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INCREASE LOAN LIMITATIONS FARMERS HOME ADMINISTRATION

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HEARING

BEFORE THE

SUBCOMMITTEE ON CONSERVATION AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 12653

AUGUST 27, 1962

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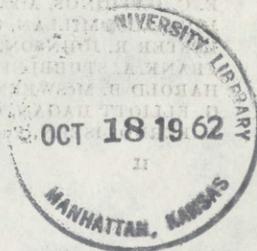
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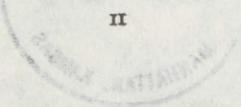
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STATEMENT OF HOWARD BERTSCH, ADMINISTRATOR OF THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961, BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT OF THE COMMITTEE ON AGRICULTURE, HOUSE OF REPRESENTATIVES, WASHINGTON, D.C.

TO INCREASE THE LIMITATION ON THE AMOUNT OF LOANS WHICH MAY BE INSURED BY FARMERS HOME ADMINISTRATION

MONDAY, AUGUST 27, 1962

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

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

Present: Representatives Poage, Gathings, Johnson of Wisconsin, Stubblefield, McIntire, Short, and Harvey.

Also present: Representative Rogers of Texas, and Peggy Lamm, staff assistant.

John A. Baker, Assistant Secretary of Agriculture, Howard Bertsch, Administrator, and Bernard Polk, Assistant Administrator, Farmers Home Administration, and Howard Campbell, General Counsel's Office, U.S. Department of Agriculture.

Mr. POAGE. The hearing will please come to order.

Before we take up the business of this committee I would like to welcome the new Assistant Secretary of Agriculture. We are all very proud of Mr. Baker. I appreciate your presence and we are delighted to see the responsibility which has been placed on you.

Mr. BAKER. Thank you, Mr. Chairman. As you well know, for many years I have appeared in this committee room. This is one of my favorite committees of Congress and this subcommittee is one of my favorite subcommittees.

I appreciate the remarks you made and welcome the opportunity, at all times, to appear before this subcommittee because it is composed of dedicated and exceptionally qualified group of men to pass on the matters which come before you.

Mr. POAGE. We are delighted to have you.

Now we shall take up H.R. 12653 by our colleague, a member of this subcommittee, Mr. Johnson of Wisconsin.

(H.R. 12653 follows:)

[H.R. 12653, 87th Cong., 2d sess.]

A BILL To amend the Consolidated Farmers Home Administration Act of 1961 in order to increase the limitation on the amount of loans which may be insured under subtitle A of such Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 308 of the Consolidated Farmers Home Administration Act of 1961 is amended by striking out the figure "\$150,000,000" and inserting in lieu thereof the figure "\$300,000,000".

Mr. POAGE. I ask Mr. Johnson at this time to discuss his bill.

**STATEMENT OF HON. LESTER R. JOHNSON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF WISCONSIN**

Mr. JOHNSON of Wisconsin. I want to thank you for holding early hearings on H.R. 12653, a bill which I introduced in the House on July 23 to increase the effectiveness of the Farmers Home Administration's insured loan program. Under the provisions of the proposed legislation, the Consolidated Farmers Home Administration Act of 1961 would be amended in order to raise the amount of loans which may be insured by FHA each year from \$150 to \$300 million.

During the past fiscal year, which ended June 30, the demand for these FHA loans was so great that the \$150 million annual insurance authorization was exhausted by May 11. Because of the large number of applications on hand and the increasing demand for this type of credit, FHA officials estimate that the present limit on the fiscal 1963 program will be reached by December 31—6 months before the close of the fiscal year.

In my home State of Wisconsin, nearly 600 applications for initial FHA farm ownership loans were on hand at the end of June. In the 12-month period preceding July 1, about 1,500 of these loans were made to Wisconsin farm families.

Mr. Chairman, for the past few months, insured loans were made in the Nation as a whole at the rate of \$25 million a month, which would add up to \$300 million a year. The latter figure is the one that my bill would set as the annual ceiling for the program.

As you know, the FHA insured loan program is a cooperative program with private investors and does not require appropriations from the U.S. Treasury. Private investors provide funds to help eligible farmers enlarge, develop, and buy family farms, to refinance debts and to develop community water systems. Just before I took the plane to come out here I saw a modern improved dairy barn which had just been completed. The man who was running the farm had been operating with a log barn for years, one which his father built. He didn't have the money. FHA financed the building of this barn. The loans are made and serviced by the Farmers Home Administration, which collects the principal and interest payments when due and forwards the receipts to the lenders after retaining one-half of 1 percent for insurance. Lenders agree to hold the notes for at least 3 years. If borrowers default, the Government agrees to make the payments.

Insured loans are made only when a farmer is unable to obtain the credit he needs from other sources. Banks, pension funds, insurance companies, and trust funds are the principal investors. The loans return 4.5 percent interest to the lender.

Mr. Chairman, since the FHA insured loan program was started in 1947, \$15,652,259 has been invested in Wisconsin alone. For the Nation as a whole, the figure stands at approximately \$390 million. Repayments of principal have totaled more than \$100 million. Losses have amounted to less than one-tenth of 1 percent, which certainly is a small loss for a loan program.

I noticed our FHA people back in my area were sitting around their offices with nothing to do. There was a lot of criticism about the expense in the office because the office expense was about the same whether they are making loans or just sitting there telling farmers

they have no money. I think that is an important thing. If we are going to have those people out in the various counties they should have something to do and we should provide them money with which to operate.

Several factors contributed to the rapid increase in the volume of farm ownership loans during fiscal 1962. The Agricultural Act of 1961 broadened the scope of the farm ownership program to enable FHA to make loans to acquire and enlarge the full range of family farms. Previously, FHA was limited to making such loans on a rather narrow segment of family farms. In addition, insured loans can now be made for 100 percent rather than 90 percent of the normal value of the farm.

The act also improved the insured loan program by making it more attractive to investors. They now may receive $4\frac{1}{2}$ percent interest on their investment rather than 4 percent and can sell the insured notes back to the Federal Government after 3 years rather than 5 years.

Mr. Chairman, the trend toward larger farms has naturally increased the demand for farm enlargement loans. As the rural areas development program gains momentum, an even larger number of small farmers will be encouraged to take advantage of this method of rounding out their farms.

The increasing use of credit in purchasing farmland also contributes to the demand for FHA loans. More than 80 percent of all land purchases during the year ending March 1 involved the use of credit, which is a record high. As recently as 1946, less than half of farmland transfers were credit financed.

The growing percentage of farmland transfers financed with the use of an installment sales contract has influenced the rise in FHA real estate loans. In 1946, only 11 percent of all transfers were made by contract. This year, about 30 percent of all transfers are being made with this financing device. Many of these contracts contain terms that cannot be met by the farmer and result in his applying to the Farmers Home Administration for refinancing.

Last but not least, it is my opinion that farmers are aware that the present Administration is more responsive to their needs and, this has prompted many to seek credit assistance.

Mr. Chairman, the funds for investment under the FHA-insured loan program are available. One of the most progressive of our labor unions has offered to invest \$10 million in these loans over a 4-year period. The funds of this organization, as well as those of the banks and other lenders which are investing in insured farm loans, will be diverted to other markets unless prompt action is taken.

Obviously, the FHA insured loan program has many merits. Farmers who receive the loans are able to strengthen their operations. Rural communities in which the loans are made are fortified not only by the improvements financed by the loans, but also with the increased trade that is brought about by the expenditure of loan funds. In addition, the use of insured loan funds rather than appropriated funds lessens the strain on the U.S. Treasury.

This month, the House Agriculture Committee has been hearing testimony on the Committee for Economic Development's "Adaptive Program for Agriculture," which proposes to dispose of the farm problem over a 5-year period by moving 2 million farmers off the

land and into the cities—already plagued by unemployment. Rather than adding 2 million displaced farmers to the ranks of the unemployed, I feel a much more humanitarian and practical solution would be the enactment of various types of farm legislation to help farmers to stay in rural communities. H.R. 12653 certainly falls into this category.

The need is apparent. Thousands of family-type farmers will be deprived of the credit they need to continue and strengthen their operations unless prompt action is taken in this area. If action to raise the ceiling on the FHA insured loan program is delayed until the next Congress meets, there will be several months when credit of this type is not available to our farmers. This period will occur at a time of the year when the funds are most needed.

As a member of this subcommittee, I have always found it to be responsive to the legitimate credit needs of the family-type farmer. I urge that favorable action be taken as soon as possible on H.R. 12653 so it may come before the House before the adjournment of this Congress.

Thank you.

Mr. POAGE. Thank you very much, Mr. Johnson. I am a little vague as to how this system works. You point out that the private investors put up these funds and the Government services the loans through the FHA and obtains one-half of 1 percent insurance payment. You say in the next sentence that if borrowers default the Government agrees to make the payments.

In many of our loan programs we establish an insurance fund and the payment is made from the insurance fund. Is there not a separate fund here for that purpose?

Mr. CAMPBELL. The subcommittee may rule, under the Bankhead-Jones Farm Tenant Act, as amended in 1946, Congress created a farm tenant mortgage insurance fund and authorized the appropriation of \$25 million to that fund. Actually, the Congress was called on to appropriate about \$1 million to start capitalizing that fund.

One-half of 1 percent on all loans insured under the Bankhead-Jones Farm Tenant Act and subsequently under the consolidated act of 1961 having to increase that fund for insurance purposes.

As the Congressman pointed out, our losses have been minimal so that the fund has been increased and now stands as a guarantee fund for the purpose of paying any defaults.

Mr. JOHNSON of Wisconsin. If a loan is bad the fund buys up the loan. Is that correct?

Mr. CAMPBELL. That is correct.

Mr. JOHNSON of Wisconsin. Then do they collect it and put the money back into the fund?

Mr. CAMPBELL. If there is a single default the fund will make the annual installment payment. If the loan really goes "sour" then the fund buys the loan back in and pays the full face. It then tries to get the loan back on a sound basis and sells it back out, either on an insured or direct basis.

Mr. POAGE. The point I am trying to make is that there is a separate fund and payments are not made out of the Treasury of the United States. The statement was to the effect that the Government made these payments. The Government makes payment only as the operating agency of the fund. Is that correct?

Mr. CAMPBELL. That is correct, Mr. Chairman.

Mr. POAGE. And so far the fund has always had adequate means of making the payments?

Mr. CAMPBELL. All the defaulted payments have been made without going to the Treasury for additional money.

Mr. POAGE. That is right. According to the figures, as I understand them, you are taking in about five times as much money as you are paying out in that fund. Is that right?

Mr. CAMPBELL. That is about right.

Mr. POAGE. Losses are about one-tenth of 1 percent. The income obviously is five-tenths of 1 percent. That means you are taking in five times as much as you take out of the fund. It would, therefore, seem to be quite sound.

Do you know how much money there is in the fund now?

Mr. JOHNSON of Wisconsin. These gentlemen here will testify, Mr. Chairman. I am sure they have the figures.

Mr. BERTSCH. Nearly \$8 million in the fund now. It was initially capitalized with \$1 million. The earnings of the fund from that one-half of 1 percent have been \$12 million-plus.

Mr. POAGE. You spent about \$4 million.

Mr. BERTSCH. Payments made out of the fund have been around \$4 million. The reserve in the fund at the present time is \$7,884,000.

Mr. POAGE. In other words, up until the present time the ratio has been about 3-to-1 income as related to payments, but at the moment, with one-tenth of 1 percent loss you are running 5 to 1.

Mr. BERTSCH. The payments made are not limited to loans that have failed. They are made to meet an annual installment which is not made by the farmer when it is due.

Mr. POAGE. You may correct all of that?

Mr. BERTSCH. That is right.

Mr. POAGE. Questions?

Mr. GATHINGS. I would like to say that Mr. Johnson has done a splendid job on his statement this morning.

There is one thing on page 1 I would like to call to the attention of Mr. Johnson which might differ from the situation in Wisconsin as compared to Arkansas. Our county managers are pretty busy with a lot to do. There are various other types of FHA programs, such as water facilities, crop production, and so on. They have a heavy workload.

Mr. JOHNSON of Wisconsin. I imagine you have more crop loans than we have in Wisconsin, such as cotton, putting in crops, and so on.

Mr. GATHINGS. They are checking up on the condition of the crops, and also in providing funds throughout the season.

Mr. POAGE. Other questions?

Mr. HARVEY. I am sorry that I was a bit late getting in. I apologize to you, Mr. Johnson, for not being here for your full presentation.

Does the \$150 million represent the high ceiling which has been in effect?

Mr. JOHNSON of Wisconsin. That is the most they can borrow in any 1 year from private individuals under the present law. My bill proposes to raise it to \$300 million.

Mr. HARVEY. Apparently the reason you advocate this legislation is that you feel the present amount has not been adequate to meet the need?

Mr. JOHNSON of Wisconsin. It has not been adequate. They have been running out of funds from 3 to 6 months before the end of the year.

Mr. POAGE. In the statement it is pointed out that during the past fiscal year the demand for FHA loans was so great that \$150 million annual insurance authorization was exhausted by May 11 because of the large number of applications on hand and the increasing demand for this type of credit.

Mr. HARVEY. I wondered whether the fact they ran out of money in Wisconsin, for example, in the month of May necessarily indicated that they had only half as much money as they should have had?

Mr. JOHNSON of Wisconsin. I know they are making good sound loans in Wisconsin. I think the Department is more qualified to tell about what is going on in the various States than I am.

Mr. POAGE. May I again interpose—in the statement Mr. Johnson says in the past few months insured loans were made in the Nation as a whole at the rate of \$25 million a month, which would add up to \$300 million a year. The latter figure is the one which his bill would set as the annual ceiling on the program.

In other words, this would authorize a program for 12 months at the rate we have been making loans in recent months.

Mr. HARVEY. The thing I had in mind was that there might possibly be a tendency to have more loans in the spring months so that demands in the first 6 months of a given year, a calendar year, would be greater than later on. There might not be a demand for twice as many loans, thinking in terms of a half year as compared to the full calendar year.

I ask that merely as a question to get information. I used to do Production Credit and inspection work myself. I know that our requests for loans ran very heavy in the spring and they then tapered off in the summer and were not so heavy during the balance of the year.

Mr. JOHNSON of Wisconsin. I would rather let the Department testify on this. I don't think if we have a limit of \$300 million that the Department of Agriculture will change their policy on the types of loans they make. Say they needed only \$250 million. I would think that is all the paper they would buy and they would have a leeway of \$50 million. There is nothing wrong with giving them the authority.

Mr. HARVEY. I hadn't in mind the thought you seemed to think I had—that increasing this would cause poor loans. That is not the idea I had in mind at all.

Mr. JOHNSON of Wisconsin. No; of course, here we are using free enterprise, which we are all for, and giving private individuals who have money they want to lend a chance to lend it out and still have it guaranteed.

Mr. HARVEY. I do recall that in some areas of the country farm credit, through commercial institutions, is not very easily available.

Mr. JOHNSON of Wisconsin. In my area the man who used to be in charge of my home county is now in charge of another county. He works through the local banks. If a farmer comes in and he can handle a loan through the bank, he doesn't make the loan through the Farm Home Administration but through the local bank. He refers them to the bank.

Mr. HARVEY. That is proper. I think that is the way it ought to be. That is all, Mr. Chairman. Thank you.

Mr. McINTIRE. I have no questions.

Mr. STUBBLEFIELD. Does this include home loans?

Mr. JOHNSON of Wisconsin. It does not.

Mr. POAGE. Thank you, Mr. Johnson.

Before I call the Department witnesses, we have with us our distinguished colleague, Congressman Rogers of Texas, who would like to be heard at this time.

STATEMENT OF HON. WALTER ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. ROGERS. Thank you, Mr. Chairman. I shall be very brief. I haven't a prepared statement but I did not want to miss the opportunity of appearing at this hearing in support of what I consider to be some very important and very needy legislation.

As the gentleman in the chair knows, out in my country there are two things a farmer needs—one is rain and the other is credit. When he runs out of either he is in bad shape.

They are experiencing great difficulty out there at the present time in getting sufficient credit, I think probably because of the suspended animation in which the farm program seems to be.

The bankers are a little bit leery about what to do, and no one seems to know where to go.

I think that unless we do take some steps in this Congress to insure some adequate credit for these farmers that the prophecies of this group which would move all these farmers into town will come true. The trouble is that those people do get together and make their prognostications about moving people to town and then they stop. They seem to think that settles it. It doesn't settle it at all, but creates a much greater problem.

If the committee can see fit to amend it, additional funds should be included. I think there is a great need for those additional funds. They run out almost before they get the money. It is all earmarked. People in my section of the country are very much disturbed about the inability to obtain loans to build farm housing as well as the other credit which they need.

I would hope that the committee—and I know it will because it understands these farm problems much better than others in the Congress—I would hope they would move very quickly to alleviate this one area of distress.

Thank you, Mr. Chairman.

Mr. POAGE. Thank you, Mr. Rogers. We appreciate your appearance.

This committee does not have jurisdiction over the Housing Act. Farm housing is authorized under an act of another committee.

Mr. ROGERS. I would advocate you take jurisdiction.

Mr. POAGE. This is actually part of the Housing Act.

Mr. JOHNSON of Wisconsin. I suggest the witness introduce the legislation and we shall back it.

Mr. McINTIRE. I might observe, Mr. Rogers, that when this subcommittee, as well as the full committee, was giving very careful consideration over a number of months to the consolidated Farm Home Administration Act, there was a time when we did have a housing provision in that act. This was not the way the act wound up.

Mr. ROGERS. I was confused about that because I remember what the gentleman from Maine is speaking about. I assumed really that it was under your jurisdiction.

The housing situation is so confused at the present time I find it difficult to keep up with it in the cities.

Mr. POAGE. Further questions?

Mr. JOHNSON of Wisconsin. I would just like to thank the gentleman from Texas, Mr. Rogers, for supporting this legislation. I appreciate his support.

Mr. ROGERS. I thank the gentleman from Wisconsin for introducing this legislation.

Mr. POAGE. Thank you, Mr. Rogers. It is always nice to have you before us.

It might now be appropriate to hear from the Department.

STATEMENT OF JOHN A. BAKER, ASSISTANT SECRETARY, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY HOWARD BERTSCH, ADMINISTRATOR, FARMERS HOME ADMINISTRATION; BERNARD POLK, ASSISTANT ADMINISTRATOR, FARMERS HOME ADMINISTRATION; AND HOWARD CAMPBELL, GENERAL COUNSEL'S OFFICE

Mr. BAKER. I have with me Mr. Howard Bertsch, the Administrator of the Farmers Home Administration; Mr. Polk, Assistant Administrator; and Mr. Howard Campbell, of the General Counsel's Office.

I would like to ask them to come to the witness stand.

Mr. POAGE. Proceed, Mr. Baker.

Mr. BAKER. Mr. Chairman, as I said earlier, it is always a privilege and a pleasure to appear before this full committee and before this subcommittee.

We do not have any prepared statements this morning, Mr. Chairman. I shall make a brief general statement in terms of the policy of the executive branch with respect to this proposed legislation, and ask Mr. Bertsch to supplement that with some additional comments from his standpoint, and then we shall be ready for any questions that the committee might care to ask.

I would like first to express our deep appreciation to Congressman Johnson for the fine statement he made at the beginning of the hearing this morning. Congressman Johnson has as have other members of this subcommittee, always taken a continuous and intelligent interest in farm credit and in the program of the Farmers Home Administration. This agency and the programs it administers have had a long and interesting history with this committee which originated the original legislation in 1937 and have been the architects of the various improvements made in the legislation since that time.

In terms of whether the Farmers Home Administration people have been busy or not, it might be interesting just to point out for the record

that the total volume of loans processed and extended by the Farmers Home Administration doubled between fiscal year 1960 and fiscal year 1962, with practically no increase either in the administrative budget item or in personnel.

Mr. JOHNSON of Wisconsin. The statement I made is true, isn't it, that in the past they have been telling people why they couldn't make loans? Is that correct?

Mr. BAKER. I would imagine that might be true in some places and not in others. The record has indicated they doubled the volume of credit services they made available.

Mr. JOHNSON of Wisconsin. Several years ago a newspaperman called me regarding a certain office in my district. He told me about the total amount of loans they were making. He even wanted to write a story on it, citing the cost of the office and the employees in it. With the loans they were making it didn't look like very good business.

Mr. BAKER. Mr. Chairman, I have no great disagreement to find with Congressman Rogers' statement or that of Congressman Johnson.

In terms of the farm people, in terms of the business people and other residents of rural America, and in terms of the analyses we have made of this situation in the Department of Agriculture, all the observations I have would indicate the statements made by the previous witnesses are accurate.

As part of the program to establish a firm foundation for permanent prosperity in rural America, this farm ownership loan program has a very essential and important part.

Having said that, Mr. Chairman, and recognizing the obvious benefits of the program from the standpoint of the farmer, and from the standpoint of the agricultural and rural segment of the economy, and from the standpoint of the Department of Agriculture, other executive branch agencies of the Federal Government do have some additional problems in this connection, the aspects of which have not been fully weighed with respect to obvious benefits with regard to the rural areas and the Department's total program. These are certain fiscal and credit policy problems which the program gives rise to, and as of this time the administration has no specific recommendation respecting the legislation.

With your permission I would like to indicate the general nature of some of the nonagricultural and nonrural problems, and then I shall ask Mr. Bertsch to further elaborate on the obvious advantage of the proposed legislation from the farmers' standpoint.

In the broader context, there are several respects in which even the existing legislation causes a serious concern to the executive branch. This concern would be magnified by an increase in loan guarantee authorization from \$150 million annually to \$300 million annually.

Because of the 3-year repurchase provision, loans made under this program become with the passage of time demand obligations which may be presented for payment to Farmers Home Administration at any time after the 3 years. The 3-year repurchase, in fact, is more than a guarantee against loans from default. The provision also gives the holder of one of these mortgages the option to redeem the investment whenever he wishes. This is after the 3 years.

Mr. GATHINGS. If I may interrupt—what percentage of these lenders take advantage of that provision?

Mr. BAKER. It is very small, Congressman Gathings. Our experience has indicated that shifting the interest rate upward has not resulted in many of the guaranteed note holders immediately rushing in and saying they wanted to cash it in so they could put their money in some other investment at a higher interest.

Mr. JOHNSON of Wisconsin. It would seem by raising the interest rate there would be less people asking to have their money than under the 4-percent loan. They would be better satisfied with the interest rate they are getting.

Did you notice any difference?

Mr. BAKER. This is true. On the other hand, the contingency is always there. If the regular market interest rate should go to 10 percent, we shall say, there might be a tendency on the part of the holders of these mortgages to want to turn them in and avail themselves of 10-percent interest rate elsewhere in the economy.

The Farmers Home Administration experience so far in its administration of the existing programs has, however, been able to avoid larger purchases. Partly this is because the creditors who have been interested in insured loan programs have been local banks, local financial institutions, and individuals, and other types of organizations, such as pension funds, who in addition to making a good investment have also been interested in furthering the farm ownership-tenant purchase type program of the social aspects of it, trying to develop rural America.

The Federal obligation, however, still remains, and the higher the ceiling and the larger the program the greater the Federal obligation or potential.

This means if the interest rate should rise, making other investments more attractive than the continuing holding of farm ownership mortgages, there could be a large redemption demand on the Farmers Home Administration, stemming not from default but from desire of lenders to maximize the interest return on their investment.

The result could be large and uncontrolled budget expenditures and the necessity for cash financing, perhaps at a time when the U.S. debt limit was restricted and the money market not favorable.

This potential redemption demand is already large, amounting to \$344 million, and with the increased authorization it would begin in 3 years to rise faster than the annual rate of nearly the whole increase in the authorization, and by 1970, we shall say, if we assume that the program continues to be active, it could reach the amount of \$1.8 billion, if there were no repayments or no replacing of the insured notes in the intervening 8 years.

That completes the overall statement, Mr. Chairman.

We regret we do not have a position either for or against this legislation but it seemed proper to respond to your request to come to your hearing and present the pros and cons of the proposal.

This I have done in general, and if I may, Mr. Chairman, I would like to ask Mr. Bertsch to enlarge a little bit on the cons of the situation from the standpoint of the Department of Agriculture and the rural areas generally.

Mr. POAGE. Proceed, Mr. Bertsch.

Mr. BERTSCH. Thank you, Mr. Chairman, and thank you, Mr. Secretary. I, too, am here without a prepared statement, sir. Mr. Polk, Mr. Campbell and I are at the disposal of this committee, as we hope we shall always be to respond to any questions members of the committee may have.

I should point out that the insured loan program makes available to farmers a supplemental source of credit. It does not supplant any established conventional lending institutions.

This credit is made available for the purchase and development of family sized farms.

The program also helps finance needed water development, and this is a point we should underline here. This has given rise to much of the demand for increasing the insurance authority which we have. We also insure now the loans for water associations, water distribution associations, which have become increasingly popular as our water resources tend to diminish.

Under the insured loan program, as Congressman Johnson has adequately pointed out, private lenders provide the funds, but the Farmers Home Administration guarantees repayment of principal and interest. The Farmers Home Administration also services these loans.

The benefits of the program seem to me to be obvious. They accrue to many different groups—the Nation's agriculture is strengthened through the further development of adequate family type farms, with the necessary capital to compete in this modern business of farming. Businesses servicing farmers benefit through increased sales and more dependable customers.

Bankers and other private credit interests have available a completely safe investment opportunity at a return high enough to be attractive.

Of considerable interest and importance, the insured loan program is being operated at little cost to the U.S. Treasury, and therefore at little cost to the U.S. taxpayer.

Under the Government's current agreement with the individual private lender, this private lender has the following options after holding the insured notes for a fixed period of 3 years:

First, he can sell the note back to the Government at the end of 3 years.

Second, he can enter into another fixed period during which he cannot redeem the note. The note does not become, as some people assume, a demand obligation on the Government. He either sells it back to the Government at the end of 3 years or he enters into another agreement to hold it for another fixed period.

Mr. McINTIRE. Mr. Bertsch, but the option as to whether he does enter into an agreement for another 3 years is with the lender.

Mr. BERTSCH. Not wholly with the lender. He has a period of time in which he either expresses a willingness to hold it for another fixed period or automatically he is required to hold it to maturity.

Mr. McINTIRE. Is the institution which makes this agreement and advances the fund under agreement to hold this loan in portfolio for 3 years?

Mr. BERTSCH. That is correct.

Mr. McINTIRE. Then what other rights do they have?



Mr. BERTSCH. They are also under an agreement to reach agreement with the Farmers Home Administration within a period of time, let us say within a year, this is our current regulation, during which they express either their desire to sell the note to the Government or their willingness to enter into a further fixed period for holding the note, which is a period agreed upon between the investor and the Farmers Home Administration.

At the present time we are asking for another 3-year period.

If they don't exercise that option during this year then automatically they are required to hold the paper to maturity.

Mr. McINTIRE. In other words, they have to exercise that option or have no alternative but hold the note to maturity.

Mr. BERTSCH. That is right.

Mr. McINTIRE. But exercising this option is in effect giving them the right of demand, is it not?

Mr. BERTSCH. The right of demand within this limited period. They can demand their payments, they can enter into another fixed period for holding the note, or if they fail to do either of these two they automatically hold the note to maturity.

Mr. McINTIRE. For how many years?

Mr. BERTSCH. Forty years. The third alternative, of course, is to hold the note until maturity or until payment in full by the borrower.

If the note holder decides to sell the notes back to the Government they are purchased, using earnings of the agricultural credit insurance fund to the extent that those earnings are sufficient, or by borrowing from the U.S. Treasury in the event that the resources of the mortgage insurance fund, or the agriculture credit insurance fund are not adequate.

Mr. JOHNSON of Wisconsin. In the past how many times have you had to go to the Treasury to pay up the fund?

Mr. BERTSCH. The most we have owed the Treasury at any time in connection with this operation is \$32.5 million.

On June 30, 1962, we owed the Treasury \$22,875,000.

The average amount borrowed each fiscal year for the 15 years this program has been in effect has been \$8,480,000. This is to service total amount of loans insured amounting to \$460 million approximately.

We believe that with this management control we have in the fund and with this capacity to negotiate with other lenders for the purchase of the paper, if we take the paper into the fund we have found up to now we can immediately sell it out of the fund to other lenders interested in making this kind of an investment.

We believe this contingency liability is more academic than real, although we do recognize that the contingent liability does exist and must exist.

The overwhelming majority of the insured notes bought by private lenders remain in their hands. The few notes that are sold to the fund we have found we can readily resell to other interested investors. We have resold them during the past 15 years at no net cost to the Treasury.

Mr. POAGE. I do not quite understand that, Mr. Bertsch. You say you are ready to resell. You say you have resold. If so how do you still owe the Treasury \$22 million?

Mr. BERTSCH. We have on hand in the fund \$22 million of notes.

Mr. POAGE. I know that.

Mr. BERTSCH. Which represents our obligation to the Treasury. The bulk of these notes are notes which were made in the early years of this program when the return to the investor was 3 percent. We could not sell those except as short-term notes and the mechanics of selling them out for 180 days, which we could do, simply seems more expensive, more extravagant, than the benefits which would accrue from such a sale.

Mr. POAGE. Then we must recognize we are stuck with \$22 million of notes and it will perhaps increase?

Mr. BERTSCH. No, it will not increase. Those are accounts being rapidly liquidated by the borrowers.

Mr. POAGE. We have \$22 million of notes which are submarginal so far as return is concerned.

Mr. GATHINGS. Sound basically.

Mr. POAGE. Yes, better than the new one because these older ones have had substantial payments made on them. The equity has grown on those to where the possibility of capital loss is very small on these notes. Is that right?

Mr. BERTSCH. That is correct, sir.

Mr. POAGE. They are even better notes than the new ones you are taking in from that standpoint?

Mr. BERTSCH. There is more equity there.

Mr. POAGE. But the return on those notes is so small that it is not attractive to anybody to buy them when they can buy the 4½ percent notes.

Mr. BERTSCH. That is correct. This represents our Treasury investment in this fund.

Mr. POAGE. We have no Treasury investment against the 4½ percent notes, then; is that right?

Mr. BERTSCH. The only fund investment in the 4½ percent notes is the normal day-to-day operations. That is, we make loans out of this fund at 4½ percent, bunch them for sale and sell them to investors.

In the normal day to day operations of our program this may represent \$2 or \$3 million, but it is rapidly turning over. There is no stagnant holding in the fund at 4½ percent.

Mr. POAGE. That is fine; thank you.

Mr. BERTSCH. I want to address myself to the question Congressman Harvey raised, which I think is a very legitimate point and a very perceptive point. I would want to point out that the activity in this program during the last fiscal year did not really begin until October 15 when the provisions of the Agricultural Act of 1961 became effective. This committee made amendments in this program, increasing the interest rate to the lender from 4 to 4½ percent, reducing this mandatory holding period from 5 years to 3 years, and that program went into effect on October 15 of 1961. Therefore from October 15 to the date Congressman Johnson mentioned, which was early in May, a period of about 7 months, the entire \$150 million statutory insurance authority was exhausted.

The other point which I think is tremendously important is that we are just now launching another accelerated program, another program covered in this legislation which was drafted in this subcom-

mittee. This is the program authorizing us to insure loans for the development of rural water distribution systems.

Heretofore practically no activity—\$2 to \$3 million a year of activity in this field—took place. It made no impact upon this insurance, no more impact than that \$2 or \$3 million.

We now have \$30 million of applications in process from such associations. Before this fiscal year is over, with the great interest which rural communities is expressing in this water distribution program, we expect this insurance authority to really be strained. This activity is growing in areas of the country where our water facilities program never operated before. It is growing in the Middle West.

We have a great many applications from Indiana, as I am sure you are aware, for these water association loans. We have a great many in the Southeastern States and in Mr. Stubblefield's State there is a great deal of activity generating and adding this nonwestern interest in water management programs, I visualize a very great demand upon this insurance authority. This is one of the reasons why I believe perhaps Congressman Johnson's estimate that the \$150 million would be exhausted by December is a very conservative estimate. Day by day we almost amend this estimate. I would suggest that we would need to start slowing down. We would need to start suspending the processing of applications for both water association loans and farm ownership loans by mid-October if this insurance authorization ceiling is not expanded.

Mr. Chairman, I think I have abused the courtesy of the committee by speaking so long on this subject. I must confess that when I start talking about Farmers Home Administration activities, it is hard for me to bring that discussion to anything like a reasonable close, but I would submit ourselves now for your questions.

Mr. GATHINGS. Mr. Chairman?

Mr. POAGE. Mr. Gathings.

Mr. GATHINGS. Mr. Bertsch, is the trend back to the land the reason for the need to expand this program from \$150 million to \$300 million? I wondered whether or not people want to acquire small holdings and farm that particular acreage as well as moving from the cities to these communities, or is it a matter of splitting up large holdings and selling them in small plots?

Mr. BERTSCH. I think the general factors that are contributing to the increased pressure on this insurance authority are, first of all, a recognition on the part of the holders, the owners of many inadequate tracts; a recognition of the necessity for rounding out those tracts, for consolidating fragmented units, consolidating small units into an adequate, efficient, family-farm operation.

This is one reaction that is coming from the general necessity for farmers becoming increasingly efficient, increasingly efficient in the utilization of their labor resources. Many farmers have inadequate land resources around them to make it possible for them to fully and efficiently utilize the family labor resources that they have, I might add, in the increasing competitiveness of American agriculture. They are recognizing the necessity for gathering around them more nearly adequate land resources. This is one factor and with the problems of urban unemployment, many rural and many farm people who, if the industrial society or the industrial economy were man-

power hungry, would migrate from the farm. They are now taking a second hard look at the relative prosperity and relative employment opportunities available to them urban versus rural and they are finding that it is wiser for them and they are more likely to enjoy a more prosperous life by undertaking to build their land base in the rural community rather than seek urban or industrial employment in an urban community.

While it is not a back-to-the-land movement in any sense, it may be a slowing up of the outmigration from rural areas.

Third, and conceivably the most important of all of these reasons, is that increasing requirements for capital investments in agriculture and the narrowing margins, the narrowing equities, almost disappearing equities, which foreclose the possibility of many of these farm families obtaining from conventional lending institutions the credit they need to assemble the land resources they must have if they are to continue to compete successfully in agriculture.

Mr. GATHINGS. Those three factors are the most significant ones?

Mr. BERTSCH. I believe so.

Mr. GATHINGS. There is a trend in my particular area to split up large holdings. Many times, years ago, we had lumber interests come into the State of Arkansas and saw the timber. They acquired that land and farmed it, but now they would like to divide it up into smaller units for sale to individual people who would like to go in there and farm smaller holdings rather than a large tract.

Mr. BAKER. Mr. Chairman, Congressman Gathings and I discussed this tendency or trend in his district and adjoining parts of the country. I happened to have the opportunity, Mr. Gathings, of following up both on the ground and with some of the farm management analyses, statistical analyses, of the trends in your district and the adjoining areas with similar characteristics. Your observations are entirely accurate and to the point. This partly is stemming from the growing cost of farm labor and the migration of farm labor, of which you are aware and another change, if you please, in the tenure pattern itself of an area that has now completed its logging and reclamation activities. They appear to be settling down into an attempt to develop in that area a pattern of relatively adequate family operated farms, hopefully on an ownership basis, but to the extent that the credit is not available to transfer title to the land, they are rather rapidly moving from large plantations operations to cash and share-tenant operations, as you know.

There is such a farm in your area highly effectively operated with a soybean combine and mechanical cotton-harvesting equipment provided for a family operation with the very minimum of hired labor. There is a very large land and equipment investment involved, as you have pointed out to us both in hearings of this committee and in other ways.

This is a big factor in adding to the volume of funds required for farm ownership loans in your area and adjoining geographic territories.

Mr. GATHINGS. Thank you, Mr. Secretary. We in Arkansas are happy over your assumption of new and greater responsibilities. Your Department does not take an adverse view of this legislation by Mr. Johnson, does it?

Mr. BERTSCH. To the contrary, our Department takes a very friendly attitude toward the legislation introduced by Mr. Johnson.

Mr. SHORT. Mr. Chairman?

Mr. POAGE. Mr. Short.

Mr. SHORT. I am sorry I was not here earlier, Mr. Bertsch.

What portion of the insured lending authority is being taken up at the present time by the water facilities program?

I do not want the exact figures necessarily, but is it a considerable portion or a small portion?

Mr. BERTSCH. Mr. Polk advises me that during the fiscal year just ended we insured about \$15 million of soil and water loans out of a total of \$150 million.

Mr. SHORT. Roughly 10 percent?

Mr. BERTSCH. That would be 10 percent. I would point out that this percentage is rapidly increasing. As I pointed out, we now have out \$30 million worth of applications in process.

Mr. SHORT. You used the terminology here a few minutes ago of these water facility loans serving rural residents. I wonder what portion of the people served by these water facility loans are actually farm people?

Mr. BERTSCH. About 70 percent of them are farmers, Mr. Congressman. About 30 percent are rural residents, nonfarm rural residents. They are incorporated into the distribution system to give it more economic feasibility for the farm members.

Mr. SHORT. I think we all have to recognize that this is inevitable in these water facility loans. The thing I was curious about is whether or not these water facility loans are being utilized as a means of securing water facilities in instances where there is a migration of city people a little bit farther out into the rural areas, or, rather, this lending program that we all thought was a good one for the farmers is being actually used for the benefit of the farmers. If this is overdone in serving just rural areas, or rural area residents, it tends to deplete the availability of the total amount of funds actually available to farmers, as such, which I think is the primary objective of the Farmers Home Administration loan program.

Mr. BERTSCH. We agree with you totally about what the primary objective of the Farmers Home Administration has been and must continue to be.

We have administratively controlled quite effectively, I believe, any tendency toward making loans to communities which are satellite communities, to an urban location.

I would point out to you that we have had a good many such applications. We have not made any such loans and we are undertaking with considerable vigilance to control this danger and to be sure that any communities to which we make this service available are generally rural communities in character.

I believe that we must continue to be vigilant in this respect. I pledge to this committee that continued kind of vigilance.

Mr. BAKER. Might I add just one point to that, Congressman Short?

We insist that applicants fully explore the possibilities of obtaining appropriate water system loans and advisory assistance from the Community Facilities Administration of the Housing and Home Finance Agency. We handle this type of program the same way

as the other loans to Farm and Home Administration—what you might call a court of last resort for farmers and farmer-related credit programs, rather than us moving into the urban type of program under the jurisdiction of the Housing and Home Finance Agency.

Mr. SHORT. Thank you very much.

Mr. POAGE. Any other questions?

If not, I would like to ask you, Mr. Baker or Mr. Bertsch, the purpose of these loans is pretty well explained, but is it for any of the real estate purposes authorized under the Consolidated Farmers Home Act?

Mr. BERTSCH. Subtitle (a) of this act, is a subtitle authorizing us to make or insure loans for the purchase of not larger than family farms, the enlargement of farms too small, and the development of farms inadequately developed.

Mr. POAGE. Subtitle (a) means it must be real estate?

Mr. BERTSCH. That is correct. That is the real estate subtitle.

Mr. POAGE. That is what I should have said. It then comes to any purpose for which a real estate loan can be made under the Consolidated Farmers Home Act?

Mr. BERTSCH. That is correct.

Mr. POAGE. I think you also answered my next question as to what group of rural people can obtain these loans. I assume that it is only those who cannot get loans from other sources on reasonable terms?

Mr. BERTSCH. That is correct, sir.

Mr. POAGE. I think you pretty well said that the \$150 million insurance authorization was inadequate last year.

Mr. BERTSCH. It was inadequate last year. It provided a source of funds for essentially a period of 7 months out of the last fiscal year. At the rate of acceleration, it would provide a source of insured funds for which I would suggest not to exceed 5 months during this fiscal year.

Mr. POAGE. Why has there been such an increase in these loans?

Mr. BERTSCH. I think essentially for the reasons I gave in response to Congressman Gathings' question. I do not believe I can profitably enlarge upon that, Mr. Chairman.

Mr. POAGE. I wish you would discuss the rate at which these loans were made.

Mr. BERTSCH. These loans are made at interest rates to the borrower equaling 5 percent; that is, the farmer pays 5 percent interest. The loans are amortized over a period not in excess of 40 years. The lender receives 4.5 of that 5 percent interest. The other one-half of 1 percent goes into the agricultural credit insurance fund from which we propose to pay our losses. We are now insuring loans. If, by "rate" you mean the current volume, then we are now insuring the loans at a rate of about \$25 million a month. This is gradually working upward.

Mr. POAGE. What amount of loans have been insured since the program started in 1946? I believe you said something over \$400 million?

Mr. BERTSCH. In excess of \$460 million; yes, sir.

Mr. POAGE. What is the unpaid principal balance on these loans?

Mr. BERTSCH. The balance due on March 31, 1962, was \$289 million. If we add the loans made through June 30—from March to June 30—the current principal balance is \$344 million. There has been a reduction of about \$125 million in the principal indebtedness of these borrowers.

Mr. POAGE. I think I asked you the maximum amount owed the Treasury at any time.

Mr. BERTSCH. I think I answered that when I pointed out that we had on June 30, 1960, or sometime during the 1960 fiscal year, our indebtedness to the Treasury reached its high point, which was \$36,240,000.

Mr. POAGE. It is down to \$22 million now?

Mr. BERTSCH. It is down to \$22,875,000 as of June 30, 1962. We have made a serious effort to dispose to other lenders of paper in the fund, of notes held in the fund, and that effort has been successful. That effort has convinced us that we have the capacity to manage this fund in such a way as to bring no embarrassment upon this committee or upon the administration.

Mr. POAGE. What has been the net accumulated reserve?

How has that reserve compared with the losses?

Mr. BERTSCH. The net reserve is \$7,882,000 and losses have been \$353,000, which makes a net reserve of \$8 million. This is \$8,480,000, which is our current net reserve.

Mr. POAGE. What has been the total cost of all funds borrowed from the Treasury when compared to the interest earnings from the fund?

Mr. BERTSCH. The interest earnings of the fund to date have totaled about \$4.5 million. The total cost of interest borrowed from the Treasury by the fund has equaled nearly \$4 million, so that the fund operations have resulted in net earnings of about half a million dollars. The interest earnings have been to the Treasury, as a result of the operation of this fund, \$486,000.

Mr. POAGE. Thank you very much. Are there any other questions?

Mr. McINTIRE. Mr. Chairman?

Mr. POAGE. Mr. McIntire.

Mr. McINTIRE. In the Consolidated Farmers Home Administration Act, am I correct in my recollection that prior to the enactment of that legislation, the rate of interest charged the borrower was 5 percent but the amount which the lender could receive was 4 percent?

Mr. BERTSCH. That is correct.

Mr. McINTIRE. In that act, the difference of one-half of 1 percent went into your insured loan fund and one-half of 1 percent went into a service offset?

Mr. BERTSCH. Made available for administrative purposes.

Mr. McINTIRE. Under the Consolidated Farmers Home Administration Act, the legislation permitted the insured lender to receive 4.5 percent but did not increase the rate of interest to the borrower. The one-half of 1 percent which the Farmers Home Administration received for administrative purposes was surrendered and now comes out of funds directly appropriated for the Farmers Home Administration administrative expenses.

Mr. BERTSCH. That is correct.

Mr. JOHNSON of Wisconsin. How long has that law been in effect?

Mr. BERTSCH. Since August.

Mr. JOHNSON of Wisconsin. What did it cost the Government so far for administrative expenses?

Mr. BAKER. Let me answer that, Mr. Johnson.

The entire cost has been absorbed, not at our recommendation but because the appropriation was not otherwise increased. It has been absorbed at the preexisting level for administrative expenses. In that

sense, this has not made any net increase at all in administrative costs of the Farmers Home Administration.

Mr. JOHNSON of Wisconsin. There have been more people hired in the various counties, or if there had been there would be an extra charge?

Mr. BAKER. There would have been but the actual results have been that the folks have somehow or other increased their effectiveness and the efficiency of their operations and due to necessity, it has not cost anything.

Mr. JOHNSON of Wisconsin. I included that in my statement before.

I notice that in the past, or perhaps not in the past but prevailing, it has been true that ever since the late 1940's a lot of these offices do not have enough to do.

Mr. BAKER. It might be stated another way, also.

The society and the economy as a whole, as we advance into more modern civilization, are expected to get more results per hour and per day for manpower exerted in any of our tasks. I am proud that the Farmers Home Administration has shown they have really made some advances toward modern civilization in this respect.

Mr. McINTIRE. Mr. Chairman?

Mr. POAGE. Mr. McIntire.

Mr. McINTIRE. Does the fact that this bill is before us mean we will have a department report on it? My impression of the testimony is that we will not. Am I correct?

Mr. BAKER. We do not have.

Mr. McINTIRE. Is it appropriate that we can anticipate a report in order that it can be current with the supporting documents for this legislation?

Mr. BAKER. Not in the immediate future, Congressman McIntire. There are both pros and cons being weighed and studied.

Mr. POAGE. In view of the testimony in the past, we do not need a formal report and that is why we had the hearing in the first place.

Mr. McINTIRE. I wondered if we could anticipate a report.

Mr. BAKER. It was determined it would be appropriate for us to discuss the advantages and disadvantages from various standpoints of this proposed legislation with you, in response to your invitation. But the administration does not have a formal position to present in a report on the bill.

Mr. POAGE. Are there other questions?

If not, we are very much obliged to you, Mr. Baker, Mr. Bertsch and gentlemen.

Mr. BERTSCH. Thank you very much, Mr. Chairman, for your courtesy.

Mr. POAGE. I believe Mr. Johnson of the National Farmers Union is here to testify. We will be glad to hear you, Mr. Johnson.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. JOHNSON. Mr. Chairman, I have listened to what I think is a very informative discussion of the subcommittee with the Department witnesses on this bill and the Farmers Union supports it. I am at the pleasure of the subcommittee.

I have a short statement which I think covers some of the points the subcommittee has already discussed rather fully with the witnesses from the Department of Agriculture.

Farmers Union supports H.R. 12653. The urgent need for additional real estate loan funds means that it is imperative that prompt action be taken to enact this bill during this session of Congress.

We support this legislation for the following reasons:

1. The increased cost of farming and of farm real estate makes it increasingly difficult for a young farm family to acquire the capital needed to begin farming on its own.

2. Applications for real estate loans have increased—as of the end of July this year, approximately 17,000 applications were on hand in county offices of the Farmers Home Administration.

3. It is apparent that loan funds from private sources would be forthcoming if the ceiling is increased from \$150 million to \$300 million as provided in this bill.

4. Agriculture today suffers from lack of adequate credit and the additional authority to draw on private money and provide Government insurance for the investor is one way to help alleviate this shortage of farm credit.

AID FOR BEGINNING FARM FAMILIES

Young farm families can often acquire the real estate of a parent through the insured loan program of Farmers Home Administration. In such a situation, FHA provides a loan in keeping with the value of the farm and is able to meet the credit needs of the young family. In this manner estates may be settled equitably with other interested parties receiving their share. This program often prevents an estate from being broken up into several tracts.

Loans can be insured on a loan-term basis between a young family and their parents or some other retiring owner. For example, in such a case a sale can be consummated in which the young farm family makes an annual payment amortizing the total purchase price over a period of not to exceed 40 years at interest of 4½ percent. The Government simply guarantees the payment by the young farm family. If the owner dies before the farm is paid out, heirs are protected. If the owner decides he wants his money in a lump sum, he can at the end of 3 years turn the paper over to the Government and receive the balance in cash. The Government would retain the paper or sell it to another lender.

BACKLOG OF APPLICANTS

From all of the information we are able to obtain, the credit needs of the 17,000 applicants that we referred to above, could be met if the ceiling were lifted as this bill provides. In other words, adequate private capital is available and we understand that the Farmers Home Administration now has commitment from private lenders to buy approximately \$75 million in insured loan paper.

BUILDING RURAL AMERICA

One of the advantages of the insured loan program is that it permits retention of local capital in the local community. Banks and other investment managers are able to put their money out on interest and

it will yield a rate comparable to that obtainable in the money markets and yet will be put to work assisting local rural developments. For example, in many cases, some construction work is involved furthering development of the local community. This is a needed form of stimulus to the local rural economy and helps to solve one of the most urgent problems—that of providing opportunities for people to earn a living in rural America. It is an effective way of putting local capital to work.

NEED FOR ADDITIONAL FARM CREDIT

Farmers Home Administration has, over the past 25 years, dedicated its efforts to assuring opportunity for capable and ambitious young farm families to begin farming. The agency has never had adequate finances to do this job as it should be done. The need for additional Federal funds has been stressed by Farmers Union on many occasions in hearings before this committee and the Committee on Appropriations. While we are cognizant of the interest in balancing the budget, we do not believe that denial of adequate loan funds for farmers is justified in the face of the increasing need for farm credit of all kinds—operating, real estate, soil and water and housing.

The role of the Government in providing such funds has seemed to us to provide a needed yardstick as to the cost of credit and we believe has been responsible for holding to a minimum interest rates charged from private credit sources. The fact that this insured real estate loan program is operated in conjunction with a program of utilizing Government funds has been insurance to farmers that they would not be overcharged on interest rates.

In closing, Mr. Chairman, the insured loan program provides, as do the other credit programs of FHA, a means of building rural America. We understand that local moneys from banks, pension funds, insurance companies, and trust funds are potential sources of funds for the insured loan program. Therefore, the expansion of the ceiling on insured loans provides a method by which local money of local investors can be put to work for the benefit of the rural areas. The lifting of this ceiling will expand on the source of funds for agricultural credit and we therefore urge this subcommittee and the full House Agriculture Committee to act promptly to approve H.R. 12653.

We appreciate this opportunity to present the views of Farmers Union and we will be glad to respond to questions.

Mr. POAGE. Are there any questions anyone wants to ask?

(No response.)

You support the measure as presented?

Mr. JOHNSON. We support the measure, Mr. Chairman.

Mr. POAGE. Are there any questions of Mr. Johnson? If not, we are very much obliged to you.

Mr. JOHNSON. Thank you for your courtesy and allowing me to be here.

Mr. POAGE. Does anyone else want to be heard?

(No response.)

If not, the committee will now go into executive session.

(Thereupon, the committee went into executive session.)

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NEED FOR ADDITIONAL CREDIT

Farmers Home Administration has over the past 25 years developed its efforts to assure opportunity for capital and assistance young farm families to begin farming. The agency has never had adequate finances to do this job as it should be done. The need for additional Federal funds has been stressed by Farmers Union on many occasions in hearings before this committee and the Committee on Appropriations. While we are cognizant of the interest in balancing the budget, we do not believe that denial of additional funds for farmers is justified in the face of the increasing need for loan credit of all kinds—operating, real estate, seed and water and housing. The role of the Government in providing such funds has proved to be to provide a needed yardstick as to the cost of credit and we believe has been responsible for holding to a minimum interest rate charged from private credit sources. The fact that this method of loan program is operated in conjunction with a program of utilizing Government funds has been insurance to farmers that they would not be overcharged on interest rates.

In closing, Mr. Chairman, the insured loan program provides as to the other credit programs of FHLA, a means of building rural America. We understand that local banks, bank branches, farm loan insurance companies and trust funds are potential sources of funds for the insured loan program. Therefore, the expansion of the ceiling on insured loans provides a method by which local money of local investors can be put to work for the benefit of the insurance. The lifting of this ceiling will expand the source of funds for additional credit and we therefore urge the subcommittee and the full House Agriculture Committee to act promptly to approve H.R. 12622. We appreciate this opportunity to present the views of Farmers Union and we will be glad to respond to questions.

Mr. Porter: Are there any questions anyone wants to ask? (No response.)

I am supporting the measure as presented.

Mr. Johnson: We support the measure, Mr. Chairman.

Mr. Porter: Are there any questions of Mr. Johnson? If not, we are very much obliged to you.

Mr. Johnson: Thank you for your courtesy and allowing me to be here.

Mr. Porter: Does anyone else want to be heard?

(No response.)

If I do not, the committee will now go into executive session. (Thereupon, the committee went into executive session.)



