AgStar Financial Services, ACA | agstar.com

Via Federal Express and E-Mail

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

Dear Sirs:

AgStar Financial Services, ACA ("AgStar") 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 (the "Proposed Rule").

AgStar, one of the nation's largest Farm Credit Associations, is a member-owned cooperative and a part of the Farm Credit System (the "System"). The System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. One of AgStar's main missions, and indeed the main mission of the entire System under the Farm Credit Act, is to support agriculture and other vital rural businesses.

1921 Premier Drive | P.O. Box 4249 | Mankato, MN 56002-4249
(507) 387-4174 | (866) 577-1831 | Fax: (507) 387-4177

The Proposed Rule, by lowering risk weights for claims on, or guarantees by, Fannie Mae and Freddie Mac, would undercut this basic mission and would result in a significant differential risk weighting among the debt securities issued by various Government Sponsored Enterprises ("GSEs"). The Proposed Rule would essentially 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. This would place the System at a significant disadvantage in access to funding and in the pricing of System debt. This is especially troubling given the fact that the System has effectively managed its capital, credit and business operations in a prudent, safe and sound manner. It is simply unreasonable that government policy should negatively impact institutions that have effectively managed their businesses.

Although we believe the negative impact on the System is an unintended consequence of the Proposed Rule, it is a consequence that we cannot ignore. This is especially true in light of the increasing array of government guarantees, preferred stock investments and other actions (including the Proposed Rule) in recent weeks that have the cumulative effect of extending to non-GSEs a preferred position of direct government backing, while negatively impacting the traditional users of this market that still have a crucial mission to accomplish. We strongly believe that unless the System is treated the same as Freddie Mac and Fannie Mae, the impact of the Proposed Rule would impair the entire System's 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 they are seeking production financing for next year.

Agriculture remains one of the bright spots in the economy through 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 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.

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. Placing the System at a disadvantage in raising funds from commercial banks would make funding farmers, ranchers and agricultural businesses that much more difficult, which in turn 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 by being a source of funding for farmers, ranchers, and other agricultural businesses has become even more critical.

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 have subsequently done. At September 30, 2008, $2.8 billion resides in this fund for the sole purpose of protecting the purchasers of System-wide debt securities.

As the result of all of the factors noted above, System-wide 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. Although we urge you not to differentiate the risk weighting of debt securities among the various GSEs we do, however, 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 Rule. We would be happy to discuss any of these points with you.

If you have any questions, please feel free to contact me (507-345-5631).

Sincerely,

Dave Hoelmer

Dave Hoelmer
Senior Vice President and General Counsel