Community Bankers Association of Illinois®

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November 29, 2021

The Honorable Glen R. Smith
Chairman and CEO
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Attn: FCA Strategic Plan

Re: Farm Credit Administration – Request for Input on Strategic Plan

Dear Chairman Smith:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents nearly 300 Illinois community banks, many of which are located in rural communities and are active in financing agriculture, appreciates the opportunity to provide our observations and recommendations as the Farm Credit Administration ("FCA") updates its strategic plan. The Farm Credit System ("FCS") which the FCA oversees as its "regulator" was chartered by Congress to serve bona-fide farmers and ranchers and a narrow group of farm-related businesses that provides on-farm services. Unfortunately, the FCS has developed into the only government sponsored entity ("GSE") that competes directly against private-sector lenders at the retail level and uses its tax and funding advantages to take the best agricultural lending opportunities away from tax-paying community banks. This ongoing overreach and abuse distort the financial services industry and threatens the viability of the community banks that serve agricultural customers and communities. **CBAI urges the FCA to end these unjustified and unfair**

advantages and set a strategic planning objective to change its mission and structure to work cooperatively with, and not compete against, the nation's banks.

Arguments for Foundational Change and a Meaningful Level of Supervision and Oversight

As a financial institution with $407 billion in assets, the FCS is effectively the ninth largest bank in the country. The FCS operates outside of safety and soundness supervision and examination by the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Comptroller of the Currency. In addition, the FCS is not subject to Congressional oversight by the U.S. House Financial Services and the U.S. Senate Banking committees. Also, the FCS is not accountable for compliance with the same rules and regulations as banks, including the Community Reinvestment Act ("CRA").

CBAI recommends the FCS commit to transforming its mission to cooperate versus compete with private-sector banks, be supervised by federal banking regulators, be subject to oversight by the House and Senate financial services and banking committees and comply with all the rules and regulations that are applicable to a $407 billion systemically important financial institution.

Inappropriate Expansion and Mission Creep

The FCS has sought to make major incursions into non-farm lending, and loans to non-farm customers, which is inconsistent with its mission and mandate. A glaring example of this abuse was a lending transaction regarding Colorado-based CoBank, a then $90 billion lender to cooperatives. CoBank was listed as a participating lender in an SEC filing regarding a $12 billion loan to Verizon Communications, to buy out Vodafone's 45% share of their Verizon Wireless venture. CoBank was listed as providing $725 million of this financing, the largest portion of any lender.

CoBank's involvement in this transaction was an obvious effort to leverage its GSE status and make this multi-national, non-agricultural, non-cooperative, corporate-buyout loan. Other similar examples include inappropriate lending to several of the world's largest companies including U.S. Cellular, Constellation Brands, and AT&T. These loans are clear examples of FCS lenders abusing their favorable GSE status and acting as the equivalent of a commercial banks. These lenders should not have broad lending powers to make loans to large corporations, rather, they should be limited to lending that is targeted to rural-based farm cooperatives and narrowly defined agricultural entities.

The FCS often seeks to accomplish its expansionist agenda through promulgating regulations. Recent glaring examples of this regulatory abuse include the “Rural Community Investments” program, “investment bonds”, and “similar entity” authority. FCS institutions utilize their tax advantages to provide borrowers with “funds held” accounts that act as deposit accounts and pay higher interest rate than banks can provide. Also, FCS entities pay “patronage dividends” to borrowers to underprice loans to non-FCS lenders in local markets. This broad combination of financial services effectively makes FCS lenders the equivalent of full-service banks but without all the necessary and appropriate regulatory safeguards imposed on actual and real banks.

CBAI urges the FCS to focus on its narrow authority and prohibit non-farm lending activities and to strictly follow, and not go beyond, the letter and the spirit of existing law and mandates which limit the scope of its operations.

Recommended Models for Appropriate and Constructive Cooperation

The FCS is the only GSE that leverages its tax and funding advantages to competes with private-sector banks. These government-sponsored advantages benefit the FCS, distort competition, and harms particularly community banks which serve agricultural borrowers and communities across the nation.

There are instructive examples where this is not the case and where GSEs work cooperatively with verses competing against private-sector lenders. The Small Business Administration through its 7(a) and 504 lending programs assist banks in lending by guaranteeing a percentage of these loans, and there exists a healthy secondary market for the sale of the guaranteed portion of these loans, which are valuable risk and liquidity management tools for banks. The housing GSEs, Fannie Mae and Freddie Mac, permit loans underwritten to GSEs’ standards to be sold either directly or through an intermediary and allows banks to recycle the loan-sale proceeds into new residential mortgage loans. In addition, the Federal Home Loan Bank System is a member owned GSE which uses its funding ability and financial expertise to “provide reliable liquidity to member institutions to support housing finance and community investment.” The Federal Home Loan Banks are also required to contribute ten percent of their earnings to affordable housing and community development to support their mission.

CBAI urges the FCS to adopt a public-private partnership model with banks and not leverage its unwarranted and unfair tax and other advantages to the detriment of private-sector banks.

Conclusion

Each one of the concerns and problems identified above with the asset size, tax and funding advantages, lack of appropriate supervision and examination, systemic importance, lack of compliance with rules and regulations, inappropriate expansion, mission creep, and unfair competition with the private sector, would be successfully addressed if the FCS changes its mission focus – and cooperatively works with community banks to better serve the financial services and agricultural interests of our nation.

Thank you for your consideration of CBAI's observations and recommendations. If you have any questions or need additional information, please contact me at 847-909-8341 or by e-mail at davids@cbai.com.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations