October 10, 2014

Barry F. Mardock, Deputy
Director, Office of Regulatory Policy,
Farm Credit Administration, 1501 Farm
Credit Drive, McLean, VA 22102–5090.

RE: **12 CFR Parts 611 and 615**
RIN 3052–AC84
Organization; Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations; Investment Eligibility

AgTexas Farm Credit Services appreciates the opportunity to provide comments on the proposed changes to the association investment regulations. The Association has managed a successful program for purchasing 100% guaranteed investments for several years, mainly for the diversification purpose stated within the proposed regulation.

Proposed 615.5142(a) - Investment Eligibility Criteria

Proposed 615.5142 (a)- Investment Eligibility Criteria would authorize each System association, with the approval of its funding bank, to manage risk by purchasing and holding obligations that are issued by, or are fully guaranteed or insured as to the timely payment of principal and interest by, the Unites States or any of its agencies in an amount that does not exceed 10 percent of its total outstanding loans.

Comment 1:
The greatest concern with the proposed regulation is the 10% limitation and the inclusion of the investment portfolio accumulated with the Rural America Pilot Program authority within the limitation. Under the language of the proposed regulation, authority would be granted for 100% unconditional guaranteed loans with any of the agencies of the United States. We applaud the FCA for listening and responding to the need for expansion of investment authority. While the broad authority is needed at times for market value management of the investment portfolio, rural communities could be harmed with the proposed limitation. During the Whitehouse Rural Conference of 2014, Jack Lew reported the U.S. Treasury would be making future budget cuts due to the nation's debt. Secretary of Agriculture Tom Vilsack reported that partnerships are needed in rural America to provide funding for various projects to sustain, rebuild, replenish and support rural economies. The Association has a history of partnering with the USDA on many rural mission related projects; 100% USDA guaranteed, with the lender of record a local commercial bank. The Association would welcome the expansion of the limit of loan assets with more specific language, i.e. partnerships with USDA, and specific limitations on investments in other agency guarantees. Perhaps some authority could be set by the funding bank based on the associations experience, need for diversification, rural community needs as recognized by the association, District funding banks, and the USDA. The partnerships allow the public and rural communities access to benefit from the Farm Credit GSE funding status. By partnering with the USDA in rural areas, the investment regulations could also assist in providing avenues for young, beginning and small farmers to be retained by the local communities and on the farm by providing additional employment opportunities and improving the local economies. While broad authority is needed for risk management purposes, rural communities could be unintentionally harmed with the proposed limitation.

Comment 2:
The Association recognizes another issue regarding the 10% limitation cap. For a small to medium size association, highly concentrated in production lending, the diversification provided with the investments is needed more than with the larger (multi-regional and some multi-state) associations. The small/medium size associations are more regionally based with greater commodity concentrations. Another need for diversification is due to areas of true full-time farmers and ranchers, the size of the operation continues to grow and the number of accounts decline. Greater than 10% would be very beneficial to Farm Credit lending cooperatives risk management practices during different periods and cycles of commodity price, weather risk, political risk as well as production risk.

The Board and Management of AgTexas request that if there is a limit, the limit for 100% guaranteed mission related be addressed and increased to a level conducive to the investment risk, need for diversification and a level that will be supportive to rural communities. Our current policy is 35% of loan assets for the 100% USDA/FSA guaranteed portfolio and the investment limitation under the Rural America Bond Pilot authority is currently a risk adjusted percent of surplus capital.

1. Paragraph (a)(3)

The 90 day daily balance should be as accurate as any method. AgTexas recognizes that substantial production operating volume will increase the fluctuation in loan volume. The investment portfolio will assist in stabilizing the loan volume.

3. Paragraph (b)(1)

The structure of the documentation designed by FCA will work its way into the policies at system institutions and reported quarterly in board audit committee minutes. All board minutes are provided to the assigned EIC.

Conclusion

Thank you again for the opportunity to comment on this proposed rule. In summary, we recommend that the Association board, through policies, supported by funding bank approval, should be allowed to determine appropriate investment types and limits of association investments. We ask that FCA take into consideration and address our comments prior to the issuance of a final rule. If you have any questions, please do not hesitate to contact.

AgTexas Farm Credit Services Board and Management