

Frank, Bachus Letter to House Agriculture Committee Regarding the Farm Credit System

May 22, 2007

House Financial Services Committee Chairman Barney Frank (D-MA) and Ranking Member Spencer Bachus (R-AL), sent a letter Friday to House Agriculture Committee Chairman Collin Peterson (D-MN) and Ranking Member Bob Goodlatte (R-VA), regarding the possible expansion of the Farm Credit System as it could affect the financial services market. The letter is a follow up to a previous letter sent on February 28, 2007.

The full text of the letter as follows:

May 18, 2007

The Honorable Collin Peterson

Chairman

The Honorable Bob Goodlatte

Ranking Member

Committee on Agriculture

1301 Longworth House Office Building

Washington, D.C. 20515

Dear Chairman Peterson and Ranking Member Goodlatte:

As indicated in a previous letter to you dated February 28, 2007, we continue to be concerned about the Farm Credit System's proposals to significantly expand its lending authority beyond its statutory mission of providing credit to our nation's agricultural sector. We are concerned that a significant expansion of the Farm Credit System could create unnecessary risks for the financial services market.

While the Farm Credit System was established exclusively to make farm loans, it now offers everything from auto to housing loans, and increasingly is providing small business financing in rural areas and supplying credit to such large companies as ADM and Cargill. Lacking the discipline of the free market and armed with the special powers and privileges of a government charter, the Farm Credit System presents unique risks to the market and taxpayers who ultimately back Farm Credit bonds. These risks are further exacerbated by the proposals developed in connection with the Farm Credit Council's Horizons Project.

First, as mentioned in our previous letter, these proposals would dramatically expand the lending authority for Farm Credit System by increasing the population limit for lending twenty-fold. Under current law, the Farm Credit System is authorized to make loans in rural communities of 2,500 people or fewer. Under the Horizons Project proposal, this 2,500 threshold would be raised to 50,000 by redefining what constitutes a "rural" area, potentially allowing the Farm Credit System to offer financing for, among others, suburban housing, condominium projects, hospitals, pet resorts, and vacation homes in areas that would not be considered "rural" under any other metric.

Moreover, the Horizons Project proposals also would expand the class of eligible borrowers from the Farm Credit System to include those who are not directly engaged in agricultural endeavors. Under the proposals, anyone who is "primarily engaged" in providing a broad range of goods, services, and equipment to farmers, ranchers, or producers or harvesters of aquatic products would be eligible to borrow from the Farm Credit System. Because the proposals do not define the phrase "primarily engaged," the Farm Credit Administration would have the discretion to determine who qualifies as an eligible borrower under this potentially broad new category that may include persons and businesses with remote ties to the agricultural sector. Such expansion of the Farm Credit System into competition with the private sector in business financing would conflict with the charter of the Farm Credit System and could put at risk those financial institutions that already serve this market.

As the Agricultural Committee begins deliberations on the 2007 Farm Bill, we hope that you will reject any proposals that would expand the authority of the Farm Credit System into broader financial service activities. Please do not hesitate to contact us if you have any questions regarding this matter. We appreciate your consideration.

Sincerely,

Barney Frank

Chairman

Spencer Bachus

Ranking Member

cc: The Honorable Nancy Pelosi

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