FARMER MAC

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July 19, 2021

Via email to reg-comm@fca.gov
Kevin J. Kramp
Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Re: Proposed Rule – 12 CFR Part 614 – RIN 3052-AC94; *Collateral Evaluation Requirements*; 86 Federal Register 27308-27323 (May 20, 2021)

Dear Mr. Kramp:

The Federal Agricultural Mortgage Corporation ("Farmer Mac") is pleased to have this opportunity to respond to the request for public comment on the proposed rule of the Farm Credit Administration ("FCA") on the collateral evaluation requirements for Farm Credit System ("FCS") banks and associations ("Proposed Rule"). Farmer Mac recognizes that collateral valuation is a critical component of credit risk management, and this letter provides our suggestions and observations that we believe will enhance the Proposed Rule and help achieve FCA's objectives.

As the operator of a secondary market for agricultural mortgage loans, Farmer Mac has observed that the time and expense required for obtaining collateral valuations has never been greater. As a result, borrowers in rural America are subject to longer periods of time to close loans, increased out-of-pocket costs, and greater interest rate risk. Thus, we support the efforts of FCA to modernize subpart F of part 614, "Collateral Evaluation Requirements," which sets forth minimum regulatory standards for performing appraisals and evaluations of collateral that secures extensions of credit (lending and leasing) by FCS banks and associations. We have, however, identified two areas where we believe that a different approach, which would better reflect market standards or conditions, is warranted compared to that proposed by FCA.

Definitions: Automated Valuation Model

The Proposed Rule defines the term "Automated Valuation Model or AVM" as "a computer program that estimates a property's market value based on market, economic, and demographic factors using a quantitative method, system, or approach applying statistical, economic, financial, or mathematical theories, techniques, and assumptions. Hedonic models generally use property characteristics (such as square footage and room count) and methodologies to process information, often based on statistical regression. Index models generally use geographic repeat sales data over time rather than property characteristic data. Blended or hybrid models use elements of both hedonic and index models." *(Proposed Rule 12 CFR § 614.4240).*

This proposed definition does not align well with current market utilization of automated valuation models or other guidance from the appraisal services industry. Advisory Opinion 18 of USPAP (AO-18) describes an AVM as a "computer software program that analyzes data using an automated process. For example, AVMs may use regression, adaptive estimation, neural network, expert reasoning, and artificial intelligence programs." *USPAP Advisory Opinions, AO-18 (2020-2021 Ed.)*. USPAP's definition is sufficiently broad to include generic modeling techniques but states them in a way that is not exclusive to the examples. The definition of AVM in the Proposed Rule specifically references hedonic and index models without any reference to other types of modeling techniques. This could be interpreted as the only two acceptable forms of modeling techniques when many more modern techniques exist, and more may be developed in the coming years.

Farmer Mac suggests including a similar "For example…" introductory clause to clarify that hedonic and index models are only two examples of modeling techniques that can be used. Farmer Mac also suggests better aligning the AVM definition with that provided by USPAP's AO-18.

Proposed 12 CFR § 614.4265: Valuing Real Property Evaluation Size Limits

The Proposed Rule in 12 CFR § 614.4265 relates to valuing real property collateral and sets maximum loan amounts for which evaluations may be used in place of appraisals. Some of these limits are not in line with other regulatory lending standards. For example, the Proposed Rule continues the current maximum loan level of $250,000 for non-business loans, which has been in place for more than 20 years, while other banking regulations have increased loan maximums to $400,000 for consumer loans and $500,000 for commercial real estate loans. Maintaining different loan limits for the required use of appraisals or evaluations creates different standards for the lenders that participate in Farmer Mac's secondary market, depending on the primary regulator of the lender (if any). This makes it more difficult to achieve the consistency and uniformity that help reduce costs and increase efficiency in the operation of a secondary market, which can ultimately be passed along to borrowers. It also creates inequity of costs and program access across market participants.

Farmer Mac suggests revising the original $250,000 limit to $400,000 to mirror the appraisal exemption limit adjustment to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), the law governing appraisals and evaluations for most financial institutions outside of the FCS, which was updated in 2019. This would align industry regulations across lender type and simplify secondary market programs and oversight.

We thank you for the opportunity to comment on the Proposed Rule.

Sincerely,

Bradford T. Nordholm

Bradford T. Nordholm
President and CEO