FARM CREDIT

January 24, 2022

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 628 – RIN 3052-AD42; *Risk Weighting of High Volatility Commercial Real Estate (HVCRE) Exposures*; 86 Federal Register 47601-47607

Dear Mr. Kramp,

Farm Credit of the Virginias, ACA (the "Association") appreciates the opportunity to submit comments on the Farm Credit Administration's ("FCA") Proposed Rule regarding Risk Weighting of High Volatility Commercial Real Estate (HVCRE) Exposures that was published in the August 26, 2021 *Federal Register* (the "Proposed Rule").

The Association has reviewed and discussed the Proposed Rule with its management and certain employees and agents. The Association also participated in meetings and discussions with other groups, associations, district banks, and Farm Credit Council ("FCC"). During these discussions, the Association reviewed the Prepublication Copy of the Proposed Rule, the Proposed Rule, existing regulations, relevant FCA-published materials, and materials and authorities relevant to other lending institutions including the Frequently Asked Questions on the Regulatory Capital Rule from the Office of the Comptroller of the Currency.

This comment letter reflects the Association's general comments on the Proposed Rule. The Association also supports the FCC's specific comments and request for clarification on particular provisions of the Proposed Rule, as outlined in the FCC's regulatory comments filed January 19, 2022.

<u>General Comments</u>

The Association generally supports FCA's effort to ensure the rules for Farm Credit System institutions (the "System") are similar to those adopted by the Federal banking regulatory agencies ("FBRAs") with the guiding principle that "the same loan to the same borrower - whether it is made by a commercial bank or a System institution- carries the same risk and should be assigned the same risk-weight."[1] However, in this case, the Association and others in the System have limited opportunities to make HVCRE loans. As such, the burden for identifying such limited number of loans on an ongoing basis greatly exceeds the benefit of identifying the minimal potential adverse impact that such loans could have on the safety and soundness of the Association. The HVCRE risk-weighting was designed by the FBRAs to identify commercial real estate loans of a speculative nature (such as office buildings and strip malls without signed lessees), a market in which the Association (and others within the System) does not actively or materially participate. As such,

[1] Risk Weighting of High Volatility Commercial Real Estate (HVCRE) Exposures, 86 Fed. Reg. 47,602 (August 26, 2021).

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the FCA has not established a need for this rulemaking other than consistency with the FBRAs. The potential regulatory burden and cost for the Association and others in the System that would result from this proposal does not seem to be justified given the limited scope and impact on the safety and soundness of the System. As the FCC stated in their comments, “If the FCA wishes to discourage the extension of HVCRE loans by System institutions, there are less burdensome ways to accomplish that objective with less potential unintended consequences.” Moreover, we are particularly concerned that implementation of the Proposed Rule would increase the cost of credit for the borrower-owners of the Association and of other System institutions, especially for young, beginning, and small farmers.

In addition to our general concerns with the basis and overall impact of this proposal, we appreciate that FCA has offered flexibility on the use of “as is” and “as completed” real property evaluations. We align ourselves with the further clarification or flexibility in other areas submitted in detail by the FCC. These clarifications on the exclusions are important in order to not discourage lending to construct facilities that are mission-focused and/or provide critical support to rural communities. Further, the Association, along with other System institutions, also rates borrowers in accordance with the level of construction risk, effectively increasing the cost of this specific type of lending and providing protection to the institution. The Association also strongly endorses the suggested revision described in the FCC comment letter regarding loans for construction of structures on farm properties.

In agreement with the comment letter from the Farm Credit Council and the reasons stated herein, Farm Credit of the Virginias, ACA supports the additional suggestions to FCA for its consideration and respectfully requests that FCA amend the Proposed Rule as discussed herein.

Respectfully submitted,

Brad Cornelius
Chief Executive Officer
Farm Credit of the Virginias, ACA

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