



FARM CREDIT BANK OF TEXAS

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10 August 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:

The Farm Credit Bank of Texas (“FCBT” or the “Bank”) 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 (the “Proposed Rule”).

While FCBT agrees with and shares the FCA’s passion to strengthen the Farm Credit System’s mission to furnish sound and constructive credit and related services to young, beginning, and small (“YBS”) farmers and ranchers (“YBS Mission”), the Proposed Rule does not provide any additional means for accomplishing this mission. As such, the Bank respectfully requests that the FCA withdraw the Proposed Rule for the reasons outlined below.

The Bank fully supports the comment letter submitted by the Farm Credit Council (“FCC”) on behalf of Farm Credit System (“FCS” or the “System”) institutions in response to the Proposed Rule and wishes to emphasize, and add, the following comments, which are of elevated concern to FCBT.

**1. §614.4165(b) Farm Credit Bank Oversight**

The Proposed Rule revises §614.4165(b) to require funding banks to adopt written policies that direct their affiliated associations to establish an annual YBS strategic plan (the “YBS Strategic Plan”) that addresses specific components to be submitted to the funding banks for review and approval. The stated purpose of the revision is to “... *reinforce the supervisory responsibilities of the funding banks* ...”. [57 Federal Register 36261]

The FCA believes that because the funding banks serve as the YBS data collection centers for their affiliated associations, they are in a unique position to know the YBS



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activities of each of their affiliated associations and use that knowledge to encourage associations to enhance their YBS programs through “best practice” sharing.

As such, the FCA believes the proposed revisions to the funding banks’ supervisory responsibilities will not only help the FCA with their YBS oversight but also help direct lender associations bolster their YBS programs.

FCBT acknowledges and agrees that the funding banks serve a role in fulfilling the YBS Mission; however, that role should remain limited to assisting the FCA with its YBS oversight as required in the existing regulation. The FCA’s belief that the funding banks’ role should be expanded as provided in the Proposed Rule is outdated and misplaced for the following reasons:

**(a) The Proposed Rule is inconsistent with the evolution of the System and congressional intent to allow direct lender associations autonomy to design their own YBS Programs.**

The FCA previously amended §614.4195 to give direct lender associations more autonomy to establish their own YBS programs. Under the existing regulations, the funding banks are only required to direct their affiliated associations to establish a YBS program and submit the same to the funding bank for review and approval to ensure the YBS programs contain the minimum components required by the regulations. This autonomy was acknowledged by the FCA when it proposed the existing regulation. The FCA expressly said:

*“[d]irect lender associations have gained more autonomy from their funding banks since 1980, when section 4.19 of the Act was added. In recognizing this autonomy, we are proposing that the Farm Credit bank policies be kept to a minimum. Instead, the proposed rule focuses on ensuring that the direct lender associations establish YBS programs that fulfill the provisions of section 4.19 of the Act ....”*  
[68 Federal Register 16460]

The Proposed Rule seeks to reinstate the outdated relationship between the funding banks and their affiliated associations. In particular, the Proposed Rule wishes to reinstate the parental role of the funding banks by requiring them to review and approve their affiliated associations’ YBS Strategic Plans, share “best practices” among affiliated associations, and increase the funding banks’ direct involvement in the lending activities of its affiliated association’s YBS customers. This Proposed Rule ignores the evolution of the System and the congressional intent to allow direct lender association autonomy to design their own YBS Program.



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**(b) The funding banks' involvement in their affiliated associations' YBS programs clouds the funding banks' supervisory responsibilities.**

The Proposed Rule encourages the funding banks to become more involved with their affiliated associations' YBS programs. This goal puts the funding banks in a difficult position. In particular, how does a funding bank choose which YBS programs to be involved in? How does a funding bank become involved in a YBS program without developing cognitive bias? How do funding banks review and approve YBS programs fairly when they have invested time and money in some programs and not others? Which YBS programs funding banks elect to become more involved with may unintentionally damage the funding banks' relationship with their affiliated associations because it may create the perception of preferential treatment among their affiliated associations. This is particularly prevalent in the Texas District where there is over-chartering. As such, encouraging the funding banks to become more involved in the YBS programs of their affiliated associations only clouds the funding banks' supervisory responsibilities.

The more appropriate way for funding banks to support the YBS Mission is independent of their affiliated associations' YBS programs. To this extent the Bank supports the:

- National Black Growers Council. The NBGC was organized to represent the unique needs of, among others, full-time YBS Black farmers. The Bank serves as the liaison between NBGC and the FCS via the FCC and regularly attends NBGC events to help strengthen the NBGC's mission to improve the efficiency, productivity and sustainability of black farmers.
- Young Leadership Program. The YLP is a biennial program hosted by the Bank and designed to give young stockholders, selected by their respective Associations, a broad national overview of the System and an appreciation for the role it plays in agriculture and rural America. Participants interact with System leaders and other decision-makers while visiting the Funding Corporation in New Jersey, touring Wall Street in New York City, and meeting with their congressional representatives in Washington, D.C. This program has repeatedly inspired young borrower to seek out leadership roles on their respective association boards, and raise awareness of the unique challenges YBS customers often face so lenders are informed and can offer financing to best meet their needs within the territory.
- Marketing and Outreach. The Bank is working on an application program for its affiliated associations that will directly support their YBS marketing efforts. The program is designed to assist affiliated association by providing tools to identify eligible YBS customers and build campaigns to directly target at a specific YBS



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demographic. This proof of concept is a good example of how the Bank can impartially support its affiliated associations' efforts to fulfill the YBS Mission without clouding the Bank's supervisory responsibilities.

**(c) Direct lender associations are in the best position to know their YBS customers and develop YBS programs to service their needs.**

The FCA has previously acknowledged that direct lender associations are in the best position to determine the most effective means to serve YBS customers. In particular, the FCA said:

*“Moreover, we agree that Congress intended YBS programs to be developed by the System lenders who have the most knowledge of their territories. We have, therefore, developed this section to allow each direct lender association maximum flexibility in creating a YBS program that takes into consideration the economy and demographics of its territory, as well as its risk-bearing capacity. In so doing, the YBS rule is consistent with congressional intent to allow each association to design a YBS program that best fits the needs of its lending territory.” [69 Federal Register 16460].*

Through direct contact with their customers, direct lender associations have firsthand knowledge of YBS businesses, demographics, financial positions and strategic plans. As such, they are best positioned to know the needs and wants of their YBS customers and create innovative products and services that can provide sound and constructive credit and related services to meet their unique needs.

FCBT has no direct relationship nor contact with its affiliated associations' YBS customers and consequently has no direct visibility into the needs and wants of YBS customers. Nevertheless, the Proposed Rule assumes that the Bank will be able to obtain this knowledge from its affiliated associations' YBS Strategic Plans. That assumption is misguided because the information to be contained therein will be limited to objectives, quantitative and qualitative targets, proposed plans and a review of past performance. The YBS Strategic Plans will not provide that direct firsthand knowledge needed to make an informed decision about how best to serve YBS customers. The Bank is just too far removed to make that determination.

**(d) Sharing of “best practices” would prove fruitless for direct lender associations and discourage the creation of innovative YBS programs.**

The sharing of “best practices” by the funding banks can be effective only insofar as its affiliated associations can adapt and adopt those best practices. For example, a best practice for YBS dairy customers in New Mexico may be useless to a



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YBS dairy farmers in Mississippi because their territories and markets are vastly different. It is impractical and unrealistic to require affiliated associations to incorporate best practices that would not be beneficial to its YBS customers. It would also be unfair for the Bank to criticize, or rate the performance of, its affiliated associations for not including such “best practices” in their YBS Strategic Plans.

Furthermore, the adoption of “best practices” guidelines as determined by the funding banks would unintentionally cause their affiliated associations to conform to those “best practices” and discourage affiliated associations from creating innovative YBS programs out of fear of their YBS Strategic Plans being criticized by, or receiving a poor performance rating from, the FCA.

**(e) The lack of uniform guidelines for reviewing and approving YBS Strategic Plans by the funding banks will cause confusion for their affiliated associations.**

The Proposed Rule provides no guidance on how the funding banks are to review and approve their affiliated associations’ YBS Strategic Plans. If the Proposed Rule becomes final, the funding banks will be forced to create their own set of requirements to measure and approve the adequacy of their affiliated associations’ YBS programs. Such requirements are likely to differ from funding bank to funding bank and from those set by the FCA. The lack of uniformity among requirements will only create confusion and frustration for FCS institutions. For this reason, the review and approval of YBS programs should remain the role of the FCA.

## **2. The Rating System**

The Proposed Rule provides that the YBS Strategic Plans will be evaluated as part of a “rating system”. The Proposed Rule fails to provide any additional text on the rating system. In that regard, the FCC’s comment letter raises numerous procedural concerns with disclosure and application of the rating system. In addition, the Bank wishes to raise the following concern with the rating system.

The success of the Farm Credit System is largely attributed to its cooperative structure. However, that success is threatened by the proposed rating system. The Proposed Rule fails to consider the implications the rating system will have in over-chartered districts where there is a delicate balance between collaboration and competition. The Bank understands that there is healthy collaboration occurring among its affiliated associations in the Texas District but that such collaboration is limited to topics that do not directly impact the generation of business. The rating system is likely to significantly reduce, or eliminate, any healthy collaboration among the associations, especially in over-chartered districts, because direct lender associations will be less likely to collaborate when their YBS programs are being measured for effectiveness and compared against one another. The rating system



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incites competition not collaboration which could ultimately impact the System's ability to provide sound and constructive credit to rural America.

**3. Conclusion**

FCBT shares the FCA's passion and desire for the System to continue to fulfill its YBS Mission and agrees that there remains opportunity and further improvement to strengthen the YBS framework; however, the Proposed Rule does not provide any additional means for accomplishing that goal. Accordingly, for the reasons set forth in the FCC comment letter and provided herein, the Bank respectfully requests that the FCA withdraw the Proposed Rule.

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

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

Sincerely,

Nanci Tucker  
SVP Corporate Affairs & General Counsel