

June 22, 2007

Honorable Collin Peterson  
Chairman  
House Committee on Agriculture  
Washington, DC 20515

Honorable Bob Goodlatte,  
Ranking Member  
House Committee on Agriculture  
Washington, DC 20515

Dear Chairman Peterson & Ranking Member Goodlatte:

The undersigned organizations are writing to express our strong opposition to the Farm Credit System (FCS) expansion amendments recently adopted by the House Agriculture Subcommittee on Conservation, Credit, Energy and Research as part of the Farm Bill's Credit Title. The language includes the FCS's aggressive legislative framework to significantly expand its authority to offer credit and financially related services to businesses already well served by commercial banks and the financial services sector.

The Subcommittee's language tilts the competitive playing field against tax-paying financial services providers, while moving the System's mission further from the farm by allowing FCS to offer credit and financially related services to a host of newly eligible businesses, including large publicly traded companies. Contrary to the Subcommittee's intent, these expanded commercial lending powers are not strictly targeted to supporting the production of renewable energy.

The language makes eligible a broad array of commercial businesses in every economic sector (transportation, construction, marketing, handling, etc.) that 'touches' renewable energy but are not actually producing renewable energy. In the absence of any firm definitions ("primarily engaged," "renewable energy activities," etc.), we believe it is unlikely the reference to renewable energy provides any meaningful limitation on new commercial lending authority for FCS institutions and that this authority can easily be expanded well beyond Congress's intent.

A serious implementation of the language targeting renewable energy would require a high degree of regulation of both FCS's borrowers and the borrowers' customers. The Farm Credit Administration (FCA) has little or no authority to regulate the business activities of FCS borrowers or their borrowers' customers and the language does not provide authority to do so. The language also does not provide the public a means of determining whether FCS loans to commercial businesses truly target renewable energy. The financial services sector supplies forty percent of today's agricultural credit needs – the largest concentration by any provider – yet the language only expands lending for the System. Additionally, CoBank, the lender to farmer-owned cooperatives, would be allowed to finance investor-owned corporations that compete with farmer-owned cooperatives, completely contrary to CoBank's historical mission of exclusively serving farmer-owned cooperatives.

The Credit Title also expands the System's existing tax-exempt authority to fund mortgages in communities up to 2,500 people and raises this level to 6,000. Larger communities are already well served by a vibrant private mortgage industry that works cooperatively with the federal government through institutions like Fannie Mae, Freddie Mac, the Federal Housing Administration, USDA, the Veterans Administration and the Federal Home Loan Banks. The System's expanded mortgage lending comes without any requirements to address low-to-moderate income housing needs, unlike the other Government Sponsored Enterprises (GSE).

The System is being rewarded with millions of new customer prospects in the housing market without providing any tangible evidence that they are using their current tax-exempt authority to serve rural towns of 2,500 or less. By not attaching any performance measures or accountability requirements to the greatly expanded lending authorities, the language encourages FCS to focus on larger populations close to metropolitan areas rather than on truly rural towns.

The language reported by the Subcommittee also dilutes farmer ownership of the System by allowing stock purchase requirements to be diminished or waived by individual FCS institutions. This is inconsistent with previous congressional direction that borrowers should have 'at-risk' stock committed to the System. Further, it raises a number of questions regarding the future influences, ownership and control of the System and whether the FCS should continue to receive federal benefits as a 'cooperative'. The minimum stock purchase requirement in the statute provides System capital to protect taxpayers, who bailed out the FCS in 1987. Taxpayer protections would be diminished if the new language were implemented.

We also have great concerns with how the subcommittee mark would remove specific formulas for calculating premiums in the FCS insurance fund and exchange them for vaguely worded assessment authority. The insurance fund provisions also allow a rebate of \$56 million to the System at a time when the fund is already under-funded by \$364 million.

The FCS is a tax advantaged GSE chartered by Congress to provide credit directly to farmers and ranchers and farmer-owned cooperatives. The FCS should leverage its government-granted privileges in the service of farmers and ranchers, not in the service of its own ambitions. The broad new powers being sought by the FCS are not about making more agricultural loans or even new agricultural loans. Instead, these powers facilitate the System's desire to move broadly into commercial lending, reduce the System's focus on lending to farmers and ranchers, and expand its mortgage lending authority in direct competition with private mortgage lenders and government housing programs.

There is no demonstrated need for these amendments. The System's loan volume increased sixteen percent during the last two quarters of 2006 and the FCS is growing at its fastest pace since 1981. In fact, the FCS itself has testified that these provisions do not fill any credit gaps in rural America. Adoption of these proposals will harm our members and member institutions, resulting in fewer credit and financial services options available to the thousands of rural communities we serve. We ask you to delete the Subcommittee's FCS expansion language. Thank you for considering our views.

Sincerely,

American Bankers Association  
American Institute of Certified Public Accountants  
America's Community Bankers  
Financial Services Roundtable  
Independent Community Bankers of America  
Independent Insurance Agents & Brokers of America  
Mortgage Bankers Association

June 22, 2007

Senator Tom Harkin  
Chairman  
Senate Committee on Agriculture  
Washington, DC 20510

Senator Saxby Chambliss  
Ranking Member  
Senate Committee on Agriculture  
Washington, DC 20510

Dear Chairman Harkin & Ranking Member Chambliss:

The undersigned organizations are writing to express our strong opposition to the Farm Credit System (FCS) expansion amendments recently adopted by the House Agriculture Subcommittee on Conservation, Credit, Energy and Research as part of the Farm Bill's Credit Title. The language includes the FCS's aggressive legislative framework to significantly expand its authority to offer credit and financially related services to businesses already well served by commercial banks and the financial services sector.

The Subcommittee's language tilts the competitive playing field against tax-paying financial services providers, while moving the System's mission further from the farm by allowing FCS to offer credit and financially related services to a host of newly eligible businesses, including large publicly traded companies. Contrary to the Subcommittee's intent, these expanded commercial lending powers are not strictly targeted to supporting the production of renewable energy.

The language makes eligible a broad array of commercial businesses in every economic sector (transportation, construction, marketing, handling, etc.) that 'touches' renewable energy but are not actually producing renewable energy. In the absence of any firm definitions ("primarily engaged," "renewable energy activities," etc.), we believe it is unlikely the reference to renewable energy provides any meaningful limitation on new commercial lending authority for FCS institutions and that this authority can easily be expanded well beyond Congress's intent.

A serious implementation of the language targeting renewable energy would require a high degree of regulation of both FCS's borrowers and the borrowers' customers. The Farm Credit Administration (FCA) has little or no authority to regulate the business activities of FCS borrowers or their borrowers' customers and the language does not provide authority to do so. The language also does not provide the public a means of determining whether FCS loans to commercial businesses truly target renewable energy. The financial services sector supplies forty percent of today's agricultural credit needs – the largest concentration by any provider – yet the language only expands lending for the System. Additionally, CoBank, the lender to farmer-owned cooperatives, would be allowed to finance investor-owned corporations that compete with farmer-owned cooperatives, completely contrary to CoBank's historical mission of exclusively serving farmer-owned cooperatives.

The Credit Title also expands the System's existing tax-exempt authority to fund mortgages in communities up to 2,500 people and raises this level to 6,000. Larger communities are already well served by a vibrant private mortgage industry that works cooperatively with the federal government through institutions like Fannie Mae, Freddie Mac, the Federal Housing Administration, USDA, the Veterans Administration and the Federal Home Loan Banks. The System's expanded mortgage lending comes without any requirements to address low-to-moderate income housing needs, unlike the other Government Sponsored Enterprises (GSE).

The System is being rewarded with millions of new customer prospects in the housing market without providing any tangible evidence that they are using their current tax-exempt authority to serve rural towns of 2,500 or less. By not attaching any performance measures or accountability requirements to the greatly expanded lending authorities, the language encourages FCS to focus on larger populations close to metropolitan areas rather than on truly rural towns.

The language reported by the Subcommittee also dilutes farmer ownership of the System by allowing stock purchase requirements to be diminished or waived by individual FCS institutions. This is inconsistent with previous congressional direction that borrowers should have 'at-risk' stock committed to the System. Further, it raises a number of questions regarding the future influences, ownership and control of the System and whether the FCS should continue to receive federal benefits as a 'cooperative'. The minimum stock purchase requirement in the statute provides System capital to protect taxpayers, who bailed out the FCS in 1987. Taxpayer protections would be diminished if the new language were implemented.

We also have great concerns with how the subcommittee mark would remove specific formulas for calculating premiums in the FCS insurance fund and exchange them for vaguely worded assessment authority. The insurance fund provisions also allow a rebate of \$56 million to the System at a time when the fund is already under-funded by \$364 million.

The FCS is a tax advantaged GSE chartered by Congress to provide credit directly to farmers and ranchers and farmer-owned cooperatives. The FCS should leverage its government-granted privileges in the service of farmers and ranchers, not in the service of its own ambitions. The broad new powers being sought by the FCS are not about making more agricultural loans or even new agricultural loans. Instead, these powers facilitate the System's desire to move broadly into commercial lending, reduce the System's focus on lending to farmers and ranchers, and expand its mortgage lending authority in direct competition with private mortgage lenders and government housing programs.

There is no demonstrated need for these amendments. The System's loan volume increased sixteen percent during the last two quarters of 2006 and the FCS is growing at its fastest pace since 1981. In fact, the FCS itself has testified that these provisions do not fill any credit gaps in rural America. Adoption of these proposals will harm our members and member institutions, resulting in fewer credit and financial services options available to the thousands of rural communities we serve. We ask you to delete the Subcommittee's FCS expansion language. Thank you for considering our views.

Sincerely,

American Bankers Association  
American Institute of Certified Public Accountants  
America's Community Bankers  
Financial Services Roundtable  
Independent Community Bankers of America  
Independent Insurance Agents & Brokers of America  
Mortgage Bankers Association