V. Conclusion

The NRC determined that the petitioners do not present information that supports the requested changes to the regulations or provides substantial increase in the overall protection of occupational or public health and safety. The NRC’s current regulations continue to provide for the adequate protection of public health and safety and to promote the common defense and security.

For the reasons cited in Section III of this document, the NRC is denying PRM–72–8.

Dated at Rockville, Maryland, this 16th day of January 2020.

For the Nuclear Regulatory Commission.
Annette L. Vietti-Cook,
Secretary of the Commission.

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FARM CREDIT ADMINISTRATION

12 CFR Parts 614
RIN 3052–AC92

Amortization Limits

AGENCY: Farm Credit Administration.

ACTION: Proposed rule.

SUMMARY: The Farm Credit Administration (FCA, we, or our) proposes to repeal the regulatory requirement that production credit associations (PCAs) amortize their loans in 15 years or less, while requiring all Farm Credit System (FCS or System) associations to address amortization through their credit underwriting standards and internal controls.

DATES: You may send us comments on or before March 23, 2020.

ADDRESSES: We offer a variety of methods for you to submit comments. For accuracy and efficiency reasons,
II. Background

Historically, the Farm Credit System (FCS or System) was comprised of different types of institutions that made loans for different purposes. The former Federal land banks, through their agent Federal land bank associations (FLBAs) made real estate loans for terms of 5 to 40 years that were secured by first liens on realty while PCAs made short- and intermediate-term operating loans for terms not exceeding 10 years, although aquatic loans could mature within 15 years. Congress did not intend for FLBAs and PCAs to compete with each other because they were both members of the cooperative FCS.

The Agricultural Credit Act of 1987 (1987 Act) significantly restructured the FCS through mandatory and voluntary mergers, and the transfer of direct lending authority from banks to associations. For example, the 1987 Act authorized Farm Credit Banks to transfer their real estate lending authority in specific territories to their agent FLBAs, which then became Federal land credit associations (FLCAs). The 1987 Act also allowed PCAs to voluntarily merge with FLCAs or FLBAs to form agricultural credit associations (ACAs). As a result of mergers and corporate restructurings that have taken place over the past 32 years, there are currently 68 ACAs, each with a separate PCA and FLCA subsidiary, and 1 freestanding FLC.

Since the 1987 Act became law, we have periodically issued regulations that implement the statutory authorities of System banks and associations to make, participate in, and buy and sell other credits in, loans to eligible borrowers. Pursuant to statute, these regulations also establish how the powers and obligations of the constituent banks or associations are consolidated, and to the extent necessary, reconciled in the successor institutions created by the 1987 Act. As FCS institutions restructured and merged, and the agricultural economy evolved in subsequent years, FCA revised these regulations from time to time so the System could adjust to changing market conditions.

The original regulations in 1990 authorized FLCAs to make long-term real estate loans for terms of not less than 5 years, nor more than 40 years, while ACA long-term real estate loans could have terms to maturity of between 10 and 40 years. These regulations also authorized ACAs to make and guarantee short- and intermediate-term loans, and provide similar financial assistance for most eligible borrowers for not more than 10 years, although loans to aquatic producers and harvesters could mature within 15 years. PCAs could make or guarantee loans, and provide similar financial assistance to most borrowers for terms of not more than 7 years unless policies approved by their funding bank allowed such loans to mature within 10 years. However, PCAs could also make and guarantee loans to producers and harvesters of aquatic products for up to 15 years for major capital expenditures, such as vessels and shore facilities. These differences in the authorities of ACAs and PCAs to lend to aquatic producers and harvesters, and to make operating loans for terms between 7 and 10 years still remain in effect in our regulations. In 1997, FCA amended its regulations governing lending authorities, credit underwriting, and loan terms and conditions so associations could better meet their borrowers’ credit needs. At the time, freestanding PCAs needed greater flexibility so they could offer farmers and ranchers easier credit terms to buy expensive equipment and other chattels. As amended, § 614.4040(a)(2), when it remains in effect, allows PCAs to make loans with maturities of 10 years or less, but amortize them over a period of up to 15 years. Under this regulation, PCA loans that mature within 15 years must comply with...
specific conditions, which are detailed below.

In 1997, FCA also made a substantive revision to the ACA lending authority regulation, § 614.4050, to recognize the statutory authority of ACAs to make long-term real estate loans that mature in not less than 5 years nor more than 40 years, rather than between 10 and 40 years, as the regulation previously specified. The preamble to the proposed rule issued in 1996 stated that the original version of § 614.4050 emphasized that ACAs had “the option to make loans under their short- and intermediate-term lending authority without requiring a first lien on real estate if the term is 10 years or less.” By amending this regulation, FCA recognized that ACAs also had the option of making loans with maturities between 5 and 10 years under either their long-term, or short- and intermediate-term authorities, as appropriate.

III. A New Lending Environment and Input From the System

Although the regulations governing loan maturity and amortization for title I and II loans have not been revised since 1997, the environment in which the System operates has changed significantly over the past 22 years. During this time, the System has restructured and consolidated into larger, but fewer banks and associations. Because of these changes, the System has periodically asked FCA to review and revise these regulations. A widespread perception exists in the System that the current regulations have created a discrepancy between PCA and ACA lending authorities. A common criticism is that the regulations permit ACA parents to make 10-year operating loans to borrowers, without any restriction on amortization, while PCA subsidiaries cannot amortize the same loans for a period longer than 15 years.

The Farm Credit Council (FCC), on behalf of its members, submitted a letter in response to FCA’s request for public comment on our most recent Statement on Regulatory Burden, which we issued in 2017. The FCC stated that PCA and ACA loan authorities should be updated to reflect current System structure. According to the commenter, “There is no statutory basis to maintain restrictions on PCA real estate lending, or that loans amortize within a period of 15 years . . ., or whether the customer already owns the land or is purchasing it.” The FCC also commented that “amortization and repayment should be a matter of appropriate credit administration, not regulation.”

IV. Proposed Rule

A. Overview

In response to the restructuring of the System, changes in the agricultural economy, and input we received from the FCS, we are proposing to revise §§ 614.4040, 614.4050, and 614.4200. Briefly, the proposed rule would repeal the provision in the PCA regulation, § 614.4040 that imposes restrictions on the amortization of PCA loans. FCA is also proposing conforming, non-substantive changes to the ACA regulation, § 614.4050. As discussed in greater details below, the proposed rule would amend § 614.4200, to address factors that FCA expects direct lenders to consider as they develop credit underwriting standards and amortization schedules for loans that amortize over a period that is longer than their term to maturity.

B. Proposed Changes to the Lending Authority Regulations

The proposed rule would repeal § 614.4040(a)(2) which restricts PCAs from amortizing any loan over a period that is longer than 15 years. More specifically, the proposed rule would rescind regulatory provisions that allow PCAs to amortize loans over periods longer than the terms to maturity under policies approved by their funding banks, subject to the following conditions: (1) Such loans are amortized over a period that does not exceed 15 years, (2) each such loan can be refinanced only if the FCA determines at the time of refinancing that the loan meets its loan policies and underwriting criteria, (3) No refinancing may extend repayment beyond 15 years from the date of the original loan, and (4) acquiring unimproved real estate is not the sole purpose of the loan. FCA also proposes to repeal § 614.4040(a)(3), which states that short- and intermediate-term PCA loans must have maturities that are appropriate for the purpose and underlying collateral of the loan, and that comply with the requirements of §§ 614.4150 and 614.4200. As discussed below, the proposed rule would amend § 614.4200 to require all FCS direct lenders to address loans that amortize over a period that is longer than their terms to maturity in their credit underwriting standards and internal controls.

Existing § 614.4040(a)(1) implements section 1.10(b) of the Act, which sets forth the terms to maturity for short- and intermediate-term PCA loans. For this reason, FCA is not proposing any substantive changes to these regulatory provisions. However, we are making conforming amendments to § 614.4040(a), such as renumbering its paragraphs, now that we are planning to repeal §§ 614.4040(a)(2) and (3).

FCA is not proposing any substantive changes to the ACA lending authority regulation, § 614.4050. Pursuant to section 7.8(b) of the Act, this regulation consolidates and, to the extent necessary, reconciles the lending powers that ACAs inherited from their constituent PCAs and FLBAs or FLCAs. Accordingly, this regulation grants ACAs maximum flexibility to exercise their short-, intermediate-, and long-term lending authorities to meet the credit needs of their borrowers. Thus, as noted above, ACAs have the option of making loans between 5 and 10 years either under their PCA or their FLBA/FLCA authority. Also, ACAs are subject to less stringent regulatory requirements than PCAs regarding aquatic loans, and loans that mature between 7 and 10 years.

However, FCA is proposing to restructure § 615.4050 so it follows the same format as the regulations governing the lending authorities of FLCA’s and PCAs. The proposed rule would combine existing §§ 614.4050(a) and (b) into a single provision. As a result, proposed § 614.4050(a) would cover the ACAs’ authority to make both long-term real estate loans, and short- and intermediate-term loans. Existing § 614.4050(c) and (d), which address loan participations and other interests in loans, would be redesignated as § 614.4050(b) and (c), respectively. Thus, the regulations for FLCA’s, PCAs, and ACAs would all have the same structure and format.

C. FCA’s Position on Loan Amortization

The Act establishes the terms to maturity on loans made by direct lenders operating under titles I or II. However, the statute does not prohibit an association from amortizing a loan over a longer time. Indeed, an amortization schedule that exceeds the term of the loan is often used to provide borrowers with easier credit repayment terms for the acquisition of various
assets, especially equipment and other capital expenditures.

Amortizing a loan over a term that is longer than the term to maturity would result in a balloon payment. That balloon payment can either be repaid at the end of the loan term or refinanced into a new loan. This decision to refinance a balloon loan at the due date of the loan is based on many factors, including the borrower’s current financial position. However, the lender will not know at the time of origination whether the loan will be refinanced at maturity. FCA views loan amortization as a credit underwriting issue, not a legal authority issue. While FCA recognizes that some loans need to be amortized for a period that is longer than the terms to maturity, the amortization period should not extend beyond the useful life of the asset being financed.

Our proposed rule would require System direct lenders that amortize loans over timeframes that are longer than their terms to maturity to specifically address loan amortization in their credit underwriting standards. More specifically, this proposal would add a new paragraph at the end of § 614.4020 to require such FCS institutions to establish loan amortization schedules for balloon loans that are: (1) Consistent with their loan underwriting standards that they adopt pursuant to § 614.4150, and (2) appropriate to the type and purpose of the borrower’s loan, the expected useful life of the asset being financed, and the repayment capacity of the borrower.

This regulation identifies the issues that FCA expects FCS direct lenders to address in their credit underwriting standards if the amortization period is longer than the term of such loans. We emphasize that the proposed rule would not prescribe credit underwriting standards. Instead, it provides System institutions wide latitude to develop credit underwriting parameters that meet their borrowers’ needs for different types of loan products. This regulatory framework also enables each System direct lender association to tailor its own loan underwriting standards to its own structure and operations.

In developing credit underwriting standards for balloon loans, we expect every association to base its decisions on safety and soundness factors, and it must be able to defend its decisions if examiners question its choices. One of the purposes of this provision is to preclude short- or intermediate-term loans from being continually refinanced at maturity.

V. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 et seq.), FCA hereby certifies that the proposed rule would not have a significant economic impact on a substantial number of small entities. Each of the banks in the System, considered together with its affiliated associations, has assets and annual income in excess of the amounts that would qualify them as small entities. Therefore, System institutions are not “small entities” as defined in the Regulatory Flexibility Act.

List of Subjects in 12 CFR Part 614

Agriculture, Banks, Banking, Flood insurance, Foreign trade, Reporting and recordkeeping requirements, Rural areas.

For the reasons stated in the preamble, part 614 of chapter VI, title 12 of the Code of Federal Regulations is proposed to be amended as follows:

PART 614—LOAN POLICIES AND OPERATIONS

1. The authority citation for part 614 is revised to read as follows:

Authority: 42 U.S.C. 4012a, 4014a, 4014b, 4106, and 4128; secs. 1.3, 1.5, 1.6, 1.7, 1.9, 1.10, 1.11, 2.0, 2.2, 2.3, 2.4, 2.10, 2.12, 2.13, 2.15, 3.0, 3.1, 3.3, 3.7, 3.8, 3.10, 3.20, 3.28, 4.12, 4.12A, 4.13B, 4.14, 4.14A, 4.14D, 4.14E, 4.18, 4.18A, 4.19, 4.25, 4.26, 4.27, 4.28, 4.36, 4.37, 5.9, 5.10, 5.17, 7.0, 7.2, 7.6, 7.8, 7.12, 7.13, 8.0, 8.5 of the Farm Credit Act (12 U.S.C. 2092, 2093, 2094, 2097, 2121, 2122, 2124, 2126, 2128, 2129, 2201, 2202, 2202a, 2202b, 2202d, 2202e, 2206a, 2207, 2211, 2212, 2213, 2214, 2219a, 2219b, 2243, 2244, 2252, 2252A, 2252b, 2257a, 2279a–2, 2279b, 2279c–1, 2279f, 2279f–1, 2279aa, 2279aa–5); sec. 413 of Pub. L. 100–233, 101 Stat. 1568, 1639.

2. Section 614.4040 is amended by revising paragraph (a) to read as follows:

§ 614.4040 Production credit associations.

(a) Short- and intermediate-term loans. Production credit associations are authorized to make or guarantee short- and intermediate-term loans and provide other financial assistance for a term of:

1. Not more than 7 years;
2. More than 7 years, but not more than 10 years, as set forth in policies approved by the funding bank; or
3. Not more than 15 years to producers and harvesters of aquatic products for major capital expenditures, including but not limited to the purchase of vessels, construction or purchase of shore facilities, and similar purposes directly related to the operations of producers or harvesters of aquatic products.

Pursuant to § 614.4040: (1) Long-term real estate mortgage loans with maturities of not less than 5 nor more than 40 years, and continuing commitments to make such loans; (2) Short- and intermediate-term loans and provide other similar financial assistance for a term of not more than:

(i) 10 years; or
(ii) 15 years to aquatic producers and harvesters for their aquatic operations.

Dale Aultman,
Secretary, Farm Credit Administration Board.