

October 22, 2002

To: Michael M. Reyna, Chairman and CEO  
Douglas Flory, Board Member  
Ann Jorgenson, Board Member

From: Stephen G. Smith  
Inspector General

Subject: Regulatory Development Survey Results

The Office of Inspector General is pleased to issue the results of the second Farm Credit Administration Regulatory Development Survey. The OIG conducts the survey as a service to the Farm Credit Administration (FCA). Respondents to the survey are assured of anonymity and FCA benefits from the candid feedback that the survey provides.

The 2002 survey resulted in deterioration in performance indicators for the regulatory development program. The results cannot be projected to reflect the opinions of stakeholders in general. However, the survey results and in particular, the written comments provide information on how FCA can improve its performance on the regulatory development program.

If you have any questions or comments, please contact me.

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# REGULATORY DEVELOPMENT SURVEY

*October 2002*

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# REGULATORY DEVELOPMENT SURVEY

## PURPOSE

The Farm Credit Administration (FCA) is committed to a regulatory philosophy that promotes a safe and sound, competitive Farm Credit System (FCS). The FCA Board hopes to achieve this goal with minimum regulatory burden while involving the public in rulemaking activities.

The Office of Inspector General (OIG) surveyed stakeholders and other interested parties as part of the FCA's ongoing efforts to measure its performance on the Regulatory Development Program. The survey was intended to evaluate the FCA's regulatory actions taken during October 1, 2000 through September 30, 2002.

## SUMMARY

This survey provides a valuable mechanism for the FCA Board to obtain information about the effectiveness of the FCA Regulatory Development Program. Overall, the ratings for each of the questions were less favorable than the same survey conducted in 2000. In large measure, the results reflect a much larger number of responses from commercial banks, which responded much less favorably than other parties. However, even ratings from the FCS and its customers were slightly less favorable.

The statistics provide a basis to measure performance. However, the reader should note the results only reflect the opinions of a target audience that chose to respond to the survey. The methodology targeted parties that may be knowledgeable about the FCA Regulatory Development Program. However, the results should not be projected as the opinions of FCA stakeholders in general. For example, no responses were identified as "Congressional" – a key stakeholder.

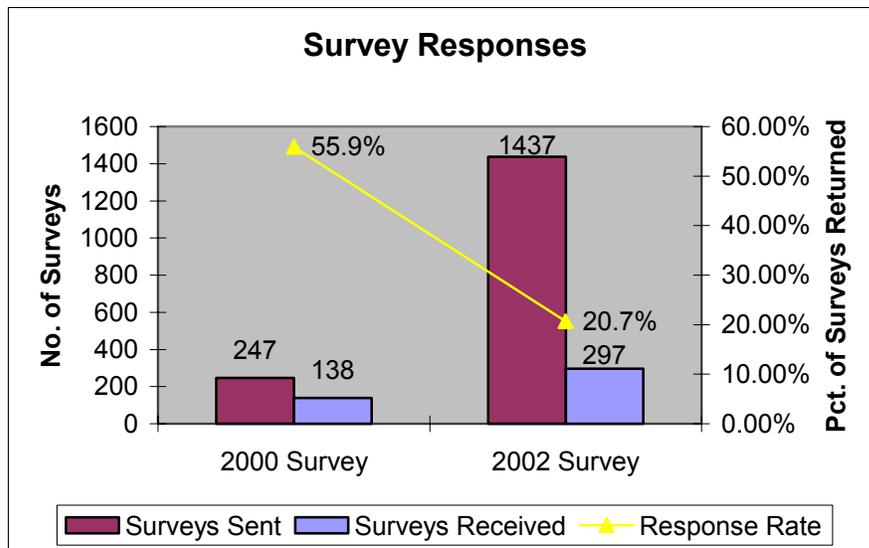
The written responses reflected widely divergent views and opinions depending on the affiliation of the responder. Even with the wide divergence of opinions expressed, the FCA Board can gain insight and develop conclusions that may be useful to chart future direction and improve FCA performance. Some examples include:

- Multiple responses referring to FCA instead of FCS is an indicator of confusion about the difference between FCA and FCS.
- Several responders directly suggested that they need more opportunities to meet and communicate with FCA.
- Comments about the tax status of the FCS suggest that responders may not understand cooperatives and their treatment under the tax code.

## BACKGROUND

In August 2002, OIG sent out 1,437 surveys including all FCS institutions as well as all groups or individuals that submitted comments on regulatory actions that FCA took during fiscal years 2001 and 2002. The OIG conducted a similar survey in 2000. The number of surveys sent increased because FCA received more comments on its regulations. The 2002 survey addressed the same issues as the 2000 survey<sup>1</sup>. A copy of the survey and its attachments is in Appendix III.

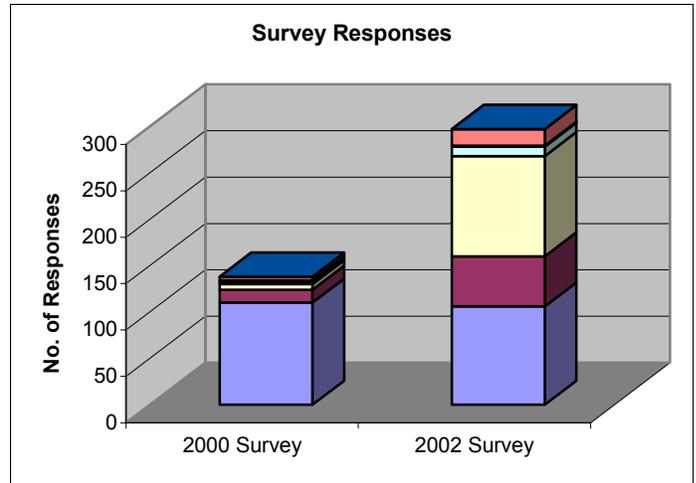
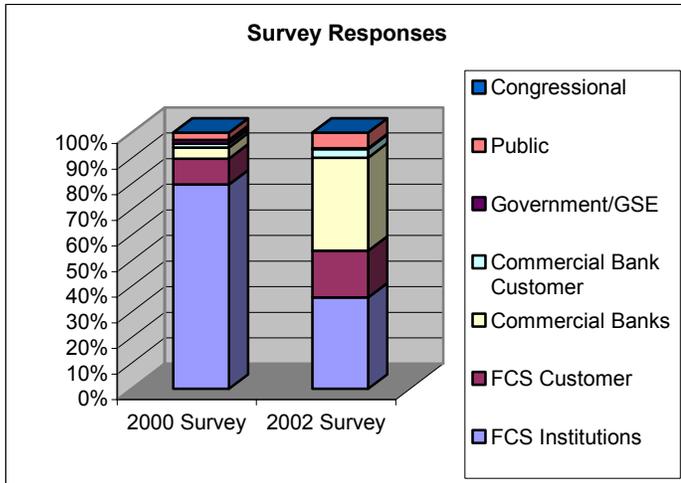
The following chart compares the surveys sent in 2002 to the surveys sent in 2000. The overall response rate on the current survey of 20.7 percent represents a sharp decline from 55.9 percent on the survey conducted in 2000. The 2002 survey was sent to a much broader audience with a 482 percent increase in the number of surveys sent.



Respondents self-identified into one of seven categories: (1) FCS Institution or Interest Group/Lobbyist; (2) Commercial Banker/Lobbyist; (3) FCS Customer; (4) Commercial Bank Customer; (5) Congressional; (6) Government/Government Sponsored Entity; and (7) Public. Responses received without designating a category were defaulted to Public.

In 2000, FCS affiliated responses represented 90 percent of the surveys received. In 2002, only 54 percent of the responses were FCS affiliated. The reduced percentage resulted from a substantial increase in the commercial bank affiliated responses.

<sup>1</sup> The only change we made to the survey was to reword items posed as questions in the 2000 survey to statements in the 2002 survey.



During the period covered by the 2002 survey, one specific regulation received a high volume of comments. Many of the comments were form letters from customers/borrowers from both FCS institutions and commercial bankers. Some FCS institutions and some commercial banks asked customers/borrowers to complete form letters. The return address for these types of comments was to the FCS institution or the commercial bank. We sent the surveys to the address associated with the comment letter. The OIG received over 60 letters returned unopened from one FCS institution. Another FCS institution contacted the OIG and stated it was not planning on forwarding the letters to its customers.

It is important to note that the survey was targeted to individuals and entities that may be knowledgeable about the FCA Regulatory Development Program. Therefore we can only state that the results reflect the opinions of that group. The results are not necessarily the opinion of stakeholders in general. For example, although congressional parties were included in the survey audience, none responded. The OIG recognizes the limitations of the methodology and expects to refine it in future iterations of the survey. Despite the limitations, the comparison of results to the prior survey results provides a valid indicator of direction of opinion.

## SURVEY CONTENTS

The survey covered six statements that FCA chose as performance measures for its Regulatory Development Program. The statements are listed below. The bolded statements (Nos. 2, 4, and 5) are also Agency performance measures and the results are reported in the FCA's annual Performance and Accountability Report.

1. FCA achieved the objectives stated in the attached Regulatory Actions.
2. **FCA adequately involved the public to seek its perspective regarding rulemaking activities.**
3. FCA's rulemaking activities promoted safety and soundness for System institutions.
4. **FCA's rulemaking activities implemented the Farm Credit Act without imposing unnecessary regulatory burden.**

- 5. **FCA’s rulemaking activities recognized market forces and encouraged innovation for System institutions.**
- 6. FCA used plain language that is easy to understand in rulemaking activities.

Respondents were asked to rate FCA’s performance on each statement from 1 (strongly agree) to 5 (strongly disagree). Therefore, the lower the numerical score, the more favorable the result.

Respondents also had the opportunity to provide additional input to the survey by providing written responses to two additional items. One question asked respondents “What regulatory issues would you like to see included in future Regulatory Performance Plans?” The second asked for “Additional Comments.” Both items received multiple responses. The full text of all written responses is included in Appendix II.

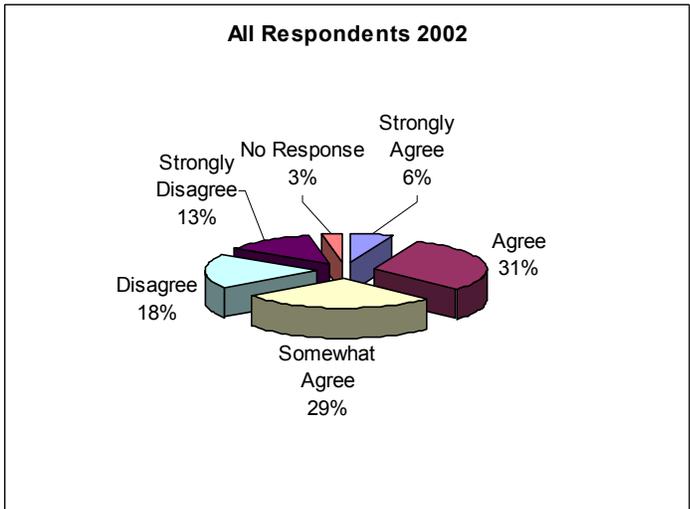
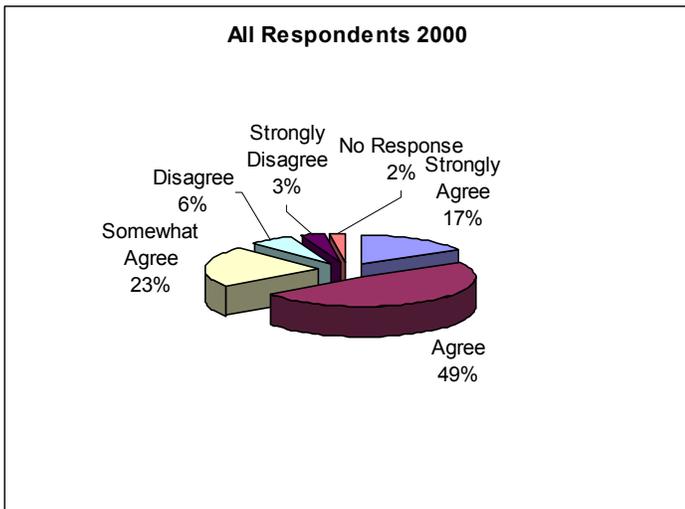
**QUANTITATIVE ANALYSIS**

The following chart and graphs provide a summary of the significant results of the survey. In addition to the overall survey responses, for analytical purposes, we combined the survey responses into three groups:

- FCS Affiliated Parties – Includes surveys identified as FCS Institutions and FCS Customers responses.
- Bank Affiliated Parties – Includes surveys identified as Commercial Banks and Commercial Bank Customers.
- Public Affiliated Parties – Includes surveys identified as Public, GSE/Government and Congressional.

**All Respondents**

As depicted in the graph below, there was a significant decline in ratings by all respondents. The weighted average of all responses in 2000 was 2.29 and it worsened to 3.02 in 2002.



In 2000, 89 percent of all respondents indicated a range of agreement from strongly agree to somewhat agree. In 2002, the agreement range decreased to 66 percent. The table below

shows much of the decline is directly linked to more responses from commercial banks, which were more critical of the FCA Regulatory Development Program. However, some of the decline can also be attributed to less agreement by FCS affiliated responses.

<b>Responses to FCA Regulatory Development Program Survey Weighted Average Responses by Affiliated Groups FY 2002<sup>2</sup></b>				
<b>Survey Item:</b>	<b>FCS Affiliated</b>	<b>Commercial Bank Affiliated</b>	<b>Other</b>	<b>Overall Weighted Avg.</b>
<i>FCA achieved the purposes stated in the enclosed list of Regulatory Actions.</i>	2.49	3.39	3.35	2.90
<i>FCA adequately involved the public in seeking its perspective regarding rulemaking activities.</i>	2.21	3.97	3.32	2.98
<i>FCA's rulemaking activities promote safety and soundness for the System.</i>	2.28	4.11	3.63	3.09
<i>FCA's rulemaking activities implemented the Farm Credit Act without imposing unnecessary regulatory burden.</i>	2.64	3.43	2.95	2.97
<i>FCA's rulemaking activities recognized market forces and encouraged innovation for System institutions.</i>	2.83	3.62	3.68	3.20
<i>FCA used plain language that is easy to understand in rulemaking activities.</i>	2.47	3.65	3.32	2.98
<i>Overall Average for Group</i>	<b>2.49</b>	<b>3.70</b>	<b>3.38</b>	<b>3.02</b>

<i>Total Number of Questionnaires Received:</i>	160	118	19	297
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The two largest categories of respondents are the FCS affiliated group and the commercial bank affiliated group. Compared to 2000, respondents were more critical of all six survey items (See Appendix I). The sharpest decline occurred on the issue of recognizing market forces and encouraging innovation.

The largest difference in overall opinions occurred on the statement *FCA's rulemaking activities promote safety and soundness for the System*. The difference between FCS and Commercial Bank affiliated ratings was 1.83. This was closely followed with a 1.76 difference on the statement *FCA adequately involved the public in seeking its perspective regarding rulemaking activities*. This latter statement is one of the Agency's performance measures. It is interesting to note these two statements accounted for both the best individual opinion with a score of 2.21 and the least favorable opinion with a score of 4.11.

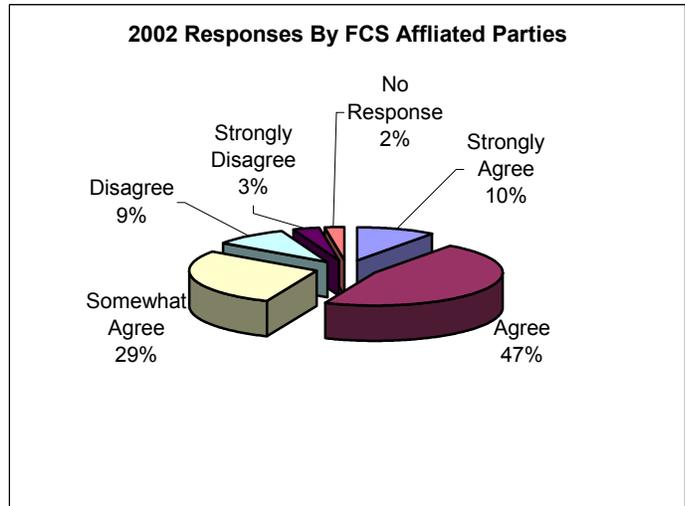
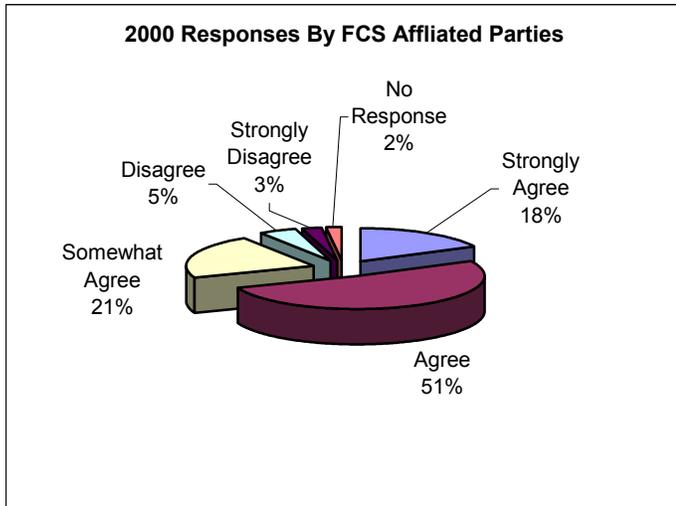
The two other statements that are Agency performance measures<sup>3</sup> were similarly scored more severely by the commercial bank affiliated group compared to the FCS affiliated group.

<sup>2</sup> 1 – Strongly Agree; 2 – Agree; 3 – Somewhat Agree; 4 – Somewhat Disagree; 5 – Strongly Disagree

<sup>3</sup> FCA's rulemaking activities implemented the Farm Credit Act without imposing unnecessary regulatory burden and FCA's rulemaking activities recognized market forces and encouraged innovation for System institutions

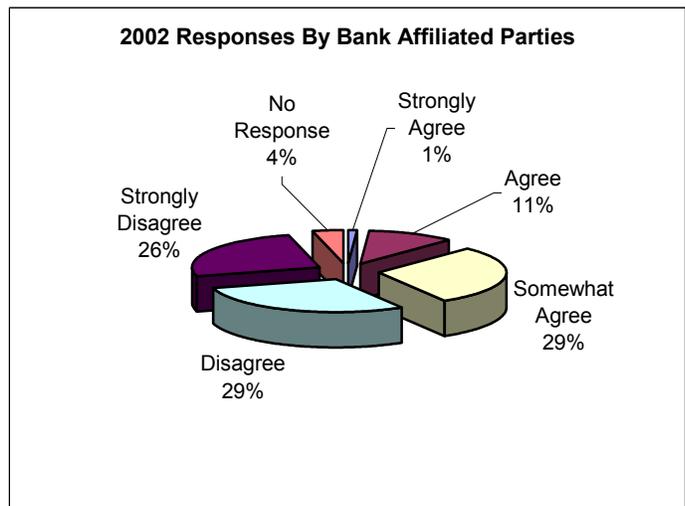
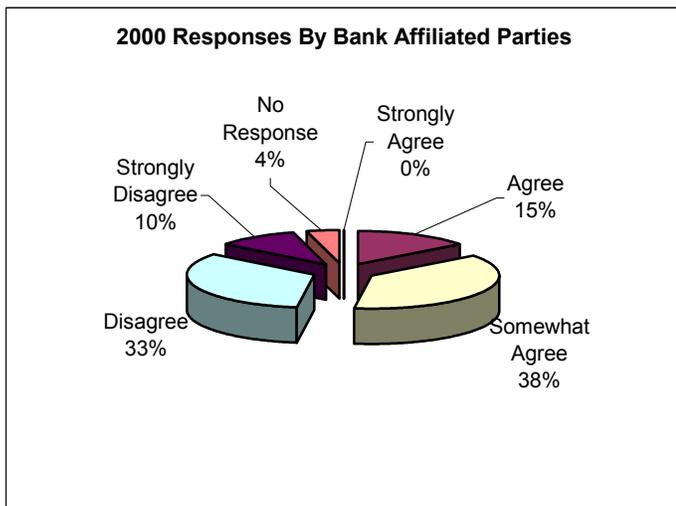
While the difference in opinions was not as great, it was still significant. On both statements, there was about an .8 difference in the weighted average response score.

### FCS Affiliated Responses



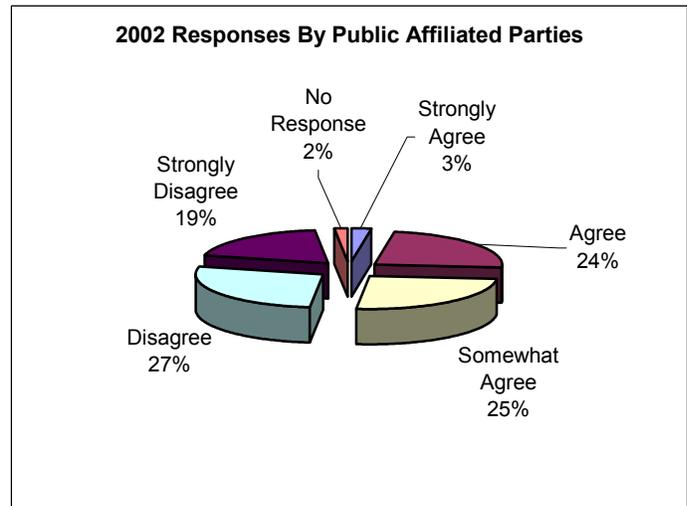
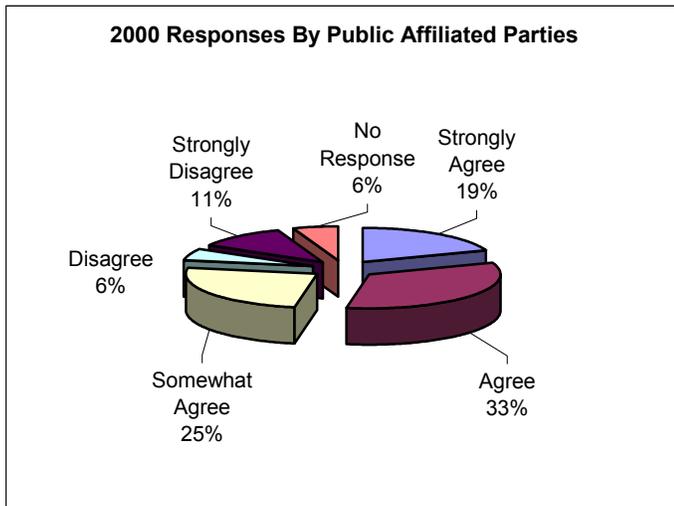
The 2002 range of agreement for FCS affiliated groups was 86 percent – a decline of 4 percent from 2000. Even more significant was the sharp 8 percent decline in those who strongly agreed from 18 percent in 2000 to only 10 percent in 2002.

### Bank Affiliated Responses



The commercial bank affiliated group indicated a range of agreement of 53 percent in 2000, with 15 percent responding agree, and 38 percent responding somewhat agree. In 2002, this group's range of agreement dropped to 41 percent, with 11 percent responding they agree, and only 29 percent responding they somewhat agree. There is also a dramatic increase of 16 percent in the strongly disagree category, from 10 percent in 2000 to 26 percent in 2002.

## Public Affiliated Responses



In 2000, those respondents identified as public affiliated<sup>4</sup> indicated a range of agreement of 77 percent, with 19 percent strongly agreeing and 33 percent agreeing. In 2002, this group indicated a range of agreement of 52 percent with a 16 percent drop of those strongly agreeing to only 3 percent. Additionally, the response from the public who responded agree dropped 9 percent to 24 percent agreeing. Somewhat agree remained constant at 25 percent.

## ANALYSIS OF WRITTEN COMMENTS

Respondents provided comments to the last two items on the survey<sup>5</sup>. We received written comments on more than 100 of the surveys. For presentation, we grouped the written responses into the following categories:

- Predatory Pricing;
- Taxation;
- Competition With Banks;
- Scope of Lending Regulations;
- Young Beginning and Small Farmers (YBS);
- Borrower Rights;
- Farmer Mac;
- Other Financing Institutions;
- National Charters;
- Investments, Participations, and Syndications;
- Rural Housing Regulation;
- Other Regulations;
- FCA; and
- Other Issues.

<sup>4</sup> In the categories other than “Public”, only one response was received from Government/GSE and none from Congress.

<sup>5</sup> The questions were “What regulatory issues would you like to see included in future Regulatory Performance Plans?” and “Additional Comments.”

A complete set of the responses is included in Appendix II.

The comments contained widely divergent opinions that generally reflected the overall views of the interest group of the respondent. For example, a respondent from the FCS stated “FCA seems to have become more concerned about what the bankers think of them than about the System's success.” On the opposite side a bank wrote, “The FCA is much more concerned with obtaining new powers than operating in a safe and sound manner.”

There were over 20 different issues or regulations that respondents suggested the FCA consider in its Regulation Development Program. The most prevalent regulatory issues discussed included:

- Predatory pricing,
- Scope of lending and eligibility,
- National Charters, and
- Investments

In addition to the regulatory issues, there were several similar comments that may be of interest to the FCA Board. Many comments indicated that there was often little distinction between FCA and FCS by using FCA when talking about the FCS. For example,

*“I would like FCA to let people know they pay no income tax and are not interested in smaller farms that are having a struggle.”*

This quote highlights another group of comments about the tax status of FCS. While FLCAs are tax-exempt, other institutions are not. The comments suggest that there is a lack of understanding about the cooperative nature of the System and its treatment under the tax code.

Some of the respondents seemed to believe that Congress intended that the FCS be a lender of last resort. For example,

*“I would like to see FCS become a lender of last resort again or pay taxes.”*

*“If FCA is not in existence to primarily work with farmers who have no alternative financing, why do they receive Government Agency status?”*

The comments also pointed to a strong desire across all interest groups for more dialogue with the FCA. Examples of these comments include:

*“One public meeting does not constitute adequate public involvement on a National basis.”*

*“Ask opinions about Proposed Regulatory Actions before they become Final Regulations.”*

*“Associations are somewhat isolated from FCA. Improved communications would allow us to better evaluate FCA's performance i.e, informational meetings.”*

*“We believe the FCA, as part of its outreach to the public, should conduct listening sessions with community bankers in various areas of the country to better understand the concerns and issues community banks have with FCS lending practices and FCS activities. This would better allow FCA to take into consideration ‘market forces’ and would better involve the public in FCA’s rulemaking activities and agenda settings.”*

Related to the expression of a need for outreach, there was support expressed for an Ombudsman at FCA.

*Appointment of an Ombudsman – [We] applaud FCA's initiative to develop a proposal on appointing an ombudsman within the FCA. Such a position would make FCA consistent with other top federal financial regulators and would allow FCA to better explain its regulatory policies and procedures to the public, commercial lenders and FCS institutions. It would also facilitate the development of improved relations between commercial lenders and FCS institutions. We encourage FCA to finalize action on this initiative in the near future.*

Over 40 respondents requested a call from the Inspector General. One of these calls resulted in a specific complaint about the eligibility of a loan. The caller believed this loan was outside the FCS field of expertise and resulted in detrimental financing to the point that the non-farm business had to be sold. The caller felt that this type of financing had been detrimental to the local economy. This complaint was referred to FCA examiners to incorporate into an examination. Several other respondents wanted to discuss loan eligibility in general terms. These individuals expressed concern about loans made by FCS institutions for purposes other than agriculture. The callers questioned the rates that FCS charged stating that rates to obtain some loans were far below market rates.

## APPENDIX I – COMPARISON CHARTS

This Appendix contains more detailed charts of the statistical results of the survey and comparison to the 2000 survey results. The first chart is a comparison of affiliated groups. Note that a positive number or increase in score is deterioration in the opinion rating.

### Responses to FCA Regulatory Development Program Survey *Change from 2000 to 2002*

Survey Items	FCS Affiliated			Commercial Bank Affiliated			Public Affiliated			Overall		
	2000	2002	Diff	2000	2002	Diff	2000	2002	Diff	2000	2002	Diff
<i>FCA achieved the purposes stated in the enclosed list of Regulatory Actions</i>	2.34	2.49	0.15	2.57	3.39	0.82	2.17	3.35	1.18	2.35	2.90	0.55
<i>FCA adequately involved the public in seeking its perspective regarding rulemaking activities.</i>	2.13	2.21	0.08	4.25	3.97	-0.28	2.33	3.32	0.98	2.27	2.98	0.71
<i>FCA's rulemaking activities promote safety and soundness for the System.</i>	2.13	2.28	0.15	3.75	4.11	0.36	2.60	3.63	1.03	2.25	3.09	0.84
<i>FCA's rulemaking activities implemented the Farm Credit Act without imposing unnecessary regulatory burden.</i>	2.28	2.64	0.36	3.13	3.43	0.30	2.80	2.95	0.15	2.35	2.97	0.62
<i>FCA's rulemaking activities recognized market forces and encouraged innovation for System institutions.</i>	2.20	2.83	0.63	3.71	3.62	-0.09	2.67	3.68	1.01	2.30	3.20	0.90
<i>FCA used plain language that is easy to understand in rulemaking activities.</i>	2.19	2.47	0.28	3.00	3.65	0.65	2.67	3.32	0.65	2.26	2.98	0.72
<i>Overall Average for Group</i>	2.21	2.49	0.28	3.41	3.70	0.29	2.53	3.38	0.85	2.29	3.02	0.73

<i>Number of Surveys Received:</i>	124	160	36	8	118	110	6	19	13	138	297	159
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The following chart provides the detailed ratings for each type of respondent along with the scores from the 2000 survey.

Survey Items:	FCS Institutions		Commercial Banks		FCS Customer		Commercial Bank Customer		Gov't/GSE		Public		Congress		Overall Average	
	2000	2002	2000	2002	2000	2002	2000	2002	2000	2002	2000	2002	2000	2002	2000	2002
FCA achieved the purposes stated in the enclosed list of Regulatory Actions.	2.39	2.57	2.60	3.38	1.93	2.34	2.50	3.63	2.00	4.00	2.25	3.31			2.35	2.90
FCA adequately involved the public in seeking its perspective regarding rulemaking activities.	2.16	2.17	4.50	3.94	1.93	2.27	3.50	4.22	1.00	2.00	3.00	3.39			2.27	2.98
FCA's rulemaking activities promote safety and soundness for the System.	2.17	2.32	4.17	4.13	1.86	2.20	2.50	3.78	2.00	5.00	3.00	3.56			2.25	3.09
FCA's rulemaking activities implemented the Farm Credit Act without imposing unnecessary regulatory burden.	2.32	2.72	3.33	3.41	2.00	2.46	2.50	3.67	2.00	2.00	3.33	3.00			2.35	2.97
FCA's rulemaking activities recognized market forces and encouraged innovation for System institutions.	2.21	2.97	4.20	3.60	2.07	2.54	2.50	3.89	1.50	5.00	3.25	3.61			2.30	3.20
FCA used plain language that is easy to understand in rulemaking activities.	2.19	2.46	3.00	3.64	2.21	2.49	3.00	3.67	3.00	3.00	2.50	3.33			2.26	2.98
<b>Overall Average for Group</b>	<b>2.24</b>	<b>2.54</b>	<b>3.65</b>	<b>3.69</b>	<b>2.00</b>	<b>2.39</b>	<b>2.75</b>	<b>3.81</b>	<b>1.92</b>	<b>3.50</b>	<b>2.86</b>	<b>3.37</b>			<b>2.29</b>	<b>3.02</b>
<b>Number of Surveys Received:</b>	110	106	6	108	14	54	2	10	2	1	4	18	0	0	138	297

FCS Affiliated

Bank Affiliated

Public Affiliated

## APPENDIX II – WRITTEN COMMENTS

This Appendix contains a complete set of comments received with the surveys. We made minor edits to the comments to remove text that identified individuals or institutions. We used the same categories for both questions because of the nature of the responses that we received. We present the question numbering so the reader will know the context of the written comment.

### Predatory Pricing

#### Question 7

*Predatory pricing enforcement.*

*Stop loan pricing against specific bonds. The average must be used at all times. This will help prevent "cherry picking".*

*Predatory pricing by local associations gives an unfair competitive advantage because of taxation rates unduly given the FCS system.*

*Strict enforcement of the original purpose of the Farm Credit System, i.e., provide for agricultural financing when other financing is not available. They are involved in predatory pricing to compete with other lenders.*

*The issue of predatory pricing and portfolio saturation for a particular ag-industry within the local FCS associations. We believe that some lender associations have focused their efforts on loans for confinement livestock buildings. Favorable financing terms have been offered to these borrowers and new credits booked to the extent that diversification of the local loan portfolio might be compromised.*

*Implement predatory pricing constraints.*

*FCS lenders appear to offer very low interest rates to the strongest customers.*

*FCS utilizes subsidized funds to the point commercial banks cannot compete, so they get all the top related loans. They are unwilling to work with anyone with tight cash flow.*

*Implement Predatory Pricing Constraints - FCA needs to adopt clear, specific guidelines in terms of implementing tougher predatory pricing constraints on FCS institutions who are actively engaging in predatory pricing practices. The Farm Credit Act (Sec. 1.1. Policy and Objectives) states "Further, it is declared to be the policy of Congress that...borrowers from the institutions derive the greatest benefit practicable from that Act: Provided, that in no case is any borrower to be charged a rate of interest that is below competitive market rates for similar loans made by private lenders to borrowers of equivalent credit-worthiness and access to alternative credit." However, FCA has not monitored predatory lending practices of FCS institutions as required by the law and should now put mechanisms in place to do so. For example, [we] encouraged FCA to publish lending rates in local areas to assess the degree that FCS engages in predatory practices. All FCA regulations should incorporate provisions that stress avoidance of predatory lending practices, which ultimately undermines FCS safety and soundness.*

*Implement predatory pricing constraints.*

*Reduce the cherry picking of the best customers with low rates.*

## Question 8

*Stop cherry picking A+ borrowers and get back to original mission of helping young and distressed farmers.*

*I have had 3 loans in our portfolio which only 1 of which would be class 1 business being pirated by FCS with below FCS market rates. On the plus side the FMAC II program has been valuable to use and has helped those clients FCS is unwilling to serve. Rates? Rates? Rates?*

*FCA continues to promote unsafe practices by seeking to make below market loans.*

*I find it absurd that the free enterprise financial system is in direct competition with a federal agency such as FCA. Particularly, when this agency has access to markets with lower costs of funds and uses those funds to offer products at lower interest rates to the public then the independent markets that pay taxes to support those agencies. The FCA should be abolished or be required to offer rates exceeding the market.*

*FCA needs some control over predatory pricing policy.*

## Taxation

### Question 7

*FCS Institutions subject to the same tax code as commercial lenders. Competitive advantage is huge.*

*Be sure that FCA has every tax and compliance issue that affects commercial banks.*

*The unchecked tax-subsidized expansion of the FCA at the expense of the tax-paying private sector.*

*Pay State and Federal taxes like the rest of U. S. businesses.*

*Pay taxes like your competition.*

*I disagree with any proposal to expand FCS in any manner that does not convert FCS to a fully taxable institution.*

*If FCA is going to compete with commercial banks put them on the same tax plan.*

*Government backed enterprises – non-taxed should not be competing against tax-paying private enterprise.*

*Niche performance - are they simply tax exempt competitors, or do they fulfill a real need today?*

*FCA should stick to its original charter - supply credit to areas of agriculture that cannot obtain it through conventional means. GSE's should not compete with tax paying entities.*

*The issue of the continuation of FCS as a GSE. It has become very apparent that the FCS local association lenders have drifted away from their focus of lending to independent farming entities and instead pursue large-scale commercial credits. For this reason, the time has come to remove the tax advantages enjoyed by the FCS as a government sponsored entity.*

*I would like to see taxation of income the same as other lenders with the possible exception of borrowers with special needs.*

*Taxation of the Farm Credit Banks that operate for profit to help level the playing field.*

*GSE's should not compete with tax paying entities.*

## Question 8

*Abusing tax-exempt status.*

*I would like to see FCS become a lender of last resort again or pay taxes.*

*Unfair tax treatment, FCS should pay income taxes when they are the lead competition to taxpaying institutions. Beneficial funding sources.*

*I would like FCA to let people know they pay no income tax and are not interested in smaller farms that are having a struggle.*

*I am a former official of AgriBank. FCS is continually seeking ways to expand outside their original chartered purpose. This would be acceptable, provided they compete on an equal basis with commercial, tax paying institutions.*

## Competition with Banks

### Question 7

*Consider the role of community banks and try to establish partnerships with them instead of being a competitor.*

*The ability of the system to compete long term should be a factor in adopting regulations to recognize industry changes.*

*Should have to compete on same grounds as commercial banks - level playing field for everyone.*

*Commercial banks should be able to use FCA money without fear of losing the customer in total.*

*Need to limit the products available to FCS customers that allow competition with local full service banks. FCS offers checking, savings and other bank products while maintaining their favorable GSE status and tax exemptions. They should be examined by the OCC in these areas and be required to abide by the same rules and regulations that banks are or not be allowed to provide these services.*

*To have them treated as commercial banks*

*Issues that will help FCS be competitive.*

*Prohibition on deposit taking.*

*Prohibition on Deposit Taking - FCS institutions, due to their GSE status, are supposed to be prohibited from taking deposits. In fact, FCA's own website states, "System institutions, unlike commercial banks or thrifts, do not take deposits." Yet, several FCS institutions have advertised interest-bearing deposit and checking accounts under the labels of "cash management accounts" or "funds held accounts". FCA, as the regulator, should take actions against these FCS institutions, which are clearly in violation, by taking deposits.*

*Prohibition on deposit taking.*

### Question 8

*Stick to what you were created for and don't try to become commercial banks.*

*Everyone should have to compete on the same grounds as commercial banks.*

---

Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?  
Question 8: Additional Comments.

*We bailed them out - why did we not learn our lesson. They take our best customers at rates below our cost. They finance our bottom third when no other bank will takeover. How do they make a profit? Is anyone looking?*

## **Scope of Lending Regulations**

### **Question 7**

*Eligibility - FCA notes they amended two regulations that govern eligibility and scope of financing for farm-related service businesses and non-farm rural homeowners. However, the decision by the U.S. Court of Appeals for the District of Columbia Circuit was made January 19, 1999. FCA's final rule amending the two regulations, which were required by the Court, were not implemented until July 12, 2001 - fully two and one-half years later! This extremely slow response to the District of Columbia Circuit Court is inexcusable and undermines FCA's credibility as a professional regulator. There was simply no reason for such delays and it gives the impression that FCA was showing contempt for the Court's decision. Therefore, FCA's rulemaking did not adequately implement the Farm Credit Act.*

*In my opinion, FCA has way overstepped the original intent to help America's farmers. FCA continues to finance wealthy individuals with minimal farming interest - this is wrong. FCA should be a lender of last resort. The only way FCA should make a loan is if a commercial lender denies application.*

*Eligibility.*

*Something on lending, what purposes are covered?*

*Expand scope of lending.*

*Scope of lending to smaller farmers and part time farmers.*

*Remove regulation-limiting service to part time farmers.*

*Limiting activities to original intent of System.*

*Are they making loans to operations which meet Farm Credit's original intentions? i.e. we have noticed an increase in Farm Credit's recruitment of our best customers and also loaning for non-ag purposes.*

*FCS needs to adhere to the original intent and purpose of their charter. Continual attempts to expand beyond the charter are only self-serving to executive management.*

*FCS system only makes loans to strong customers.*

*Eliminate distinction between full and part time farmers with respect to eligibility and scope of financing.*

*Remove the distinction between full and part time farmers.*

*Lending to "non agricultural" borrowers.*

*FCA should stick to its original charter - supply credit to areas of agriculture that cannot obtain it through conventional means.*

*Restrict eligibility to only full time farmers.*

*Evaluate present and proposed authorities as compared to the original purpose of the FCS.*

*Expanded definition of customer.*

---

Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?  
Question 8: Additional Comments.

*Stop FCS abuses such as FCS loans for rural estates, which clearly fall outside the scope and intent of FCS!*

*Need to quit loaning to grow - you have ideas of grandeur.*

*I believe the FCS should be required to satisfy its original goals of providing financing to all farmers. In our area they are targeting large farms and provide very low rates while smaller farmers pay higher rates and receive a lower level of service. Before any additional powers are provided these items should be addressed.*

*Return FCS to Congressionally mandated activity.*

*They need to stay with the purposes they were chartered for and not expand lending authority or become federal or state institution under another charter.*

*Wind energy - define as eligible, as it is the "harvest" of a renewable resource.*

*Service to medium sized farms in trade area by local FCS associations.*

*Eliminating distinctions between full time and part time farmers with regard to eligibility and scope of financing issues.*

*Remove, reduce, or revise the regulatory limits on serving part time farmers.*

*Continue looking at scope and eligibility to ensure FCS can grow with a changing agriculture that is more tied to its markets and suppliers than ever before.*

*Scope of lending issues for less than full time farmers.*

*Clarification of scope of lending issues for less than full time farmers.*

*Issues for less than full time farmers.*

*Relax eligibility and scope of financing regulations.*

## Question 8

*Eligibility should remain focused on farmers, ranchers and rural America.*

*FCS has expanded into lending not related to agriculture by stretching the rules. In our area rural housing loans have been a big focus. There are adequate lenders other than FCS to serve this market. FCS tries to go beyond original charter.*

*Why are the land banks now promoting "recreational property" loans? This outfit was chartered to loan to farmers.*

*As a commercial banker I see instances in our area where FCS appears to stretch by advertising for and making mortgages to, what I consider, are non-eligible customers. However, there are so few situations that it isn't worth the effort to protest.*

*The 20A to 35A pastureland is not eligible. No one will loan on this small of a farm. The 10 - 15 cows it will run are not considered big enough for Farm Credit.*

*The FCA needs to focus its attention on farm clients that cannot receive financing from normal, financing entities. I believe the FCA has lost its direction and purpose as it was created.*

*The FCA has totally lost track of what it's original founders set it up for: to help keep people on the farms and ranches and to finance operations that are all sizes including beginning farmers. In*

*the country it appears FCA is aggressively seeking wealthy, larger farmers who can borrow anywhere. They are getting them with interest rates below what locally owned banks can do it for.*

*I can only speak of the experience with our local FCA's but they have switched their emphasis from helping out the farmer in need to creating a sliding scale for interest rates that only encourages the top of the line farmers from borrowing from FCA. FCA is also competing in the residential real estate market with long term interest rates using Government supported funding. If FCA is not in existence to primarily work with farmers who have no alternative financing, why do they receive Government Agency status?*

*The entire Farm Credit System is a joke. You use subsidized funds to fund rich people that could get a loan anywhere.*

*FCA has become a detriment to the family farm by competing for only the bigger wealthier businesses, which is expediting the demise of smaller family farms.*

*The Farm Credit System is abusing the purpose and intent that the founders of the FCS envisioned.*

*FCS has moved far beyond its original purpose, which was to fill a gap in Ag Financing. There is no gap at present and now FCS is vigorously competing with taxpaying lenders for their best customers.*

*FCS needs to provide more long-term assistance to small and medium sized farmers not just the largest. Requirements to get long-term consideration is unfair competition given the GSE rates.*

*I believe FCA has lost sight of its initial purpose and mandate. Their focus has been on larger, wealthy, older farm operators.*

*Concerned about new emphasis on eligibility requirements. Position of FCA has reversed for no stated reason.*

## **YBS**

### **Question 7**

*Borrowers Rights, Scope and Eligibility for Rural Housing, Part time Farmers and Related Businesses.*

*Real assistance to small and beginning farmers.*

*A return to the original Farm Credit System goals of assisting farmers that do not have other credit sources.*

*Beginning Farmer Requirements.*

*YBS - seems to have been made too much of a political issue without a clear understanding of the intent of Congress.*

*Are we (you) reaching out to small farmers and ranchers as required by your government charter? - mission?*

*Across the spectrum lending to small - medium sized operations and working with existing customers who have financial problems.*

*A type of "CRA" - Community Reinvestment Act requirement that makes the FCS actually extend credit to all classes of customer, not just the highest dollar loan volume.*

*CRA performance criteria - not serving the small farm family.*

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Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?  
Question 8: Additional Comments.

## Question 8

*FCS does not make loans to younger beginning farmers. Just cherry picks large accounts.*

*Every corporation should report to all shareholders on a regular basis. Need to report on lending to small and beginning farmers. Prove that the System is Farmer owned and controlled.*

*FCA is placing too much emphasis on YBS activity. Data shows this section is being adequately served.*

*This issue (YBS) has increased or placed an additional burden on associations in terms of reporting and time spent on reporting.*

*Regulatory burden has lost emphasis in the Agency and needs to be reevaluated. An example is YBS focus.*

*Are they making small loans to "Beginning Farmers?"*

## **Borrower Rights**

### Question 7

*Borrower rights should be reviewed and FCS should not be held to a higher standard than non-system lenders.*

*Relief from borrower rights regulations is needed.*

*Borrower rights needs to be updated.*

*Borrower Rights – comprehensive review of 12 CFR section 14 to see if it can be simplified.*

### Question 8

**No comments were received.**

## **Farmer Mac**

### Question 7

*Capitalization of loans having Farmer Mac Standby Commitments.*

### Question 8

*Review Farmer Mac regulatory standards and ratios and confirm that Farmer Mac is operating safe and sound. Farmer Mac Directors and employees should be held to the same standard of conduct as FCS.*

*If Farmer Mac Capital Regulation is safe and sound, when can System institutions expect lower regulatory capital requirements?*

*Some concern over the capital requirements for Farmer Mac i.e., is the level adequate!*

*When it comes to Farmer Mac, I question whether FCA does its job. It looks like conflict of interest, insider advantages, a selected board by its CEO!*

*I would like to know how a CEO of a Farm Credit institution can sell his bad loans to Farmer Mac, then get Farmer Mac to put him on their board, and then he is on the audit committee. It sure smells!*

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Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?

Question 8: Additional Comments.

*I wonder if that CEO took vacation days from his FCS position to serve his board job of Farmer Mac? Stock options should not be part of their pay.*

*Look at Farmer Mac.*

*I worry about Farmer Mac, with CEO over paid and Director stock options.*

## **OFI Comments**

### **Question 7**

*I would like an Agricultural Banker appointed to the FCS Board so the interest of borrowers working with OFI's are addressed. Banks by law are supposed to be able to discount - but periodically we cannot!*

*To restore an equitable funding and discount relationship with OFI's.*

*Promoting access by other financing institutions to FCS funding/discount relationships by improving impediments/barriers currently in place.*

*Enhance OFIs Funding Access - FCA should adopt recommendations made in recent comment letters and in bankers testimony at the meeting in Des Moines, Iowa last year as a final rule for Other Financial Institutions or OFIs. The ANPRM was published two years ago and FCA still has not come forward with a final rule to enhance access funding to non-FCS institutions. While we appreciate FCA's public meeting conducted in Des Moines on this topic, we believe it is now time to act.*

*Enhance OFIs funding access.*

*I am a CEO of a bank that has an OFI. Under the rules of the Farm Credit Act, OFI's were to be allowed to do anything that a PCA could do. But in today's world there are only Ag Credit Company's, where a lender can make all types of loans both short and long term. Therefore we would like the laws changed to allow us to make long-term real estate loans and discount them, as our present day equals, the ACC can do.*

*Our concern is the regulatory issue pertaining to farm real estate lending requirements for an OFI. The regulation, as it stands today, limits an OFI to make a real estate loan to a farmer for a maximum amortization of 15 years. With the price of farm real estate in today's market, this is an undue hardship to the farmers to cash flow the payments on a 15 year amortization. A survey of local lenders indicates that the general practice of farm real estate loans is to have an amortization of 25 to 30 years. We would ask that this regulation be reviewed and changed to provide a competitive and efficient product for OFI lenders to offer to farmers and ranchers.*

### **Question 8**

*I do not have sufficient knowledge to comment on the above 6 items. However, after testifying at Des Moines regarding OFI's, I see no change in business practice or attitude by FCS to OFI's or people like our bank who own OFI's. We accomplished what?*

*One public meeting does not constitute adequate public involvement on a National basis.*

*Who was advised of the public meeting held in Des Moines last year??????*

## National Charters

### Question 7

**18 Responses stated allow National Charters, open territories, or elimination on territorial jurisdiction. Other comments included:**

*National Charters - We believe FCA made the right decision to withdraw the National Charter proposal. We were disappointed that FCA initially labeled the proposal "Customer Choice" which was misleading. The label of "National Charters" more adequately described this proposal. Such distinctions are important if FCA intends to "adequately involve the public". We also believed this proposal would have undermined the safety and soundness of the System and would further exacerbate predatory pricing concerns.*

*Recall the National Charters.*

*Expanded definition of customer and increased mobility of financial services providers.*

*National Charter - open competitive environment for FCS entities.*

*Chartered territories need to be eliminated. Customer choice is key.*

*Need ability for my FCS lender to finance me when I move or chose to finance with any FCS lender.*

*Need FCS District-wide charters or National Charters.*

*Find a solution to "customer choice" for loans and financial services.*

*National Charters - let the client decide!!*

*Expand authority to serve customers with certain product lines beyond traditional borders.*

*Would like to see National Charters taken up again.*

*National Charters - National Charters are essential for FCA clients to be able to have a choice of who to do business with. With a more global economy this is more and more important.*

*I do want to see the eventual approval of National Charters for FCS lending and financial services.*

*Improved provision for Customer Choice. Implementation of Customer Choice.*

*Allow National Charters so direct lenders would be less restricted to geographical boundaries.*

*Abandon National Charter proposal audit for compliance of regulations and policy.*

*Happy to see the plan for National Charters withdrawn.*

*No National Charter.*

### Question 8

*National Charters should not be allowed.*

*National Charters are not necessary as the local association can do a better job of servicing their own Districts, as they know the conditions.*

*National Charters was a total bad idea. It was obvious the route a few "policy makers" were moving.*

*The proposals to allow National Charters and to terminate its FCS charter and become a financial institution under Federal/State charter are ridiculous under present law. If this occurs, then the GSE and the vexing tax exemption should be abolished.*

*Regulatory action that was withdrawn or denied seems to have primarily centered around some within FCS to compete internally.*

*FCS does not need National Charters. The idea has only gotten this far because FCA has been lax in enforcing regulations as originally intended when established.*

*We feel that the proper decision was made concerning National Charters.*

*I am opposed to National Charters and Stock Issuances to new entities.*

*Regarding #3 and especially #5, I was disappointed that the proposed National Charters regulation did not move forward. In light of the continued, rapid consolidation in agriculture, I do not believe that dropping this regulation "recognized market forces" or promoted safety and soundness.*

*Stay in direct Ag lending. Keep the associations in continued lending territories. Will keep them from having out-of-area problems in the future.*

*It's time for FCA to realize the purposes it was intended to fulfill. No National Charters, financing beginning farmer/ag producers.*

*FCA blew the National Charters. It was managed very poorly, regardless of the final decision.*

*Concerning National Charters, FCA did not adequately seek input from all associations.*

## **Investments, Participations, and Syndications**

### **Question 7**

*Purchase of whole loans without keeping originator in the loop or on the hook after the purchase.*

*Mission related investments.*

*Expand mission related investments.*

*Mission related investments.*

*Purchase of whole loans by Associations.*

*Co-op needs ability to purchase notes receivable from current customers or rural holders of notes.*

*Provide authority for association to purchase notes receivable in rural America.*

*Association needs authority to purchase secured notes receivable in rural America.*

*Notes receivable should be purchased by associations to improve liquidity in rural America.*

*Association should have the authority to purchase secured notes from eligible customers.*

*Allow association to purchase notes receivable from rural holders of notes.*

*My co-op needs authority to purchase notes receivable to facilitate liquidity in my operation and in rural America.*

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Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?  
Question 8: Additional Comments.

*Farm Credit Institutions allowed to purchase notes receivable from eligible customers.*

*My co-op needs the authority to purchase notes receivable from its co-op members.*

*Need ability for ACA, PCA, or FLCA to purchase secured real estate notes from currently eligible borrowers.*

*Mission related investments.*

*Mission related investment regulations are still needed.*

*Ability/Authority to purchase secured notes (real estate) from customers to improve rural liquidity.*

*Treating syndications like participations for purposes of borrower rights, stock, etc.*

*Clarification of participation issues.*

*Clarification of Syndications/Participations issue.*

*Participation issues.*

*My greatest concern, at the moment, is the restrictions, which appear to being put upon syndications - they should continue to be handled as are participations.*

*Syndication Loans*

## Question 8

*Some concern over "syndication" requirement on borrower stock and "rights".*

*Syndicators should be included in some treatment as participations.*

## Rural Housing Regulation

### Question 7

*Modernize definition of "moderately priced" rural homes.*

*Banish Rural Home Loan exception! Not even somewhat related to agriculture and/or Farm Credit.*

*The issue of residential lending. The era has passed when the FCS could draft a loan to the farmer who wished to build a modest home on the family farm. Today, the FCS has marketed its pricing advantage as a GSE to solicit "upper bracket" residential loans from borrowers with no reasonable connection to agriculture. This was not the intent of the farm credit act and defies the spirit of the mission of Farm Credit Services.*

*Home loans - we can't compete.*

*Limits regarding rural housing communities increased above 2,500 limit.*

*Update 613.3030(a)(4) moderately priced. Current definition does not reflect current housing market nor is it flexible enough to address future housing markets.*

### Question 8

*Modernize or update the appraised values used in setting limits on rural home loan lending.*

---

Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?  
Question 8: Additional Comments.

## Other Regulations

### Question 7

*Interest rate disclosure not necessary when loans are indexed in contract with customer - mailing interest rate changes are costly to system institutions.*

*No longer need disclosure of interest rate change on variable rate loans if rate is indexed to a known index (i.e. prime or libor).*

*Conflict with Insurance Reg. & Patronage or Co-op Insurance eliminated.*

*Revisit Capital regulations to allow loans to part time/lifestyle farmers, which include small acreages and the borrower's main residence to be capitalized at a risk rating like home loans to non-farmers.*

*Need risk-based Capital Standards for FCS.*

*Require Outside Appraisers - Current FCS lending and appraisal practices raise significant safety and soundness concerns that should be addressed by FCA regulations. Banks complain that FCS loan officers are using their own in-house appraisals to make mortgage loans for 100 percent of property value and then lending additional operating loans on the same property as a second mortgage. These in-house appraisals are often inflated and significantly above the levels at which independent appraisers would assess the value of the collateral. Community banks and other commercial lenders would never be allowed to conduct their own in-house appraisal in many of these situations. Banks are required to obtain an "independent" appraisal on any real property with an estimated value over \$250,000 under joint interagency real estate and appraisal guidelines issued by the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS). FCS institutions should be required to follow similar requirements, which will result in greater safety and soundness of FCS institutions.*

*Stock - elimination of stock @1000/270 to 1 share*

*Allowing Associations to change funding banks without the competing that currently exists.*

*Less.*

### Question 8

*Proposed regulations for Electronic Commerce (annual reports) and Loans to Designated Parties are overly burdensome.*

*Need to be more forceful and bold in gaining new regulations.*

*New electronic signatures and reporting guidelines represent positive movement forward; adapting to the changing times and improved technology. When a proposed rule is published, provide copies of Federal register documentation to all FCS institutions.*

*Withdrawn Regulations - We agree with FCA's decision to withdraw the National Charter; Stockholder Vote on Lending Authority; and Loans to Designated Parties proposals.*

*Examples abound where FCA regulations impose limitations on System operations that exceed those contained in the Act. We pointed one such incidence out in our comments on proposed changes to regulations guiding Loan Purchases and Sales. We had suggested that the System be permitted to purchase interest in loans from individuals and others by removing restrictive definitions. The Agency failed to act on this recommendation. It might be more productive that*

*the Agency survey the System regarding what it would like to see included in the regulatory agenda before the agenda is acted upon by the board rather than after the fact.*

*My major concern is with the Loan Purchases and Sales regulatory action, which is yet unresolved. Performance measures 4, 5, and 6 above were not dealt with adequately on this important matter.*

*The ability of the system to compete long term should be a factor in adopting regulations to recognize industry changes.*

*Would suggest the Agency promote true cooperatives and patronage throughout the System.*

*FCA should comply with the same set of appraisal rules that the commercial banking industry does! Any loan over 200K requires an "outside" appraisal!!!*

*613.3020 is not clearly written. Ambiguity between farm related service and farm related business.*

*Making 1st mortgage loans for 100 percent of value (on their "own" appraisals), and then lending additional "operating" loans on the same property as a second mortgage! In other words, lending 120 percent of value on land!!! (Are they "hiding" the 2nd mortgage?)*

*We trust that natural corporate issues i.e. Enron will not cause a reversal in FCA's regulatory philosophy.*

## **FCS Governance**

### **Question 7**

*Disclosures to Shareholders - FCA finalized a public rule (66 fr 14299) that allowed FCS banks not to distribute their annual reports to shareholders of related associations unless the bank experiences a "significant event". [We] believe FCA should require all FCS institutions, including FCS Banks, to grant public access to these annual reports via their websites. This benefits stockholders and the general public, who as taxpayers are ultimately responsible if a failure of the FCS. We believe such public disclosures are necessary to "adequately involve the public".*

*Who really are FCS bank shareholders? Do they know who they are? Make clear in laws and regulations that if FCS bank needs Capital or goes broke that the FCS shareholders are the folks who have to put in the money, not taxpayers.*

*Update of standards of conduct, ownership of stock of customers publically traded stocks, disclosure/approval guidelines, etc.*

*Require better local control with bottom-up input rather than top-down mandatory directions.*

*Official Loans.*

### **Question 8**

*It appears that Farm Credit has lost sight of why it was created. Farm Credit needs local Boards to direct the policy making within Congress' guidelines.*

*FCA needs some control over outrageous salaries at some FCA banks.*

## About FCA

### Question 7

*Meeting with Community Bankers - We believe the FCA, as part of its outreach to the public, should conduct listening sessions with community bankers in various areas of the country to better understand the concerns and issues community banks have with FCS lending practices and FCS activities. This would better allow FCA to take into consideration "market forces" and would better involve the public in FCA's rulemaking activities and agenda settings.*

*Appointment of an Ombudsman – [We] applaud FCA's initiative to develop a proposal on appointing an ombudsman within the FCA. Such a position would make FCA consistent with other top federal financial regulators and would allow FCA to better explain its regulatory policies and procedures to the public, commercial lenders and FCS institutions. It would also facilitate the development of improved relations between commercial lenders and FCS institutions. We encourage FCA to finalize action on this initiative in the near future.*

*Addressing Complaints of Illegal Activities - We have observed that FCA does not disclose the final resolution of instances where bankers point out when FCS institutions are engaging in illegal activities. We believe FCA should fully inform any commercial bank that raises concerns of illegal activities of the final outcome of the alleged illegal activities and how the FCS institution was dealt with. To do any less avoids public accountability and gives the appearance that FCA is hiding instances of illegal actions in order to avoid public scrutiny. Such appearances of favoritism are inappropriate for a Federal regulator.*

*Meeting with community bankers.*

*For a while FCA was willing to work with the System so it could meet the changing needs of American Agriculture, now FCA is just enforcing unresponsive regulations.*

*The Agency should focus on safety and soundness issues only.*

*Until FCA leadership is strengthened, we suggest a low profile related to new FCA regulations.*

*Establish an over-site Board with no conflicts of interest and eliminate loans to insiders and related parties.*

*FCA Governance - it took too long to fill Marsha Martin's position.*

*There needs to be an assessment of the performance of the FCA Board. The inability to communicate with one another is inexcusable at this level.*

*Continue being a partner to management of associations and boards as well as regulators.*

*FCA still struggles to move out of the 1970's/1980's to become an arms length regulator. Focus should be safety/soundness not imposing FCA's business perspectives or operational issues and governance. Regulations should help us compete and carry out our mandate rather than act as a political "olive branch" to commercial banks.*

### Question 8

*I think FCA does a good job and it will be much better when they have a full Board for governance.*

*In my opinion, there is no longer a need for FCA. The government should eliminate this agency. FSA is available as an agriculture lender and is much more effective then FCA in helping the farmer.*

*FCA seems to have become more concerned about what the bankers think of them than about the System's success.*

*Excellent working relationship with Bloomington office.*

*I think you are doing a good job!*

*The FCA is much more concerned with obtaining new powers than operating in a safe and sound manner.*

*FCA should try to be more in tune with trends in banking and agriculture.*

*Too much politics @board level.*

*FCA needs to maintain its role as an arms length regulator. Currently the FCA is interfering in the management of FCS institutions directly. There also needs to be a realization that the long term safety and soundness of the system includes our relevance in the marketplace. Regulations (not statutory change) are not keeping pace with market changes.*

*The Agency should not attempt to be the marketing cheerleader of the system nor should it be an advocate of any authorized structure.*

*FCA has come a long way to achieve success to the farmer borrowers since I was elected as a director. Keep coming.*

*Associations are somewhat isolated from FCA. Improved communications would allow us to better evaluate FCA's performance i.e, informational meetings.*

*In 1996 Congress provided the Agency clear direction regarding the need for ongoing regulatory review. Section 212(b) of the Farm Credit System Reform Act of 1996 states the following, "The Farm Credit Administration shall continue the comprehensive review of regulations governing the Farm Credit System to identify and eliminate, consistent with law, safety, and soundness, all regulations that are unnecessary, unduly burdensome or costly, or not based on law." We believe it imperative that the direction Congress provided be adopted by the Agency in establishing its regulatory agenda. We are concerned, however, that we continue to see regulations that are unduly prescriptive in their approach and that far exceed what is necessary to accomplish the safety and soundness oversight responsibility of the Agency.*

*As the Inspector General for FCA you have a responsibility to inform the board as to whether they are operating in accordance with the law. We strongly urge that you review the regulatory review requirements Congress has mandated for the Agency and notify the Board as to whether the current regulatory development program of the Agency adequately responds to this Congressional mandate.*

*We appreciate the opportunity to attend the FCA informational meetings to provide feedback to FCA Board and staff.*

*The FCA has done a commendable job the last 3 years.*

*Keep up the good work FCA!!*

## **Other Issues**

### **Question 7**

*More for rural development.*

*System probably needs more regulation.*

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Question 7: What regulatory issues would you like to see included in future Regulatory Performance Plans?  
Question 8: Additional Comments.

*Ask opinions about Proposed Regulatory Actions before they become Final Regulations.*

*I would like to know what Regulatory body governs [name deleted] and how they or we can start a mortgage company [name deleted] and why I have not heard of it and it is still in business? And how FCA is involved with it? And was my stock or money used?*

*Expand related services to provide much-needed mortgage (collateral insurance) at affordable rates and health care coverage to borrowers who are not in group plans and cannot afford individual coverage.*

*Abandon loans to designated parties, allow charters to move to other financial institutions, restrict stock sales only to members.*

*See FCC input document which summarizes a survey of Banks and Associations throughout the District.*

*Safety – soundness.*

*Give people like the management who have time - to study new programs (like marketing) help in development.*

*Need authority for patronage to be paid on crop insurance income in my co-op to be paid to those that use crop insurance services.*

*The FCA was bailed out by taxpayers 20 years ago due to overaggressive lending, then subsequently pulled out of many borrowing relationships. I feel that today FCA could be following this same path.*

*Greater recognition of changes occurring in the industry.*

*Reduction in the overall cost of system regulations.*

*Both who is "farming" and rural America are changing. FCA needs to look at these changes so the system can continue to serve rural America.*

## Question 8

*Farmers and Ranchers are vulnerable. Their number is so small they do not have a voice and therefore our number one food provider needs help and it is only going to come from a cooperative - not a private owned corporation or bank.*

*As a former employee of the system I am fully aware that the first priority of the system is self-preservation. With that in mind more protections for the borrower/member is in order.*

*It seems that with the passage of 66FR28641 [an ACA] has become more of a non-farm lender and is unwilling to work with its member borrowers in which the FC System was made for! Please investigate that!*

*When you are accepted as a customer - lets make it a long-term decision (5 yr+) so the time wasted on yearly paper work doesn't eat you up.*

*I don't feel knowledgeable enough on these regulatory actions to comment.*

*Unable to answer - unfamiliar with regulatory development issues.*

*This survey did not include enough background information to allow us to answer the questions with any meaning. In fact, it would appear that the survey was in fact designed to bring out neutral or no responses.*

*I am unable to answer because I am unfamiliar with regulatory development issues.*

*FCS uses unfair advantage they have to borrow money with its Government Agency Status. This needs to change.*

*All GSE's should register with the SEC under the SEC Act of 1934, thereby requiring GSEs to comply with SEC rules regarding the scope of quarterly and annual financial disclosures.*

*No SEC filings or fees.*

*Safety and Soundness issues: Someone needs to monitor what the loan officers are doing in the field.*

*Patronage income in co-op should be shared with those that use the source service, i.e. crop insurance.*

## APPENDIX III – SURVEY INSTRUMENT

### FCA Regulatory Development Program Survey Questionnaire

The Farm Credit Administration (FCA or Agency) is committed to a regulatory philosophy that promotes a safe and sound, competitive Farm Credit System (FCS or System). The FCA Board wants to achieve this goal with minimum regulatory burden. The objective is to facilitate better customer service and improved efficiency for FCS institutions. Management believes this objective will result in better competitive, efficient, and relevant financial products and services for America’s farmers, ranchers and their cooperatives, and to rural America.

Please complete the survey below on FCA’s Regulatory Development Program to help measure the Agency’s performance. As a part of the FCA’s continuing efforts to improve, The Office of the Inspector General is soliciting your input regarding the Agency’s products and services provided since October 1, 2000.

Type of Respondent (Please check one)

- |  |  |
|--|--|
| 1. FCS Institutions or Interest Groups/Lobbyist <input type="checkbox"/> | 5. Congressional <input type="checkbox"/>  |
| 2. Commercial Banker/Lobbyist <input type="checkbox"/>                   | 6. Government/GSE <input type="checkbox"/> |
| 3. FCS Customer <input type="checkbox"/>                                 | 7. Public <input type="checkbox"/>         |
| 4. Commercial Bank Customer <input type="checkbox"/>                     |  |

For each statement, please circle the one that best indicates how you feel about the following:

PERFORMANCE MEASURE	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree
1. FCA achieved the objectives stated in the enclosed Regulatory Actions.					
2. FCA adequately involved the public to seek its perspective regarding rulemaking activities.					
3. FCA’s rulemaking activities promoted safety and soundness for the System.					
4. FCA’s rulemaking activities implemented the Farm Credit Act without imposing unnecessary regulatory burden.					
5. FCA’s rulemaking activities recognized market forces and encourage innovation for System institutions.					
6. FCA used plain language that is easy to understand in rulemaking activities.					

7. What regulatory issues would you like to see included in future Regulatory Performance Plans?

8. Additional Comments:

9. If you would like the Inspector General (IG) to contact you, please provide the following:

Name of Person to contact: \_\_\_\_\_  
 Phone Number of contact person: \_\_\_\_\_

If you want to discuss these questions, please call the Inspector General, Stephen Smith, at (703) 883-4030 or send e-mail to [smiths@fca.gov](mailto:smiths@fca.gov) or [fca-ig-hotline@starpower.net](mailto:fca-ig-hotline@starpower.net).

**REGULATORY ACTIONS  
FY 2001**

<b>REGULATORY ACTION</b>	<b>PURPOSE</b>
<b>FINAL</b>	
Stock Issuances 66 FR 16841 3/28/2001	Allows FCS service corporations to sell stock to non-FCS entities but requires adequate disclosures to investors. Also allows an association to issue unlimited amounts of stock to its funding bank in exchange for capital the association, in turn, may distribute to its borrowers. (Effective date - 5/14/2001)
Farmer Mac Risk-Based Capital 66 FR 19048 4/12/2001	Establishes risk-based capital regulations for Farmer Mac, including definitions, methods, parameters, and guidelines for developing and implementing the risk-based capital stress test. (Effective date - 5/23/2001)
Disclosures to Shareholders 66 FR 14299 3/12/2001	Provides that an FCS bank need not distribute its annual report to shareholders of its related associations unless it experiences a "significant event." Requires associations to disclose specified information about their financial and supervisory relationships with their funding bank. (Effective date - 4/27/2001)
Eligibility 66 FR 28641 5/24/2001	As a result of a 1/19/1999, decision by the U.S. Court of Appeals for the District of Columbia Circuit, we issued a direct final rule amending two regulations that govern eligibility and scope of financing for farm-related service businesses and nonfarm rural homeowners. (Effective date - 7/12/2001)
<b>PROPOSED</b>	
National Charters 66 FR 10639 2/16/2001	Would allow FCS direct-lender associations to obtain national charters so they are less restricted by geographical boundaries. (Comment period extended to - 4/20/2001)
Electronic Commerce 66 FR 53348 10/22/2001	Would remove regulatory barriers to e-commerce and create a flexible regulatory environment that facilitates the safe and sound use of new technologies by FCS institutions and their customers. (Comment period end - 11/21/2001)
Termination 66 FR 43536 8/20/2001	Reproposed rules to allow an FCS institution to terminate its FCS charter and become a financial institution under another Federal or state chartering authority. (Comment period end - 10/19/2001)
Loans to Designated Parties 66 FR 48098 9/18/2001	Reproposed rules governing the approval of loans to "designated parties," those FCS "insiders" most likely to have a conflict of interest and FCA and FCSIC employees who are authorized to borrow from the System. When first proposed, this rule was titled, "Insider Loan Approval." (Comment period end - 10/18/2001)
<b>PUBLIC MEETING</b>	
Public Meeting on OFIs and Alternative Funding Mechanisms 66 FR 35428 7/5/2001	Public meeting in Des Moines, Iowa, about the funding and discount relationship between other financing institutions and System banks. The meeting also addressed other partnering relationships between FCS and non-FCS financial service providers.

**REGULATORY ACTIONS  
FY 2002**

<b>REGULATORY ACTION</b>	<b>PURPOSE</b>
<b>FINAL</b>	
Electronic Commerce 67 FR 16627 4/8/2002	Removes regulatory barriers to e-commerce and creates a flexible regulatory environment that facilitates the safe and sound use of new technologies by FCS institutions and their customers. (Effective date - 5/8/02)
Termination 67 FR 17907 4/12/2002	Allows an FCS institution to terminate its FCS charter and become a financial institution under another Federal or state chartering authority. (Effective date - 5/13/02)
Loan Purchase and Sales 67 FR 1281 1/10/2002	Enables FCS institutions to better use existing statutory authority for loan participations by eliminating unnecessary regulatory restrictions that may have impeded effective participation relationships between System institutions and non-System lenders. (Effective date - 3/4/2002)
<b>WITHDRAWN</b>	
National Charters Not Published in the <i>Federal Register</i> 10/11/2001	Would allow FCS direct-lender associations to obtain national charters so they are less restricted by geographical boundaries.
Stockholder Vote on Like Lending Authority Not Published in the <i>Federal Register</i> 10/11/2001	Would carry out territorial consent requirements of the Farm Credit Act of 1971, as amended (Act). Section 5.17 of the Act requires FCS stockholders in certain areas of the country to vote on whether to allow other System associations with like lending authorities to lend in their territories.
Loans to Designated Parties Not Published in the <i>Federal Register</i> 3/12/2002	Reproposed rules governing the approval of loans to “designated parties,” those FCS “insiders” most likely to have a conflict of interest and FCA and FCSIC employees who are authorized to borrow from the System.