



July 25, 2008

Mr. Gary K. Van Meter
Deputy Director
Farm Credit Administration
Fax 703-883-4477

Dear Mr. Van Meter:

I am writing to oppose the FCA's "Rural Community Investments" proposal. This proposal is misguided and I urge you to discard it immediately. At its core, the FCA proposal allows FCS lenders to make currently illegal loans if they are relabeled as investments. This proposal is not based on any action by Congress to pass expanded powers for the FCS but is a direct affront to Congress's decision not to expand FCS powers.

It is troubling that FCA would, through this proposal, encourage FCS to shift its financing activities AWAY from farmers and ranchers. FCA claims the purposes would be for "mission related" investments. Yet, FCS lenders already advertise otherwise through the pilot programs now in existence that such financing would include non-agricultural purposes: non-agricultural businesses, multi-family housing, road graders, manufacturing facilities, restaurants, commercial buildings, many other purposes. Many of these so-called "investments" would be non-publicly traded, privately negotiated credit deals between FCS lenders and commercial businesses that would replace loans made by commercial banks.

FCA's investment authority was clearly intended to allow FCS lenders to manage day to day financial transactions to ensure they have the necessary liquidity to continue making loans to farmers and ranchers. FCA's effort to transform their basic investment authorities into a vast new financing domain is unreasonable and totally lacking in merit. The FCS, as a GSE, should not allow FCS lenders to take the hard earned capital of farmers and invest these funds into venture capital firms and high risk ventures. I am very troubled with allowing FCS lenders — GSE institutions — to engage in the mixing of banking and commerce.

There is abundant credit available in cities of under 50,000 people. There would be very little if any new net economic gain from FCA's proposal. There would only be a crowding out of commercial banks to a GSE that has government tax and funding advantages.

I also take issue with the misleading rhetoric FCA uses to justify its decisions and to suggest FCS institutions are not privileged. For example, bankers pay for their deposit insurance fund while FCS lenders have implicit (proven explicit) government guarantees against failure. Banks can and do fail and are not bailed out by the deposit insurance fund, only their depositors are protected, up to the deposit insurance levels.

FCA's proposal is unfair and detrimental to rural America and may displace many community banks. FCA should be embarrassed for bowing to the FCS's demands in such a disingenuous and inappropriate manner. This proposal needs to be given the death sentence.

Sincerely,

James E. Smith,

Senior Vice-President, Operations

**Warren Bank
& Trust Company**

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