



May 21, 2019

Mr. Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

RE: Advance Notice of Proposed Rulemaking—Young, Beginning, and Small Farmers and Ranchers—RIN 3052-AD32/Federal Register 84, No. 35 (February 21, 2019)

Capital Farm Credit (CFC) acknowledges and appreciates the Farm Credit Administration's (FCA) efforts to seek comments on the existing YBS regulations and considerations for amendments in advance of the proposed rulemaking. These regulations impact the majority of our portfolio, and the information derived from the reporting requirements is important to the system, as well as closely monitored by external parties.

YBS lending is important to CFC. Providing financing to the next generation of farmers and ranchers is imperative to the agriculture success of our country, and we are proud of the outreach efforts that we and other Farm Credit System (FCS) institutions have made. We cooperate with local and national organizations to reach and educate YBS farmers, which includes individuals with no FCS relationship, and we have a long-standing commitment to our mission, which includes a commitment to YBS farmers.

CFC supports efforts to ensure the accuracy of data; the current categories provide meaningful information to the system and external parties. While the expansion of reporting categories may increase precision, we ask FCA consider existing systems and the ability to accurately report the additional categories. Additionally, we ask for continued focus on the qualitative efforts that demonstrate our dedication to this segment of farmers, many of which are not our customers.

1. Should loans continue to be reported in all the existing categories in which they fit? Alternatively, should loans be reported in seven mutually exclusive categories: Young; beginning; small; young and small; young and beginning; beginning and small; and young, beginning, and small?

Reporting in all seven categories would allow for more accurate reporting and eliminate double counting in the aggregate data. However, this substantial change would be difficult to implement at the institution level. Assuming this level of granularity can be captured within the loan data base improvements, we support this change. Until that time, we support the current reporting methodology.

2. When reporting YBS Farmer program performance, which would be more useful, a focus on the dollar volume of loans, the number of loans, the number of YBS Farmers that received credit and services, a combination of these, or all?

It would be more useful and meaningful to report the total number of YBS customers. Reporting at the customer level prevents one farmer from being counted multiple times in multiple categories.

3. Under FCA's regulations, the term "services," as used in section 4.19(a) of the Act, includes leases and related services made by System banks and direct lender associations under titles I or II authorities. As such, how appropriate is it for lease activity to be reported for YBS purposes? Should leases and services be reported together with or separately from loans?

Adding in additional reporting categories will only increase scrutiny of external parties. We should keep the reporting requirements on loans and not increase the categories. Services and leases are insignificant when compared to loan volume for the system and the additional reporting would not add significant value to the system. Additionally, systems would have to be updated to capture reporting and the agency would need to ensure the reporting requirements were clarified. For example, if the agency determines reporting should occur at the customer level, would a customer have duplicate reporting if they had a loan, lease, and crop insurance?

4. What additional elements or measurements would be useful in determining the FCS's compliance with and mission performance under section 4.19 of the Act and FCA regulations at 12 CFR 614.4165?

We do not feel that additional elements would be useful. Rather, we believe it would be better to focus on creating a method of reporting that is clear and improves data integrity of these reported fields to meet the intent of regulations. Additionally, consideration should continue to be given to the qualitative efforts of institutions to reach this segment of the market.

5. What are ways Institutions could pool resources to ensure all eligible YBS Farmers are being served?

We believe that institutions across the nation already successfully utilize resources to reach as many YBS customers as possible. Additionally, many institutions have added their own, further reaching programs to ensure that the next generation of farmers and ranchers have access to credit. We understand the limitations and challenges for the next generation of farmers and ranchers and actively work with them at every level. Farm Credit institutions are proud of their relationship and outreach to this segment, and they would maintain this level of dedication even without the existence of the YBS regulations.

6. In what ways could Institutions use investment authorities to assist YBS Farmers, and should such investments be reported separately from YBS Farmer loan data?

Investments should not be included with the loan data.

YOUNG FARMER

7. Given the trends in the average age of farmers, ranchers, and aquatic operators and the transfer of operations from one generation to the next, does the current age limit remain appropriate? If not, what would be a more meaningful age threshold for a “young” farmer and why?

The current age limit remains appropriate.

8. Should the young farmer designation change for a borrower's outstanding loans once they age beyond the threshold?

The designation is made at origination. The borrower should remain “Y” until all associated “Y” loans are paid off. This is the same for all designations.

9. What additional clarification is needed on who qualifies as a young farmer? For example, should the following criteria apply to the determination of whether a person is a young farmer and to what extent:

- a. Ownership in the agricultural or aquatic operation.
- b. Ownership of agriculture land only.
- c. Financial control in the agricultural or aquatic operation.
- d. Exposure to production risk in the agricultural or aquatic operation.

In many cases, it is difficult for the next generation of farmers or ranchers to begin their own operations. As such, it is common to have co-signers or to have real estate as collateral that is owned by another party (usually a parent). Despite these credit considerations, it doesn't negate the fact that we are working with a Young customer and providing them credit as they begin their operation. We shouldn't only count those scenarios where they are majority owner or own the security because those are not realistic scenarios of how most of next generation enters agriculture.

BEGINNING FARMER

10. Is the 10-year threshold still appropriate, and if not, what would be an appropriate threshold and why?

Yes, the 10 year threshold is still appropriate.

11. Should the beginning farmer designation change for a borrower's outstanding loans once the years of experience exceed the threshold?

The designation is made at origination. The borrower should remain "B" until all associated "B" loans are paid off. This is the same for all designations.

12. What additional clarification is needed on who qualifies as a beginning farmer? For example, should the following criteria apply to the determination of whether a person is a beginning farmer and to what extent:

- a. Ownership in the agricultural or aquatic operation.
- b. Ownership of agriculture land only.
- c. Financial control in the agricultural or aquatic operation.
- d. Exposure to production risk in the agricultural or aquatic operation.

We should consider whether they are liable on the loan. In many cases, it is difficult for the next generation of farmers or ranchers to begin their own operations. As such, it is common to have co-signers or to have real estate as collateral that is owned by another party (usually a parent). Despite these credit considerations, it doesn't negate the fact that we are working with a Beginning customer and providing them credit as they begin their operation. We shouldn't only count those scenarios where they are majority owner or own the security because those are not realistic scenarios of how most of the next generation enters agriculture.

SMALL FARMER

13. What criteria should FCA consider in determining whether to maintain or change the \$250,000 threshold? For example, should we consider thresholds adopted by other government agencies for their definition of “small” farmers?

We are fine with keeping the amount the same.

14. Would it be appropriate to index or benchmark the economic measure used at specified points in the future to ensure the threshold is current and a reasonable measure? If so, what would be an appropriate interval and benchmark?

We do not believe that it would be appropriate to index or benchmark the economic measure. We have several regulations that use dollar threshold to determine requirements. Regulation Z, for example, updates their threshold annually; however there are several other regulations with stagnant numbers that are only updated through formal regulatory changes and with commentary input. The YBS qualifications should go through that process to consider input of associations before making substantial changes to the threshold.

15. Should the terminology “normally generates” be more clearly defined for reporting purposes? Would a multi-year median or olympic average be a more meaningful measure?

Although FCA could consider adding more specific considerations for this measurement, we have not found the current definition to be a challenge.

16. Should the measurement for farm or aquatic income reflect a more stable metric compared to the current measure of annual gross sales of agricultural or aquatic products?

Gross sales is an appropriate measure.

17. Should a borrower be considered a small farmer if:

a. They have not yet generated agricultural or aquatic income?

The fact that they haven't yet generated income should not prevent them from being counted in this segment. Projected income could be utilized to support the determination.

b. They only own agricultural land and no agricultural income is produced?

This should not prevent them from being evaluated in this segment. Normally some level of ag income is generated for tax purposes.

18. Should there be a time period established over which no agricultural or aquatic income is generated that would disqualify the classification of “small farmer” from continuing?

The determination is made at origination. Developing a monitoring system to implement this suggestion would be overly burdensome for institutions without providing meaningful value.

19. Should the small farmer designation change for a borrower's outstanding loans if they grow beyond the threshold?

The designation is made at origination. The borrower should remain “S” until all associated “S” loans are paid off. This is the same for all designations.

20. Should the small farmer measure account for such items as amount of acreage farmed as well as the production value generated?

No.

Other Reporting Definitions: Material Ownership and Closely Held Entity—Determining whether an entity is a young or beginning farmer.

21. What family connections among individuals who own/operate an entity should be considered to determine whether the entity meets the age or years of experience thresholds?

Determination should be made consistent with the definitions of Y, B, and S. If an obligor on the debt meets one (or more) of the criteria, the loan should be included.

22. With respect to farming, ranching, and aquatic operations performed through legal entities:

a. What young or beginning farmer ownership thresholds should be used to determine that an operation/entity is a young or beginning farmer?

If a borrower is liable on the note, they should be considered. If not, then ownership interest should allow for reporting.

b. How should the percentage of ownership in the entity by individuals that meet the requirements for a young or beginning farmer affect the threshold?

Percentage of ownership should not affect the threshold.

c. If a single person's ownership share is not sufficient to meet the threshold, should more than one person be allowed to jointly meet the threshold?

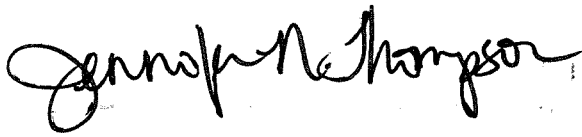
d. What, if any, overall income threshold should be considered for an entity to be classified as a young or beginning farmer?

23. In determining whether an entity is a young or beginning farmer, over what minimum time period should the Agency provide for an association to make the determination, or should the determination be made at a specific point, for example, at the time the loan is applied for or closed?

This should be determined at origination.

CFC supports YBS farmers and is committed to serve this segment. We are proud of the dedication our team has demonstrated in our efforts to provide resources and outreach efforts for the benefit of YBS farmers—whether they do business with CFC or not. Again, we thank FCA for this opportunity, and we appreciate the ability to provide input in anticipation of potential regulatory changes. Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jennifer N. Thompson". The signature is written in a cursive, flowing style.

Jennifer N. Thompson

SVP of Compliance