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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:**

Golden State Farm Credit appreciates the opportunity to comment on the proposed rule for Collateral Evaluation requirements that was published on May 20, 2021.

Golden State Farm Credit participated in the Farm Credit Council workgroup and supports the position of the Farm Credit Council workgroup letter regarding the proposed rule. As set forth in the workgroup comment letter, we support the recommendation that the proposed rule be withdrawn by FCA. Along with the recommendation for withdrawal, we support the recommendation that FCA engage in a cooperative process with System representatives and industry experts to see if improvements can be made to existing guidance to accomplish the stated objectives of the Proposed Rule and/or to further safety and soundness with regard to appraisals and collateral evaluations in another way.

While the FCC workgroup letter provides a detailed listing of System-wide concerns, Golden State Farm Credit is most heavily focused on the following concerns in our request that you consider withdrawal of the Proposed Rule:

**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.

**Automated Valuation Model** — In the Proposed Rule, the term “Automated Valuation Model or AVM” uses an outdated definition that lacks necessary specificity. The proposed definition fails to recognize that there is a difference between appraiser/evaluator assisted valuation tools (like Maven) and true AVM’s that lack significant user interaction. It is our concern that the limited scope and applicability of the Proposed Rule’s definition may stifle technological progress that could result in more timely and accurate valuations.

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**Business Chattel** — Adding a distinct asset class for this type of collateral is not necessary and does not add value. Association staff can facilitate the proper valuation of chattel without this distinction from other personal property. Further, creation of this category is not consistent with current industry jargon or education programs which could cause more confusion than clarity.

**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. In certain instances, all collateral is taken for control purposes not for providing additional collateral and these additional pieces of collateral are taken “out of an abundance of caution”. This 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. We are concerned that implementation of this requirement could result in more unsecured loans to maintain efficiencies with smaller credits, which will impact safety and soundness of the System.

**Age of Appraisal of Evaluation Reports** — The Proposed Rule as written limits the System lender to using existing collateral appraisals or evaluations reports only if the appraisals reflect current market conditions at the time of use. We believe clarification is necessary so associations may consider the movement of values when determining if an updated value is necessary. In many instances, it may only be important to determine that the current value is no less than when the transaction was originally put on the books. If market data supports that values have remained stable or 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 previously estimated lower value.

**Releasing Appraisals or Evaluations to Applicants and Borrowers** — We support the agency’s emphasis that borrowers should be able to be provided 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. Standard 2 of USPAP addresses the content and the level of information required in a report along with supplemental requirements from FCA and individual lenders. Appraisals and evaluations are completed by professionals for the purpose of making lending decisions by System lending institutions. The System lender is the typical intended audience of these documents and they have a well understood base level of knowledge. It is difficult to impossible for an appraiser or evaluator to understand or know a specific borrower’s level of knowledge which would dictate how much detail they need to include 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 with) that the documentation is presented in a manner that is easily understood by the applicant or borrower.

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**Using the Appraisal of Another Lender** — The proposed regulation addresses sharing appraisals ordered by one financial institution for the use of a System institution. We have significant concern about 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. Currently a System lender 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. Nowhere does it state that the institution that originally ordered the appraisal must agree to the transfer. This proposed obligation goes beyond the requirements of any other Federal Financial Institution Regulatory Agency and would put the System at a competitive disadvantage.

Golden State Farm Credit wishes to thank the Farm Credit Administration staff for the work that has been put forth in developing this proposed rule to date. We appreciate the agency’s effort in evaluating existing regulations in an effort to improve understanding and application, as well as to reduce regulatory burden when possible. However, for the reasons summarized above it is our recommendation that FCA consider a withdrawal of the Proposed Rule as currently written and engage in a cooperative process with System representatives and industry experts to work collaboratively on more appropriate improvements to the existing Rule. We appreciate the ability to provide our input and hope that these comments will be useful in refining the proposed regulatory changes.

Sincerely,

Rob Faris

CEO

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