CENTRAL TEXAS FARM CREDIT

Administrative Office
P.O. Box 3200 • Early, Texas 76803

August 15, 2022

Ms. 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 36261-36266

Dear Ms. Agans:

Central Texas Farm Credit ("CTFC") appreciates the opportunity to comment on the Farm Credit Administration's ("FCA") Notice of Proposed Rulemaking regarding Loan Policies and Operations that was published in the *Federal Register* on June 16, 2022 ("YBS Proposed Rule").

While we completely agree with the goals of the YBS Proposed Rule, we do not believe that it provides any means for accomplishing these goals. Instead, it could actually hinder our ability to serve young, beginning, and small farmers and ranchers ("YBS") by diverting resources away from outreach and support efforts and toward an increased administrative workload.

We fully support the comments made by the Farm Credit Council ("FCC") on behalf of Farm Credit System institutions ("System") in response to the YBS Proposed Rule. In addition, to those comments, CTFC submits the following comments for your consideration.

CTFC continuously seeks out new opportunities to reach and support YBS borrowers. One of the most effective ways we do this is through our relaxed underwriting standards for young borrowers. Our normal standards for current ratio, solvency, and debt coverage ratio can be difficult for a YBS borrower just getting started in agriculture to meet. Adjusting these standards has allowed us to make loans to YBS borrowers who may not have been able to get a loan from another lending institution, and it also gives us access to a new generation of borrowers. A few other initiatives to reach out to our YBS community include a scholarship program for graduating seniors in our territory who are either, involved in agriculture or plan to give back to their rural communities in some way. We also actively participate in and fund specific programs in our territory that target YBS borrowers, such as events held by local chapters of 4-H and FFA. We want to reach YBS borrowers not only because it is the mission of the Farm Credit System, but also because we understand that YBS borrowers are vital to our future growth and overall sustainability as a Farm Credit institution.

Increased Administrative Burden

The proposed rule vastly increases the human capital resources required for our association to comply with it. Creating an independent YBS strategic plan, requiring coordination with other organizations that serve the YBS community, and providing documentation for our funding bank to rate and approve our program each year will take an exorbitant amount of time and effort without adding any value for our YBS borrowers. CTFC has 62 employees and only a handful of those employees have the direct responsibility of creating an annual strategic business plan, drafting annual and quarterly financial reports, and managing internal and external audits. This small group is also responsible for training, maintaining policies and procedures, and implementation of new FCA regulations. The remaining employees are directly interacting with all borrowers to ensure their financial needs are met as directed by the farm credit mission. Implementing the rule as proposed will take resources away from our efforts to fulfill that mission.

Independent YBS Strategic Plan

The proposed regulation requires associations to prepare a three-year YBS strategic plan that is independent of the association's three-year strategic business plan. The FCA states that requiring an independent YBS strategic plan will benefit YBS programs because associations will use actual results when setting goals and developing the YBS program for future years. However, the FCA has not stated why an independent YBS plan is necessary for us to using actual results when preparing our goals and developing our YBS. As a small association, it is especially important for us to understand how a new initiative will benefit our borrowers and future borrowers before we devote resources to it.

Our YBS strategic plan is an integral part of our annual strategic business plan and currently includes a review of our YBS portfolio from the previous year using census information from the United States Department of Agriculture, our YBS program goals for the current planning period, and approval from our board of directors and funding bank. Also, we currently use actual results when the YBS plan is developed in conjunction with our strategic business plan. While we agree that we should have a direct focus on YBS borrowers, we also believe that our outreach and support efforts should be considered within the context of the full strategic business plan. An effective strategic business plan should lay out how we plan to handle all aspects of our business, including attracting, retaining, and supporting YBS borrowers. YBS is not just one section of our business plan, it is woven throughout the plan as it should be. In our view, creating an independent strategic YBS plan is unnecessary as we are already completing the items that this part of the proposed rule is attempting to address.

As a small association, the same key personnel involved in creating and administering the YBS program would need to take time away from actual implementation of any YBS outreach to create the YBS strategic plan during a time when many other year-end items such as closing the financial books, internal and external audits, creating the strategic business plan, and patronage distribution are taking place. In our opinion, the additional administrative and human capital burden are in direct opposition of the stated goals that the FCA is looking to achieve.

Coordination with other System, Government, and Private Institutions

While the proposed rule is unclear on how much coordination between organizations is acceptable and how funding banks should evaluate the level of coordination between organizations, we do not believe coordination can be objectively evaluated. CTFC will continue to coordinate with other organizations to further reach YBS borrowers as we have done in the past, but we would like to be able to choose the opportunities that fit us. We are a smaller association, and the other associations in our district often have different goals and desired outcomes for their YBS programs. While we do look for and join initiatives created by other associations in our district to further provide services to our YBS communities, we have the discretion to pass on those campaigns that do not align with our YBS goals and the needs of our YBS borrowers. As an example, the Farm Credit Bank of Texas has created a scholarship program to financially assist students majoring in ag related subjects. After evaluating this program, we joined and provided marketing in addition to adding funds to increase the amount each student receives in financial aid. While coordination with other organizations may reach more YBS borrowers, it does not necessarily mean coordination will increase YBS lending for each participating association.

Increased Responsibilities of Funding Banks

One of the stated objectives of the proposed rule is to "provide elements that will be evaluated as part of a rating system to measure year-over-year YBS progress…" Despite the lack of any details about how the rating system should be structured, including no guidance on what the elements could or should be, the rule also states that funding banks must use the rating system to determine the effectiveness and progress of an association's YBS program. As the FCA is aware, measuring and gathering qualitative information is difficult. Any effort to rate an association's YBS program would likely lead the funding banks to create a one size fits all model, but without any guidance on what elements should be included in a rating system, each funding bank's model may be quite different. We believe that any type of rating system will unintentionally lead associations to mold their YBS programs to fit the rating system. A one-size-fits-all rating system will likely not produce a program that is best for YBS borrowers.

In addition, the proposed rule requires funding banks to review and approve each association's YBS program. We believe that our funding bank is not in a position to identify and understand the needs of our YBS community. The Farm Credit Bank of Texas covers the entire states of Texas, Alabama, Louisiana, Mississippi, and part of New Mexico. The needs of YBS borrowers in Central Texas are vastly different than YBS borrowers in Alabama. This, again, is in direct opposition to the FCA's stated goals in the proposed rule.

General Comments

The YBS rule as proposed does not provide any additional tools for system institutions to reach and support more YBS borrowers. The proposed rule simply adds to the association's administrative cost to comply with the rule, and this is especially difficult for smaller associations.

We are aware that proving the effectiveness of YBS programs is difficult, especially given the way data is currently gathered. We do not believe that the proposed changes will fix this issue, because there is no easy way for us to gather data to prove effectiveness. For example, if we host an outreach event focused on YBS, and one year later, a friend of an attendee approaches us to begin a relationship. How are we supposed to track that or similar instances that cannot be clearly assigned to a particular outreach event? We agree that the range and scope of grassroots YBS programs cannot be articulated using the current surveys, and we understand that the FCA would have difficulty analyzing the seemingly inconsistent data. However, we ask that the FCA focus on improving and refining the current methods of data collection rather the wholesale changes in the YBS Proposed Rule.

Conclusion

We appreciate the FCA's review of the existing regulations for opportunities to increase direct lender associations' YBS activity, however for the reasons set forth in the FCC comment letter and herein, we do not support the YBS Proposed Rule as currently presented.

Accordingly, we respectfully request that the FCA withdraw the YBS Proposed Rule, and alternatively, we request an opportunity for System representatives and industry experts to further meet with the FCA to explore possible improvements that could be made to existing regulations to accomplish the stated goals of the YBS Proposed Rule.

Thank you again for the opportunity to comment on the YBS Proposed Rule, and we hope that our comments, as well as those submitted by the FCC and other System institutions, will assist the FCA in reevaluating the YBS Proposed Rule.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Boyd J. Chambers

Boyd J. Chambers
Chief Executive Officer
Central Texas Farm Credit, ACA