



Congress of the United States
House of Representatives

March 2, 2015

The Honorable Jill Long Thompson
Chairman of the Board and Chief Executive Officer
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Dr. Long Thompson:

I understand that over the course of just two days in January, CoBank committed to providing \$425 million in taxpayer-subsidized financing to two of the largest stockholder-owned telecommunications companies – \$225 million to U.S. Cellular and \$200 million to AT&T.

Last year, I wrote to you voicing my apprehension over the use of the Farm Credit System (FCS) – and specifically CoBank – to finance loans to Verizon and Frontier Communications. You can imagine, then, how dismayed I was to learn of these two additional loans made in January. Combined, these four credit extensions total \$1.5 billion of taxpayer-subsidized lending.

I appreciated your attention to my letter of last year, but I must write again to reiterate the concerns I expressed therein: certain FCS lending institutions have utilized lending authority outside of their mission and intended purpose, put taxpayers at risk, compete with private sector financial institutions in areas outside of agriculture and farm-related businesses, and distort the market. In addition to the concerns I previously raised, I now question whether these loans exceed the authority granted under the Farm Credit Act and violate the plain language of the statute.

Pursuant to 12 U.S.C. 2129, a FCS lending institution may – but is not required to – provide loans to cooperatively owned telephone companies. Yet, the financing provided in each of these deals was to stockholder-owned utilities. FCS lending institutions are also authorized – but not required – to make loans to “similar entities” under 12 U.S.C. 2122 and 2206(a). As defined by statute, a similar entity must be “functionally similar” to an eligible entity and “derive a majority of its income from, or [have] a majority of its assets invested in...activities functionally similar” to those of an eligible entity.

While lending to similar entities is permissible, I fail to see how a large, publically traded telecommunications company is similar to a small, rural telephone cooperative. Even if companies like Verizon, AT&T, U.S. Cellular and Frontier Communications serve rural areas, I do not believe they meet the letter or spirit of the statute as a similar entity to which CoBank may lend. Even if you argue that they do, CoBank should have exercised its discretion not to commit to loans to such entities. Large, corporate banking transactions for companies with access to global financial markets are best left to the private sector, not the taxpayer.

Based on the concerns raised herein, I respectfully request you to provide a detailed analysis of the legal basis for the four loans provided by CoBank referenced in this letter.

I can't also help but notice that through actions such as these, the FCS has grown exponentially in size. In the last 10 years alone, the total assets of FCS more than doubled, and FCS now has total assets of \$271 billion as of September 30, 2014 – more than 200 times larger than a median sized farm bank with assets around \$100 million. If FCS were a private financial institution, it would be the 9th largest bank in the United States. It makes me question the impact the FCS has on traditional, private U.S. financial markets, and whether the appropriate amount of regulation and Congressional oversight is being exercised over such a large enterprise.

If these types of transactions continue, it will be incumbent on Congress to review the statutory authority of the FCS. We must determine if this use of taxpayer subsidies continues to serve its intended purpose and whether authorization of this program should continue in its current form.

I appreciate the dialogue we've had thus far on this issue and your prompt attention to this request. I welcome the chance to continue our discussion and exercise my oversight role of the FCS's impact on the U.S. financial system.

Should you have any questions or need additional information, please do not hesitate to contact my office.

Respectfully,



Mick Mulvaney
Member of Congress