THE FARM CREDIT COUNCIL

By Electronic Submission
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April 30, 2012

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

RE: Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies. Docket No. 1438, RIN 7100-AD-86

Dear Sir or Madam:

The Farm Credit Council (FCC) is the national trade association for the Farm Credit System (System). The System includes 4 banks and 83 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.

Thank you for the opportunity to comment on the above-referenced proposed rule. Our comments are specifically directed to Question 59 and the language in Section 252.97 as proposed. The language in Section 252.97 (a)(2) includes the following, "…and any additional obligations issued by a U.S. government sponsored entity as determined by the Board." We strongly urge the Board to include the System's insured debt obligations within the transactions exempted from the limits on credit exposure.

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. As of year-end 2011 the Insurance Fund was in excess of the statutory 2% secure base amount. At its April 2012 meeting the FCSIC Board

approved the refund to the System of approximately $220 million in excess funds. In taking this action, the FCSIC board noted that no losses to the Insurance Fund were anticipated. In addition, under the System's authorizing legislation (12 USC 2001, et seq) the 4 System banks are jointly and severally liable for all System-wide debt issuances. All System banks and associations are cooperatively owned by their members.

Under the Farm Credit Act, System obligations are lawful investments for all fiduciary and trust funds and may be accepted as security for all public deposits (12 USC 2157). Also, any Federal Reserve System member may buy and sell such obligations, subject to the same limitations placed upon the purchase and sale of State, county, district and municipal bonds (12 USC 2159).

As reflected in the 2011 Annual Report to Investors issued by the Funding Corporation, and by the action taken by FCSIC noted above, the Farm Credit System remains very well capitalized, has continued to generate strong earnings, and is maintaining excellent credit quality. The Farm Credit System has been operating for more than twenty years 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. As cooperatives, Farm Credit institutions have no publicly traded stock and (similar to the Federal Home Loan Banks) have no investor ownership seeking higher returns through appreciation in stock prices.

Recognizing the relatively small size of the System, with approximately $170 Billion in insured obligations, it is unlikely that any single "covered company" would begin to approach the exposure limits in the Proposed Rule. Nevertheless, imposition of the rule, particularly to those institutions that operate as part of the selling group for System debt, would result in additional administrative expense for those institutions, and place System debt in a less-desirable category of investments, and cause System debt costs to increase.

We are also concerned about the potential impact this rule will have on America's agricultural producers if System Debt is not excluded from coverage. 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 in other rule-makings 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 result in System debt being treated by investors as similar to other corporate debt will inevitably increase the costs to Farm Credit and have the net effect of increasing rates to all farmers.

Elsewhere in the Proposed Rule the Board establishes a mechanism for reducing the calculation of credit exposure a covered institution has to an entity based on the existence of an "eligible protection provider". In Section 252.92 (u) (4), the Federal

Agricultural Mortgage Corporation (Farmer Mac) is specifically enumerated as such a provider. Farmer Mac, like the System, is a government-sponsored institution under the regulation and supervision of the Farm Credit Administration. However, Farmer Mac does not have the Insurance Fund backing its obligations. It also does not have the same ownership structure. Given the established Congressional treatment of System debt obligations as authorized investments, specifically exempting System debt obligations in Section 252.97 is certainly appropriate.

We believe that based on the strong financial condition of the System, along with the presence of a separate insurance fund controlled and administered by a Federal agency, together with a strong, safety and soundness regulator that the Board should continue to treat System debt in the same manner it has for years. If, in the event that the Financial Stability Oversight Council (Council) was to determine that a Covered Company was holding an inappropriate amount of System debt, it would have the authority to direct it to reduce its exposure. Similarly, if the System were to experience financial events that caused the FCSIC to change its projections regarding the likelihood of losses in the Insurance Fund, the Council could make an adjustment.

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