



July 31, 2008

Mr. Gary K. Van Meter
Deputy Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Mr. Van Meter:

On behalf of the 91 members of the South Dakota Bankers Association (SDBA), I offer the following comments on rules proposed by the Farm Credit Administration (FCA) which would allow Farm Credit System lenders to invest up to 150 percent of their capital surplus on projects unrelated to agriculture.

At the outset, I must say that I find considerable irony in the timing of the issuance of your proposed regulations to expand the scope of the Farm Credit System's mission beyond lending in support of production agriculture into other areas FCA ultimately would define as "mission-related investments". Congress specifically declined to expand the scope of business for the System when the full US House of Representatives removed expansionist language from the House Agriculture Committee's version of the new Farm Bill. Congress never moved to revisit that issue during the long and contentious debate over the new farm program legislation. So perhaps you can understand why I find it ironic that FCA published the proposed rules in the Federal Register on June 16, just two days prior to the final congressional override of a Presidential of the new farm bill; a bill specifically devoid of any expanded lending authorities for the System.

According to statements published in the Federal Register, FCA intends to authorize FCS institutions to invest in debt securities that would involve public projects or programs that benefit the public in rural communities or to take equity positions in venture capital funds in order to provide capital to small or start-up businesses. Specifically the proposed regulations would allow FCS institutions to "invest" up to 150% of their capital surplus in a wide array of projects including hospitals, health care facilities, roads, bridges, transportation infrastructure, venture capital funds and any other type of investment the FCA approves, so long as the project is located in a community with a population of less than 50,000. This new investment authority raises a number of concerns among the members of the SDBA.

I would remind the FCA that Congress created GSE's to serve specific missions. In return for that limited purpose business charter, Congress granted GSE's certain tax advantages and certain limitations. In the case of the Farm Credit System, it was chartered to serve the credit needs of farmers, ranchers, certain farm-related service businesses, farmer-owned cooperatives, and certain rural homeowners. These proposed rules represent a major shift away from those fundamental purposes. FCS lenders have considerable expertise in analyzing agricultural credit and the associated risk. They do not have similar expertise in analyzing risk associated with investments in health care facilities or transportation infrastructure. Since every System lender is jointly and severally liable for the actions of their fellow cooperative members, I would think that the ag producers who own the System would have justifiable reservations about expanding the System's financial exposure far beyond agriculture and agri-business.

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Again, according to the Register, FCA points to the System's recent success in initiating pilot programs for investing in America's rural communities as a reason to permanently expand System investment activities. Specifically it is stated, "Based on the positive experience of these pilot programs, the FCA will allow all System banks, associations, and service corporations to make certain investments in rural communities under prescribed conditions without FCA approval." During the fall of 2007, Omaha-based Farm Credit Services of America (FCSA) proposed to make an investment in a commercial hotel property in Winner, South Dakota. FCSA proposed to refinance a 5-year old, viable commercial business. Local bankers raised concerns about the propriety and legality of that transaction, first with the Farm Credit Administration and then, after failing to receive any response from FCA, with the members of South Dakota's congressional delegation. FCSA ultimately rescinded its offer. If this particular project had been initiated after the effective date of this current set of proposed rules, without need of FCA approval, I have no doubt that FCSA would now be an investor in a commercial business venture totally unrelated to agriculture. How would have an "investment" in a five year old commercial business benefitted Winner, SD? How are the interests of the farmers who own the Farm Credit System served by such an investment? Further, and equally as important, how are the general interests of the American taxpayer served?

This proposed expansion of the mission of the Farm Credit System beyond agricultural lending in rural America is unnecessary and inappropriate. Neither the System, nor is regulator have expertise in assessing or managing the risks associated with investing in areas such as health care, transportation infrastructure or venture capital. Since the System is a GSE, American taxpayers could be forced to cover associated costs if System lenders burn through the capital of the farmers and ranchers who own it. The members of the SDBA believe that the prudent course of action for the FCA is to withdraw these proposed rules.

Sincerely,

A handwritten signature in black ink that reads "Curtis A. Everson". The signature is written in a cursive style with a long, sweeping underline.

Curtis A. Everson
SDBA President

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