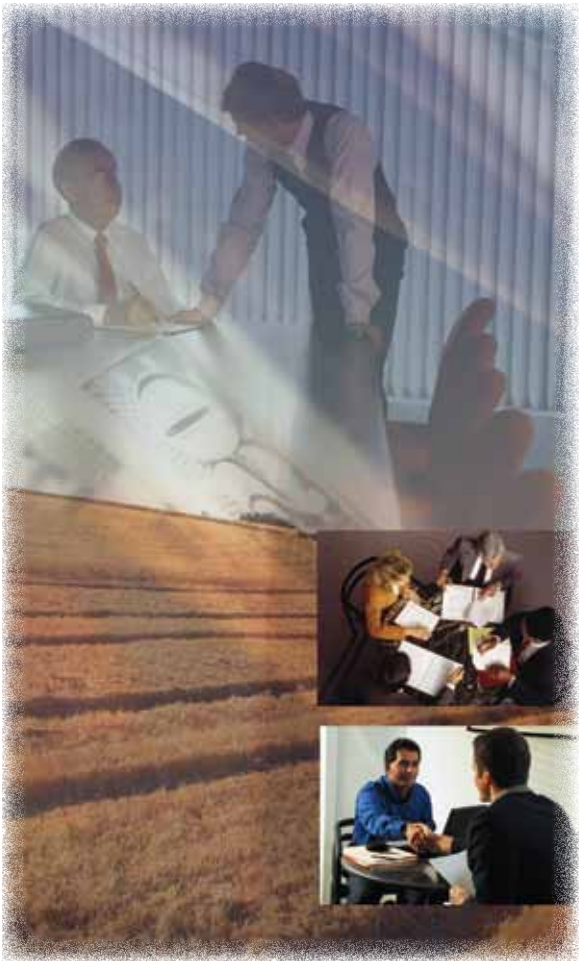


The Role of Farm Credit System Nominating Committees



FCA
FARM CREDIT ADMINISTRATION

What is the purpose of this pamphlet?

This pamphlet is designed to help you, as a member of the nominating committee, in your yearlong task of identifying and evaluating candidates for election to your bank or association's board of directors. This is a very important service to your cooperative and will affect the effectiveness of your board in fulfilling its duties on behalf of the stockholders.

What is a nominating committee?

A nominating committee is a committee of the stockholders, comprising at least three members, who are elected by the voting stockholders of a Farm Credit bank or association. As a nominating committee member, your responsibility is to identify, evaluate, and nominate at least two willing and suitable candidates for each open director position. Because a nominating committee is not a committee of the board, its independence from board and management influence is critical to the success of your financial cooperative and the preservation of stockholder control.

Who serves on a nominating committee?

For associations, eligibility to serve on a nominating committee is limited to voting stockholders who are not directors, director candidates, officers, employees, or agents of the association. An association's nominating committee members are elected by the voting stockholders at the annual meeting for a term of one year, although they may stand for re-election at the next annual meeting for a subsequent term.

As with associations, eligibility for a Farm Credit bank's nominating committee is limited to individuals who are not directors, director candidates, officers, employees, or agents of the bank. Farm Credit bank nominating committee members are elected consistent with the bank's policy and procedures. Voting for Farm Credit Bank nominating committee members is weighted based on the number of each association's voting stockholders, with no cumulative voting permitted.

Bank and association nominating committee members may not stand for election to the board of directors in the same election in which the committee is identifying director candidates.

What are my responsibilities as a nominating committee member?

Your committee's authority is based on Section 4.15 of the Farm Credit Act of 1971, as amended (the "Farm Credit Act") and Farm Credit Administration (FCA) regulations at §§ 611.320 and 611.325. As a member of the nominating committee, you are responsible for the following:

- Reviewing a current list of the stockholders of the institution
- Determining who is eligible, qualified, and willing to serve as a director
- Considering if any obstacles exist that would prevent the director candidate from performing his/her duties
- Nominating a slate of eligible director candidates for election that includes at least two suitable nominees for each position to be filled

- Preparing a written report on your efforts to locate director candidates
- Nominating director candidates for special elections due to mid-term vacancies

When nominating director candidates, you must endeavor to assure representation on the board from all areas of the institution's territory and as nearly as possible, all types of agriculture practiced in the territory. The nominating committee's goal is diversity in director candidates in demographics, experiences, skills, and viewpoints. Diversity in demographics includes income, age, gender, and ethnicity differences.

How does a nominating committee determine a person's eligibility to serve as a director?

Each Farm Credit bank and association is required to establish and maintain a written policy identifying desirable director qualifications. Your nominating committee should consult this policy when evaluating director candidates. However, the Farm Credit Act requires that a candidate for an association director position must be a voting stockholder of the association. Many Farm Credit banks and associations also provide for other director eligibility requirements in their bylaws, such as requiring that a board member's loan be in accrual status, that directors be free of any apparent conflicts of interest, or that age or term limits be met. You are encouraged to consult your institution's bylaws and nominate only those director candidates who meet these qualifications.

For a more detailed discussion of the role of Farm Credit bank and association directors, please review FCA's "The Director's Role"

handbook, available from your institution or FCA's Web site, www.fca.gov.

Remember that any eligible voting stockholder of an association may be nominated from the floor to stand for election. Farm Credit banks may also allow for floor nominations, but are not required to do so.

Are individuals who are not members of a nominating committee allowed to participate in that committee's activities?

Your Farm Credit bank or association's current directors, director candidates, officers, employees, and agents are not only prohibited from serving on your nominating committee, they also cannot be present when you deliberate or vote on the nominees for your slate of director candidates. However, you may invite them to your meetings to answer questions on general matters such as director qualifications and duties, issues the institution will face in the future, and any specific skills and knowledge not adequately represented on the current board. You may also accept from your bank or association staff the names of stockholders who might be willing to be director candidates, although you must perform your own evaluation of any person who is recommended. You may not allow others to influence the nomination process and you must preserve your committee's independence in selecting director candidates.

What help can a nominating committee receive from its Farm Credit bank or association?

Your Farm Credit bank or association is required to provide your committee with reasonable access to administrative resources. This includes a current list of stockholders,

the most recent bylaws, the current policy on desirable director qualifications, and a copy of the policies and procedures that the bank or association has adopted to assure impartial elections. The committee may also request a summary of the current board's self-evaluation; in return, the board may require a pledge of confidentiality. Under the bank or association's policies, you may also obtain candidate biographical information and other similar information from your bank or association. Your bank or association's staff can also assist with logistical, clerical, and administrative support to help the committee perform its duties effectively.

How do I indicate interest in serving on my nominating committee?

Contact your Farm Credit bank or association to find out its procedures for electing nominating committee members. Each Farm Credit bank and association determines how candidates for nominating committee membership are identified. Your bank or association can tell you how you can notify the appropriate party of your interest in serving on the nominating committee.

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