

August 15, 2022

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

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

Director Agans:

Idaho 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 (Proposed Rule).

We would like to highlight our current efforts and success in serving YBS farmers and ranchers and how we do not believe the Proposed Rule as written will effectively increase YBS activity. We do align ourselves with FCA's vision to improve YBS activity and we recognize the importance of providing sound and constructive credit to this market segment. As a part of the Farm Credit System, we are very interested in the success of YBS producers. The Proposed Rule, however, will be burdensome to small associations. Increased administration and regulation will reduce our effectiveness in serving YBS producers.

Outreach & Programs

Serving Young, Beginning, and Small producers has always been one of Idaho AgCredit's top priorities. As a member-owned cooperative, we recognize the mission critical importance of providing sound constructive credit to YBS borrowers. We are strongly interested in facilitating the entrance of new producers of all size into the market and the successful transition of existing operations to the next generation. Our YBS mission statement is:

To reliably, consistently and constructively serve the credit and related needs of young, beginning and small farmers and ranchers, including socially disadvantaged farmers and ranchers that fit the YBS criteria, through specifically designed credit programs and services. When necessary, private or governmental guarantees will be used to expand the number of young, beginning and small farmers and ranchers that Idaho AgCredit serves. Idaho AgCredit will provide sound constructive credit to enable YBS farmers to begin, grow, or remain in agricultural production and facilitate the transfer of agricultural operations from one generation to the next.

We are proud of our success in implementing strategies to fulfil our mission. The numbers are strong evidence of our results. These results can be found in our business plan. In 2021 approximately a fifth or more of our total loans by number were made to young, beginning, or small producers. In our opinion, a comparison of the demographic data to our loan portfolio is excellent evidence of our success. As can be seen by the following results, our loan portfolio percentages are higher than the demographic data in each category except small. Inherently, most small producers don't have a need for credit, thus it is not surprising that the demographic data is higher for that category.

	2017 Census Data Basis Operators	Idaho AgCredit Data 2021
Young	10.81%	20.82%
Beginning	25.79%	26.64%
Small	80.57%	33.77%

The following is a highlight of a few of our programs and ongoing efforts in regards to serving YBS producers.

Farm Service Agency:

Idaho AgCredit is a preferred lender with the Farm Service Agency (FSA). We work closely with the FSA via guarantees and joint loan programs. Often times YBS producers have insufficient equity, financial history, or collateral to qualify for financing under traditional standards. Through the use of FSA guarantees we can finance more operations that don't meet traditional underwriting standards. Our YBS specialist recently wrote an FSA guaranteed operating loan for one of our borrower's hired hands. He has worked in agriculture his whole life, but never had any ownership. Because of the FSA guarantee program, we were able to help him purchase his first herd of beef cows. There are many other stories just like this one.

Another common barrier to entry for YBS producers is the high cost of land. The FSA has a joint loan program where they will finance 45%-50% of the purchase price in a junior lien position and Idaho AgCredit will finance the remaining balance in a first lien position. This program has been a huge benefit to YBS producers as it enables them start building a land base and equity, when before they would had to come up with a 50-30% down payment. The program has been used extensively by Idaho AgCredit. Recently we used this program to help two young cattle producers purchase their grandma's farm from her estate. Without this program they would not have been able to afford the ground and it may have been purchased by a land developer.

Sometimes borrowers are still best suited to borrow directly from the FSA. Often in these situations we will help borrowers prepare financial documents and we will assist them in getting connected with the FSA.

Land As Your Legacy:

Idaho AgCredit has partnered with Nationwide Insurance Company to offer their free estate planning program, Land As Your Legacy, to our customers. Succession planning can be very difficult for producers to navigate and has proved to be a roadblock for the next generation.

Land As Your Legacy provides an expert team of attorneys and estate planners at no cost to the producer. We have heard high remarks from our customers who have gone through the program.

Information on the Land As Your Legacy program can be found at:

<https://www.nationwide.com/business/agribusiness/farm-insurance/ag-financial/farm-succession/>

Special Underwriting Standards:

Traditional underwriting standards can be difficult for YBS producers to meet. We have prepared special loan underwriting standards for YBS borrowers. The YBS and General Standards are as follows:

YBS Standards	Minimum	Optimum
Current Ratio	105%	150%
Working Capital as a % of OpEx	5%	20%
Debt-to-Asset	60%	40%
Peak Loan to Net Worth	130%	100%
Dent Servicing Ratio	30%	20%
Debt Coverage Ratio	105%	125%
Repayment Margin	10%	40%
Tangible Collateral Ratio	20%	25%
Loan-to-Appraised-Value	80%	65%

General Standards	Minimum	Optimum
CR	125%	150%
WC%	15%	20%
DA	50%	40%
PLNW	100%	80%
DSR	25%	20%
DCR	115%	125%
RM	20%	40%
TCR	22%	25%
LTAV	75%	65%

Education & Other Outreach:

Our experience has shown that there is strong demand and a need among YBS producers for financial education. As an association we strive to host an educational seminar at least annually on financial topics for farmers and ranchers. These are often held after regular business hours and our staff will travel to various regions in our territory in order to have the most widespread outreach. More frequently, loan officers will provide one on one training with YBS producers as they apply for a loan or when we sign them up for their loans. This frequently involves conversations on financial ratios, underwriting standards, financial trends, break-evens, etc.

In addition to our own efforts we are consistently sponsoring workshops and schools hosted by other organizations. We set aside funds in our budget to sponsor individual producers to attend trainings, workshops, etc. with an emphasis to sponsor YBS producers. We have a scholarship fund each year for borrowers or their immediate family members to obtain post-secondary education. Preference may be given to applicants pursuing a degree or certificate in an agricultural field.

Our most effective marketing is arguably our direct, on the farm prospecting that is conducted by our loan officers. Our loan officers have a goal of contacting at least 10 YBS farmers and ranchers each year and their results are tracked as part of their performance appraisal.

YBS Advisory Committee:

A YBS Advisory Committee has been created consisting of the YBS Specialist and a staff member from each branch that works directly with YBS customers or prospects. The purpose of the committee is for staff members to gather a wide range of information from and regarding YBS operators in the communities they serve. They also seek ways to provide outreach and support to YBS operators in their communities. The committee is the front line on studying whether AgCredit is accomplishing its YBS mission and in what ways we can better serve this demographic. The YBS Specialist reports to the board on the committee's findings and outreach activities.

Proposed Rule Comments

The Proposed Rule identifies four objectives: 1 – Increase direct lender association's YBS activity, 2 – reinforce the supervisory role of the funding banks, 3 – require adoption of an independent strategic YBS plan by each association, 4 – provide elements that will be evaluated as part of a rating system.

Objective 1:

Idaho AgCredit is in support of always increasing ours and other associations' YBS activity. Our management and our YBS advisory committee, led by the YBS Specialist, are always encouraging new ideas, providing and supporting trainings, and collaboration. We do not believe the other objectives of the Proposed Rule will increase YBS activity. As mentioned in the Proposed Rule, FCA recently co-hosted a national forum on serving YBS farmers and ranchers. This was a well-attended and highly productive event. A reoccurring forum every couple years hosted by FCA would be an effective way to increase direct lender YBS activity.

Objective 2:

We disagree that funding banks are in a unique position to increase their involvement in our YBS programs. CoBank is not involved in retail YBS lending and is not in a position to provide insight and oversight to each association's unique lending environments. Their current role is limited to determining that our program contains all required components (614.4165(d)). In our opinion, their current role is within their scope of knowledge and facilitates FCA's regulatory role.

Expanding CoBank's involvement is beyond their area of expertise and will not provide value to our YBS producers.

Objective 3:

The Proposed Rule requires the adoption of a YBS plan that is independent of our business plan. Our YBS program is already a key component of our business plan. In our opinion, separating this component is redundant and disconnects the program from the overall business plan. Our business plan establishes a strong structure to fulfill our YBS mission and provides a report of the results of our quantitative goals. Additional reporting and regulation will only increase our administrative load and not provide actual value to YBS producers. As an example, our YBS specialist who leads the creation and implementation of the YBS component of the business plan actively manages a portfolio with many YBS producers. He also consistently works to prospect new YBS clients and helps facilitate the same efforts across the association. More time creating redundant plans and reporting takes away time from developing actual YBS relationships.

The Proposed Rule discusses that the business plan is only forward looking and doesn't require a report on past performance. It is commendable to encourage an assessment of past performance. Surely, goals are less valuable if they are not measured and analyzed. For this reason, Idaho AgCredit already reports past performance in our business plan. We would suggest that the regulation be amended to require a report of past performance in the existing business plan, instead of requiring a redundant separate YBS plan. It should also be noted that we are already required to report and discuss our YBS program and results in our annual report by regulation (620.05). The following is the discussion and report from our 2021 annual report:

"As part of the Farm Credit System, we are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Our YBS Mission Statement is "To reliably, consistently and constructively serve the credit and related needs of young, beginning and small farmers and ranchers, including socially disadvantaged farmers and ranchers that fit the YBS criteria, through specifically designed credit programs and services. When necessary, private or governmental guarantees will be used to expand the number of young, beginning and small farmers and ranchers that the Association serves.

The Association will provide sound constructive credit to enable YBS farmers to begin, grow, or remain in agricultural production and facilitate the transfer of agricultural operations from one generation to the next." The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- *Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.*
- *Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.*

- *Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.*

The following table outlines our percentage of YBS customers (farm operators) as a percentage of the number of farm operators in our loan portfolio while the USDA column represents the percentage of farmers and ranchers (farm operators) classified as YBS within our territory per the 2017 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	2021	2020	2019
Young	10.81%	19.30%	19.79%	21.22%
Beginning	25.79%	23.12%	25.88%	25.99%
Small	80.57%	28.18%	33.94%	34.70%

Our percentages are generally based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our 2021 goals were as follows:

- *Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;*
- *Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,*
- *Implement effective outreach programs to attract YBS farmers and ranchers.*

Status report on above goals:

- *The Association offered life insurance products to meet the needs of YBS farmers and ranchers.*
- *The Association maintained an excellent relationship with the Farm Service Agency (FSA). At year end 2021 7.8% of the loan portfolio was FSA or Small Business Administration (SBA) guaranteed. The FSA guaranteed loan program has proven to be very effective in allowing the Association to serve YBS farmers and ranchers.*
- *Association utilized private guarantees when available to assist YBS applicants.*
- *Association representatives met with FFA classes, 4H participants and other Young Farmer groups.*

- *The Association supported youth through livestock purchases and provided additional sponsorships at county and state fairs.*
- *The Association had agricultural scholarship programs totaling \$12,000 (whole dollars).*
- *The Association had special loan underwriting standards for lending to YBS borrowers.*
- *The Association supported additional community youth activities to develop relationships with future producers.*

Quarterly reports are provided to the Board of Directors detailing the number, volume and credit quality of YBS customers. The Association developed quantitative targets in the following areas to monitor progress.

- *Loan volume and loan number goals for YBS farmers and ranchers in its territory.*
- *Percentage goals representative of the demographics of YBS and socially disadvantaged farmers and ranchers in its territory.*
- *Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in its territory.*

The Association met its loan activity goals by both number and volume in all categories. It met its number and volume goals for first time loans to YBS producers in all categories. It met its demographic goals by number for all categories, and met its demographic goals by volume goals for beginning and small producers, but not for young producers.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS and socially disadvantaged farmers and ranchers."

Objective 4:

It is our opinion that the implementation of a rating system will stifle innovation and creativity by incentivizing programs that 'check a box' and score well but arguably aren't the best or most creative option. The results of many YBS programs and outreach efforts are extremely difficult to quantify and can be quite subjective. A review of YBS loan portfolio numbers compared to demographic data may be the best metric available. Even then, it needs to be evaluated within the context of each association's lending environment. We operate within a competitive environment and the free market is sufficient to incentivize creativity and progress.

Farm Credit Council Letter


Idaho AgCredit had the opportunity to review and provide input on the letter that will be submitted by the Farm Credit Council on behalf of the Farm Credit System. The letter has our full support.

Conclusion

As seen by the YBS results reported in our annual report and business plan, we don't see evidence that supports the need for increased regulation. As a farmer owned cooperative we have an inherent interest in investing in the future of agriculture through YBS lending and outreach activities. Our district already meets frequently to share YBS practices and the Farm Credit Council Services hosts a bi-annual YBS conference with the same purpose. All of this occurs without regulatory mandate. Idaho AgCredit has been in business for 88 years because we have invested in the next generation. We will continue to serve and invest in YBS producers for the next 88 years and beyond.

We applaud FCA's efforts to accomplish our shared YBS mission. We encourage FCA to reevaluate the actual consequences of the Proposed Rule and how, as outlined above, it may detract from providing meaningful value to YBS borrowers. As a small institution we are devoted to fulfilling our role in supporting YBS producers to promote and secure the future of U.S. Agriculture.

Respectfully Submitted,


Avery Robertson, YBS Specialist


Adam Jensen, Executive Vice President & CCO


Marc Fonnesbeck, President & CEO