

through this proposed rule and previous guidance on YBS policies and programs, the agency has articulated its strong commitment to ensuring that the System fulfills its YBS mission. In addition, the proposed rule requires each direct lender association to articulate its YBS policy by including it in a mission statement, which is now a required component of each association's YBS program. For the past two years, the agency also has recognized those System associations with exemplary YBS programs in order to highlight successful efforts and provide model programs for other System institutions to emulate.

D. Measuring the System's YBS Performance

In response to how the agency should measure the System's YBS performance, a significant number of commenters indicated that nationwide performance measures would be inappropriate, unworkable, and ineffective; that Congress did not authorize the agency to establish YBS performance measures; and that no YBS performance system is necessary because the agency already collects adequate information to measure the System's performance. Several commenters advocated that the agency establish a formal rating program for the System's YBS performance to measure not only each direct lender association's performance against the YBS demographics in its territory, but also how well each association's YBS performance compares to other System associations.

The agency believes it is important to measure the System's YBS performance. The proposed rule provides the public with a complete and accurate picture of the System's YBS performance through enhanced reporting requirements. The reporting requirements will provide the public with an understanding of each association's YBS performance as compared to the YBS demographics in its territory. The agency believes the reporting requirements will provide a sound understanding of each direct lender association's YBS performance.

In addition to the enhanced YBS reporting requirements for the System, the agency will also complete a rating for each direct lender association's overall YBS program. The YBS program performance rating will be based on a review of the direct lender association's YBS program components, as discussed in the proposed rule. The examination of an association's YBS program will be the result of an enhanced examination assessment and will normally be completed during regular safety and soundness examination activities. The

FCA's rating will identify the association's YBS program performance as either "Pass" or "Fail." The FCA Board will publicly disclose the results of the System's YBS compliance.

Finally, many commenters noted problems with measuring the System's YBS performance based on the YBS demographic data available to the System, including the limited applicability and accuracy of the data. Many commenters also noted the prohibitive costs associated with conducting independent YBS demographic studies. Other commenters noted that a conflict of interest exists if System institutions are allowed to conduct their own demographic studies. Still other commenters suggested that System institutions hire independent researchers to study the YBS demographics of their lending territories.

One of the minimum components for YBS programs set forth in the proposed rule requires that each direct lender association develop quantitative targets based on the YBS demographic data in its territory. The agency recognizes that YBS demographic data available to the System has limitations. The agency also recognizes that it could be costly and burdensome for System associations to conduct their own studies, or hire an independent source to complete such studies, when reasonably reliable census data exists. In recognition of these limitations, the proposed rule permits direct lender associations to use existing YBS demographic data to establish quantitative targets for their YBS lending as long as they can support that such data is reasonably reliable. In addition to demographic data reliability, it is just as important for direct lender associations to ensure that their quantitative targets reasonably reflect the YBS demographics in their territory and to be able to explain any inconsistencies between the YBS demographics in their territory and their association's YBS data. For example, if the demographic is based on the number of potential YBS borrowers in the territory and an association's quantitative target is based on some variation of loans, an association must disclose this difference when reporting its YBS data.

E. Reporting and Disclosure of YBS Performance

A significant group of commenters stated that current reporting and disclosure requirements are adequate with no additional changes needed. Many of these commenters pointed out that information on the System's YBS performance is already available to the

public through the FCA's annual report. Many of these commenters also believe that FCA lacks authority to require more reporting and disclosure than what is already set forth in section 4.19 of the Act.¹⁰ Many of these commenters also noted that YBS disclosure by individual direct lender associations would be misleading to the public because of territorial differences. Several commenters argued that additional reporting would only serve to increase costs that would be passed on to the borrower with no positive effect on YBS lending. Finally, several commenters expressed concern over the possibility of publicly disclosing individual examination reports on YBS performance.

Another group of commenters noted that increased YBS reporting and disclosure would be beneficial. These commenters articulated that increased reporting and disclosure would apply pressure on System institutions to enhance their YBS lending. Specifically, many of these commenters suggested that YBS reporting be included in the System's annual reports to shareholders. Other commenters noted that the System's status as a GSE compels more reporting and public disclosure of the System's YBS performance. These same commenters suggested that YBS examination results be published in each direct lender association's annual reports.

The agency believes enhanced YBS reporting and disclosure would be beneficial to the public and the System. Additional reporting and disclosure would help the System focus on its YBS performance to better fulfill its YBS mission. In turn, additional YBS reporting and disclosure will give the public a better understanding of the System's YBS performance. The agency has authority to require, in its oversight and regulatory role, the reporting and disclosure we believe necessary for the System's fulfillment of its YBS mission. Further, we do not believe the enhanced reporting requirements in the proposed rule add significant burdens or costs to System banks or direct lender associations.

The proposed rule requires each direct lender association to report, in its

¹⁰ Section 4.19(b) of the Act sets forth YBS reporting requirements for Farm Credit System banks and associations. Specifically, section 4.19(b) provides: The Farm Credit Bank for each district shall annually obtain from associations under its supervision reports of activities under programs developed pursuant to subsection (a) of this section and progress toward program objectives. On the basis of such reports, the bank shall provide to the FCA an annual report summarizing the operations and achievements in its district under such programs.