



2600 Jenny Wren Trail
PO Box 810
Sun Prairie, WI 53590

P: (844) 426-6733
F: (507) 344-5144

compeer.com

December 5, 2024

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

Re: Response to Advance Notice of Proposed Rulemaking – *Loans to Similar Entities*, Farm Credit Administration, Agency; 12 CFR Part 613; RIN 3052-AD58; 89 FR 72759 (Sep. 6, 2024)

Dear Ms. Agans:

Compeer Financial (“Compeer”) appreciates the opportunity to comment on the Farm Credit Administration’s (“FCA”) Advance Notice of Proposed Rulemaking (the “ANPRM”) that was published in the Federal Register on September 6, 2024, relating to similar entity lending activity. 89 FR 72759.

Compeer fully supports and agrees with the comments submitted on this matter by the Farm Credit Council and urges FCA to adopt the Farm Credit Council’s position.

In addition, we write separately to emphasize how critically important similar entity lending authority is to the ability of the Farm Credit System (the “System”) to serve its mission, with a particular focus on the System’s ability to provide support to young, beginning, and small borrowers, including those in traditionally underserved communities.

We offer these comments specifically in response to FCA’s questions #2 and #3 under the heading of “Functionally Similar Activity” and to FCA’s question #1 (including each of its sub-questions) under the heading of “Similar Entity Consistency with FCS Mission”.

The Essential Role of Diversification in Fulfilling the FCS’s Mission.

As FCA knows, agriculture is widely regarded as a cyclical business which historically has been driven by “boom and bust” commodity cycles. While diversification is a core risk management tool for all lenders, System institutions typically have very few meaningful opportunities to diversify their industry concentration risk. Similar entity lending authorities were intended by Congress to, among other things, mitigate the inherent risks faced by the System as a mission-driven, single-industry lender.

Importantly, however, this crucial diversification of risk is maximized when similar entity loans are *inversely correlated* with or *uncorrelated* with loans to production agriculture or other directly eligible borrowers. Any rulemaking which narrowed the System’s similar entity lending authority by tying it more closely to directly eligible borrowers could inadvertently strengthen correlations between the System’s similar entity portfolio and directly eligible portfolio, essentially doubling down on the System’s exposure to systemic risk in the agricultural economy. In other words: similar entity loans are typically *most* consistent with the mission of the Farm Credit System precisely when they are sufficiently *different and distant* from production agriculture and other directly eligible borrowers to provide the diversification which Congress intended.

Diversified earnings from similar entity loans enable the System to support young, beginning, and small borrowers, including those from traditionally underserved communities.

As FCA knows, the Farm Credit System was created in part because many banks have, historically, been “fair weather friends” to agriculture: happy to loan during the good times, but quick to pull back during challenging times and redeploy their capital to the many other industry segments which a bank can serve. Further, banks often start their retreat from agriculture or segments thereof by restricting credit requested by precisely those borrowers who are most vulnerable to a downturn in the agricultural economy: young, beginning, and small borrowers, including those from traditionally underserved communities, who often lack the collateral of more established farmers.

The System, by contrast, was created as a network of cooperative lenders to support rural communities and agriculture with reliable and consistent credit and financial services through all economic cycles. But to accomplish this mission during challenging economic times, the System itself needs reliable, consistent earnings to have the financial strength to provide it’s member-borrowers the support needed, including through continued lending. As a single-industry lender, System institutions rely on similar entity portfolios to mitigate, through diversification, their exposure to systemic risks to the agricultural economy.

Any narrowing of the permissible scope of similar entity lending which reduced the diversification provided by similar entity portfolios or increased the correlation between similar entity portfolios and directly eligible portfolios could therefore be counterproductive to the long-term safety and soundness of the System. In turn, this might limit the ability of the System to support *all* eligible borrowers during a downturn, as Congress intended, including young, beginning, and small borrowers, and those from traditionally underserved communities. We therefore urge FCA to preserve without change the broad and flexible similar entity lending authority provided by Congress.

Thank you for considering our comments. If you have any questions, please do not hesitate to contact me.

Sincerely,



Greg J. Davis
Deputy General Counsel