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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
 URBAN AFFAIRS

WASHINGTON, DC 20510-6075

August 8, 2008

The Honorable Leland Strom
 Chairman of the Board
 Farm Credit Administration
 1501 Farm Credit Drive
 McLean, Virginia 22102

Dear Chairman Strom:

We write to express our serious concerns about the implications of the recently proposed rule (12 CFR Part 615, related to "Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations; Mission-related investments; Rural Community Investments") promulgated by the Farm Credit Administration. This new rule proposes to expand significantly the ability of Farm Credit System (FCS) institutions to provide substantial new financing through debt and equity investments beyond their statutory mission of providing credit to our nation's agriculture sector. The proposed rule would, among other things, authorize FCS institutions to invest in venture capital funds and in other entities and projects with little or no connection to the agriculture sector, and with no requirements regarding farmer ownership or involvement, which have always been a fundamental requirement of FCA activities.

We recognize and support the important and specific statutory role that the FCS plays in providing critical credit to our nation's farm sector. However, the authorities provided for in this proposed rule go well beyond those which Congress has specifically granted, potentially enabling FCS institutions to finance projects, corporations, venture capital funds, and other entities that are not owned by or related to farmers. Such sweeping changes in the authorities of the FCS should in our view be made by Congress, not unilaterally by the Farm Credit Administration. This is especially true considering that Congress recently rejected a major expansion of FCA lending authorities for home mortgages and other purposes in the 2008 Farm Bill, where efforts to include such changes in the law, drawn on proposals made in the FCA's "Horizons Project" recommendations, were not included by either the House or Senate.

Operating as a Government-Sponsored Enterprise, the FCS is a network of borrower-owned lending institutions. It is not a government agency or guaranteed by the U.S. government, but a for-profit lender with the special powers, privileges and tax benefits of a government charter with a specific statutory mandate to serve agriculture. These special powers, privileges, and tax benefits--if not exercised and regulated appropriately--can be used to unfairly tilt in its favor the competitive playing field on which the FCS now directly competes with the private sector in retail lending. This proposal would have the

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effect of tilting the playing field unfairly against others involved in such commercial and public purpose investment activities. These investment activities, albeit in "rural areas" as defined by the rule, would appear to be a backdoor way of financing entities that are otherwise ineligible for FCS loans under the Farm Credit Act.

We are especially concerned that the seemingly very broad investment authority contained in the rule, which in some cases simply requires authorization by the Farm Credit Administration, contains no meaningful limits on the nature or scope of investments to be authorized, and would appear to take the FCS one step closer to becoming a general provider of credit to suburban, exurban and rural residents, small businesses and corporations, rather than serving as the primary source of credit to America's farmers which it was originally designed to be. We understand that the proposed 150 percent of current surplus limit would enable investments by FCA of up to approximately \$36 billion (calculated in relation to FCA's 2007 surplus) for virtually any qualifying investment. We are also concerned about the virtually unlimited ability of FCS institutions to provide financing to any entities, as long as they have some connection to a rural area and are investing in "basic transportation infrastructure" or "essential community facilities" like rural hospitals or clinics. Finally, the proposed rule's use of the 50,000 population standard for the definition of rural areas for investment purposes is inconsistent with the statute's use of a much lower standard for rural housing, and its reliance on a definition by the US Census Bureau effectively delegates a critical part of what constitutes permissible investments under the regulation, and would be unjustifiably inconsistent with the statutory population limit for rural housing.

We believe the proposed regulation is too broad, not sufficiently rooted in the FCA's current statutory authority, and inconsistent with its primary mission of providing credit to the farm sector, and urge you to withdraw it. If there are serious credit shortfalls in certain regions of the country in rural areas, then Congress should thoroughly examine these questions, determine if such expanded investment authority for FCS institutions and others is necessary, and if so, consider changing the law to provide for such new authorities. In the meantime, we believe the FCA should focus its resources on those it has been charged by Congress to serve, including young, beginning and small farmers and others in the farm sector who continue to struggle to survive in today's difficult and challenging rural economy.

Thank you for your consideration.

Sincerely,



CHRISTOPHER J. DODD
Chairman



RICHARD C. SHELBY
Ranking Member