FIRST FARMERS
STATE BANK
Employee Owned. Customer Focused.

October 22, 2014

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

Re: Eligible FCS Investments

Dear Mr. Mardock:

I am writing in response to FCA's proposed regulation on eligible investments. I am very concerned the regulation goes far beyond instituting better risk management policies and 'modernization' for FCS district banks and their associations' investments. The regulation alludes to eligibility purposes, but appears to obscure the scope of investment purposes that FCA intends to approve.

The regulation states it is granting associations "greater flexibility to hold investments for other risk management purposes." But it does not state what these purposes will include. I agree that limiting the types and amounts of investments that associations may hold is prudent and should be adopted, but I disagree that it is an appropriate constraint if the FCA intends to approve investments for purposes that go beyond the lending constraints of the Farm Credit Act (Act).

The FCA states, "The revisions we now propose take into consideration the comments we received in response to the earlier rulemaking." But that is false if the FCA intends to approve any type of investment purpose such as those included in the pilot projects. Bankers submitted thousands of letters opposing FCA's 2008 investment proposal, which would have permanently authorized these investment purposes. If FCA intends to approve these types of investments anyway on a case-by-case basis, then the agency has not truly withdrawn the 2008 investment proposal's objectives.

The FCA appears to avoid explaining the scope and eligibility of investments by simply stating the agency will approve "other investments." However, FCA adds "that no investment is ineligible if it has been approved by the FCA", suggesting that FCA is willing to approve investment types that go far beyond the limitations on lending purposes in the Act.

If the FCA intends to approve investments that go beyond the Act's lending limitations, it should be plainly stated in the regulation. I object to allowing FCS associations to make either loans or investments for purposes not authorized in the Act. Therefore, I request that FCA withdraw both the recently issued guidance memorandum and this proposed rule. This rule should be reissued to address the concerns raised in this letter with guidance issued after the finalization of the regulation.

FCA states, "If you believe that our rule should expressly identify and require specific purposes, please state which ones and why." FCA should explain its intent in terms of the scope and eligibility of potential "investments" the agency may approve in the future and explain whether these investment purposes go beyond the Act's lending authority.

Bloomington
4001 GE Road • Bloomington, IL 61704
P 309.663.6200 • F 309.663.2880

Delavan
301 Locust Street • Delavan, IL 61734
P 309.244.9277 • F 309.244.9115

Minier
101 S. Main Street • Minier, IL 61759
P 309.392.2623 • F 309.392.2504

1.800.441.2265 • www.firstfarmers.com • Since 1875 • Member FDIC

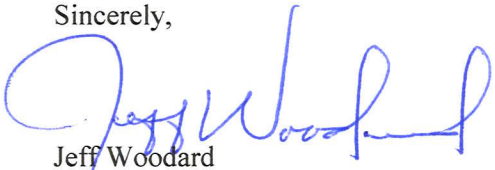
FCA claims, for example, "that Associations are authorized to purchase and hold investments only for the purpose of managing risks." Yet, if FCA approves "other investments" for general business, community or infrastructure purposes, these types of investments are not "only for the purpose of managing risks." The public should know how broad the investment purposes envisioned in the proposed rule are so that they can properly assess the full extent of the proposal. Further, FCA should fully address in the proposal how it will distinguish between loans and other investments or bonds. Otherwise, the proposal appears to allow FCS lenders to make investments that are actually just illegal loans.

FCA states it has not revised its investment regulations since 1999 but refuses to disclose the apparently very broad nature of investment types it now intends to approve. Clearly, FCA should provide much greater detail on this subject and reissue this regulation to allow public comment.

FCS associations' investments should be limited to 10% or less of their loan volumes. These investments should be primarily oriented towards managing surplus funds and for risk management purposes. FCS should not be engaging in investments such as diversified investment funds. All FCS associations' investments should fall under the 10% loan volume cap, including those guaranteed by the U.S. or federal, state, and local agencies.

Again, I request that FCA withdraw its recently issued 'guidance memo' on investments in lieu of finalizing this proposal. However, this proposal needs to be reissued with an explanation of investment purposes FCA intends to approve going forward. The public needs an opportunity to comment on the specific details of what the term "other investments" actually means. FCA should ensure its approval of investments does not extend to financing activities inconsistent with the lending purposes of the Act.

Sincerely,



Jeff Woodard
Sr. Vice President