



July 19, 2021

Mr. Kevin J. Kramp
Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

RE: Collateral Evaluation Requirements Proposed Rule – 12 CFR Part 614 – RIN 3052-AC94; 86 Federal Register 27308-27323

Dear Mr. Kramp:

Capital Farm Credit appreciates the opportunity to comment on the proposed rule for Collateral Evaluation requirements that was published on May 20, 2021. We value FCA's review of the existing collateral evaluation regulations for opportunities to improve the organization and readability of the regulations, as well as to expand authorities on using various sources of appraisers and evaluators and automated valuation tools.

Additionally, although Capital Farm Credit generally supports the position of the Farm Credit Council regarding the proposed rule, as set forth in their comment letter, we provide our own specific comments below. While there are some components of the proposed regulation that we find favorable, we have also identified the following concerns which we raise for your consideration:

Business Chattel — Adding a distinct category for this type of collateral is not necessary and does not add value. Association staff can facilitate the proper valuation of chattel without the distinction from other forms of personal property.

Required Appraisals and Evaluations — We do not believe it is necessary to value all collateral, as proposed in the new rule. In certain circumstances, institutions take blanket liens on personal property, including chattels. This enables institutions to efficiently process credit, especially for a scored loan portfolio. Our practice is to determine the value of the specific items of collateral that will be considered in our underwriting for calculating the loan-to-value (LTV) and loss given default (LGD). Although we may also have a lien on other pieces of collateral, their value may be of such insignificance that it does not impact the credit decision and we do not consider these additional pieces of collateral to be taken "out of an abundance of caution". Specifically, a borrower may have several pieces of equipment, but five of those pieces of equipment make up 80 percent of the value of equipment. Our process allows the Association to provide loans (especially smaller credits) to customers at varying degrees of agricultural operations in a manner that also ensures we generate



sufficient income to maintain strong earnings. This is especially true as many operations cover areas that can span multiple counties. Additionally, requiring all collateral to be valued could result in more unsecured loans to maintain efficiencies with smaller credits, which will negatively impact safety and soundness.

Age of Appraisal of Evaluation Reports — We appreciate that FCA is respecting the existing practice of allowing appraisals and evaluations to be updated pursuant to institution policies and procedures, including benchmarking methodologies. Our Association has implemented a risk-based approach which has allowed us flexibility and efficiency while also properly managing collateral risk. We would request clarification that associations may consider the movement of values when determining if an updated value is necessary. Specifically, if market data supports that values have increased in the respective area, institutions should have the flexibility to determine if an updated value is necessary or if they wish to conservatively use a previous, lower value. As you are likely aware, most System institutions have tools to monitor collateral risk and fluctuation of values, often with periodic reporting to their board of directors, which encompasses our believed intent of this proposal without requiring new appraisals.

Releasing Appraisals or Evaluations to Applicants and Borrowers — We support the agency's emphasis that borrowers should be provided any copies of valuations at any point in the life of the loan. However, the proposed regulation creates a new requirement that the information provided in the documentation should be presented in a manner that is easily understood by the applicant or borrower. The new requirement essentially raises the borrower to the level of an intended user as defined by USPAP. Standard 2 of USPAP addresses the content and the level of information required in a report. Standard 2 does not dictate form, format, or style. Standards Rule 2-2 says the report must contain sufficient information to enable the intended users of the appraisal to understand the report properly. It is the appraiser's responsibility, outlined in the Scope of Work Rule of USPAP, to identify the client and the intended users. The appraiser must prepare the report in a manner that all intended users can understand.

Advisory Opinion 36 from the Appraisal Foundation addresses intended users. In part – an appraiser's obligations to other intended users may impose additional development and reporting requirements in the assignment. Because of this, it is essential to establish a clear understanding of the needs of all intended users.

A party receiving a report copy from the client does not, as a consequence, become a party to the appraiser-client relationship. Parties who receive a copy of an appraisal or appraisal review report as a consequence of disclosure requirements applicable to an appraiser's client do not become intended users of the report unless they were specifically identified as intended users by the appraiser at the time of the assignment.

Appraisals and evaluations are completed by professionals for the purpose of lending decisions for lending institutions. They are the intended audience of these documents and it is difficult for an appraiser or evaluator to understand or know a borrower's level of knowledge in which to draft a document for their understanding. An appraisal or evaluation that meets the standards set by USPAP



or the lending institution, respectively, should be sufficient without an additional expectation (that is difficult to measure or ensure compliance of) that the documentation is presented in a manner that is easily understood by the applicant or borrower. Additionally, any such proposed rule should address redacting information as necessary.

Appraiser and Evaluator Qualifications and Independence — We agree with the proposal that lenders should establish written standards setting forth how independence from lending is determined. For example, Capital Farm Credit has separated its lending and credit functions into two independent departments with the Collateral Risk Department under the executive accountability of the Chief Credit Officer, who is ultimately responsible for our written independence standards. Additionally, we appreciate FCA acknowledging that some institutions utilize automated credit approval processes or, due to the size of the institution, may limit the ability for separation. However, even larger institutions have challenges ensuring complete independence on all loans. We seek clarification on the requirement of a secondary review either before credit approval or soon after loan closing. Historically, Capital Farm Credit has mitigated risk by ensuring a proper sampling of loans based on multiple factors (experience, loan sizes, frequency, etc.) which are reviewed by our Internal Credit Review Department under the oversight of the Audit Committee. Additionally, we hire an external certified appraiser to conduct periodic reviews of our evaluations completed by our staff for purposes of validation. We continuously monitor the real estate market to provide us with timely insight on valuation trends in our respective market areas. This risk-based approach has ensured safety and soundness of our institution while allowing for institutional efficiencies when possible.

Transactions Valued at or Below \$250,000 — The agency should consider the standard established by other financial regulators (see 12 CFR §323.3), which provides appraisal exceptions for residential real estate of \$400,000 or less and commercial real estate of \$500,000 or less. As proposed, the System would be under a different standard than other lenders, which puts us at a competitive disadvantage.

Using the Appraisal of Another Lender — The proposed regulation addresses sharing appraisals ordered by one financial institution for the use of a System institution. However, the regulation does not address evaluations. We ask that the sharing of evaluations (both internal and those engaged with external evaluators) with other financial institutions be included in the rule. Additionally, we ask for reconsideration of the proposed requirement that the original lender must agree to the transfer of the appraisal. This adds no benefit or value to the process and in many cases may not occur, putting the borrower in the position to pay for an additional appraisal on the same collateral. Capital Farm Credit is responsible for confirming the appraisal was ordered by a regulated institution, which can be accomplished through reading a report, any attached engagement letter, and discussion with the borrower, in line with FDIC's guidance from their FAQs issued March 22, 2005. This FAQ addresses whether a borrower may route an appraisal from one lender to another. The FDIC stated that this may occur if the receiving institution can confirm that the appraisal was in fact ordered by another regulated institution or financial services institution, that the appraiser was independent of the transaction, and that the appraisal conforms to the agencies' appraisal regulations and is otherwise



acceptable. No where does it state that the institution that originally ordered the appraisal must agree to the transfer.

Capital Farm Credit wishes to thank the Farm Credit Administration staff for the careful thought and work that has been put forth in developing this proposed rule. We appreciate the agency evaluating existing regulations in an effort to improve understanding and application, as well as to reduce regulatory burden when possible. Additionally, we appreciate the ability to provide input and hope that these comments will be useful in refining the proposed regulatory changes.

Sincerely,

A handwritten signature in black ink, which appears to read "Jennifer N. Thompson". The signature is written in a cursive, flowing style.

Jennifer N. Thompson
SVP of Compliance