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Memo

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Date: October 2, 2007

To: Members of the Senate Committee on Agriculture, Nutrition, and Forestry

From: Floyd Stoner, Executive Director, Congressional Relations & Public Policy

RE: Opposition to Any Farm Credit System Expansion in 2007 Farm Bill

On behalf of the members of the American Bankers Association, I am writing to urge you to oppose any expansion of the Farm Credit System's (FCS) authorities in the 2007 Farm Bill. Recent proposals made by the FCS on biorefineries and home mortgage lending are not narrow, do not constitute a compromise, and would do substantial harm to farmer-owned biofuels businesses. The Senate Agriculture Committee should insist that this direct lending, tax-advantaged, Government Sponsored Enterprise (GSE) leverage its special privileges in support of farmers and farmer-owned cooperatives, not the corporate giants that compete with them.

One of the greatest success stories in rural America in recent memory is the success of the farmer-owned ethanol production business. The legislative language the FCS is proposing destroys the notion that the purpose of the System is to help farmers, ranchers, and farmer-owned cooperatives. If approved, the System would be allowed to finance investor-owned businesses, including very large corporations like ADM and Pacific Ethanol (a company in which Microsoft founder Bill Gates owns a 25 percent stake). These companies compete directly with farmer-owned businesses. This result would clearly contradict the essential mission of the FCS. Farmer ownership is a cornerstone of value-added agriculture and should not be abandoned in the interests of FCS ambitions for bigger deals and wealthy investors.

The Farm Credit System has the authority today to finance one hundred percent of any farmer-owned ethanol production facility. In fact, the System may finance any farmer-owned biorefinery, including the production of methane, biodiesel, or cellulosic ethanol, as long as the ownership and voting control of the entity is held by a majority of farmers or ranchers.

In addition, the Farm Credit System may participate in loans to any other business that is similar to a farmer-owned biorefinery. Under current law, the System may finance up to 50% of the total package. This means that FCS may finance up to half of any investor-owned biorefinery project (ethanol, methane, cellulosic ethanol,

biomass, etc.). This authority encourages partnerships with the private sector - banks, insurance companies, finance companies, pension funds - which delivers the remaining financing for these businesses. The language proposed by the System would dismantle this GSE-private industry partnership.

In addition, the FCS proposal is not targeted to cellulosic ethanol. It would in fact authorize FCS to finance bio-based businesses unrelated to agriculture. Municipal solid waste and industrial waste projects are important components of the renewable energy sector but should not be part of the loan portfolio of a farmer-owned GSE.

The FCS also proposes to expand its fully tax-exempt home mortgage lending authority to larger communities, without a maximum dollar limit on the size of the loans and without a requirement to address affordable housing needs. Other GSEs are subject to both of these requirements to ensure that GSE benefits support the public good. This GSE expansion would divert the FCS from its farm mission, displace private sector financial institutions, and erode the tax base in local communities.

The Farm Credit System is not satisfied to serve farmers and ranchers and wants Congress to allow it to finance projects that are owned by corporate entities. We urge you to oppose any expansion of the Farm Credit System.