

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000



December 3, 2010

Mr. David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions - RIN 3038-AC15

Dear Mr. Stawick:

As Chairman of the Farm Credit Administration (FCA or Agency) Board, I appreciate the opportunity to comment on the Commodity Futures Trading Commission (CFTC) Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions (Investment of Customer Funds) proposed rule published in the *Federal Register* on November 3, 2010.¹ My comment pertains to the proposed exclusion from authorized investments of debt issued by Government Sponsored Enterprises (GSEs) and the potential implications of the exclusion for the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac).²

Background

The FCA is an independent financial regulatory agency in the executive branch of the U.S. Government. Initially created by an Executive Order of the President in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act).³ The FCA promulgates regulations⁴ to implement the Farm Credit Act. The FCA also examines System institutions and Farmer Mac for compliance with the Farm Credit Act, regulations, and safe and sound banking practices. FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

¹ 75 *Fed. Reg.* 67642 (November 3, 2010).

² Farmer Mac is an institution of the System but was created separately from other System institutions and has a separate statutory and regulatory scheme. For discussion purposes in this comment letter, we refer to Farmer Mac separately from the other institutions (primarily banks and their affiliated associations) that make up the System.

³ 12 U.S.C. § 2001—2279cc.

⁴ 12 C.F.R. Chapter 600 (2010).

Under the Farm Credit Act, one of the Agency's key responsibilities is the oversight of System funding activities. The Agency's oversight of funding includes approving consolidated Systemwide debt issuances⁵ that fund credit and related services provided to individuals and entities eligible to borrow from the System.

The System is a nationwide cooperative network of borrower-owned financial institutions. It was created by Congress in 1916 and is the oldest of the GSEs in the United States. Its purpose is to provide a permanent, reliable source of credit and related services to agriculture and aquatic producers, their cooperatives, and related businesses in rural America. The System is also a key source of credit for agricultural processing and marketing activities, rural housing, rural utilities, and foreign and domestic entities that participate in international agricultural trade. Today, System banks, associations, and service corporations serve all 50 states and the Commonwealth of Puerto Rico.

Congress also established the System to improve the income and well being of American farmers, ranchers, and rural residents. The System meets its broad public mission by preserving liquidity and competition in rural credit markets in both good and bad times. The accomplishment of this public goal significantly benefits rural areas and their residents, including young, beginning, small, family, minority, female, and socially disadvantaged farmers, as well as rural home purchasers.

Farmer Mac also plays a vital and growing role in increasing the liquidity and efficiency of rural credit markets. In the Agricultural Credit Act of 1987,⁶ Congress established Farmer Mac to facilitate the securitization of agricultural and rural home mortgages for sale into the secondary market. Congress's creation of Farmer Mac was part of its efforts to resolve the agricultural crisis of the mid-1980s and to provide a more efficient means of financing agricultural and rural housing mortgages. The legislative intent in developing a secondary mortgage market for agricultural loans was to increase the availability of long-term credit to farmers and ranchers at stable interest rates, increase liquidity to agricultural lenders, provide new capital for agricultural investments, and enhance the ability of individuals in rural communities to obtain financing for moderately-priced homes. In May 2008, the Food, Conservation and Energy Act of 2008 expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives. Farmer Mac is authorized to use these new authorities, along with existing authorities, to provide liquidity to agricultural mortgage lenders and other rural utilities cooperative lenders.

The Agency's Comment

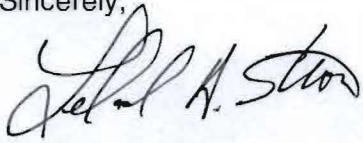
The proposed rule may have potential unintended consequences for GSEs that should be explored and evaluated. Like other GSEs, the System and Farmer Mac do not take deposits but obtain funds for lending and other operations by issuing debt obligations. Based on their GSE status, System and Farmer Mac debt normally trade within a relatively small and stable spread to U.S. Treasury securities with comparable maturities. By excluding all GSE debt from the securities available for use in customer-segregated accounts, the CFTC's proposed rule has the potential to alter the market for GSE debt. To our knowledge, no GSE debt has ever resulted in a loss of principal or interest to any investor.

⁵ 12 U.S.C. §§ 2153(c), (d), and 2252(a)(4).

⁶ Pub. L. 100-233 (January 6, 1988).

We would welcome an opportunity to further discuss our observations with the CFTC in analyzing the potential effect of this amendment on the System and Farmer Mac.

Sincerely,

A handwritten signature in black ink, appearing to read "Leland A. Strom". The signature is fluid and cursive, with the first name being the most prominent.

Leland A. Strom
Chairman and Chief Executive Officer