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December 1, 2006

Mr. Gary Van Meter  
Deputy Director  
Office of Regulatory Policy  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090 Re: Proposed Rule; Eligibility and Scope of Financing;  
Processing and Marketing; Farm Credit Administration; 12 CFR Part 613; 71 Federal  
Register 199, pp 60678; October 16, 2006.

Dear Mr. Van Meter:

The American Bankers Association is writing to urge the withdrawal of the proposed rule amending the criteria used to determine which legal entities are eligible for financing by Farm Credit System entities as processing and marketing operations.

The American Bankers Association, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership-which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks-makes ABA the largest banking trade association in the country.

The proposed rule would have sweeping implications that would radically transform the nature of financing by the Farm Credit System (FCS or System).

Sections 1.11(a)(1) and 2.4(a)(1) of the Farm Credit Act of 1971 (12 U.S.C. 2019(a)(1), 2075(a)(1)) allow Farm Credit Banks and Associations to finance the processing and marketing operations of bona fide farmers that are directly related to the operations of the borrower, so long as the operations of the borrower supply some portion of the raw materials used in the processing or marketing operation. Current regulations (found at 12 CFR Part 613.3010(a)(1)) provides that a borrower is eligible for financing for a processing or marketing operation only if the borrower is eligible to borrow from the System *or is a legal entity in which eligible borrowers own more than 50 percent of the voting stock or equity*. The proposed rule would eliminate this quantifiable, easily determined percentage requirement and replace it with a graduated series of mostly subjective determinations regarding the control, authority, and dependent financial condition of the producers and borrowers. The rule sets forth no procedures detailing how such determinations would be made, and provides no indication that there would be any public input, oversight or ability to challenge a funding decision. The rule, in short, eliminates any real limitation on the ability of a System entity to finance a borrower and replaces it with the subjective and definitive opinion of the Farm Credit Administration.

The implications of what the FCA is proposing are wide ranging, and will in effect give FCS lenders unlimited opportunities to finance investor owned businesses, which may or may not be operating in the best interests of the farmers and ranchers who own the FCS. The proposal will also do serious damage to private sector lenders who in the past have worked with FCS institutions to finance the needs of rural America.

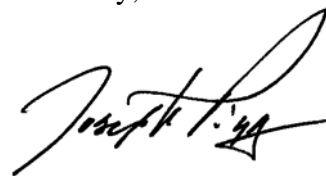
For example: Under existing regulations, an FCS lender who financed an ethanol plant that was less than 50% owned by eligible farmers required the FCS lender to engage in loan participation with a non government backed lender, like a bank. As we understand the proposed rule, an ethanol plant that was owned by ineligible investors would now be eligible to finance all of their needs with FCS, if FCA determined that it was an eligible borrower using the subjective criteria proposed in the rule.

Another example possible under the proposed rule: A rural town has two farm supply stores. One of the stores is a farmer owned store (greater than 50% of the enterprise is owned by eligible borrowers), and the second one is owned by some investors that do not live in the community. Under the existing regulations, only the farmer owned supply store would be eligible for total FCS financing because it is majority owned by eligible farmers. Under the proposed rule FCS would be able to finance both enterprises *or either enterprise*. If the FCS lender determines that the investor owned business was a better business deal for them, they could finance it, and deny credit to the farmer owned store, thus providing taxpayer subsidized credit to an enterprise that was in competition with a farmer owned business. It seems wrong that the Farm Credit System, a government sponsored lender that was created to provide taxpayer subsidized credit to farmers, ranchers, and farmer owned business would be allowed, by their regulator, to engage in this type of lending. FCA does not appear to have contemplated the consequences of such action.

Such radical, sweeping, and ill-considered changes to the nature of FCS financing should not be made through the regulatory process, particularly with a limited comment period of only sixty days. Changes made to the nature of System entities' financing authority should be left to the legislative process with the full and fair hearing and debate that is attendant to that process.

Therefore we, urge the Farm Credit Administration to withdraw this ill-conceived, overreaching proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph Pigg". The signature is fluid and cursive, with a large initial "J" and a stylized "P".

Joseph Pigg  
Senior Counsel