FARMER MAC

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November 23, 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: Advance Notice of Proposed Rulemaking – 12 CFR Part 615 – RIN 3052-AD44; *Bank Liquidity Reserve*; 86 Federal Register 34645-34653 (June 30, 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 advance notice of proposed rulemaking ("ANPRM") of the Farm Credit Administration ("FCA") on the liquidity requirements for Farm Credit System ("FCS") banks. Farmer Mac recognizes that liquidity management is a critical component of the safety and soundness of financial institutions, and this letter provides our observations that we believe will enhance the ANPRM process and provide insight to FCA as it considers whether to amend its existing liquidity regulatory framework applicable to FCS banks.

The ANPRM poses 33 separate questions (many with multiple subparts), which are primarily focused on the application of the Basel III Liquidity Framework to the management of liquidity risk. Although the FCA has a separate set of liquidity regulations that apply only to Farmer Mac and the ANPRM does not contemplate any potential change to those regulations, Farmer Mac would like to share some observations on the ANPRM as an entity that is similarly situated to FCS banks in terms of funding sources and as a fellow FCS institution with a mission to serve rural America. Farmer Mac's general comments below relate primarily to ANPRM questions #22–#25 in Subpart B and the potential applicability of two key measures: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

Liquidity Coverage Ratio and Net Stable Funding Ratio

Federal banking regulatory agencies other than FCA have implemented requirements for minimum LCRs and NSFRs for their regulated institutions based on the Basel III Liquidity Framework.

> *Liquidity Coverage Ratio*. The LCR is a short-term (30-day) liquidity metric that compares unencumbered high-quality liquid assets ("HQLA") that can sold at the amount of expected net cash flows over the same 30-day period. The LCR is designed to reduce short-term liquidity risk by providing a cash cushion if there is a run on a financial institution during a crisis in the financial markets.

> *Net Stable Funding Ratio*. The NSFR is a longer-term asset vs. funding metric on banking institutions that evaluates the stability and construction of the assets and liabilities. NSFR measures the long-term stability of a depository institution's funding relative to its assets and off-balance sheet exposures with the end goal of seeking to compare maturity-weighted funding to the maturity-weighted assets. The NSFR is designed to reduce long-term funding risk by limiting an over-reliance on short-term funding and requiring depository institutions to fund their assets with sufficiently stable sources of funding.

Funding Model for the FCS and Access to Funding in a Crisis

Basel-based approaches for liquidity management were originally designed for depository institutions in the wake of the 2008 financial crisis. The FCS as whole is a government-sponsored enterprise ("GSE") with strong access to the capital markets at favorable rates and therefore has very different mechanisms for funding relative to most depository institutions. Specifically, the FCS relies on continuing access to the debt capital markets for funding through system-wide consolidated debt obligations issued by the Federal Farm Credit Banks Funding Corporation ("Funding Corporation"), which is owned by the FCS banks. FCS banks use this funding obtained through the capital markets to provide funding to their affiliated associations, which are the direct lenders that extend credit to borrowers in rural America. In contrast, other commercial lenders that are depository institutions largely depend on receiving deposits from customers for funding. We believe that these distinctions in funding sources limits the applicability and relevance of the Basel-based liquidity approaches to GSEs like the FCS that obtain most or all of their funding through the capital markets. For example, the purpose of the LCR is to ensure at least 30 days of liquidity when deposits quickly decrease due to a rush of withdrawals, but the depository model does not apply to the FCS, which funds loan assets and investments through the Funding Corporation's issuance of short-term, medium-term, and long-term debt securities.

Application of the LCR and/or NSFR metrics to the FCS could force a material change to the FCS's funding strategy and liquidity management by curtailing presence in the debt capital markets. The market-based funding that the FCS depends on is predicated upon regular participation in the debt capital markets across a wide variety of tenors. In particular, regular presence in the market for overnight and short-term tenor segments is essential to securing market access during periods of stress. It appears that FCS's active and flexible debt issuance strategies in both the short- and long-term debt capital markets helped facilitate ready access to funding during the COVID-19 pandemic and successfully provided low-cost capital to rural borrowers in fulfilment of its public mission during this period of stress.

Considerations Related to Mission Fulfillment, Profitability, and Capital

Application of the NSFR metric to the FCS could significantly constrain balance sheet management, and therefore delivery of capital in support of its public mission, by forcing longer-term debt issuance that could raise overall funding costs and interest rates for borrowers. Maintaining compliance with an NSFR measure during a period of market stress could drive difficult choices by forcing the issuance of longer-term debt into a market that either will not accept it or would accept it only at a high price. Perversely, the result of this would be either a reduced delivery of capital to rural America during times when it may be needed most, or delivering capital at a significantly higher cost. By comparison, FCA's current liquidity management regime in place for the FCS would permit greater flexibility in funding so long as the appropriate amount of offsetting liquid assets is maintained. Higher borrowing costs would result in lower earnings and lower capital buffers that are accumulated through retained earnings, which could over time lead to a reduction in both safety and soundness, impair growth, and restrict the FCS's ability to better serve its mission, especially in times of market stress.

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We thank you for the opportunity to comment on the Advanced Notice of Proposed Rulemaking.

Sincerely,

Bradford T. Nordholm
President and CEO