
THE FARM CREDIT COUNCIL

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November 24, 2008

Office of the Comptroller of the Currency
regs.comments@occ.treas.gov
Docket Number OCC-2008-0016
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219

Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket No. R-1335
Ms. Jennifer J. Johnson
20th Street and Constitution Avenue, NW
Washington, DC 20551

Federal Deposit Insurance Corporation
comments@FDIC.gov
RIN 3064-AD34
Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
550 17th Street, NW
Washington, DC 20429

Office of Thrift Supervision
Docket ID OTS-2008-0014
Regulation Comments
Chief Counsel's Office
1700 G Street, NW
Washington, DC 20552

RE: Minimum capital Ratios; Capital Adequacy Guidelines; Capital Maintenance; Capital Treatment of Certain Claims on, or Guaranteed by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)

Dear Sir/Madam:

The Farm Credit Council (FCC) is the national trade association for the Farm Credit System (System). The System includes 5 banks and 92 associations that provide credit and financially related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural



cooperatives, as well as other rural residents and businesses. The System, created in 1916, is the oldest operating Government Sponsored Enterprise (GSE) and serves as the largest single private source of credit for agriculture in rural America.

As a GSE, the System banks issue debt through the Federal Farm Credit Banks Funding Corporation (Funding Corp.). The System operates under the regulatory supervision of the Farm Credit Administration (FCA), an independent agency in the Executive branch of the U.S. Government. In addition, debt securities issued by the Funding Corp. on behalf of the System are insured by the Farm Credit System Insurance Corporation (FCSIC), another independent agency of the Federal government. System institutions pay premiums to FCSIC which are deposited to a separate, segregated Insurance Fund that is in place to protect investors against the loss of principle or interest. In addition, under the System's authorizing legislation (12 USC 2001, et seq) the 5 System banks are jointly and severally liable for all System-wide debt issuances. All System banks and associations are cooperatively owned by their members.

Thank you for the opportunity to comment on the above-referenced proposed rule. First, we want to emphasize our support for, and agreement with, the Comment on this proposed rule filed by the Funding Corporation.

As the "Supplementary Information" in your proposed rule states, the action to lower the risk-weighting for debt obligations issued by Fannie Mae and Freddie Mac is based on two factors. The first is the enhanced security provided to investors as a result of the Treasury Department's action to establish a credit facility for their benefit. The second factor cited is to improve mortgage affordability by providing additional confidence to debt holders (and presumably resulting in lower interest costs to Fannie Mae and Freddie Mac).

By choosing to only lower the risk weightings for Fannie and Freddie, you are presuming that all GSEs were on (relatively) equal footing prior to the Treasury action to create the credit facility. As the Federal Home Loan Bank of New York has noted in their comment letter (November 4, 2008) on this subject, there are important differences between the GSEs. Even more so than the Home Loan Banks, the Farm Credit System remains very well capitalized, has continued to generate strong earnings, and is maintaining excellent credit quality. (See the "Quarterly Information Statement" issued by the Funding Corporation on November 6, 2008 for additional information available at www.farmcredit-ffcb.com.) As the FHLB of New York notes, subsequent to the Treasury's action, Fannie and Freddie debt has been trading at significantly more favorable rates than the debt of other GSEs. If the proposed rule is enacted (without providing similar relief to the Farm Credit System), the effect will be to (further) penalize the Farm Credit System for acting in a safe and sound manner.

The proposed rule seems to ignore the fact that the Farm Credit System has been operating for more than twenty years now under the close scrutiny of an independent regulator with full enforcement powers including the ability to issue capital directives, cease and desist orders and to impose civil penalties. The proposed rule also fails to recognize the important distinction in ownership of the Farm Credit System. As cooperatives, Farm Credit institutions have no publicly traded stock and (similar to the Home Loan Banks) have no investor ownership seeking higher returns through appreciation in stock prices.

We believe it is imperative that you consider the fact that the Farm Credit System is the only GSE to operate with a federally dedicated insurance fund protecting investors. This fund, currently stands at \$2.8 billion. The Congress specifically acted to strengthen the Insurance Corporation and increase premiums paid by the System as a part of the Farm Bill in 2008. The net result of this is that commercial banks that invest in System bonds are protected against loss like investors in no other GSE.

Finally, we are deeply concerned about the potential impact this rule will have on America's agricultural producers. As you know, the agricultural sector has been one of the few bright spots in the U.S. economy during the recent economic downturn. Just as you have noted the importance of maintaining mortgage affordability for homeowners, the cost of credit to agricultural producers is a significant factor in their operations. While the System provides about 35% of the credit needs of U.S. farmers and ranchers, the competition that exists between System institutions and other commercial lenders provides a healthy discipline that benefits all agricultural producers, not just those who utilize the System. Taking actions that will increase the costs to Farm Credit through differential risk weighting among the GSEs will have the net effect of increasing rates to all farmers. We urge you to not adopt a rule which unfairly creates a "multi-tiered" differentiation between the various GSEs, and thereby penalizes American agriculture.

While it may be appropriate to reduce the risk weighting for all GSEs based on various economic factors, we strongly oppose a rule that grants more favorable treatment for Fannie Mae and Freddie Mac while creating a disadvantage for other GSEs that have continued to operate in a safe and sound fashion. We implore you not to take an action that will result in increased costs to U.S. farmers and ranchers.

We appreciate this opportunity to provide comments. If you have any questions, or we can provide other information, please do not hesitate to contact us.

Sincerely,



Charles P. Dana
General Counsel