Gina G. DeHoyos, CPA, PLLC

February 13, 2015

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

Re: Proposed Rule: Regulatory Capital, Implementation of Tier 1/Tier2 framework; 79 Fed. Reg. 52813 (September 4, 2014)

Dear Mr. Mardock:

The original request from the Farm Credit Bank of Texas that FCA consider aligning its capital regulations with Basel III was motivated by the belief that it is essential for the Farm Credit System's (the System) capital requirements to be comparable to those applicable to non-System financial institutions, not only to allow the System to market its securities to investors effectively, but also to enable all other stakeholders, including Congress, rating agencies, counterparties, as well as System borrowers, to assure themselves of the financial strength of the System and its institutions in terms that are commonly recognized and understood in the business community. The request also outlined that Basel III principles could be reasonably adapted, under footnote 12 of the Basel III framework, to the System in a manner that would be consistent both with the principles and objective of Basel III and the distinctive cooperative structure of the Farm Credit System.

Although the proposed rule nominally includes allocated equities as a component of CET1, as the System requested FCA to do, FCA has placed many significant burdens on the use of these equities as regulatory capital that, in my view, are completely unnecessary to achieve comparability to Basel III requirements. Indeed, the burdens to which I object are all departures from the Basel III framework. I believe that the primary effect of the rule, whether intentional or not, will actually be to discourage System institutions from allocating and redeeming retained earnings to its borrowers, which is the essence of operating under cooperative principles as the Act intends. When viewed in isolation, each one of these new burdens might not appear to be that material, but their cumulative effect will be substantial. Taken as a whole, these burdens in effect represent a tax on System institutions that choose to operate on a cooperative basis.

As FCA is aware, there are no regulatory requirements that play a more important role in setting the parameters for the strategic management decisions of System institutions than the capital regulations. The message conveyed by the proposed regulations could not be more clear: FCA prefers that System institutions do not allocate and redeem retained earnings to their members at all, under any circumstances, ever, and that instead believes that institutions should capitalize themselves exclusively with URE. I have no doubt that this message will be heard loud and clear by System institutions. Thus, despite having adopted a policy and posted a statement on its website that affirms the FCA Board's support for and commitment to, the core cooperative principles as part of the System's cooperative business model, in adopting the proposed rule as written, FCA would be effectively driving a stake through the heart of cooperative principles in the Farm Credit System.

In summary, in order the make the proposed capital regulations consistent with the cooperative structure of the System and the principles of Basel III framework, I respectfully ask the FCA to modify the proposed rule as follows:

1. Classify allocated equities as retained earnings under the Basel III definition of CET1 capital.
2. Eliminate the 10-year minimum revolvement requirements for CET1 and the 5-year minimum requirements for Tier 2, and allow all allocated equities to be eligible to qualify as CET1 capital.
3. Include FCB attributed surplus in the definition of a URE equivalent, and include URE equivalents in the definition of URE.
4. Allow periodic equalization of the associations' investment in the bank.
5. Allow the minimum amount of stock required as a condition to borrowing under an institution's bylaws to be counted in CET1 capital, and include this amount in the safe harbor.
6. Exclude the associations' excess borrowing base in the direct loan with the bank from unfunded commitments that require capitalization.
7. Eliminate the requirement for capitalization bylaw amendments.
8. Modify the safe harbor for capital distributions to increase the amount that is distributable to a level that is more consistent with the regulations of the U.S. banking regulators.
9. Include in the safe harbor incidental redemptions for estates and pursuant to court orders.
10. Eliminate the 30 percent/3-year haircut for redemptions made without FCA approval and allow corrective actions to be case-by-case.
11. Eliminate the requirement for a specific percentage of URE and URE equivalents in Tier 1 capital for the purpose of calculating the leverage ratio in favor of a requirement that the CET1 capital should include the amount of URE and URE equivalents as an institution's board of directors determines is prudent and consistent with operating on a cooperative basis.

12. Reduce the Tier 1 leverage ratio from 5 percent to 4 percent in line with Basel III requirements.

If FCA does not make these recommend changes, then I would urge the Agency to consider the other clarifications and alternative proposals set forth in the Farm Credit Bank of Texas' and in the Farm Credit Council's comments on behalf of the System. These clarifications would not cure, but would help to mitigate the problems that would be generated by the proposed rule. I thank you for your consideration of these comments and the extension of the deadline for submitting them.

Sincerely,

Gina DeHoyos, CPA
Board Member and Audit Committee Chairman
Heritage Land Bank