SBT

STATE BANK OF TOULON

October 23, 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 intent on obscuring 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 not true if the FCA intends to approve any type of investment purpose such as those included in the pilot projects: non-farm business such as manufacturing; apartment complexes; hotels, restaurants, commercial buildings; health care facilities and non-authorized community and infrastructure purposes. Bankers submitted thousands of letters opposing FCA's 2008 investment proposal which would have permanently authorized these investment purposes. If FCA intends to go ahead and approve these types of investments anyway, but on a case-by-case basis, then the agency has not truly withdrawn the 2008 investment proposal's objectives.

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The FCA seeks to avoid explanation of 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.

Whether FCA intends to approve investments that go beyond the Act's lending limitations should be plainly stated in the regulation. In fact, FCA issued a guidance memorandum in September which apparently sought to inform FCS associations they can expect FCA to approve investments for non-farm business, community and infrastructure purposes. I object to allowing FCS associations to make either loans or investments for purposes not authorized in the Act. It also makes little sense for FCA to issue guidance on these issues in advance of finalizing this proposed regulation. Therefore, I request that FCA withdraw both the recently issued guidance memorandum and this proposed rule. This rule should be reissued to address the issues raised in this letter. The guidance memo should not be issued until after the regulation has been finalized.

FCA asks whether this proposed rule should identify specific purposes for associations to purchase and hold investments, and asks, "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.

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 has no basis for knowing how broad the investment purposes envisioned in the proposed rule are thus making it difficult to assess the full extent of the proposal. Further, FCA does not define how the agency distinguishes between loans and other investments or bonds and this should be fully addressed in the proposal. 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 needs to provide much greater detail on this subject and reissue this regulation to allow the public an opportunity to actually comment on the investment types FCA intends to approve.

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FCS associations' investments should not comprise more than 10% 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 exotic investments such as diversified investment funds. All FCS association's investments should not exceed the 10% loan volume cap including those guaranteed by the U.S. or federal, state, and local agencies. The FCS should focus on making loans, not trying to become investment bankers.

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 have the integrity to ensure its approval of investments does not extend to financing activities that are inconsistent with the lending purposes of the Act.

Sincerely,

Doug

Douglas E. Parrott
President/CEO

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