

to the public by enhancing the System's reporting of YBS results.

Some commenters noted that the costs and risks associated with entrance into agriculture are prohibitive. These commenters also noted that the demographic data confirms that the pool of potential YBS borrowers continues to shrink. Therefore, many of these commenters recommended that a proposed rule require the System to provide special credit treatment to YBS borrowers. The agency recognizes that YBS farmers and ranchers often fall into a category of borrowers that have low equity, limited cash flow, and little, if any, managerial and business planning experience. The agency believes it is important for the System to recognize the special needs of YBS farmers and ranchers and to make every effort to provide special credit programs and services for this group. However, the agency believes that each direct lender association must decide for itself, within its risk-bearing capacity, how best to meet the needs of the YBS farmers and ranchers in its territory. This is a business judgment that should be exercised by each association rather than the regulator. In meeting the special credit needs of YBS farmers and ranchers and maintaining sound credit management practices, the proposed rule suggests that associations can make use of fee waivers, specialized loan underwriting standards, loan guarantees, or loan participation programs.

Finally, several of these commenters suggested that a proposed YBS rule include provisions that would prohibit the System from engaging in predatory pricing or financing credit needs not closely related to agriculture.<sup>8</sup> Sections 1.8(b) and 2.4(c)(2) of the Act provide that "it shall be the objective" of System lenders to set interest rates and other charges "at the lowest reasonable cost" on a sound business basis<sup>9</sup> taking into consideration the lender's cost of funds, necessary reserves, and the cost of providing services to its members. Through our examination process, the agency evaluates whether interest rates charged are consistent with law, regulations, sound business practices, and the institution's loan policies. In addition, the agency ensures that interest rates charged are sufficient to cover the institution's costs and

adequately capitalize the institution, while maintaining safety and soundness. With YBS farmers and ranchers facing multiple economic challenges, the agency believes it is important for this group of potential borrowers to have access to credit at competitive rates. Moreover, the System is fulfilling its public purpose under the Act when it provides interest rates at the lowest reasonable cost on a sound business basis.

### *C. YBS Services and Coordination*

Commenters offered suggestions on how to enhance services and coordination with other System institutions and other governmental and private sources of credit for YBS farmers and ranchers. Many commenters suggested that System institutions take greater advantage of Farm Service Agency loan guarantees, aggie bonds, and other risk-pooling programs as a means of providing credit to YBS borrowers while reducing exposure to risk. Other commenters noted the System is currently doing a good job coordinating with these programs and no further guidance on this issue is needed. Many of these same commenters supported collaborative efforts among System institutions, government agencies, non-profit organizations, and other lenders as a means of reaching and serving YBS borrowers. These commenters also suggested that outreach efforts include partnerships with sustainable agriculture and alternative agriculture production programs. Several commenters emphasized the need for outreach programs designed to connect YBS farmers and ranchers with existing lending and support programs. Many commenters also noted the System could do a better job of advertising its services and credit programs to YBS farmers and ranchers. Several commenters also recommended that the System better facilitate intergenerational transfers where land or farm equipment is passed from retiring farmers or ranchers to YBS farmers or ranchers. Several of these same commenters recommended that the System establish mentoring programs to connect seasoned farmers and ranchers with young or beginning farmers and ranchers.

Section 4.19 of the Act requires System direct lender associations to develop YBS programs that assure that credit and services to YBS farmers and ranchers are available in coordination with other System institutions and other governmental and private sources of credit. In accordance with the Act, the agency believes the System should be

making every effort possible to ensure that its YBS credit and service programs are made in coordination with others. To this end, we have included in the proposed rule a YBS program component that requires each direct lender association to establish qualitative YBS goals. Such goals include offering directly, or in coordination with others, credit programs and services and undertaking outreach efforts, including educational programs and advertising campaigns.

One commenter recommended that the agency prevent System institutions from distributing patronage refunds until some of the System's profits are used to fund special low interest programs to YBS farmers and ranchers. Congress established the System as a cooperative structure in which System borrowers are also the owners. The agency believes it would be contrary to Congressional intent to prevent a System institution, operating safely and soundly, from exercising a fundamental principle of cooperatives, namely the distribution of patronage dividends.

Another commenter suggested the agency create an Affordable Farming Program modeled after the Affordable Housing Program of the Federal Home Loan Bank System. The program suggested by the commenter is required by the Federal Home Loan Bank Act. There is no authority under the Act for the agency to require the System to establish a similar program. Absent such statutory authority, the agency believes this idea is best left to the consideration of System institutions using their sound business judgment.

Another commenter noted the need for more educational programs for socially disadvantaged farmers and ranchers, particularly, women farmers and ranchers. Section 1.1(a) of the Act declares the policy of Congress that System institutions improve the income and well being of American farmers and ranchers. Although the Act does not contain explicit provisions for the System to serve socially disadvantaged or minority farmers, the System's mission is to serve all American farmers and ranchers. Moreover, service to YBS farmers and ranchers often includes service to socially disadvantaged and minority farmers and ranchers. Thus, the results-oriented direction in this proposed rule should also enhance the System's service to socially disadvantaged and minority farmers and ranchers.

Finally, some commenters noted that FCA should articulate a strong policy on the System's YBS mission and do a better job of recognizing strong YBS programs. The FCA believes that

<sup>8</sup> The commenter does not define the term "predatory pricing" and this term is not used in the Act. The agency notes there is no uniform national law that defines what is meant by predatory pricing and such a term is open to widely differing interpretations.

<sup>9</sup> The word "cost" is used in the singular only in section 2.4(c)(2) of the Act.