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Thank you for the opportunity to share my perspective as one who lives and works in a rural community. By way of background, I am the president of AgPreference, ACA, a Farm Credit institution, which is located in the great state of Oklahoma. We serve a six-county area in the extreme southwest corner of the state. We have been in existence since 1934. We became an agricultural credit association on January 1, 2001, and operated as a jointly managed Land Bank and Production Credit Association for ten years prior to obtaining the ACA charter.

I am here today to provide you with some thoughts about the availability of Farm Credit funding. I congratulate you for holding this meeting. Since the early 1980s there have been significant changes to the infrastructure of the commercial banking system.

At year-end 1984 there were 539 commercial banks in Oklahoma. That included 380 so-called "unit institutions", and 159 banks with branches. At year-end 1999, there were 129 "unit institutions," and 171 others with branches, for a total of 300 banking organizations1. That decline of 239 banks amounts to an almost 30 percent reduction over fifteen years.

The decline in banks is not the only indicator of change in Oklahoma. For the period 1990-2000, census reports show that population growth in Oklahoma's rural and metropolitan communities lagged the national average. The population in Oklahoma ruralities grew by 9.0 percent, compared to a statewide pace of 9.7 percent. Contrast this to the 13.1 percent average growth across the United States. The decline in banks and the anemic population growth are underscored by declining representation in the Congress. Over the years, Oklahoma has gone from 8 representatives to 6, and we are expecting that number to decline to 5 in the upcoming re-districting.

The bottom-line is this: by many measures, growth in Oklahoma has not kept up with the pace of growth nationally.

The change in our demographics has been accompanied by a change in the locus of control in Oklahoma banking. The center of capital allocation has moved from the ruralities to the metropolitan areas, and to a significant degree, to locations outside the state. Given this situation, there is no question in the minds of our shareholders that AgPreference must maintain a strong presence in the rural arena. We must also look for ways to work with banks that serve rural communities and agriculture, while continuing to meet the needs in our local service area.

The situation I have described briefly demonstrates the need for an adequate and flexible flow of money into rural communities. Farm Credit, and commercial banks, can and should work together for stable funding and reliable delivery mechanisms for the benefit of agriculture and rural communities not only in Oklahoma, but also throughout the country.

I would like to now turn to some specific topics of regulatory concern that you have asked for input on:

Geographical Impediments

Farm Credit has a long-standing philosophy of fostering confidence in System financial strength, future viability, and maximum flexibility consistent with quality and reasonable price. The retention of artificial geographical impediments is inconsistent with this philosophy.

We support policy objectives and regulations that facilitate unimpaired access to Farm Credit funding while enhancing the use of locally owned Farm Credit associations. At the minimum, such broad ranging access helps insure a continued competitive and viable mechanism for the delivery of funding to rural communities. It also provides Farm Credit entities with an avenue for portfolio diversification and risk reduction. On balance, removal of geographic impediments strikes me as very good public policy.

Capitalization Requirements

FCA regulations presently restrict funding and discounting to OFIs with debt of less than 10 times paid-in and unimpaired capital and surplus2. Many categories of OFIs are regulated financial institutions. They are required to maintain minimum capital levels. They are also subject to oversight by state or national chartering authorities. Other categories of OFIs are not regulated or subject to governmental oversight.

We believe capital is an essential factor in considering all requests for access to Farm Credit funding. The weight assigned to capital of unregulated OFIs should take in to account the risk differences as compared to those of regulated financial institutions.

Market-Based Solutions and Financial Arrangements

The consolidation of banks since the advent of branch banking has significantly changed the lending landscape in Oklahoma. At year-end 1997 through 2000, the relative market share of total assets held by rural banks dropped from 53 percent to 45 percent, again reflecting the change in the locus of control I mentioned earlier.

The current FCA regulations contain a broad range of alternatives that can be used by System associations to provide funds to non-System lenders. These alternatives can be helpful to commercial banks that lend in rural communities as well as agriculture.

We favor enhancements to regulations that support the local Farm Credit association in funding rural communities and agriculture. This includes working with commercial banks that lend to rural communities and agriculture.

I will end by referencing the statutory responsibility that Farm Credit has to provide for the adequate and flexible flow of money to rural areas of the nation3. The real challenge facing rural America is the creation of wealth across a broad range of economic segments in these times of change. Commercial banks can play a significant and essential role in bringing about that result. It is good public policy for FCA to pursue objectives that support banks that lend in rural communities while reinforcing the role of the local association as a direct lender to agriculture and agribusiness.

This concludes my remarks. Copies of my testimony have been provided to you. I will be pleased to answer any questions you may have.

1 FDIC Table CB03
2 63 FR 36548, July 7, 1998
3 12 U.S.C. 2001 et. seq