Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

November 13, 2008

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Temporary Liquidity Guarantee Program - RIN 3064-AD37

Dear Mr. Feldman:

The Farm Credit Administration (FCA or Agency) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee (TLG) Program interim rule and amended interim rule published in the *Federal Register* on October 29, 2008,[1] and November 7, 2008,[2] respectively. Our comments pertain to the Debt Guarantee Program (DGP) component of the TLG Program and the potential implications of the DGP for Government Sponsored Enterprises (GSEs), specifically the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). [3]

Background

The FCA is an independent financial regulatory agency in the executive branch of the U.S. Government. Initially created by an Executive Order of the President in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act).[4] The FCA promulgates regulations[5] to implement the Farm Credit Act. The FCA also examines System institutions and Farmer Mac for compliance with the Farm Credit Act, regulations, and safe and sound banking practices. FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

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[1] 73 *Fed. Reg.* 64179 (October 29, 2008).
[2] 73 *Fed. Reg.* 66160 (November 7, 2008).
[3] Farmer Mac is an institution of the System but was created separately from other System institutions and has a separate statutory and regulatory scheme. For discussion purposes in this comment letter, we refer to Farmer Mac separately from the other institutions (primarily banks and their affiliated associations) that make up the System.
[4] 12 U.S.C. § 2001—2279cc.
[5] 12 C.F.R. Chapter 600 (2008).

Under the Farm Credit Act, one of the Agency's key responsibilities is the oversight of System funding activities. The Agency's oversight of funding includes approving consolidated Systemwide debt issuances[6] that fund credit and related services provided to individuals and entities eligible to borrow from the System.

The System is a nationwide cooperative network of borrower-owned financial institutions. It was created by Congress in 1916 and is the oldest of the GSEs in the United States. Its purpose is to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, their cooperatives, and related businesses in rural America. The System is also a key source of credit for agricultural processing and marketing activities, rural housing, rural utilities, and foreign and domestic entities that participate in international agricultural trade. Today, System banks, associations, and service corporations serve all 50 states and the Commonwealth of Puerto Rico.

Congress also established the System to improve the income and well being of American farmers, ranchers and rural residents. The System meets its broad public mission by preserving liquidity and competition in rural credit markets in both good and bad times. The accomplishment of this public goal significantly benefits rural areas and their residents, including young, beginning, small, family, minority, female, and socially disadvantaged farmers, as well as rural home purchasers.

Farmer Mac also plays a vital and growing role in increasing the liquidity and efficiency of rural credit markets. In the Agricultural Credit Act of 1987,[7] Congress established Farmer Mac to facilitate the securitization of agricultural and rural home mortgages for sale into the secondary market. Congress's creation of Farmer Mac was part of its efforts to resolve the agricultural crisis of the mid-1980s and to provide a more efficient means of financing agricultural and rural housing mortgages. The legislative intent in developing a secondary mortgage market for agricultural loans was to increase the availability of long-term credit to farmers and ranchers at stable interest rates, increase liquidity to agricultural lenders, provide new capital for agricultural investments, and enhance the ability of individuals in rural communities to obtain financing for moderately-priced homes. In May 2008, the Food, Conservation and Energy Act of 2008 (2008 Farm Bill) expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives. Farmer Mac is authorized to use these new authorities, along with existing authorities, to provide liquidity to agricultural mortgage lenders and other rural utilities cooperative lenders.

The Agency's Comment

The FDIC published the interim rule in response to its determination of systemic risk pursuant to section 12(c)(4)(G) of the Federal Deposit Insurance Act. Based on FDIC's determination, the interim rule implements the DGP to avoid or mitigate serious adverse effects on economic conditions or financial stability. However, the interim rule's

[6] 12 U.S.C. §§ 2153(c), (d), and 2252(a)(4).
[7] Pub. L. 100-233 (January 6, 1988).

implementation of the DGP may have potential unintended consequences for GSEs. These include potential disruptions, dislocations, and investor confusion in the debt markets that may disadvantage GSEs, including the System and Farmer Mac, as well as highly rated corporate issuers.

Like other GSEs, the System and Farmer Mac do not take deposits but obtain funds for lending and other operations by issuing debt obligations. Based on their GSE status, System and Farmer Mac debt normally trade within a relatively small and stable spread to U.S. Treasury securities with comparable maturities. The FDIC's DGP, which guarantees certain bank debt issued through June 30, 2009, has the potential to alter the market for GSE debt while the guarantees remain in place. It is difficult to determine what the long-term implications of the DGP may be, considering the guarantee fee, opt-out provisions, maturities of guaranteed debt, and other complexities. However, investors may see an incentive to purchase debt guaranteed by the FDIC rather than the debt of GSEs or even highly rated corporate issuers.

As a result, we are concerned that the interim rule may adversely affect the System, its borrowers, and Farmer Mac. The potential adverse effect on the System, Farmer Mac, and the farmers and ranchers of America may not be consistent with the objectives of the DGP to mitigate systemic risks to America's economy and financial stability.

We understand and appreciate the difficult decisions that the FDIC Board of Directors has had to make to address systemic risks and to foster financial stability. We urge you to consider the potential implications of the DGP on GSEs and highly rated corporate debt issuers. Because the economic circumstances that the TLG Program is intended to address are serious and because the DGP is temporary, we neither support nor oppose the interim rule. Instead, we wish to make the FDIC aware of some consequences, perhaps unintended, of the FDIC's actions on GSEs generally and the System and Farmer Mac in particular. Any expansion or extension of the DGP would only heighten our concern.

We would welcome an opportunity to further discuss our observations with you and assist you in analyzing the potential effect of this rule or other approaches on the System and Farmer Mac.

Sincerely,

Leland Strom

Leland A. Strom
Chairman and Chief Executive Officer