

October 19, 2007

Dear Senator:

RE: Oppose Any Farm Credit Expansion in 2007 Farm Bill

We the undersigned associations representing more than 5,000 banks and savings institutions throughout the United States oppose efforts by the government-sponsored Farm Credit System (FCS) to include an expansion of the System's lending authority in the 2007 Farm Bill. After failing in their effort to have the House of Representatives include expanded lending authority in the Farm Bill, the FCS is now promoting an expansion proposal on biorefineries and home mortgage lending that is not narrow, does not constitute a compromise, and would do substantial harm to farmer-owned biofuels businesses and rural communities.

FCS lobbyists have changed their legislative proposals numerous times, hoping the Senate farm bill will include any provision now that can be dramatically expanded later in a House-Senate conference on the Farm Bill. This proposal comes at a time when the System is enjoying its most rapid growth since 1981 and its regulator has recently taken actions to greatly expand the FCS charter without any statutory basis.

The FCS's latest proposals shift the System's statutorily mandated focus away from farmers and farmer-owned cooperatives for biofuels financing. Under the proposal, there would be no requirements for any farmer-ownership. Investor-owned corporations like ADM and Pacific Ethanol (a company in which Microsoft founder Bill Gates owns a twenty-five percent stake) financed under the proposal would compete directly with those owned by farmers. Moreover, a number of non-agricultural Fortune 500, international and other corporations could be eligible based on their involvement with biorefineries (Conoco Philips, British Petroleum, Shell Petroleum, DuPont, Toyota Motors). This is clearly a contradiction of FCS's historical mission.

Moreover, broadening the scope of FCS biorefinery lending authority raises serious safety and soundness concerns for the FCS. The Farm Credit Administration issued a February 9th memorandum stating: "There are indications that the market is becoming saturated and underlying economics are changing ... system lenders should implement risk mitigation tools, such as limiting exposure to the ethanol industry." With ethanol prices declining, rapidly increasing production levels, and tighter margins, the ethanol industry could be headed to a period of consolidation. Allowing FCS lenders to finance investor-owned biorefineries would hasten industry consolidation; reduce local ownership and the presence of farmer-owned ethanol plants. FCS lenders should continue to focus on farmer-owned agricultural refineries, in order to help ensure those in greatest need of assistance are able to withstand turbulent markets.

The FCS also proposes to expand its fully tax-exempt home mortgage lending authority to larger communities, without a maximum dollar limit on the size of the loans and without a requirement to address affordable housing needs. Other government-sponsored enterprises are subject to both of these requirements to ensure that GSE benefits support the public good. Housing markets are already well served by a variety of lenders.

The Farm Credit System is not satisfied to serve farmers and ranchers and wants Congress to allow it to finance projects that are owned by corporate entities. These proposals do not target

underserved markets, and there is no rationale for displacing the private sector from the rural marketplace in favor of a government-sponsored, tax-advantaged entity. The proposed GSE expansions would divert the FCS from its farmer-oriented mission and displace community banks throughout the country, resulting in fewer credit choices for consumers and businesses in thousands of communities served by commercial banks and savings institutions. We urge you to oppose any expansion of the Farm Credit System.

Thank you.

Independent Community Bankers of America  
Arkansas Community Bankers Association  
Bank Holding Company Association  
Bluegrass Bankers Association (BBA) in Kentucky  
California Independent Bankers  
Community Bankers Association of Alabama  
Community Bankers Association of Georgia  
Community Bankers Association of Illinois  
Community Bankers Association of Kansas  
Community Bankers Association of New Jersey  
Community Bankers Association of Ohio  
Community Bankers Association of Oklahoma  
Community Bankers of Washington  
Community Bankers of West Virginia  
Community Bankers of Wisconsin  
Florida Bankers Association  
Heartland Community Bankers Association  
Independent Bankers Association of New York State  
Independent Bankers Association of Texas  
Independent Bankers of Colorado  
Independent Banks of South Carolina  
Independent Community Bankers Association of Maine  
Independent Community Bankers Association of New Mexico  
Independent Community Bankers of Minnesota  
Independent Community Banks of North Dakota  
Independent Community Bankers of South Dakota  
Indiana Bankers Association  
Iowa Independent Bankers  
Louisiana Bankers Association  
Maine Association of Community Banks  
Massachusetts Bankers Association, Inc.  
Michigan Association of Community Bankers  
Missouri Independent Bankers Association  
Montana Independent Bankers  
Nebraska Independent Community Bankers  
North Carolina Bankers Association  
Pennsylvania Association of Community Bankers  
Tennessee Bankers Association  
Virginia Association of Community Banks