



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1998

Mr. Henry D. Edelman
President and Chief Executive Officer
Federal Agricultural Mortgage Corporation
919 18th St. NW
Washington, DC 20006

Dear Mr. Edelman:

In your letter to the Board dated April 14, 1998, you requested that the Board determine that the Federal Agricultural Mortgage Corporation ("Farmer Mac") is a financial institution for purposes of the netting provisions in the Federal Deposit Insurance Corporation Improvement Act of 1991 ("Act").

The Act provides that netting contracts among clearing organization members and between financial institutions will be upheld, even if one of the parties to the contract becomes insolvent. The Act's netting provisions were designed to promote efficiency and reduce systemic risk within the banking system and financial markets. The Act defines "financial institution" to include depository institutions, securities brokers or dealers, futures commission merchants, and any other institution as determined by the Board.

The Board adopted Regulation EE (12 CFR Part 231) to expand the definition of financial institution. The rule provides that persons meeting certain tests based on market activity would qualify as "financial institutions" under the Act. Specifically, to qualify as a financial institution, a person must represent that it will engage in financial contracts as a counterparty on both sides of one or more financial markets and meet one of two volume thresholds for its market activity. According to your letter, Farmer Mac does not qualify as a financial institution under Regulation EE as it does not meet either the representation or volume test.

The Board understands that Farmer Mac has a statutorily mandated function that requires it to participate in the financial markets. Farmer Mac was authorized by Congress for financial purposes, i.e., to provide stability and liquidity to the secondary market for agricultural real estate and rural housing mortgage loans (12 U.S.C. § 2279aa *et seq.*) The banking and financial markets are integral to Farmer Mac's primary business. In connection with its business, Farmer Mac enters into interest rate swaps, interest rate cap and floor contracts, and repurchase agreements that contain netting provisions. These transactions allow Farmer Mac to manage its overall interest rate risk profile more effectively and to reduce borrowing costs.

Both Farmer Mac and its counterparties would likely benefit from netting certainty. If Farmer Mac's counterparties are certain that contractual netting provisions will be

enforceable, Farmer Mac will likely be able to obtain more favorable terms on its contracts than it could if netting were in doubt. Farmer Mac and those of its counterparties that hold capital against financial contracts would benefit to the extent that capital rules allow them to net contract values for the purpose of calculating required capital.

For the reasons cited above, the Board has determined that Farmer Mac is a financial institution for purposes of the Act's netting provisions (12 U.S.C. 4401 et seq.).

Sincerely,

A handwritten signature in black ink, appearing to read "William W. Wiles". The signature is fluid and cursive, with a prominent initial "W" and a long, sweeping tail.

William W. Wiles
Secretary of the Board