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3RD DISTRICT, INDIANA

COMMITTEE ON THE BUDGET
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT
SUBCOMMITTEE ON MONETARY POLICY
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Congress of the United States
House of Representatives
Washington, DC 20515
May 1, 2015

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The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Dodaro,

In 1916, Congress established the Farm Credit System (FCS) as a means of providing credit to the nation's farmers and ranchers. Today, after nearly a century of existence the Farm Credit System has a significant presence in rural America – providing farmers, ranchers, companies and co-ops across the country with resources they need for their businesses.

Dynamic changes have taken place in the agricultural and financial services sectors of our economy since 1916, including reforms to how government supports and regulates these industries. As FCS approaches its 100th anniversary, it is important for policymakers to demonstrate appropriate oversight over this Government-Sponsored Enterprise (GSE).

Given the importance of agriculture to my district and state, I am compelled to address recent concerns raised by constituents and industry participants from across the country. I respectfully request the Government Accountability Office to study the impact the Farm Credit System is having on taxpayers, the agriculture community and the private banking industry, which acts as both a partner and a competitor. Specifically, I request the GAO to conduct an audit and answer the following specific questions about the operation and administration of the Farm Credit System.

Statutory Obligations

- According to 12 USC, Ch. 23, Sec. 2001, congressional intent was that “in no case was any (FCS) borrower to be charged a rate of interest that is below competitive market rates for similar loans made by private lenders to borrowers of equivalent creditworthiness and access to alternative credit.” How does FCS and the Farm Credit Administration (FCA) determine what constitutes competitive market rates and if FCS institutions are compliant?

- Do FCS institutions currently, or have they ever, executed loans that carry a rate of interest that is below competitive market rates and is in contravention to congressional intent? If so, how many loans that fit this criterion have they executed?
- Recent news reports have highlighted alleged non-agricultural FCS' lending activity, for example, a \$725 million loan to Verizon. In examining a comprehensive list of FCS borrowers, is GAO satisfied that FCS institutions are following both the spirit and letter of the law as it relates to its mission of agriculture lending and is not going beyond its statutory boundaries of "similar entity" lending?

Indirect Lending

Certain FCS lenders have developed indirect lending programs. The size and scope of these programs are obscured within the balance sheets and income statements of the FCS lenders who engage in such lending.

- What percentages of individual FCS lender loan portfolios are made up of indirect lending programs?
- How many indirect loans are currently on the books?
- What is the outstanding dollar amount?
- Who are the top 5 indirect lenders within the FCS?
- Is the FCA rule on "loan participations"(12 USC, Section 2206), which forms the basis of such lending programs, too permissive in that they allow the "originating" lender to sell 100% of the loan, thus leaving no skin in the game in case of loan default?
- Under all of the indirect loan programs operated by FCS institutions, the borrowers do not have to purchase FCS ownership stock. As a result, these borrowers are not members or owners of the cooperative Farm Credit System. Should these lending programs be treated as separate entities and thus be required to produce separate balance sheets and income statements outside the cooperatively owned FCS? Would there be a tax consequence of such non-cooperative lending if such entities were carved out of the FCS's cooperative income tax filings?
- Is GAO satisfied that the Farm Credit Administration is adequately accessing and monitoring indirect lending risk by FCS institutions?

Crop Insurance

- What is the annual revenue received from the sale of Federal Crop Insurance by FCS entities?
- Does FCS have an advantage selling crop insurance directly to their borrowers?
- Do all FCS entities that sell Federal Crop Insurance pay taxes on income derived from the sale of Federal Crop Insurance?
- Has FCS ever encountered any legal actions (private or state) against them as a consequence of their crop insurance marketing activities? What has been the outcome of such legal actions?

Mineral Rights

- How many acres of mineral rights does FCS hold?
- What is the present market value of these mineral rights? FCS carries mineral rights on their balance sheet at zero (0) value because, they explain, the mineral rights were acquired a long time ago as a consequence of foreclosure actions taken against family farmers dating from the 1920s through the 1980s.
- Does any other GSE own mineral rights?
- Where in the country are these mineral rights located?
- Is FCS involved in the production of oil and or gas?
- Is FCS a participant in hydraulic fracturing drilling?
- What would be the effect on the system if these rights were divested?
- How much income is currently earned from mineral rights?
- Does FCS pay income taxes on revenues derived from the leasing of mineral rights?
- Does FCS pay income taxes on the production of minerals?
- What are the potential future earnings of existing mineral rights?

System Evaluation

- What does it cost the taxpayer, if anything, to extend Government-Sponsored Enterprise status to the Farm Credit System?
- What would be the effect, if any, on loan product interest rates and credit availability to FCS borrowers if FSC was not granted GSE status?
- What would be the effect of tax receipts on the federal, state and local level if FCS institutions had the equivalent tax treatment of similar private banking institutions?
- What would be the effect, if any, on loan product interest rates and availability of credit to FSC borrowers if FCS institutions had the equivalent tax treatment of similar private banking institutions?

Thank you for your timely attention to this request. If you have any questions, please contact Will Young in my Washington, DC office at 202-225-4436.

Sincerely,



Marlin Stutzman
Member of Congress