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August 15, 2022

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

**Re: Notice of Proposed Rulemaking – 12 CFR Parts 614 and 620 – RIN 3052-AD54;  
*Loan Policies and Operations*; 87 Federal Register 36261-36266**

Dear Ms. Agans:

Farm Credit Illinois (“FCI”) appreciates the opportunity to provide 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”). FCI submits this comment letter for three purposes. First, we would like to express FCI’s long-standing and continuing commitment to serve young, beginning, and small farmers and ranchers (“YBS farmers”) and describe in detail how FCI is currently serving YBS farmers. Secondly, we would like to express our concerns regarding the Proposed Rule. Third, we would like to express our agreement with the comment letter provided by the Farm Credit Council (“FCC”). With the foregoing in mind, and for the reasons stated in this letter and in FCC’s comment letter, FCI joins in FCC’s request that the Farm Credit Administration (“FCA”) withdraw the Proposed Rule.

**1. FCI Aggressively Serves Its YBS Farmers Under The Current Regulations.**

FCI’s cooperative members, directors, management and employees have long had a passion to help YBS farmers in FCI’s geographic territory. As a cooperative, FCI annually conducts Member Advisory Council meetings where it invites its member-borrowers to provide feedback and direction to FCI’s board and management. Our cooperative owners in those Member Advisory Council meetings have consistently expressed concern over how young farmers will be able to replace retiring farmers and have strongly encouraged FCI to allocate resources to help young farmers get started and become established in agriculture. FCI’s directors, management and employees share their cooperative members’ passion about YBS farmers and take seriously their obligation to follow the members’ direction to help YBS farmers.

As a demonstration of this passion throughout the entire association, FCI allocates a great deal of time, effort, and money toward helping YBS farmers. In 2018, FCI introduced its “FreshRoots” program to help young and beginning farmers through reduced interest rates, relaxed lending standards, reimbursement of fees for FSA guarantees, and cash incentives to encourage participation in FCI-developed educational programs.

*a. FCI's "FreshRoots" Program*

FCI's FreshRoots program is available to young or beginning farmers.<sup>1</sup> The program's lending assistance includes:

- Relaxed loan underwriting standards for collateral, owner's equity, working capital and capital debt repayment capacity;
- Interest rate discounts for the first five years for each loan, with maximum total discounted loan limits of \$1 million for farm real estate loans, and \$500,000 for operating lines of credit; and
- Reimbursement of the fee for an FSA guaranty on a real estate loan, up to 1.5% of the amount of the loan.

FCI's FreshRoots program also includes a strong educational component. With the aid of an FCI loan officer if needed, eligible applicants are required to prepare and submit detailed financial information, including a business plan, balance sheet, and cash flow statement. This requirement develops FCI's FreshRoots borrowers' business management skills by helping them to learn how to prepare important financial statements and to understand the value of using key financial reports in their operations.

To further help educate young and beginning farmers, FCI pays its FreshRoots borrowers a \$500 "learning incentive" for each internal "Farm Credit College" one-day educational program they attend within a four-year time period, up to a total of \$2,000. Two of the programs must be FCI's internally developed "Farm Financials 1" and "Farm Financials 2" classes, where FreshRoots borrowers learn how to prepare and interpret basic financial statements, as well as the value financial statements bring to the business planning process. The other two programs for which FreshRoots borrowers may earn learning incentive payments are electives. FCI periodically offers other programs, which often include presentations by outside professionals, on topics like crop insurance, estate planning, succession planning, marketing, etc.

FCI also celebrates young and beginning farmers who are committed to continuous learning and development with its "Directors Cup Awards." Each year, FCI accepts applications from its FreshRoots borrowers who have been an FCI member-borrower for at least three years. Applicants submit an application highlighting the personal growth and professional development they have pursued while participating in FCI's FreshRoots program. An independent committee selects the annual recipients. Directors Cup Award recipients receive a \$5,000 cash award, a trophy, and are invited to attend an FCI board of directors meeting where they are recognized. Since the beginning of 2019, Farm Credit Illinois has awarded 18 Directors Cup Awards to YBS farmers.

*b. Success of FCI's FreshRoots Program*

FCI's FreshRoots program has been very successful. During the three years of 2019 through 2021, FCI made over 3,700 loans to young and/or beginning farmers, with a total loan volume of

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<sup>1</sup> Many FreshRoots borrowers also are small farmers as defined by FCA.

over \$700 million. Of those borrowers, over 490 were first-time FCI borrowers when they received their first FreshRoots loan. Over that same time period, FCI's YBS borrowers collectively have saved over \$100,000 in FSA guaranty fees and approximately \$3 million in interest when compared to rates paid by FCI's non-FreshRoots borrowers.

In addition to the money FCI's young and beginning farmers have saved through discounted interest rates, FCI also has paid \$1.3 million to 878 YBS borrowers in learning incentives, helping its FreshRoots borrowers learn to effectively manage their finances for a lifetime. 663 of the farmers receiving learning incentives were young farmers, and the average age of those young farmers on the date they attended their first learning program was 28.7 years old. 775 of the farmers receiving learning incentives were beginning farmers.

## **2. The Proposed Rule's Undefined Rating System, Measuring Year-Over-Year Progress, Will Deter Aggressiveness, Creativity, and Experimentation In YBS Programs.**

### *a. Measuring Year-Over-Year Progress Will Cause Associations to Adopt YBS Programs That Only Contain Benefits That Will Never Have to Be Reduced, Thus Discouraging Aggressiveness, Creativity, and Experimentation.*

In developing its FreshRoots program, FCI acted boldly and aggressively in order to make a real difference for the young and beginning farmers in its territory. Of course, FCI understood its new program would be expensive and would impact the overall credit risk of its portfolio. Before implementing its FreshRoots program, FCI made projections of the number and types of loans it expected to make under the new program. However, FCI also realized it might need to scale back or limit its FreshRoots program at some point in the future based on changes in its YBS farmers' needs, the economy, FCI's risk bearing capacity, or other relevant circumstances. While FCI believed its FreshRoots program would be sustainable for the foreseeable future, it certainly did not commit to maintaining such an aggressive program forever.

The Proposed Rule provides that an association's annual YBS strategic plan must include quantitative goals, such as the volume or number of YBS loans it expects to make.<sup>2</sup> The Proposed Rule further provides the annual strategic plan must report on the association's YBS program's performance in the previous year. (See Proposed Rule 614.4165(c)(3)(i)). The express purpose in requiring an association's strategic plan to contain these elements is so they can "be evaluated as part of a rating system to measure year-over-year YBS progress." 87 FR 36261, p. 36263.

If the Proposed Rule is adopted, when an association develops a YBS program, it likely will consider how its YBS program's performance could consistently increase every year into the future so as to avoid a negative rating. A reasonable association may seek to minimize the risk of creating future unfavorable year-over-year comparisons by implementing potential new program benefits slowly over a long period and plateauing at a moderate level rather than experimenting

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<sup>2</sup> Other potential goals mentioned in the Proposed Rule are percentage goals based on the total number of YBS farmers in the territory, percentage goals for loans made to new borrowers qualifying as YBS farmers, and the amount of capital committed to YBS loans. (See Proposed Rule 614.4165(d)(2)).

with an initially aggressive YBS program. The former approach would lessen the need for it to restrict its YBS program at some point, thus reducing the risk of future negative year-over-year comparisons and adverse regulatory consequences.

The Proposed Rule's rating system will deter bold and aggressive benefit-rich YBS programs that would most benefit YBS borrowers. It also likely will operate to penalize associations, like FCI, that have already taken bold action in their YBS programs. Instead of incentivizing associations to take bold action to do all they can to benefit the most YBS farmers in their territory as soon as possible, the un-defined<sup>3</sup> year-over-year rating system mentioned in the Proposed Rule will incent associations to take a more measured YBS approach that will provide fewer benefits to YBS farmers.

*b. Peer Comparisons Will Deter Unique Programs Designed to Satisfy Territory-Specific YBS Farmer Needs.*

Another stated purpose of the proposed rating system to measure year-over-year YBS progress is to allow "FCA to compare the success of the direct lender association to its peers with regard to extension of credit and services to the YBS borrowing population." 87 FR 36261, p. 36262. If associations know their YBS program will be compared against other YBS programs, the incentive to be daring and territory-specific will give way to the incentive of implementing programs closely modeled upon favorably-rated programs from other territories. Because Farm Credit Banks will be responsible for "approving, reviewing, and monitoring" YBS programs (see *id.* at 36263), the banks also will have an incentive to seek to approve programs that have been favorably rated elsewhere, which may lead to bank-level YBS requirements that preclude territory-specific differentiation.

The incentives that arise from a System-wide rating system that compares YBS programs between associations would take the focus of YBS programs away from concerns that are unique to a specific territory. Instead, YBS programs likely will begin to mirror one another as each association and Farm Credit Bank tries to avoid negative ratings. In doing so, the specific, individualized needs of YBS farmers in a given territory will become a secondary consideration to the Proposed Rule's uniform rating system.

### **3. The Proposed Rule's New Regulatory Burdens Are Not Justified.**

*a. The Proposed Rule Identifies No Problem With the System's Current YBS Efforts.*

The preamble to the Proposed Rule never asserts there is any problem with the Farm Credit System's ("System") current YBS efforts. FCA currently receives a great deal of information about associations' YBS programs. The Proposed Rule's Supplementary, Background Information, acknowledges that FCA currently receives business plans from each association that "must discuss forward-looking [YBS] information such as program objectives, annual quantitative and qualitative targets, and proposed methods to ensure credit and services are

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<sup>3</sup> The FCC's comment letter aptly describes problems associated with the Proposed Rule's lack of detail regarding how the proposed rating system will be developed, implemented or possibly disclosed to others.

provided in a safe and sound manner.” 87 FR 36261, p. 36262. In addition, current FCA regulations require each association’s annual report to “describe the YBS demographics in its territory” and “such other information necessary for a comprehensive understanding of the direct lender association’s YBS program and its results.” 12 C.F.R. 620.05(k). Despite currently having all “information necessary for a comprehensive understanding of [each] association’s YBS program and its results”, in the Proposed Rule FCA never identifies any problem with the System’s current YBS efforts, nor does it assert the System’s current YBS programs do not adequately address the challenges faced by YBS farmers. While the preamble notes that YBS farmers face certain unique challenges and hurdles, it does not assert that System institutions’ current YBS efforts and programs are inadequate in any way.

Indeed, in a News Release published by FCA on August 11, 2022, FCA reported:

Both the dollar volume of the System’s total loans outstanding and the dollar volume of YBS loans outstanding increased in 2021. Total System loan dollar volume outstanding increased by 10.9% and loan dollar volume outstanding to young farmers increased by 10.3%, to beginning farmers by 18.1%, and to small farmers by 14.2%.

The total number of loans outstanding both for the System as a whole and for YBS borrowers also grew in 2021. The number of total System loans outstanding increased by 1.8%. The number of loans outstanding to young farmers increased by 2.9%, to beginning farmers by 4.8%, and to small farmers by 1.7%.

Contrary to showing any problem, the information in the New Release indicates the System currently is doing a good job serving YBS farmers, both in absolute terms and when compared to the System’s non-YBS borrowers.

Because the Proposed Rule fails to identify any problem with the System’s current YBS programs or their effectiveness, the Proposed Rule is trying to solve a problem that does not exist and is not needed.

*b. The Proposed Rule Does Not Attempt to Demonstrate That Its Benefits Are Reasonably Expected to Outweigh its Burdens.*

The FCC’s comment letter identifies the many areas in which the Proposed Rule would impose significant new burdens on associations, such as new requirements for annual strategic plans, marketing and outreach programs, data tracking, reporting, and internal controls. While these new obligations may seem beneficial in the abstract, the new regulatory burdens will require a great deal of staff time and effort, which will cost money and divert human capital resources from providing support to current and potential YBS borrowers.<sup>4</sup>

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<sup>4</sup> For example, instead of preparing a new independent strategic plan and additional reports, an employee in an association’s finance department could participate in an internally-developed program to educate YBS farmers on how to effectively prepare and use financial statements to manage their operations.

Additional regulatory burdens and costs should not be imposed unless the resulting benefits are reasonably expected to exceed those burdens and costs. Yet the Proposed Rule makes no attempt to estimate the additional cost it would impose on System institutions (and thus its member-owners), or to quantify the extent to which the new regulatory burdens are expected to benefit YBS farmers over and above the benefits that would occur under the current regulatory structure. The Proposed Rule thus imposes burdens without identifying any corresponding benefit to YBS farmers, let alone demonstrating that the benefits are expected to outweigh the new burdens to be imposed by the Proposed Rule.

Helping YBS farmers is a laudable goal – one that is passionately shared by FCI as demonstrated by its FreshRoots program. However, new regulatory burdens do not necessarily translate into benefits for YBS farmers. Because the Proposed Rule does not attempt to describe the extent to which the new regulatory burdens are expected to benefit YBS farmers over and above what would occur absent any regulatory change, or how those benefits are reasonably expected to outweigh the burdens to be imposed by the new rule, the Proposed Rule fails to justify the increased burdens it seeks to impose on the System.

#### **4. Farm Credit Banks Are Unlikely to Provide Meaningful Assistance to Association YBS Programs.**

FCI's funding bank provides invaluable support to FCI by, among other things, providing low-cost funding, effectively managing most interest rate risk, and auditing credit risk. However, the bank's expertise does not extend to all areas of FCI's business, and FCI does not believe the bank likely would be able to provide meaningful expertise regarding YBS farmers in FCI's territory, let alone individualized expertise to each of the bank's associations regarding each of their unique territories.

The bank does not have any physical presence in FCI's territory or any meaningful or direct interaction with YBS farmers in FCI's territory. This is true for most banks with respect to most of their associations' territories. As such, it is unlikely that Farm Credit Banks could know what types of operations YBS farmers in each territory are likely to have, what type of program would most benefit them, how best to allocate each association's limited and varied YBS resources, what types of outreach or marketing will be most likely to reach YBS farmers across different territories, etc.

It would not be cost effective to require the Farm Credit Banks to try to develop expertise to duplicate that of their associations in these areas. The result, as discussed above, likely would be uniform YBS requirements that do not consider unique aspects of individual Farm Credit territories. The Proposed Rule's requirement that Farm Credit Banks intimately involve themselves with each YBS program within their district will ultimately not benefit YBS farmers, and instead will increase costs which will ultimately be borne by all of the System's cooperative owners, including YBS farmers.

## 5. Conclusion

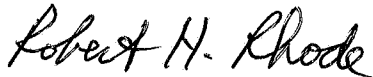
FCI's members, directors and employees are deeply committed to devoting FCI's time and resources to help YBS farmers in its territory. FCI is very proud of its YBS efforts and results. It also is proud of the System's commitment and efforts to help YBS farmers.

FCI does not believe the Proposed Rule addresses an existing, identifiable concern with the current YBS regulations or the effectiveness of the System's current YBS efforts. It also does not believe the Proposed Rule would provide any material benefit to YBS farmers relative to the current YBS regulations. Instead, FCI believes the Proposed Rule would misdirect bank-level expertise and disincentivize associations from experimenting with new, aggressive, or creative YBS programs that are specifically designed to maximize benefits for YBS farmers in their respective territories.

For these reasons and the reasons stated in FCC's comment letter, FCI adopts the recommendation contained in FCC's comment letter that FCA withdraw the Proposed Rule.

We appreciate the opportunity to comment on the Proposed Rule, and we appreciate FCA's consideration of our comments. If you have any questions, please feel free to contact me.

Sincerely,



Robert H. Rhode  
Executive Vice President & General Counsel  
Farm Credit Illinois