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

Re: RIN 3052–AD66; Proposed revisions to 12 CFR Part 607 covering the Assessment and Apportionment of Administrative Expenses

Dear Ms. Agans:

CoBank, ACB (CoBank) appreciates the opportunity to comment on the Farm Credit Administration's ("FCA") proposed revisions to 12 CFR Part 607 covering the Assessment and Apportionment of Administrative Expenses. CoBank participated with other Farm Credit System (FCS or System) institutions in a workgroup coordinated by the Farm Credit Council (FCC) to review the proposed revisions. We share the workgroup's support for the following principles to guide the FCA in developing a final rule for the annual assessment of System institutions for the FCA's administrative expenses:

First, the System appreciates the FCA's effort to reevaluate its assessment methodology. As noted in the Proposed Rule, the structure of the System has changed substantially since the current regulation was adopted in 1993. Consolidation has reduced the number of institutions, while average asset size has increased, and growth across institutions has not been uniform.

Second, the System supports an assessment methodology that is fair, equitable, and reflective of current System conditions, while remaining consistent with cooperative principles. To the extent practicable, a revised Formula should be durable over time.

Third, while striving for durability over time, the System also encourages the FCA to review its assessment methodology on a regular basis to ensure it remains fair and equitable, reflects System structure and supports cooperative principles. A periodic review cycle, for example, every five to ten years, may be appropriate. The FCA may also wish to consider identifying objective, data-driven triggers for review, such as metrics tied to consolidation or shifts in asset distribution.

Finally, the System encourages efforts by the FCA to enhance transparency around its administrative expenses and the allocation of those expenses across the System. Specifically, it would be helpful if the FCA provided information about the costs of examining and regulating System institutions. This information would help in the evaluation of equitability over time.

While we agree with those principles, this letter also points out specific concerns that CoBank has with the proposed changes to the current framework and presents a less disruptive alternative based on FCA's proposal. In CoBank's view, FCA's proposal moves too far from the long-standing framework, which appropriately recognizes economies of scale, and could create unintended inequities over time.

Key Concerns with FCA's Proposal

Departure from the current framework logic: The proposal changes the foundation of the 1993 framework instead of updating it. The current rules recognize economies of scale as institutions grow larger and more efficient, which supports supervisory efficiency. Replacing that approach with an untested formula creates a meaningful risk of unintended consequences and inequities over time.

Supervisory costs are not strictly proportional to size: In developing the current rules, the Negotiated Rulemaking Committee (comprised of System and FCA representatives) rejected a purely proportional assessment because institutions consume agency resources differently. The final framework currently in place therefore adopted a tiered, risk-adjusted asset-based approach with declining marginal rates as size increases. Accordingly, we recommend FCA create an assessment methodology that aligns the financial cost with the supervisory effort to regulate System institutions.

What the proposal changes: The proposal significantly reduces recognition of economies of scale by shifting the formula from a 70 percent/30 percent weighting to a 25 percent/75 percent weighting—reducing reliance on the graduated table in Section 607(b)(2) and increasing reliance on straight-line pro rata risk-adjusted assets.

Longer-term effect: FCA's proposal states that the revised weighting would create greater equity for small associations. Even if that appears correct based on today's institution mix, it is likely to create inequities over time as some institutions continue to grow/consolidate while others remain relatively flat. The current framework was designed to accommodate that dynamic.

Financial Impact of FCA's Proposal

The System's largest institutions would bear materially higher costs: Based on the 2026 assessment notification, the proposal would increase the share of FCA assessments for the largest nine institutions, with estimated increases ranging from 1.4 percent for AgCountry Farm Credit Services (or $46 thousand) to 31.9 percent for CoBank (or $4.2 million) in the first year. All other institutions would see estimated decreases ranging from 0.4 percent for the Farm Credit Bank of Texas (or $13 thousand) to 55.9 percent for Puerto Rico Farm Credit (or $45 thousand). Measured in absolute dollars, however, the top 5 decreases in assessments would occur in the second tier of institutions (between $5 and $9 billion in risk-weighted assets) with estimated savings ranging from $445 thousand to $560 thousand in the first year.

District-level effects would be uneven: Only the AgFirst and Texas districts would benefit under the proposal. The AgriBank and CoBank districts would face estimated first-year increases of $3.8 million and $2.3 million, respectively, while the AgFirst and Texas districts would see estimated decreases of $3.6 million and $2.5 million.

The proposal would shift the model toward a district-bank approach: The largest estimated single-institution assessment increases would fall on CoBank at $4.2 million and AgriBank at $2.5 million in the first year. That outcome would move the regulations further away from an institution-based model and toward a district-bank assessment model, which the Negotiated Rulemaking Committee rejected as a principle in the current framework. Specifically, the CoBank District's "smaller" associations would collectively save around $3 million in the first year, while the change would cost CoBank over $4 million. What is clear to us, when analyzed on a net district-wide basis (i.e., factoring in the impact on the district banks), only the small associations in the AgFirst and Texas districts would benefit from FCA's proposal— partially negating the stated objective to benefit all small associations.

Recommended Alternative

CoBank recommends keeping the current 70 percent/30 percent weighting while updating only the table in Section 607(b)(2). This would preserve the logic of the current rules while reflecting changes in the composition of System institutions since 1993. In CoBank's view, this would be less disruptive, preserve appropriate recognition of economies of scale, and reduce the risk of unintended consequences over time. This would allow for an update to the framework for changes to the System since 1993, while causing larger, faster growing institutions to absorb a proportionally larger share of FCA's expenses over time—by maintaining the logic built into current rules that has served the System well for over 30 years.

Summary

CoBank supports the FCA's effort to update the assessment rules to reflect changes in System institution composition since 1993. At the same time, CoBank respectfully urges FCA to avoid a sharp departure from the current framework. For the reasons outlined above, CoBank recommends a more gradual approach that would preserve the benefits of the existing methodology while addressing the need for updates.

Sincerely,

Tom Halverson

Thomas E. Halverson
Chief Executive Officer