

# **FARM CREDIT OF NEW MEXICO, ACA**

## **BOARD OF DIRECTORS' CHARTER**

### ***PURPOSE***

The mission of Farm Credit of New Mexico, ACA (Association) is “Growing Success, one Relationship at a Time.” The Board of Directors (Board) adopts this Charter to support the Board’s leadership and oversight role in the accomplishment of this mission.

### ***POWERS AND DUTIES***

The Board has the authority and responsibility to direct the operations of the Association. The Board may use reasonable amounts of time of the Association’s internal auditors and independent accountants, internal and outside lawyers, and other internal staff, and also shall have the authority to hire independent accounting experts, lawyers, and other consultants to assist and advise the Board in connection with its responsibilities. The Board shall keep the Chief Executive Officer (CEO) advised as to the general range of anticipated expenses for such consultants hired by the Board.

### ***KEY RESPONSIBILITIES***

The Board’s primary responsibilities include:

- Understanding of the Association’s primary business including the key business opportunities and the strategies and plans related to this business
- Understanding the significant areas of risk in Association operations and ensuring the processes and tools to monitor and control this risk are effective.
- Selecting, evaluating, and compensating the CEO. Redirecting or replacing the CEO, when appropriate,
- Maintaining effective Association leadership through sound selection, training, performance evaluation, compensation, and succession planning programs,
- Developing Association’s long-term vision and conducting the long-term planning and strategic thinking needed to realize the vision,
- Establishing policies that provide overall direction to management for day-to-day operations,
- Utilizing the broad range of knowledge and experience as directors to advise and counsel senior management on significant issues facing the Association,
- Delegating authority to management through policies and other means and holding senior management accountable for the results achieved,
  
- Overseeing Association:
  - Performance (profitability, achievement of business plan goals, and related matters),
  - Risk management (appropriate capital levels, effective internal controls, interest rate and credit risk),
  - Compliance with laws and regulations, and
  - Audit and Compensation Committees

- Maintaining high standards of excellence in conducting Board business by:
  - Adopting “Best Practices” in governance, where appropriate and applicable;
  - Taking adequate time to prepare for and deliberate on matters coming before the Board,
  - Asking questions and considering options and the advantages /disadvantages of issues presented to the Board,
  - Reasonably relying on management, auditors, and advisors,
  - Exercising objectivity and autonomy to make independent, informed decisions, and
  - Demonstrating leadership and taking action, when appropriate.
- Supporting the political process to protect the Association’s interests and public image.

## **KEY ROLES**

The Board’s key roles include:

- Fostering a healthy, but arms-length, relationship with management by:
  - Respecting differing roles served by the Board and management,
  - Routinely using executive sessions as a tool to encourage open, candid, and productive discussions among Board members on problems, strategic opportunities, or on matters such as compensation or performance,
  - Maintaining a sense of continued trust and confidence in management when questioning, probing, or opposing management’s position or recommendations on an issue before the Board, and
  - Speaking with a unified voice to management.
- Fostering a sound relationship with CoBank, FCB (CoBank) by:
  - Interacting with CoBank Board members and management,
  - Effectively communicating the positions of the Association,
  - Listening and engaging in discussion of business issues, and
  - Focusing on the interests of the end-user borrowers.
- Establishing the tone for Board communications with stockholders and other important external parties,
- Representing the Association in venues determined to be important to the Association and/or the Farm Credit System (System).

## **QUALIFICATIONS**

- Elected Directors. In addition to Association Bylaw requirements, following are desirable qualifications for elected directors:
  - Experience with production agriculture practiced in Association geographic territory,
  - An understanding of financial and credit matters,
  - A working knowledge of financial disclosure and compliance (audits, financial statements, internal controls),
  - Background, education, or experience in the areas of agricultural business, agricultural economics, or management,
  - Knowledge and experience in political advocacy with strong political relationships being advantageous, and

- A working knowledge of Association credit and financial disciplines, competitive environments, and business strategies.
- **Appointed Directors.** For appointed directors, in addition to Association Bylaw requirements, the following general qualifications will be considered, although specific areas may be emphasized based on the needs of the Board related to the position being filled:
  - Experience and/or emphasis in business, financial services, economics, accounting, financial reporting, auditing, or legal experience,
  - An understanding of Generally Accepted Accounting Principles (GAAP) and financial statements and the ability to assess the general application of GAAP in connection with the accounting for estimates, accruals, and reserves,
  - Experience in preparing, auditing, analyzing, or evaluating financial statements with the breadth and complexity of accounting and financial reporting issues similar to those of the Association.
  - An understanding of internal controls and procedures for financial reporting and Audit Committee functions
  - Experience and or education related to financial and capital markets, including asset/liability management, derivatives, and capital structures;
  - Knowledge and experience in political advocacy with strong political relationships being advantageous.

## ***PERSONAL CHARACTERISTICS***

Board members should have the following personal characteristics to most effectively perform the responsibilities and roles of a director:

- Commitment to the System, CoBank District, Association and Association customers, and dedication of the time needed for a Board position,
- Ability to apply common sense to resolve problems or issues,
- Respect for fellow Board members and the ability to find a balance between assertiveness and cohesiveness,
- Effective communication skills,
- Good people skills and a team player orientation,
- Willingness to contribute and speak out in the course of deliberations and then support the final decision of the Board,
- Integrity,
- Loyalty,
- Willingness to delegate to management,
- Void of actual, apparent, perceived, or potential conflicts of interest.

## ***TYPES OF DIRECTOR POSITIONS***

The types of director positions on the Association Board are discussed below:

- **Elected Directors.** These positions are elected by borrowers affiliated with the Association. A candidate for an elected director position, by law and Farm Credit Administration Regulations, must be a borrower of an Association. The elected directors must constitute at least 60% of the Board.

Annually, each director will be evaluated by the Board for independence, based on the criteria discussed below. The determination of a director's status to not be independent does not change the director's status on the Board, but could affect Board Committee assignments.

- Appointed Directors. These positions are appointed by the elected directors. Candidates for these positions cannot have a borrowing relationship with Associations.

## ***DIRECTOR INDEPENDENCE***

All directors must exercise independent judgment in deciding matters in the Associations best interest. The Board will be vigilant to ensure that independence is not jeopardized. Appropriate codes of ethics and standards of conduct are in place and will be followed to maintain the highest standards of governance for the Association.

All Association directors are independent from the perspective that no Association management or staff serve as Board members. Each elected director is required by Farm Credit Administration Regulations to have a lending relationship with the Association.

The elected directors, as borrowers of the Association, have a vested interest in ensuring that the Association remains strong and successful. However, in some situations, this director/borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to manage and maintain this independence and to ensure that a director loan relationship does not compromise the independence of an Association Board member.

Annually, in conjunction with the Association's analysis and reporting of director loans, each director will provide financial information and any other documentation and/or assertions needed for the Board to determine the independence of the Board member. Stockholders will be informed of the independence evaluation results through the Annual Report to Stockholders.

If the percent of independent directors falls below 75%, Management will notify the Association Nominating Committee of the need and desire for independent directors to be elected by the stockholders.

## ***DIRECTOR INDEPENDENCE CRITERIA***

The Board has identified the following criteria to determine director independence. The criteria for loan volume relates to loans from the Association and are based on elected director and spouse obligations, including ownership share of corporate assets and liabilities, but excluding contingent liabilities. These criteria were developed for the elected directors who serve on the Association Board.

- The director's loan(s) from the Association does not exceed 5% of the Association's permanent capital.
- The director's loan is not adversely classified.
- The director or the spouse of the director is not an employee, director, or more than a 10% owner of a non-System financial institution that has more than 5% of its loans in agricultural loans.
- The director does not directly or indirectly accept any consulting, advisory, or other non-director compensatory fees from the Association or another Association affiliated with the CoBank District.
- The director has no significant outside business relationship or family relationship with any employee of the Association.
- The director has no significant outside business relationship or family relationship with any other member of the Board.

Each director must meet all the established criteria to be considered an independent director. Annually, an analysis will be completed, as of September 30, to assist the Board in determining the independence of each director. This determination by the Board will be utilized in determining Board committee eligibility and in year-end disclosures.

In addition, the Association will notify the director, and the director will notify the Association, as soon as reasonably possible, of any information that arises that would cause the director to not meet any test for director independence at any time during such director's term. When the director cures any criteria test which was not met, the director will be considered by the Board for redesignation as an independent director.

## **BOARD EVALUATIONS**

The Board will conduct an annual self-evaluation to help it identify strengths and weaknesses and improve its own performance.

## **LEADERSHIP**

- Chairperson

The Chairperson will preside at all meetings of the Board. The Chairperson will coordinate and direct the activities of the Board and will perform such other duties as required by the Association Bylaws (typically presiding at stockholder meetings) or as the Board shall determine from time to time.

The Board's role can be best accomplished through an interactive Board that has sound and constructive leadership. It is the Board's desire to elect officers that are both willing and capable of providing appropriate leadership. Open and candid discussion to avoid politicizing the process is encouraged. Generally, the Board believes that no director should be precluded from the opportunity to serve as Chairperson. To that end, the terms of the Chairperson position will generally be limited to no more than five (5) consecutive years.

Desired attributes for the Chairperson include the ability to:

- lead fairly, but firmly, and to maintain an environment of trust and respect among members,
- welcome diversity of opinion,
- promote fair, open deliberation in a timely, orderly, and concise manner,
- encourage participation by directors who may not verbally express themselves during Board discussions,
- enforce the Board's own agreed upon rules of conduct,
- represent the Board to the public, other System institutions, and other important external parties,
- understand group dynamics and decision making,
- know when to bring discussions to a close and keep the meeting running smoothly,
- maintain a key role with management to:
  - \* promote a mutually beneficial environment,
  - \* represent the Board in working with management, and
  - \* encourage two-way communication with the CEO on developing issues.
- accept the responsibilities of the Chairperson and devote the extra time required of the position,
- take an impartial stance during discussions,

- communicate with and help prepare the Vice Chairperson for possible leadership responsibilities in the event of the absence of the Chairperson.

- Committees

The Board has chartered an Audit Committee and a Compensation Committee. In determining whether to create a Committee, the Board will evaluate whether the use of a Committee will assist it in fulfilling a Board function. If the decision is to use a Committee, the Board will consider the advantages and disadvantages of using a Committee composed of fewer than all members. In addition, the following guidelines will be utilized:

- The full Board will approve a clear charter of authorities, composition, and roles and responsibilities for all Board Committees,
- The Audit Committee will consist of three directors who meet the independence criteria outlined in the Director Independence Criteria Policy and who are determined by the Board to be independent members. The Board Chairperson shall serve as an ex-officio, non-voting member of the Audit Committee. At least one member of the Audit Committee shall have accounting or related financial management expertise and be designated as a financial expert;
- The Compensation Committee will consist of three directors who meet the independence criteria outlined in the Director Independence Criteria Policy and who are determined by the Board to be independent members. The Board Chairperson shall serve as an ex-officio, non-voting member of the Compensation Committee.
- Annually, the Board shall appoint all members and the Chairperson of the Committee. Minutes of all Committee meetings will be kept,
- Qualifications and selection of members will be correlated to the Board functions that the Committee has been formed to address,
- If a Committee composed of less than the full Board is utilized:
  - \* Committee members' independence, personal characteristics, qualifications, and number will be considered,
  - \* Evaluation, training, orientation, and recruitment programs for the Committee members and its Chairperson will be considered,
  - \* Any director may sit in on any Committee meeting, and
  - \* Communication and reporting back to the full Board will occur.

## **TRAINING AND MAINTENANCE**

Evaluation, training, orientation, and recruitment programs will be in place to maintain trained and skilled Board members. The Board will maintain a Director Training Policy and will develop an annual Board Training Calendar. The needed director skills that are outlined in this Charter will be considered when developing the training calendar and in determining individual director training programs.

## **MEETINGS**

The Board will meet at such frequency and at such locations as may be necessary and appropriate to fulfill its responsibilities and conduct its business.

Guidelines for Board meetings include:

- An annual calendar of meeting dates, times, and locations will be developed by the Chairperson and the CEO for the review and approval of the Board,

- Meeting agendas will be developed by the CEO with input from and final concurrence of the Chairperson,
- Other members of the Board may also ask for agenda adjustments before or during the meetings,
- Material relating to matters to be taken up at meetings will ordinarily be furnished to the Board sufficiently in advance of the meetings to provide reasonable time for review and consideration,
- Executive sessions will be held in connection with each Board meeting to promote open, candid discussion of sensitive or internal matters and to ensure that the Board is unified in its strategies, positions, and communications.

### ***REPORTS TO THE BOARD***

The Board will receive reports, advice, and other information in order to monitor performance, make decisions, and keep informed on important issues and events relating to CoBank, the Association, and the System. Information will be from such sources, at such frequency, and in such form as may be satisfactory to the Board. Ordinarily, management will serve as a primary source of the Board's information needs. However, depending on the circumstances, the Board also may use external experts, advisors, and customers as additional resources.

In addition, each Board policy will address Board reporting requirements.

### ***CHARTER REVIEW***

The Board recognizes that, for this Charter to be useful, it must be kept current and relevant. To that end, the Board will conduct a Charter review at least annually and make any changes that are needed to meet the Charter's purpose.

### ***DISCLOSURE OF THIS CHARTER***

This Charter will be posted on the Association website and also will be available in print to any shareholder requesting it.

FCNM Board Charter  
Adopted: May 17, 2005  
Reaffirmed: December 19, 2006  
Reaffirmed: December 17, 2007  
Revised: July 22, 2008  
Reviewed: July 21, 2009  
Revised: September 28, 2010  
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