



Rabo AgriFinance

Mark Fischels

Chief Risk Officer

Office Rabo AgriFinance
Address 12443 Olive Blvd
Suite 50
St. Louis, MO 63141
Tel 314-317-8000
Fax 877-655-9511
Email Mark.Fischels@raboag.com
Website www.RaboAg.com

Secretariat of the Basel Committee on
Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
baselcommittee@bis.org

June 24, 2016

Dear Sir/Madam:

Re: Rabo AgriFinance ("RAF"), a United States based lending institution with affiliation with the larger global Rabobank Group, response to the BCBS consultation on internal models.

RAF sincerely appreciates the opportunity to provide comments on the BCBS's consultative document, ***Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches*** ("consultative document"). We would first like to endorse the Committee's mission of promoting monetary and financial stability, and likewise applaud the act as a forum for discussion and cooperation amongst the financial community in matters such as this. We respectfully opine as follows;

Considerations

We highlight the importance of evaluating all of the many proposed regulatory changes holistically to ensure that the Committee's objective of not significantly increasing overall capital requirements is met. RAF is solely focused on serving and lending to the Food and Agricultural lending space. As we find often with regulatory guidance, both locally and globally, agriculture is typically not expressed separately, but rather in conjunction with all banking and lending activities. This presents many challenges in our industry.

With regard to the consultative document, this response focuses on Section 3 and the proposed parameter floors for Corporates, more specifically the LGD floors. Section 3 describes floors for Real Estate as "Commercial or Residential Real Estate", with a proposal of 15% and floors for other physical collateral with a proposal of 20%. We feel strongly that the proposed floors are unsound for agri business as it does not factor in or distinguish performance of agricultural based collateral. RAF does not lend in "residential", and the term "commercial" is viewed as too broad to capture the remaining types of real estate. Commercial real estate is typically viewed as real estate such as

hospitals, doctors' offices, business offices, warehouses, retail stores, etc. Agricultural land and agricultural-use facilities do not fit into this "commercial" category. Agricultural land is highly sought after land and strictly used for production of agricultural commodities/food related products. With a growing global population, many publications cite research that call for the need to improve productivity to feed mankind in the future. Obviously, the globe only has so much land available for production farming activities.

So in summary, the need for, and use of agricultural land will not waiver, and even through the 2008 financial crisis, losses in the agricultural segment were not as steep as those experienced in other non-agricultural sectors. We believe other agricultural-based lending institutions would have similar views and experiences.

Agricultural lending is, by and large, secured lending with agricultural land/buildings and crops/seed/agricultural chemicals as collateral. The security is perfected via mortgage (on farm land/buildings) or a pledge (on crops/seeds/agricultural chemicals). The underwriting criteria are more conservative than applied in commercial/residential real estate financing (approximately 50% - 70% maximum Loan to Value for farmland, more conservative than commercial/residential real estate. Residential real estate upwards of 95% Loan to Value). The agricultural portfolios have historically performed very well compared to non-agricultural portfolios. As alluded to above, even during the financial crisis around the time of 2008, agricultural lending generally continued to prosper. For example, according to FDIC data for all FDIC based institutions, loans secured by agricultural land real estate showed a net-charge off rate of 0.03% to 0.55% from Q1 2008 - Q4 2009. In the same time span, commercial and industrial real estate for U.S. addresses showed a net charge-off rate of 0.83% to 2.98%, dramatically more severe than agricultural land loans.

The likely reason for the strong performance is that in a worst case liquidation scenario, agricultural land/buildings as well as crops/seed/agricultural chemicals, are sold with relative ease (often to a neighbour farm) and due to the need to keep farmland in production as previously mentioned. International and local governments tend to support their agricultural sector. For instance in the U.S., crop insurance is managed and backed by the government, which provides on-going support for both revenue and weather related control. Further, the agricultural sector is already benefitting from attractive financing offered by the Farm Credit System (funded by the US Treasury) and insurance companies which are very competitive in long term farmland collateral-based financing.

Conclusion

RAF believes that setting parameter floors is unacceptable and disregards the extensive work and effort that the industry has invested in establishing modelling practices and governance processes that ensure the models perform well in managing risk. In the U.S., modelling regulations such as SR11-7 have aided this effort. Further, the parameter floors are categorically too broad and severely impact those lending in the agricultural space.

Instead of setting floors, the existing established modelling practices and standards should be continued, or perhaps even established further, and coupled with institutions that have sufficient and reliable default data, those institutions should be able to determine their own floor based on

several years of history (at least 5-7, which generally coincides with agricultural sector cycles) and continue with the foundation brought forth in risk sensitivity under IRB.

There have been significant investments in developing risk sensitive models and rating systems. These have been fully integrated into overall risk management processes. This has allowed for improved risk assessment and capital determination that is commensurate with risk. We feel the proposed would lend itself toward a movement away from these positive investments.

We thank you for taking our comments into consideration, and we look forward to future discussions on these issues.

Respectfully,

Mark Fischels

Mark Fischels
Chief Risk Officer, Rabo Agrifinance, Inc.
12443 Olive Blvd, Ste 50
St Louis, MO 63141
Direct, 314-317-8279