

may review copies of all comments we receive at our office in McLean, Virginia.

FOR FURTHER INFORMATION CONTACT:

Robert E. Donnelly, Senior Policy Analyst, Office of Policy and Analysis, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4498, TTY (703) 883-4434, or

Wendy R. Laguarda, Senior Counsel, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TTY (703) 883-4020.

SUPPLEMENTARY INFORMATION:

I. Objective

The objective of the FCA's proposed rule is to ensure the System provides sound and constructive credit and services¹ to YBS farmers and ranchers.² To accomplish this objective, the agency proposes to amend existing regulations to provide:

1. Clear, meaningful, and results-oriented guidelines for System YBS policies and programs; and
2. Enhanced reporting and disclosure to the public on the System's performance and compliance with its statutory YBS mission (YBS mission or mission).

Through these amendments, the public will be able to measure the System's performance in fulfilling its YBS mission.

II. Background

The FCA's mission is to ensure the System provides a dependable source of credit and related services to agriculture and rural America as authorized by Congress. The System has a special public purpose concerning YBS farmers and ranchers. Since 1980, Congress has required the System to prepare programs for furnishing sound and constructive credit and services to YBS farmers and ranchers. Specifically, section 4.19(a) of the Farm Credit Act of 1971, as amended (Act) states:

Under policies of the district Farm Credit Bank board, each Federal land bank

association and production credit association shall prepare a program for furnishing sound and constructive credit and related services to young, beginning, and small farmers and ranchers. Such programs shall assure that such credit and services are available in coordination with other units of the Farm Credit System serving the territory and with other governmental and private sources of credit. Each program shall be subject to review and approval by the supervising bank.

YBS farmers and ranchers, like all those in agriculture today, face a wide range of challenges, including access to capital and credit; the impact of rising costs on profitability; urbanization and the availability of resources like land, water and labor; globalization; and competition from larger or more established farms. While all agricultural producers face these challenges, the hurdles that YBS farmers and ranchers face are often greater. The System's YBS mission is important to enable start-up farmers and ranchers to make a successful entry into agricultural production. The YBS mission is also critical to facilitate the transfer of agricultural operations from one generation to the next. For all these reasons, the agency is committed to ensuring that the System fulfills this important public purpose mission.

A. FCA's Focus on YBS Lending

In 1998, the FCA Board adopted a policy statement that called for a renewed commitment by the System to YBS lending; provided guiding principles for enhanced service to YBS farmers and ranchers; and revised definitions for "young," "beginning," and "small" farmers and ranchers.³ To implement the policy statement, the FCA also issued a booklet that included the revised YBS definitions and YBS reporting procedures.⁴ The revised reporting procedures were fully phased in by January 1, 2001. FCA requires the System to submit each year a report detailing its YBS program components.

Since 1999, YBS lending programs have been a "focus area" of agency examinations where, among other factors, the agency has looked at System institutions' YBS board policies and procedures; YBS credit enhancement programs and underwriting standards; YBS program coordination with Federal,

state, System or other credit sources; demographic studies; marketing, advertising, and other outreach programs; and the quality of YBS reporting to System institutions' boards and FCA.

In addition to this examination focus area, for the past 2 years, the FCA Board and staff have increased their focus on the System's mission to serve YBS farmers and ranchers. The agency, for example, recognized several System associations for their exemplary YBS programs.⁵

B. Report by the General Accounting Office

On March 8, 2002, the General Accounting Office (GAO) issued a report on the FCA's oversight of the System's mission to serve YBS farmers and ranchers.⁶ The GAO, after conducting a review that began in July 2001, recommended that the agency strengthen its oversight role of the System's YBS lending, promote YBS compliance, and highlight the System's efforts to provide services to YBS farmers and ranchers by:

1. Promulgating a regulation that outlines specific activities and standards that constitute an acceptable program to implement the YBS statutory requirement;
2. Ensuring that examiners follow the guidance and complete the appropriate examination procedures related to YBS and adequately document the work performed and conclusions drawn during examinations; and
3. Publicly disclosing the results of the examinations for YBS compliance for individual System associations.

In its response to Congress, the FCA noted its commitment to address the issues raised in the GAO report.

C. FCA Gathers Public Input

The FCA values public input and has therefore sought public comment early in the rulemaking process in various ways. First, the agency sought public input through an advance notice of proposed rulemaking (ANPRM) seeking suggestions on possible YBS regulatory approaches and policy initiatives.⁷ In response to the ANPRM, the agency received 65 comment letters on the

¹ The term "services" includes leases and related services to YBS farmers and ranchers.

² The Farm Credit Act of 1971 (1971 Act) gave the production credit associations and the banks for cooperatives the authority to finance "producers or harvesters of aquatic products" in addition to financing "farmers and ranchers." The 1980 amendments to the 1971 Act gave the Federal land banks expanded authority to finance "producers or harvesters of aquatic products" and put such producers and harvesters on the same footing as "farmers and ranchers." Thus, in accordance with the amendments to the 1971 Act, whenever we refer to "YBS farmers and ranchers" or "YBS borrowers" in this proposed rule, we are including "producers or harvesters of aquatic products."

³ FCA-PS-75, Farm Credit System Service to Young, Beginning, and Small Farmers and Ranchers, effective December 10, 1998, available on the FCA Web site, www.fca.gov (under Legal Info., FCA Handbook).

⁴ FCA BL-040, Policy and Reporting Changes for Young, Beginning, and Small Farmers and Ranchers Programs, issued December 11, 1998, available on the FCA Web site, www.fca.gov (under Legal Info., FCA Handbook).

⁵ See remarks by the Honorable Michael M. Reyna before the 19th and 20th Annual Farm Credit Council meetings, January 22, 2002, and January 20, 2003, respectively, available on the FCA Web site, www.fca.gov (under About FCA, FCA Board, Testimony, Statements and Speeches).

⁶ Farm Credit Administration: Oversight of Special Mission to Serve Young, Beginning, and Small Farmers Needs to be Improved (GAO-02-3040, available on the GAO Web site, www.gao.gov/cgi-bin/getrpt?GAO-02-3040).

⁷ See 67 FR 59479, Sept. 23, 2002.