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:

On behalf of AgCarolina Farm Credit ("AgCarolina"), we appreciate the opportunity to comment on the Farm Credit Administration's ("FCA") Notice of Proposed Rulemaking ("NPRM") regarding Loan Policies and Operations ("YBS Proposed Rule") that was published in the Federal Register on June 16, 2022.

Our Association places high priority on our YBS programs as a critical part of the mission given by Congress to the Farm Credit System (FCS). The board of directors charge the leadership of AgCarolina to take this mission seriously and take a proactive approach in assisting the next generation of agricultural producers. We share FCA's passion for the future of agriculture and the next generation of producers. We recognize, new producers are needed to continue and enhance the agricultural industry.

This comment letter reflects perspectives on the Proposed Rule, as well as specific comments based on the activities of AgCarolina Farm Credit.

AgCarolina respectfully requests that the Proposed Rule be withdrawn as we have concern that the agency's rulemaking will not enhance Farm Credit's ability to serve its YBS members and better fulfill its mission as it's intended.

I. <u>Introduction</u>

AgCarolina's YBS efforts are strong and extremely focused on supporting the overall mission of the Farm Credit System and the specific mission of our Association. The number and volume of loans made to YBS members is increasing and a measurable component of our success. FCA's past guidance has been important and relevant as we focus on the importance of credit access for young, beginning, and small farmers. With the new rule, it would increase the administrative burden and cost with additional business planning and reporting requirements and would in fact limit the resources for direct support to our YBS farmers and prospects being able to accomplish our overall YBS mandate set forth by Congress.

Following the YBS session in Ft. Collins, Chairman Smith communicated to Farm Credit institutions on April 1, 2022, highlighting "two major takeaways" from the session, including:

- "Each Farm Credit institution has a unique, customized approach to YBS, depending upon its region of the country, its size, staffing, type and diversity of enterprises, etc."
- "All System institutions — particularly the smaller ones — are concerned about the additional burden that a YBS rule may place on human capital resources."

In the preamble to this proposed rule, the 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."* AgCarolina and the FCS fully supports FCA's efforts to increase direct lender associations' YBS activity and believes this is a notable goal. This proposed rule does not provide any additional means for accomplishing this goal by Farm Credit institutions. Rather than provide System institutions with incentives, tools, or more flexible risk parameters for extending loans and making investments to assist YBS borrowers, the proposed rule may only add administrative burdens that will cost time and money that would be better utilized through direct support for those YBS borrowers.

Further, the stated goal to *"reinforce the supervisory responsibilities of the funding banks"* puts the funding banks in a unique situation. The funding banks should be responsible for the gathering of YBS data from District Associations and reporting the consolidated district data to the FCA. As realized with previous regulations, District Banks are not in a good position to evaluate the YBS programs of direct lender affiliated associations. It appears, this increased supervisory role over its affiliated associations' YBS programs would create additional expense and not add value to increase YBS efforts at the Association level.

II. <u>YBS Rating System</u>

The stated purpose of the proposed regulation is to develop standards that will be used by the agency in a rating system. FCA states that a "rating system" is a key component of the FCA's proposal, although information detailing the "rating system" is unavailable at this time. Accordingly, the agency has an obligation to put the specifics of the rating system itself out for public comment. It is respectfully requested the FCA should consider withdrawing the proposed rule until it can make the full details of the proposed rating system available for public comment. Without additional information, it is very difficult to assist the agency in identifying concerns of a rating system to proactively address and prevent unintentional consequences.

III. <u>Bank Oversight of Annual YBS Plan</u>

In many YBS programs, the most important elements of a successful program are not measurable through quantitative data, but rather qualitative elements such as staff knowledge, educational programs, value-added resources, etc. These factors differ widely by territory and institution and will complicate the District banks' ability to accurately evaluate each YBS strategic plan. For Banks to be effective in evaluating and determining "best practices" for YBS efforts, the Banks would need to thoroughly understand the marketplace and demographics for each Association.

These qualitative measures are best evaluated through a comprehensive view of an institution's YBS program through the examination function, as it is currently completed today. The ongoing communication between FCA examiners and Associations continues to help with the increase in positive results related to YBS.

This portion of the Proposed Rule is vague and should better outline the expectations of the District Banks. Ensuring Associations include the required elements of their respective programs as currently required in the regulation is reasonable. That way, banks are helping and supporting Associations by providing a second pair of eyes to make sure their programs are meeting the minimum regulatory requirements and have established goals to meet the needs of YBS in their community.

IV. <u>Additional Concerns and YBS Highlights</u>

Changing the reporting requirements can cause the baseline we use to deteriorate making it difficult to determine if the rule change actually helped to increase service to YBS borrowers. It is expected that training employees on the reporting requirements and then the ongoing efforts to track all required information will be an added expense and burden to the Association.

AgCarolina is concerned that the rating will be based on unrealistic expectations and performance must continue to increase year-after-year. It is questionable whether this expectation is sustainable in the volatile and cyclical agricultural industry. As an example, would an Association's YBS educational program need to involve more participants each year or have increasing budgets from year to year? Measurable results may not be known initially and emphasis should be on the impact and value added, not on the results or returns, which may not be easily quantified.

Without the burden of additional regulatory oversight and reporting requirements, AgCarolina has a successful YBS program reaching members and prospects throughout its footprint. Realistic quantitative goals are set each year for increasing the number of loans and volume to young, beginning, and small farmers. Below are several successful programs the Association has to support its mission of serving young, beginning, and small farmers.

- The Association has a direct lending program for YBS borrowers called FarmStart. As of 6/30/22, total exposure for this program was $25.6 Million with an approved pool of $40 Million. This program is designed for young, beginning, and small farmers that do not meet regular criteria and underwriting standards for Association lending but do have a minimum creditworthiness.

- The Association includes at least one YBS member on each branch advisory committee to ensure the Association is gathering the needs of this segment of the organization.

- The Association has a Pull for Youth annual event that raises funds to support 4-H and FFA students throughout North Carolina. This program has been successful in supporting the future of agriculture.

- We have a grant program that supports many events and programming in our 34-county service territory. Many of these programs are focused on local communities and serving the young, beginning, and small farmers.

- Partnerships with Historically Black Colleges and Universities ("HBCU") and other community stakeholders have proven to be positive in supporting our YBS mission.

- The Association offers a robust scholarship program that helps support students that often go into an agricultural related field or start a farming operation.

- The Association offers an Ag Biz Program and an AgLeadership Program annually that supports young, beginning, and small farmers. These programs provide speakers and education focused on business planning, business management, and business marketing. Mentors work alongside the participants to guide and assist as they go through the coursework.

V. Conclusion

AgCarolina shares the FCA's passion for serving young, beginning, and small farmers and continues to place high priority on this important mission. We look forward to continuing to add value to this sector, and we will continue to work with the FCA to provide accurate information on our programs and events.

We are grateful for the opportunity to comment on the Proposed Rule and to present some of concerns of AgCarolina and the Farm Credit System to FCA for its consideration. As discussed in this letter, we respectfully request the FCA withdraw the Proposed Rule as we have concern with its ability to enhance Farm Credit's ability to serve its YBS borrowers.

We trust that our comments, along with the comments received by other Farm Credit Banks and Associations, will provide value to the FCA as it considers the Proposed Rule. If you have any questions, please feel free to contact me.

Sincerely,

David W. Corum

David W. Corum
President and CEO