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FARM CREDIT SERVICES

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February 13, 2015

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

Subject: Regulatory Capital, Implementation of Tier1/Tier 2 Framework

Dear Mr. Mardock:

This letter is written on behalf of the Board of Directors for GreenStone Farm Credit Services ("GreenStone") to provide comments on the Farm Credit Administration's ("FCA") proposed rule on regulatory capital and the implementation of a tiered approach that is comparable to the Basel III framework. We appreciate the importance and complexity of this task before the FCA to modernize the capital regulations of the Farm Credit System ("System") to better align with those of other federally regulated financial institutions. We realize this modernization will serve many purposes including helping external investors and others familiar with the Basel III framework to understand the overall financial strength and capital capacity of individual System institutions as cooperative financial institutions.

GreenStone has reviewed the draft comment letters of the Farm Credit Council ("FCC") and AgriBank both of which provide support for modernization, yet also identify serious concerns which require additional modification to the proposed regulation prior to issuing a final rule. We would appreciate further use of discretion and authority of the FCA to address the comments detailed in the FCC and AgriBank letters. We fully support the modifications requested by these comment letters and appendices.

To highlight some of the significant issues identified by the System we would appreciate your recognition of the overall troubling issues highlighted by the harsher approach to the treatment of System retained earnings and the imposition of a significantly higher Tier 1 leverage requirement.

Specifically the FCC comment letter identified nine threshold issues with the proposed regulatory capital rule that undermine cooperative principles and member participation in the management, ownership and control of FCS institutions as required by the Farm Credit Act ("Act"). Most of these have the potential to significantly handicap GreenStone in its effort to fulfill its mission of offering a dependable and competitive source of credit and financial services in its marketplace. The proposed regulatory capital rule generally disfavors the cooperative business model, penalizing institutions when they follow the distinctive cooperative principles of "user benefit", "user ownership" and "user control." This is the heart of the System and warrants recognition and modification of the proposed rule.

These suggested modification areas are further identified and summarized in the following comments:

1. Treatment of System Allocated Retained Earnings - FCA should include all System retained earnings in Common Equity Tier 1 as all other banking organizations. The proposed rule treats an institution's "allocation" of retained earnings as a capital distribution by the institution rather than as retained earnings by the institution. As a result, under most existing System institution bylaws, each dollar of retained earnings with a patron's name on it is automatically excluded from regulatory capital. Absent specific evidence that System institutions face greater pressure to distribute allocated retained earnings than commercial banks, FCA should not deviate from Basel III. System allocated retained earnings should be accorded capital treatment consistent with commercial banks' retained earnings.

2. Association Investment in its Funding Bank – The proposed rule treats an institution's "allocation" of retained earnings as a capital distribution by the institution rather than as retained earnings by the institution. This is unworkable and unwarranted. In the closed, cooperative structure of the System, an affiliated association's capital investment is legally and functionally a permanent capital contribution to the bank and is understood as such by associations. This structure results in a permanent relationship that continues until liquidation, re-affiliation, or termination of System status, all of which require FCA prior approval. An association's investment in a Farm Credit Bank ("FCB") results from the statutorily directed financial relationship, which is simply different from the financial relationship between an association and its members. While a member is required to capitalize an association, the member is also free to borrow from a financial institution other than the FCS. An association does not have this same flexibility and, as a result, its investment in a FCB is by statute and operation of law a permanent aspect of its capitalization, regardless if a FCB periodically equalizes such investment.

3. Required Capitalization Bylaws Amendments - The proposed capitalization bylaw provisions are fundamentally unworkable, unnecessary, costly, and legally problematic. If the member-owners do not approve the required bylaw changes, the institution would have to exclude from regulatory capital shareholder equities under GAAP, resulting in capitalization challenges. However, approving the required bylaw changes would undermine the institution's ability to function consistent with cooperative principles as expected by the Act. The proposed bylaw amendment requirement may expose System institutions to legal challenge under general corporate law with respect to holders of allocation notices (qualified and non-qualified) who are not voting stockholders. Not all such holders will have a right under the existing FCA regulations to vote on bylaw changes that they may see as affecting their holder rights (e.g., retirement at the sole discretion of the board of directors). We fail to see the reason for this bylaw amendment provision because there is no basis for it in Basel III.

4. Higher Minimum Tier 1 Leverage Ratio - The 5% Tier 1 leverage ratio requirement is excessive and unsupported. Under Basel III, the Tier 1 leverage ratio requirement is 4%. Requiring a 5% minimum for the System deviates from Basel III and the requirements applicable to commercial banks and creates a disadvantage to farmers and other eligible borrowers of the System. Moreover, this difference in minimum standards may cause suspicion that the System is fundamentally riskier compared to other lending institutions. We ask FCA to prevent this inequitable capital treatment, given there is no difference in risk at the loan level between a commercial bank and a System institution to a specific agricultural borrower. The proposal fundamentally undermines the System's mission.

5. Minimum Unallocated Retained Earnings ("URE") Requirement - The 1.5% URE requirement in existing System capital regulations should not be included in the new capital framework for the System. FCA has proposed that a minimum level of URE be maintained in the Tier 1 leverage ratio, which calls into question the cooperative structure of the FCS. Implementation of the 1.5% URE standard within the Tier 1 leverage requirement results in a minimum 3% URE held against each dollar of loans made

by associations to member-owners, given the dual capitalization resulting from the System's cooperative structure. At this level of URE, the System may no longer function as a cooperative where the member-owners receive the benefits and risks associated with ongoing operations.

6. Safe Harbor Requirement - The proposed capital distribution "safe harbor" is too strict. Limiting capital distributions to the past year's net retained income and not allowing for any reductions in CET1 from the prior year-end provides no reasonable room to manage capital without seeking FCA prior approval. This burdensome requirement is far more restrictive than the Basel III implementation by foreign cooperative bank regulators and U.S. banking regulators for commercial banks.

7. Treatment of High Volatility Commercial Real Estate - FCA should clarify the treatment of High Volatility Commercial Real Estate (HVCRE) as it pertains to traditional agricultural mortgages and eligible agri-business or rural project financing transactions. The proposed definition of HVCRE and the associated 150% risk weight is unclear with respect to agricultural mortgages where the value of the land exceeds production value. While we do not believe FCA intended to imply that traditional agricultural mortgages are HVCRE, we are concerned that examiners will determine any financing that exceeds the agricultural production value needs to be risk weighted at 150%. Such a determination would essentially compromise the ability for the FCS to meets its statutory mission and would be inconsistent with the realities of today's agricultural mortgage marketplace.

8. Direct Loan "Unfunded Commitments" - The proposed requirement to treat System bank direct loans to affiliated associations as having an "unfunded commitment" amount that requires capitalization is inappropriate and not supported by the facts. FCA should remove the proposed requirement in its entirety and simply focus on commitments to "retail" borrowers.

Overall we applaud the FCA's attempt and philosophical approach to modernize the capital structure of the System. This proposed rule is important to modernize the regulatory capital framework to make it comparable to the standards applied to other regulated financial institutions. We appreciate the FCA's effort to make the necessary adjustments to address all the issues articulated in the FCC and AgriBank comment letters.

Respectfully submitted,

Scott A Roggenbuck

Scott Roggenbuck
GreenStone Board Chair

Dave Armstrong

David B. Armstrong
President and Chief Executive Officer