



Curtis R. Hancock, Jr.
Fulton, Kentucky

October 22, 2018

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

**RE: Proposed Rule – Organization; Definitions; Eligibility Criteria for Outside Directors (12 CFR Parts 611 and 619)
RIN 3052-AC97**

Dear Mr. Mardock:

I am writing to offer my comments on proposed amendments to the regulations on the Organization, Definitions, and Eligibility Criteria for Outside Directors (the "Proposed Rule"). As a member of the AgFirst Farm Credit Bank Board of Directors and the River Valley AgCredit, ACA Board of Directors, I whole-heartedly support the principle of maintaining high standards of impartiality and independence in the operation and function of respective boards of directors and pursuing necessary and appropriate steps to ensure the safety and soundness of the Farm Credit System (the "System"). However, I am concerned that the Proposed Regulations, as currently drafted, are overly broad in potential application, create significant administrative costs, and pose serious threats to the identification and qualification of appropriate candidates to fill the important positions created and intended by the FCA regulations. My comments below focus on the impact of the Proposed Rule on System outside directors. I also support the comments submitted by AgFirst Farm Credit Bank ("AgFirst") and the Farm Credit Council regarding other important concerns not addressed in this letter.

Definitions (Proposed § 611.220(a))

Affiliated Organization –

I am concerned with the language in the new definition of "affiliated organization" that provides "organized for the benefit of, and in support of, an institution, and conducts activities that advance the mission of an institution." This provision seems overly broad in potential application, and I would note that it would appear to impact institutions like Farm Credit Council, Farm Credit Council Services, Future Farmers of America, Farm Bureau Insurance, and any number of other entities that "conduct activities that advance the mission of" a Farm Credit institution. This provision should be revised to better reflect the intent of the definition by, for example, adding the

word “solely” before “organized and operated” and replacing “that advance the mission of” with “on behalf of.” These amendments would limit the definition more appropriately.

Borrower -

The proposed definition of “borrower” is overly broad and would unduly eliminate appropriate and qualified candidates from service on boards of directors. First, the use of the word “has” in the definition is too extensive and would appear to include all individuals and entities who have ever had a loan, a pending loan, a lease, or a pending lease, regardless of whether the loan or lease has termed out or was even consummated. The application of such a broad exclusion would serve to unnecessarily diminish the pool of potential candidates for outside director positions. I would ask that this language be amended by removing the word “has” and limiting application of the Proposed Rule to current or pending lending or leases relationships.

The new definition for “borrower” is also troubling in its inclusion of guarantors. Because guarantors are not obligors on the loan and do not sign a promissory note, this language could cause confusion with regard to an institution’s understanding and treatment of guarantors as “borrowers” for other purposes, such as borrower rights.. In addition, guarantors are not able to run for stockholder-elected seats to the board as they are not considered “voting stockholders.” Based on guidance provided by the FCA in Bookletter 009, Farm Credit associations are only permitted to appoint voting stockholders even with regard to appointed directors. As such, by also exempting guarantors from serving as an outside director, this entire class of individuals, many of whom may have compelling qualifications, would be disqualified from Association board service of any type. Based on the foregoing, I would request that additional consideration is given to the above concerns related to the inclusion of guarantors in the definition of “borrower.”

Immediate Family Member -

The proposed defined term “immediate family member” is also overly broad and would create an undue hardship on an institution’s attempt to identify and qualify appropriate outside director candidates. The proposed regulation would prevent an individual from serving as an outside director if a member of their “immediate family” is a director, officer, employee, agent, stockholder, or borrower of any system institution. While I recognize that the FCA is attempting to implement rules similar to those applicable to public corporations, I would suggest that such restrictions are not necessary or appropriate given the nature of System institution ownership and board construction. Generally, System institutions do not have a board comprised primarily of executive managers or others traditionally deemed “insiders” by public corporations. As a result, the concerns with regard to outside directors of public corporations are not the same as those for System institutions, and thus the definitions and restrictions applicable to public corporations are not automatically appropriate for System institutions.

I am particularly concerned with the inclusion of “in-laws” in the proposed definition, and this concern is magnified when applying the definition in conjunction with the term “agent.” Based on the proposal, potential outside director candidates would be eliminated from consideration if an “in-law” acts as an agent for any Farm Credit institution, regardless of proximity. This application is too restrictive and overly broad in that it potentially covers individuals who are remote to the potential candidate and the involved institution. I would point out that a number of “agents” involve large companies with offices nationwide, and it is unreasonable to disqualify a

potential candidate because a distant or unfamiliar in-law might work for a large company in another part of the country. I request that references to “in-laws” be removed from the definition of “immediate family member” or that some other measure is considered to account for geographic proximity or economic interest conflict.

Eligibility, Number and Term (Proposed § 611.220(b))

I am concerned with the language in proposed § 611.220(b)(1) that would govern eligibility “to serve, and continue serving.” I believe the “continue serving” language in the proposed regulation creates confusion and would potentially require the removal of a sitting outside director in the event a relationship is no longer allowed. As a director, I would point out that the impact of this provision would be disruptive to the appropriate and timely conduct of business by a board of directors. Given the clear System requirement that all Farm Credit institution boards must include outside directors, if sitting outside directors are deemed ineligible to serve, I question the board’s ability to vote and take action during the period required to identify and qualify a new outside director. Furthermore, should it be determined that this new rule applies to sitting outside directors, questions arise with regard to the necessity of a new reporting process for such outside directors. I would request clarification regarding the application of the Proposed Rule to sitting outside directors and, if the proposal is deemed applicable to sitting outside directors, the appropriate process for boards to take action during the interim period necessary to identify and qualify a new outside director.

Proposed § 611.220(b)(1)(i) also creates cause for concern with regard to application and potential confusion. First, I note that there appears to be a conflict between the Supplementary Information to the Proposed Rule and the actual wording in the proposed regulation. The Supplementary Information states “The proposed rule would add the following to the list of persons excluded from consideration for an outside director position: (1) Borrowers of *the* institution [emphasis added].” However, proposed § 611.220(b)(1)(i) specifically references “of *an* institution in the Farm Credit System [emphasis added].” Perhaps this may constitute scrivener’s error, but this discrepancy creates a vastly different potential application and resulting impact on potential outside director candidates. I would request that proposed § 611.220(b)(1)(i) be corrected to reflect “the institution.” This change alone would significantly alleviate many of the other concerns enunciated above.

In addition, while I understand the inclusion of “agent” in the Proposed Rule, I would note the lack of an accompanying new defined term. Construction of the term “agent” may be problematic due to the pending SOC Proposed Rule, which as currently proposed would greatly increase the scope of agents, potentially including cyber/technology service providers, and many other institution vendors. My concern over the meaning of “agent” is magnified when coupled with the new definition of “immediate family member,” as the combined impact of these definitions would be substantial. Use of a broad construction of the term “agent” for purposes of outside directors would be too far-reaching and would create an undue hardship on institutions in their attempt to identify and qualify outside directors.

At the very least, should the prohibition related to immediate family members of agents, stockholders, and borrowers of the institution remain in the Proposed Rule, I would request language clarifying a “to the best of the outside director’s knowledge” or a “knows or has reason to know” standard. Without some form of reasonableness qualification, the proposal as currently drafted would create an impossible hardship on institutions and the candidates themselves. For example, an outside director candidate cannot be expected to know the intricacies of every relationship of his or her “immediate family members,” and especially in their role as a potential “agent.” Also, without this qualifying language, Farm Credit institutions will be required to provide lists of all agents, stockholders, and borrowers to outside director candidates which could involve tens of thousands of names. This requirement would be incredibly burdensome and expensive to produce and keep current, and nearly impossible for the candidates to vet.

Compliance Date

As the Proposed Rule appears to comingle applicability of candidate eligibility with current director eligibility, I would request clarification on the expectation for handling sitting directors following implementation of the final rule. In light of potential expanded prohibitions, it seems appropriate that the FCA consider a “grandfather clause” applicable to current sitting outside directors until their current term expires. Again, as a director, I must emphasize the potential impact the Proposed Rule could have on the appropriate function and activities of a board of directors.

General Considerations

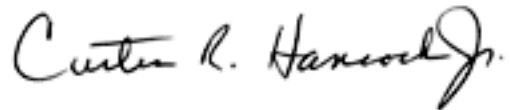
I would generally note that the issues raised above would require a much more in-depth reporting process for outside directors than a stockholder-elected director. These requirements seem to conflict with the ongoing emphasis in other FCA regulations and guidance that outside directors should not be treated differently than stockholder-elected directors. Furthermore, I would again mention that the FCA appears to be applying outside director requirements generally accepted in the public sector to System institutions that are significantly, and importantly, different from public corporations. System stockholders do not have the same material financial investments in Association stock that a stockholder of a public corporation might, and the board of directors of System institutions are not comprised primarily of executive managers or others traditionally deemed “insiders” by public corporations. As a result, I would maintain that the concerns with regard to outside directors of public corporations are not the same as those for System institutions. I think that the overall impact of the Proposed Rule serves to shrink the available pool of outside directors to an unmanageable and unsustainable degree.

Conclusion

Thank you for the opportunity to comment on the Proposed Rule. It is imperative that all System institutions' identify and qualify outside director candidates of the highest quality and ability. While I agree with the objectives of the Proposed Rule to strengthen the safety and soundness of System institutions and to strengthen the independence of System institution boards, the Proposed Rule imposes significant administrative burdens as well as challenging identification and qualification issues for System institutions. In addition, the Proposed Rule will severely limit

the pool of directors who may be willing to bring their expertise to the boards of System institutions. I respectfully request that the FCA consider my comments, as well as comments from other System institutions' directors, to revise the Proposed Rule to address the above concerns. Both the FCA and the System should make every effort to support the common goal of advancing the mission of the Farm Credit System to provide financing to our rural and agricultural communities.

Sincerely,

A handwritten signature in black ink that reads "Curtis R. Hancock, Jr." The signature is written in a cursive, flowing style.

Curtis R. Hancock, Jr., Director