

YBS Proposed Rule Discussion Draft

The purpose of the proposed rule is to increase direct lender associations' YBS activity and reinforce the supervisory responsibilities of the funding banks, authorized by section 4.19 of the Farm Credit Act. The proposed rule requires direct lender associations to adopt an independent strategic plan for their YBS program. The YBS strategic plan will be approved by the direct lender's funding bank annually. The YBS strategic plan must contain specific elements that will be evaluated as part of a FIRS-like rating system to measure year-over-year internal progress. The rating system will enable the FCA to compare the success of the direct lender association's extension of credit and services to the YBS borrowing population among its peers both within and outside its bank district.

§ 614.4165 Young, beginning, and small farmers and ranchers.

(a) Definitions.

- (1)** For purposes of this subpart, the term "credit" includes:
 - (i)** Loans made to farmers, ranchers, and producers or harvesters of aquatic products under title I or II of the Act; and
 - (ii)** Interests in participations made to farmers, ranchers, and producers or harvesters of aquatic products under title I or II of the Act.
- (2)** For purposes of this subpart, the term "services" includes:
 - (i)** Leases made to farmers, ranchers, and producers or harvesters of aquatic products under title I or II of the Act; and
 - (ii)** Related services to farmers, ranchers, and producers or harvesters of aquatic products under title I or II of the Act.

(b) Farm Credit banks oversight.

- (1)** Each Farm Credit bank and Agricultural Credit Bank must adopt written policies that direct:
 - (i)** The board of each affiliated direct lender association to establish an annual strategic plan, which includes the details of a program to provide sound and constructive credit and related services to young, beginning, and small farmers, ranchers, and producers or harvesters of aquatic products (YBS farmers and ranchers or YBS).
 - (ii)** Each affiliated direct lender association to include in its YBS program provisions ensuring coordination with other System institutions in the territory and other government and private sources of credit;
 - (iii)** Each affiliated direct lender association to submit to its funding bank its annual YBS strategic plan as described in paragraph (c) of this section and any other information regarding its YBS program, as described in paragraph (d), deemed necessary by the bank to meet the requirements of this subsection;
 - (iv)** The bank to provide the FCA a complete and accurate annual report summarizing the YBS program operations and achievements of its affiliated direct lender associations.
- (2)** Annually, the direct lender association's YBS strategic plan and program are subject to the review and approval of its funding bank. The funding bank's review and approval must determine if the YBS strategic plan and program contain all required components as set forth in paragraphs (c) and (d) of this section. Any conclusion by the bank that a YBS

strategic plan or program is deficient must be communicated to the direct lender association in writing.

(3) The Farm Credit Banks and Agricultural Credit Bank must implement internal controls that establish clear lines of responsibility for approving, reviewing, and monitoring of affiliated direct lender association YBS strategic plans, programs, and reporting.

(c) Direct lender association YBS strategic plan.

(1) No later than 30 days after the commencement of each calendar year, the board of directors of each direct lender association must adopt a 3-year YBS strategic plan to develop and guide its YBS program. The YBS strategic plan is an independent document submitted to the FCA along with the annual operational and strategic business plan required by § 618.8440.

(2) At a minimum, the strategic plan must detail the operations of the YBS program, including all components in paragraph (d) of this section. Goals outlined in paragraph (d)(2) of this section must be included in each direct lender association's YBS strategic plan covering at least the succeeding 3 years.

(3) The YBS strategic plan must:

(i) Analyze the association's performance in the previous year toward achieving the components in section (d);

(ii) Discuss variances and reasons for the results;

(iii) Identify how the efforts in paragraph (d) of this section assist YBS farmers and ranchers with both receiving credit and education; and

(iv) Assess the direct lender association's effectiveness in providing these efforts that result in new and expanding YBS operations to which credit is now provided.

(d) Direct lender association YBS programs. The board of directors of each direct lender association must establish a program to provide sound and constructive credit and services to YBS farmers and ranchers in its territory. Each YBS program must operate in a safe and sound manner and within the direct lender association's risk bearing capacity, while meeting the unique needs of YBS farmers and ranchers. Such a program includes qualitative factors and quantitative goals.

(1) Qualitative Factors

(i) Corporate Governance

(A) A mission statement describing program objectives and specific means for achieving such objectives.

(B) Internal controls that establish clear lines of responsibility for YBS strategic plan development and the corresponding YBS program implementation, tracking YBS program performance, and YBS quarterly reporting to the association's board of directors.

(ii) Credit and Related Services

(A) Efforts to offer credit and related services, either directly or in coordination with others, that are responsive to the needs of the YBS farmers and ranchers in the territory. Examples include:

(I) customized loan underwriting standards, loan guarantee programs, fee waivers, or other credit enhancements commensurate with the [credit] risk approved by the board of directors.

(B) Coordination with other System institutions in the territory and other governmental and private sources who offer credit and services to YBS farmers and ranchers; and,

(iii) Marketing, Outreach, and Education. Implementation of effective outreach programs to attract and retain YBS farmers and ranchers, which may include the use of advertising campaigns, educational programs, and advisory committees comprised of YBS farmers and ranchers and/or a YBS mentoring program to better serve and understand the needs of this lending segment.

(2) Quantitative Goals

(i) Annual quantitative goals for credit to YBS farmers and ranchers based on an understanding of reasonably reliable demographic data for the lending territory. Direct lender associations must identify the sources of data used to establish the goals. Such goals must include at least one of the following:

(A) Loan volume and loan number goals for YBS farmers and ranchers in the territory;

(B) Percentage goals representative of the demographics for YBS farmers and ranchers in the territory;

(C) Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in the territory; or

(D) Goals for capital committed to loans made to YBS farmers and ranchers in the territory.

(ii) Goals must be approved by the direct lender association's board of directors and reviewed quarterly with adjustments made as needed.