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# INCREASE FARMERS HOME ADMINISTRATION LOAN LIMITATION

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## HEARING

BEFORE THE

SUBCOMMITTEE ON CONSERVATION AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

ON

H.R. 11547

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# INCREASE FARMERS HOME ADMINISTRATION LOAN LIMITATION

TUESDAY, JUNE 9, 1970

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

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. W. R. Poage (chairman of the subcommittee) presiding.

Present: Representatives Poage, Stubblefield, Teague, Goodling, Mayne, and Kleppe.

Also present: Lacey C. Sharp, general counsel, Mrs. Christine S. Gallagher, chief clerk, and John A. Knebel, assistant counsel.

The CHAIRMAN. The committee will come to order. We have Mr. Sisk with us here this morning and he must attend the Rules Committee in a few moments and we would like to hear from him and so I will call on Mr. Sisk first.

The normal preface would be to call on the Department first to get their view, but Mr. Sisk has to leave in a few moments, and I call on him first to speak to the bill H.R. 11547.

(H.R. 11547 by Mr. Price of Texas follows:)

[H.R. 11547, 91st Cong., first sess.]

A BILL To amend the Consolidated Farmers Home Administration Act of 1961, as amended, to increase the loan limitation on certain loans

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Consolidated Farmers Home Administration Act of 1961, as amended, is further amended by changing the figure "\$60,000" in section 305(a) to "\$100,000", and by changing the figure "\$35,000" in section 313(1) to "\$50,000".

## STATEMENT OF HON. B. F. SISK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Sisk. Thank you, Mr. Chairman. I do appreciate the opportunity. Mr. Chairman, I have a brief statement prepared that I would like to submit for the record, and I think I will make a few very brief remarks.

(1)

Mr. Chairman, I appear this morning in full support of the bill, introduced by our colleague Mr. Price of Texas, H.R. 11547.

I do this, Mr. Chairman, in line with the position that I have taken now for quite a number of years that in view of economic conditions, in view of increasing prices, increasing costs, and increasing land values, it simply seems to me that the present ceilings in connection with Farmers Home Administration loans of various types are no longer realistic in present day agriculture, and I will only take a moment, Mr. Chairman, to cite an illustration or two in connection with agriculture and what is generally referred to today as family size farms.

I think this whole idea of family size farms has become somewhat distorted, but in my own district, where, certainly, everything is not big and not nearly as large as some cases in Texas, but even in checking out an 80-acre vineyard in my district, where a farmer is depending for a livelihood on 80 acres of land and if it is vineyards, where grapes are one of our principal crops, he has a capital investment of quarter of a million dollars at today's prices.

I have one other illustration, because I have before me a report, an accountant's report of a farmer, who is somewhat diversified and who strictly is a family farmer. He hires no regular labor at all.

He and his own children do the farming. He got off of a tractor—he was driving a tractor the other day—to call and talk to me.

He has sent me some accountant's figures for the last several years of his operation and I simply want to cite those very briefly, Mr. Chairman, to indicate some of the problems we have.

Here is a gentleman who has a total investment in his farm and, as I say, strictly a family operation—operated solely by himself, his children and his wife, in which he has \$1 million of investment.

It is not a big farm—900 acres. His income last year for example, in the year 1969, and I will very briefly give a few round figures, was approximately \$61,000. This is gross income, you understand, from sugar beets was \$28,000. His income from cattle, because he also has some cattle, was \$34,000, and some other smaller amounts, for example, barley, \$3,300.

Anyway, he came up with a total gross income of \$182,000. His total expenses were over \$166,000. He came out at the end of the year with an investment of just over \$1 million, his income, net income and these are his tax figures, of \$15,000. That was his total income.

Now, in the past 7 years, on one occasion, he has shown a loss, but he is a good hard-working farmer and I simply cite this to indicate that at present-day levels the Farmers Home Administration is simply not in a position at present-day ceilings to meet the needs of this kind and type of farmer.

Finally, in conclusion, dairying, again, is a large industry in my district and today even the smallest dairies to qualify under the California Produce Act have to have an investment of a quarter of a million dollars and from that on up, and these figures, as I say, are only to indicate how impractical it is to attempt to deal with these kind of farmers at today's ceiling and, Mr. Chairman, I appreciate your taking me out of order and giving me this opportunity to say a few words on this bill. I do support the bill, and, actually, I would support even a higher raise, as far as I am concerned.

The CHAIRMAN. Thank you very much, Mr. Sisk. Any questions?

Mr. KLEPPE. Mr. Chairman, I am not a member of your subcommittee, but may I ask my colleague a question?

The CHAIRMAN. Sure.

Mr. KLEPPE. Congressman Sisk, just taking a few of your remarks, I understand that you are in favor of raising the limitation?

Mr. SISK. That is correct. I would even be in favor of raising it higher than Mr. Price has suggested.

Mr. KLEPPE. The thought that hits me is that unless we raise the total appropriation available and the total moneys available, we would be decreasing the numbers of individuals that we can make loans to and, of course, this is a vital thing in an area like mine where we have smaller operations.

Mr. SISK. If I may say, I agree completely with the gentleman and I recognize that we need some revamping of the program or some kind of broadening of the insured type of loan.

I am not sure just exactly—I'm not expert enough in the field, but I recognize that today, certainly, in connection with California agriculture, and I again admit I have to be a bit parochial, and our farmers are in trouble in California just like I think they are all across this country today, because of the lack of income or of high cost and so on, that Farmers Home is certainly not geared to meet their needs.

Now, how we go about doing it, where we increase the ceiling, well, I agree, to the extent that to take care of a few big ones and to cut down on many of the smaller ones, I agree, I think that would be bad, and I don't desire to do that, but I would hope the committee, in its consideration and in its wisdom, might be able to come up with some changes in the Farmers Home Administration to meet some of these increases.

Mr. KLEPPE. I think there are many areas where you and I both agree, and one of these is that you and I would like to see additional appropriations to take care of bigger needs.

Mr. SISK. I agree with that.

Mr. KLEPPE. It is a very, very good program and it has worked very, very well.

Mr. SISK. Right.

Mr. KLEPPE. It really performs a service. I think here is an area where we agree.

Mr. SISK. Exactly.

Mr. KLEPPE. I wonder if there isn't another area that we agree. There are some operators that just cannot function within a maximum of \$60,000 loan that we can grant them today and they do need more and if they don't get it, they can't function.

So here are two areas where we agree. The only reason that I raised the question is that if we are thinking of living with the same dollars that we had that we don't cut out some of the numbers of the smaller farmers who are potentials and this is the only reason that I wanted to make this point.

Mr. SISK. Mr. Chairman, I would like to say that I agree with Mr. Kleppe completely on this and that we do something in the way of avoiding cutting out the thousands of the smaller farmers, because they are just as desperately—

Mr. KLEPPE. This is my concern.

Mr. SISK (continuing). In need of the \$20,000 or \$30,000 loan, I am sure, as, for example, my people might be in a case of a \$150,000 or \$200,000 loan, and again, as I say, it is only my hope and I would urge the committee to consider every possible aspect that if through some type of insured loan more in line with what we are doing today in housing in the cities, for example, if we do more in that type of direction to avoid the increasing appropriations.

I agree it takes more money to meet their needs than I am talking about.

Mr. KLEPPE. I appreciate your allowing me to question Mr. Sisk, Mr. Chairman.

The CHAIRMAN. Glad to have you raise the question.

Thank you, Mr. Sisk.

Mr. SISK. Thank you.

(The statement of Congressman B. F. Sisk appears as follows:)

STATEMENT OF HON. B. F. SISK, A REPRESENTATIVE IN CONGRESS FROM THE  
STATE OF CALIFORNIA

Mr. Chairman, I appear this morning in full support of the bill, H.R. 11547, introduced by our colleague Mr. Price of Texas. The purpose of this bill is to amend the Consolidated Farmers Home Administration Act to increase the loan limitation on farm ownership and operating loans.

I have long encouraged making possible the availability of more funds for farmers and ranchers, and while this bill raises the ownership loan limitation by \$40,000 and the operating loan limitation by \$15,000, I had hoped, and would encourage the Committee to raise these limits even higher.

While Fresno County, California, which I have the privilege to represent, has, since 1950, had the greatest agricultural production annually of any county in the nation, there is still room and a need for increased agricultural activity in our steadily growing area.

An increase in the ownership loan limitation would enable farmers to buy more needed farm land; enable owners of inadequate or underimproved farms to construct or repair farm homes and service buildings and facilities. It would improve land, develop water, forestry and fish farming resources. It could establish recreation and nonfarm enterprises to supplement farm income, and refinance debts.

An increase in the operating loan limitation would enable operators of not larger than family sized farms to make improved use of their land and labor resources. Funds could be advanced to pay for equipment, livestock, feed, seed, and fertilizer. It could refinance chattel debts and provide operating credit. Of course, such help would apply all over the nation and not just to my highly productive Congressional District.

The Economic Research Service of the Agriculture Department has shown that land values have increased over 70 percent in the past ten years. In order to make it possible for those desiring to enter into farming the loan limitation must be raised to enable persons to purchase available land.

Farm machinery, fertilizer, and feed prices have increased seventy-nine, sixty-four, and thirty-three percent respectively over this same period.

This points up the need for limitation increases so that eligible farm and ranch families can begin farming with the necessary cash resources, equities, and financial stability to become properly established.

Those already in farming who desire to continue and cannot unless their debt is restructured or their farming operation reorganized would be able to do so with the increased limitations.

Those who need to improve their farming efficiency to become competitive and remain in business would be helped immeasurably.

All in all, there is a pressing need to substantially raise the indebtedness limitations because of the higher costs of purchasing and developing land, increased building construction costs, and greater operating expenses. None of these increased costs can be adequately met with the presently unrealistic limitations.

Therefore, Mr. Chairman, I respectfully urge this Committee to report a bill to the House containing at least the ownership loan increased to \$100,000 and operating loan increase to \$50,000 as proposed in this bill or such higher figures as the Committee may deem appropriate in the light of the inflated price structure in America today.

Thank you.

The CHAIRMAN. Now, we will hear from the Department. Mr. Smith is here and we will be glad to have you present any information.

**STATEMENT OF JAMES V. SMITH, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, USDA, ACCOMPANIED BY LEONARD G. DALSTED, DIRECTOR, FARM OWNERSHIP LOAN DIVISION, FHA, AND CLAYTON C. CASE, DIRECTOR, OPERATING LOAN DIVISION, FHA**

Mr. SMITH. Thank you, Mr. Chairman. It is a privilege to be here today, and I would like to thank the chairman and members of this committee for the great work you are doing and particularly in reference to the Farmers Home Administration.

I appear before this committee in connection with H.R. 11547. The Department does not recommend enactment of this bill at this time.

The bill would amend the Consolidated Farmers Home Administration Act of 1961 to increase the maximum limit amounts for certain types of loans. It would increase the \$60,000 limit in section 305 to \$100,000 and the \$35,000 limit in section 313 to \$50,000.

The proposed change in the limit under section 305 would affect farm ownership loans made to individual farmers and ranchers under sections 302 and 303 of the act, and loans to farmers and other eligible applicants under section 304 for soil and water conservation and recreational facilities and uses.

Economic conditions, progress in agricultural technology, the extent of mechanization, the increase in the scope of farming and ranching operations, and increased land value since 1961, have caused the existing statutory limits to become inadequate for some systems of farming in certain areas of the country.

The amendment to section 305 pertaining to real estate type loans, would permit a loan up to the maximum amount to an eligible applicant, if that will be the total indebtedness against the security, provided the value of the security property is not less than that amount.

The \$60,000 limit was established at the time of the original enactment of the Consolidated Farmers Home Administration Act of 1961. At that time that amount was considered adequate to finance the purchase, enlargement, and development of farmland for individual family farmers who could not obtain credit from private sources.

The CHAIRMAN. What year was that?

I believe it was 1933 or 1936. Anyway that is not very important, but I know it was very low, something like \$12,000.

Mr. SMITH. I was not aware of that, Mr. Chairman.

As you know, the act permits us to make a real estate loan secured by a junior lien when the terms of the prior liens and the borrower's debt-paying ability will permit payment of all liens in an orderly manner and a sound basis exists for the loan.

This practice of making loans secured by junior liens is more prevalent in some areas of the country than others and is increasing each year. The individuals who obtained credit from other agencies, usually based on 50 to 60 percent equity in the real estate, need additional assistance which cannot be obtained from their present creditors because of insufficient equity.

The Department's position on this bill is consistent with the efforts of the administration in furthering the control of inflation.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Smith, I don't know whether you know or not, but does the Department send a request for reports down to you?

We write a request to the Secretary and ask for a report on a bill. Does it come to you? I don't know what the mechanics of it are.

Mr. SMITH. Yes, the request comes to the Secretary and he, of course, calls on the Agency for recommendations.

The CHAIRMAN. Had you been requested to give a report on this bill?

Mr. SMITH. Yes, we have.

The CHAIRMAN. I can understand that.

Mr. SMITH. Of course, the administration's position must be reevaluated from time to time in view of current events and it is the position of the administration that during this period of fiscal crisis that these limitations not be altered at this time.

The CHAIRMAN. Well, the point is that we requested a report on this bill in July 1969, and we haven't yet received a report on this bill.

Mr. GOODLING. The mail service is bad, Mr. Chairman.

Mr. SMITH. I would say that in my position as Administrator, I have discharged my responsibility by urging those with whom we work to be prompt in responding to congressional requests.

The CHAIRMAN. Well, I think we can sum up your testimony that we don't just have the lending authority to take care of some of the people who need the help at the present time.

Mr. SMITH. There is no question, Mr. Chairman, that the increase of land values, for example, over the last decade of some 70 percent over the Nation, has eliminated some potential clients who are unable to obtain credit elsewhere.

The CHAIRMAN. I realize that there are certain budgetary limitations.

Do either one of your colleagues want to speak?

Mr. SMITH. Mr. Case is the Director of the Operating Loan Division. Mr. Case, would you like to add anything to your testimony?

Mr. CASE. I do not, but I would be glad to answer any questions.

Mr. DALSTED. The limitation of \$12,000, prior to 1961 was administrative and there was a period of several years when the administrative limit was \$12,000. That, primarily, is what you were referring to.

The CHAIRMAN. Yes.

Mr. DALSTED. And originally the limitation was based on the average value of farms.

The CHAIRMAN. In the county?

Mr. DALSTED. In the county, that's right, and then in 1961, the

\$60,000 total real estate indebtedness limitation was incorporated into legislation.

Mr. KLEPPE. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. KLEPPE. Mr. Smith, do you have any figures at all indicating how many applications for loans under \$35,000 that you have not been able to fill because of the shortage of funds?

Mr. SMITH. Well, first you would be inquiring in a period where a void existed. If we don't make the loan, we don't have the record. In other words, we don't keep a record of loans turned down.

Now, the application we have are for loans for which inadequate funds were not available.

Mr. KLEPPE. You don't have a record of the loans turned down?

Mr. SMITH. Pardon me?

Mr. KLEPPE. In other words, you don't have a record of the loans turned down?

Mr. SMITH. That is right.

Mr. KLEPPE. Now, I am not talking about the loans turned down for any other reason, other than shortage of funds, I am only talking about an application that would fill every other criteria that you have, but you couldn't make the loan because of the shortage of funds. Do you have a record of those?

Mr. CASE. We have two, Congressman Kleppe, if I may speak on that point. We have two types of situations here. One, are the applications we have received that we were unable to serve with the funds we have available—

Mr. KLEPPE. Yes. Do you know how many that is?

Mr. CASE. Yes, and we have a large number of potential applicants, who were eligible for loans, but when we have to quit making loans due to lack of funds these potential applicants do not complete written application. For this reason the number of applications received never does truly reflect the number of families in need of loans.

Mr. KLEPPE. Then those specifically reflect the ones you have on file, that are sitting there waiting for additional funds.

That to me would probably be the only factual thing that we would record in regard to the dollars available for a loan and, of course, this bill directly pinpoints that part of it.

What concerns me and I think this is pretty obvious, I think we are going to have a number of smaller operators that can function on \$35,000 that would be shut out if we went to the \$50,000 limit, without some additional appropriations.

So I was just curious about the numbers that you might have and if you had such a thing, maybe you can furnish them for the record.

(The following information was later submitted:)

By March 31, 1970, virtually all of the operating loan funds available for the 1970 fiscal year had been committed for loans in process. At that time there were approximately 7,000 applications for operating loans on hand, most of which could not be funded during the 1970 fiscal year.

Mr. SMITH. Congressman, we will be glad to do that and we do have such figures. For example, I will mention here and the record will

reflect that there were only 8½ farm ownership divisions and about 1 out of 3.

Mr. KLEPPE. How about operating loans?

Mr. SMITH. Operating loans would be about 1 out of 2.

Now, I want to mention something here that I think will be of interest to the committee and solicit your comments and advice on. You are aware, I am sure, that we do subordinate to banks and we work with production credit associations.

We come behind the banks and/or the production credit system in order to keep the farmer going. That is what we are interested in, keeping the farmer in business, particularly, during this period, because the fiscal process has been so very short, and we have conferences going on at this time with the Farmers Credit System where we may now begin on an initial basis to take a junior lien on the farm in connection with a farm ownership loan.

Now, we have been doing this for a number of years. After the Federal Land Bank or other lender has made a loan and the borrower gets into trouble we sometimes come into the picture.

But we are discussing now coming in on an initial basis, this would expand credit to help more farmers. For example, we have helped some beet farmers in Idaho and in southwestern Kansas and southeastern Colorado, where adverse weather conditions existed and the situation indicated that a lot of these farmers were going to go out of business, but we encouraged them to stay in, and it seems to be working out at this point.

So our point is to enlarge the credit base and stretch our funds to produce the maximum effect as far as possible.

Mr. KLEPPE. Mr. Smith, have you received any encouragement in appropriation from FHA on this?

Mr. SMITH. In which program?

Mr. KLEPPE. Either in operation loans or real estate?

Mr. SMITH. I know it is being seriously considered. I hope that it will.

The CHAIRMAN. It isn't really a matter of meeting additional appropriations, is it? I think we ought to get this clearly straightened out.

Isn't it basically a matter of the Bureau of the Budget tying up your funds, tying up your right to make guaranteed loans. You have the authority to make guaranteed loans, as far as the authority is concerned, don't you?

Mr. CASE. As far as farmownership is concerned, yes, but not for operating loans.

The CHAIRMAN. Yes, you have. Really you have adequate authority there, don't you, as far as the legislative authority is concerned?

Mr. CASE. The operating loan is a direct loan and made from the direct loan account and is subject to appropriation authority each year, with respect to the annual level of lending.

So there is a difference between the operating and real estate loans in that respect.

The CHAIRMAN. All right, now, let's get it plain. You have the authority to make guaranteed loans? There is no limit on that, is there?

Mr. SMITH. That would be limited, of course, Mr. Chairman, by the Bureau of the Budget.

The CHAIRMAN. Wait a minute. I am talking about the authority—I am talking about this committee, what you need from this committee, and we want to try to give you what you need, at least, I do. But you have the authority now, as I understand it, and it isn't limited, is it?

Mr. CASE. For insured, that is correct.

The CHAIRMAN. Now, those are the farm purchase loans?

Mr. CASE. Yes, sir.

The CHAIRMAN. And the operating loans?

Mr. CASE. No, the operating loan is a direct loan and the loan level is subject to annual appropriation action.

The CHAIRMAN. But as to the real estate loans—from the real estate loans, you have all the authority from this committee that you need, as I understand it.

Mr. CASE. That is correct.

The CHAIRMAN. So no matter what authority we gave you here, it wouldn't change the amount of money that you could make available for these guaranteed real estate loans?

Mr. CASE. That is correct.

The CHAIRMAN. Because you have unlimited authority now, I mean, as far as Congress is concerned. But the Bureau of the Budget comes along and says each year that you have got this unlimited authority, but don't make \$200 million or whatever they say.

Mr. KLEPPE. That is the point I am talking about, Mr. Chairman.

The CHAIRMAN. That is the Bureau of the Budget, that is not legislation. I mean they have got the legislative authority right now and the Bureau of the Budget comes along and puts a budget on them each year.

Mr. SMITH. That is correct, yes.

The CHAIRMAN. And they just within the last month released, what was it, \$25 million to you?

Mr. SMITH. Which program—the farm ownership—are you speaking about?

The CHAIRMAN. Yes. Didn't they just recently release a bunch of money to you?

Mr. SMITH. An additional \$50 million was released in March for insured farm ownership loans.

The CHAIRMAN. Well, that was money that was appropriated, is that right?

Mr. SMITH. Authorized.

The CHAIRMAN. The Bureau of the Budget can tie up your appropriations, as well as put a limit on the guarantees.

What did they do?

Mr. DALSTED. For the insured farm ownership program, they released an additional \$50 million about the middle of March.

The CHAIRMAN. That was guaranteed loans?

Mr. DALSTED. Yes, that was insured loan authority.

The CHAIRMAN. In other words, they increased your right to sell guaranteed loans by \$50 million. They could increase it by another \$50 million if they wanted to, couldn't they?

Mr. KLEPPE. Because the authority is there.

The CHAIRMAN. That's right. The authority is there. Let's get this on the record rather than nodding your head.

Mr. DALSTED. The legal authority is already granted as far as the insured money is concerned.

The CHAIRMAN. That's right.

Mr. DALSTED. That money is apportioned each year, based on the total consideration by the Department of all needs and we get an apportionment of insured loan authorization against which we can make farm ownership loans for that year.

The CHAIRMAN. And the Bureau of the Budget are really the ones that do it, don't they? It's not the Department of Agriculture that does that?

Mr. DALSTED. I think it is proper to say it is a combination of both.

Mr. CASE. The officials of the Department make the recommendations to the Bureau of the Budget.

The CHAIRMAN. Certainly, the Bureau of the Budget makes the decision as to the sum total of insured or guaranteed loans that the Department makes, is that right?

Mr. CASE. That is correct.

The CHAIRMAN. The law lets you make an unlimited amount of these.

Mr. DALSTED. If we had the apportionment, that's right.

The CHAIRMAN. So all I am trying to get clear and I'm trying to make this record show it clearly to know what this committee needs to do, we first need to understand that we have passed legislation and it is the law today—

Mr. KLEPPE. No argument about that.

The CHAIRMAN (continuing). That you can make any amount of guaranteed or insured loans that the Department feels is desirable.

Consequently, we don't have to do anything about this and this is the same point that Mr. Kleppe is suggesting, as far as the real estate is concerned.

Mr. KLEPPE. Not as far as this committee is concerned.

The CHAIRMAN. That's right.

Mr. KLEPPE. You will recall, Mr. Chairman, that my question was does Mr. Smith have any idea or feeling about additional funds being made available.

The CHAIRMAN. That is correct, but there is no need for this committee authorizing additional guarantee authority.

Mr. KLEPPE. No.

Mr. PRICE. Mr. Chairman?

The CHAIRMAN. Yes.

Mr. PRICE. One point on that; however, it is my understanding that they don't have the authority to make a guaranteed loan on operating loans.

The CHAIRMAN. I understand that. I'm trying to find out about real estate loans first. You have two separate sections to your bill and this first one, this raising it to \$100,000, relates to the real estate and what I am trying to say is that Mr. Kleppe's objections are not—don't go to this committee, as far as that part is concerned.

Mr. KLEPPE. Not in the overall, not in the total, but in the individual basis, it does, because that is what the bill provides—the provision for an increase.

The CHAIRMAN. But it provides an increase to individual limitation.

Mr. KLEPPE. Right.

The CHAIRMAN. But there is no overall limitation.

Mr. KLEPPE. Not as I understand it.

The CHAIRMAN. And we don't need to raise any overall limitation to take care of the first part of the bill.

Mr. KLEPPE. I understand.

The CHAIRMAN. Now, in the second part of the bill which relates to the non-real estate loans, the operating loans, where you get nothing but general, you make those, if I understand it, out of appropriated funds.

You don't sell any of those guarantees?

Mr. CASE. No, those are made from the direct loan account. The Congress authorizes the amount that we can use annually from that account for operating loans.

The CHAIRMAN. The Appropriations Committee each year tells you the amount that you can use of those?

Mr. CASE. Yes.

The CHAIRMAN. Although the Bureau of the Budget can come along and give you a limitation on that and does do it, don't they?

Mr. CASE. Sometimes, yes.

The CHAIRMAN. What was your legislative or appropriation authorization this year?

Mr. CASE. \$275 million.

The CHAIRMAN. Now, the Bureau of the Budget didn't let you use the \$275 million, did they?

Mr. CASE. Yes, they did.

The CHAIRMAN. They have now with this last release of money, the last release of money which took place a few weeks ago, but prior to this last release, you couldn't use all the money that was authorized by the appropriations, could you?

Mr. CASE. This year, yes. They authorized the use of the full \$275 million. It was apportioned by quarters, but there was no indication this year that the full \$275 million would not be available to us. This did happen last year in 1969, but in 1970, the full amount was apportioned to us for use by quarters.

The CHAIRMAN. That was in the 1970 fiscal year it was apportioned to you, but in 1969 it was not?

Mr. CASE. In 1969, some of it was held in reserve and then it was later released toward the end of the year. We got the full amount authorized by the Congress finally.

The CHAIRMAN. So it was finally released?

Mr. CASE. Yes.

The CHAIRMAN. And you anticipate on that that you can make \$275 million in operating loans and you think that you could make \$550 million?

Mr. SMITH. Without too much trouble, yes.

The CHAIRMAN. And still make loans within the framework of the basic legislation?

Mr. SMITH. Yes.

Mr. GOODLING. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. GOODLING. Just one question. Who determines what amount of your budget goes to community affairs or to individual farmers? Do we do that by legislation? I have to plead ignorance on that; I don't know.

Mr. SMITH. Congressman, we have, as I stated, 23 authorities in the Farmers Home Administration. The amounts allocated to the various types of loans are determined according to need and in keeping with the administration views on priorities for particular programs.

For example, the administration has a high priority on the water and sewer program. And for rural housing, the budget for next year is two and a half times in excess of last year's housing budget. This is determined after joint discussions within the U.S. Department of Agriculture and in coordination with the Budget Bureau and others.

Mr. GOODLING. What are your loan rates today?

Mr. SMITH. We have different loan rates for the different programs. The loan rates are adjusted at the end of each fiscal year to the cost of Treasury borrowings for the housing program and for the operating loans division. The interest rate to the borrower on an operating loan at this time is 6½ percent and on a housing loan, 6¼ percent.

Mr. STUBBLEFIELD. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. STUBBLEFIELD. This Price bill relates only to individual limitations, not to overall limitations, is that right?

Mr. SMITH. That is correct.

Mr. STUBBLEFIELD. Thank you.

The CHAIRMAN. Any further questions of these gentlemen?

(No response.)

The CHAIRMAN. If not, we are much obliged of you and your associates and we feel that you have a different problem and that, obviously, there are going to be limitations imposed on the amount of money that can be spent either by Congress or by the Bureau of the Budget. Somewhere there are going to be some limitations, of course.

We recognize that you probably would never get as much money as you could advantageously and helpfully use, in my judgment, at least. But I do want to say and say it on the record, that I think you have been doing a good job in handling it and you haven't had as much as I would like you to have, but I think you have done a splendid job of dealing with the resources available to you and I have every confidence that you will continue to do that.

Mr. SMITH. Thank you, Mr. Chairman.

The CHAIRMAN. I would give you a little more leeway.

Mr. SMITH. Thank you.

The CHAIRMAN. And now I call on Mr. Price, the author of the bill.

#### STATEMENT OF HON. ROBERT PRICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PRICE. Mr. Chairman, I am going to ask that Senator Fong have his remarks submitted for the record. Without objection, I would like to have them submitted if it is satisfactory.

The CHAIRMAN. And I understand that the Farm Bureau wants to submit a statement for the record.

Any objection?

(No response.)

The CHAIRMAN. Hearing none, it will be included in the record after Mr. Price's statement along with any other statements or letters submitted to the subcommittee.

Mr. PRICE. I would like to submit my testimony verbatim and then I will cover and discuss it as we go along.

Mr. Chairman, as the author of H.R. 11547, I commend my colleagues on the Agriculture Committee for recognizing the importance of this issue. I think we are all aware, because we have been working on the farm bill, the need for credit.

The present indebtedness limitations of \$60,000 for farm ownership loans and \$35,000 for operating loans were established in 1961 pursuant to the terms of the Farmers Home Administration Act. These limitations were then considered adequate to finance the full range of family farming operations for farmers and ranchers who could not obtain the credit they needed from private and cooperative credit sources.

My bill, H.R. 11547, proposes to increase the \$60,000 limit to \$100,000 and the \$35,000 limit to \$50,000. In my judgment these increases change the farm credit loan structure and make it correspond more closely to the economic realities of the seventies.

As we all are so well aware, one of the legacies of the soaring sixties has been soaring inflation. I use the word inflation in the broadest sense because the housewife, the shopper, and the businessman are not the only ones who are faced with greater demands, higher costs, and tighter money—the Nation's farmers and ranchers are beset with it as well.

In perspective, it is clear that the rural economy has undergone major economic changes in recent years. Since 1959, the average value per acre of land has increased 83 percent. Land values themselves have risen 70 percent.

Variable costs of farming and ranching have skyrocketed as well. During the last 7 years the investment in farm machinery required for farms and ranches has climbed 79 percent. Annual outlays for fertilizers have increased 64 percent. Feed costs have risen 33 percent, and the uses of pesticides have mounted at approximately 20 percent per year.

The total average operating capital investment plus the annual operating investments for certain types of farming and ranching operations have also increased radically since the original FHA loan limitations were established in 1961.

For example, taking 1957-59 as a base period and comparing it to 1969 reveals that: total investment requirements for northern Rocky Mountain cattle ranches rose from \$98,023 to \$114,053; requirements for hog-beef fattening farms increased from \$44,229 to \$84,298; and investment costs for grade A dairy farms in eastern Wisconsin went from \$30,107 to \$50,290.

In terms of fixed capital investment requirements, Secretary Clifford Hardin has stated that the average investment for 200 to

400 acres of land alone might run from \$40,000 to \$160,000; buildings would probably cost from \$20,000 to \$40,000; and land improvements could amount to an additional \$20,000.

These figures are based on USDA findings that the scope of farming has widened significantly in the last decade—in 1959 the average farm contained 288 acres; in 1969 it contained 398.

The Department also reports that commercial farms had an average value of \$100,000 as of March 1968.

What does all this mean? It means that the present relatively high acquisition and development costs of land coupled with increased building costs obsolete the 1961 indebtedness limitations. Add to these the greatly increased operating capital required per farm, the increased size of farming operations, and the larger operating expenses per farm, and the need for substantially increasing the indebtedness limitations becomes startlingly clear.

Mr. Chairman, my proposed increases in limitations from \$60,000 to \$100,000 for farm ownership loans and from \$35,000 to \$50,000 for farm operating loans are really quite modest when viewed in light of farm sector credit needs.

They also are quite modest when compared to the increases being granted to other areas of Federal assistance; the most notable being the welfare and food stamp programs. Expenditures in these areas run in the billions of dollars.

What's more, unlike the case in many Federal programs, increasing FHA loan limits would not constitute a tax drain. FHA loans are income producers. They also generate substantial employment. Moreover, the loans are generally repaid with interest, and uncollectibles amount to less than 1 percent of outstanding commitments.

Mr. Chairman, raising FHA farm loan limits will definitely enable the Federal Government to better meet the crying needs of the farm economy. In terms of broad categories, increases will benefit those who need adjustments or improvements in farming operations; those who need farm credit to stave off commercial disasters; and those young farmers and ranchers who are just starting out or who are expanding their base of operations.

In closing, I would like to leave the committee with this thought. For years the urban migration has been fueled by young people who have left the farms and countryside and journeyed to the city to seek their fortunes. For some the move has been an enriching one; for others, it has brought heartache and misery.

Countless individuals have seen their career plans frustrated by an unrewarding urban society; a society, which in turn, is being asphyxiated by air and water pollution, terrorized by crime and violence, and stifled by inadequate housing, transportation, and public services.

President Nixon has proposed that this Nation reverse its historic pattern of urban migration. He has called upon rural America to play a major role in facilitating this process. The ability, however, of rural America to shoulder its new tasks depends directly on the health of the farm economy, a health which is largely determined by the availability and utilization of rural credit.

The private sector is playing its proper role in providing farm credit. The Federal Government, in contrast, is presently remiss in its

responsibilities, partly because the FHA farm credit system is behind the times. This gap can be reduced by raising the loan limits for farm ownership and farm operating loans as proposed in H.R. 11547.

Only then will rural financing proceed apace with economic progress and social change. Only then will rural America be able to assume its role in shaping our national future.

The CHAIRMAN. Thank you, Mr. Price. Any questions of Mr. Price?

Mr. GOODLING. You say in your statement that annual outlays for fertilizers have increased 64 percent. At the present time, do you think the increase is that high? If I recall, fertilizer is one of the things on which the price has been rather stable.

Mr. PRICE. Its usage just exploded in all types of fertilizers in the last 10 years, and according to U.S.D.A. figures, annual outlays increased 64 percent since 1963.

Mr. GOODLING. But the price has not increased.

Mr. PRICE. Fertilizer prices have increased considerably. Recently, however, more new companies have entered the market and prices have reacted accordingly. In addition, more economical methods of producing and distributing fertilizers have been found. Hydrosonium is an example—it is being sent through pipelines in a gas derivative form in our part of the country.

The CHAIRMAN. If I understood, the point you were making was that the operations are large today, general operations are much larger, and that the land values have gone up seventy percent. Then you say the variable costs have skyrocketed during the last 7 years and farm machinery has gone up 79 percent.

I think the same thing was true as to the fertilizer. We are using a great deal more fertilizer than we were, but whether it is a matter of price of a bag of fertilizer or the number of bags it doesn't make much difference to the farmer.

If he is buying 20 bags at \$5 a bag, he's got \$100 in there, but if he is buying 100 bags at \$1 a bag, he's still got \$100 in there.

So I think you are talking about both, as I understood it.

Mr. PRICE. Yes.

I would say that 15 years ago, we didn't even need all that fertilizer. Modern farms are discovering what fertilizer will do to increase their yield; and consequently, it has created a greater demand.

Mr. Chairman, let me illustrate my rationale for the increases by example. I personally know of several cases where operators have not been able to get rural bank credit because they have suffered farm losses for a year or so due to drought or hail. Their local banks have taken a hands-off position and refused further financing. Consequently, the individuals have been forced to turn to FHA for help.

In the typical case, FHA takes the farmer's account and extends him a loan of say \$35,000. This was probably pretty substantial money at the beginning of the sixties. Today, however, as we all know well, this money is worth a darn sight less. Accordingly, with the \$35,000 limitation the farmer cannot buy as many hogs as he needs to operate at the break-even point, and he can't buy as many cattle. At \$183 per head, 100 cows will run \$18,000. The same problem exists regarding farm equipment, for example, \$35,000 just doesn't go very far when you're talking about buying a new or used baylor, combine, tractor, or

any other equipment that must be periodically replaced in farming operations. It would not be unreasonable to expect a man to pay \$12,000 for a tractor and an additional \$18,000 for a combine. That's \$30,000 for just these two items alone.

In perspective then, it is obvious that the present loan limits do not begin to adequately meet the needs of a farmer who is attempting to farm economically and maximize the returns on his land, labor, and capital. Accordingly, what I am proposing in H.R. 11547 is to put the kind of money into the FHA loan program that will make it serve its purpose better. Right now, it doesn't. Even with the increases I suggest, however, the farmers' financial problems will not be resolved. But its a heck of a sight better than what exists now.

Finally, I urge the committee to look at the problem as if a young man, say your son or mine were involved. A boy raised in a rural area may well want to go into farming. Unless he is heavily bankrolled, though, he finds he lacks a real opportunity today. For without assets, he cannot buy a piece of land. He cannot dig up \$60,000 for a 400-acre plot; neither can he scrape together the money to purchase 200 acres. But even if he were to get the land somehow, where would he get the money for the capital equipment he needs to work the land, much less the fertilizers and pesticides and all the other things that go together to make a successful farming operation?

The private financial sector has clearly demonstrated its inability to meet these needs. I believe the public sector has the responsibility now; it is truly the last hope for the farmer or rancher who needs vital credit assistance.

Mr. STUBBLEFIELD. I would like to commend Mr. Price on a fine statement. I think like he does, that upgrading rural America is a solution to a lot of our social problems now and I certainly am happy to support Mr. Price's position.

Mr. PRICE. Mr. Chairman, I would like to speak to another point if I may. I have talked to several officers in the rural banks throughout the Texas Panhandle. They all tell me the same thing; namely, that their banks lack the funds to meet their customers' needs.

It appears that many banks in rural America are losing a major source of savings. For example, if a person has \$25,000 in a rural bank, he can withdraw that money and purchase an FHA mortgage paying  $8\frac{1}{4}$  interest. As a result of this disparity in interest payments, individual savers in ever increasing numbers are shifting their funds to Government obligations. This trend, in turn, is depriving rural banks of prime sources of loan capital. In the final analysis, a vicious circle is created that works to the detriment of the banks, the farmers, and the Government.

You can't really expect individuals to put their savings in banks with the Government limiting the interest a bank can pay to  $5\frac{1}{2}$  percent on a 1-year certificate of deposit, when they can purchase 1-year FHA mortgages paying  $8\frac{1}{4}$  percent interest.

Mr. KLEPPE. Again, Mr. Chairman, we are seeing the viciousness of the inflation cycle. I think your testimony, Mr. Price, is good evidence

as to why there is a need for more funds from FHA. It seems that we are feeling the cycle of inflation more, because of the need for larger borrowings on the part of individual farmers and then we see the Bureau of the Budget making a decision, no, the Department can't approve this because of inflation on their end.

They are trying to hold their end down, but the cycle comes forward in this question, but it seems to me that the question that needs to be answered here is a pretty specific one. Do you want to loan more money to fewer farmers or less money to more farmers?

This is what it boils down to without getting a total increase.

Mr. PRICE. I think you have reached a point as to what is economic feasibility. If a man can borrow only \$35,000 and he is not operating an economically sound unit, then he is going to go down the drain anyway.

Mr. KLEPPE. Yes, and I think you have done yours reasonably well, having been down on the trip with you and having been very impressed with the size of the operation and what not and there is no doubt about the fact that your testimony and what you have said has meant. I have no fault with it for 1 minute, as far as I am concerned.

Mr. PRICE. Now, I have introduced legislation which is pending before the committee to provide Federal guarantees on farm operating loans. I think this would release substantial amounts of funds for rural banks to use in making operating loans. My bill would also reduce the need for Congress to appropriate funds for FHA to grant operating loans. I believe this would be very helpful.

Mr. KLEPPE. I understand that credit problems exist today in rural America. They are serious, and what you talked about is a very true thing.

When you talk insofar as an economic unit—I have no question or quarrel about this at all. I think it is an important matter of fact that we should understand what the question is behind this request. I think this is pretty specific and I think you have understood this thing very, very well and you have made an excellent statement.

The CHAIRMAN. Thank you, Mr. Price.

Any other questions?

(No response.)

The CHAIRMAN. If not, thank you very much for coming.

Mr. PRICE. Thank you.

(The following statements and letters were also submitted:)

STATEMENT OF HON. HIRAM L. FONG, A UNITED STATES SENATOR FROM THE STATE OF HAWAII

Mr. Chairman and Members of the Subcommittee: I appreciate this opportunity to submit a statement in favor of H.R. 11547, to amend the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1925), designed to increase the loan limitation of the farm ownership program from the present \$60,000 to \$100,000.

I wholeheartedly support this amendment. For the record, I would like to state the reasons for my support.

The limitation was established in 1961, and at that time it was considered adequate to finance the purchase of farm lands for individual family farmers who could not obtain credit from private sources. A higher loan limitation than the present ceiling is now needed to meet adequate credit requirements of eligible farmers who desire to buy new farm lands or to take over established farms but who do not have the cash, equity, or other financial resources.

The reasons are: First, the high cost of acquisition and development of land and increased building costs, as compared to the 1961 period, together result in an urgent need for a substantial increase in the farm ownership loan limitation. Since 1961 changing economic conditions have increased land values and capital investments. According to studies of the USDA Economic Research Service, the national index of average value per acre was 176 on November 1, 1968, based on the 1957-1969 index of 100 percent. Land values increased by 70 percent in the decade ending March 1, 1968, and increased 37 per cent nationwide from November 1, 1962 to November 1, 1967. These studies show that commercial farms had an average value of \$100,000 (estimated on a 300-acre average size farm). Under Secretary of Agriculture J. Phil Campbell, in an address on May 2, 1969, in Swainsboro, Georgia, stated that the average investment on 200 to 400 acres of land alone might run from \$40,000 to \$160,000. Buildings would cost from \$20,000 to \$40,000, and land improvement could cost an additional \$20,000.

Second, because of varied investment costs and value of land for different farming enterprises in different sections of the nation, the present loan limitation restricts the lending program more in some geographical areas than in others. For example, Hawaii farm land cost is one of the highest in the country, ranging from \$2,500 to \$12,000 per acre, whereas in continental areas the land cost per acre ranges from \$25.00 to \$2,000. In some sections of Hawaii, the purchase of even a leasehold interest in land costs as much as \$5,000 to \$6,000 per acre. Accordingly, Hawaii farmers' credit needs are greater than the needs of other area farmers. Because of the present \$60,000 limitation, however, interested Hawaii farmers cannot obtain adequate loans for the purchase of farm land.

Third, throughout the country an increasing number of young farmers are migrating to the cities because of difficulty of owning a farm. We must stop this trend for a better rural America. Unless the farm ownership loan limitation is increased substantially, to give opportunity to these men to become farm owners, more of our young people will migrate to urban areas.

Fourth, the Department of Agriculture recognizes the great demand for ownership loans during the past several years. We should meet this demand. A ceiling higher than the present one would mean greater participation by our farmers.

For these reasons, I favor H.R. 11547, which proposes to increase the loan limitation from \$60,000 to \$100,000 for farm ownership under the Farmers Home Administration real estate program.

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., June 11, 1970.

Hon. W. R. POAGE,  
*Chairman, Conservation and Credit Subcommittee,  
House Agriculture Committee.*

DEAR MR. CHAIRMAN: I would like to add my strong indorsement to H.R. 11547, to increase the loan limitations on Farmers Home Administration.

The present limitations of \$60,000 on farm ownership loans and \$35,000 on operating loans are wholly unrealistic in my State of Montana. These sums will not finance an operation sufficient to provide an adequate family living. The proposed limitations, \$100,000 and \$50,000 are more in line with reality, but I would support going even higher.

The administrators of the Farmers Home Administration program, who are almost always in touch with local bankers and advisory committees, are the best judges of the soundness and adequacy of the farming operations on which loans are requested. While I think we should put some limitation on the size of operations to be financed, it seems to me they should be expressed in terms of a family farm goal, rather than arbitrary dollar figures so the county supervisor can even go a little over the \$150,000 total if it is advisable. However, I recognize this would be a difficult step, and consequently urge your committee to at least approve the increase proposed in H.R. 11547.

Sincerely,

JOHN MELCHER, M.C.

STATEMENT OF HON. PATSY T. MINK, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF HAWAII

Chairman Poage and other distinguished members of the subcommittee, I welcome this opportunity to testify on behalf of legislation to increase the limitation on indebtedness for farm ownership and operating loans under the Farmers Home Administration.

I support H.R. 11547, legislation which would amend the Consolidated Farmers Home Administration Act of 1961, as amended, to increase the principal indebtedness limitation for farm ownership loans to \$100,000 from its present level of \$60,000, and to increase the principal indebtedness limitation for operating loans to \$50,000 from its present level of \$35,000.

These increases are essential for the farmers of Hawaii, who have been having great difficulty during the present tight money period. Because of recent inflation, the existing limits are no longer adequate to provide for an expanding and growing agricultural economy.

Certainly, this legislation is justified on a national basis, but it is exceptionally important in Hawaii where the scarcity of land and high costs of producing combine to make agriculture an expensive operation. Our agricultural employees are well paid, and our farms are modern and well mechanized.

The existing limit of \$60,000 is clearly inadequate to provide the capital needed for a competitive farm. Similarly, with housing costs such that \$35,000 will purchase only a relatively modest dwelling, this limitation needs to be increased.

Adequate housing in Hawaii now runs in the \$40,000-\$50,000 range, and farmers purchasing residences may be unable to secure mortgages of this size from other sources.

Our farmers more than other segments of our economy need your subcommittee's help in maintaining a sound agriculture economy. Adoption of H.R. 11547 or other legislation to increase the credit basis is a step in the right direction.

I urge adoption of this bill for our farmers—the ones who need it most.

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AMERICAN FARM BUREAU FEDERATION,  
*Washington D.C., June 5, 1970.*

HON. W. R. POAGE,  
*Chairman, Subcommittee on Conservation and Credit,  
House of Representatives, Washington, D.C.*

DEAR MR. POAGE: We are taking this means of expressing views of the American Farm Bureau Federation on a bill (H.R. 11547), now before the subcommittee, which would increase the present limitation on certain loans made by the Farmers Home Administration.

Farm Bureau is the nation's largest general farm organization, and our members are well aware of the need for sound sources of agricultural credit. With the steady advances of technology in agriculture, which have contributed so materially to the abundant production of America's farms and ranches, has come ever-expanding requirements for capital resources.

In recognition of this, voting delegates to our most recent annual meeting unanimously adopted a statement of policy which declares, in part:

"Agricultural credit needs are changing and growing. Suppliers of credit to farmers and ranchers should provide credit services to meet these needs.

"The increasingly heavy investment by farmers and ranchers requires a broad base of finance for the purchase of farm equipment, motor vehicles, and facilities—including the financial services of commercial banks, suppliers of this equipment, cooperative Farm Credit, and Farmers Home Administration."

The policy statement further declares that "we will support reasonable increases on statutory loan limits to equate lending authority to the changing needs."

Figures released by the Economic Research Service of the Department of Agriculture show total farm debt at the beginning of this year as \$58 billion, an increase of six percent over January 1, 1969. Farm debt has been increasing at an average of 9.7 percent per year since 1960.

It has been estimated that by 1980 total credit needs of agriculture will be in the range of \$120 billion to \$140 billion, with an effective family farming unit requiring from \$250,000 to \$500,000 of capital, depending upon the type of farm.

In view of the expanding capital requirements in agriculture—and such requirements are reflected in credit needs—it is unrealistic to maintain statutory limits on FHA farm ownership loans at \$60,000 and operating loans at \$35,000. The limits of \$100,000 for ownership loans and \$50,000 for operating loans, as proposed in H.R. 11547, are more appropriate.

Farm Bureau supports H.R. 11547, and we recommend that it be favorably reported by the Conservation and Credit Subcommittee.

Will you please make this letter a part of the hearing record on this bill.

Sincerely,

MARVIN L. McLAIN,  
*Legislative Director.*

NATIONAL GRANGE,  
*Washington, D.C., June 11, 1970.*

Hon. W. R. POAGE,  
*Chairman, Subcommittee on Conservation and Credit, House Committee on Agriculture, U.S. House of Representatives, Washington, D.C.*

DEAR MR. POAGE: The National Grange has a long history of support for the expansion of credit to American Agriculture. In acknowledgment of that fact at our 94th Annual Session, the following resolution was passed by the Delegate body:

#### FARM CREDIT

"The Grange is widely recognized as the "father" of the Farm Credit System, and as a principal supporter of legislation to broaden and strengthen our program of farmer-owned and farmer-managed agricultural credit system that includes the Federal Land Banks, the Intermediate Credit Banks, the Bank for Cooperatives and the Farmers Home Administration.

"This system over more than 40 years of alternate depressions and inflation has been a major factor in providing farmers with credit facilities at reasonable costs and on favorable terms.

"The need for both short and long-term credit in improving farm production and marketing, as well as in financing capital expansion and improvement, is increasing rapidly and very probably will continue substantial increases in the future.

"The need for sizeable capital, particularly by young farm operators, is an important factor in maintaining a strong and efficient agriculture. No other industry in America requires so large a capital investment per worker as agriculture.

"The Grange will continue, as in the past, to work closely with Congress and the Farm Credit Administration to provide farmers with needed credit facilities administered by agencies responsive and sympathetic to farmers' needs."

This resolution was preceded by similar policy statements in 1954 and 1959, each calling on the National Grange to:

"Resolved, that the National Grange urge Congress to increase appropriations to the Farmers Home Administration, and especially urge appropriations for a Farm Tenant Purchasing Program."

It is because of our long history of interest in family agriculture and the preparation of this type of agriculture that we are in strong support of H.R. 11547, to amend the Consolidated Farmers Home Administration Act of 1961, as amended, to increase the loan limitation on certain loans, specifically ownership and operating loans. Without increasing the limitation on such loans the family farm, the most efficient producer of food and fiber, will be placed in serious financial jeopardy. The family farm can compete in every way except, and we repeat for emphasis—except for the capital requirements needed for expansion of their enterprise and for operating credit to finance that enterprise.

Harold A. Miles, former Assistant to the Governor, Farm Credit Administration spelled out the increased need in this way:

"Because of the increasing economies of scale in farming, loan size will continue to increase. For this reason no size limitation should be imposed either by law or regulation except as it relates, for sound credit reasons, to the resources of the association(s) or bank(s) as at present.

"As farm size and the capital requirements of agriculture increase, farmers are confronted with increasingly complex problems of financial management. It is a

legitimate function of the Farm Credit banks and associations to provide their borrowers services which will aid them in coping with these problems. Such services should be limited to those directly related to the extension of credit or the financial management of the farm business."

We would like to point out, as I am sure this Committee already knows, that the Farm Credit System Mr. Miles is referring to assist farmers in a higher economic solution than does the Farmers Home Administration. It's after the Farm Credit System is unable to assist farm operators that they turn to the F.H.A. for financial assistance, but we believe the criteria for increased loan assistance is the same.

As further evidence of the increased need for higher loan limits to finance today's Agriculture, please permit me to call to your attention the following from "Financing Modern Agriculture—Banking's Problems and Challenges" prepared by the Federal Reserve Bank of Kansas City.

"The average size of farm borrowings has grown at a faster rate than have either the deposit or capital and surplus accounts of many country banks. With farm loan demands increasing faster than country bank deposits, many banks have experienced an eroding liquidity position. Loan-deposit ratios at these banks have risen to historically high levels. Many of these banks have seen the credit demands of their communities and their best farm customers grow beyond their direct lending capability. With increasing frequency, aggregate farm loan requests are exceeding the limits at which banks can make loans to individuals.

"In addition to the liquidity problem, many banks receive farm loan requests that exceed the amount that they can legally lend to one individual. Since the amount a bank may lend to a borrower usually is restricted to a given proportion of the lending bank's capital and surplus, capital and surplus accounts must increase before larger loan requests can be serviced. With the continuing rapid growth of farm size and credit requirements, legal loan limits frequently are a serious problem for commercial banks. As long as the growth in individual farm credit needs continues to outpace the growth in country bank deposit and capital accounts, many farm loan requests will exceed the amount that these banks can grant from their own resources."

In our judgment the loan limit increases as set forth in H.R. 11547, are but a small part of the total problem of financing the commercial family farm. The increases from \$60,000 to \$100,000 for ownership loans and from \$35,000 to \$50,000 for operating loans are a real need of today's agriculture. But what real benefit will loan limit increases do if the total amount of money available to F.H.A. to loan is not increased correspondingly? The net result will be, fewer family farmers being approved for loans, due to the higher limit being applied against the same dollar volume budget to these loan agencies of F.H.A.

In view of this we would urgently request that this Subcommittee and the House Agricultural Committee, use its influence and leadership to bring about an increase in the appropriation for ownership and operating loan funds of the Farmers Home Administration.

There seems to be little difficulty in getting increases in the budget for F.H.A. for water and sewer loans, or loans for rural housing. However, at the same time authorization for increases in ownership and operating loans to farm operator, to assist them in being an economic asset to a rural community, are impossible to obtain. In fact, each year such loan funds have been decreased. It makes little sense to us to allow a farm operator to reach such an economic low, that he and his community require federal funds for water and sewer development and for rural housing. When, if the same amount of dollars had been made available to farm operators in the rural area, a few years earlier would have enabled them to remain a viable economic unit, quite capable of paying taxes to develop their own water and sewer systems and build their own homes as well as homes of their employees. At times it seems we, in an effort to do good, stumble over but do not see the real solution to our problems, increased financial assistance to family farms to keep them a viable part of rural communities.

The National Grange supports H.R. 11547, but prays that in the near future, people will become equally as important as economics, and that we will have the foresight to finance agriculture properly so it will be unnecessary to finance programs to care for farmers forced from the farm by unobtainable capital requirements.

We would appreciate this letter being made a part of the hearing record on H.R. 11547. Thank you.

Fraternally,

JOHN W. SCOTT, *Master*.

The CHAIRMAN. Is there anyone else who wants to be heard, either for or against this bill, or who wants to file a statement?

(No response.)

The CHAIRMAN. If not, we can close the hearing, and the committee will go into executive session.

(Whereupon, the hearing in the above-entitled matter was adjourned at 11:10 a.m.)





