



Federal Financial Analytics, Inc.

**LITTLE-NOTICED FARM RULE CREATES POWERFUL NEW GSE,
FEDFIN FINDS**

“Under this proposal, the Farm Credit System could buy loans for anything – big-screen TVs, for example – from pretty much anyone, bringing its GSE advantages into an entirely new sphere.”

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WASHINGTON, D.C. – A report released today by Federal Financial Analytics concludes that a recent proposal from the Farm Credit Administration will have little-noticed, far-reaching impact on U.S. financial markets. To date, the Farm Credit System (FCS) – which is regulated by the Farm Credit Administration (FCA) – has confined itself to agriculture lending, running under the radar that has spotted major controversies over the future of other GSEs like Fannie Mae and Freddie Mac. However, a proposal to expand so-called “farmers’ notes” will bring the FCS into an unprecedented array of mortgage and retail lines of credit, FedFin finds.

“Although generally active only in rural areas, the Farm Credit System has a presence in every national market and, if the farmers’ note program proves successful, it could quickly penetrate into suburban areas and even some urban ones to purchase eligible

obligations from financial institutions and retailers,” FedFin’s report notes. The financial services industry will likely be split on the proposal, with some big banks that may otherwise look askance at GSEs supporting it because of the new secondary market for an array of obligations otherwise costly to sell. Community banks will take the proposal’s heat head-on, and they are likely to oppose it strongly out of fears that a GSE will take prime lending business throughout the Farm Belt. As the FedFin report indicates, the FCA defends the proposal on grounds of greater liquidity for rural America.

Copies of the FedFin report are available on request. To obtain one, call Arezou Rafikian at 202-296-5240 or e-mail INFO@FEDFIN.COM

Federal Financial Analytics, Inc. has for the past eighteen years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified challenges, working on an array of GSE, Basel II, and acquisition-value issues. The firm publishes an array of information and analytical services, including Financial Services Management and GSE Activity Report.

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