



# Federal Farm Credit Banks Funding Corporation

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## Via Federal Express and E-Mail

November 20, 2008

Office of the Comptroller of the Currency  
[regs.comments@occ.treas.gov](mailto: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](mailto:regs.comments@federalreserve.gov)  
Docket No. R-1335  
Ms. Jennifer J. Johnson  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Federal Deposit Insurance Corporation  
[comments@FDIC.gov](mailto:comments@FDIC.gov)  
RIN 3064-AD34  
Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
550 17<sup>th</sup> 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

Dear Sirs:

The Federal Farm Credit Banks Funding Corporation (Funding Corporation), on behalf of the Farm Credit System Banks, appreciates this opportunity to comment on the proposed rule to lower risk weights for claims on, or guaranteed by, Fannie Mae and Freddie Mac

published in the October 27, 2008 Federal Register. This comment letter was developed based upon input from the Farm Credit System Banks.

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. As a government-sponsored enterprise (GSE) the System has a mandated mission under the Farm Credit Act to support agriculture and other vital rural businesses, and we have historically received the implicit support of the United States government, which has allowed the System to reliably access the debt markets and fund that mission at favorable rates. Through its five Banks and 92 Associations, the System provides sound and dependable credit to American farmers, ranchers, their cooperatives, and farm-related businesses. The Associations are cooperatives owned by their borrowers, and the Banks are cooperatives owned by their affiliated Associations or principally owned by cooperatives and other eligible borrowers. As of September 30, 2008, the System's assets totaled \$208 billion, with \$158 billion of the assets consisting of loans, and liabilities of \$180 billion, principally consisting of Systemwide debt obligations that are publicly traded.

We would like to bring to your attention what we believe will be an unintended consequence of the proposed rulemaking. We believe that the proposal would undercut the basic mission set out for the System by Congress by putting the System at a significant disadvantage in access to funding and in the pricing of System debt. We strongly believe that unless the System is treated the same as Freddie Mac and Fannie Mae, the impact of this proposed rulemaking would impair our ability to efficiently access the debt markets. The net result would be an increase in the cost of credit made available to U.S. farmers, ranchers, and other agricultural businesses at the very time when farmers are seeking production financing for next year.

While we believe this is an unintended consequence, it is one that we cannot ignore, especially in light of the cumulative impact of the other actions that have been taken in recent weeks to stabilize the banking sector and the financial markets. In particular, and of considerable concern, is the fact that nearly every action taken to date to address the current financial crisis has altered the fundamental dynamics of what had been a functioning agency debt market. The increasing array of government guarantees, preferred stock investments and other actions (including this proposed rulemaking) have the cumulative effect of crowding out the traditional users of this market that still have a crucial mission to accomplish and extending to non-GSE institutions a preferred position of direct government backing. We are troubled especially since the System has effectively managed its capital, credit and business operations in a prudent, safe and sound manner. It is unreasonable that government policy should negatively impact institutions that have effectively managed their businesses.

Specifically relating to this proposed rulemaking, the proposed action to lower risk weights for claims on, or guaranteed by, Fannie Mae and Freddie Mac would result in a significant differential risk weighting among the debt securities issued by the various GSEs. This proposal would cut in half the amount of capital that banks are required to hold against Fannie Mae and Freddie Mac debt securities, making those debt securities substantially more attractive than the debt securities issued by other GSEs.

As a result of the proposed differentiation between the housing GSE debt securities and System debt securities, and based on current discussions with debt market participants, it is highly likely that higher interest rates on System debt securities and tighter credit availability for farmers, ranchers, and other agricultural businesses would result. Agriculture remains one of the bright spots in the economy, generating jobs, substantial economic activity and net exports for our Nation. Farmers, ranchers and other agricultural businesses face tighter credit conditions and a potential cost/price squeeze as input costs have increased and commodity prices have dropped. Therefore, now is not the time to put a key agricultural lender at a disadvantage in the debt markets, which would then result in reduced credit availability for farmers, ranchers, and agricultural businesses. Since the Farm Credit System has approximately a 35% market share of U.S. farm debt, a reduction of credit availability would have a significant effect on a large percentage of farmers, ranchers and other agricultural businesses.

We would like to note that the debt securities issued by the System are the only GSE debt securities directly protected by a dedicated federal insurance fund, administered by an independent federal agency, the Farm Credit System Insurance Corporation (FCSIC). In addition, the recently approved Farm Bill strengthened that protection by revamping the basis for insurance premiums and providing FCSIC with the ability to significantly increase premiums, which they subsequently did. At September 30, 2008, \$2.8 billion resides in this fund for the sole purpose of protecting the purchasers of System debt securities. In addition, our credit standing is very high and our financial position is sound.

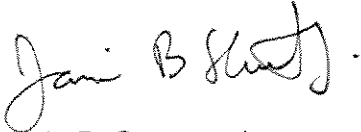
Additionally, in the current financial environment, the System is increasingly relying on domestic sources of funding since foreign central banks have reduced their purchases of U.S. securities. Putting the System at a disadvantage in raising funds from commercial banks would make funding farmers, ranchers and agricultural businesses that much more difficult. This constraint and any limitation on the System's ability to raise funding as agriculture grows would hinder the ability of the System to achieve its congressionally mandated mission to serve agriculture. In the current financial environment, the ability of the System to meet its congressionally mandated mission and be a source of funding for farmers, ranchers, and other agricultural businesses has become even more critical.

As the result of all of the factors noted above, System debt securities should be afforded the same risk weighting as the debt securities of Fannie Mae and Freddie Mac to ensure that the System is not penalized for operating in a prudent and sound manner, while focusing on its congressionally mandated mission. We urge you not to differentiate the risk weighting of debt securities among the various GSEs. However, we believe that lowering the risk weighting of all GSE debt securities might well be merited given the current financial market situation. In any event, we believe that to not treat the System equally under any risk-weighting proposal your agencies might issue would unfairly disadvantage the System and send the wrong message at this time, namely that GSEs will be penalized for operating in a safe and sound manner.

We appreciate this opportunity to provide comments on the proposed regulation. We would be happy to discuss any of these points with you.

If you have any questions, please feel free to contact John Marsh (201-200-8071) or me (201-200-8001).

Sincerely,

A handwritten signature in black ink, reading "Jamie B. Stewart, Jr." with a stylized flourish at the end.

Jamie B. Stewart, Jr.  
President and Chief Executive Officer

cc: Presidents and CEOs and Chief Financial Officers,  
System Banks  
H. John Marsh, Jr., Funding Corporation