AGFIRST
FARM CREDIT BANK

1901 Main Street | PO Box 1499 | Columbia, SC 29202-1499 | 803.799.5000 | agfirst.com

June 22, 2026

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

RE: Response to Proposed Rule & Request for Comment – *Assessment and Apportionment of Administrative Expenses*, 12 CFR Part 607

Dear Ms. Agans:

AgFirst Farm Credit Bank ("AgFirst" or "Bank") appreciates the opportunity to comment on the Farm Credit Administration's ("FCA") proposed rule on Assessment and Apportionment of Administrative Expenses, published in the Federal Register on April 23, 2026 (the "Proposed Rule"). The Proposed Rule would revise the formula used to apportion FCA administrative expenses among System banks and associations (the "Formula").

The Farm Credit Council ("FCC") has submitted a comment letter on behalf of the Farm Credit System (the "System") reflecting principles developed through a System workgroup (the "Workgroup") that included representatives from each System bank and associations of varying sizes. AgFirst had representation on the Workgroup and supports the principles articulated in the FCC's letter. In particular, AgFirst greatly appreciates FCA's efforts to reevaluate its assessment methodology in light of the substantial changes in the System; that the revised methodology should be fair, equitable, reflective of current System conditions, durable over time, and consistent with cooperative principles; that FCA should periodically review the methodology going forward to ensure it remains aligned with the System's structure; and that expanded transparency regarding FCA administrative expenses and their allocation would assist System institutions in evaluating equitability over time.

AgFirst submits this letter separately to provide its district-specific perspective and, to state clearly that AgFirst supports finalizing the Proposed Rule as proposed. While the FCC's letter identifies overarching principles applicable across the System, AgFirst believes the Proposed Rule, as drafted, achieves the right outcome for the System. Accordingly, AgFirst encourages FCA to finalize the Proposed Rule without material change.

I. FCA Is Right to Revisit an Assessment Formula That is No Longer Equitable in the Modern System

AgFirst supports and commends FCA's decision to revisit the assessment methodology. The current assessment formula was adopted in 1993 and reflected the size, structure, and composition of the System at that time. Consolidation, growth in institution size, and changes in the distribution of System assets have materially altered the environment in which the current formula operates. FCA is justified in reassessing the formula, and it should be commended for doing so in such a thoughtful and data-driven manner.

Data in the preamble to the Proposed Rule illustrates the practical consequences of this drift and its particular effect on districts with smaller associations, including the AgFirst district. As of June 30, 2025, institutions with average risk-weighted assets ("RWA") less than $1 billion ("Small Associations"), collectively holding 1.7% of total System assets, were assessed 3.8% of total System assessments, reflecting an assessment apportionment ratio (measured by percentage of total assessments to percentage of total RWA) of 2.24, compared to 1.26 in 1993. The institutions with average RWA between $1 billion and $10 billion ("Mid-Sized Associations") showed a ratio of 1.66 in 2025, compared to 0.80 in 1993. By contrast, institutions with greater than $10 billion in average RWA ("Large Institutions"), 13 institutions collectively holding 81.7% of total System assets, were assessed only 68.6% of total assessments, resulting in an assessment apportionment ratio of 0.84 in 2025.

These figures demonstrate that the current formula has not merely become outdated; it has produced a significant and growing imbalance in the allocation of FCA assessments. In 1993, the difference between the assessment apportionment ratios for Small Associations and Mid-Sized Associations was 0.46 ratio points, with Small Associations assessed at a ratio approximately 57.5% higher than Mid-Sized Associations.[1] By 2025, the disparity had become far more pronounced. Small Associations were assessed at a ratio nearly 2.7 times that of Large Institutions, while Mid-Sized Associations were assessed at nearly twice the Large Institution ratio. Put differently, smaller and mid-sized institutions now bear materially greater FCA assessment costs relative to their share of System assets than the largest institutions in the System. That result does not reflect the balance intended when the current formula was adopted.

This issue is especially important in the AgFirst district. The AgFirst district includes a diverse group of associations, many of which are smaller than their peers in other parts of the System and have borne a disproportionate burden under the current formula. Approximately half of the AgFirst district associations hold less than $1 billion of assets, and the other half hold between $1 billion and $10 billion of assets. For smaller associations, elevated assessment costs are not merely an accounting issue. They affect institutional resilience, long-term planning, and the ability to invest in people, technology, member service, and local communities. A more equitable assessment formula supports the health and sustainability of these associations and, by extension, the strength of the AgFirst district as a whole. Smaller institutions remain essential to the Farm Credit System's statutory and cooperative mission and should not bear disproportionate regulatory costs, at two to three times their peers.

The Act requires FCA to apportion assessments on a basis that it determines to be equitable. FCA's own data-driven analysis demonstrates that the current Formula no longer

[1] In 1993, no System institutions reported average risk-adjusted assets over $10 billion.

achieves that objective. AgFirst commends FCA for undertaking this comprehensive historical review and for grounding its proposed revisions in objective, quantitative analysis. This is precisely the kind of thoughtful rulemaking that the System, and the farmers and rural communities it serves, deserves.

II. <u>The Proposed Formula Provides Enhanced Durability and Better Aligns Assessments with Proportionality and Cooperative Principles</u>

A. Shifting to 75% Pro Rata Is Fair, Principled, and Well-Supported by the Data

AgFirst supports FCA's proposal to increase the pro rata component of the formula from 30% to 75% and to reduce the graduated tier component from 70% to 25%. The pro rata component of the Formula is the most straightforward expression of equitable apportionment: each institution contributes to FCA's operating costs in direct proportion to its share of the System's total asset base. This is consistent with cooperative principles, which hold that the costs and benefits of a cooperative enterprise should be shared equitably in proportion to participation and relative scale. A formula grounded primarily in pro rata allocation reflects those cooperative principles that are central to the Farm Credit mission in a clear and objective way.

The graduated tier structure was designed to recognize economies of scale, and the idea that larger institutions may be regulated more efficiently per dollar of assets than smaller ones. AgFirst acknowledges there is some merit to this concept in principle. However, Farm Credit System institutions do not all operate in the same manner, and the assumption that per-asset examination costs decline uniformly as institution size increases is not persuasive. Larger institutions may benefit from some efficiencies associated with scale, but they may also present unique regulatory, operational, structural, transactional, or business complexities that require specialized examiner knowledge and training, additional time, or more tailored supervisory attention. Those complexities may limit or offset assumed efficiencies in ways that are difficult to quantify precisely.

The Proposed Rule strikes the right balance. By retaining a 25% graduated tier component, the Formula continues to recognize economies of scale in a measured way. By increasing the pro rata component to 75%, the Formula more appropriately aligns assessments with each institution's relative share of System assets. This approach is fair, principled, and better supports an equitable assessment apportionment.

B. Greater Pro Rata Weighting Enhances Durability

Among AgFirst's strongest reasons for supporting the Proposed Rule as drafted, rather than an approach that relies more heavily on static tier thresholds, is the long-term durability of a formula with a dominant pro rata component that should adapt more naturally over time as institutions grow, consolidate, or shift in relative size. The current formula's drift from its original proportionality was the product of the cumulative, uneven growth of System institutions over more than three decades, and the tier ranges were never updated to keep pace. This is an inherent limitation of any formula that relies heavily on fixed nominal dollar thresholds. Recalibration eventually becomes necessary, as it has today.

A formula that gives primary weight to the pro rata component addresses this structural limitation at the root. Because the pro rata calculation is based on each institution's proportional share of total System assets at such given time, rather than on fixed dollar amounts, it automatically adapts as institutions grow, consolidate, or change in relative size. The 75/25 formula proposed by FCA is thus inherently more self-correcting and durable than the current 30/70 structure, and less likely to produce systematic inequities.

C. The Proposed Rule Should be Finalized Without Material Change

AgFirst recognizes that the Proposed Rule will affect System institutions differently depending on asset size and other institution-specific circumstances. FCA may receive comments to revise the tier ranges while leaving the formula weighting between the pro rata and graduated tier components largely unchanged. However, the preamble to the Proposed Rule states that revising only the tier ranges was considered and the results were insufficient to bring the current proportionality of individual assessments for Small Associations closer to levels of proportionality in 1993. More importantly, revising the tier ranges alone would address only the current manifestation of the problem, not its structural cause. Static tier ranges are likely to become stale again as the System continues to grow and consolidate. A tier-only revision approach would therefore risk repeating the same cycle that led to the current inequity

III. Conclusion

AgFirst commends FCA for undertaking a thorough, analytically rigorous review of its assessment methodology and for proposing a solution that is faithful to the Act's mandate that assessments be apportioned equitably. The Proposed Rule appropriately restores proportionality, creates a more durable framework for the future, preserves a measured recognition of economies of scale, and provides meaningful relief to smaller associations that have borne a disproportionate burden under the current formula. Accordingly, AgFirst encourages FCA to finalize the Proposed Rule without material change.

Respectfully submitted,

AgFirst Farm Credit Bank

MBHarris

Marion B. Harris
Chief Executive Officer & President