

September 25th, 2007

Senator Tom Harkin
Chairman
Senate Committee on Agriculture
Washington, D.C. 20510

Senator Saxby Chambliss
Ranking Member
Senate Committee on Agriculture
Washington, D.C. 20510

Dear Chairman Harkin & Ranking Member Chambliss:

The undersigned organizations are writing to express our strong opposition to the Farm Credit System (FCS) expansion proposals which the Farm Credit Council is urging be adopted as part of a new Farm Bill.

The FCS is a tax advantaged government sponsored enterprise (GSE) chartered by Congress to provide credit directly to farmers and ranchers and farmer-owned cooperatives. The FCS's aggressive expansion proposals would further tilt 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 vast array of businesses and suburban homeowners.

The FCS proposal would make a broad array of commercial businesses eligible in every economic sector for loans, insurance products, and other financial products or services. For example, FCS proposes to make a new category of businesses eligible if they provide services, supplies, capital goods or equipment to "farmers". In addition, a wide number of businesses would be eligible if they touch virtually any agricultural product. Their proposals to enter commercial lending are broad, open ended, and would be impossible to regulate.

The FCS proposes to dilute farmer ownership of the System and weaken its cooperative structure by allowing stock purchase requirements to be minimized or waived by individual FCS institutions. This is inconsistent with previous congressional direction that borrowers should have stock committed to the System. This proposal raises a number of questions regarding the control of the System, whether the FCS should continue to receive federal benefits as a cooperative, and would shift control of the FCS from farmers to FCS executives.

In addition, CoBank, the lender to farmer-owned cooperatives, is seeking authority to finance investor-owned corporations that compete directly with farmer-owned cooperatives, which would be contrary to CoBank's mission to serve farmer-owned cooperatives.

Finally, FCS has proposed to increase their home mortgage lending by 400 percent, to allow them to make home mortgages in communities with populations up to 10,000 people. In a September 10 letter addressed to you the immediate past Chairman of the Farm Credit Administration wrote, "Not only is there not a mortgage credit shortage in towns over 2,500, but authorizing the System to lend in communities larger than 2,500 will distract it from financing moderately-priced rural housing."

There is no demonstrated need for these proposals. In fact, the FCS testified that their proposals are not designed to address any market failure. Former Chairman Reyna's letter also noted, "The System's efforts are more about the System's growth and profitability rather than the credit needs of agriculture and rural America." We strongly agree with this opinion and feel that the FCS should leverage its government-granted privileges in the service of farmers and ranchers, not in the service of its own ambitions.

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 strongly urge you to reject the FCS expansion proposals. Thank you for considering our views.

Sincerely,

American Bankers Association
America's Community Bankers
Financial Services Roundtable
Independent Community Bankers of America
Independent Insurance Agents & Brokers of America
Mortgage Bankers Association
National Association of Professional Insurance Agents
National Bankers Association