WESTERN AgCredit

10980 South Jordan Gateway
P.O. Box 95850
South Jordan, UT 84095
(801)571-9200
1-800-824-9198
Fax (801)571-9481

July 7, 2021

Mr. 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

Dear Mr. Kramp:

Western AgCredit ("WAC") appreciates the opportunity to comment on the Farm Credit Administration's ("FCA") Proposed Rule regarding Collateral Evaluation Requirements that was published in the May 20, 2021 *Federal Register* (the "Proposed Rule").

The Farm Credit Council ("FCC") has assembled a workgroup of several Farm Credit System institutions who met over a period of months to review the Proposed Rule. WAC senior management participated in this workgroup and have reviewed the FCC comment letter provided to FCA on behalf of FCC. We affirm and fully endorse the comments provided by FCC on the Proposed Rule and refer you to that comment letter for additional detail and comment on the Proposed Rule.

After careful review and consideration, WAC respectfully requests that the Proposed Rule be withdrawn.

General Comments

The Proposed Rule includes several provisions that fail to achieve the stated objectives of FCA and present compliance obstacles to WAC and its appraisers and evaluators. In addition, many provisions in the Proposed Rule will impose additional costs and burden on our customers and create confusion and inconsistency within FCA regulations. The Proposed Rule, if implemented, would likely have the unintended consequence of increasing risk of loss by unintentionally incentivizing unsecured lending. We believe internal controls can and do exist within our institution to provide the intended check on safety and soundness without imposing the Proposed Rule. Furthermore, we have further concern that the proposed regulatory changes would place the System at a competitive disadvantage because the Proposed Rule well exceeds the requirements under which any other regulated lending institution must operate and imposes additional and/or inconsistent requirements on USPAP reports and appraisers who must comply with such guidance. We believe WAC can remain safe and sound under its current structure and control environment within existing guidance, where flexibility exists to accomplish the goals and requirements of existing 12 CFR part 614, subpart F.

It is also our belief that the background provided by FCA does not justify or support the extensive changes being proposed, especially when such changes invite new classifications of collateral that are inconsistent with Article 9 and other state law governing asset classification, collateral description requirements, lien perfection, and filing requirements. The Proposed Rule represents a wide-reach, which is not consistent with any other law governing collateralization – from how it is described, how it is classified, how a licensed professional can discharge his/her responsibilities to provide a compliant report when the collateral value is legally required to satisfy Title I or Title II lending (as opposed to when collateral is pledged but is not legally or otherwise required).

The Proposed Rule makes collateralization and compliance more difficult, more costly, more burdensome to the customer, all while reducing WAC's ability to remain competitive and satisfy its mission of providing reliable, constructive, and cost-effective credit to stockholders. It is our belief that the costs and burden associated with the Proposed Rule would far outweigh any material benefit to be gained.

WAC Impacts

Credit Factors and Blanket Liens

The Proposed Rule is overly prescriptive regarding collateral and does not appropriately give consideration to risk and size in the lending decision. Collateral is just one of the five factors of credit considered in making loan decisions. With regard to the other four factors, the regulatory framework allows for risk-based standards and guidelines to be established. The Proposed Rule places the collateral consideration into a separate category, requiring increased attention above the other four factors. This is further challenged when considering collateral is not the primary repayment source of the loan. Placing undue emphasis on collateral could have the effect of placing greater emphasis on this credit factor than intended. Maintaining a focus on business viability and repayment through earnings should be the continued focus, with collateral serving as an important, but secondary source of repayment. .

As of December 31, 2020 our loan portfolio consisted of 3,917 loans with approximately 75% of said loans having been originated for an original amount of $250,000 or less. The burden imposed by the Proposed Rule would place our institution at a competitive disadvantage. The anticipated impact on financial performance would ultimately cost our stockholders in the form of higher interest rates and/or reduced patronage, with limited to no offsetting benefits realized. Within our territory, the percentage of loans involving Young, Beginning and Small ("YBS") farmers was 17% - Young, 20% - Beginning and 45% - Small. For many of these YBS loans, a requirement to complete a valuation on all secured assets would increase costs and/or disincentivize YBS lending..

To our knowledge, no state or federal law requires a lender to value each piece of collateral taken under a blanket lien and doing so would not only be incredibly expensive but also incredibly impractical for a number of reasons. Many operations in our territory are spread over a considerable distance. For example, a livestock operation may graze year-round on thousands of acres of public and/or private land covering many miles and in multiple locations. Crop operations may have numerous equipment and inventory assets spread across a wide area depending on the time of the year. It has been our practice to secure, whenever possible, general liens on all chattel assets to bolster

collateral positions and communicate intent to other lenders. In many cases it is difficult, if not impractical, to complete an inspection and valuation on all secured assets, especially when these individual assets represent a minor contributory value or are located in very remote locations. Having a blanket lien – even without an inspection – provides greater protection from loss in all instances than an unsecured loan. In order to remain cost-competitive, WAC would be incentivized to consider originating more unsecured loans rather than incur the costs and consume the resources to comply with the valuation requirements being contemplated in the Proposed Rule. In our opinion, this is an unintended consequence of the Proposed Rule that may result in a greater risk of loss across the System.

Other Laws and Guidance

The Proposed Rule is inconsistent with other FCA regulations, published guidance, or other professional rules and ignores many technological advancements made over the last decade that allow System institutions to truly meet their mission in a more cost-efficient manner. WAC would realize significant cost increases to convert or require a new report format (especially with AVM's), educate appraisers and chattel evaluators on the new requirements, update internal controls, policies, and procedures and train staff on such changes. Not to mention the unintended consequence and cost of losing goodwill and trust with customers and prospects by requiring a more inefficient and tedious valuation process, especially where little to no additional benefit is perceived from the process.

Terminology

The Proposed Rule creates new terms and utilizes other certain terms that are confusing, misplaced, or invite ambiguity. For example, the Proposed Rule creates new classifications of collateral that are not found in Article 9 and are internally inconsistent and confusing with other terms on which WAC must rely in order to ensure that their security interests attach, are properly perfected, and are appropriately maintained (*e.g.*, "business chattel" is not a defined term under Article 9 or other lien perfection laws and conflicts, or creates ambiguity, with other terms, such as "personal property" and consumer/non-consumer requirements and terminology). Similarly, the term "director," which is used throughout certain provisions of the Proposed Rule, is at odds with the terminology used internally, in the regulations, or elsewhere. A "director," as that term is ordinarily used, does not perform collateral evaluations or appraisals in connection with any transaction.

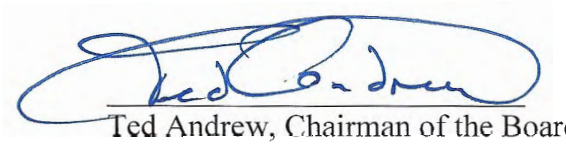
Loss of Flexibility

There is a reasonable amount of flexibility needed in the regulations with regard to appraisals and collateral evaluations to allow WAC to accomplish the goals of the regulations through its policies and procedures. WAC lending territory characteristics, borrower expectations for reasonableness, geography, and commodities financed require the flexibility found in the existing regulations and published guidance to address the unique needs of our territory.

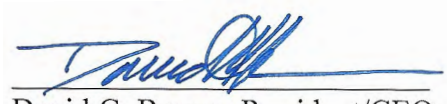
Conclusion

WAC appreciates the opportunity to comment on the Proposed Rule and to present some of its concerns to FCA for its consideration. For at least the reasons stated herein and in addition to the FCC

Comment Letter which we fully support, WAC respectfully requests that FCA withdraw the Proposed Rule.



Ted Andrew, Chairman of the Board



David G. Brown, President/CEO