

**Statement of
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Before the
Farm Credit Administration
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AgFirst Farm Credit Bank (AgFirst) appreciates the opportunity to present its views on the critical subject of the continuing credit needs of the nations farmers, ranchers and others in rural America who produce our food and fiber.

While our institution is engaged in providing a broad range of products and services as a wholesale bank within the Farm Credit System (FCS), our comments below will primarily address the need for regulatory reform for those regulations affecting Other Financial Institutions (OFI) and their discounting of loans with Farm Credit Banks. AgFirst provides loans and related services to more than 79,000 farmers, ranchers, agribusinesses, and rural homeowners in 15 Midatlantic and Southeastern states as well as the Commonwealth of Puerto Rico. The AgFirst cooperative lending institution is owned by 24 Agricultural Credit Associations that serve local communities and employ over 1,800 people with assets totaling \$13.5 billion. As a cooperative, AgFirst and its associations are owned and governed by their customers. Our boards are made up of members elected by our stockholders, which include one OFI.

AgFirst's philosophy has been consistent on the point of access to funding for various entities which serve the credit needs of more than 79,000 borrowers referred to above. Our belief is that the Farm Credit System's charters provide for equitable access to credit worthy borrowers regardless of the retail structure of the delivery system. Consequently, these comments are directed toward urging the Farm Credit Administration (FCA) to adopt a very broad regulatory framework for OFI access to system funding with the business arrangements to be left to the policy making bodies of the various banks. FCA's oversight and regulations currently cover the safety and soundness aspects of banking as they appropriately emphasize risk management. Detailed regulation of how and in what ways system institutions serve OFIs creates an administrative burden and may result in less than optimum access to system funding.

In July 2000 AgFirst provided comments to FCA's Advanced Notice of Proposed Rulemaking relative to proposed changes in the OFI program. Our position paper submitted at that time remains unchanged and we continue to support the Agency's effort to reduce the regulatory burden on OFI's to the extent the Act allows.

Specifically, we recommended:

- Establishment of a risk weighting of all OFI Notes at 20%, consistent with the regulatory capital risk weighting of affiliated associations of Farm Credit Banks
- Removing territorial limitations on OFI funding
- Making no change in subpart G, FCA regulation 618 which currently permits public disclosure of OFI's which are customers of system institutions

A copy of our July 12, 2000 letter that elaborates on these positions is included with this

correspondence.

We are pleased to again be given this opportunity to provide further comments to this issue that hopefully will result in greater access to funds by American farmers and ranchers. In order to avoid redundancy, our comments will only address areas not covered in our previous correspondence.

The FCA has outlined several questions to be considered in its “Notice of Meeting” of July 5, 2001:

1. What problems/impediments, if any, do you believe exist with the current regulatory requirements relating to OFIs?

Response:

- a. Structural impediments: Addressed in previous commentary
- b. Operational impediments: No response
- c. Geographical impediments: Addressed in previous commentary
- d. Other impediments: The 1971 Act as amended at Sec. 1.7. (Lending Authority.)
(b) (1) (B) provides the authority for a Farm Credit Bank (FCB) to provide short and intermediate funding to OFIs. While paragraph (a) (1) of the same section does not specifically address discounting to OFIs it does provide authorities to the Bank to participate with other lenders in real estate loans with terms of 5 to 40 years. We believe that congress did not intend to specifically exclude OFIs from access to long-term credit. Otherwise, why would a FCB be allowed to participate in long-term credit but not discount funds for the same purpose to an OFI? Further, with the advent of ACA’s which provide “one stop” lending, there is no rational argument that can be put forth that supports not opening up the long-term authorities to OFIs. If congress and the FCA are genuinely intent on “improving non-system agricultural lenders access to Farm Credit System funding as a means of improving the availability of credit to agriculture and rural America through the OFIs” and other programs, equal access and authorities should be granted to both system and non-system institutions.

2. What other regulatory changes, if any, are needed to improve the availability and efficiency of OFI relationships?

Response: Currently the regulation 614.4540 (b) (1) requires the OFI to maintain at least 15% of its loan volume at a seasonal peak in loans and leases to farmers, ranchers, aquatic producers and harvesters. At first glance this seems to be a reasonable requirement to insure that the OFI applicant is actively evolved in agricultural lending. However, based on our conversations with prospective OFIs, it is placing a hardship on smaller to middle size banks that are heavily involved in non-agricultural lending to the local community but also have an active agricultural portfolio. In these instances where the predominance of a bank’s loan volume is not agricultural in nature it forces it to establish a subsidiary organization, in which to house its agricultural lending portfolio just to meet the 15% regulatory requirement. This makes a financial institution capitalize a separate organization which often creates a financial hardship on the parent bank. Further it consolidates, as opposed to

diversifies, the lending portfolio creating additional risk for the OFI, parent bank, and the Farm Credit Bank discounting to the OFI. AgFirst proposes that the 15% requirement be removed allowing access to system funding for all loans meeting existing eligibility and scope criteria regardless of the overall percentage of agricultural loans in the OFI's lending portfolio.

3. In addition to OFIs, how can we amend our regulations to encourage greater cooperation and partnering between FCS institutions and non-system lenders in increasing credit availability to eligible farmers, ranchers, aquatic producers and harvesters, their cooperatives, rural utilities, and farm related businesses?

No Response at this time.

4. What other types of market-based solutions and financial arrangements could be used to improve the availability of funds to non-System lenders through the FCS?

No Response at this time.

5. How can such alternative funding arrangements be used to improve the efficiency and availability of funding to agriculture and related rural businesses, including rural utilities and rural housing? Under what conditions should these arrangements be provided?

No Response at this time.

6. If lending institutions are granted greater flexibility to access FCS funding through OFI relationships, other partnering arrangements, or alternative funding mechanisms, what measures should be instituted to ensure the safety and soundness of the FCS institutions?

Response: While this question was addressed last year we feel that it is important to reiterate the position of AgFirst. "The Act does not limit System banks from determining the credit worthiness of the OFI institution it funds. FCA has given System banks the authority to make their own determination of an OFI's creditworthiness. Banks within the Farm Credit System should have appropriate policies and underwriting standards to address OFI relationships. FCA has the authority to review each individual agreement and determine if the General Financing Agreement (GFA) language is appropriate. This is consistent with the FCA Board's premise that part of the Agency's role is to "provide a flexible regulatory environment for the System institutions." The agency currently has the authority to ensure that each individual bank has the necessary policies in place to mitigate the risks to its capital. No additional measures should be instituted to ensure the safety and soundness of the FCS institutions. In any event, the agency has now, and in our view should maintain, regulatory provision for access to examination of OFI's. This is as in Regulation 614.4560 (e).

Ag**First** Farm Credit Bank applauds the agency's effort to reduce regulatory requirements aimed at allowing greater flexibility and access to System funding. We believe that Other Financial Institutions should have the same capital requirements and lending authorities as an Agricultural Credit Association. We further believe that our current policies, procedures, underwriting standards and GFAs, which are subject to FCA review, provide the frame-work to assess and control the risk associated with a direct note to any lending institution.