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November 14, 2019

The Honorable John Hoeven
Chairman
Senate Appropriations Subcommittee
Agriculture Appropriations
FDA & Related Agencies
Washington, DC, 20510

The Honorable Sanford Bishop
Chairman
House Appropriations Subcommittee
Agriculture, Rural Development,
FDA & Related Agencies
Washington, DC, 20515

The Honorable Jeff Merkley
Ranking Member
Senate Appropriations Subcommittee
Agriculture, Rural Development,
FDA & Related Agencies
Washington, DC, 20510

The Honorable Jeff Fortenberry
Ranking Member
House Appropriations Subcommittee
Agriculture, Rural Development,
FDA & Related Agencies
Washington, DC, 20515

Dear Chairmen Hoeven and Bishop and Ranking Members Merkley and Fortenberry:

On behalf of the nation's community banks, with over 52,000 locations, I write to express our appreciation for your ongoing bipartisan efforts to enact FY 2020 appropriations as part of HR 3055. However, we must also express our opposition to the Farm Credit System's (FCS, System) efforts to expand their powers by the appropriations process.

We have serious concerns with a conferenceable item in report language which directs or strongly urges the FCS's regulator, the Farm Credit Administration (FCA), to explore options to enhance FCS lending and investment opportunities or create an expedited approval process to finance community facility (CF) "investments" in lieu of obtaining case-by-case approval from the FCA.

In recent years the FCS has sought to pressure the FCA to allow comprehensive or blanket self-approval authority to pursue "investments" instead of obtaining case-by-case approval aimed at adhering to proper risk management and safety and soundness protocols while ensuring their activities are appropriate for the narrowly defined mission purposes of a government sponsored enterprise (GSE) with tax and funding advantages over private-sector, tax-paying community banks. FCS suggested similar language during the 2018 farm bill debate, but Congress **rejected** the request. It is inappropriate for FCS to now seek inclusion of their **policy** goals in an appropriations bill.

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The FCA addressed the rapidity of their investment approval process in an August 2017 FCA board meeting when then board Chairman Dallas Tonsager stated:

“I hope system institutions will continue to use the fast-track approval process the Agency has established to build partnerships that provide needed investments in rural communities.”¹

Thus, FCS institutions have a fast-track approval process available if they are concerned about timeliness of approvals. But we emphasize that a community facility project doesn't come together overnight but typically only after months of review and coordination among community leaders, giving plenty of lead notice to a financing institution.

In reality, the FCS apparently seeks to replace case-by-case approval authority with a comprehensive, blanket self-approval process to create a large internal Wall Street styled mega-financing unit – hardly the role of a “farmer-owned cooperative.” Any suggested “partnerships” would only be between FCS's investment finance group, large financial institutions and their new-found customers, relationships often achieved by potentially displacing community banks' in local markets since FCS would have sole authority to pick and choose their “partners.” Community banks can already finance community facilities as private-sector, tax-paying, general-purpose lenders. This policy request contains no joint financing or participation requirements.

FCS's desired policy change could present significant danger to the entire Farm Credit System, preventing FCA from assessing beforehand the riskiness of new investments. For example, FCA noted²: *“During the financial crisis, many of these securities became distressed and illiquid. As a result, these institutions experienced a significant deterioration in investment asset performance and quality which increased their liquidity risk profile . . . when market access was tenuous and stressed.”* Obviously, the FCS regulator has great concerns, even if not voiced publicly, about a broad-based, self-approval authority removing FCA from timely, up-front oversight.

We are not aware of any actual evidence of delayed approvals for FCS CF financing. Indeed, at an April hearing before the House Ag Approps Subcommittee, one FCS entity noted they had \$760 million in CF financing. Their claim does not support FCS's assertion of a tedious approval

¹ <https://www.fca.gov/newsroom/archive-of-updates>; September 14, 2017, [Approved Minutes of August 10, 2017, FCA Board Meeting](#) (PDF, 9 pages).

² Dec. 9, 2010 booklet, BL-064, *Farm Credit System Investment Asset Management*.

process. Certainly, the USDA, which has billions of dollars in CF loans, doesn't forfeit their oversight and loan approvals to the financing whims of FCS entities.

In general, ICBA opposes the System's investment scheme since it often usurps the Farm Credit Act's lending constraints and comprises loans that are typically non-agricultural in nature. As a GSE, the FCS was created to serve a narrow segment of farmers and ranchers and businesses that meet their on-farm production needs. FCS can use these advantages to "muscle out" community banks from local markets anytime they choose if they are allowed a broad financing mandate.

Since this is a policy issue, we request the final conference report replace this language with a request for the congressional agriculture committees to conduct a hearing to further explore the significant issues involved. Thank you for your attention to our request.

Sincerely,

/s/

Mark Scanlan
Sr. V.P., Agriculture and Rural Finance

cc: House and Senate Appropriations Committees