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**FRESNO MADERA FARM CREDIT, ACA**  
**BOARD OF DIRECTORS' CHARTER**

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**Adopted by:** Board of Directors

**Adopted Date:** June 26, 2007

**Revision Date(s):** 2/26/2008; 2/23/2010; 2/22/2011; 2/28/2012; 1/29/2013; 1/29/2014;  
3/24/2015; 12/17/2015; 03/29/2016

**Charter Review**

**Frequency:** Board: Annual Review

**Reference:** Farm Credit Act: N/A

FCA Regulations: 618.8440, 620.30, and 620.31

FMFC Bylaws: Article IV, Sections 420, 440, 450, 470

FMFC Policies:

- Director Election Policy
- Board Training Policy
- Personnel Policy
- Planning Policy

Other:

- FCA Examination Manual: EM-510 Management-Overall Assessment
- FCA Examination Manual: EM-520 Management-Policies and Procedures
- FCA Publication "The Director's Role" April 17, 2012
- FCA Website Information titled "FAQs About Governance Changes 2006"
- FCC Services Model Policy for Board of Directors' Policies/Resolutions Policy
- FCC Services Model Policy for Independence Criteria

**I. MISSION STATEMENT**

The mission of Fresno Madera Farm Credit, ACA (Association) is to provide access to credit and related services in our region as an efficient organization that delivers service with people that are passionate about creating the best possible customer experience to the generations of farmers and ranchers that we proudly serve. This goal will be accomplished by maintaining a financially sound ACA, a quality subsidiary, and strong generational relationships with borrowers and prospects.

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The Board of Directors (Board) adopts this Charter to support the Board's leadership and oversight role in the exercise of their responsibilities. The Board has the authority and responsibility to guide and direct the operations of the Association.

**II. MEMBERSHIP, TERMS OF OFFICE, AND QUALIFICATIONS**

**A. Membership**

1. The Board has a 10 person membership (8 stockholder elected and 2 appointed) as outlined in the Association Bylaws.
  - a) Association Bylaws state that the 8 stockholder elected directors are responsible for appointment or dismissal of the appointed directors.
2. Director Independence Criteria
  - a) All of the following objective criteria must be met to be considered an independent director under this policy. The criteria for loan volume is based on elected director and spouse attributed obligations, including ownership share of corporate assets and liabilities, but excluding contingent liabilities:
    - (1) The director's gross loan exposure from the Association does not exceed 25% of the Association's permanent capital.
    - (2) The director's total attributed System loan volume is less than the net worth of the director based on his/her most recently submitted balance sheet.
    - (3) The director's loan is not adversely classified.
    - (4) The director or the spouse of the director is not an employee, director or more than a 10 percent owner of a non-System financial institution that has more than 5% of its loans in agricultural loans.
    - (5) 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.

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- (6) The director has no outside business relationship or family relationship with any senior management staff member of the Association.
  - b) Annually, an analysis of the above objective criteria will be performed by Association staff to assist the Board in determining the independence of each director. In connection with receiving the objective criteria analysis, the Board will also consider any other known information that could impact the independence of any director. Following consideration of this information, the Board will take action to record its determination of the independence of each director. Board members must be determined to be independent in order to serve on the Association's Audit Committee and Human Capital Committee.
  - c) 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 fail to meet any test for director independence at any time during the year. When the director cures any criteria test which was not met, the director may be considered by the Board for re-designation as an independent director.
  - d) If the percent of independent directors falls below 60%, the Board will notify the Association nominating committee of the need and desire for independent directors to be elected by the stockholders.
  - e) The Board's determination of a director's independence will be considered when Board Committee assignments are made and, in particular, assignments to the Association's Audit Committee and Human Capital Committee.
3. Members should have the time to commit as well as the experience and expertise to serve on the Board of Directors.

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B. Term

1. Board members shall serve for a term of three years. Upon expiration of their term, directors may submit their name to the Nominating Committee to express their interest in running for re-election. There is no limit on the number of successive terms that may be served.

C. Officers

1. 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. Furthermore, the terms of the Chairperson position shall not be limited.

2. Election of Officers

As soon as practicable following the annual meeting of members, and at such other times during the year as is necessary to fill vacancies, the Board shall elect a chairman and a vice chairman from among the members of the Board.

- a) Chairperson

- (1) The Chairperson will preside at all meetings of the Board and will coordinate and direct the activities of the Board. The Chairperson will perform such other duties as required by the Association Bylaws or as the Board shall determine from time to time.
- (2) Desired attributes for the Chairperson include the ability to:
  - (a) lead fairly, but firmly,
  - (b) maintain an environment of trust and respect among members and within the community,
  - (c) welcome diversity of opinion,
  - (d) promote fair, open deliberation in a timely, orderly, and concise manner,

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- (e) encourage participation by directors who may not verbally express themselves during Board discussions,
  - (f) enforce the Board's own agreed upon rules of conduct,
  - (g) represent the Board to the public, other System institutions, and other important external parties,
  - (h) understand group dynamics and decision making,
  - (i) know when to bring discussions to a close and keep the meeting running smoothly,
  - (j) 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.
  - (k) accept the responsibilities of the Chairperson and devote the extra time required of the position,
  - (l) the ability to take an impartial stance during discussions; however for all issues being voted upon, the Chairperson shall either indicate his approval by silence and declare the vote unanimous or voice his/her vote in 1) the event of a split vote; 2) when the Chairperson considers the issue to be of the level of importance that he/she should vote; or 3) when the Chairperson wants to record disagreement with a majority vote, and
  - (m) communicate with and help prepare the Vice Chairperson for possible leadership responsibilities in the event of the absence of the Chairperson.
3. **Qualifications of Members.** The Director qualifications are outlined in the Director Election Policy.

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**III. VOTING AND QUORUM**

- A. Quorum - A majority of the entire Board membership shall constitute a quorum, based on the existing Board membership of 10, a majority consists of 6 members. The determination for a quorum is not adjusted based on unfilled positions or absenteeism.
- B. Voting - A vote of the majority of the directors present shall determine the decision of the Board.

**IV. MEETINGS**

- A. 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.
- B. Guidelines for Board meetings include:
  - 1. An annual calendar of meeting dates, times, and locations will be developed by the Chairperson and the Chief Executive Officer (CEO) for the review and approval of the Board.
  - 2. Meeting agendas will be developed by the CEO with input from and final concurrence of the Chairperson.
  - 3. Other members of the Board may also ask for agenda adjustments before or during the meetings.
  - 4. Material relating to matters to be taken up at meetings will ordinarily be furnished to the Board in advance of the meetings to provide reasonable time for review and consideration.
  - 5. 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.

**V. RESPONSIBILITIES AND AUTHORITIES**

- A. The Board is the elected representatives of the membership of the Association and has a fiduciary duty to oversee the operation of the organization to ensure compliance with the intent of the Farm Credit Act, the regulations of the Farm Credit Administration [FCA] and the requirements of the Farm Credit System [FCS]; and to ensure that the organization operates in a safe, sound and constructive manner as outlined in "The Directors Role" published by FCA.

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- B. The ultimate responsibility for the conduct of the Association's affairs lies with the Board of Directors. The Board of Directors determines the strategic direction for the Association, formulates policies, provides supervision, and promotes the Association's welfare. Directors are placed in positions of trust by the Association's stockholders.
- C. Each director must have a basic understanding of Association's primary and other lines of business including the key business opportunities and the strategies that are in place.
- D. Each director must understand the significant risk areas in Association operations and ensure that the processes and tools utilized to monitor and control risk are effective.
- E. Hiring and effectively supervising CEO.
  - 1. When appropriate, the Board must redirect or replace the CEO.
  - 2. An outstanding relationship between the Board and the CEO ensues when there is no question of the Board's authority relative to developing and maintaining the corporate policies, strategic planning, corporate planning, annual budget and their duty to hire, supervise, evaluate and, if necessary, terminate the CEO. Conversely, there must be no question that the CEO's role is distinct and separate from the Board's role. It must be understood that there is a clear delineation between the roles; the fact that there are two different roles must be respected. The result is a healthy, collegial, but arms-length, relationship between the Board and the CEO that is based on mutual trust and respect. A relationship of this nature allows the CEO to lead and manage with confidence.
  - 3. Board communication on an ongoing basis is critical to develop a sound relationship between the Board and the CEO.
  - 4. Must strive to demonstrate continued trust and confidence in management personally and professionally when questioning, probing, or opposing management's position or recommendations on an issue before the Board; however, this does not mean that the Board should not be candid with the CEO as his/her understanding of the basis for the Board's position or concern so that he/she can modify behavior or make managerial or procedural changes as required.
  - 5. Must respect their delegation of authority to the CEO to manage the day to day operation of the Association and not interfere with the managerial chain of command that runs from the CEO, to his/her management team

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and then down to their subordinates. It is critically important that every member of staff understands unequivocally to whom they report.

6. Review and approve the annual CEO evaluation (as submitted by the Human Capital Committee):
  - a) Ensure that the performance ratings, recommended salary, merit, incentive and retention support the achievement of the established performance objectives for the year.
  - b) Ensure the next year's performance objectives based on qualitative and quantitative measures are clearly outlined and align with the annual business plan and organizational strategy.
- F. Clarify and maintain a separation of the Board, Audit Committee and Human Capital Committee's role from that of the CEO.
- G. Develop a long and short term strategic plan that clarifies the Association's vision, establishes priorities, and provides direction to the CEO.
  1. It is expected that the diverse backgrounds of the Board and each director's individual business expertise, experience and perspective are integrated into this strategic planning process and are availed to the Board in the best interest of the member/borrowers and potential customers in our market area.
- H. Approve the Budget and the three year Corporate Plan.
- I. Assess company performance in accordance with the Corporate Plan and Budget goals.
- J. Assess profitability while considering capitalization, risk funds, growth opportunities and patronage.
- K. Establish policies to guide, determine, and implement decisions pertaining to the management and operations of the Association.
  1. While implementation of a policy may require judgment and discretion, it avoids the need to reconsider all factors each time a decision is considered and made. In general, policies are:
    - a) Established and directed to significant Association goals and responsibilities;
    - b) Supportive of the strategic objectives of the Association; and



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- c) Consistent with Association business philosophies.
  2. Policies are intended to provide guidance and direction to management. They are not, however, intended to restrict appropriate business decisions based on sound judgment. The Board recognizes that actions or inactions constituting exceptions to policies may be appropriate from time to time under certain facts and circumstances. Unless otherwise restricted by a policy, management may make such exceptions that are:
    - a) material in nature provided that they are consistent with and promote the policy's purpose and objective and comply with all legal and policy requirements (including exception reporting to the Board); and
    - b) technical or nonmaterial in nature, e.g., to correct grammar or spelling errors, and/or formatting issues, or to update legal citations.
  3. Unless otherwise legally mandated, all policies will be routinely reviewed by the Board over a one year or three year cycle as designated within each policy. This will insure continued legal compliance, relevancy to the Association's strategic objectives, business practices or environment, or other appropriate factors.
- L. Review changes made to the Association's bylaws for compliance with FCA regulations and determine the impact, if any, on the Association.
- M. Develop resolutions when a formal, written expression of a decision/opinion of the Board is needed. Resolutions usually include a statement of recitals that explain the reasons behind the Board's action. In general, resolutions (rather than policies) are required or appropriate under the following circumstances:
1. If an applicable statute, regulation, charter, bylaw or contract requires resolutions;
  2. If a certificate showing the authority granted by stockholders or directors to perform a certain act is required (or likely to be required) to be filed at some future time;
  3. If the issue is System-wide and intended to be uniform to demonstrate support of System positions;
  4. If the issue directs or authorizes management and does not readily lend itself to policy format; or

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5. If the issue is of short duration (usually less than one year) but is more formal in nature than an action on a motion.
- N. Ensure that there are effective internal controls and that there has been adequate financial reporting, disclosure and compliance with financial and ethical standards, laws and regulations.
  - O. Approve key third-party service providers, such as attorneys, information technology service providers, human resource providers, and agents.
  - P. Annually, the Board shall review and approve the overall compensation program and philosophy for all employees. The Board shall approve base salary, incentive, and retention plans for all Association employees in concurrence with the annual budget review and approval process.
  - Q. Review and approve recommendations by the Human Capital Committee surrounding the management succession plan.
  - R. Constantly strive to maintain a positive public image of the Association and should establish the tone for communications with stockholders and other external parties.
  - S. Maintain high standards of excellence in conducting Board business by
    1. Adopting "Best Practices" in governance;
    2. Taking adequate time to prepare for and deliberate on matters coming before the Board;
    3. Asking questions, considering options as well as the advantages and disadvantages of issues presented to the Board;
    4. Exercising objectivity and autonomy to make independent, informed decisions; and
    5. Demonstrating leadership and taking action, when appropriate.
  - T. Be unified relative to any communication to the CEO.
  - U. Be conclusive after any debate.
  - V. Be proactive relative to establishing external political and business relationships with affiliates and target customers.
    1. The Association's relationship with CoBank is one of its greatest assets.

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2. Affiliate associations, especially those that share FMFC's credit and customer service culture and that offer participation exchanges, are vitally important to FMFC's future.
  3. Board representation of the Association in the field and at business and social venues will generate referrals which is the best source of new business.
  4. The Board's engagement in the political process is necessary to protect the Association's interests.
- W. The Board should use 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. The Board should inform the CEO in a timely manner after each Executive Session relative to matters discussed that concern him directly from a management or personal point of view.
- X. Board Member Development
1. Onboarding, training, evaluation, and recruitment programs will be in place to maintain trained and skilled Board and Committee members in accordance with the Board of Directors Training Policy.
  2. Self-Evaluation

Per FCA Regulations, a Board Self-Evaluation will be conducted annually in conjunction with the Association's 3-year operational and strategic business plan.

    - a) The strategic business plan will assess Board needs, including skills and diversity, based on a review of the Board's self-evaluation. Strategies for correcting identified weaknesses will also be included.

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- b) The goal of the Board self-evaluation is to assess the Board's performance and enhance the Board's overall effectiveness. To add value to the strategic planning process and to achieve effectiveness, the self-evaluation should include and identify the following components:
  - (1) Board Strengths
  - (2) Board Weaknesses
  - (3) Plan to Address Identified Weaknesses
- c) The evaluation is a useful planning tool for training, and identifying desirable director qualifications. The results of the evaluation will be utilized for developing the annual Board of Directors Training Program in accordance with the Board of Directors Training Policy.
- d) It will be at the Board's discretion and authority to determine the manner in which the Board self-evaluation will be conducted. Association resources will be provided as needed to facilitate this process in the manner directed by the Board.
- e) If requested, a summary of the evaluation must be provided to the Nominating Committee.

**VI. COMMITTEES OF THE BOARD**

- A. Committees are created to fulfill specific Board functions effectively. By utilizing committees, the Board can facilitate greater breadth, depth, and resources to a specific item delegated by the Board. When establishing a standing committee, the Board will follow these guidelines:
  - 1. The full Board will approve a charter of authorities, composition, and roles and responsibilities for all Board Committees.
  - 2. Committee members' independence, personal characteristics, qualifications, expertise, and number will be considered.
  - 3. Training and evaluation programs for Committee members and its Chairperson will be considered.
  - 4. Any director may sit in on any Committee meeting.

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5. Communication and reporting back to the full Board will occur fully and transparently.
  6. Committee meeting minutes will be prepared and approved by the appropriate Committee and furnished to the full Board.
  7. Qualifications for each Committee and the appointment of its members will be directly correlated to the requirements needed to best perform the Board functions that the Committee has been formed to address.
- B. The Board has appointed three standing committees, including Audit, Human Capital, and Risk. Each committee has a charter that outlines membership, terms of office, responsibilities/authorities, and reporting requirements.

**VII. RESOURCES**

- A. The Board will require reports, advice, and other information to monitor performance, make decisions, and keep informed on important issues and events relating to the Association, peer Associations, CoBank, and the System. Information will be from such sources, at such frequency, and in such form as may be satisfactory to the Board.
- B. Ordinarily, Management (assisted by staff), will serve as a primary source of the Board's informational needs. Depending on the circumstances, the Board 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.

**VIII. REPORTING REQUIREMENTS**

- A. The Board shall maintain a complete record and minutes of all Board and Committee meetings in accordance with Association's Bylaws and Record Retention Policy.
- B. Each Association policy will address Board reporting requirements as applicable.
- C. Annually, the Board will receive a summary of the objective director independence criteria analysis, completed as of March 31<sup>st</sup>.
- D. Stockholders will be informed of the independence of each director through the Association annual report.
- E. Material exceptions to the director independence criteria require Board approval.

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**IX. CHARTER REVIEW**

Annually, the Board shall review and assess the adequacy of the Charter and make any changes that are needed to meet the Charter's purpose.

**X. CHARTER DISCLOSURE**

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