

August 11, 2022



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 36261-36264

Director Agans:

Farm Credit of New Mexico (“FCNM”) 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* (the “Proposed Rule”).

General Comments

FCNM has a strong interest, track record of investment and strategic mission to serve YBS borrowers and support the future of the agriculture industry. We are fully aligned and share in FCA’s vision to meet the unique needs of YBS borrowers and to establish programs to ‘*furnish sound and constructive credit and related services to YBS farmers and ranchers*’. Along with providing specific feedback on the Proposed Rule, we would like to proudly highlight our progress and achievements centered on YBS borrowers.

- Loans to Young Producers represent 11.5% of portfolio
 - 80 new loans in 2021
- Loans to Beginning Producers represent 16.5% of portfolio
 - 89 new loans in 2021
- Loans to Small Producers represent 36% of portfolio
 - 162 new loans in 2021

Outreach and Programs

FCNM is committed to providing sound and dependable credit to YBS borrowers. ***The mission of this program is to make concerted and cooperative efforts to help this group of borrowers enter and be successful in the agricultural industry.*** This program is designed to entice this special group to borrow by offering: competitive rates, promoting the use of products like AgReady loans, and encouraging the use of government guarantees. The main objective of this program is to create new lending/business relationships with YBS operators.

FCNM’s outreach and support of YBS producers includes a diverse offering of programs designed to help ensure the future viability of agriculture in our lending territory. We continue to look for ways to add value to YBS farmers and ranchers by collaborating with others, building relationships with trade groups focused on YBS producers, and seeking input from YBS producers. These

efforts are focused on helping YBS borrowers succeed in agriculture. Below is a brief overview of the programs and outreach sponsored by FCNM.

Growing Futures Loan Program

Implemented in 2005, with 17 years of success, the Growing Futures loan program is designed to better service this important group. Underwriting Standards have been created to assist these borrowers. The program allows for special pricing and fee concessions for a young/beginning combination applicant or a young applicant. Credit Managers may approve loans at 100 basis points below the applicant's qualifying risk rating category. Typically, this discount will apply to variable loans, but may be applied to ARMs or fixed to conversion products as long as the fixed period occurs within the first 5 years of the loan. After the 5 years are completed, the borrower's rate converts to a normal spread for the risk rating level they or the entity may qualify. Capital is committed for Growing Futures loans made to Young, Beginning and Small farmers and ranchers each year.

Farm Credit of New Mexico has 125 of these loans with loan volume of \$43,429,032.99 as of December 31, 2021.

Growing Futures Loan Program by the Numbers

- Average Borrower Rate is 4.75% (net of patronage program, average borrower rate is less than 4.00%.)
- 60% of Growing Futures loans are for real estate acquisition.
- 40% of Growing Futures loans are for working capital needs.

AgReady Lending Program



AgReady was branded and launched in October of 2019 with the purpose of providing fast, fair, and friendly credit to borrowers with an attribution less than or equal to \$750,000. Within the first year of operation the AgReady team booked 330 actions. The portfolio was allocated to AgReady specific branches in January of 2020. As of November 30, 2021, the AgReady portfolio is made up of 726 loans that span 1341 borrowers. The total portfolio size at the time of this report is \$82,278,523. 62 of these borrowers started farming within the last 5 years. The average loan size is \$112,000. Application to closing time is significantly more efficient. Real estate transactions

close 20% faster. Average reduction in closing time is 9.2 days (at 38 days). Commercial transactions close 88% faster. Average reduction in closing time is 22.5 days (at 3.18 days).

The top 5 commodities that AgReady serves include cow/calf, alfalfa, tree nuts, cash grains, and cotton. These top 5 commodities make up an average of 84% of the overall commodities served in the Ag Ready portfolio by both count and accrual volume.

Customers who have obtained an AgReady loan have given positive reviews for the program. Efficiency was the main theme in the customer survey results.

FSA Loan Guarantees

Taking full advantage of FSA loan guarantees allows us to finance additional YBS farmers and ranchers that would not qualify without a guarantee. This gives us the opportunity to build a relationship with these borrowers, supporting the YBS mission.

As of March 31, 2022, FCNM has 92 loans with FSA Guarantees totaling \$39.1 million in volume.

Educational Institute/AgriFuture

This program is designed to help young farmers and ranchers throughout the state of New Mexico become more efficient producers of agricultural commodities. FCNM works with the New Mexico Department of Agriculture and the New Mexico Farm and Livestock Bureau's Young Farmers and Ranchers Committee to establish a bi-annual training session.

New Mexico Ag Leadership

New Mexico Ag Leadership, Inc. is constructed with the express purpose to identify and support effective leadership within the agricultural industry of the state. The program is set up for participants to develop and cultivate their leadership skills in order to serve as better leaders within food, agriculture, and natural resource industries and serve a more positive role in their communities. Participants enrolled in the program attend a series of nine seminars over the course of two years. FCNM provides an annual \$5,000 sponsorship.

Farm Credit of New Mexico's Scholarship Endowment

A scholarship endowment at New Mexico State University was established in 2005 with \$250,000. The endowment funds a scholarship for FCNM members' children and grandchildren who attend the University. It provides \$2,000 annual scholarships (for undergraduate students majoring in any subject, who are full-time sophomores, juniors or seniors.) Through the spring of 2021, 64 scholarships worth \$128,000 thousand have been given.

Other Activities

FCNM participates in many other activities with a variety of organizations all over the state in conjunction with YBS. All of the activities are to help encourage YBS producers.

Year	Number of Activities	Invested Dollars
2021	117	\$194,000
2020	102	\$225,000
2019	104	\$212,000
2018	86	\$239,000

YBS Portfolio Statistics

Our focus on YBS producers and the success of our outreach programs are demonstrated in the strength of our YBS portfolio as outlined above. Efforts and outreach to YBS borrowers is evidenced by these results.

Capital committed for Growing Futures loans made to Young, Beginning and Small farmers and ranchers is in the table below.

	2021	2022	2023
<i>Young, Beginning & Small</i>	\$25,000,000	\$30,000,000	\$35,000,000

Results

Young

	Total Volume			New Volume		
	Volume	Number	Percentage	Volume	Number	Percentage
<i>2021 Goals</i>			<i>8%</i>	<i>\$10,000</i>	<i>32</i>	<i>4%</i>
12/31/21	\$172,478	264	10.84%	\$65,622	80	11.11%
12/31/20	\$133,442	244	8.80%	\$32,211	66	8.74%
12/31/19	\$131,071	246	10.12%	\$56,103	78	10.82%
12/31/18	\$102,906	227	9.67%	\$45,283	79	10.51%

Beginning

	Total Volume			New Volume		
	Volume	Number	Percentage	Volume	Number	Percentage
<i>2021 Goals</i>			<i>10%</i>	<i>\$18,000</i>	<i>42</i>	<i>4%</i>
12/31/21	\$190,210	383	15.73%	\$66,442	89	12.36%
12/31/20	\$154,502	365	13.17%	\$44,271	108	44.27%
12/31/19	\$136,071	345	14.19%	\$35,956	94	13.04%
12/31/18	\$131,805	329	14.02%	\$39,016	98	13.03%

Small

	Total Volume			New Volume		
	Volume	Number	Percentage	Volume	Number	Percentage
<i>2021 Goals</i>			<i>28%</i>	<i>\$25,000</i>	<i>85</i>	<i>4%</i>
12/31/21	\$223,166	823	33.80%	\$44,405	162	22.50%
12/31/20	\$216,461	808	29.15%	\$62,458	189	25.03%
12/31/19	\$190,398	793	32.62%	\$48,476	206	28.57%
12/31/18	\$180,993	741	31.57%	\$34,480	163	21.68%

Through our ongoing outreach to YBS producers and organizations that support them, we hope to continue to add programs targeted at helping YBS producers succeed in agriculture, which is a goal supported by our membership.

Proposed Rule Comments

The Proposed Rule identified four objectives intended to strengthen YBS lending – 1 – increase direct lender associations’ YBS activity, 2 – reinforce supervisory responsibilities of the funding banks, 3 – require each direct lender association to adopt an independent strategic plan and 4 – provide elements that will be evaluated as part of a rating system to measure year-over-year progress.

In our view, the regulation as proposed does not meet these objectives and would negatively impact our ongoing efforts to serve YBS farmers and ranchers. The regulation adds undue compliance and reporting burden, diverts resources currently targeted at YBS programs towards administrative coordination with the funding bank and other competing and over chartered associations, and creates unintended consequences of designing programs aimed at maximizing a rating system rather than the specific needs of YBS borrowers. In our opinion, further regulatory burden around YBS lending would distract from an otherwise productive and efficient method of providing mission critical products and services to YBS customers. FCNM fully recognizes that YBS customers are the future of our membership and therefore a driving force of our strategies and business objectives. We do not believe additional regulatory or supervisory oversight will improve our performance in this area. In fact, it will assuredly result in greater cost and administrative burden to achieve the same favorable outcomes.

YBS Strategic Plan

The Proposed Rule requires associations prepare a 3-year YBS strategic plan, prepared and approved separately from the business plan already required. Creation of a YBS plan independent of the annual business plan requirement is unnecessary redundancy (because YBS is already a significant component of our comprehensive business plan) and creates a disconnect from the overall business plan. In our view, YBS borrowers are critical to the overall sustainability of our business and a key component of the overall business plan. YBS borrowers should be considered in the context of the whole business and, as such, included in the overall business plan. If successfully prepared and executed, a comprehensive business plan will address all plans to attract, retain and facilitate the success for all eligible borrowers in the lending territory. Successful YBS borrowers will one-day no longer be considered YBS borrowers. A comprehensive business plan should therefore already consider all borrowers – both YBS and those no longer meeting YBS definitions. Separating the business plan and a YBS strategic plan would inherently create inconsistencies or redundancy and thereby reduce the effectiveness of both.

Creation of an independent YBS strategic plan adds additional administrative burden and strains resources that otherwise might be available to facilitate YBS efforts. The staff involved in the creation of the comprehensive business plan would be the staff responsible for preparing the proposed YBS strategic plan. These are resources that would otherwise be available to engage in ongoing YBS development and support.. Completing this plan would clearly detract from the time and attention given to this YBS program and minimize our YBS efforts. Several key conferences, industry meetings and other YBS outreach efforts occur during the month of January. Rather than directly engaging and supporting YBS efforts outlined in the association business plan, these key staff members would be in the office preparing a YBS strategic plan.

The proposal requires quantitative goals be based on ‘*reasonably reliable demographic data*’ for the lending territory. The proposed regulation creates a requirement that provides uncertainty and highly subjective interpretations. The proposal also requires evaluation of the ‘*effectiveness in providing these efforts that result in new and expanding YBS operations to which credit is now provided*’. For many programs and services, the ‘effectiveness’ may be difficult to measure. We currently provide scholarships for YBS borrowers to attend training events, sponsor industry trade shows, provide education seminars and offer college scholarships as part of our efforts. It is unclear how to effectively measure these efforts or how they may or may not have contributed to ‘*new or expanding YBS operations.*’ If a potential YBS borrower attends a workshop in 2022 and becomes

a borrower in 2026, the regulation suggests our strategic plan must monitor, record, track and report that information. If a scholarship is provided to a college freshman in 2023 and that student then joins his family's operation in 2030 after working in another industry, does the YBS strategic plan need to track that information as an 'expanding operation'? We continue to believe and support these efforts as part of our mission to support agriculture and YBS borrowers. We have every incentive already to do so. We believe the additional requirements create an increased administrative burden to somehow measure effectiveness of these programs and diverts existing staff from grassroots YBS efforts.

Coordination with other System Institutions, Government and Private Sources

Requiring coordination by regulatory requirement does not accomplish the objective of increasing YBS lending. Again, staff resources would be diverted to potentially unproductive coordination efforts, rather than advancing our own grassroots YBS efforts.

The regulatory requirement placed on associations to require collaboration is a solution to a problem that in our view does not exist. The System currently enjoys a very robust and healthy collaboration to advance YBS efforts. This existing collaboration has been effective for FCNM in the development of new ideas, programs, and outreach efforts. For example, AgriFuture Educational Institute is a collaboration with New Mexico Department of Agriculture, New Mexico Farm and Livestock Bureau and other industry groups. In 2004, FCNM began a training program designed to help young farmers and ranchers throughout the state of New Mexico become more efficient producers of agricultural commodities. FCNM worked with the New Mexico Farm and Livestock Bureau's Young Farmers and Ranchers Committee to establish a bi-annual training session. It was a two-day program that provided the participants with knowledge and instructions to help them prosper in the agricultural industry. All expenses were covered by FCNM and from 2004-2013 a total of 125 producers participated in the program over the time period. In 2014, with the help of the New Mexico Department of Agriculture (NMDA) and a dozen other agencies and organizations involved in New Mexico agriculture, we were able to take the concept developed over the past decade and expand it in to something bigger and better; the 2014 AgriFuture Educational Institute for beginning/future farmers and ranchers, as well as those aiming for other careers in agriculture. For the same investment the program has reached between 125-150 producers at each of the 5 collaborate events that have been held in person or virtually.

Supervisory Responsibilities of Funding Bank

The proposed regulation requires Farm Credit Bank oversight including review and approval. Including this additional layer of oversight adds little value to the YBS strategic plan. The territories covered by the funding bank are very widespread, diverse and unique. CoBank is not actively involved in retail YBS lending and has little insight into the specific marketplace, needs or requirements of YBS borrowers in New Mexico. Involvement, specifically approval and/or review provided by the funding bank would add very little value and perspective into the needs of the local territory. Staffing time and resources previously available to collaborate across the entire System could be diverted to coordinating funding bank approval of the YBS strategic plan. Collaboration may also unintentionally be limited only to associations within each individual funding bank, which would be a step backward.

Rating and Evaluation Process

Additional evaluation as part of a rating system could have unintended consequences that do not advance YBS efforts. The proposal outlines the objective of a rating system to *'measure year-over-year YBS progress.'* FCA is currently providing oversight within existing statutory and regulatory authorities. A ratings system applied equitably across the System could encourage all programs to look alike, rather than encourage creative solutions for unique territories and for associations with very different resources. This could potentially limit how YBS producers are served rather than meeting the unique needs specific to an association's territory.

A ratings system may also have the unintended consequences of associations continuing or adopting programs that are less effective in the marketplace but are viewed positively by the FCA and/or funding bank. This creates an unintended incentive of striving to achieve a higher score with FCA and avoid potential supervisory consequences versus adapting, changing or developing new programs to meet the needs of the marketplace. A new program developed to meet an identified need with yet unproven results could be viewed poorly by the FCA and/or funding bank. Associations will be incentivized to score well in the ratings, rather than create, adopt and innovate.

Farm Credit Council National Comment Letter

FCNM has participated in dialog across the System and has provided input and comment to the letter which will be submitted by the Farm Credit Council on behalf of the entire Farm Credit System. We fully endorse and support this letter.

Conclusion

As noted above, FCNM has a strong emphasis, commitment and incentive to serve YBS farmers and ranchers. These borrowers are critical to our mission, our business plan and our future. The Board of Directors has authorized significant capital, resources and investment towards YBS producers and remains strong and consistent supporters of these efforts. Staff have effectively collaborated with System and non-system partners to create, adapt and improve YBS programs to advance the interests of YBS borrowers. We are proud of our success and view YBS borrowers at the center of our mission and future.

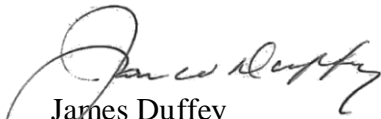
The Proposed Rule would not accomplish FCA's well-meaning intentions to improve service to YBS borrowers. In fact, in our view it would do just the opposite. Additional administrative burden to prepare an additional strategic plan outside the comprehensive business plan could create misalignment with the overall business plan. Significantly increased administrative expense would likely be incurred to prepare a separate strategic plan, coordinate approval of the plan with the funding bank, and report results to the level expected. Furthermore, additional audit engagements around YBS would further distract and consume already limited resources. Required approval and coordination with the funding bank would limit existing collaboration and innovation that occurs throughout the entire system. Coordination with other over-chartered institutions adds administrative burden, creates competition not collaboration, and may result in underserving YBS borrowers. Elements of a rating system would create the unintended consequences of programs being designed, maintained and continued based on the 'score' achieved through the rating system rather than the effectiveness of the program or needs of YBS borrowers. In short, as a small to mid-size association, we have concern with excessive planning and administering getting in the way of implementing and doing, which is the ultimate goal.

In conclusion, we respectfully request FCA consider the following adjustments to the Proposed Rule:

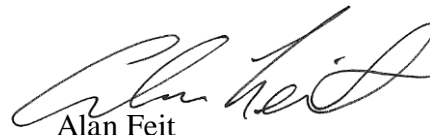
- Continue to require the YBS strategies be incorporated within the annual business plan to ensure alignment of YBS goals with the entire business plan.
- Eliminate the supervisory responsibilities of the funding bank to eliminate administrative burden and oversight from funding banks that have limited insight into retail lending and the unique needs of each area.
- Eliminate the rating system in favor of the existing examination process to avoid unintended consequences of programs being designed to achieve higher ratings, rather than serve YBS borrowers.

FCNM also encourages the FCA to instead refine and improve the existing qualitative and quantitative survey of association YBS activity. We recognize recent changes have been made to improve this process and we urge continuation of that process. The breadth, depth, and effectiveness of our existing YBS programs are difficult to communicate to the FCA through these surveys. We acknowledge the interest and support FCA shares in advancing YBS efforts. We applaud those efforts and share in the common goal to advance YBS borrowers as the future of our businesses, the sustained success of the agricultural industry and the future of food security for the United States.

Respectfully Submitted,



James Duffey
Chairman of the Board



Alan Feit
President and CEO