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Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON

Policy Statement Concerning the Sale of Assets

BM-24-JAN-13-03

Effective Date: January 24, 2013

Effect on Previous Action(s): The revised Policy Statement Concerning the Sale of Assets replaces the Policy Statement Concerning the Sale of Assets [NV-07-02].

Source of Authority: Sections 4.12, 5.58, 5.61 and 8.41 of the Farm Credit Act of 1971, as amended (Act); 12 U.S.C. §§2183, 2277a-7, 2277a-10, and 2279cc; Bylaws of the Farm Credit System Insurance Corporation [BM-12-SEP-06-05].

THE FCSIC BOARD HEREBY APPROVES:

- The revised Policy Statement Concerning the Sale of Assets, including its delegation of authority to the Chief Operating Officer of the Corporation.
- Staff to make any technical, grammatical or syntactical changes that may be necessary.

DATED THIS 24th DAY OF JANUARY 2013

BY ORDER OF THE BOARD

Dale L. Aultman
Secretary to the Board

FCSIC Policy Statement Concerning the Sale of Assets (Approved at January 24, 2013 FCSIC Board Meeting)

Background

The Farm Credit System Insurance Corporation may, from time to time, liquidate various types of assets. These assets may have come under the control of the Corporation in its capacity as receiver or conservator, or they may be assets held in its corporate capacity.

Section 4.12(b) of the Farm Credit Act of 1971, as amended (Act), 12 U.S.C. 2183, 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. 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, or in order to prevent the placing of such institution in receivership, to restore the bank to normal operation, or to reduce the risk to the Corporation when severe financial conditions threaten the Farm Credit System (System). Section 5.61(b) of the Act sets forth the separate authority of the Corporation, in its discretion, to liquidate or sell any part of the assets of any System institution that has been placed in receivership because of an inability to pay its obligations in a timely manner.

To provide for the timely and orderly liquidation or sale of any such assets, the Board of Directors (Board) of the Corporation hereby adopts the following policy statement.

Policy Statement

It is the goal of this policy statement to dispose of assets as soon as possible without upsetting local markets and to maximize return. In order to achieve the most favorable rate of return, assets will be liquidated in an orderly manner. 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, and should, sell assets whenever an offer is received that is determined to reflect market value as established through an adequate marketing effort, irrespective of the relationship of that price to appraised value.

Delegations of Authority: The Board hereby delegates to the Chief Operating Officer 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 such 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 Chief Operating Officer 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.

Marketing: There are several different methods for disposing of properties, including auction, sealed bid, listing with a broker, or direct sale by the Corporation personnel or contractors. Choosing the correct method of sale is an important factor in the marketing effort. Active, professional marketing is required to obtain the best sales price available. 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.

Adequate marketing will vary according to the type of asset and method of the proposed sale. A clearly defined marketing strategy will be developed by staff or contractor as appropriate for each asset to ensure the asset's exposure to the appropriate markets and to allow the market an adequate opportunity to respond.

Case memoranda or Asset Management and Disposition Plans (AMDPs) will be drafted by liquidation staff and approved according to the Delegations of Authority to permit timely adjustment of the listing price over time if an asset is not promptly sold.

Target sales price ranges for real estate, and other assets where appropriate, will be based on the Net Realizable Value (NRV¹) of the assets. NRV's will be calculated 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:

| <u>Marketing Period</u> | <u>Price Limitation</u> |
|-------------------------|-------------------------|
| 0 to 6 months | 90% of NRV |
| 6 to 18 months | 80% of NRV |
| 18 to 24 months | 70% of NRV |

The appropriateness of alternative marketing strategies such as auctions and sealed bid sales as methods of disposition will be determined on an asset-by-asset basis. In general, to be considered for marketing under an alternative strategy an asset must be of sufficient size or uniqueness that the alternative strategy is likely to produce a better overall price than conventional marketing efforts. The use of an alternative marketing method must be approved in advance by the appropriate level of authority.

¹ 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.



To the extent required by the Farm Credit Act, FCSIC or FCA regulations and FCSIC's policies and procedures, the Corporation will accord borrower rights in connection with the sale of real estate. In general, when borrower rights are determined to apply, the Corporation will follow the procedures established by the district bank for the district where the asset is located.

Appraisals: Appraisals will be performed in accordance with the Corporation's previously adopted Appraisal Policy. The purpose of an appraisal is to provide an objective opinion of market value. The Corporation requires that appraisals be performed by an independent third party, with the goal of providing objective estimates of market value developed by individuals not associated with the disposition of the asset. Although appraisals do not provide indisputable evidence of value, they do establish a reasonable basis for determining whether to sell an asset for a specific price.

Generally, the Corporation will obtain an appraisal on all real estate assets with a book value greater than or equal to \$250,000. It should be assumed that for most properties that the appraisal will have a useful life of 24 months. After that time, a new estimate of value should normally be obtained. For properties with book values of less than \$250,000, the Corporation will generally obtain one or more brokers' opinions of value, which will be used in establishing the initial listing price. Exceptions may be made in the case of properties that have a potential value in excess of book value, or those that have a unique or complex nature requiring more in-depth review to determine their value.



Environmental Issues: The Board has adopted an Environmental Policy to enable its representatives or contractors to properly manage environmental issues related to owned real estate properties and other assets.

Insurance of Assets: The Board has adopted an Insurance of Assets Policy which establishes the parameters for insurance of assets.



Executive Summary

Subject: Policy Statement Concerning
Sale of Assets

Prepared by: Russell Fayer *RF*
Reviewed by: Alan Glenn *AG*
James Morris *JM*
Date: January 15, 2013

Issue/Decision: Whether the Farm Credit System Insurance Corporation (Corporation) should approve a revised Policy Statement Concerning the Sale of Assets.

Effect on Previous Actions: If the Board approves the revised Policy Statement Concerning the Sale of Assets, it will replace the current Policy Statement Concerning the Sale of Assets [NV-07-02].

Source of Authority: Sections 4.12, 5.58, 5.61 and 8.41 of the Farm Credit Act of 1971, as amended (Act); 12 U.S.C. §§2183, 2277a-7, 2277a-10, and 2279cc; Bylaws of the Farm Credit System Insurance Corporation [BM-12-SEP-06-05]

Recommendation: Staff recommends that the Board of Directors approve the attached Policy Statement Concerning the Sale of Assets, including its delegation of authority to the COO of the Corporation. Staff recommends that the Board of Directors authorize the staff to make any technical, grammatical or syntactical changes that may be necessary.

Background: The Corporation may, from time to time, liquidate various types of assets. These assets may have come under control of the Corporation in its capacity as receiver or conservator, or they may be assets held in its corporate capacity. The Corporation's Board of Directors adopted a Sale of Assets policy statement in August 2007. As part of its continuing effort to periodically review all Corporation policies, staff has reviewed the Sale of Assets policy and has concluded that substantive amendments are unnecessary.

Analysis: The proposed policy addresses the sale of both real estate and non-real estate assets. In order to achieve the most favorable overall return available, assets will be disposed of in an orderly manner. Initial market price will be established based on the appraised value of the asset or other approved valuation method. During specified marketing periods, purchase offers may be accepted within defined levels of appraised value. In cases where assets prove difficult to liquidate, the Corporation may, and should, sell assets whenever an offer is received that is determined to reflect market value as established through an adequate marketing effort, irrespective of the relationship of that price to appraised value.

The current policy provides for a delegation of authority by the Board of Directors to the COO of \$25 million and authorizes the COO to make further delegations subject to this limitation. Appraisals of property for sale are to be performed in accordance with the Board's Appraisal Policy. The Sale of Assets Policy will be implemented through the Corporation's Sale of Assets Procedures.

In reviewing this policy, Corporation staff surveyed industry best practices, including those of the Federal Deposit Insurance Corporation, and consulted with WarBird Consulting.

The attached Sale of Assets Procedures are not part of the Policy Statement Concerning the Sale of Assets, but are being provided as background information.

Attachment: 1) Policy Statement Concerning Sale of Assets
2) Sale of Assets Procedures