

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 West (“FCW”) appreciates the opportunity to comment on the Farm Credit Administration’s (“FCA”) Notice of Proposed Rulemaking regarding Loan Policies and Operations (“Proposed Rule”) that was published in the *Federal Register* on June 16, 2022.

In addition to the specific comments in this letter, FCW coordinated with a Farm Credit System (“FCS”) workgroup assembled by the Farm Credit Council (“FCC”) to evaluate the Proposed Rule. FCW fully endorses the points addressed in FCC’s comment letter regarding the Proposed Rule and fully incorporates the same into this letter by reference.

Farm Credit System institutions have long recognized and embraced YBS programs as a critical part of the mission given by Congress to the FCS to ensure the financial success of YBS farmers and ranchers and the future of agriculture in the United States (“YBS Mission”). The directors and management of FCW share the FCA’s passion for the future of agriculture and recognizes the critical need for new farmers and ranchers to enter the industry and build economically sustainable agricultural operations that will feed an increasing population around the world.

The comments in this letter reflect general perspectives on the Proposed Rule, as well as some specific comments on specific provisions of the Proposed Rule. FCW strongly supports the goal of meeting the unique needs of YBS borrowers and providing sound and constructive credit to YBS farmers and ranchers (which is the stated motivation behind the Proposed Rule); however, we are concerned that the Proposed Rule, if implemented as drafted, would fail to achieve the FCA’s stated objective to increase direct lender associations’ YBS activity. Before setting out specific comments regarding the Proposed Rule, we want to provide FCA with an overview of FCW’s YBS activities.

Farm Credit West YBS Activities

Farm Credit West has long supported young, beginning, and small farmers throughout our chartered territory. Our efforts are specifically designed to support growers facing the unique challenges of farming in California and Arizona and range from providing educational opportunities, financial support, and special credit offerings designed to meet this group of individuals' specific needs.

We offer a micro-loan program, where qualified borrowers are eligible to receive up to a \$75,000 loan or lease. The qualifications for these loans and leases are not as rigid as our traditional underwriting, which is designed to allow a broader spectrum of agriculture producers to gain access to funds. These funds can be used as working capital or for other operating needs, equipment purchases, or as a down payment for certain other loans, like FSA, VA, or other government-sponsored loan programs. Our association partners with other local organizations to identify prospective customers for this program.

One such organization is the Center for Land-Based Learning near Sacramento, California. FCW provides financial support in addition to staff time to further their work as they educate and mentor beginning growers as they use their newly acquired skills on small plots of land. FCW also partners with FarmLink through their Regenerator program which offers young farmers and ranchers the opportunity to participate in a two-month, 100% virtual, cohort-based learning experience that results in actionable farm succession plans. For over two decades, FCW has also hosted a three-day seminar designed for young farmers and ranchers as we partner with local universities and agriculture professionals to provide instruction on business planning, financial analysis, and current events.

FCW has long provided significant financial support to universities (such as Cal Poly, San Luis Obispo and Fresno State) as these programs actively attract multi-cultural, veteran, and individuals without a farming background into the agriculture industry. We are also active in high school FFA programs, providing educational opportunities through monetary gifts and staff volunteer time as these young students invest in their education. Furthermore, since 1994 FCW has provided scholarships to nearly 300 students seeking agriculture-related degrees. When combined, this represents \$1,135,000 in financial contributions. Finally, FCW also comes alongside a myriad of other industry organizations (ranging from the Farm Bureau to the Latino Conference) as we provide monetary support and staff volunteer time to programs specifically designed to benefit YBS farmers and ranchers.

The details noted above are samplings of the programs that Farm Credit West invests in annually, all designed to support young, beginning, and small farmers in our chartered territory.

Background & Introduction

The collective efforts of the FCA and Farm Credit System institutions over the past several years has resulted in the successful implementation of YBS programs around the FCS that provide sound and constructive credit and related services to YBS farmers and ranchers. The continuing increase in the number of loans and volume of loans to YBS farmers and ranchers are tangible evidence of the success of YBS programs.

The overwhelming concern that has been raised by FCS institutions is why a new YBS rule is necessary. It is difficult to identify exactly what the Proposed Rule was designed to accomplish on behalf of YBS farmers and ranchers. The additional business planning and reporting requirements in the Proposed Rule are burdensome and expensive to implement, with no clear benefit to YBS farmers and ranchers. Furthermore, the additional regulatory reporting requirements under the Proposed Rule will result in an increase in time association staff would have to spend addressing the regulatory requirements which will reduce the amount of time available to spend with YBS borrowers and prospective borrowers.

Role of Funding Banks (also see Application of the YBS Rating System section below)

In the preamble to this Proposed Rule, FCA states that *“The purpose of the proposed rule is to increase direct lender associations’ Young, Beginning, and Small farmer and rancher (YBS) activity and reinforce the supervisory responsibilities of the funding banks, authorized by section 4.19 of the Farm Credit Act.”* FCW supports the goal of increasing direct lender associations’ YBS activity. However, this Proposed Rule does not provide any additional means for accomplishing this goal by System institutions.

Further, as discussed in detail in the FCC comment letter, the stated goal to *“reinforce the supervisory responsibilities of the funding banks”* is outdated and misplaced. FCW strongly agrees with FCC’s analysis of this issue as set forth in its comment letter and would refer FCA to the FCC letter for detailed analysis. The bottom line is that nothing has transpired since the promulgation of the existing regulations to suggest that increasing the banks’ supervisory role over its affiliated associations’ YBS programs would add value or serve to increase YBS activities.

Exclusion of the YBS Rating System from the Proposed Rule

The FCC comment letter addresses a number of issues regarding the YBS rating system in detail and FCW would refer FCA to that part of the FCC letter. FCW does have significant concerns with regard to the development of the YBS rating system and the standards that will be used by FCA under such a rating system. FCA states that a “rating system” is a key component of the FCA’s proposal, but they did not include any information regarding the “rating system” in the text of the Proposed Rule itself. Without additional information regarding the rating system, it is impossible for FCW to identify and specifically address any

potential negative impacts it could have on YBS programs. FCW agrees with FCC statements in their comment letter that:

“disclosure of the terms of a rating system is in the interest of both system institutions and the FCA, as it will allow full consideration of any practical and workability concerns with both the substantive standards and the rating system and how they will work together. The FCA should not proceed with the rule without publishing the proposed details of the rating system and allowing public comment.”

“System institutions are concerned that the anticipated rating system will result in a regulatory regime that has substantial, real-world effects on regulated institutions. Absent some advance notice of how the agency intends to develop, implement, and possibly disclose this rating system, System institutions cannot fully and meaningfully comment on the FCA’s proposed rule. Merely providing content that would be evaluated as part of a rating system, without actually describing the rating system or its operation, deprives regulated institutions of an opportunity for meaningful response.”

Disclosure of Rating

FCW has concerns that the rating system will result in a regulatory regime that will have a substantial impact on the regulated institutions. Public disclosure of an institution’s YBS rating could be misconstrued by the public and potentially harm an institution’s reputation and customer relationships.

Without advance notice of how FCA intends to develop, implement, and possibly disclose this rating system, FCW cannot fully comment on the Proposed Rule. Without actually describing the rating system or its operation, FCW and FCS institutions are deprived of an opportunity to provide comments based upon full disclosure of the rating system. We are put in a position of having to comment based upon our speculation of how the rating system will be structured and operate in practice.

Application of the YBS Rating System

FCA states in the preamble to this proposed rule that *“the direct lender association’s funding bank will approve each YBS strategic plan, annually. The direct lender association’s YBS strategic plan must contain specific elements that will be evaluated as part of a rating system to measure year-over-year internal progress. The rating system will enable the FCA to compare the success of the direct lender association’s extension of credit and services to the YBS borrowing population to its peers both within and outside its bank district.”*

FCA has not described within this Proposed Rule what “specific elements” it believes results in a successful YBS program. What constitutes a successful YBS program is unique to each Farm Credit Institution’s territory, and those elements and their success vary widely--depending on the potential YBS populations and the diverse agricultural opportunities that exist across the American agricultural landscape. Given the uniqueness of System

associations, a “one-size-fits-all” approach in measuring the success of an association’s YBS program is impractical.

The FCA’s examination of YBS programs has been in place for many years, with no evidence of associations and banks not providing the FCA with ample oversight and information. FCA examinations across the System have consistently found association YBS programs support and further the YBS Mission.

Implementing a rating system has the unintended consequence of encouraging all YBS programs to look alike to get the best rating rather than encouraging creative solutions for very unique territories. This potentially limits how YBS producers are served rather than meeting their very unique challenges with creative solutions for fear of a poor rating.

Section by Section Analysis

FCW would refer FCA to the section-by-section analysis in the FCC comment letter which FCW fully endorses.

Conclusion

In summary, FCW is strongly committed to supporting young, beginning, and small farmers and ranchers. We recognize that the YBS mission is an important one and FCW will continue its efforts to further FCW’s outreach to YBS farmers and ranchers in California and Arizona.

FCW appreciates the opportunity to comment on the Proposed Rule and to present some of our concerns to FCA for its consideration. For the reasons stated herein, we request that FCA withdraw the Proposed Rule as we respectfully disagree that the Proposed Rule will enhance Farm Credit’s ability to serve its YBS customers and fulfill its mission.

We trust that our comments, as well as those comments submitted by System institutions, will assist FCA in its consideration of the Proposed Rule. If you have any questions, please do not hesitate to contact us.

Sincerely,



Mark D. Littlefield
President/CEO



Douglas C. Filipponi
Board Chair