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AGRICULTURAL ACT OF 1961

TITLE III, CONSOLIDATED FARMERS HOME ADMINISTRATION
ACT OF 1961

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

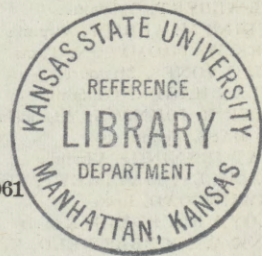
FIRST SESSION

ON

H.R. 6400

MAY 9, 10, AND 11, 1961

**Serial E
PART 6**



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HEARINGS

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AGRICULTURAL ACT OF 1961

Title III

TUESDAY, MAY 9, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The committee met, pursuant to recess, at 10:10 a.m., in room 1310, New House Office Building, Hon. Harold D. Cooley (chairman) presiding.

Present: Representatives Cooley, Poage, Grant, Gathings, McMillan, Abernethy, Albert, Abbitt, Thompson, Jones of Missouri, Johnson of Wisconsin, Matthews, Breeding, Stubblefield, Harding, Reifel, Hoeven, Dague, Belcher, McIntire, Teague of California, Quie, Short, Mrs. May, Latta, Harvey, Findley, Dole, and Beermann.

Also present: Christine S. Gallagher, clerk; Hyde H. Murray, assistant clerk; John Heimbürger, counsel; and Francis M. LeMay, consultant.

The CHAIRMAN. The committee will please be in order.

Our first witness is Mr. Howard Bertsch, Administrator of the Farmers Home Administration. We are delighted to have you with us, Mr. Bertsch, and to know that you are safely on the road to complete recovery and will be able to resume your duties in this great position and to continue to serve this agency which has meant so much to the agriculture of our country. We know about your long experience in the Department, and although you come from the great State of Oregon, I am sure that you will not forget us in North Carolina and in the other States of the Nation. You have a prepared statement and we will be glad to have you present it right now.

Mr. BERTSCH. May I ask that some of my colleagues join me here at the table and support me in this presentation? Mr. Higbee is the Deputy Administrator of the Farmers Home Administration, Mr. J. V. Highfill is Assistant Administrator in charge of programs.

The CHAIRMAN. Very well. You may do so.

STATEMENT OF HOWARD BERTSCH, ADMINISTRATOR, ACCOMPANIED BY FLOYD HIGBEE, DEPUTY ADMINISTRATOR, J. V. HIGHFILL, ASSISTANT ADMINISTRATOR, AND HOWARD CAMPBELL, GENERAL COUNSEL'S OFFICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. BERTSCH. Mr. Chairman and members of the committee, it is a great pleasure to meet with this distinguished committee, and to present this brief statement in support of H.R. 6400.

The development of the legislation which authorizes the current program of the Farmers Home Administration marked a milestone in legislative statesmanship. The authorities provided under the Bankhead-Jones Farm Tenant Act and the Farmers Home Administration Act (the latter authored by the distinguished chairman of this committee) were in tune with the times, met the prevailing needs of family farmers, and gave the officials, empowered with carrying out the acts, clear-cut responsibilities.

Because the legislation blazed new trails it provided some rather specific guidelines.

The supervised credit programs authorized by this legislation are still extremely effective means for perpetuating and strengthening the family farm.

But certain changes have taken place that call for an up dating of these basic authorities.

As an organization the Farmers Home Administration now has more than 25 years of experience in the supervised credit field—experience which in itself provides the basis for legislating the future course of action.

A revolution has taken place in agriculture and has brought with it new requirements in the way of the resources needed for successful farming, and new requirements in the types and amounts of credit needed.

H.R. 6400 reshapes the present authorities in light of experience and the changing needs of family farmers.

H.R. 6400 recognizes the excellent work of the committee last year in the preparation of a similar bill and incorporates provisions of bills introduced earlier this session to modify and improve the existing authorities of the Farmers Home Administration.

The proposed legislation provides for the sixties the same type of forward looking legislation that in decades past offered families an opportunity to become successful on family farms.

The bill would retain the basic provisions of the existing laws.

The bill would continue the management and credit counseling service that accompanies each loan.

The bill would continue the provision that the agency supplement other credit sources by serving only those farmers who are unable to obtain sufficient credit from cooperative and private sources, and would encourage an even greater use of credit from those sources.

To illustrate the modernization that the proposed legislation would make in the current authorities we would like to briefly comment on four major areas that will be affected.

AMOUNTS AND TERMS OF LOANS

The proposed legislation would enable the Farmers Home Administration to provide more adequate amounts of credit and longer repayment terms when helping farmers finance major adjustments, which must continue to be our stock in trade if we are to make an effective contribution in strengthening the family farm.

The experience we have gained in financing adjustments through the years makes us confident that this type of assistance can be expanded on a sound basis. These proposals are also a direct reflection

of the tremendous increase that has taken place in recent years in the amount of capital that farmers must invest in their operations.

Approximately \$21,000 was the amount of capital a northeastern dairy farmer had invested in his farm, including livestock and machinery, 10 years ago. Now that capital investment has climbed to \$39,000. For a hog-dairy farm in the Midwest the investment has increased from \$32,000 to \$51,000. For a cattle ranch in the Southwest the comparable figures have climbed from \$98,000 to \$158,000.

All farms considered, the census shows that the average value of land and buildings per farm, is now $2\frac{1}{2}$ times the average for 1950 and 6 times the average for 1940. The exact figures are: 1959, \$33,242; 1950, \$13, 983; and 1940, \$5,518.

Part of this change in capital requirements is due to advancing technology. Part is due to necessarily greater investments in land, buildings, equipment, and other items of production. Part is due to the low margins of recent years that have driven farmers to increase their volume of business in order to maintain their standard of living. Part is due to the increased investments tenants are forced to make in equipment and livestock in order to obtain a satisfactory lease. All this is related directly to the increased efficiency required of the manpower on our family farms.

One of the results of increasing capital requirements is that many young farmers are today unable to obtain from the Farmers Home Administration or any other source, capital in the amounts and on the terms they need to become successful in farming.

Another result is that many established farmers who need to make further adjustments in their operations are unable to obtain from the Farmers Home Administration or any other source, capital in the amounts and on the terms they need if they are going to stay in business.

FARM ENLARGEMENT

The proposed legislation would enable the agency to serve the full range of family farmers with enlargement loans.

Past experience makes us aware of the need for broadening this assistance to help farmers acquire additional real estate resources. This proposal also is a direct reflection of the increasing demand for farm enlargement loans.

During 1959 and 1960, 44 percent of land purchases made were for farm enlargement compared with 26 percent in the years 1950 to 1954. In the Corn Belt and wheat areas more than half of all land purchases were for farm enlargement.

Modifications to existing legislation proposed in H.R. 6400 would enable the Farmers Home Administration to be of far greater assistance in this field. For example, by removing the current county value limitation the proposed legislation would enable farmers to enlarge their holdings up to the full size of family farms in their county. By removing the current limitation that a loan to buy land may be made only if the borrower will own an adequate unit, will enable full-time farmers who are part owners to acquire additional land as it becomes available and grow into ownership of an adequate family farm. It would also enable farmers with off-farm employment to obtain the land base they need to substantially increase the farm portion of their income.

EMERGENCY NEEDS

The proposed legislation would enable the Farmers Home Administration to be of far greater assistance to farmers who have emergency credit needs.

This change too is based both on experience and demand.

In the past, for example, the agency has had authority over a limited period of time to make emergency loans to producers of an agricultural commodity because economic conditions had forced many of those producers to exhaust their normal line of credit.

The proposed legislation would place this type of credit on a standby basis available for any current or future demands of this nature.

WATER RESOURCES

The proposed legislation would improve the credit services available to farmers who need to develop, improve, and fully utilize their water resources.

The agency has had great success in the past in assisting in the development of water facilities. There is an increasing awareness among farmers and other rural people of the importance of developing their water resources.

One of the improvements in this area proposed in H.R. 6400 would enable the agency to make a loan to a group of rural residents and farmers for the development of a domestic water system even though the farmers did not utilize the major portion of the water provided through the system. This would increase the membership of many such associations now in the planning stage and thereby reduce the cost per member and increase the benefit to the community as a whole.

OTHER IMPROVEMENTS

In addition to the improvements I have outlined there are many other measures in the bill designed to further strengthen the supervised credit program. Rather than to continue to select and enumerate these measures I would like at this point to summarize what in our opinion are the main objectives of the proposed legislation and then continue the discussion in any manner directed by the committee.

In my opening remarks I told of how H.R. 6400 had evolved out of the experience of the past and the changing conditions in agriculture.

Certainly two of the basic objectives of this legislation are to capitalize on past experience and to meet the credit needs of today.

But in our judgment this proposed legislation, like the laws it seeks to improve, has even broader aims.

H.R. 6400 will do much to make certain that all of our family farmers benefit from the overall improvements contemplated in the farm program; it will further strengthen the position of family farmers; and it will enable family farmers to make their maximum contribution to the Nation's economic growth.

As you have heard repeatedly during these hearings, three-fourths of our farm families have money incomes of less than \$5,000. The proposed legislation would assist many of these families to develop higher incomes, thus raising their standard of living and helping vitalize the economy of their towns and villages.

Almost half of our farm families have incomes of less than \$2,500, while more than half of the urban families have incomes of more than \$5,000. The proposed legislation will help many of these farm families contribute more fully to our national growth.

Thank you for the opportunity to give this general statement. My colleagues and I have spent the major part of our lives assisting in the administration of the legislation this bill seeks to improve. If we can now be of further assistance to the committee in any manner, we shall be more than willing to do so.

The CHAIRMAN. We thank you very much for your statement.

This bill we are now considering, the Farmers Home Administration section of H.R. 6400, grew out of a bill which was considered last year in both the Senate and in the House.

I will yield to Mr. Poage, who was the chairman of the subcommittee that considered the bill last year. If it is all right with you, I should like to have Mr. Campbell of the General Counsel's Office sit with you. Perhaps he can answer some questions that will be put to you.

Mr. JOHNSON of Wisconsin. I wonder if it might not be well to have this document entitled, "Comparison between H.R. 6400," et cetera, to be made a part of the record.

The CHAIRMAN. Yes.

(The document referred to follows:)

COMPARISON BETWEEN H.R. 6400 (S. 1643), 87TH CONGRESS, AND H.R. 11761, 86TH CONGRESS, AS PASSED BY THE HOUSE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT

Title III of H.R. 6400 corresponds to H.R. 11761 in its entirety. The sections in H.R. 6400 will be referred to as new sections and those of H.R. 11761 as old sections in this comparison. One significant difference is that the new sections do not contemplate the consolidation of the authority for making farm housing loans under title V of the Housing Act of 1949. Rather, it is proposed that that authority be continued for an additional 5-year period under the provisions of S. 1478. Because of changes discussed below, new section 301(b) includes among the purposes of the act the provision of more effective credit service "to farmers" instead of "primarily for family-type farms," as in old section 1(b).

SUBTITLE A, REAL ESTATE LOANS

Under new section 302 regarding eligibility requirements "training or farming experience" is substituted for "recent farming experience"; borrowers must be owner-operators of "not larger than family farms," rather than "not larger than family-type farms for each family and, in the case of farm purchase loans, will derive their principal income from farming"; and applicants must be unable to obtain credit elsewhere to finance their actual needs "at reasonable rates and terms for loans for similar purposes and periods of time," instead of "at rates and terms prevailing in or near their community."

New section 303 omits the second sentence of old section 102, which defined "farm" in terms of title V of the Housing Act of 1949, as amended. New section 302 includes all farms which are not larger than family farms.

Section 304 of the new bill has no counterpart in the old. It authorizes loans for land and water development, use, and conservation to any farmowners, not subject to the requirements of section 302 in regard to citizenship, farm background and training or farm experience, and being owner-operators of not larger than family farms.

New section 305 (old section 103) makes its limitations inapplicable to association loans made under new section 306, omits the county average value limitation, raises the loan limit from 90 to 100 percent of the normal value of the farm, and adds "or other security."

Compared with old section 104(a), new section 306(a) states the purposes of loans to associations as being "to provide for the application or establishment of soil conservation practices, the conservation, development, use, and control of water and the installation or improvement of drainage facilities," instead of "providing facilities for soil and water conservation, development, use, and drainage," and adds "farm tenants" to the list of those who would be primarily served. The new section also authorizes financial assistance or other aid in planning such projects and substitutes a loan limitation of \$2,500,000 of unpaid principal at any one time for the limits in the old section of \$500,000 at any one time and \$350,000 for any initial loan.

New section 307(a) applies the 5 percent per annum limit on interest rates to insured as well as direct loans under subtitle A, instead of 6 percent on insured loans and 5 percent on direct loans as provided in old section 105. The new section also omits the language of the old section directing the Secretary to take into consideration the prevailing private and cooperative interest rates for loans for similar terms and purposes.

The loan security requirements of new section 307(b) permit taking a mortgage of any priority on the farm or such other security as the Secretary may require. Old section 108 required a first or second mortgage on the farm and other security as required.

New section 309(e) (old section 107(e)) omits authority to use part of the annual charge collected from insured loan borrowers "for compensating lenders and others for loan servicing."

New section 310, which has no counterpart in the old bill, would authorize loans under subtitle A to the owners of such interests in real property as leasehold interests, life estates, and undivided interests, provided the applicant has adequate rights of possession, management, and control of the property and can give a lien on his interest, and provided the owners of the other interests in the property either join in the encumbrance or agree to reimburse the applicant for the value of the improvements upon termination of the applicant's interest in the property.

SUBTITLE B. OPERATING LOANS

The changes in new section 311 (old sec. 201), regarding personal qualifications of applicants and being unable to obtain credit elsewhere, are similar in part to those in new section 302. New section 311 substitutes "training or farming experience" for "recent farming experience" and substitutes "reasonable rates and terms for loans for similar purposes and periods of time" for "rates and terms prevailing in or near their community."

Clause (6) of new section 312 (old sec. 202) includes "other farm and home needs" in lieu of "other farm needs" among the purposes of operating loans.

Old section 203 contained a loan limit to one borrower of \$30,000 principal indebtedness outstanding at any one time, with a proviso that not more than 25 percent of the sums made available for operating loans could be used to cause the total operating loan indebtedness of any one borrower to exceed \$10,000. New section 313 substitutes a limit of \$50,000 on the total principal indebtedness outstanding at any one time and drops the proviso.

New section 314, which has no counterpart in the old bill, authorizes loans to nonprofit organizations for the purchase of farming equipment and facilities to be made available to farmers on terms and conditions approved by the Secretary.

Whereas new section 311 omits the authority contained in old section 201 to "participate in" operating loans, new section 315 authorizes the Secretary to participate, up to 80 percent of the amount of each loan, in operating loans which could otherwise be made by the Secretary and are made by commercial banks, cooperative lending agencies, or other regular responsible sources of credit.

The last sentence of new section 316 limits operating loans to a maximum period of 15 years. This supplants the last sentence of old section 204, under which no operating loan could be made for a longer period than 7 years or to a borrower who had been continuously indebted for operating loans (including such loans under the present law) for the immediately preceding 10 years.

SUBTITLE C. EMERGENCY LOANS

New section 321(a) in requiring that the applicant be unable to obtain credit elsewhere substitutes "at reasonable rates and terms for loans for similar purposes and period of time" for the language in old section 301(a), "at reason-

able rates and on terms and conditions which farmers and ranchers could be expected to meet under the circumstances." Also, the new section includes "critical economic conditions encountered in the area by the producers of specified agricultural commodities and products" as among the things which may cause the need for emergency loans in the area.

New section 321 (b) (old sec. 301(b)) includes private domestic corporations or partnerships among authorized applicants for emergency loans. Also new section 321 (b) in the "credit elsewhere" provision, uses the language "at reasonable rates and terms for loans of similar purposes and periods of time" in lieu of the language of old section 301, "at rates and terms prevailing in or near their community."

New section 323 omits the limit contained in old section 303 of \$50,000 unpaid principal of emergency loans owing by any borrower.

New section 324 authorizes emergency loans upon the full personal liability of the borrower and upon such security as the Secretary may prescribe; whereas old section 304 authorized loans upon the full personal liability and available security of the farmer or rancher or, in the case of corporations or partnerships, upon the full liability and available security of the corporation or partnership and of each person holding as much as 10 percent of the stock or other interest in the corporation or partnership.

As compared with old section 305, new section 325 includes a new provision that borrowers outside of designated areas may be eligible for emergency loans if they have suffered severe production losses not general to their area.

SUBTITLE D. ADMINISTRATIVE PROVISIONS

In new section 331 (old sec. 401) reference to title V of the Housing Act of 1949, as amended, is omitted for reasons explained above.

Clause (c) of old section 401, authorizing administrative use of appropriated funds, included necessary expenditures "for rent at the seat of government and elsewhere." This is omitted from clause (c) of new section 331.

Clause (d) of old section 401, authorizing the Secretary to acquire land and interest therein without regard to section 355 of the Revised Statutes, as amended, is omitted from new section 331.

Proviso (1) of clause (e) of old section 401, requiring any compromise, adjustment, or reduction of claims of \$15,000 or more to be effected by reference to the Secretary of the Treasury or to the Attorney General pursuant to section 3469 of the Revised Statutes (31 U.S.C. 194), is omitted from new section 331.

The proviso at the end of new section 331 (d) (5), that no compromise, adjustment, or reduction of claims may be made by the Secretary after reference of the claim to the Attorney General, has been added.

The last sentence of old section 401 (f), authorizing legal work arising out of claims and obligations administered by the Farmers Home Administration to be performed, as determined by the General Counsel of the Department of Agriculture, through the Department of Justice, by attorneys of the Department of Agriculture, or by local counsel is omitted from new section 331 (e).

New section 333 (a), in the "credit elsewhere" provision, substitutes the same language mentioned above, "at reasonable rates and terms for loans for similar purposes and periods of time," for the language of old section 403 (a), "at rates and terms prevailing in or near his community."

Old section 403 (b) excepted soil and water loans to associations from its requirement that the county committee certify in writing as to the applicant's eligibility, character, industry, ability, and honesty of intention, and provided, instead, that for such loans, the recommendation of the county committee as to the making or insuring thereof be required. New section 333 (b) adds to the association soil and water loans to be thus treated, the loans under new section 314 to nonprofit organizations for purchase of farm equipment and facilities to be made available to farmers and emergency loans to corporations and partnerships under section 321 (b) (2).

Old section 403 (c) required an agreement by the borrower to refinance at any time he was able to obtain credit elsewhere at reasonable rates and terms for loans for similar purposes and periods of time prevailing in the area. New section 333 (c) omits the phrase "prevailing in the area."

New section 338 (b) contains provisions for the Secretary of Agriculture, when authorized by Congress, to issue notes to the Secretary of the Treasury for the purpose of obtaining funds in such amounts as Congress may approve from time to time for making direct loans under the act.

New section 338(c) takes the place of old section 408(b). In lieu of the "Farmers Home Administration revolving fund" established by the old section, the new section provides for the creation of the "Farmers Home Administration direct loan account," to be budgeted on a net expenditure basis. It also provides that amounts authorized by Congress from time to time in appropriation acts for loans and advances shall remain available until expended. The old section provided for transferring to the revolving fund, assets under certain listed statutes including title V of the Housing Act of 1949; the new section contains similar provisions regarding the direct loan account, but excluding loan funds and assets under title V of the Housing Act of 1949, sales and development accounts for water conservation and utilization projects, and funds available for administrative expenses of the Farmers Home Administration.

The reference and repeal provisions of new section 340(a) (old sec. 410(a)) also omit mention of title V of the Housing Act of 1949.

Mr. POAGE. It seems to me that this analysis would be very helpful.

I think that we must determine how far we want to go. Last year the subcommittee did give thought as to how far we wanted to go. The full committee and the House more or less went along, with rather substantial limitations. It seems to me that this bill probably goes much further than did last year's bill.

I am not finding fault with that, because I think that you very well expressed it when you stated that there were changed conditions which have taken place, but in the first place, in this bill you accept the principle that the subcommittee last year refused to accept, whether rightly or wrongly; that is, to make 100 percent loans.

That is your proposal, is it not, Mr. Campbell, to make 100 percent loans?

Mr. CAMPBELL. Mr. Poage, the existing law permits and authorizes direct title I loans, under the Bankhead-Jones Farm Tenant Act to be made of 100 percent for the fair and reasonable value of farms as determined by the county committee.

The insured loan program, under title I, now under existing law is limited to 90 percent of that value.

You will recall that last year the case was made for the administrative proposal that the two loan limits should be identical, because our experience on the insured loan program had been that the losses were not so much as to justify a lower loan value ratio. The last administration recommended that both the direct loans and the insured loans be on the basis of 90 percent.

The choice made by this administration, if I understand correctly, is that there is no real reason for the distinction between the insured loans and the direct loans, but that the history of such loans since 1937 has proven that loans can be safely made with supervised credit at 90 percent of the fair and reasonable or normal value of the farms.

Hence this bill proposes the 100-percent limit. That is not on the current market value, you understand, but on the normal value.

Mr. POAGE. I do not know whether you intended to say it, but I understood that experience had shown that you could make these loans safely on 90-percent valuation.

Mr. CAMPBELL. I was in error. I meant to say 100 percent.

Mr. POAGE. I thought that you meant that.

Mr. CAMPBELL. Thank you.

Mr. POAGE. I think that is really the crux of the situation. Is it ever safe to make 100-percent loans? I know that we do it in a great many activities today. I recognize that most everybody in town buys their home and buys everything else on 100-percent credit these

days. Whether that is sound, whether we should transplant that into agriculture, seems to me to be one of the basic questions before us.

I think we should get it clear here that this bill does contemplate that we would go to the 100-percent loan policy, both for the insured and direct real estate loans.

The CHAIRMAN. May I interrupt there?

Mr. POAGE. Yes.

The CHAIRMAN. How do you justify a 100-percent loan?

Mr. Poage made the statement that you could buy farms on the basis of a 100-percent loan. I do not know of any private lending agency that lends 100 percent on any land or property.

Mr. BERTSCH. May I interpose here that under the operations of the Farmers Home Administration, and even before, from 1937 to the present time, we have consistently and always had the authority to make title I loans up to 100 percent of the value of the farm.

This is not a major revision of our existing authority.

The only loans which have been restricted to 90 percent are the loans we insured, the loans of private lenders which we insure, which are in the minority, as a matter of fact.

The majority of the loans we have made since 1937 have been 100-percent loans. They have been repaid, as the committee is aware, with a remarkable record of repayment, so all we are suggesting is that the insured loans be handled on the same basis as we have traditionally handled the direct loans.

The CHAIRMAN. You say that the land purchase loans have been made on a 100-percent basis?

Mr. BERTSCH. From the time of the passage of the Bankhead-Jones Farm Tenant Act in 1937, tenant purchase loans, farm enlargement loans, farm development loans, all authorized under title I, made directly from the appropriated funds, have been authorized to be made up to 100 percent of the normal value of the farm.

The CHAIRMAN. Could you give us for the record your collection record?

Mr. BERTSCH. Our collection record shows very trivial losses. Our borrowers generally are operating well ahead of their repayment schedule. We have had a record—

The CHAIRMAN. Could you give us information for the record indicating the percentage of the loans collected and the number of the foreclosures you have had?

Mr. BERTSCH. I will be happy to do that. I regret that we did not bring our budget officer with us this morning. He normally accompanies us when we are discussing repayment records and what not. All of that information is available and we will be glad to introduce it into the record; that is, a statement of the record both cumulatively and by years.

(The information referred to follows:)

FARMERS HOME ADMINISTRATION

Farm ownership direct and insured loans, from inception, July 22, 1937, through June 30, 1960, relating total number and amount of loans made to total number of loans foreclosed and amount lost through foreclosure

Total number of loans made.....	101, 829
Total number of loans foreclosed.....	816
Percent of loans foreclosed.....	0. 80
Total amount loaned to all borrowers.....	\$866, 105, 396
Total maximum possible loss on loans foreclosed ¹	\$818, 570
Percent of maximum possible loss on loans foreclosed.....	0. 095

¹ This amount is the maximum possible loss without regard to subsequent collections resulting from claims against borrowers which may finally be realized.

The CHAIRMAN. Have all of your loans been 100 percent?

Mr. BERTSCH. All of our direct loans have been 100 percent, essentially.

The CHAIRMAN. What about the insured loans?

Mr. BERTSCH. The insured loans have been 90 percent.

The CHAIRMAN. I thought that you operated on the basis that you gave preference to an applicant who had an equity in his farm, who owned his own farming equipment, et cetera. But you were saying here that you give no preference to the man who has accumulated his equipment and has made a downpayment of say 15 percent on the farm. Yet another man who has nothing, not even a tractor or a plow, you loan him 100 percent.

Mr. BERTSCH. Let me correct myself, Mr. Chairman. When I referred to 100-percent loan, I certainly meant 100 percent of the value of the real estate. We do give preference to the applicant who has farming experience, who has operating capital in large part, although a good many—

The CHAIRMAN. Do you not give preference to the man who has worked and who has 15 percent or at least some equity in his farm?

Mr. BERTSCH. We found, as a matter of practical operation, that that man can more wisely invest his savings in added operating equipment, in adequate machinery and livestock, to fit the new farm which he is going on to.

The CHAIRMAN. It seems to me that if he had saved his money and had purchased equipment, and he comes to you and wants a loan, that you would give him preference, rather than the man who does not have anything.

Mr. BERTSCH. If he has savings, if he has much money to invest in his real estate, then he can qualify for cooperative or conventional credit.

The CHAIRMAN. A land bank loan?

Mr. BERTSCH. Yes. And we have avoided, of course, moving into that area in any degree.

Mr. POAGE. The thing which disturbs me most is that if I understand it correctly, back when we established this agency, we very carefully selected those people who had some operating equipment. We put no one on these kind of farms that I know of who did not have something to carry himself; something with which to make a crop, whereas now it seems to me—and I am not talking about you or Mr. Higbee—I am talking about the period of years we have been

developing the philosophy that the Government ought to encourage a man to borrow more and more; that we have been adopting the philosophy that it is a good thing to get into debt a little above his eyes, whereas we thought before that we ought to only get it up to his chin.

It seems to me that is the crux of the thing—just how far you want to get him in debt. To my mind it is not wise to get him in debt much above his nose or you might just smother him.

I have observed that there is a tendency, and I am not blaming you for this, it is a general tendency—I am not blaming anybody for it—which has been going on for a good many years, the general tendency is to take on more credit, is that not true? Are you not encouraging more and more credit?

Mr. BERTSCH. Mr. Poage, my colleagues and I would agree with you most wholeheartedly that perhaps the only evil greater than underfinancing a man is overfinancing him. We would like to be in a position to avoid either.

On the question of whether or not the change in the language of this act will affect our mode of operation, and it is in support of our past mode of operation—the only change is that we would be permitted to treat the borrower whose loans we insure in the same fashion as the borrower whose loans we make directly.

Mr. POAGE. I know that. I do not want to criticize you.

Mr. BERTSCH. We would still—

Mr. POAGE. But I am trying to get it clear as to what is the philosophy at the present time. Is it to encourage this man to get into more and more debt?

Mr. BERTSCH. We would suggest that as a general philosophy—I think I could express it best by repeating what I have said—no man should be overloaned, loaned beyond his capacity to repay.

The CHAIRMAN. But you have done as Mr. Poage has suggested—I do not mean you personally—but the agency has done exactly what Mr. Poage indicated has been done. I know of one particularly, and I think I can find others.

This man of whom I speak could not possibly meet his obligations. He became so involved in debt that it meant foreclosure. Finally he had to go into court and have it straightened out, just to get a chance to work out of it. You just overloaded him in debt.

Mr. BERTSCH. I am sure we have made mistakes of judgment.

The CHAIRMAN. Would it not be good to go back to the 90-percent limitation on all loans, direct and insured loans? Why would that not be a good thing to do?

Mr. BERTSCH. The man who owns substantial assets in the form of machinery and livestock, in the form of operating capital, is in a far better position to assume a 100-percent indebtedness on his real estate than the man who has less than an adequate supply of operating equipment.

He is enabled to undertake that indebtedness on his real estate in a much better fashion. I would say that our record on 100-percent real estate loans, which I shall put in the record, unless Mr. Higbee finds it for me here, is a remarkably fine record. These are the loans which you and Mr. Poage referred to.

The CHAIRMAN. What is the maximum loan that you could make under this bill?

Mr. BERTSCH. Under this bill, as well as under the previous legislation, each loan is judged on the basis of the individual circumstances of the farmer which are developed by the preparation of detailed farm-operating plans. This plan shows what his particular debt-paying capacity is, so that individually a judgment is made as to whether this farmer can carry so much debt with a reasonable likelihood of repayment.

The CHAIRMAN. You indicated in your statement that the purchase of a ranch may involve a \$158,000 loan, and that that would be the investment. As I understand it, you can make that man a loan of \$158,000 under this bill, and then you can lend him \$50,000 with which to buy the equipment, can you not?

Mr. BERTSCH. That is conceivable.

The CHAIRMAN. What?

Mr. BERTSCH. That is conceivable.

The CHAIRMAN. You mean it is conceivable—

Mr. BERTSCH. If the ranch was appraised. If the ranch appraised at \$150,000 and if the county committee certified that the normal value of this property was at that particular level, then a real estate loan could be made to permit him to acquire.

The CHAIRMAN. If this committee said that this land was reasonably worth \$150,000, you could lend him the whole \$150,000, and then lend him about \$50,000 more with which to buy equipment, he would then have a loan of over \$200,000, compared to a man who had not accumulated a thing? Is that correct?

Mr. BERTSCH. This would be an extreme situation.

The CHAIRMAN. This is what I am pointing out.

Mr. BERTSCH. And the operating plan would have to show, even though he had nothing, that we would be reassured by his past performance, and this reassurance would come from three county committeemen, three of his neighbors in this county, who would judge his ability to repay, and it would show that he could retire all of his indebtedness; otherwise the loan could not be made.

The CHAIRMAN. I know that the purpose of this legislation was to provide credit to worthy people who were unable to obtain adequate credit or reasonable credit from other lending agencies.

Now, if you do make 100-percent loans under present conditions, no agency in the country could possibly compete with that, because no private lending agency I know of will make 100-percent loans, as you propose to make.

Mr. POAGE. May I interpose?

The CHAIRMAN. Yes.

Mr. POAGE. That is exactly the point I wanted to get cleared up. I lived on a ranch and have owned some cattle a good part of my life. I would like to buy another ranch that I know of. I would like to buy it right now. That would cost me about \$150,000, which I do not have. I do not think I ought to be able to go to any agency and borrow \$150,000 to buy that ranch and then to borrow \$50,000 more to equip it. I do not think that I ought to be eligible.

I had always thought that I had reasonably good credit. I borrow at the bank every year and have for a long time.

If this bill passed, will I be eligible to borrow a couple of hundred thousand dollars from FHA to buy myself a ranch and to equip it like I would like to equip it, and to get that money at 4 or 5 percent? I cannot get it from anybody else on those terms.

I can now get it on terms in keeping with what is ordinarily paid in my community—the going rate. Does this bill allow me to get credit from FHA, even though I can get it on going terms in my community? Do I understand you to say that I can get \$200,000 at 5 percent? Am I eligible?

Mr. BERTSCH. Without meaning any disrespect to the Congressman from Texas, I think it would be necessary for you to go through a rather substantial screening process before I could answer the question whether you are eligible.

Mr. POAGE. Why do you not just answer and say, “No,” which should be the answer to that question. I do not feel that I should be eligible.

Mr. BERTSCH. I am sure that is the answer that would result. [Laughter.]

Mr. JONES of Missouri. There is one thing that I want to get clear, with reference to the normal value. Do you have instances of where the normal value of the land is the equivalent of the exact amount of the purchase price of the land?

Mr. BERTSCH. Mr. Jones, this does take place frequently. When the normal value is established and the asking price of the farm may be greater than that, negotiation frequently goes on between the vendor and the purchaser with a reduction of the asking price to fit the normal value.

Mr. JONES of Missouri. In other words, you do actually make a 100-percent loan on the total purchase price?

Mr. BERTSCH. Based upon normal value. If the purchase price conforms with the normal value, yes.

Mr. JONES of Missouri. That is where we make a mistake, I think. I do not think that the law intended that.

Mr. BERTSCH. I would hasten to assure you that we have been doing that since 1937 with remarkably good results.

The CHAIRMAN. You speak of the normal value. Heretofore, you have had one definition of normal value, and you are now apparently proposing another definition. You take into consideration the location of the farm in relationship to other areas, you take all of that into consideration now—it would be that under this bill, would it not?

Mr. BERTSCH. No, sir; normal value.

The CHAIRMAN. That does not take into consideration the productivity of the farm, but it does take into consideration all other factors that influence the value of the farm?

Mr. BERTSCH. The normal value for agricultural purposes. This is the only modification. I am reading from the bill.

Such appraisals shall take into consideration both the normal agricultural value and the normal market value.

The CHAIRMAN. That is right.

Mr. BERTSCH. This is a normal appraisal procedure.

Mr. POAGE. That is the normal market value. What is the earning capacity of that land—do you know?

Mr. BERTSCH. We have heretofore appraised on what we called the earning capacity value.

Mr. POAGE. Yes.

Mr. BERTSCH. This is broader language.

Mr. POAGE. That is right. This language takes in something that you could not take in the past.

Mr. BERTSCH. It permits us to arrive at a normal value which considers both the agricultural value and the normal market value.

Mr. POAGE. That is right. The old law prohibited you from taking into consideration anything except the earning capacity of that land.

Mr. CAMPBELL. You will recall that the earning capacity approach would not work in the smaller units, and we now have in the existing law a combination or an alternative value basis on the smaller units.

We do use the normal market value approach on such units. On the full-time economic units, the existing law does provide that it be a fair and reasonable value based on the farm's earning capacity.

Mr. POAGE. But on the earning capacity proposition we have required that that man show earning capacity from some other source, presumably from a job in town or something of that kind, to enable him to meet these payments, have we not?

Mr. CAMPBELL. You are quite right.

Mr. POAGE. If I understand it, this does not require anything of that kind. This simply says that, "I think he is all right."

I think I will buy the land and you will put an oil value on it, which may or may not ever develop into anything. I buy it. Why, sure, Humble Oil Co. will lease this land at \$40 an acre. Well, Humble Oil does not lease it at \$40 an acre, and I bought it on the basis of that at \$75. But I have \$35 of land—is not that what this allows?

Mr. CAMPBELL. This proposal would take into account certain factors affecting normal market values.

Mr. POAGE. It would take into consideration the speculative oil value, too, would it not?

Mr. CAMPBELL. I would think not.

Mr. POAGE. What is to prohibit it?

Mr. CAMPBELL. I do not know. I am not an appraiser, but I would think that if you were buying a farm, you would not appraise the minerals on it when you were determining its value for farming purposes.

Mr. POAGE. Of course you would not, but I have had to pay for them when I buy them. I am going to have to pay for them. It is part of the value of the land. It may or may not add to the income.

I have been sitting on some mineral rights for a good many years which have not added anything to my income. However, I still hope, and so does everybody else—we hope that we will strike something there. But that is part of the market value. It does not add to my actual income, but it is there.

What you are doing here, it seems to me, is a rather dangerous thing in letting this man buy property that may be valuable as a result of minerals, or as a result of a city moving out that way. Any of those things might add to its value, that is, add to the market value—it is a part of it—but it does not add anything to the income that he makes from the land.

The CHAIRMAN. If I may interrupt, do you know of any lending agency that could possibly compete with the Farmers Home Administration under these conditions—or any insurance company or bank?

Mr. BERTSCH. If any applicant for a loan from us were in a position to get satisfactory credit from any conventional source, the Farm Credit Administration or the insurance company or the local bank, then he would immediately become disqualified for consideration by us.

Mr. POAGE. I cannot get that credit that you are offering anywhere in the world. I cannot get your interest rate from the land bank or the insurance company or anybody else.

Mr. BERTSCH. Let us say that the credit that you need to become established as a family farmer—this criteria that we would apply and the criteria that we have always applied is one where we make a determination as to what credit the applicant needs to become soundly and safely and effectively and efficiently established on a family-type farm. If he can get that credit from any other source then—

The CHAIRMAN. The point that Mr. Poage made is that no private lending agency we know of anywhere could, possibly, be permitted to make the loan contemplated by this provision.

Mr. BERTSCH. The maximum loans under these provisions would be made to the man who could qualify—under these provisions if a man came with reasonable assets of his own, we would, of course, require and do require that he apply his own assets to the negotiation. If the application of his assets puts him in a position where he would need only a 6-percent loan or a 50-percent loan, then he goes to some other credit agency.

Mr. POAGE. Why do you not put a limit, say 90 percent of the loan based upon the production of this farm? You say that if he cannot get credit elsewhere at a private lending agency under like terms and conditions, if he is worthy, he can get a loan here for 100 percent. I do not know of anybody who can get any such loan in my area from any source. But who is going to lend 100 percent for 40 years on the full value? There is no agency that can compete with the Farmers Home Administration. And this agency was created to help the poor people.

Mr. BERTSCH. The test that we put on this application is whether or not after utilizing the resources the applicant has at hand, if this puts him in a position where he can borrow money from another agency or credit organization, from a conventional credit source, then he is not qualified for it.

I should like for just a minute to introduce this information that from the inception of the farmownership program, which is the program about which we are talking, the Farmers Home Administration and its predecessor have advanced more than \$612 million for these title I farm loans, that is, the 100-percent loans. To date we have charged off five-tenths of 1 percent. And we have judgments one-tenth of 1 percent on these loans.

So the evidence seems to us to be overwhelming that one can make 100-percent real estate loans under the guidance and supervision, and the appraisal system we employ.

The CHAIRMAN. Those 100-percent loans that you are talking about are based on normal values, the normal values and the earning capacity of the land.

Mr. BERTSCH. We contemplate no adjustment in that appraisal approach, except with respect to the part-time farms to which Mr. Campbell referred.

Mr. McINTIRE. I want to get into this area, in connection with how the applicant can be served by some other lending agency. This is done under your supervisory and county committee for the State office. It is reviewed in the organization and the decision is made there, is it not?

Mr. BERTSCH. This decision is made, of course, in consultation with other creditors serving the area—with other lending agencies.

Mr. McINTIRE. In making this particular observation I have noted that in the past this has been rather diligently done. In fact, in a press release which you issued, it stated that not a single farmer in an area or a State would be denied credit, and that he could stay on continuing operating his farm. This has come out in press releases. You are aware of that; are you not?

Mr. BERTSCH. Yes, I wish I could quote——

Mr. McINTIRE. What is the arrangement by which farmers, as a group, are eligible for loans from the Farmers Home Administration? This type of release seems to say to me, in effect, if not in words, that any farmer in an area is encouraged to use FHA facilities notwithstanding all of the requirements in here, and that the Farmers Home Administration is anxious to serve him. This is the idea which now is going into farm homes, because these press releases have been spread all over my State.

Mr. BERTSCH. I regret that I do not have Secretary Freeman's statement with me, but it was well and thoughtfully designed by saying "to any qualified farmer, insofar as the regulations and the legislation permitted, they would not be denied, would not be forced to leave the farm." Here it is, "to the extent that farm loan policies and available funds can prevent it no qualified family farmer will be required to give up farming because of his inability to finance his 1961 operation." This is a pretty thoughtfully drafted statement.

Mr. McINTIRE. When this is read in every newspaper you are familiar with the response that a man needing credit would make to that.

Mr. BERTSCH. The first test would be applied to this man, which would be, "do the farm loan policies permit" and the second, "is he qualified." If he is not qualified for the assistance, because he can get credit elsewhere, he will be referred elsewhere, obviously. So that I think that this statement if properly applied simply reassures the qualified farmer, whose qualifications fall within the farm loan policies, will not be forced to give up his farming operations simply because he cannot finance them.

Mr. McINTIRE. I should like to get to another portion of this, in the context of who is eligible. What are the conditions of his eligibility? Does this press release indicate any change in the policy, so far as the Farmers Home Administration is concerned?

Mr. BERTSCH. My understanding, Congressman McIntire, is that there was some criticism of the fact by the Congress that Farmers Home Administration policies had been more restrictive than the

legislation intended they should be. Within the last few months those regulations have been amended to conform precisely with the legislative authorization. This is the extent to which there has been any modification.

Mr. McINTIRE. Then would you say that the change in policy is that you are interpreting these eligibility requirements for farmers more broadly than they have been interpreted before?

Mr. BERTSCH. More broadly on the under side, than they have been interpreted, apparently, in the recent past.

Mr. McINTIRE. What is wrong with the upper side?

Mr. BERTSCH. The upper side—I mean, that at no time have these modifications permitted the Farmers Home Administration to make loans to farmers whom they previously would have rejected, because they would have decided they could get credit from another source. We have not moved into any other creditor's territory by these modifications.

Mr. POAGE. I want to make it quite clear that I do not want to be criticizing unnecessarily the bringing up of the insured loans, to put them on the same basis as the direct loans. There may be a great deal of merit in doing this, but it seems to me that if you are going to follow that course, you are going to have to see that there are other restrictions that are maintained. If I understand these other restrictions correctly, that is, if I read them correctly, they let down rather than restrict. For instance, you lower the interest rate on the insured loans, do you not? The maximum interest rate on the insured loans is now 6 percent. You lower it to 5 percent, if I understand this, is that not right?

Mr. BERTSCH. This remains the same as at present. It is 1 percent less than what is contemplated in the previous bill that was passed in the House.

Mr. POAGE. We contemplated last year raising it to 6 percent. The reason we contemplated that was that you have to charge, at least, approximately 1 percent to cover your interest charges, do you not?

Mr. BERTSCH. Yes.

Mr. POAGE. And the result is that the actual effective interest rate to the lender becomes 1 percent less on the insured loan than it is on the direct loan, unless you allow a differential between the cost to the borrower, is that not right?

Mr. BERTSCH. That is correct.

Mr. POAGE. So what you are proposing now is to retain what we did in the past—to retain a situation where the effective return or net rate to the lender on insured loans must be 1 percent under your direct-loan rate? That means that you cannot pay more than 4 percent for this money that you are using on the insured loans, is that right?

Mr. BERTSCH. That is correct.

Mr. POAGE. And you cannot get a great deal of it—at that rate you are not getting what you are trying to get now, are you?

Mr. BERTSCH. We have never got as much as we would like to.

Mr. POAGE. I know that you have not. You have always had this kind of limitation. That was the reason that the committee last year thought it might be desirable to try to increase the probability of getting more of this insured loan business.

Mr. BERTSCH. Of course, we view this question, as I am sure the members of the committee do, from the standpoint of what is in the best interest of the farmer, not what is in the best interest of the collector.

Mr. POAGE. It does not help the farmer any to have this low interest rate money unless he can get some of it.

Mr. BERTSCH. That is exactly right.

Mr. POAGE. And it does not help much to have 4- or 5-percent money available if he cannot get much of it. Isn't that what we have been doing with this insured loan in the past, it has been a good talking point, but not very effective—is that not right?

Mr. BERTSCH. That is essentially right. We are hopeful, of course, that this situation will change in the present seemingly more favorable money market. This program has always worked when the money market was right and has failed to work when it was not right. We thought that we would be in a better position over the long run if we maintained the cost to the farmer the same for both the direct and insured loans. This is the reasoning behind the modification in this legislation.

The CHAIRMAN. What is the largest loan that you have outstanding?

Mr. BERTSCH. The largest loan of any title I farm ownership?

The CHAIRMAN. Yes.

Mr. BERTSCH. Approximately \$50,000.

The CHAIRMAN. Approximately \$50,000 is the largest land purchase loan?

Mr. BERTSCH. Mr. Higbee corrects me and says that there is one loan in Wyoming—he used to work in Wyoming—for \$76,000. The average size loan, however, is probably about \$18,000 or \$19,000.

The CHAIRMAN. Will you give us for the record full information concerning the 10 largest loans that you have outstanding, and then we would like to have something for the record on the 100-percent loans.

Mr. BERTSCH. Essentially, all of the direct farm ownership loans, from the inception of this program, have been 100 percent insofar as the real estate investment is concerned; yes, Mr. Chairman.

Mr. McINTIRE. Reference has been made to the fact that you have been making these direct loans for 100 percent since 1937. In the existing law there is existing authority to refinance existing indebtedness by direct loans, is that right?

Mr. BERTSCH. This authority over the years has permitted us to refinance existing indebtedness when it was incidental to the major purpose of the loan. For the last 2 years, or 2 or 3 years, there has been authority—special authority, granted to make loans where the primary purpose was refinancing. There are very, very much in the minority, and they are very recent loans.

Mr. McINTIRE. I think it would be interesting if we would have an analysis of the 100-percent purchase loans involved, and your collection rate on those, separated from the general observation we have made beforehand.

(The information follows:)

Borrowers indebted for the 10 largest farm ownership loans

Borrowers' loan No.	State	Date of loan	Amount of loan	Direct or insured	Interest payments	Principal payments	Unpaid principal	Current or delinquent	Annual payment as per note ¹	Final due date
59-05-210346	Wyoming	May 16, 1957	\$77,400	Insured	\$9,632.28	\$4,866.18	\$72,533.82	In liquidation	\$3,624.64	May 16, 1997
59-12-217322	do	Feb. 14, 1958	55,800	do	5,328.17	2,511.16	53,288.84	Current	2,613.11	Feb. 14, 1998
38-74-191080	North Carolina	Apr. 20, 1961	55,000	Direct	0	0	55,000.00	do	3,205.40	Apr. 20, 2001
04-51-184801	California	Oct. 5, 1960	51,000	do	150.00	0	51,000.00	do	2,972.28	Oct. 5, 2000
03-41-32169	Arkansas	Nov. 5, 1959	50,000	do	2,714.05	599.95	49,400.00	do	2,914.00	Nov. 5, 1999
04-51-184615	California	Jan. 27, 1960	49,600	do	1,734.90	1,155.79	48,444.21	do	2,890.69	Jan. 27, 2000
56-04-234511	Washington	Sept. 9, 1958	49,440	Insured	4,060.33	1,110.71	48,329.29	do	2,315.28	Sept. 9, 1998
56-39-234461	do	July 30, 1958	49,000	do	4,074.12	1,978.27	47,021.73	do	2,664.13	July 30, 1998
56-24-235137	do	Mar. 21, 1960	48,600	do	500.00	0	48,600.00	do	2,832.41	Mar. 21, 2000
60-00-300893	Alaska	Sept. 13, 1960	48,380	Direct	0	0	48,380.00	do	3,054.58	Sept. 13, 2000

¹ In addition to the amount of annual payment required by the note, all insured loans, except 56-24-235137, require that an additional annual payment equal to 1 percent of the principal balance as of Jan. 1 be made.

*Direct farm ownership loans*¹

Status of loans, cumulative from July 22, 1937, through Mar. 31, 1960:

Total number of borrowers-----	80,715
Total amount loaned-----	\$613,159,708
Borrowers paid in full or otherwise satisfied:	
Number of borrowers-----	50,427
Amount loaned-----	\$301,510,656
Interest payments-----	\$58,843,635
Borrowers still indebted:	
Number of borrowers-----	30,288
Amount loaned-----	\$311,649,052
Payments of principal and interest-----	\$114,275,615
Percent of payments to amount due-----	104
Losses on loans as of June 30, 1960:	
Total amount loaned-----	\$614,206,241
Maximum possible losses on loans ² -----	\$3,892,255
Percent of maximum possible losses on loans to total amount loaned-----	0.63

¹ Statutory authority has permitted direct farmownership loans to be made in an amount that would equal 100 percent of the fair and reasonable value of the farm as certified by the county committee. However, not all loans have been made for 100 percent of this value. Complete information is not available as to the exact number of 100 percent loans but it is estimated that such loans would represent about 87 percent of the total number that have been made.

² This amount is the maximum possible loss without regard to subsequent collections resulting from claims against borrowers which may finally be realized.

Mr. POAGE. It seems to me that you have weakened the security required for these loans, at the same time you have expanded the amount of the loan. That would be contrary to all sound lending principles. The law in the past has required, if I recall, that for these loans, the Secretary must take a first or second mortgage on the farm and all other security that he could get. That is about the way it has been.

Now you are providing, if I understand it, that he take any kind of mortgage. Then you do not have to take additional securities that the borrower might have, if I understand it rightly.

Mr. BERTSCH. This is one of the problems which we are faced with in connection with consolidating our various authorities. Under our Water Facilities Act the security requirements traditionally, from its inception, have been that we could take whatever security the Secretary might require. In consolidating our water facilities authority with our farm ownership authority, with our operating loan authority, had we relied upon the security premise of any of the other legislation we would have unnecessarily tightened the security requirements with respect to the water facility loans.

Mr. POAGE. I do not know that I quite follow that. Your water facilities are secured by a lien, of course. It may be a second lien, but just how far down do you want to go? Do you want to have a tax judgment intervene there, and to create a lien on my land, for instance, and then you take it subject to that?

Mr. BERTSCH. The language, of course, is in the bill, and I do not need to read the language of this bill to the committee, but it provides that the Secretary shall take a security for the obligation entered into in connection with the loans, mortgages on farms with respect to which such loans are made or such other security as the Secretary may require.

Mr. POAGE. That means, if I read it correctly, that you can take, for this farm, my automobile as security, is that not right?

Mr. BERTSCH. Under our present water facilities authority—

Mr. POAGE. I am not talking about just the water facilities. This relates to the things on the farm.

Mr. BERTSCH. That is correct. The regulations which we promulgate in implementation of this legislation would then have to break down the security requirements, by type of loan, but we could have taken—we could have secured the water facilities loan only by a lien on your automobile.

Mr. POAGE. No; you could not—you could require it on my land, and a lien on my automobile. Now you can accept the security of nothing but a lien on my automobile, if I understand it correctly. Under the present law it says that you can take a first or second mortgage and such other security as you can get. That means that you have to take a second mortgage at least. Second mortgages are often not worth very much. Anybody who has dealt in real estate knows that. A second mortgage gets very thin in hard times. But we did say that you had to take either a first or second mortgage and whatever else you could secure.

Now as I understand what you are now saying, you can just take security—just take the old jalopy, that that is all that will be necessary.

Mr. BERTSCH. I can only assure you that the Secretary would require the kind of security that would make of him a wise and prudent steward of the Government's interest.

Mr. POAGE. If he is going to require that, why do we not write it into the law?

Mr. BERTSCH. Because we still hope that he will be able to require less than the real estate mortgage in certain circumstances where a clear title to the land would be more costly to secure than the actual amount of the loan. You see, we have included in this new title loans for purposes other than the acquisition of real estate, or other than the development of real estate. For such purposes—

Mr. POAGE. But these loans for the acquisition or the development—

Mr. BERTSCH. Of the water facilities. We have incorporated the water facilities.

Mr. POAGE. These are for the development of the water facilities and they become part of the land. You cannot move them off.

Mr. BERTSCH. This might be a \$700 loan to deepen a well. And if we did not have this flexibility in our security requirements, we might be in the position of asking the borrower, the applicant, to do \$1,000 worth of title clearance and abstract work to get a real estate mortgage on his farm. So we are asking for flexibility in here to adapt our operations to this situation with which we are confronted.

Mr. POAGE. I do not want to belabor this point too long. In section 309 you now provide, if I understand it, that you no longer have the authority of compensating lenders and others for loan services, and if I understand it, it seems to me that you are going to handle all of these loans simply directly as you handle the direct loans, that is, the insured loans, and for all practical purposes there will be no distinction whatever between the operation of an insured loan and a direct loan?

Mr. BERTSCH. This authority has never been exercised in the past. That is, the authority to use portions of the funds to compensate the lender for servicing the loan. The Farmers Home Administration services the loan as a matter of practice.

Mr. POAGE. Originally, there was this provision in the law that the insured farm home might receive local service. It was put in there with the idea that there might be local people who would want to pick out a loan and take it, and then you would insure it. Actually, it has not worked out that way. You have just been selling blocks of this paper and insuring it; is that not about right?

Mr. BERTSCH. This is about right.

Mr. POAGE. I wanted to understand that. I think it is an important matter on which I believe the committee has a pretty firm opinion.

And when you come to section 310 which authorizes under the new law the loans on the owner's interest. We went into that in considerable detail last year. I think that is a desirable intention. I do not find as much danger in that in my own area as some members seem to find, but, basically, it is put in there to maintain the Bishop estate, is it not?

Mr. BERTSCH. No, it is not.

Mr. POAGE. That would have to be a major effect of this provision, would it not?

Mr. BERTSCH. I think not.

Mr. POAGE. This estate will transfer only a leasehold estate up to 55 years, and when you make loans on these leasehold interests, you would make it much easier for the large estates to perpetuate their hold on large sections of tillable lands and to keep that land in perpetuity, in direct contradiction to what I thought was the main purpose of the Farmers' Home Administration; that is to make farm-owners of small tenants—to make them homeowners. This encourages the making of longtime leases—not homeowners. This is exactly contrary to what the United States is suggesting to the nations around the world as to what they should do in reforming their land areas. Did we not go into Japan and carry on a program of breaking up the big estates and forcing them to release land to the small farmers? Did we not insist that they break up their big estates?

The CHAIRMAN. The answer is "Yes."

Mr. BERTSCH. The private lands that are under lease in Hawaii total 109,000 acres—

Mr. POAGE. That is quite a lot of land in Hawaii.

Mr. BERTSCH. There are Federal lands in the United States under lease, farming lands, apart from grazing lands, more than 1 million acres. There are State lands leased which are not subject to sale in the United States of 1,500,000 acres. There are Indian lands totaling 3,866,000 acres. And this is all farmland.

In addition to this, there are 105 million acres of grazing lands, outside of the State of Hawaii, in the other 49 States.

Mr. POAGE. Let us get this clear, do you want to encourage the maintenance of those leasehold interests in the United States whether it is in Texas or in Hawaii or in the State of Maine?

Mr. BERTSCH. Where we are confronted with them and where an applicant cannot do anything about acquiring fee simple title, or where he is purchasing a farm under a contract which precludes him from prejudicing it by the granting of a mortgage we would still like to be in a position to serve that farm family.

Mr. POAGE. Did we not find that in Japan a large part of the farmers who were living on these large feudal estates could not purchase them? Instead of saying to them, "We are going to find some way whereby you can lease this land," we said to the Japanese Government, "You break these big estates up."

Why should we adopt one policy abroad and adopt a different policy at home? Are we not making it easier for the large estates to exist? And if you are going to loan money to pay the rent, why should they ever break them up?

Mr. BERTSCH. What we are thinking of here is loaning money for the development of the real estate—the construction of decent housing on the real estate, with a clear-cut protective provision, so that the investment which the tenant makes in improving the property is returned to him at any termination of the lease. So we develop these as family operated farms, if not as family owned farms.

Mr. POAGE. I am not objecting to this on theory. Some of the members have thought that it was a bad risk. I am not raising that point, but I am raising the point, are we not extremely inconsistent in our philosophy of farm ownership to encourage the maintenance of these big estates?

The CHAIRMAN. Let me make one observation. I think that this proposal is incompatible with the very purpose of this program. I remember when Hon. Marvin Jones was chairman of this committee and he said that every man desired to reach down to the good earth, to put his hands on it and to say "this is mine." Is that not incompatible with these large holdings in some jurisdictions of this country.

I am not impressed with the idea of perpetuating these large estates, and having these people who are just tenants improving the property which will, ultimately, belong to somebody else.

Mr. LATTA. Will you yield for a question?

Mr. POAGE. Yes.

Mr. LATTA. Do you loan money on entailed estates?

Mr. BERTSCH. Mr. Campbell says that we do not.

Mr. LATTA. You do not. The question is why should we not be permitted to do that? For example, a constituent of mine came to me last fall with the problem of an entailed estate given to him by his father, and then to the heirs of his body. He wanted to spend about \$4,000 ditching it, but due to the fact that it was an entailed estate, the bank would not make him a loan. I think he came to your agency and you would not loan him anything. He was stopped. He could not get money any place to improve his land. I think, certainly, that some provision should be in the law that if a farmer wants to make necessary improvements to his land he should be able to get the money somewhere.

Mr. CAMPBELL. I believe there is an area where a loan could be safely secured, although the applicant may not have full legal title. There are quite a few farmers who are deeding their farms to their sons in order to induce the sons to stay on the farm, and are retaining a life interest in the mother and the father.

Under existing law we have not been able to make a farm improvement loan to those people because the title is divided. How far we would go in a completely entailed estate with the remainder to go to the heirs of the body, I do not know. I believe that would affect the liquidity of the security. But certainly, in those cases where you can get the remainder interest and the present life interest consolidated in a mortgage, and it is a family relationship, there needs to be some more latitude than in the existing law.

Mr. LATTA. Under this proposal would your agency make a loan?

Mr. CAMPBELL. Under this—

Mr. LATTA. I am not talking about a life estate.

Mr. CAMPBELL. It would be a matter of discretion, I think, under this language, as to whether the entailment so limited the availability of security as to reduce its value as a security proposition. If the person interested in it could sell, and that would include the mortgaging, only subject to that entailment, you might limit your market for that security if it came to the time for foreclosure.

Mr. LATTA. In this case the land was not mortgaged. He wanted to borrow \$4,000, but could not.

Mr. CAMPBELL. Again, I say that the agency would expect to take a mortgage and would expect to be able to liquidate that mortgage, if necessary. If the entailment of the estate would reduce the resale value of that property, having been mortgaged subject to the entailment, then I have some doubt as to whether or not it would provide good security. On the other hand, if all the persons who are interested in the present or in the future interest in that real estate could join in the mortgage, then you would not have a reduction of the security value of the property and it would not be necessary to have all of the title consolidated in a single individual in order to adequately secure the loan.

Mr. POAGE. But if you get all of the parties to join the mortgage under existing law it is all right to make the loan.

Mr. LATTA. No.

Mr. CAMPBELL. No, not unless they have a present right to occupancy of the property, because the law contemplates—

Mr. POAGE. But if you get the remainderman, also, to join in?

Mr. CAMPBELL. We have not so construed the law at the present time, Mr. Poage.

Mr. LATTA. I would like to say that this is something that deserves consideration in rewriting this law. Certainly, he should qualify for a loan under the provisions of this law.

Mr. POAGE. Let us turn our attention to the limit that we have on the borrowing of operation loans. That is now \$30,000. We passed legislation allowing you to use up to and not to exceed 25 percent of the funds available for operating loans in excess of \$10,000, that is the law to which you refer at the present time in your study here, that which has been in effect about a month or 6 weeks now.

Mr. BERTSCH. It is all gone.

Mr. POAGE. If I understand it the bill now fixes a \$50,000 limit for the total principle indebtedness for operations outstanding at any one time.

Mr. BERTSCH. That is correct.

Mr. POAGE. And you do not have any limitation as to the percentage that you would use for larger loans, that is right, is it not?

Mr. BERTSCH. That is correct.

Mr. POAGE. You mean you could theoretically put all of your operating funds in \$50,000 loans? I recognize that you would not do that.

Mr. BERTSCH. That is theoretically correct; that could be done theoretically.

Mr. POAGE. I am very glad to hear that you do not propose to do this. Just why do you feel that you want the full \$50,000?

Mr. BERTSCH. This is all related, Mr. Poage, to the problem with which we are confronted in the United States of the family farmer requiring larger and larger investments in machinery and livestock and operating capital in order to efficiently utilize his manpower, in order to compete in the business of farming.

Mr. POAGE. Should there not be in the law some way of giving preference to those people who need the smaller amounts? It seems to me that I think we recognize we do need some of these larger operating loans, but we still need a whole lot more for the man who needs \$5,000 than we do for people who need \$50,000 as operating loans. I do not see any reasonable prospect for your getting all of the money that you want, and all of the money that we would like to have you get for these operating loans in the foreseeable future, but should we make some provision here, to sort of set aside a reserve, a substantial part of this money, for the smaller men? Theoretically, the ones we are trying to help? They are the basis of all of this. The big men would not need as much as the little men.

Mr. BERTSCH. We would like to limit that control to an administrative limit which we think, on the basis of our experience and our performance, the Congress can safely do.

Mr. POAGE. Would you have authority under this bill as it is now written to limit, say, one-half of this money to the small operators? I do not think you have that authority under this bill, do you?

Mr. BERTSCH. I think we could control it administratively, that is, the distribution of funds by the size of loans. Would you not think this would be within our administrative authority, Mr. Campbell?

Mr. CAMPBELL. I would say that if you do not have money enough for all of your applicants then some kind of device would be forced upon the agency.

Mr. POAGE. I understand that, but I am talking about a different thing here. You would not tell me that I could not have the \$50,000 if I met every requirement simply because Mr. McIntire, who needs only \$5,000, had not yet come in and asked for \$5,000?

Mr. CAMPBELL. I think that it would still be possible for the administrative agency to set up the guidelines.

Mr. POAGE. I am not sure about that. I just wanted to raise the question.

Mr. MCINTIRE. I think it should be pointed out in connection with this particular recommendation. In the legislative session, prior to this, you would have had a 10 percent limitation. The law presently provides for 25. This recommendation would take it all off, is that right?

Mr. BERTSCH. This recommendation was to substitute administrative control for an inflexible legislative limit.

Mr. McINTIRE. It is possible to do it with some limitation. Now you have 25 percent. Why not function with the 25 percent, rather than to take the limit off and go up to \$50,000? I mean, this seems to me like quite a package.

Mr. BERTSCH. In the future, as in the past, we would require that the loans beyond a certain amount, resulting in a total indebtedness beyond a stated amount, would have to be reviewed at a higher level within our administration.

Mr. McINTIRE. This would not place any limitation on you or your judgment in connection with whether or not the best interests of all of the farms in the United States were being served by making one \$50,000 loan as against twenty-five \$2,000 loans.

Mr. POAGE. Should you not have in here, at least, the power of authority to provide that limitation?

Mr. BERTSCH. We have exercised administrative limits of that general character in the past without question and without difficulty. We have had administrative limits on farm ownership loans which were less than the legislative limit at the time.

Mr. POAGE. You have had limitations on farm ownership loans? You just cut across the board and said: "We won't make them above." I think that you can do that here. I think you could say that you would not loan anybody more than \$10,000, but can you deny me a \$50,000 loan without any regulations or rules and then come along and make Mr. McIntire a \$5,000 loan?

Mr. BERTSCH. I think that we could issue an instruction, Mr. Poage, which said, in effect:

As we see the rate of depletion of our appropriations this year it is our judgment that we are not going to be able to serve the interests of all borrowers; therefore, after this date no more loans in excess of \$15,000 should be considered in our county offices, so as to serve the most people most advantageously.

Mr. POAGE. I would not deny that, but somehow I want to be sure that there is some opportunity—

Mr. BERTSCH. With the general trend of increased investments in farming, we are looking to the future somewhat in this provision.

Mr. POAGE. Let me ask you about the next section, section 311, in which you have the authority contained in the old bill to participate in operating loans and you now authorize the Secretary to take up to 80 percent of the amount of these loans. In the past has it not been 50 percent? I just want to clear this up, whether I understand it or not. As I understand it, what you are doing here is that if I owe a bank \$10,000 and you will loan me \$40,000, you can lend me \$40,000 and then you would be participating in a \$50,000 loan. You have 80 percent of it. That is what you are proposing to do here, is it not?

Mr. BERTSCH. That is correct. Under our present authority we have no participating authority whatever. Under the bill that was passed last year we would have participating authority. Mr. Campbell tells me, I believe, without limitation. So this proposed language is something of an intermediate stage between what we now have and what we would have had under the bill passed last year in the House.

Mr. POAGE. Let us turn to section 316 where under the existing law no loans will be made for a period longer than 7 years, or continued where the borrower has been continuously indebted for operating loans for more than 10 years. As I understand it, you are extending that to 15 years. Is that the effect of it, to raise this from 10 to 15 years; is that right?

Mr. BERTSCH. That is correct.

Mr. POAGE. That is an operating loan. Is it intended to make me a 15-year loan on a combine that I know will wear out in 6 years.

Mr. BERTSCH. Of course, no loan would ever be extended beyond the depreciated value of the security for the loan. This 15-year repayment period is proposed in an effort to include intermediate-type loans in this authority. It is aimed at such loans as those involving livestock security in which the mortgage automatically applies to the replacement or to the offspring of the livestock, so that your security stays adequate or improves.

Mr. POAGE. Why not require a rewriting of the loan sometime or other down the line? It seems to me that every time I go home I go to the bank and sign a new note and I still owe them the same money, but they require me to sign a new note.

Mr. BERTSCH. Under our present limitations, after you have signed that new note for 7 years, we would have to turn you out in the street.

Mr. POAGE. Yes; I know that.

Mr. BERTSCH. We cannot sign it with you any longer.

Mr. POAGE. Instead of simply extending this loan, should we not make some provision for some kind of a renewal that would allow me to make a new loan—if you just automatically extend it. I do not like to walk into that bank and sign a new note, and yet I have been doing it for a long time. It certainly calls my attention to the fact that I owe them a little money.

Mr. JOHNSON of Wisconsin. Where you have a real estate mortgage you would not do that.

Mr. POAGE. This is not a real estate loan. This is an operation loan.

The CHAIRMAN. May I interrupt? The PCA operates as Mr. Poage suggests. You borrow PCA money from year to year. You have to go in each year and make a new application and have it submitted to the board to be approved or disapproved. You sign a new note, and so forth.

Mr. BERTSCH. In effect, this annual review takes place between our county supervisor and our borrower each year, except when you are planning for an investment, and a good many PCA loans also are planning for investment, which obviously needs to be amortized over a longer period of time. If your planning is to be sound it must be realistic. And we think it would be a bit unrealistic to represent that we were going to have an annual liquidation.

The CHAIRMAN. Under what circumstances could you justify amortizing a loan on personal property for as long as 15 years? Even a mule would wear out in 15 years. I do not know of any machinery that will last that long.

Mr. BERTSCH. Nothing is more durable than a mule. I would quickly agree with that. If one were establishing a registered herd of cattle, and he was starting with a relatively small herd and plan-

ning on reaching his maximum capacity through the offspring of these cattle, the offspring automatically are covered by our chattel mortgage. We could readily see a reason for amortizing this cattle herd development loan over a 15-year period.

The CHAIRMAN. Mr. Matthews is interested in this, too. How many borrowers have you had to graduate from the Farmers Home Administration and go over to the PCA or the Federal land banks? Have you had many? Can you give us something for the record in that regard?

Mr. BERTSCH. I would like to present something for the record in that regard. Unfortunately, we do not have it with us at this time.

The CHAIRMAN. Will you be prepared to present something for the record at a later date?

Mr. BERTSCH. Yes; we will be glad to submit it.

(The information follows:)

Borrowers who refinance their Farmers Home Administration indebtedness with other creditors during preceding 4 fiscal years

	Fiscal year—			
	1957	1958	1959	1960
Borrowers owing farmownership loans.....	703	685	977	850
Borrowers owing operating loans.....	3, 112	4, 635	5, 589	3, 907

The CHAIRMAN. We would like information as to the man who has secured loans from you which have enabled him to acquire an equity in his farm and move out of the FHA and go on to the PCA or to the Federal land bank. If that happens, you expect him to do that. I want to know whether we have had this happen.

Mr. BERTSCH. We have had a remarkably fine record, we think, in this respect. We will be glad to submit the exact figures for the record.

Mr. MATTHEWS. There is another aspect of this problem, Mr. Bertsch, that is of tremendous interest of my people. The PCA, of course, very definitely has limitations as to the time of the mortgage, as I understand it. I think that one of the biggest needs of farmers in my district is to find some way, perhaps, that the FHA could take over a loan that someday will be made good but because of the time limit of the PCA that particular loan is in danger.

My question is: Do you have authority now to consider that kind of a problem and to help with that kind of a problem?

Mr. BERTSCH. I think that the authority we are questing to participate with another lender in the financing of a single borrower would give us a great deal more turn-around room in that field. At the present time, a PCA borrower who could not get his adequate financing, either with respect to the total amount or the length of time from the PCA, who came to us, would confront us with a problem of needing to refinance the PCA balance. However, as soon as he then got into a position where he could again qualify for the PCA support, the PCA financing, our regulations and our legislation—and this proposed legislation would continue the same requirements—he would automatically be required to take his financing problems back to a conventional lender.

Mr. MATTHEWS. I certainly would be in agreement with that. And I believe with a little help in the long-term aspect of the loan he could go back eventually.

Mr. BERTSCH. We know of many, many individual examples in which this sort of collaboration between the PCA and the FHA has taken place.

Mr. GATHINGS. I just want to ask you this question, Mr. Bertsch. On page 58, new section 324, under that section you will have authority to make emergency loans upon full personal liability of the borrower and upon such security as the Secretary may prescribe. Under the old section, which is now on the statute books, it authorizes these loans under 304 and now upon the full personal liability and the available security of the farm or the ranch. What is the difference between those two? I wonder if you would explain that.

Mr. BERTSCH. This section refers to the emergency loan authority?

Mr. GATHINGS. That is right.

Mr. BERTSCH. Mr. Campbell, could you comment on the significance of the language on the security requirements?

Mr. CAMPBELL. I am at a loss for the moment to come up with the exact reasons for the change of that language. Actually, you would come out with about the same result if a farmer had large mortgages on his farm before we came in with an emergency loan. We would put a third or a fourth real estate lien on it, perhaps, or we could take a second or third lien on his livestock or equipment. That is what is available; that is what we would take.

I assume that we would have to do about the same thing under the new language under which the Secretary would prescribe the security to be taken in connection with that emergency loan.

Mr. GATHINGS. There is not much difference?

Mr. CAMPBELL. That is my opinion; yes, sir.

Mr. GATHINGS. Thank you.

Mr. DOLE. I address this to any one of you gentlemen. I notice the term "family farm" or some variation of the term is used 11 times, I think, in this 5-page statement. One of the basic purposes of this law is to strengthen and perpetuate the family farm.

I notice on pages 3 and 4 that the farm enlargement loans increased 44 percent in 1950-60. Does not that necessarily mean a reduction in the number of farmers? Is that what is meant?

Mr. BERTSCH. Our authority to make an enlargement loan is the authority to enlarge farms, to permit the enlargement of farms, which currently are smaller than family-type farms, and to enable the owner of the farm which is an inadequate farm to make it a family sized farm, so that this enlargement authority is in extension, in pursuance of the purpose of establishing efficient family type farms.

Mr. DOLE. I wonder if we might ask for the record your agency's description or definition of a family farm, how you define a family farm, how much capital investment and operating capital and so forth?

Mr. BERTSCH. We would be pleased to put that in the record, that is, our definition of a family farm.

Mr. DOLE. We also might have a copy of the news release which Mr. McIntire referred to for the record.

Mr. BERTSCH. I will be happy to put that in.
(The information follows:)

DEFINITION OF FAMILY FARM

A family farm or ranch is one which provides a substantial portion of the family's total income, on which the operator and members of his family make most of the managerial decisions, participate regularly in the farmwork, and generally supply most of the labor needed to operate the farm.

U.S. DEPARTMENT OF AGRICULTURE,
Washington, February 13, 1961.

ADDITIONAL \$35 MILLION FARM OPERATING LOAN FUND MADE AVAILABLE

Secretary of Agriculture Orville L. Freeman today announced that an additional \$35 million has been made available for farm operating loans.

At the same time, Secretary Freeman said USDA's Farmers Home Administration has been instructed to "review its regulations, and take every step within its authority to meet farm credit needs.

"To the extent that farm loan policies and available funds can prevent it, no qualified family farmer will be required to give up farming because of his inability to finance his 1961 operations," the Secretary said.

The volume of loans made by the FHA so far this year is running 20 percent ahead of last year. As a result of the increased demand, the supply of funds for new borrowers is nearly exhausted in about 17 States.

The \$35 million came from a contingency fund made available by Congress for the 1961 fiscal year. Previously, \$197,100,000 had been made available for this type of credit for the 1961 fiscal year. As of February 10, approximately \$150 million of the \$197 million had been loaned and most of the remainder committed.

In announcing measures being taken to meet credit needs, Secretary Freeman said "We expect that the expansion of agricultural credit services can be carried out without additional personnel, and with no increase in administrative expenses. Additional loans will be made available to farmers, but this will not result in any actual increase in expenditures of the Federal Government since borrowers of the Farmers Home Administration have a superb record of repaying their loans.

"Over the past 9 years the total real net income of farm families from farming has dropped approximately one-fourth; farm prices have dropped to around four-fifths of the parity level. Faced with declining prices and income, many beginning and other farmers have been financially hard pressed. In many cases they have exhausted their regular line of credit and thus in 1961 are facing the threat of having to give up the struggle against adversities they have suffered through no fault of their own.

"It is the intention to reverse the downward trend in farm income and enable efficient family farmers to earn and get a parity of income. When the new farm program becomes effective, these efficient family-type farmers will again be good commercial credit risks. It would be unthinkable to allow many efficient farm families to give up the struggle now because they are unable to obtain credit needed to finance 1961 operations."

Farm operating loans are made by the Farmers Home Administration to farmers who cannot obtain adequate credit elsewhere. The funds may be used to pay for equipment, livestock, feed, seed, fertilizer, tractor fuel and other farm and home operating needs, and to refinance chattel debts. Loans are scheduled for repayment in accordance with the borrower's ability to repay, over periods not exceeding 7 years. The interest rate is 5 percent.

The loans are used to finance family-type and smaller operations, and applications are made at FHA county offices.

Mr. LATTA. Last year we had before this committee a bill asking for an increase in the disaster loan rate. I should like to ask whether or not such an increase is contained in your bill?

Mr. BERTSCH. This bill continues the disaster loan rate at its current rate.

Mr. LATTA. At the same level. You are not asking for any increase?

Mr. BERTSCH. That is correct.

Mr. LATTA. Thank you.

The CHAIRMAN. We thank you, gentlemen. We will adjourn until 10 o'clock tomorrow morning. I am referring the Farmers Home Administration part of H.R. 6400 to the Subcommittee on Conservation and Credit of which Mr. Poage is the chairman and they will continue the hearing on title III of the bill for the balance of this week.

(Whereupon, at 12 o'clock the committee adjourned subject to the call of the Chairman; the Subcommittee on Conservation and Credit to meet at 10 a.m. Wednesday, May 10, 1961.)

Mr. Latta. At the same time. You are not asking for any in-

crease?

Mr. Brewster. That is correct.

Mr. Latta. Thank you.

The Chairman. We thank you, gentlemen. We will adjourn until 10 o'clock tomorrow morning. I am referring the Tavern Home Administration part of H.R. 6409 to the Subcommittee on Conservation and Credit of which Mr. Tamm is the chairman and they will continue the hearing on title III of the bill for the balance of this week.

(Whereupon, at 12 o'clock the committee adjourned subject to the call of the Chairman; the Subcommittee on Conservation and Credit to meet at 10 a.m. Wednesday, May 10, 1901.)

AGRICULTURAL ACT OF 1961

Title III

WEDNESDAY, MAY 10, 1961

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:15 a.m., in room 1310, New House Office Building, Hon. W. R. Poage (chairman of the subcommittee) presiding.

Present: Representatives Cooley, Poage, Gathings, Johnson of Wisconsin, Breeding, McIntire, Short, and Dole.

Also present: Representatives Albert, Thompson, Harding, and Reifel.

Christine S. Gallagher, clerk; and John Heimbürger, counsel.

Mr. POAGE (presiding). The subcommittee will come to order.

There seems to be considerable confusion whether we are meeting in full committee or subcommittee. And I do not know that it makes a great deal of difference. This is the Conservation and Credit Subcommittee and we will take testimony for the full committee.

We have with us Mr. Jack Lynn, of the American Farm Bureau Federation, as our first witness. We will be glad to hear you now.

STATEMENT OF JOHN C. LYNN, LEGISLATIVE DIRECTOR, THE AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY J. B. THAYN, ASSISTANT LEGISLATIVE DIRECTOR

Mr. LYNN. Mr. Chairman, I have with me Mr. J. B. Thayne, an assistant legislative director, whom I would like to have participate with me.

We appreciate the opportunity to present our views with regard to title III of H.R. 6400, which deals with revisions in the basic law governing the Farmers Home Administration. Farm Bureau for many years has exerted leadership in developing a sound farm credit system.

Farm Bureau favors sound agricultural credit on a permanent basis because we believe it is essential to the further development and advancement of agriculture. Adequate sources of credit at interest rates and on terms adapted to farmers' needs become increasingly necessary as farmers adjust to technological change.

We recognize the value of enactment during recent years of a series of laws, beginning with the Farm Credit Act, which provides for an independent, bipartisan Farm Credit Board, retirement of Govern-

ment capital, preservation of revolving funds, and decentralization of authority to increase farmer ownership and control of the Farm Credit Administration.

We favor continuation of both the direct Government loans and the insured loan program of the Farmers Home Administration.

The Farmers Home Administration should continue to give special attention and consideration to the needs of farmers who are just starting operations. Loans should be made to economic production units only. The objective of the program should be to assist those farmers who are likely to develop reasonably efficient operations, rather than to keep on farms all persons who may desire to live there.

Since this agency administers numerous programs developed under circumstances of special needs, we favor consolidation and appropriate revisions to provide a consistent body of law and policy. We believe it is desirable to establish a revolving fund for financing of all activities not now operated on this basis, but with special provisions for control by Congress through annual appropriation bills of funds for the various classes and types of loans and administrative expenses.

In the 86th Congress the Cooley bill, H.R. 11761, which has been reintroduced into this Congress by Congresswoman May, H.R. 5925, and in the Senate by Senator Ellender, S. 764, was an effort to further bring up to date this legislation.

The committee will recall that the Cooley bill, H.R. 11761, passed the House in 1960. The purpose of this legislation was to recodify the existing laws which presented a most difficult administrative problem to the Department of Agriculture and caused considerable confusion among farmers because of the lack of uniformity of eligibility criteria.

This legislation received our full support. We still believe that this legislation is more desirable than the proposals contained in title III of H.R. 6400.

In title III of the bill before you, there are many of the desirable features contained in the legislation passed by the House last year; however, we feel that this new title goes far beyond the intent of the present law and modifies substantially the basic legislation. We appreciate that some of these changes may not be significant as a single change, but grouped with all of the other changes we feel that this "package" might result in actually weakening the farmer-owned and farmer-controlled farm credit system, which of course would not be beneficial either to the farmer or to our economy as a whole.

For the convenience of the committee, in calling attention to the sections in the new bill which we question, we are listing first the language in H.R. 11761, followed by the corresponding language contained in title III of H.R. 6400. This procedure is followed for the principal provisions of the legislation.

I might add we have not attempted to make a detailed line-by-line analysis of this but to point out some of the highlights.

REAL ESTATE LOANS

H.R. 11761:

The Secretary is authorized to make and insure loans to farmers and ranchers * * * who (4) are unable to obtain sufficient credit elsewhere to finance their actual needs at rates and terms *prevailing* in or near the communities.

H.R. 6400:

(4) are unable to obtain sufficient credit elsewhere to finance their actual needs at *reasonable rates* and terms for loans for similar purposes and periods of time. [Italics added.]

H.R. 11761:

The Secretary shall make or insure no loan * * * which would cause (a) the unpaid indebtedness against the farm at the time the loan is made to exceed 90 percentum of the normal value of the farm * * * [Italics added.]

H.R. 6400:

(a) the unpaid indebtedness against the farm or other security at the time of the loan is made to exceed the *normal value* of the farm or other security. [Italics added.]

The change in wording in these two examples may not seem alarming at first sight; however, to become a part of our permanent law, we feel that the word "reasonable" could be interpreted in a much broader sense than the term "prevailing."

We appreciate that in certain isolated cases the prevailing rate of interest could impose a financial hardship on certain applicants. However, a liberal interpretation of the word "reasonable" could, we feel, exclude certain other local lending agencies participating in this credit field, particularly the Production Credit Associations and the Federal Land Banks who do have to pay a higher cost for their funds.

To emphasize this point, interest rates on loans made by the Federal Land Banks and the Production Credit Associations have been in excess of 5 percent for some time now. This has meant that even though these institutions are prepared and have money available to make a loan at their current rates, the applicant, in this case the farmer, being eligible for a Farmers Home Administration loan, probably would prefer it because of its lower interest rate. However, if the Secretary should determine that these agencies can supply an available source of credit, the applicant to the Farmers Home Administration would not be eligible.

We do recognize, however, that the proposed legislation offers perhaps a more appropriate differentiation on interest rates between FHA and other lending agencies than under existing law which, in effect, authorizes certain FHA loans to be made to an applicant who cannot obtain sufficient credit at not exceeding 5 percent interest.

OPERATING LOANS

H.R. 11761: Limits principal indebtedness to \$30,000 provided that not more than 25 percentum of the sums made available for loans under this title may be used for loans which would cause each indebtedness of any borrower under said acts to exceed \$10,000. Such loans shall be payable in 7 years and no loans shall be made to any person who has been continuously indebted * * * for the immediately preceding 10 years.

H.R. 6400: Indebtedness limited to \$50,000, restriction of 25 percentum *removed*, loan repayment extended to 15 years, and debt history eliminated. H.R. 6400 removes the 25 percent limitation on use of funds, which would cause the indebtedness of any borrower under operating loans to exceed \$10,000.

The Cooley bill raised this to 25 percent, which has now been enacted into law since the beginning of this session, which we approve. Because of this, we see no reason to remove this limitation since the intent of Congress seems to be that a 25 percent maximum is sufficient.

The new bill, in section 314, authorizes the Farmers Home Administration to make loans to nonprofit organizations for the purpose of purchasing farm equipment and facilities to be made available to farmers on terms and conditions approved by the Secretary. We have not received from the Secretary nor from the Administrator of the Farmers Home Administration clarification and explanation of just what the Department has in mind. We assume, however, that this would envision the pooling of machinery and facilities in farming operations which could possibly lead to absentee manager ownership.

If I might interject here, Mr. Chairman, we believe that sufficient credit is now available to cooperatives and through other means to carry out an operation of this kind without needing new legislative authority.

Section 315 of title III of this bill authorizes the Secretary—

to participate in loans which could otherwise be made by the Secretary under this subtitle which are made by commercial banks, cooperative lending agencies, or other regular responsible sources of credit up to 80 per centum of the loan.

We are not certain just what this new language means. However, it appears that it is intended to increase the availability of credit in certain local areas, and we have no objection to this provision if the criteria of eligibility are maintained and the local lender participating with the FHA shares in the loss risk. This provision could, however, lead the FHA into soft credit areas which conceivably could result in securing credit risks of the local lender.

We think this committee should determine what the extent of cost is for all Government credit and that a full disclosure of cost of money, cost of operation and administration, and the cost sustained in losses should be made known to the Congress at regular intervals to determine the extent to which the Government is subsidizing credit.

EMERGENCY LOANS

H.R. 11761: The Secretary may designate any area in the United States and Puerto Rico and the Virgin Islands as an emergency area if he finds—this is under the Cooley bill:

(2) that the need for such credit in such area is the result of a *natural disaster* or *severe production losses*.

H.R. 6400:

(2) That the need for such credit in such area is the result of a *natural disaster*, *severe production losses* or *critical economic conditions* encountered in the area by the producers of *specified agricultural commodities and products*.

We are at a considerable disadvantage in not knowing the intent of the Secretary with reference to this section of the new bill. However, we question the desirability of extending to the Secretary the

authority to designate a certain area as being in a critical economic condition and having the authority to specify the application of this to certain agricultural commodities and products.

The new bill removes the limitation in H.R. 11761 of \$50,000 on the principal indebtedness for emergency loans and also eliminates corporate liability. We seriously question the advisability of this language. The new bill also eliminates the housing provision of existing law which has now been included as part of title VIII of H.R. 6028, the new Federal housing program. We have no objection to this transfer. However, we recommend that the administration of this program be left with the Secretary of Agriculture.

In conclusion, may we say that we firmly believe that the role of the Farmers Home Administration should be to serve as a supplementary source of credit to that which is now provided by production credit associations, land banks, and other lending institutions. We do not believe the Congress ever intended that the Farmers Home Administration should compete with these agencies and institutions. We believe this policy should be continued and that FHA loans should not be made to a borrower who can obtain sufficient credit from other sources.

Mr. Chairman, if you would permit me, I discovered this table after we had prepared this statement, but it was of great interest to us and I thought it would be to the committee. Of course, it is available to you.

This is out of the most recent report of the Farm Credit Administration which gives a breakdown of the lending institutions and the amounts of money they are lending to farmers now.

For example, under "Real estate loans," as of January 1, 1960, the total amount of loans outstanding was \$12,289 million, of which the Farmers Home Administration had only 3.6 percent of this amount.

Of the non-real-estate loans totaling \$10,561 million, the Farmers Home Administration had 3.7 percent of this amount.

Now, the point I think that you can get from this table is that the Federal land banks, the insurance companies, the commercial banks, individuals, and others, are making available to farmers some 96 to 97 percent of the credit needs.

We think it would be going in the wrong direction if by this legislation we jeopardized in any way these sources of credit and started putting the Farmers Home Administration in competition with these sources. And I think we all can agree that our farm credit system, taken as a whole, is one of the things that we can all be proud of in the United States.

With your permission I would insert this table in the record.

Mr. POAGE. Without objection that may be done.

(The tabulation follows.)

*Amount of loans to farmers and percent of total held, by lenders, Jan. 1, 1960
and 1959¹*

Lender	Jan. 1, 1960		Jan. 1, 1959	
	Amount (millions)	Percent of total	Amount (millions)	Percent of total
REAL ESTATE LOANS				
Federal land banks ²	\$2,335	19.0	\$2,065	18.4
Insurance companies	2,820	22.9	2,661	23.7
Commercial banks ³	1,625	13.2	1,512	13.4
Farmers Home Administration ⁴	437	3.6	388	3.4
Individuals and others	5,072	41.3	4,628	41.1
Total real estate loans	12,289	100.0	11,254	100.0
NON-REAL-ESTATE LOANS				
Production credit associations ⁵	1,361	12.9	1,115	11.8
Federal intermediate credit banks ⁶	90	.9	84	.9
Commercial banks ³ ⁵	4,814	45.6	4,161	43.9
Farmers Home Administration ⁷	396	3.7	405	4.3
Individuals and others	3,900	36.9	3,700	39.1
Total non-real-estate loans	10,561	100.0	9,465	100.0
TOTAL LOANS TO FARMERS				
Held by cooperative farm credit system	3,786	16.6	3,264	15.8
Held by other lenders	19,064	83.4	17,455	84.2
Total farm indebtedness ⁸	22,850	100.0	20,719	100.0

¹ Data do not include Alaska, Hawaii, or Puerto Rico.

² Includes regular mortgages, purchase money mortgages, and sales contracts.

³ Includes National and State commercial, mutual and stock savings, and private banks.

⁴ Includes farm ownership loans, farm housing loans, and soil and water conservation loans. Excludes insured loans.

⁵ Excludes loans guaranteed by Commodity Credit Corporation.

⁶ Loans to and discounts for financing institutions other than production credit associations.

⁷ Includes operating loans, rural rehabilitation loans to individuals, disaster loans, and emergency crop and feed loans in liquidation.

Source: Agricultural Research Service, U.S. Department of Agriculture.

Mr. LYNN. I think it all boils down to this: We think the Farmers Home Administration has done a marvelous job. The amount of collections that they have made indicates very clearly that this has been operating on a very sound basis. It has done a tremendous amount of good.

We look at the FHA as an undergraduate course, hoping that all of these borrowers can graduate to another source of credit. We would like not to see anything done here that would tend to change the direction as much as we think that title III does in connection with this.

Thus we would recommend with some minor changes the Cooley bill that the House passed last year. The report that this committee put out on this is a very valuable document and we believe that it is thoroughly understood. We would like to recommend this to the committee.

Mr. POAGE. Thank you, Mr. Lynn. Any questions?

Mr. McINTIRE. I should like to ask you a question in relation to the authority which is contained in this proposed legislation for facility loans. Perhaps it could be interpreted as getting into loans in connection with warehouse facilities, or getting into the field of lending to cooperative organizations, groups of farmers who are providing some marketing function. This term you feel is much broader than you might say for other things of that sort?

Mr. LYNN. We do, Congressman McIntire. If the committee is convinced there is no credit available for this facility currently for these kind of groups then this ought to be considered. But based on our best information, if a group of farmers build a warehouse or do any of these kind of things, credit is now available at reasonable rates through the banks for cooperatives and other sources.

Mr. McINTIRE. One other question. So far as the rates are concerned—and this is alluded to three or four times in the proposed legislation—would you be of the opinion that the rates which would prevail at any particular time within the farm credit system, both for long- and short-term lending, should well be within the definition of “reasonable” rates as far as the Farmers Home Administration activities are concerned?

Mr. LYNN. I think it could, but, Mr. McIntire, it is pretty easy to tie down “prevailing,” so that you and I could know pretty well. When you start with the term “reasonable,” a reasonable interest rate in a good agricultural county in Texas might be considered quite different from an agricultural county in West Virginia, let us say, and we could jeopardize the good record that the Farmers Home Administration has up to now if we start to play it too loose with this business.

Mr. McINTIRE. Do you feel that the word “prevailing” should be quite definitive on the basis of the areas, where the word “reasonable” is entirely a matter of administrative or judgment interpretation?

Mr. LYNN. That is right.

Mr. McINTIRE. Thank you.

Mr. POAGE. Any further questions?

Mr. JOHNSON of Wisconsin. Do you think that in the last 3 or 4 years the FHA has been too restrictive?

Mr. LYNN. I do not. We have no evidence, Mr. Johnson, that would indicate otherwise. I have their sheet here going back all the way and for fiscal year 1960. Well, the answer is that we do not have any evidence to indicate that.

Mr. JOHNSON. of Wisconsin. Thank you.

Mr. SHORT. I think right there, Mr. Lynn, if there has been any restriction in any service that they provide the farmers it has been on the basis of the availability of the funds and not due to any shortcoming in the authority of the program. After all, we deal here with the amount of funds that are appropriated; also with the limitation of available funds.

Mr. JOHNSON of Wisconsin. Do you suggest that there be a larger appropriation to the FHA for the purposes of this work?

Mr. LYNN. We have always supported increased lending authority under the FHA and REA and all of the others because it is authority to borrow. As long as you have good, solid, sound principles on which this money is to be loaned, then we would have no objection to that.

Mr. JOHNSON of Wisconsin. It has been indicated to me in specific instances where certain people could not get loans in some communities because there were no loans being made.

Mr. LYNN. I believe that you did authorize some increases already this Congress, did you not?

Mr. JOHNSON of Wisconsin. Yes.

Mr. LYNN. Has that been used up? I should not be asking questions. I am sorry.

Mr. POAGE. Any further questions?

Mr. SHORT. I think you brought out a very good point in your testimony; namely, that the FHA program—and this is very clear to some of us who have had some experience with the program since its inception—has been being recognized as an initial type of farm financing facility. It was designed to help a farmer get started with a sound plan of operation. You point out that it was a sort of an undergraduate course and I think that is an excellent depiction of the intent of this program. At least, in my opinion of the intent of the program. The actual operation of the program has indicated that the vast majority of the farmers who start out with FHA loans in a comparatively short number of years graduate to some other type of lending facility.

Mr. LYNN. Yes.

Mr. SHORT. This brings up a question, and I am not sure whether it is incorporated in this recommendation or not, but it seems to me that conceivably FHA under this new revised plan of operation could become a permanent lending facility to take care of the farmers' lending needs from the time he started in business until the ultimate repayment of the loan 40 years hence.

Do you have that interpretation of the intent of the proposal here?

Mr. LYNN. The length of time, increasing the operating loans repayment time to 15 years is one indication of that, I think. It seems to us that 10 years is, certainly, a long time for an operating loan. And this is one indication, sir; that is the only thing I am saying.

Mr. SHORT. If this is true that we are extending the length of time for the operation of the FHA loans, does it not become, also, true that this becomes to some degree at least an invasion of the field of operation of the Federal land banks, production credit associations, and other lending institutions?

Mr. LYNN. It would seem so if not nailed down with some real solid principles. The length of time is one of the criteria that, certainly, would indicate that this fellow would not graduate as quickly as we would like to see him.

Mr. SHORT. There would not be the incentive.

Mr. LYNN. That is right.

Mr. SHORT. That is all.

Mr. POAGE. Mr. Breeding.

Mr. BREEDING. This has to do with the emergency loans in regard to flooding and cyclones, any kind of emergency. You are not opposed to this 3-percent disaster loan provision?

Mr. LYNN. Not at all.

Mr. BREEDING. You have raised a question about the desirability of extending it in critical economic areas. This question is in your statement, is it not?

Mr. LYNN. The point we are trying to make there, Mr. Breeding, is that these loans have been made—and we fully support this provision—where natural disaster or severe production loss due to either drought or flood has been had. The disturbing thing about this is that new criteria are being added in addition to this; namely, critical economic conditions, and—

Mr. BREEDING. That is what you have reference to?

Mr. LYNN. Yes, sir; and the second is specified agricultural products and end products. These are two new definitions put in here that we question.

We fully support the current provision of the law where they move in severe drought and flood disaster.

Mr. BREEDING. Then you are also opposed to the removal of the \$50,000 limitations on emergency loans?

Mr. LYNN. We would not be vigorous about this. We think this is a pretty good sum.

Mr. BREEDING. That is all, Mr. Chairman.

Mr. POAGE. Thank you. There is no limitation on emergency loans at the present time, is there?

Mr. LYNN. No, sir.

Mr. POAGE. The present limitation is \$30,000 on operating loans and it is proposed to raise it to \$50,000 under the new bill. I do not think there is any limitation in the present law or in the pending bill.

Mr. BREEDING. Mr. Lynn's statement says the limitation will be \$50,000 for emergency loans.

Mr. LYNN. This was our understanding. If this is in error, why, we would want to correct it.

Mr. BREEDING. Your statement says that; does it not?

Mr. LYNN. This refers to the Cooley bill.

Mr. POAGE. Is there a limit on emergency credit in this respect, Mr. Campbell?

Mr. CAMPBELL. There is no limitation on emergency loans at the present time. One of the bills considered last year did have this in it.

Mr. POAGE. Any further questions?

If not, we are very much obliged to you, Mr. Lynn, and we appreciate your appearance here.

Mr. LYNN. Thank you.

Mr. POAGE. We will next hear from Mr. Kenneth D. Naden, secretary of the National Council of Farmer Cooperatives.

We will be glad to hear from you now.

STATEMENT OF KENNETH D. NADEN, SECRETARY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. NADEN. I am Kenneth D. Naden, secretary, National Council of Farmer Cooperatives.

We appreciate the opportunity to present our views on title III of H.R. 6400 to this committee.

The National Council of Farmer Cooperatives is a national federation of farmer-owned and farmer-controlled cooperative marketing and purchasing associations. Our affiliates include 5,000 farmer cooperatives throughout the Nation serving approximately 2.75 million farmer memberships.

The critical role of credit as a tool for developing farmer bargaining power and higher farm income has been long recognized by the National Council of Farmer Cooperatives. At the last annual meeting

of this organization, held in January 1961, President George B. Blair, in his annual address, stated:

* * * the pressures of competition on individual farmers are causing them to make large-scale investments on their farms. When they are, at the same time, called upon to make the capital investments to strengthen their purchasing and marketing cooperatives, a heavy and burdensome financial requirement can result. * * * The Farm Credit Administration shows that only 2 percent of total farmers' investment capital is in their cooperatives.

Over the past 25 years Government-sponsored or Government-supported credit agencies have been used extensively by farmers for a variety of reasons. As needs of Farmers have changed the credit agencies have changed their rules and regulations. Among these needs we would list those peculiar to farmers who, for a variety of reasons, may not qualify for ordinary commercial loans from banks or the farm credit system.

The changes proposed in this bill in the Farmers Home Administration seem to us to be generally consistent with this principle of changes to meet these changing needs. For these reasons we support the improvements in the Farmers Home Administration Act.

We would like to comment briefly on a few specific provisions of the bill:

(1) *Improvement in water development and soil conservation loans.*—This provision seems to us to be especially valuable in view of the rising need for a coordinated land-use program and for encouragement of the rural area development program. As total population rises and urbanization increases further, all natural resources become more valuable. Water is among the most critical of these and will become more critical as times passes. The program of watershed development, soil conservation, and sound land use can, and should receive a high priority in a sound national agricultural program.

(2) *Broadening authority to meet emergency economic conditions.*—We approve of this provision for broadening the authority for emergency loans because nonfarm economic conditions can frequently be just as much beyond the farmer's control as can weather, insect, or other natural hazards. We recommend that very careful administrative regulations be written to permit administrators to distinguish between chronic low income conditions which may exist in many of the areas and on many of the farms in which the Farmers Home Administration is interested and emergency economic conditions which this provision is intended to meet.

We would caution, however, that in this control the word "emergency" should be interpreted in terms of its dictionary definition. Authorities granted here should be used to terminate emergencies rather than perpetuate them.

(3) *Authority to make loans to groups of farmers.*—It is well known that the need to mechanize American farms is continuing and that this creates strong financial and credit burdens. The opportunity for groups of farmers to work together to purchase expensive equipment for joint use appears to be a sound method of approach to this problem. It helps small farmers achieve access to means of mechanization which they could not otherwise afford.

(4) *Provision for agreements with private and cooperative lending agencies.*—In our opinion this provision is sound and constructive because it recognizes that different credit agencies meet different needs

of farmers and actions of these agencies can be coordinated for more effective use.

(5) *Overgenerous use of credit.*—One of the principal questions raised by improvement in Farmers Home Administration loans is whether or not the improvement enables unqualified farmers, or those which should shift to nonfarming operations, to receive loans which may only defer the decision to go into nonfarming activities. More effective and better understood and directed goals and objectives would go far to obviating this problem. This should be done through coordination with the rural development agencies and with vocational educational programs. Carefully written regulations and sound judgment on the part of local authorities will prevent the overgenerous use of credit.

We appreciate the opportunity to express our views to this committee.

Mr. POAGE. Mr. Naden, we are very much obliged to you for your appearance. Are there any questions of Mr. Naden?

Mr. McINTIRE. On page 3 of your statement, Mr. Naden, in paragraph No. 4, you refer to, "Provision for agreements with private and cooperative lending agencies." I may have the wrong understanding of what is proposed here but it is my understanding that what is proposed is participating loans authority. The words "provision for agreements," it seems to me, is broader. I wondered whether you thought the language providing for agreements was broader than just participation in the several individual loans in which they may become interested?

Mr. NADEN. No, sir; I believe it was our understanding that "participation" is the correct word to describe this. I think "agreements" there is the same as joint participation of other lending agencies with FHA in meeting particular needs.

Mr. McINTIRE. As to this part of the language of the bill in connection with the authority to make loans for "facilities" you made reference here in paragraph No. 3 on page 2 to working together for the purchase of equipment. What is your understanding of what is meant by the word "facilities" in this bill?

Mr. NADEN. We understand that it means that kind of equipment and machinery which is directly related to their production activities, not to their marketing activities. This could be subject to administrative interpretation, I agree, but we interpreted this to mean the joint purchase of cotton-picking machinery, for example, expensive harvesting or production machinery.

Mr. McINTIRE. That is understandable with reference to equipment, but the word "facilities" is an added word there, which does not lend itself to production, but it is your thought that it should?

Mr. NADEN. That was our reading of it. But I appreciate your comment and it might require careful wording to be sure just what is meant there.

Mr. McINTIRE. We have not had a comment in detail from the Department on this bill, but I was just interested that the record might show what your understanding of this might be.

In connection with facilities, are you finding that in relation to certain needs of cooperatives that the facility loan provisions of the Federal bank cooperatives, and the central bank are such that this

area is being served adequately? Or do you think there is need for the Farmers Home Administration to come in to the field to broaden the credit base and otherwise serve the groups which might be interested in obtaining loans?

Mr. NADEN. In general, our opinion, Mr. McIntire, is that the banks for cooperatives in the several districts are serving this need quite adequately. We find in discussing this matter with many of our members throughout the country there is a wide range in terms of loans available to cooperatives for different facilities. And it is our statement, generally speaking, if all of the district banks, all of the banks for cooperatives, made the same quality and type of loans to the top 25 percent, then we would have no question whatever about it.

And we have recently held conferences with the presidents of the banks for cooperatives—they are in town today for a 2-day meeting. We met with them to discuss this very question. And they are apparently actively studying this very question of whether their authority for facility loans is fully adequate to meet the needs of farmer cooperatives today.

Mr. McINTIRE. There will always be a difference of opinion on any individual loan that should be made.

Mr. NADEN. Right.

Mr. McINTIRE. That is more in a relative sense.

Mr. NADEN. In the broader sense, the presidents of the banks for cooperatives reported to us that they are able to use considerable flexibility in the amounts of loans and the terms of loans and the length of time of a loan agreement to meet the specific need of farmer cooperatives. They are finding that the obsolescence of processing equipment and other storage and handling equipment is great, and that this differs in different commodities in different areas, and they must have the greatest flexibility to meet these needs for obsolescence and needs for new equipment.

Mr. McINTIRE. One further question. In the area of providing for current operating funds, where the banks for cooperatives do have authority and do lend in, what is your opinion as to the present policy of the district banks and the central bank in meeting this need of the cooperative organizations?

Mr. NADEN. That subject, too, was discussed rather thoroughly yesterday with the presidents of the banks for cooperatives. And my answer is almost the same, that operating loans are changing, the needs for operating loans are changing. The banks are studying their regulations; and some banks for cooperatives have completely adequate rules and regulations and are meeting the needs fully; others have not fully recognized this and they are being urged to bring their standards and their capabilities up to that of the top 25 percent.

The Governor of the Farm Credit Administration is fully aware of this and is making studies to show these differences in different areas. And we believe that generally the statement is the same, that the needs are being adequately and fully met.

Mr. McINTIRE. Thank you very kindly.

Mr. SHORT. Mr. Naden, if the basic authority now exists under the cooperative lending program, and if I understood you rightly it is only a matter of perhaps policy in some of the districts, that they are not perhaps fully meeting the needs, would not the implementa-

tion of this authority by the FHA become somewhat of a duplication of the authority that actually exists under the cooperative loan program?

Mr. NADEN. No, we think not, sir. I spoke to some presidents of the banks for cooperatives about that very question, and they said there is a class of farmers who are not now commercial farmers but who aim to be and hope to be commercial farmers that "We could just not meet." "We" meaning the Cooperative Credit Association, PCA.

They said it is their opinion that the Farmers Home Administration can serve a very good role in sometimes applying the spur of competition to these PCA's, and they have done so. But that they do not find there is duplication and overlapping.

Mr. SHORT. I am not talking about the Production Credit Association. I am talking about the local cooperatives that perhaps are established for the primary purpose of being in some other fields. I think perhaps up in our part of the country more specifically the cooperative element, if there is a need for a piece of equipment that might be jointly owned, the cost of which is beyond the ability of the individual farmer, for a facility, something having to do with the distribution of fertilizer, something of that kind, under the present authority cannot that be done and would the only limitation be where a need existed, where there was not an existing cooperative?

Mr. NADEN. I understand your question more thoroughly now than I did before. I agree that groups of farmers are free in almost any State in any area to form cooperatives where a need exists. I am not aware of any limitations on that. I believe that generally this kind of authority would be construed to be filling the need for the small-sized operation or for the small group operation for which there did not seem to be need to go through the legal activities of incorporation and the longer-time activities which are required to set up a regular cooperative, farmers' supply, or farmers' purchasing cooperatives.

Mr. SHORT. The point that concerns me just a little bit here is, are we dealing with the authorization for something that is going to make possible, perhaps, a disproportionate number of cooperatives being formed?

You start out, as I understand you, in the provisions of the revision of the Farmers Home Administration program, in this bill, you would have to form a cooperative of some kind, if I understand it correctly, to take advantage of this provision in the bill, would you not?

Mr. NADEN. No, sir, I did not understand that. I understand that the loan can be made to groups of farmers but not that they be incorporated under State laws as a cooperative. If that is in the bill, I will stand corrected.

Mr. SHORT. This group would have to have some legal entity, would it not? It would have to be a corporation or a cooperative or something in order to specify who the loan would be made to if it was not to the individual farmer. You would not be making the loan to the individual farmer. You have to make it to a group. If you make it to the individual farmer, you make it under the provisions of the production loan aspect of the program.

Mr. NADEN. Yes. I understand your question. I am not prepared to answer that fully because I would have to reread and restudy the language. I would think a joint contract of some kind among five

farmers, ten farmers, or something like that could be made with the Farmers Home Administration and not involve incorporation as a cooperative.

Mr. SHORT. It would still have to have some legal entity. If it was not a corporation, it would have to be a partnership.

Mr. NADEN. I am not sure about that. I would have to get legal counsel to advise me on what kind of agreement they have in mind. I agree with your point that this represents a kind of group action, a cooperative-like action. I agree with you—it raises that question.

Mr. SHORT. Thank you.

Mr. POAGE. Any further questions?

If not, we are very much obliged to you, Mr. Naden.

Mr. NADEN. Thank you.

Mr. POAGE. The subcommittee will go into executive session.

(Whereupon, the hearing was adjourned, to reconvene at 10 a.m., Thursday, May 11, 1961.)

AGRICULTURAL ACT OF 1961

Title III

THURSDAY, MAY 11, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The committee met, pursuant to recess, at 11:30 a.m., in room 1310, New House Office Building, Hon. Harold D. Cooley (chairman of the committee) presiding.

The CHAIRMAN. I would like to call Mr. Leonard Kenfield, president of the Montana Farmers Union.

Mr. Kenfield, we are glad to have you with us this morning. You have a prepared statement?

Mr. KENFIELD. Yes, sir.

The CHAIRMAN. You may proceed.

STATEMENT OF LEONARD KENFIELD, PRESIDENT, MONTANA FARMERS UNION, AND MEMBER OF EXECUTIVE COMMITTEE, NATIONAL FARMERS UNION; ACCOMPANIED BY REUBEN JOHNSON, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. KENFIELD. Thank you, Mr. Chairman, and members of the committee.

My name is Leonard Kenfield. I am president of the Montana Farmers Union, and a member of the executive committee of the National Farmers Union. And with me here is Mr. Reuben Johnson, who is the legislative representative of the National Farmers Union.

I wish to express to you, Chairman Cooley and to Vice Chairman Poage, our appreciation for your many years of interest and devotion to solving the problems of credit for many farm people, especially your efforts, Mr. Chairman, to broaden and strengthen the rural credit services are very commendable.

I wish to express appreciation for your interest in the needs of farm people. Your concern for the serious low income situation, the imbalances between production and demand, the consumer requirements, the safeguarding of farmer cooperatives, rural credit needs and hunger among our world neighbors is most assuring.

My colleagues have discussed with you some of the distressing agricultural aspects facing our Nation and have made recommendations. They have discussed or will be discussing those sections of H.R. 6400 on policy, marketing orders, marketing quotas, price stabilization, national food reserves, and amendments to the Agricultural Trade Development and Assistance Act.

I am pleased to have an opportunity to discuss with you agricultural credit.

Mr. Chairman, you are to be commended for including a section on rural credit in your Agricultural Act of 1961. Low farm income, however, is the No. 1 problem facing our people. That was very eloquently brought out, I think, by Mrs. Conger who preceded me here on the stand.

A measure that offers opportunities for lifting a depressed farm income to more adequate levels is deserving of immediate consideration. Yet availability of rural credit is also vitally important.

It is our recommendation that the FHA be adequately financed so that that agency could furnish the credit needs of up to 40 to 50 percent of the family farmers, if necessary.

We are pleased to see incorporated in the measure provisions for expanding and strengthening agricultural credit.

Today's highly mechanized agriculture where individual operators are required to employ expensive technological equipment and supplies demands substantial outlays of cash or credit and often both just to keep going. The situation is vastly different today compared to the former days of animal power on the farm.

Rural credit available is far from adequate. In our opinion, at least 50 percent of the family farmers do not at present have adequate credit.

Many of the usual sources of rural credit are dried up or woefully short of meeting the real needs.

Actually the needs of many rural borrowers have never been adequately met, not even in times of comparative prosperity. These groups include young and would-be farmers with insufficient investment funds; low income farmers needing credit coupled with advice and planning services to enable them to establish themselves on an adequate economic footing; farmers who are victims of natural disasters such as drought, flood, or storm, especially those suffering individually rather than in a regional "disaster area" group.

To many usual sources of commercial credit, these farm operators are so-called poor risk borrowers. However, their numbers increase when depression hits the rural areas. The disastrous decline in farm income during the past several years has not only vastly increased the problems of these groups, but has driven many thousands of normally adequate family farmers into the "poor risk" category.

It is the effect of cost-price squeeze on farmers—who in normal, healthy economic climate operate efficient, adequate family size farms—that has made the farm credit situation assume such critical dimensions. These farmers have been forced deeper and deeper into debt, and they are having difficulty borrowing money from any source.

The major cause of the critical rural credit problems, of course, is the serious weakening of the price support programs. Credit needs grow as farm income drops, and ironically, credit for the farmer becomes harder to get as his need for it increases. Sound farm income improvement programs combined with realistic marketing goals to strengthen and stabilize the farm economy at decent living levels would have averted the current credit crisis.

Faulty fiscal policies have added fuel to the flames. These policies are based on an erroneous diagnosis: the belief that the total economy

is inflated when in fact part of it—the farm and related small business sector—is suffering deflation.

Thus high interest rates and the tight-money policy, with which we are all familiar, applied to the economy generally as correctives for inflation have been, in fact, deflating the rural economy to the point of economic collapse.

Normally, family farmers need the following types of credit: (a) Long-term real estate loans to buy land and buildings; (b) short-term loans to meet operating expenses before production is completed and income received; (c) intermediate-type loans for assets such as machinery, and I should add, facilities, and breeding livestock which contribute to production and income over several years.

Where can they obtain this credit?

(1) *Private sources*

(a) Individuals and businesses sometimes extend credit by carrying the farmer “on the books,” by installment contracts for “buying on time,” or other agreements. This type of credit is now much harder to get because the farm recession has also hit rural business.

(b) Conventional lending agencies such as commercial banks (which supply all types of credit) and insurance companies (important in the farm mortgage field) will make loans to “good risk” farmers.

2. *Government and cooperative sources*

A. *Farm Credit Administration*.—The Federal Government stepped into the farm credit field many years ago to fill some of the gaps left by private credit. Through slow and piecemeal development a complex system of Government and cooperative agencies emerged, now coordinated under the Farm Credit Administration. This system, however, operates along conservative banking lines, and does not serve the needs of “high risk” borrowers.

(a) Twelve Federal land banks, cooperative in character, provide funds to 1,081 cooperatively organized national farm loan associations which make secured loans to farmer members.

(b) Twelve Federal intermediate credit banks, created to provide short-term credit, lend funds principally to 497 production credit associations (organized by farmer borrowers).

(c) Twelve banks for cooperatives and the Central Bank for Cooperatives make loans to qualified farmers’ cooperatives.

B. *Farmers Home Administration*.—Starting in the depression years, various emergency programs were set up to make loans of higher risk than considered justifiable either by private lenders or associations under the Farm Credit Administration. These programs are now administered by the Farmers Home Administration—a product of merged and reorganized former farm credit agencies.

Under several different laws, FHA makes the following so-called high-risk loans:

(a) Farmownership loans for farm tenants, laborers, family farm-owners, to acquire or improve family-size farms;

(b) Operating or production and subsistence loans;

(c) Emergency or disaster loans for any agricultural purpose within a designated disaster area;

(d) Water facilities loans for water development, soil conservation, drainage, and forestation;

(e) Farm housing loans for farmowners to construct or repair farm housing.

Sound farm income improvement programs and intelligent fiscal policies are the real solution. But Congress must preserve the family farmers' lifeline by extending and expanding the services of Farmers Home Administration.

It is our belief that existing farm credit legislation must be amended to provide a comprehensive yardstick farm credit program by—

1. providing credit for farmers and related small business in rural areas that enables them to finance existing indebtedness and readjust their operations on a sound basis;
2. lowering the maximum interest rate and increasing the maximum size of allowable loans under FHA programs;
3. establishing repayment plans geared to borrower's earnings and ability to pay; reactivating voluntary debt adjustment services;
4. creating a crash program to eliminate rural poverty in the Nation's most poverty-stricken rural areas.

Related to and intensifying the rural credit problem are the following economic developments:

In the index of prices paid by the Nation's farmers prepared by USDA, interest paid per acre increased from an index of 98 in 1951 to 213, November 30, 1960. The base period used for comparison was 1910-14 at 100.

Among farm and ranch operating costs in Montana, for example, interest rates went up sharply from 1949 to 1960. USDA's Agricultural Marketing Service reported recently that the index number of interest rates paid by Montana farmers and ranchers rose from 100 in 1947-49 to 395 in 1960, a jump of 295 points.

Farm debts keep getting bigger. Both real-estate and nonreal-estate debt has gone up steeply since 1952. Since that date mortgage debt has risen from \$6.7 billion to \$11.3 billion by 1959, and nonreal-estate debt had risen from \$7.3 billion to \$9.5 billion, with a total increase in farm debt from \$14 billion to \$20.8 billion for the period.

Meanwhile, on the farmsteads there have been reduced standards of family living, aging of equipment, and deterioration of farm plant.

Number of farms in the United States declined from 5.4 million in 1952 to 4.6 million in 1960.

Total annual net farm income went down from \$15.3 billion in 1952 to \$11.6 billion in 1960. It is fair to assume that the accumulated loss all those years was \$25 billion or more and the 1952 level of income was not high enough.

The problem was sharply outlined in the U.S. News & World Report magazine of April 17 in an interview with Mr. Vincent E. Rossiter, a banker in the rural community of Hartington, Nebr. Banker Rossiter pointed out that while they had not experienced any bankruptcies yet, the community did lose an auto dealer and a farm machinery dealer who he said could not continue to carry farmers on the books. Every time they lose 10 to 12 farmers one Main Street business is wiped out.

When the banker was asked about an impending farm-led and farm-fed depression, he said that for 10 years we have been using the agricultural segment of our economy as a tail on the kite to stabilize the whole economy. In other words, it was his view depressed farm prices have been used to offset inflation in other areas.

And the farmers? Well, they're living off depreciation and that's like riding in a boat that leaks.

Banker Rossiter also told the U.S. News reporter:

*** I watch my customers bring in their savings bonds and deposit them to their accounts—not earned income, but income earned in other periods—to stabilize my deposits. But I know that, ultimately, my deposits are going to decline, and, as they do, I'm going to curtail my correspondent accounts with city banks. As I do that, their loan ratios are going to go up out of proportion to what they are now. And, according to one economist, they're already at historically high levels.

Now when the credit is eliminated in our economy, and if we haven't restored the earned income, we cannot sell the goods and we're going to have another depression.

We're dangerously close, in my opinion, to a point where, one of these days, I'm going to have somebody walk in with a \$60,000 property statement and say, "Vince, I need \$2,000." And I'm going to have to say, "I'm sorry. We're not loaning any money because we're not getting any back."

Now, this is going to happen in metropolitan areas before it happens in the rural areas, because of the natural conservatism in the rural areas and the more liquid position of the banks there. When it happens in the metropolitan areas, it won't make any difference how much money there is out in the country. We just won't be able to bail out the Nation, because the top 300 banks in the country—about 2 percent—control more than 50 percent of the total deposits of all banks.

What we've been doing in these recession periods is liquidating manufactured goods inventory to get the money back. The day we can't liquidate manufactured goods inventory out of these industrial and rural areas, and the money doesn't come back to the banks, then we're going to be in serious trouble.

That's what is happening to those farm operators who still have ability to command some credit. What about those whose credit is exhausted?

In recognition of the current rural credit needs the National Farmers Union annual convention meeting in this city last March adopted the following resolution, and it was approved unanimously:

Farmers Home Administration should be transformed into a complete across-the-board yardstick family farm loan institution to supplement the services of credit unions, Federal land bank and production credit associations and other cooperative credit institutions. Particular emphasis should be given farm ownership loans to enable young farm families and tenants to begin farming as owner-operators of fully adequate family farms, including funds needed to join and invest in cooperatives, and to enable operators of small farms to develop adequate family units.

Farmers Home Administration has done tremendous good although in recent years its services and outlook have been narrowed too much. Beginning 25 years ago as the Bankhead-Jones Farm Tenant Act, the Government rural credit program assisted thousands of farm families to become better operators and to increase their income and their security. The repayment record of borrowers has been remarkably good. Until 1956, at least, losses have been about one-third of 1 percent.

Unfortunately, the same rural credit program, now known as Farmers Home Administration, became conservative and failed to adjust to the new dimensions of farm credit needs brought on us by the new technology.

Thus it is very encouraging to see in the Agricultural Act of 1961 provisions for consolidating agricultural credit under a single authority and adjusting and expanding the services with emphasis on family-type operations. We agree with the limitation of loans to

not larger than family farms for land purchase and urge the expansion of operating loans to \$50,000 or the amount certified by the county committee as the only dollar limitation.

I would like to insert another sentence at this point: The enactment of sections 314, 315, and 316 as contained in H.R. 6400, we consider necessary to carry out the objectives of the FHA.

We support the objectives of the bill for water development and soil conservation loans. We approve increasing the maximum for loans to nonprofit soil and water associations to \$2.5 million. The provision to give more authority to the Secretary of Agriculture on emergency loans is a good one. To permit the substitution of training for experience will open the opportunities for new farmers.

We strongly recommend the language of the present bill on this point.

We endorse this legislation but suggest consideration be given to reducing the upper interest rates limits on ownership and operating loans. The old concepts of agricultural credit that served earlier generations are obsolete in the New Frontier. We think of farm credit now as capital. A block of credit is now much the same as a block of land or a unit of machinery.

It can be leased or purchased under certain circumstances. In other words, it is a "working asset" as a banker writing in a Montana farm magazine has said, helping a farm or ranch operator increase his earning capacity.

The cost of such an asset that will provide the means of production can be spread over a sufficient number of years with a repayment schedule that will not be burdensome nor bankrupting.

While nothing can take the place of fair farm prices and decent income, we strongly feel that the next most pressing problem facing rural people in America is adequate credit facilities. We recommend that in your favorable consideration of legislation to lift farm income, you also consider favorably legislation to broaden rural credit sources with provision for repayment schedules geared to farmers' ability to carry.

A sound rural credit program would permit our family farmers, as Secretary Freeman suggests, to benefit from the improvement contemplated in the farm program, to strengthen their position as family farmers and to enable them to make their maximum contribution to the Nation's economic growth.

Thank you kindly for your time and attention.

Mr. POAGE (presiding). We thank you very much for your statement.

You raise, as you must necessarily to discuss a question of this kind, a very basic question. You suggest that we should lower the interest rate, the upper limit of the interest rate, and I think that everybody in the room probably will agree that is a highly desirable thing, but how do you suggest we do it?

Of course, we can do it simply by governmental action, the Government can simply go out and lend money at lower rates than other institutions. When we do that, of course, we immediately build a backfire, I am sure that you are well aware of that, are you not?

Mr. KENFIELD. Of course, I feel that it would not be done overnight. I realize that interest rates by Government lending agencies are re-

lated to the interest rates that the Government has to pay for the money it borrows, so I would think, Mr. Chairman, that there is a good point in moving in the direction of the Government taking the lead through the Federal Reserve and the Treasury Department in reducing interest rates there. I know it cannot be done overnight.

However, it seems to me advisable to start to work down the interest rate level.

Mr. POAGE. I could not agree with you more as to the desirability. We raised the question in the subcommittee yesterday and the day before, I believe, just where should we draw the line.

Would you suggest that I should get a loan from the Government at 5 percent?

Mr. KENFIELD. Yes, even less.

Mr. POAGE. I cannot get a loan from private sources at that rate now. Would you suggest that the Government should go into central Texas and offer me a loan although I do not think I am qualified for a Farmers Home Administration loan, for the sole reason that I cannot get money at the rate I would like to get it? I can get the money. Do you think that the Government should make the loan simply because the banks will not make me that loan at 5 percent when I think I ought to get it at 5 percent?

Mr. KENFIELD. Mr. Chairman, it seems to me that the Government nowadays exercises tremendous power in the levels it establishes for (1) price supports, (2) the price it pays for supplies, or (3) interest rate levels. It seems to me that in the interest area, the level of interest rates would have a yardstick level on interest rates all over.

Mr. POAGE. It will. There is not any question about that. But the question then arises, this agency immediately comes into competition with all other lending agencies, does it not? Do we want to put this credit for the "poor-risk" farmer in competition with all credit, or do we want to keep it a special credit for the "poor-risk" farmer, as was intended?

Mr. KENFIELD. I would say that right now the "poor-risk" farmer is not in it and he is no factor in the competition.

Mr. POAGE. I do not mean to say that I am such a good risk but I know that I can borrow money and I am borrowing money at 6 percent. I think it is higher than I want to pay, as high as I think I can make a profit on certain operations. But do you think just because I have to pay 6 percent that I ought to be allowed to borrow money from the Farmers Home Administration? That is what it boils down to.

Mr. KENFIELD. I will say this, Mr. Poage: I have no doubt of your ability, your character, and your financial situation; but it seems to me that the question throws the light away from the real problem we have here—of the people who have no credit services available now.

Mr. POAGE. That is not the question. I am willing to give them credit. I am saying, should I be allowed to qualify for a Farmers Home loan simply because I cannot get a loan at 5 percent? It is a practical question with me and one to which I want an answer.

Mr. KENFIELD. I do not know the answer to that question, sir, but the FHA county committee in any given situation would be able to answer it.

Mr. POAGE. We have got to give that answer when we write this bill. When we write this bill we have got to answer that question

because that is one of the questions that is posed here, because if we make the available interest rate a criteria for determining whether a man is able to get FHA credit, then I think I clearly qualify as being eligible for a loan from the FHA. I think you qualify, too, if we are going to make the interest rates the criteria. Do you think you ought to be allowed to borrow from the FHA simply because you cannot get money for less than 6 percent from private sources?

Mr. KENFIELD. Well, if I understand it, whether or not a borrower is eligible for a Farmers Home Administration loan would depend somewhat upon the committee that makes the recommendation.

Mr. POAGE. That is right. But I am assuming—maybe I am assuming too much—but I am assuming that I have got reputation enough so that I can meet those qualifications. I cannot meet the qualification of being unable to borrow, except upon the basis that I cannot borrow at a lower interest rate. I think you are in exactly the same shape I am in. I think you have got the reputation, too, so that you could borrow money. I do not think you could borrow for 5 percent, either, on an operating loan. Can you?

Mr. KENFIELD. No.

Mr. POAGE. Now, simply because you cannot borrow at 5 percent, even though you are a good farmer and I think you are a good risk, do you think that you ought to be allowed to borrow from the Farmers Home Administration under specially favorable conditions because you cannot get money at less than what your neighbor has to pay for it?

Mr. KENFIELD. Mr. Chairman, I will have to say right here my position in regard to FHA credit eligibility is different from yours because I am not farming at the present time.

Mr. POAGE. You are not farming?

Mr. KENFIELD. Although I have worked for farmers all my life and come from a family of three generations of homesteaders—in Minnesota, Montana, and Washington. Also, I have a young brother who is on a GI homestead in Washington now.

I realize you have raised a very vital point there. I do think on the overall, though, the Government operations in the lending field at the low interest rates have been successful in the services they have offered. We have REA. That program is an outstanding example. And we have the farm credit system itself, the PCA's have assumed even ownership of many of their associations; the farmers have assumed ownership of many of their associations.

Mr. POAGE. I am not finding any fault with it. I am for the REA. I voted for the REA. I intend to keep the REA interest rate where it is. I do not want to raise any question but I am asking you this question, I am asking you whether we should make the interest rate the criteria of eligibility to determine eligibility for FHA loans. All I am trying to do is to get your opinion on it.

Mr. KENFIELD. I would say that, certainly, Mr. Chairman, if this is a matter of the general welfare of stabilizing the economy, of making it possible for farmers to carry on a better system of production, a more effective system of production and to maintain thousands and millions of family farms throughout the Nation supporting our whole economy, I think in terms of that it would be justified.

Mr. POAGE. Let me see what you mean. Do you mean it is justified to say that every man who is farming who cannot get money at 5 percent should be able to borrow from FHA at 5 percent?

Mr. KENFIELD. Yes; I think so.

Mr. POAGE. Then you would make interest rate the criteria of eligibility for FHA loans. You would make a general credit agency for every farmer out of FHA.

Mr. KENFIELD. I am saying it in general terms. It seems to me historically the Farmers Home Administration has done an outstanding job serving the "poor risk" farmers.

Mr. POAGE. I think it has done that. I think it is doing a fine job now. I want to be sure that it continues to do a fine job. But I do not think it can do a fine job if it is converted into a general credit agency.

Mr. KENFIELD. As a general credit agency, which you have outlined here, you would have to take into account all of the other situations in the economy.

Mr. POAGE. You can convert the FHA into a general credit agency; you have already got that kind in the Farm Credit, have you not?

Mr. KENFIELD. That is right.

Mr. POAGE. Somebody asked me yesterday why I did not borrow from the PCA. The reason I do not borrow money from them is because they charge more than the banks do. That is why I do business with the bank.

Mr. KENFIELD. Mr. Poage, I feel that the Congress has the power and authority to do whatever is necessary to promote and maintain the general welfare. It seems to me we have a particular problem today in the need for FHA-type credit.

Mr. POAGE. We do. All I am trying to get is your opinion to help us to deal with it. Do we help rural credit when we make our Farmers Home a general agency available to everybody?

Mr. KENFIELD. Certainly, you will be expanding the services.

Mr. POAGE. Did not we expand the services of the Farm Credit Administration, too? It started out somewhat on this order.

Mr. KENFIELD. Yes; it did.

Mr. POAGE. Whenever you make it a general credit agency, do you not inevitably do exactly what we have done with the Farm Credit?

Mr. KENFIELD. Of course, there is possibly an opportunity to make Farm Credit more serviceable than it is to the general farm operator.

Mr. POAGE. Thank you.

Mr. McINTIRE. Mr. Kenfield, in your statement here, particularly on page 2, you are referring to the actual needs—in the middle of the paragraph—the actual needs of farmers and those of less than optimum income. What is your thought in relation to what should be the policy of the FHA in connection with lending to those who are not in the farming picture? With reference to those who want to get into the farm picture, should FHA hold substantially only to those who are operating farmers, to those in the family-farm context, or to any other particular persons who are in the farm picture? Or do you feel that FHA should be used as a vehicle for financing a transfer of nonfarm people into agriculture?

Mr. KENFIELD. I think the great need at the present time is to find a way for young people, young farm couples to get into farming. The

high cost of acquisition of capital, land, and equipment, is almost prohibitive.

Mr. McINTIRE. Do you consider someone who simply had a training in agriculture, as the type of person that should be eligible for the FHA loan?

Mr. KENFIELD. Mr. McIntire, I believe we ought to have a sort of fluidity among our occupations. There ought to be an opportunity in America for people to shift occupations or go from one area of endeavor to another, not necessarily on whim, but where they are going to make proper adjustments, and insofar as that is true, I think there ought to be an opportunity for people who have training in agriculture and who have a desire to go into agriculture to get a loan of that sort.

Of course, you understand, anything like that would have to be approved by a committee. It seems to me that is one of the problems of our Nation: that we have a certain amount of freedom. It seems to me under these programs there ought to be an opportunity. I do not think you would have a big rush for credit to start farming with, but there would be some people who would make very fine rural citizens if they had an opportunity, who have a deep desire to work with the soil and to work with animals and to be a part of the rural community.

Mr. McINTIRE. What would you consider would be the rule of eligibility in this type of situation?

Mr. KENFIELD. Beg your pardon?

Mr. McINTIRE. What would you consider to be the ideal minimum rule of eligibility in this type of situation?

Mr. KENFIELD. I do not know. Of course, I realize in the law you cannot probably spell it out. In my judgment, the language you have in this bill is satisfactory. It seems to me that the people who are administering the program and the farmers' committees could work that eligibility feature out very well.

It seems to me that you would have to leave some latitude here for local advisory committees of the Farmers Home Administration.

Mr. McINTIRE. That is all. Thank you.

Mr. POAGE. Thank you. Any further questions? Mr. Short.

Mr. SHORT. Just one, Mr. Chairman, if I might. Mr. Kenfield, you made a statement somewhere in your presentation to the effect that the living standards of farmers in Montana had declined over the past 8 or 9 years. Do you actually believe that?

Mr. KENFIELD. It has for a number of people. Certainly, it has not for everyone on the farms and on the ranches, but this is something that has happened, Mr. Short.

For example, on the Fairfield Bench—that is an irrigated project well known out in our part of the country—there are farmers that go down to Great Falls for a living. They have to go down to Great Falls to get a job, to supplement their income. In some cases they have got to live in Great Falls in the winter and go back on the farm and try to do a little farming. They live under crowded conditions in the city, in some cases trailer houses, not very many that I know of, personally, but I know of a number of such cases and in one instance, of a young family living in a trailer house in Great Falls.

And with that sort of thing, the decline in income, in general, I would say it is fair to assume that the farmers in our State have had a decline in living conditions and their level of living.

Mr. SHORT. In other words, you do not recognize that the thousands and tens of thousands of new homes that have been built on farms over this period of time, the installation of all of the conveniences that have been made in farm homes, you do not recognize that as an improvement in the living standards of the farm?

Mr. KENFIELD. Yes, sir; I definitely do. That has been a great help. I will say that the farmers' price support program has been a great help and the fact that our farmers have voted eight times to maintain a measure of price support on wheat, for example, has been a great thing.

The building that you speak of in our State came during the years of 1940 to 1948 and 1949 to 1950. That is when the greatest boost came in the living facilities that you speak of, the better homes and all of those things.

One new thing that has been added recently has been rural telephones. We have had a great growth in rural telephones in our State from 1950 to 1960. That is a factor that adds to it. But when you consider the loss of income and the increasing debt, and the other things that come along with restrictions of that kind, I still think it is fair to say there has been a decline, generally.

Mr. SHORT. I live pretty close to Montana, and I want to say here very emphatically I do not agree with you.

There is one other question that is a little bit aside from this particular bill.

Reference has been made here this morning to the degree of participation on the part of the farmer in the special feed grains bill. Do you think that the fact that in your area and my area, which are summer fallow areas, that the farmer can put all of his acres in crop. There is no provision under the administration of the bill that they comply with their soil depleting base, that that has been an inducement, they are going to put in every acre?

Mr. KENFIELD. Our people were making their plans for increasing their barley acreage before the bill was passed, in many instances. I have no specific information except the general talk around the State. I think that the price boost that our barley growers are going to get will be a big help for them.

Mr. SHORT. Certainly, it will be. But the intent of this feed grain program was more than an increased price. Bringing about a reduction in production was also an objective. That is not going to be true up in your country and my country, is it?

Mr. KENFIELD. It is possible in the production of barley. Although, in our State we produce about 40 to 45 million bushels of barley, which is relatively small compared to the whole feed grains production.

Mr. POAGE. Before you ask any further questions—and I am not trying to cut you off—but I do not believe we should talk about other legislation here this morning.

Mr. SHORT. Excuse me. I just wanted to mention that because it is an important thing to us.

Mr. BEERMANN. Just one thing. You devoted about 20 percent of your statement to the U.S. News & World Report article, to the

interview with Mr. Rossiter of Nebraska. Is the Montana Farmers Union policy and the National Farm Organization policy somewhat similar?

Mr. KENFIELD. Similar to what? The National Farmers Organization? Well, not necessarily. We do not favor strikes or withholding of commodities from the market as does the NFO. I think in the overall objective of improving prices, reaching a higher level or parity level of prices, I think the objectives are the same.

Mr. BEERMANN. Thank you.

Mr. POAGE. You are discussing a subject other than the matter that is before us. If you have a question on the subject matter before us, all right, but we cannot go ahead with everything.

Mr. JENNINGS. I want to ask some questions but I do not think we will have time to go into them now, I really do not because the bells are ringing now. But the main question that I wanted to ask is, do you feel we are doing a service to the young man to loan him money to put him on the farm under present conditions or doing him a disservice?

Mr. KENFIELD. I would think that under the present conditions, it is not an easy occupation to go into, but with a decent price structure, and with increasing levels of price supports and other opportunities that should be available to any farmer, I think it would be a very worthwhile and worthy move.

Mr. JENNINGS. Well, I have been receiving many letters and I want to get this in the record. Here is a letter that I received. And the reason I want this to go in and want you to hear it is because I think this expresses a great deal of the feeling on the part of the people on the farms. I do not say this is all factual, but I do say this is the type of letter that I am receiving and I assume other members are, also.

It says:

I notice that under farm loans it is the desire to loan money to purchase a farm 100 percent of the purchase price. I believe this is wrong. The man is not qualified because he does not have at least 10 percent of the purchase price, and I should like to know how in tarnation can he pay for his farm. Also, the amount would be increased to \$50,000 instead of the present \$20,000 limit. And a nonprofit association may borrow money to purchase farm machinery, and so forth. If this is not handled carefully it could cause a lot of headaches and cost huge sums of money. I believe that brakes should be put on the FHA. I don't know how they go about purchasing these farms. Do they have an advisory committee to OK the farm before it is purchased? A farm was purchased for a boy that has never worked on the farm—purchased a poor rundown farm, no buildings, and he decided to build a new brick home. And bought a number of high-type cows with no barn. The boy has been forced to purchase all of the feeds. The cows almost starved. The taxpayer will eventually lose \$15,000 to \$20,000 on this deal. It seems to me that these boys administering the programs feel that they have to lend so much money regardless of the kind of the loan, or the program will be dropped. I do not believe in trying to help a man who will not try to help himself. I do believe in trying to help a man that will try to help himself. I do not believe in wasting Government money.

That is the feeling that some of the people are getting as a result of the administration of this particular program. This fellow happens to be a good farmer himself. He is a former agriculturist, former county agent. And he is now a fairly good sized farmer. He is having a hard struggle, similar to that of the lady who testified here this morning. If he cannot make it, how on earth can the other

boy who never lived on a farm, going out there for the first time, purchasing a poor rundown farm, buying high priced cows, and all of the things he relates, how can he make it?

I believe we are doing him a disservice rather than a service.

Mr. KENFIELD. Of course, I think it is a little bit unfair to take one case to characterize a whole agency. I expressed in my testimony the importance of lifting farm income.

Mr. JENNINGS. I agree with that. I think that is the first thing we need to do. I do not think there is any question about it. And I believe in adequate financing for the man who has been operating a family type farm to make it economically feasible, but to take some man and put him into business and in competition with those who are in it is something else.

Mr. POAGE. Will you yield? Will you take charge and adjourn the committee.

Mr. KENFIELD. May I say that the records of the FHA over the years—

Mr. JENNINGS (presiding). You say over the years—you are talking about the whole program, are you not?

Mr. KENFIELD. Yes.

Mr. JENNINGS. You are not just taking the last few years. If this is true, that I have just related, the administration has been poorly administered recently.

Mr. KENFIELD. I was going to say over the years there are a number of such stories of individual farmers and ranchers who have made good, if you mean by making good, acquiring greater equities in their property and operating the property. They are all suffering to some degree by the price situation.

Mr. JENNINGS. That is right. I agree with you. There is distress among farmers all over the country and has been over the years. I know of many success stories based on the fact that the farm credit association, and the Farmers Home Administration has been able to loan farmers who have gotten into the business and have been able to advance, but I just think that if we carry this too far we will do him a disservice and it will lose the taxpayers' money and will blot out this good record we have had in the past and it will cost taxpayers considerable money.

So far as the expansion part, I am all for it.

Mr. KENFIELD. May I say, however, there has been a conservative trend in Farmers Home Administration in the last several years in Montana. We had a real battle to prevent foreclosures on some operators. There was advice given that they should sell their foundation herds, for example. That, I think, is bad. How can a man stay in business when his prime capital is being liquidated?

Mr. JENNINGS. I quite well agree with your statement there. In most cases that has been done. Perhaps they should take another look at some of these things, and rather than close it out, take our loss now rather than trying for a little while longer.

(The following statement and letters were also submitted to the committee:)

STATEMENT OF THE AMERICAN BANKERS ASSOCIATION

The American Bankers Association, through its appropriate committees, has given careful consideration to the provisions included in title III, "Agricultural Credit," in the proposed Agricultural Act of 1961 or H.R. 6400.

The twofold purpose of title III, as we understand it, is to consolidate the legislative authority of the Secretary of Agriculture in regard to agricultural credit and at the same time "liberalize and extend farm credit services" as stated in the objectives of the bill on page 1. The association generally approves of the effort to combine and, thus, simplify the legislative authority of the Secretary in making loans to farmers and ranchers not qualified for credit from banks, cooperative lending agencies, or other responsible sources of credit. The Farmers Home Administration has been working at a disadvantage in its attempt to administer the numerous laws relating to this type of credit that have been enacted through the years.

However, the association strongly opposes the apparent primary objective of title III to liberalize the requirements for qualification and thus open the door for extension of Government funds to a very broad sector of our farm businesses. We feel this will result in a very serious threat to the normal flow of funds to agriculture. We, therefore, ask that your committee give careful consideration to title III of the bill.

The American Bankers Association believes that there is a definite place for the type of lending originally set forth for the Farmers Home Administration and its predecessor agencies. Their lending generally has been, and should be, confined to those farmers and ranchers who have inadequate capital and are unable to qualify for credit from banks and other conventional lenders. Government lending through the FHA to deserving, beginning farmers and to those suffering from natural disaster or economic conditions beyond their control serves, in our judgment, the best interest of the individuals financed and agriculture as a whole. We believe, however, that it is unnecessary and would be unwise to authorize the Farmers Home Administration to extend easy credit for the purpose of maintaining farmers on marginal operations without thought to orderly repayment and business improvement.

In several instances throughout the bill where the borrower's eligibility requirements are referred to, the language used is: "are unable to obtain sufficient credit elsewhere to finance their actual needs at reasonable rates and terms for loans for similar purposes and periods of time." The association finds the proposed changes alarming and seriously questions the desirability of this statement as a definition of eligibility. The addition of the word "sufficient" indicates that farmers will become eligible for FHA loans if the Secretary, through his local representatives, determines that other credit sources are not extending amounts of credit deemed necessary regardless of the farmer's general credit standing. The other proposed change which states "similar purposes and periods of time" indicates that farmers will be eligible for FHA credit if banks and other institutional lenders do not liberalize their terms to match those of the Farmers Home Administration. This is a very serious threat to normal, sound agricultural credit practices. It would be a mistake, in our view, to base eligibility upon the lack of availability of private credit at terms as liberal as those offered by FHA. The association, therefore, recommends that, with respect to eligibility, the language now in the law be retained. This reads as follows: "unable to obtain credit elsewhere to finance their actual needs at rates and terms prevailing in or near the community."

The bill would provide that the interest rate may not exceed 5 percent per annum. The association believes that interest rates should not be fixed by statute or regulation. Lending policy and interest rates should be responsive to monetary policy and should be allowed to fluctuate in accord with supply-and-demand conditions created in the marketplace by borrowers and lenders.

An illustration of this important principle is pertinent. During recent years interest rates generally have risen. Existing law specifies a fixed rate of interest for those loans the FHA sells to investors. As a consequence, during some periods in recent years, the administration was unable to attract investment funds for its purposes as investors were able to obtain greater returns through other investment channels. If the returns had been flexible, more funds from the central money markets would have become available for rural areas. It is evident that fixed interest rates, in this instance, tended to perform a disservice for agriculture.

Section 315 of title III authorizes the Farmers Home Administration to participate in operating loans to farmers and ranchers made by commercial banks, cooperative lending agencies, and other private lending agencies up to 80 percent of the amount of the loan. As the sound credit needs of farmers are presently being adequately met by banks and other lenders, the American Bankers Associa-

tion takes the position that this type of participation is unnecessary. Banks neither would nor should make soft loans—the type made by the FHA—even with an 80 percent participation by the Government agency. While banks should not be in this type of lending, there may be occasions when a bank with a borderline loan would be led to rely on the Government obligation for bailout. Such a procedure might tend to encourage loose lending practices with the lender leaning on the crutch of the Government.

The manner in which this section is written makes it difficult to determine the true intent of the proposal. If the intent is to have the FHA participate with conventional lenders in the “hard” credit area, the association feels that this, too, is unnecessary. It is a common procedure for banks to participate with one another on loans that are too large for an individual bank to handle singly. The practice is widespread and has proven effective in meeting the financial needs of rural communities and individual borrowers. Banks, too, have the facilities of the Federal Reserve bank available and can discount agricultural paper with the Federal intermediate credit banks, although this has not been practiced to any great extent in recent years. Other lenders also have the means to meet the needs of the larger borrowers. For these reasons, the association does not favor such a participation arrangement.

NATIONAL GRANGE,
Washington, D.C., May 11, 1961.

Re Grange support of title III, H.R. 6400

Hon. HAROLD D. COOLEY,
Chairman, House Committee on Agriculture, House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange strongly favors, in principle, approval by your committee and the Congress of title III of H.R. 6400, cited in the act itself as the “Consolidated Farmers Home Administration Act of 1961.”

By resolution over the years, the National Grange has, through its delegate body, strongly supported the Farmers Home Administration. FHA has served and continues to serve an essential and useful national purpose. It fills a necessary gap in the array of credit facilities required by farmers in order to bring to the Nation the advantages of today's modern agriculture.

Assembled for its 94th annual session in November of 1960, the National Grange again reiterated its support of the Farmers Home Administration. The Grange feels that title III of H.R. 6400 improves materially the statutory authority of FHA and, as a result, will greatly improve its services to the American farmer.

Title III of H.R. 6400 places in the hands of the Administrator of the Farmers Home Administration program more discretionary power over the size and terms of FHA loans as well as the eligibility of those loans than was true under previous legislative authority. We believe this to be proper and in the interest of progress at this time, since the Farmers Home Administration has now had many years experience, and the granting of more discretionary powers to its Administrator gives him the authority to make proper use of that experience in the interest of economy and service to all parties concerned.

Eligibility for Farmers Home Administration loans, as provided in the Consolidated Farmers Home Administration Act of 1961, is such that the program Administrator can freely determine, as he should, whether or not a prospective borrower may be eligible for sufficient credit to finance his actual needs at reasonable rates and conditions from a production credit association through a land bank loan, a credit union loan, or a loan from a private lending institution. In short, the National Grange agrees with USDA Secretary Freeman when he referred to the above legislation in testimony before your committee as follows:

“The FHA would continue to serve only those farmers who are unable to obtain sufficient credit from cooperative and private sources.”

The Grange would further assume that those cooperative farm-lending agencies, serving under the umbrella of the Farm Credit Administration, are retailing farm credit at cost and, therefore, the charges and conditions set up by these groups would be considered by the FHA Administrator as being “reasonable.”

We of the Grange, furthermore, are of the opinion that the above proposed legislation sets maximums in terms of dollars and length of repayment for FHA loans that are somewhat on the liberal side. We are not prepared to

object strenuously over these maximums, but we are prepared to say that we think adequate administration of the program would certainly be somewhat more conservative than the ceiling authorized in the legislation.

Again, Mr. Chairman, we reiterate our enthusiasm for this measure, in principle, and trust your committee and the Congress will find it possible to approve it.

Respectfully yours,

HERSCHEL D. NEWSOM, *Master.*

WASHINGTON, D.C., June 5, 1961.

HON. HAROLD D. COOLEY,

Chairman, Committee on Agriculture, U.S. House of Representatives, New House Office Building, Washington, D.C.

DEAR CONGRESSMAN COOLEY: We are writing to you on behalf of the American Life Convention and the Life Insurance Association of America, two associations having a combined membership of 299 life insurance companies holding 98 percent of the assets of all U.S. life insurance companies.

We wish to go on record as favoring the amended language of title III of H.R. 6400 as incorporated in the committee print which was favorably recommended by the Conservation and Credit Subcommittee on May 18, 1961. In particular, we believe that the changes made in sections 302 and 311 give recognition to the importance of preserving the role of private lending institutions in the farm lending field. By requiring that explicit consideration be given to "prevailing private and cooperative rates and terms" in the determination of loan eligibility, the danger of disrupting the normal flow of funds to the agricultural community is reduced. The amended language would encourage rather than discourage borrowers to take advantage of the availability of private sources of credit. This is basic to the very existence of a competitive market economy.

The life insurance companies are directly concerned with legislation affecting farm credit because of the important role they play in supplying long term capital to farmers through their investments in farm mortgages, which amount currently to almost \$3 billion or about 23 percent of aggregate farm mortgage debt outstanding. The life companies have historically been an important source of farm mortgage loans, and we desire to remain active in this field. We can do so, however, only if competitive conditions prevail in the farm credit field.

The foremost objectives of life companies is to invest the savings of some 118 million policyholders with the maximum safety in a well-diversified portfolio, including not only farm mortgages, but commercial mortgages, residential mortgages, corporate and Government securities, and other qualified investment media. At the same time, life companies attempt to earn the highest rate of investment return consistent with safety of principal, for the higher the rate of return the lower the net cost of life insurance to policyholders.

In the light of the investment requirements of life insurance companies, it is not difficult to see why we are concerned that keen competition prevail in the farm mortgage market, as well as in other capital markets. In the absence of a competitive market for farm mortgages, and whenever investment returns on farm mortgages are held by Government action below the yields available on alternative investment media, the problem arises that loanable funds from private sources may be siphoned away from the farm community. This is why the life insurance companies deem it vitally important that competitive and flexible interest rates be maintained in the farm mortgage market. Only in this way can the life insurance companies meet the double objective of helping to accommodate the needs of farmers for long-term capital while investing to the maximum advantage for the policyholders of life insurance.

If we can ever be of service to your committee in providing information bearing on the farm lending operations of life insurance companies, we would be most happy to do so. It would be appreciated if this letter could be made a part of the hearings on this legislation.

Sincerely,

AMERICAN LIFE CONVENTION,
GLENDON E. JOHNSON,

Associate General Counsel.

LIFE INSURANCE ASSOCIATION OF AMERICA,
EUGENE M. THORÉ,

Vice President and General Counsel.

NATIONAL FARMERS UNION,
Washington, D.C., June 6, 1961.

HON. HAROLD D. COOLEY,
Chairman, House Agriculture Committee,
House Office Building, Washington, D.C.

DEAR CONGRESSMAN COOLEY: We respectfully request that this letter be made a part of the record of hearings on H.R. 7116, to amend the Federal Farm Loan Act and the Federal Credit Act.

The amendments to these credit programs as provided in this bill are favored by National Farmers Union and we urge the House Agriculture Committee to favorably report the bill.

Sincerely,

REUBEN L. JOHNSON,
Associate Director.

Mr. JENNINGS. The hearing is adjourned.

(Whereupon, at 12:20 p.m., the hearing was adjourned, subject to the call of the Chair.)

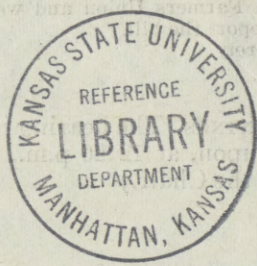
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