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July 19, 2022

Autumn R. Agans
Deputy Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Re: Proposed Rule – 12 CFR Parts 614 and 620, RIN 3052-AD54; *Loan Policies and Operations*;
87 Federal Register 36261-36264

Director Agans:

Western AgCredit appreciates the opportunity to comment on the Farm Credit Administration's ("FCA") Proposed Rule regarding Loan Policies and Operations specifically addressing Young, Beginning and Small (YBS) activity that was published in the June 16, 2022 *Federal Register* (the "Proposed Rule").

General Comments

Western AgCredit has a strong interest, track record of investment and strategic mission to serve YBS borrowers and support the future of the agriculture industry. We are fully aligned and share in FCA's vision to meet the unique needs of YBS borrowers and to establish programs to '*furnish sound and constructive credit and related services to YBS farmers and ranchers.*' Along with providing specific feedback on the proposed regulation, we would like to proudly highlight our progress and achievements centered on YBS borrowers.

Outreach and Programs

Western AgCredit's outreach and support of YBS producers includes a diverse offering of programs designed to help ensure the future viability of agriculture in our lending territory. In the last decade, we have added multiple programs and invested significant capital and resource to help us meet the unique and evolving needs of YBS producers. We continue to look for ways that we can add value to YBS farmers and ranchers by collaborating with other Farm Credit associations, building relationships with trade groups focused on YBS producers, and seeking input from YBS producers. These efforts are focused on helping YBS borrowers succeed in agriculture. Below is a brief overview of the programs and outreach sponsored by Western AgCredit.

AgFuture

The AgFuture program provides interest rate reductions to YBS producers for participating in educational opportunities. Developed in 2016, the purpose of this program is to encourage education

and have a tangible discount to offer those willing to put forth discretionary effort to increase their borrowing competency.

There are two discount tiers YBS producers can earn. The first tier offers a 25-bps discount for completing our internally developed online Borrowing Basics training modules. The second tier provides an additional 50-bps discount for participating in and recording an additional three learning opportunities related to agriculture or financing. These discounts are in addition to allowances credit officers can already make to help YBS producers obtain a rate more on par with an established producer. To date, we have had over 100 YBS producers register for this program.

AgStart

The AgStart program is a low-interest micro loan program developed to help local food farmers and veterans operating at a smaller scale. This program was developed after our local land-grant university extension professionals helped us identify that local food farmers producing on a smaller scale and selling direct-to-consumer are typically underutilizing traditional operating loans and prone to use higher cost products such as credit cards to manage operating and expansion expenses. AgStart not only helps meet these needs, but also encourages YBS borrowers to develop a relationship with a lender that will help them with future growth goals. In addition to reduced rates, this program also has relaxed lending standards, such as reduced requirements on leverage and earnings ratios, to help YBS producers qualify.

One of our AgStart customers was able to capture the lower rate offered through this program to affordably add nine Jersey milking cows to their raw milk dairy in Utah. This expansion helped the customer increase his direct-to-consumer sales and grow their business.

Farm Credit Fellows

In 2017, we partnered with Utah's land grant university, Utah State University, and Northwest Farm Credit Services to offer the Farm Credit Fellows Program. The purpose of this program is to educate students about agricultural lending. Participants include those interested in working in the field of ag lending, those planning on returning to the family farm/ranch, and those seeking a career in other aspects of agribusiness. For students who want to be full-time farmers, this program helps them have a clearer understanding of the marks of a successful operation and the measurements of success. In 2019, we added students from Brigham Young University-Idaho to the program. Each year, roughly 20 students are selected through an application and interview process to spend a semester learning about ag lending, job shadow with Farm Credit employees and participate in three days of training with Farm Credit employees. Participants also receive a \$1,000 fellowship grant.

Farm Fresh Advertising Grants

Increasing consumer demand for fresh, local food has opened opportunities for local food farmers. Western AgCredit has identified local food farmers as an important segment of agriculture to target in our outreach efforts since oftentimes they are not members of the more traditional organizations and trade groups we support. A strategy to help us accomplish this goal was implementing the Farm Fresh Advertising Grant program in 2016.

These marketing grants help farmers markets advertising their market. Every year, we choose four to six markets out of those that applied to receive \$500 and 200 reusable shopping bags. Our credit team delivers the bags, speaks to the producers, and builds relationships with market organizers to help them understand Western AgCredit's mission and the loan programs designed to help local food farmers. We have also been able to reach a diverse group of growers through this program by giving grants to a market that features produce grown by refugee farmers.

Succession Assistance

Recognizing the importance that transitioning family farms to the next generation plays in the continued viability of agriculture, in 2019 we partnered with Nationwide Insurance to offer complementary transition planning to our customers through their Land as Your Legacy Program. As of the end of the first quarter of 2022, nearly 30 customers have enrolled in the program and started their succession planning journey with assistance from Nationwide's expert team.

Education and Training

Each year, we identify a production or business-related topic that could help our customers and offer training on that subject. Topics have included the basics of borrowing, succession planning, record keeping, and agricultural economic updates. When offering these trainings, we prioritize invitations towards current and prospective YBS producers. These trainings also support participants in the who are seeking additional qualifying interest rate reductions through our AgFuture program.

Scholarships

Our robust scholarship program supports youth interested in an agriculture-related career as well as scholarships to help customers' children with college or trade school expenses. In addition to the scholarships for customers' children, we support scholarships to attend three university agriculture programs in our area and scholarships to Utah FFA students. In 2023, we'll be increasing the dollar amount of several of these scholarships to help keep up with the rising cost of tuition.

YBS Portfolio Statistics

Our focus on YBS producers and the success of our outreach programs are demonstrated in the strength of our YBS portfolio. YBS producers make up 38% of our total portfolio by volume as of June 30, 2022. As a percentage of our loan portfolio, Small producers account for 47%, Beginning producers account for 19% and Young producers account for 17% of the total outstanding loans. Efforts and outreach to YBS borrowers is evidenced by these results.

Through our ongoing outreach to YBS producers and organizations that support them, we hope to continue to add programs targeted at helping YBS producers succeed in agriculture, which is a goal supported by our membership. In a 2020 customer survey, 91% of respondents said they either agreed or strongly agreed when asked if they support, "Western AgCredit offering specialized programs to young and beginning farmers, recognizing that a portion of the associated costs are shared by all customers." This exemplifies the importance of YBS farmers and ranchers succeeding in agriculture, which is a goal shared by the Western AgCredit Board of Directors, our leadership team and member owners.

Proposed Rule Comments

The proposed rule identified four objectives intended to strengthen YBS lending – 1 – increase direct lender associations’ YBS activity, 2 – reinforce supervisory responsibilities of the funding banks, 3 – require each direct lender association to adopt an independent strategic plan and 4 – provide elements that will be evaluated as part of a rating system to measure year-over-year progress.

In our view, the regulation as proposed does not meet these objectives and would negatively impact our ongoing efforts to serve YBS farmers and ranchers. The regulation adds undue compliance and reporting burden, diverts resources currently targeted at YBS programs towards administrative coordination with the funding bank and other competing and over chartered associations, and creates unintended consequences of designing programs aimed at maximizing a rating system rather than the specific needs of YBS borrowers. In our opinion, further regulatory burden around YBS lending would distract from an otherwise productive and efficient method of providing mission critical products and services to YBS customers. Western AgCredit fully recognizes that YBS customers are the future of our membership and therefore a driving force of our strategies and business objectives. We do not believe additional regulatory or supervisory oversight will improve our performance in this area. In fact, it will assuredly result in greater cost and administrative burden to achieve the same favorable outcomes.

YBS Strategic Plan

The regulation requires associations prepare a 3-year YBS strategic plan, prepared and approved separately from the business plan already required. Creation of a YBS plan independent of the annual business plan requirement is unnecessary redundancy (because YBS is already a significant component of our comprehensive business plan) and creates a disconnect from the overall business plan. In our view, YBS borrowers are critical to the overall sustainability of our business and a key component of the overall business plan. YBS borrowers should be considered in the context of the whole business and, as such, included in the overall business plan. If successfully prepared and executed, a comprehensive business plan will address all plans to attract, retain and facilitate the success for all eligible borrowers in the lending territory. Successful YBS borrowers may one-day no longer be considered YBS borrower. A comprehensive business plan should therefore already consider all borrowers – both YBS and those no longer meeting YBS definitions. Separating the business plan and a YBS strategic plan would inherently create inconsistencies or redundancy and thereby reduce the effectiveness of both.

Creation of an independent YBS strategic plan adds additional administrative burden and strains resources that otherwise might be available to facilitate YBS efforts. As a smaller Association, staff involved in the creation of the comprehensive business plan would also share responsibility to prepare the proposed YBS strategic plan. Resources that may otherwise be available to engage in ongoing YBS development and support would be diverted to preparation of a YBS strategic plan. As noted above, our Association facilitates a YBS program called Farm Credit Fellows. The key portions of this program require significant staff resources during the first week of January each year. The same staff responsible for the Farm Credit Fellows program would also be involved in preparing a YBS strategic plan. Completing this plan would clearly detract from the time and attention given to this YBS program and minimize our YBS efforts. Several key conferences, industry meetings and other YBS outreach efforts occur during the month of January. Some key staff including the Marketing Director,

Chief Credit Officer, and Regional Lending Managers would be less available to support these efforts as they will also be required to develop and complete the YBS strategic plan prior to January 30. Rather than directly engaging and supporting YBS efforts outlined in the association business plan, these key staff members would be in the office preparing a YBS strategic plan.

The proposal requires quantitative goals be based on ‘*reasonably reliable demographic data*’ for the lending territory. The proposed regulation creates a requirement that provides uncertainty and highly subjective interpretations. The proposal also requires evaluation of the ‘*effectiveness in providing these efforts that result in new and expanding YBS operations to which credit is now provided*’. For many programs and services, the ‘effectiveness’ may be difficult to measure. We currently provide scholarships for YBS borrowers to attend training events, sponsor industry trade shows, provide education seminars and offer college scholarships as part of our efforts. It is unclear how to effectively measure these efforts or how they may or may not have contributed to ‘*new or expanding YBS operations.*’ If a potential YBS borrower attends a workshop in 2022 and becomes a borrower in 2026, the regulation suggests our strategic plan must monitor, record, track and report that information. If a scholarship is provided to a college freshman in 2023 and that student then joins his family’s operation in 2030 after working in another industry, does the YBS strategic plan need to track that information as an ‘expanding operation’? We continue to believe and support these efforts as part of our mission to support agriculture and YBS borrowers. We have every incentive already to do so. We believe the additional requirements create an increased administrative burden to somehow measure effectiveness of these programs and diverts existing staff from grassroots YBS efforts.

Coordination with other System Institutions, Government and Private Sources

Requiring coordination by regulatory requirement does not accomplish the objective of increasing YBS lending. Our lending territory includes two smaller areas that are over-chartered by two other large associations. Accomplishing alignment and coordination with these two associations creates an administrative burden. For these other associations, the strategies to meet their individual YBS goals may differ significantly from our own. As these over-chartered areas are very small relative to their aggregate territory, they may have limited interest in coordinating efforts that could be very key for our strategy, but of lower priority to them. Again, staff resources would be diverted to potentially unproductive coordination efforts, rather than advancing our own grassroots YBS efforts.

The regulatory requirement placed on associations to require collaboration is a solution to a problem that in our view does not exist. The System currently enjoys a very robust and healthy collaboration to advance YBS efforts. This existing collaboration has been effective for Western AgCredit in the development of new ideas, programs, and outreach efforts. For example, Western AgCredit was able to collaborate with a professor at a local land grant university that was also a former director at another System association. This collaboration resulted in the formation of the Farm Credit Fellows program. Realizing that larger regional opportunities exist, Western AgCredit engaged a neighboring System institution which is not over-chartered to jointly develop and operate the program. Additionally, several other programs including our AgStart, AgFuture and Farm Fresh Advertising Grant programs have been developed through effective collaboration with other System institutions. In some cases, these collaborations occurred with associations far outside of the CoBank district through new and established relationships.

Supervisory Responsibilities of Funding Bank

The proposed regulation requires Farm Credit bank oversight including review and approval. Including this additional layer of oversight adds little value to the YBS strategic plan. The territories covered by the funding bank are very widespread, diverse and unique. CoBank is not actively involved in retail YBS lending and has little insight into the specific marketplace, needs or requirements of YBS borrowers in Utah, Wyoming, Arizona and Nevada. Involvement, specifically approval and/or review provided by the funding bank would add very little value and perspective into the needs of the local territory. Staffing time and resources previously available to collaborate across the entire System could be diverted to coordinating funding bank approval of the YBS strategic plan. Collaboration may also unintentionally be limited only to associations within each individual funding bank, which would be a step backward.

Rating and Evaluation Process

Additional evaluation as part of a rating system could have unintended consequences that do not advance YBS efforts. The proposal outlines the objective of a rating system to *'measure year-over-year YBS progress.'* FCA is currently providing oversight within existing statutory and regulatory authorities. A ratings system applied equitably across the System could encourage all programs to look alike, rather than encourage creative solutions for unique territories and for associations with very different resources. This could potentially limit how YBS producers are served rather than meeting the unique needs specific to an association's territory.

A ratings system may also have the unintended consequences of associations continuing or adopting programs that are less effective in the marketplace but are viewed positively by the FCA and/or funding bank. This creates an unintended incentive of striving to achieve a higher score with FCA and avoid potential supervisory consequences versus adapting, changing or developing new programs to meet the needs of the marketplace. A new program developed to meet an identified need with yet unproven results could be viewed poorly by the FCA and/or funding bank. Associations will be incentivized to score well in the ratings, rather than create, adopt and innovate.

Farm Credit Council National Comment Letter

Western AgCredit has participated in dialog across the System and has provided input and comment to the letter which will be submitted by the Farm Credit Council on behalf of the entire Farm Credit System. We fully endorse and support this letter.

Conclusion

As noted above, Western AgCredit has a strong emphasis, commitment and incentive to serve YBS farmers and ranchers. These borrowers are critical to our mission, our business plan and our future. The Board of Directors has authorized significant capital, resources and investment towards YBS producers and remains strong and consistent supporters of these efforts. Staff have effectively collaborated with System and non-system partners to create, adapt and improve YBS programs to advance the interests of YBS borrowers. We are proud of our success and view YBS borrowers at the center of our mission and future.

The regulations, as proposed, would not accomplish FCA's well-meaning intentions to improve service to YBS borrowers. In fact, in our view it would do just the opposite. Additional administrative burden to prepare an additional strategic plan outside the comprehensive business plan could create misalignment with the overall business plan. Significantly increased administrative expense would likely be incurred to prepare a separate strategic plan, coordinate approval of the plan with the funding bank, and report results to the level expected. Furthermore, additional audit engagements around YBS would further distract and consume already limited resources. Required approval and coordination with the funding bank would limit existing collaboration and innovation that occurs throughout the entire system. Coordination with other over-chartered institutions adds administrative burden, creates competition not collaboration, and may result in underserving YBS borrowers. Elements of a rating system would create the unintended consequences of programs being designed, maintained and continued based on the 'score' achieved through the rating system rather than the effectiveness of the program or needs of YBS borrowers. In short, as a small to mid-size association, we have concern with excessive planning and administering getting in the way of implementing and doing, which is the ultimate goal.


In conclusion, we respectfully request FCA consider the following adjustments to the proposed regulation:

- Continue to require the YBS strategies be incorporated within the annual business plan to ensure alignment of YBS goals with the entire business plan.
- Eliminate the supervisory responsibilities of the funding bank to eliminate administrative burden and oversight from funding banks that have limited insight into retail lending and the unique needs of each area.
- Eliminate the rating system in favor of the existing examination process to avoid unintended consequences of programs being designed to achieve higher ratings, rather than serve YBS borrowers.

Western AgCredit also encourages the FCA to instead refine and improve the existing qualitative and quantitative survey of association YBS activity. We recognize recent changes have been made to improve this process and we urge continuation of that process. The breadth, depth, and effectiveness of our existing YBS programs are difficult to communicate to the FCA through these surveys. We acknowledge the interest and support FCA shares in advancing YBS efforts. We applaud those efforts and share in the common goal to advance YBS borrowers as the future of our businesses, the sustained success of the agricultural industry and the future of food security for the United States.

Respectfully Submitted,


Wayne A. Smith, Chairman of the Board


David G. Brown, President/CEO