million. This authority is limited to making decisions in cases where the amount of loss to be realized does not exceed 15 percent of the sum of a) the book value of the asset(s), minus b) any unearned discount, plus c) any interest accrued but unpaid. The COO will have the authority to re-delegate all or a portion of this authority to a committee established to review asset disposition proposals, to be known as the Asset Review Committee (ARC), or to Corporation staff, as appropriate.

When disposing of assets, FCSIC staff should ensure that active, professional marketing is conducted to obtain the best sales price. FCSIC staff should pursue conventional methods for disposing of properties including listing with a broker or direct sale by Corporation personnel or contractors. It is the Corporation's policy to use private sector firms when appropriate in all marketing and sales of assets, including asset management and disposition, contracting, brokerage, property management, and holding of auctions.

Corporation policy is to utilize target sales price ranges for real estate, and other assets where appropriate, based on the Net Realizable Value (NRV)[10] of the assets. NRV's shall be calculated by either FCSIC staff or outside experts and be based on expected cost of sale, cost to carry and marketing times, with the discount rates equal to the appropriate cost of funds. Price limitations, expressed as a percentage of NRV for a stated duration, establish minimum sales price levels. Offers which are below these minimums generally would not be accepted.

The following General Sales Price Limitations will apply:

Marketing Period	Price Limitation
0 to 6 months	90% of NRV
6 to 12 months	80% of NRV

which—(i) maximizes the net present value return from the sale or disposition of such assets; (ii) minimizes the amount of any loss realized in the resolution of cases; (iii) ensures adequate competition and fair and consistent treatment of offerors; (iv) prohibits discrimination on the basis of race, sex, or ethnic groups in the solicitation and consideration of offers; and (v) mitigates the potential for serious adverse effects to the rest of the System.

[10] NRV = Present Value (Pv) of Net Cash Flow that is projected to be recovered during a specified period of time. Net Cash Flow equals the difference between all projected gross cash flows and all projected direct expenses. Pv will be calculated based on the expected marketing time and a discount rate equal to the appropriate cost of funds for the institution.

12 to 24 months	70% of NRV
Over 24 months	No limit

FCSIC staff shall consider the appropriateness of non-conventional marketing strategies such as auctions and sealed bid sales as methods of disposition on an asset-by-asset basis. An asset must be of sufficient size, require extraordinary holding cost or have unique characteristics for FCSIC to consider a non-conventional marketing strategy that FCSIC staff determine will produce a better overall price than conventional marketing efforts. The COO or authorized delegate must approve alternative marketing methods in advance.

To avoid the appearance of impropriety, the Corporation will refrain from the sale of assets to parties who may have influence, or the appearance of influence, over the terms or conditions of sale. This includes employees of the Corporation, the FCA, the receivership or conservatorship, current or recent FCSIC board members, contractors, and members of the immediate families of any of these groups. The Corporation must also review all sales to ensure they comply with the statutory requirements of 5.61C(i) of the Act.

When statutory borrower rights are determined to apply, the Corporation will generally follow applicable borrower rights procedures established by the district bank or association where the asset is located.

This Policy Statement shall be supported by procedures that provide detailed instructions and guidance to FCSIC staff on obtaining appraisals, insurance, and environmental assessments for assets under the Corporation's control as well as the process for disposing acquired assets.

Reporting to the Board

FCSIC staff will promptly report to the Board on any assets owned or managed by the Corporation or its contractors that pose an urgent environmental risk. Additionally, FCSIC staff will report to the Board at least quarterly on 1) the insurance coverage of all owned or managed assets covered by this Policy, 2) assets that are exposed to environmental risk, and 3) asset sales and status of marketing efforts.