Institute for Agriculture & Trade Policy

Attn: FCA Strategic Plan
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

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Submitted electronically to: FCAStrategicPlanning@fca.gov

Introduction

The Institute for Agriculture and Trade Policy (IATP)[1] appreciates this opportunity to provide input to the draft FY 2022-2026 Strategic Plan. FCA instructs "(For cybersecurity reasons, please do not include hyperlinks to websites.)" This instruction imposes an unfortunate limitation to our comment and those of other commenters. FCA will be unable to verify responses in this and other letters efficiently by referring to the original hyperlinked documentation of cited sources. The instruction is alarming, since it implies that the FCA's cybersecurity is markedly more vulnerable to hacking, malware and other forms of abuse than the computer systems of other federal financial regulators that impose no such limitations to commenters on the use of hyperlinked sources.

If FCA is vulnerable to cybersecurity threats from hyperlinked information sources, FCA should prioritize improving its cybersecurity while ensuring that measures taken do not prevent the agency from engaging fully with the public. Because FCA does not receive a federal appropriation but depends almost entirely on assessments from the Farm Credit System institutions for bank examinations and other services, FCA should levy an annual cybersecurity assessment to pay for needed hardware, software, testing and training to help fulfill FCA's safety and soundness mandate. Although cybersecurity costs will increase FCA's operating expenses, those who communicate with FCA will appreciate the enhanced cybersecurity, particularly when communications include confidential business information.

Overall considerations for drafting the Strategic Plan FY 2022-2026

As FCA is aware, on March 24 the Office of Management and Budget (OMB) announced that it would rescind measures taken by OMB in the previous administration to reduce strategic planning and performance evaluation planning. The March 24 memo states,

> Agency heads and Chief Operating Officers (COOs), supported by Performance Improvement Officers, are instructed to align their strategic goals and objectives, including Agency Priority Goals, with the Administration's policy priorities, in

> particular continuing to meet the health, welfare, and economic challenges of the COVID-19 pandemic, advance equity, and address climate change. Agencies are encouraged to form partnerships proactively in areas where programs from multiple agencies must work together to achieve a common outcome and to submit proposals for joint Agency Priority Goals to OMB where appropriate.[2]

IATP believes the March 24 memo and subsequent OMB guidance should help FCA develop a robust Strategic Plan with a corresponding performance evaluation plan. Implementing the OMB instruction on strategic planning will help the agency report on progress in meeting Strategic Plan objectives, forming relevant partnerships and requesting resources from other agencies as needed to advance Biden administration policy priorities.

The FCA should draft this Strategic Plan for an administration that has clearly stated its expectations for strategic planning and agency performance evaluation. The antipathy of the previous administration to detailed strategic planning and to evidence-based performance evaluation and accountability is a thing of the past. To reduce the possibility that OMB might require FCA to redraft the FY 2022-2026 Strategic Plan, FCA should include a review of the FY 2018-2013 Strategic Plan objectives and assumptions made to help determine those objectives.

For example, among the assumptions in the latter plan was this: "The [Farm Credit] System must adapt to changes in traditional agriculture and embrace new approaches, such as urban, specialty, and organic farming. These changes will challenge the System to find creative ways to balance safety and soundness with opportunities to serve new or emerging market segments."[3] To what extent was FCS able to adapt to provide credit and other services to farm and ranch operators who are not traditional row crop and livestock farmers and ranchers? If FCS was not able to realize this FCA stipulated adaptation, what factors impeded it from doing so? If the System successfully managed this adaptation, with what new programs or policies did it do so? Will the FY 2022-2026 Strategic Plan likewise commit to serving non-traditional farmers and ranchers and indicate how it will do so?

Focus area 1: Young, beginning and small farmers and ranchers (YBS)

The first focus area description in the request for input is to "Promote the long-term viability of the U.S. ag economy by encouraging Farm Credit System institutions to serve young, beginning, and small (YBS) farmers and ranchers fairly and impartially." FCA then poses two questions intended to elicit responses in support of this objective: "a. What, if any, regulatory barriers hinder System institutions from meeting the congressional mandate to serve YBS farmers and ranchers? b. What opportunities are there to promote best practices for serving YBS producers?"

The long-term viability of U.S. agriculture is an urgent national interest. However, FCA cannot serve that national interest merely by "encouraging" FCS institutions to treat YBS farmers and ranchers "fairly and impartially," since FCS and other agricultural lenders are already required to do so by law. Rather than apparently assume that "regulatory burdens" impede FCS capacity to "fairly and impartially" serve YBS farmers, FCS should commit to analyzing how well and how much FCS institutions serve YBS farmers and ranchers who are not sons, daughters, nieces, nephews and grandchildren of current FCS borrowers and stockholders in lending associations. If, per the above cited March 24 White House memo on strategic planning, the FCS is to align its practices to "advance equity," then it should indicate in the Strategic Plan its commitment to serve "socially disadvantaged individuals," per Section 623 of the Farm Credit Act of 1987.

A July 2019 General Accountability Office report states, "According to USDA survey data, these "socially disadvantaged" farmers and ranchers get a disproportionately small share of farm loans. More detailed information isn't available on farm lending to these groups because lenders generally aren't allowed to record an applicant's race or sex."[4] IATP does not understand why USDA is able to anonymize its SD farmer and rancher data, while lenders are not able to do so for purposes of performance evaluation of lender services to SD farmers and ranchers. FCA's detailed reporting about lending and other services to YBS farmers and ranchers shows that there is no technical impediment to SD data collection, aggregation and analysis.

One opportunity for FCS to serve SD farmers and ranchers, as well as YBS farmers and ranchers, is to adapt FCS services to enable SD farmers and ranchers to secure land tenure. Farmers and ranchers who rent land have less incentive to make the long-term investments for the viability of their operations and, in aggregate, those of U.S. agriculture. The National Young Farmers Coalition stated on November 16, "Nearly half of all U.S. farmland is expected to change hands in the next fifteen years, according to the American Farmland Trust, and young farmers are leaving agriculture because they cannot secure land. The Coalition believes the 2023 Farm Bill is a pivotal moment to invest in farmland transition so that the next generation can steward agricultural land and grow food for our communities into the future." The Coalition is campaigning for Congress to provide $2.5 billion in the next Farm Bill to buy a small portion of the "well under one percent" of U.S. farmland that goes on the open market annually, according to AFT. If Congress enables SD (and YBS farmers) to buy that land, some will seek FCS credit and other services in the near future. The Strategic Plan should indicate how it will serve new landowners who are not family related to current FCS borrowers.

Evaluating merger proposals

Focus area 2 is to "Consider how the challenges facing small System associations differ from those facing large ones when evaluating merger proposals to ensure that the System continues to meet the needs of all eligible borrowers safely and soundly." FCA then asks for input on the following question: "How can FCA oversee institution mergers to address

obstacles for small associations and ensure appropriate representation on boards?" This question implies that FCA anticipates further FCS mergers beyond those that occurred since 2010, when FCS comprised 95 lending associations compared to today's 67. (The question doesn't identify which obstacles concern FCA. The reassignment of board members from merged associations to the larger entities has been presumably worked out in the merger agreement. As a result, IATP will not respond to these questions.)

Rather than assume that further mergers are likely and that the usual reasons for mergers, characterized in terms of economies of scale, are valid, FCA should be asking at least two more questions: "Has FCA supervision of FCS merged institutions shown an improvement in lending and services for existing borrowers and for increasing the number of new lending association borrowers? Has the consolidation of lending associations resulted in changes that restrict borrower eligibility?"

IATP has not reviewed all FCA performance evaluations, but in what we have read, we have not found a merger evaluation that would answer these and other merger performance related questions. Until FCA conducts a comprehensive and transparent evaluation of merger performance for its farmer and rancher stockholders, FCA will have no substantive response to criticism of FCS that the huge growth in its loan portfolio under System consolidation has served agribusiness clients at the expense of the farmgate and rural economy.[5] FCA's Office of the Inspector General should conduct a thorough performance evaluation of FCS mergers over the past two decades, assisted by the USDA's OIG.

In a 2017 address to the Farm Credit Council, the late FCA Board Chairman Dallas Tonsager urged the Council and the System to not confuse evaluation in terms of simple economics of scale with a wholistic assessment of the impacts of FCS mergers:

> Most merger proposals maintain the merger will result in economies of scale. But we must also consider how a merger would affect customer access and the institution's ability to understand the type of agriculture, commodities, and credit needs of the producers in the merged territories. And there are many other questions to consider. How might a merger affect the relationship between the funding bank and its associations? Could the merger weaken the integrity and 5 [now four bank] cooperative structure of the System as a whole? What operational, managerial, and reputational risks might result from the merger? And are we creating institutions that are "too big to fail" or leaving behind institutions that are "too small to prevail"?[6]

To judge by the questions that FCA is asking about mergers for the Strategic Plan and by the lack of wholistic merger performance evaluation — indeed, any FCA performance review of FCS mergers, the FCA has yet to reckon with the questions former Chairman Tonsager raises. Following the Federal Reserve's $29 trillion emergency loan rescue of "Too Big to Fail" banks[7], we are only too familiar with the moral hazard of allowing

mergers of banks until they become too big to manage or properly regulate. We are much less familiar with the moral hazard in the loss of FCS banking services and rural community investments from leaving behind institutions that are "too small to prevail."

The FCA and climate change

In the FCA's FY 2021 Performance and Accountability Report, this is how the FCA reports its response to the Biden administration's policy priority and demand for an all of government effort on climate change. Under "FCA responds to climate change," four internal office building and equipment energy saving programs are listed. For FY 2022, FCA intends to take eight "actions to promote sustainability." (p. 16) While these actions are all well and good, FCA should not limit its climate change ambition to internal office sustainability.

We were relieved to read elsewhere in the report, and almost in passing, that "The past year saw FCA, jointly with the Farm Credit System Insurance Corporation, form a task force to identify risks to System loan portfolios posed by climate issues." (p. 81) The FCA should not bury future references to the task force's work in a chapter on "data". The formation of the task force is a prudent and necessary measure to ensure the soundness and safety of the System both for its borrowers and investors. More prosaically, managing climate financial risk is just good business practice now and in the future. IATP hopes that the FY 2022 Performance and Accountability Report will include the results of the task force's investigation into climate related credit risk and related climate financial risks in the System.

The questions about "weather and other environmental issues" that FCA poses in the request for input might lead one to believe that the agency is reluctant to recognize, as have other federal and international financial regulators, that climate change poses risks to all financial systems and subsystems, such as agricultural finance. IATP has already written to FCA about some of these risks in our November 26 letter concerning its Advance Notice of Proposed Rulemaking for improving the FCS bank liquidity framework. For that reason, we will not reiterate references in that letter to work undertaken by other financial regulators on climate financial risk, nor the specific risks faced by FCS because of its agricultural and rural economic lending and its dependence for funding on marketing FCS debt securities.

The third focus area of the request for input is: "Identify weather and other environmental threats to agricultural finance through scenario testing and use this information to evaluate the contingency plans of System institutions and Farmer Mac to address those risks." The following response answers the first two of three questions FCA poses about this focus area: "What are the top weather and environmental issues that are affecting the agricultural finance industry, the System, and/or Farmer Mac? What contingency plans are needed to address the risk from the environment and weather?" (We answer the third question separately.)

A first step FCA should take to formulate a climate financial risk management goal is to issue a call for data from relevant U.S. federal agencies, which would enable FCS to enhance its current FCS regionally specific historical data on the impact of weather events on the agricultural productivity and physical assets of its borrowers. The enhancement would require FCA to distinguish climate change trends and impacts from those of discrete weather events. For example, historical data on the "hundred-year flood" or the "hundred-year drought" no longer provide a reliable basis for lending association risk committees to evaluate borrower risk. The "hundred-year events" are now occurring every few years. How should FCA assist FCS to develop computer models for the climate change impacts on FCS borrowers and on the FCS institutions' loan portfolios?

These impacts result from not only greater volatility in atmospheric weather than the historical norm but often a decline in the availability of water from aquifers that FCS borrowers have relied on for decades to irrigate crops and provide water to rural communities. There are other environmental impacts, such as loss of topsoil to erosion because of "bomb cyclones" or prolonged droughts. (Soil data are not currently incorporated into the largest single component of the USDA "safety net" for row crop agriculture, calculating crop insurance premia and taxpayer subsidies for private crop insurance.[8]) Such impacts become threats to FCS safety and soundness, if, for example, lending associations allow crop insurance policies with no environmental performance requirements to be used as collateral for FCS backed loans and other services. The FCA and FCS member institutions should advocate for such performance requirements as measures to ensure FCS safety and soundness.

The results of scenario analyses depend on their data and policy assumption inputs. FCA scenario analyses design should avoid design bias by being assigned to a research team separate from the team that will evaluate the adequacy of System institutions and Farmer Mac contingency plans to backstop both FCS lending and marketing of FCS debt securities. And as IATP illustrated in our November 26 letter to FCA, financial regulators both in the U.S. and abroad share their scenario analysis models that FCA can adapt to help it determine the adequacy and appropriateness of FCS institution planning for climate related financial and other shocks to FCS' financial stability.

The third question FCA poses in Focus area 3 is an important one to which IATP has not devoted much research: "What other potential risk areas are you focused on that could have a significant impact on the System and Farmer Mac?"

Animal and epizootic diseases pose financial risks to FCS borrowers, even with USDA and state payments to compensate livestock and poultry farmers for their losses to disease. FCS banks finance the construction and upkeep of Concentrated Animal Feeding Operations (CAFOs), which are sites of animal disease outbreaks and their occasional epizootic transmission to farm workers. As CAFOs grow larger and more numerous with the assistance of USDA's Environmental Quality Improvement Program, the financial

risks, even for taxpayer subsidized CAFO owners and for the banks that serve them, become greater.

Whether the introduction of a new animal disease, or the mutation of a current disease to become more prevalent, lethal and resistant to veterinary antibiotics becomes large enough in enough FCS regions to have a "significant impact on the System and Farmer Mac" is not a question IATP can answer. However, it is a question that FCA could ask USDA's Economic Research Service to computer model for different diseases in each FCS region. FCA should also avail itself of the academic literature on the indirect costs of animal disease outbreaks.[9]

Cybersecurity

The fourth focus area concerns Farm Credit system and Farmer Mac cybersecurity. IATP has no knowledge of FCS or Farmer Mac cybersecurity that would enable us to respond to question 4.a "What are the most critical cybersecurity risks facing the System and Farmer Mac?" The FCA Office of the Inspector General's September 2021 report made a recommendation to FCA management about cybersecurity, but that recommendation is confidential. FCA may wish to avail itself of the Office of Management and Budget's August 10, 2021 memo to Executive Directors and Agency Heads on federal resources to enhance agency cybersecurity.

Conclusion

IATP hopes that these short comments assist FCA to develop a Strategic Plan that will enable FCS institutions to measure and manage financial risks to the FCS institutions, borrowers and rural communities that FCA serves. We look forward to reading the FY 2022-2026 Strategic Plan and to following the FCA programs and policies to implement it.

Respectfully,
Steve Suppan, Ph.D.
Senior Policy Analyst

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[1] The Institute for Agriculture and Trade Policy (IATP), founded in 1986, is a 501(C)3 organization, headquartered in Minneapolis, MN, with offices in Washington, D.C., Hallowell, ME and Berlin, Germany. IATP is a member of Americans for Financial Reform, the Climate Financial Regulatory Working Group, and the National Sustainable Agriculture Coalition's Credit Policy Working Group. Most of IATP's comments on financial rulemakings have responded to Commodity Futures Trading Commission proposals. In September 2020, we published "Agricultural Finance for Climate Resilience."

[2] "Update to Implementation of Performance Management Standards," Office of Management and Budget," March 24, 2021, at p. 1.

[3] "Farm Credit Administration Strategic Plan: FY 2018-2023," April 2018, at p. 7.

[4] "Agricultural lending: Information on Socially Disadvantaged Farmers and Ranchers Is Limited: Highlights," General Accountability Office, GAO 15-539, July 11, 2019.

[5] E.g., Alan Guebert, "As Ag Swoons, Farm Credit System Booms," Farm and Food File, March 15, 2017.

[6] "Remarks by the Honorable Dallas P. Tonsager, Board Chairman and CEO, Farm Credit Administration, Farm Credit Council Annual Meeting, San Diego, California, February 1, 2017," at pp. 4-5.

[7] James Andrew Felkerson, "$29 trillion: A Detailed Look at the Fed's Bailout by Funding Facility and Recipient," Levy Institute, Working Paper No. 698, December 2011.

[8] Joshua D. Woodward and Leslie J. Verteramo Chui, "Soil Data Not Considered in Cornerstone U.S. Agricultural Policy," Ag-Analytics.Org, February 2016.

[9] E.g. Alyson Barratt et al., "Framework for Estimating Indirect Costs in Animal Health Using Time Series Analysis," *Frontiers in Veterinary Medicine*, published online on June 18, 2019.