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1449 N Pear Orchard Rd
Winnie, TX 77665
December 6, 2014

Mr. Barry Mardock
Deputy Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Re: Proposed Capital Rule Comments

Dear Mr. Mardock:

It has come to my attention that the Farm Credit Administration (FSA) has opened to public comment a proposed capital rule to modify the Farm Credit System (FCS) cápital requirements in a manner consistent with Basel III standards applied to other financial institutions. Thank you for the opportunity to comment on the proposed capital rule.

While I believe adopting Basel III standards for the FCS will prospectively enhance investor understanding of the FCS's financial strength and increase marketability of third-party capital and debt securities, particularly in periods of stress, I detect language in the proposed rule that is overly biased to concepts written for joint stock companies. This misalignment unfortunately impinges upon and in parts undermines the cooperative structure on which Congress based the FSC. Therefore, I ask that FCA revise the proposed rule as summarized below to adopt the essence of Basel III and just as importantly be supportive of the FCS's congressionally mandated cooperative structure.

1. Eliminate the requirement that FCS institutions obtain shareholder votes on the capitalization bylaw changes required by the proposed rule. This requirement results in a meaningless vote that puts the institution and its member-customers in an impossible situation. On the one hand, if member-customers do not approve the bylaw changes, the institution faces capitalization challenges. On the other, if member-customers approve the bylaw changes, they undermine the institutions ability to function consistent with cooperative principles.

   I appreciate FCA's desire to ensure that the capital plan features of each FCS institution are effectively communicated to their member-owners. However, rather than direct capitalization bylaw changes, the FCA could rely on board policies, directives, loan documentation or capital plans for such communication. Structurally, a board directive or similar document can accomplish the same outcome as a capitalization bylaw vote. Board direction, along with shareholder disclosures, is more than sufficient to implement FCA's proposed Basel III framework.

2. Reduce the proposed revolvement period for Common Equity Tier 1 (CET1) to 7 years and permit the normal revolving features of loan-based cooperative equity plans. There is no basis in Basel III for the proposed 10-year revolvement cycle of an individual share and it is overly stringent and fundamentally inconsistent with cooperative principles. It is also unnecessary given the other proposed capital controls. The proposed rule limits distribution to current year earnings unless specifically approved by FCA. FCA also proposes additional limits if capital levels fall below the proposed conservation buffer that is far above minimum standards. These controls and FCA prior approval eliminate any possible member-customer expectations for the distribution of income or

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retirement of stock and effectively makes cooperative shares permanent. Given these controls, a 7-year revolvement cycle on a loan basis is easily justified. For cooperative capital, the length of time a share is outstanding is irrelevant to permanence. Rather, permanence is determined by member-customers' clear understanding that their shares are at-risk and committed to the long-term financial stability of their cooperative.

3. Revise the proposed "safe harbor" provision that authorizes limited distributions, including stock retirements, without FCA prior approval to be consistent with similar provisions implemented by European bank regulators. The proposed limit of no reduction in CET 1 provides no reasonable room for boards to manage capital without first seeking FCA prior approval. This burdensome requirement is far more restrictive that the approach taken by foreign bank regulators that implemented Basel III for the cooperatives under their jurisdiction. FCA should follow no more that the same standard as these regulators and allow up to a 2% reduction in CET 1 as long as capital ratios remain above the conservation buffer. In addition, the "haircut deduction" for early distributions is punitive and should be eliminated from the proposed regulations and handled through examination as there is no basis for this in Basel III.
4. Reduce the proposed Tier 1 leverage requirement to 4% to be consistent with Basel III standards implemented by regulators across the globe. From my perspective, the proposed 5% standard is an arbitrary and capricious deviation (125%) from Basel III. There is simply no quantitative analysis or loss experience that justifies a 5% Tier 1 leverage ratio for the FCS while all other regulated financial institutions irrespective of structure are subject to a 4% requirement. It is clear to me that FCA's proposal is excessive, unsupported, creates an unnecessary inconsistency with Basel III and would result in higher borrowing costs to the member-customers with no concomitant benefit. This inconsistency with Basel III and with the approach taken by regulators around the globe will precipitate unnecessary and spurious questions about the FCS's risk profile compared to other lending institutions. Such questions will irreparable harm the FCS and its mission achievement. I ask FCA to establish a 4% Tier 1 leverage ratio consistent with the Basel III guidance.

The refinements I ask FCA to make will ensure that the FCS can function consistent with cooperative principles for the benefit of it member-customers as Congress clearly intended.

Once again, I appreciate the opportunity to comment on this propose rule and the FCA's willingness to consider my feedback.

Regards,

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