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AMEND CREDIT PROVISIONS FOR FARM AND RURAL DEVELOPMENT PROGRAMS

GOVERNMENT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON
CONSERVATION AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 6407 and H.R. 8315

OCTOBER 26 AND 27, 1977

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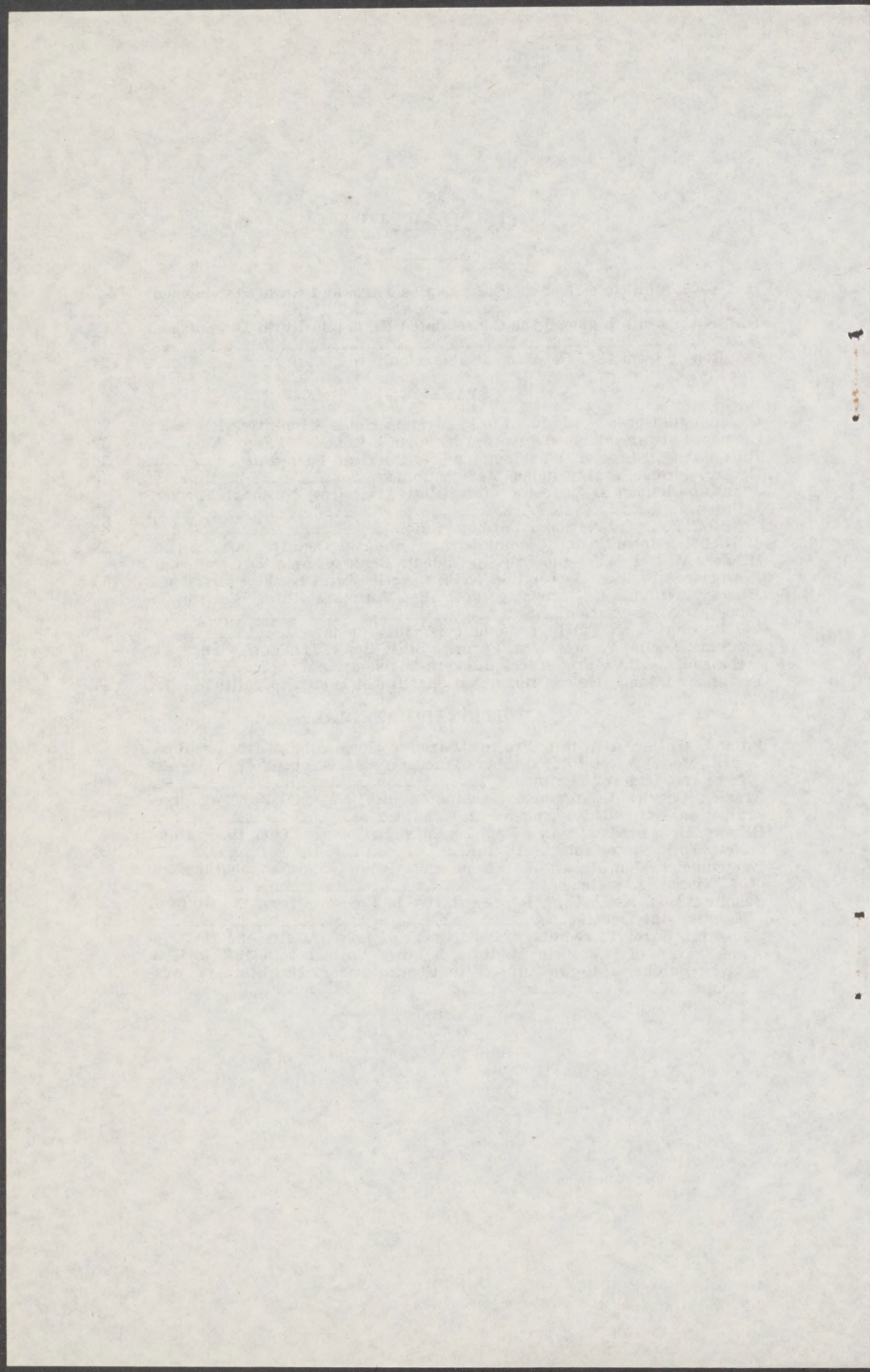
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AMEND CREDIT PROVISIONS FOR FARM AND RURAL DEVELOPMENT PROGRAMS

WEDNESDAY, OCTOBER 26, 1977

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. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representatives Poage, Baldus, Panetta, Harkin, Glickman, Madigan, Jeffords, and Coleman.

Staff present: Anita R. Brown, clerk; James A. Culver and Robert A. Cashdollar.

Mr. JONES of Tennessee. The Subcommittee on Conservation and Credit will come to order.

We are here this morning for the purpose of a public hearing on bills H.R. 8315, by the chairman of this subcommittee, and H.R. 6407, by Mr. Madigan, the ranking minority member of the subcommittee, and related bills.

The purpose is to amend the Consolidated Farm and Rural Development Act of the Farmers Home Administration.

[The bills H.R. 6407 and H.R. 8315 and the report from the U.S. Department of Agriculture follow:]

95TH CONGRESS
1ST SESSION

H. R. 6407

IN THE HOUSE OF REPRESENTATIVES

APRIL 20, 1977

Mr. MADIGAN introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To amend the Consolidated Farm and Rural Development Act.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 302 of the Consolidated Farm and Rural
4 Development Act is amended by—
5 (a) deleting the language through the first comma
6 and inserting the following: "The Secretary is authorized
7 to make and insure loans under this subtitle to farmers
8 and ranchers, and to private domestic corporations and
9 partnerships controlled by farmers and ranchers and
10 engaged primarily and directly in farming or ranching,
11 in the United States who, individually or, in the case of

1 corporations and partnerships, as to their principal stock-
2 holders and partners, (1) are citizens of the United
3 States,"; and

4 (b) adding after the number "(4)" the following:
5 "except for guaranteed loans,"; and

6 (c) inserting at the end thereof the following: "In
7 the case of corporations and partnerships the family farm
8 requirement of item (3) shall apply to the farm or farms
9 in which the entity and its principal stockholders or
10 partners, as applicable, have an ownership and operator
11 interest and the requirement of item (4) shall apply
12 both to the entity and the principal stockholders or
13 partners."

14 SEC. 2. Section 305 is amended by deleting the first
15 sentence and inserting in lieu thereof the following: "The
16 Secretary shall make or insure no loan under sections 302,
17 303, and 304 of this title which would cause the unpaid
18 indebtedness under these sections to any one borrower to
19 exceed the lesser of (a) the value of the farm or other secu-
20 rity, or (b) \$200,000, or in the case of a guaranteed loan
21 to exceed \$300,000."

22 SEC. 3. Section 306(a) (7) is amended to read as
23 follows:

24 "(7) Except as otherwise provided in this subsection,
25 as used in this title, the terms 'rural' and 'rural area' shall

1 not include any city, town, or village which has a population
2 in excess of ten thousand inhabitants: *Provided*, That special
3 consideration for loans and grants may be given to areas
4 other than cities, towns, or villages having a population of
5 more than five thousand five hundred. For the purposes of
6 loans and grants under sections 304(b), 310B, and
7 312 (b), (c), and (d) 'rural' and 'rural area' shall not
8 include any city, town, or village which has a population
9 in excess of fifty thousand: *Provided*, That special considera-
10 tion for loans and grants may be given to areas other than
11 cities, towns, or villages having a population of more than
12 twenty-five thousand. To the extent not excluded above the
13 terms 'rural' and 'rural area' may include all or a portion
14 of the territory of a State. Where necessary from time to
15 time, the Secretary will determine the population figure for
16 a city, town, or village after considering the latest reliable
17 statistical and census data."

18 SEC. 4. Section 307 is amended by—

19 (a) revising subsection (a) to read:

20 "(a) The period for repayment of loans under this sub-
21 title shall not exceed forty years. Any loan made under this
22 subtitle as a guaranteed loan shall bear interest at such rate as
23 may be agreed upon by the borrower and the lender. Loans,
24 other than guaranteed loans, made or insured under this
25 subtitle shall bear interest at rates determined by the Secre-

1 tary not to exceed the current average market yield on out-
2 standing marketable obligations of the United States with
3 remaining periods to maturity comparable to the average ma-
4 turities of such loans, adjusted to the nearest one-eighth of
5 1 per centum, plus not to exceed 1 per centum per annum;
6 except that loans for water and waste disposal systems and
7 essential community facilities shall be made at a rate not
8 to exceed $5\frac{1}{2}$ per centum per annum; and except that loans
9 made or insured under section 304 (b) or 310B shall, when
10 made other than as guaranteed loans, bear interest at a
11 rate determined by the Secretary not to exceed the current
12 average market yield on outstanding marketable obligations
13 of the United States comparable to the average maturities
14 of such loans, adjusted in the judgment of the Secretary
15 to provide for a rate comparable to the rates prevailing in
16 the private market for similar loans and considering the
17 Secretary's insurance of the loans, plus such additional charge
18 as the Secretary may prescribe to cover the Secretary's
19 losses and cost of administration, which charge shall be de-
20 posited in the Rural Development Insurance fund: *Provided,*
21 That the rate so prescribed shall be adjusted to the nearest
22 one-eighth of 1 per centum.";

23 (b) inserting subsection (b) to read:

24 "(b) The borrower shall pay such fees and other charges
25 as the Secretary may require, and borrowers under this title

1 shall prepay to the Secretary such taxes and insurance as the
2 Secretary may require, on such terms and conditions as the
3 Secretary may prescribe.”; and

4 (c) relettering the present subsection (b) to sub-
5 section (c).

6 SEC. 5. Sections 309 and 309A are amended by—

7 (a) changing the period at the end of the first
8 sentence in section 309 (f) (1) to a semicolon and by
9 deleting the second sentence which reads: “The aggre-
10 gate of the principal of such loans made and not dis-
11 posed of shall not exceed \$500,000,000 at any one
12 time.”;

13 (b) adding in sections 309 (f) (3) and 309A (g)
14 (3) between the words “any” and “defaulted” the
15 words “deferred or”.

16 SEC. 6. After section 309A add a new section 309B
17 to read as follows:

18 “SEC. 309B. The Secretary in his discretion is authorized
19 to purchase, on such terms and conditions as he may deem
20 appropriate, the guaranteed portion of any loan guaranteed
21 pursuant to this title and may use for such purchases funds
22 from the Rural Development Insurance Fund in respect of
23 rural development loans as defined in section 309A (a) and
24 funds from the Agricultural Credit Insurance Fund in re-
25 spect of all other loans under this title.”.

1 SEC. 7. The language of restrictions appearing in section
2 310B is amended by—

3 (a) adding in each of subsections (1), (2), and
4 (3) after “312 (b)” the following: “, except for cases
5 where such assistance does not exceed \$500,000 or for
6 cases where direct employment will be increased by not
7 more than twenty employees,”; and

8 (b) in subsection (3) deleting the number “60”
9 and inserting the number “30”.

10 SEC. 8. Section 311 (a) is amended by—

11 (a) deleting the language through the first comma
12 and inserting the following: “The Secretary is author-
13 ized to make and insure loans under this subtitle to
14 farmers and ranchers, and to private domestic corpora-
15 tions and partnerships controlled by farmers and ranch-
16 ers and engaged primarily and directly in farming or
17 ranching, in the United States who, individually or, in
18 the case of corporations or partnerships, as to their prin-
19 cipal stockholders and partners, (1) are citizens of the
20 United States,”;

21 (b) adding after the number “(4)” the following:
22 “except for guaranteed loans,”; and

23 (c) inserting at the end thereof the following: “In
24 the case of corporations and partnerships the family farm
25 requirement of item (3) shall apply to the farm or farms

1 in which the entity and its principal stockholders or
2 partners, as applicable, have an operator interest and the
3 requirement of item (4) shall apply both to the entity
4 and the principal stockholders or partners.”.

5 SEC. 9. Section 313 of said Act is amended by deleting
6 at the end of clause (1) “\$50,000,” and inserting in lieu
7 thereof “\$100,000 or, in the case of a guaranteed loan, to
8 exceed \$200,000, or”, by changing the comma following
9 the word “program” to a period, and by deleting the balance
10 of the sentence.

11 SEC. 10. Section 316 is amended by—

12 (a) inserting in the third sentence after the word
13 “Loans” the phrase “, other than guaranteed loans,”
14 and striking the words “of the Treasury”; and

15 (b) adding a new sentence at the end of such sec-
16 tion as follows: “Guaranteed loans made under this sub-
17 title shall bear interest at such rate as may be agreed
18 upon by the borrower and the lender.”.

19 SEC. 11. Section 321 is amended by—

20 (a) deleting in section 321 (a) the language
21 “, Puerto Rico, and the Virgin Islands”; and

22 (b) adding to section 321 (b) (2) after “partner-
23 ship” the words “of the United States”.

24 SEC. 12. Section 331 is amended by—

1 (a) deleting in subsection (a) the words "and in
2 Puerto Rico and the Virgin Islands"; and

3 (b) adding a new subsection (j) to read as follows:

4 " (j) notwithstanding that an area ceases, or has
5 ceased, to be 'rural', in a 'rural area', or an eligible area,
6 make loans and grants, and approve transfers and as-
7 sumptions, under this Act in connection with property
8 securing any loan made, insured, or held by the Secre-
9 tary under this Act or in connection with any property
10 held by the Secretary under this Act."

11 SEC. 13. Section 333 (b) is amended by deleting the
12 semicolon at the end thereof and inserting the following:
13 " : *Provided, however,* That the Secretary may provide a
14 procedure for appeal and review of any determination relat-
15 ing to a certification or recommendation required to be made
16 by the county committee under this title, and for reversal
17 or modification thereof should the facts warrant such
18 action."

19 SEC. 14. Sections 333 (a) and (c), respectively, are
20 amended by inserting at the beginning thereof the following:
21 "except for guaranteed loans,".

22 SEC. 15. Section 343 is amended by deleting "and"
23 immediately before "(5)" and inserting the following before
24 the period at the end of the section: ", and (6) the term
25 'United States' shall include the States, the Commonwealth

1 of Puerto Rico, the Virgin Islands, the commonwealths, terri-
2 tories, and possessions of the United States, and the Trust
3 Territory of the Pacific Islands, and the term 'State' shall
4 include the Commonwealth of Puerto Rico, the Virgin Is-
5 lands, the commonwealths, territories, and possessions of
6 the United States, and the Trust Territory of the Pacific
7 Islands".

8 SEC. 16. At the end of the Consolidated Farm and Rural
9 Development Act add a new section 346 to read as follows:

10 "SEC. 346. Congress may from time to time in appro-
11 priation Acts establish levels for any of the programs au-
12 thorized in this title. Such a level for a given program shall
13 contain two amounts, one against which insured loans shall
14 be charged and the other against which guaranteed loans
15 shall be charged, with or without authority for the Secretary
16 to transfer amounts between such categories within a given
17 program for more effective program administration
18 purposes."

19 SEC. 17. At the end of said Act, after section 346 as
20 added by this Act, add a new section 347 to read as follows:

21 "SEC. 347. Notwithstanding any other provision of law,
22 departments, agencies, and executive establishments of the
23 Federal Government may participate and provide financial
24 assistance jointly with the Secretary to any applicant to
25 whom assistance is being provided under any program

1 administered by the Farmers Home Administration. Partici-
2 pation with the Secretary by any other department, agency,
3 or executive establishment shall be only to the extent au-
4 thorized for, and subject to the authorities of, such other
5 limitation on joint participation is superseded by this Act.”.

95TH CONGRESS
1ST SESSION

H. R. 8315

IN THE HOUSE OF REPRESENTATIVES

JULY 14, 1977

Mr. JONES of Tennessee (by request) introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To amend the Consolidated Farm and Rural Development Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 302 of the Consolidated Farm and Rural De-
4 velopment Act is amended by—

5 (a) deleting the language through the first comma
6 and inserting the following: "The Secretary is author-
7 ized to make and insure loans under this subtitle to
8 farmers and ranchers, and to private domestic corpora-
9 tions and partnerships controlled by farmers and ranch-
10 ers and engaged primarily and directly in farming or
11 ranching, in the United States and in Puerto Rico and
12 the Virgin Islands who, individually, or, in the case of

1 corporations and partnerships, as to their principal
2 stockholders and partners, (1) are citizens of the United
3 States.”;

4 (b) inserting at the end thereof the following: “In
5 the case of corporations and partnerships the family farm
6 requirement of item (3) shall apply to the farm or farms
7 in which the entity and its principal stockholders or
8 partners, as applicable, have an ownership and oper-
9 ator interest and the requirement of item (4) shall apply
10 both to the entity and the principal stockholders or
11 partners.”.

12 SEC. 2. Section 304 (a) is amended by deleting the word
13 “individual”.

14 SEC. 3. Section 305 is amended by deleting the first
15 sentence and inserting in lieu thereof the following: “The
16 Secretary shall make or insure or guarantee no loan under
17 sections 302, 303, and 304 of this title which would cause
18 the unpaid indebtedness under these sections to any one
19 borrower to exceed the lesser of (a) the value of the farm
20 or other security, or (b) \$200,000.”.

21 SEC. 4. Section 307 is amended by—

22 (a) revising subsection (a) to read:

23 “(a) The period for repayment of loans under this sub-
24 title shall not exceed forty years. Any loan made under this
25 subtitle as a guaranteed loan shall bear interest at such rates

1 as may be agreed upon by the borrower and the lender.
2 Loans, other than guaranteed loans, made or insured under
3 this subtitle shall bear interest at rates determined by the
4 Secretary, not less than a rate determined by the Secretary
5 of the Treasury taking into consideration the current average
6 market yield on outstanding marketable obligations of the
7 United States comparable to the average maturities of such
8 loans, adjusted in the judgment of the Secretary of the
9 Treasury to provide for a rate comparable to the rates pre-
10 vailing in the private market for similar loans and consider-
11 ing the Secretary's insurance of the loans, plus an additional
12 charge, as may be prescribed by the Secretary, to cover
13 the Secretary's losses and cost of administration, which
14 charge shall be deposited in the Rural Development Insur-
15 ance Fund or the Agricultural Credit Insurance Fund as
16 appropriate; except that loans to borrowers under section
17 303 who in the judgment of the Secretary cannot reasonably
18 be expected to make full payments based on the above deter-
19 mined interest rate may be made or insured at a lesser
20 interest rate; and except that loans for water and waste
21 disposal systems and essential community facilities shall be
22 made at an interest rate as determined by the Secretary
23 comparable to that prevailing in the private market for
24 similar loans. Any rate determined by the Secretary under

1 this subsection shall be adjusted to the nearest one-eighth
2 of 1 per centum.”

3 (b) inserting subsection (b) to read:

4 “(b) The borrower shall pay such fees and other
5 charges as the Secretary may require, and borrowers under
6 this title shall prepay to the Secretary such taxes and insur-
7 ance as the Secretary may require, on such terms and con-
8 ditions as the Secretary may prescribe.”; and

9 (c) relettering the present subsection (b) as sub-
10 section (c).

11 SEC. 5. Section 309 is amended by—

12 (a) changing the period at the end of the first
13 sentence in subsection (f) (1) to a semicolon and by
14 deleting the second sentence which reads: “The aggre-
15 gate of the principal of such loans made and not dis-
16 posed of shall not exceed \$500,000,000 at any one
17 time;”; and

18 (b) adding in subsection (f) (3) between the words
19 “any” and “defaulted” the words “deferred or”.

20 SEC. 6. Section 309A is amended by—

21 (a) adding in subsection (g) (3) between the
22 words “any” and “defaulted” the words “deferred or”;
23 and

24 (b) striking the period at the end of subsection
25 (g) (8) and adding: “, either directly from the Insur-

1 ance Fund or by transfers from the Fund to, and merger
2 with, any appropriations for administrative expenses.”.

3 SEC. 7. After section 309A, add a new section 309B to
4 read as follows:

5 “SEC. 309B. The Secretary in his discretion is author-
6 ized to purchase, on such terms and conditions as he may
7 deem appropriate, the guaranteed portion of any loan guar-
8 anteed pursuant to this title and may use for such purchases
9 funds from the Rural Development Insurance Fund in
10 respect of rural development loans as defined in section
11 309A (a) and funds from the Agricultural Credit Insurance
12 Fund in respect of all other loans under this title. This author-
13 ity may be exercised only after the Secretary determines that
14 an adequate secondary market is not available in the private
15 sector.”

16 SEC. 8. The language of restrictions appearing in section
17 310B is amended by adding in each of subsections (1), (2),
18 and (3) after “312 (b)” the following “, except for cases
19 where such assistance does not exceed \$500,000 or for cases
20 where direct employment will be increased by not more than
21 twenty employees,”.

22 SEC. 9. Section 311 (a) is amended by—

23 (a) deleting the language through the first comma
24 and inserting the following: “The Secretary is author-
25 ized to make and insure loans under this subtitle to

1 farmers and ranchers, and to private domestic corpora-
2 tions and partnerships controlled by farmers and ranch-
3 ers and engaged primarily and directly in farming or
4 ranching, in the United States and in Puerto Rico and
5 the Virgin Islands who, individually or, in the case of
6 corporations or partnerships, as to their principal stock-
7 holders and partners, (1) are citizens of the United
8 States,"; and

9 (b) inserting at the end thereof the following: "In
10 the case of corporations and partnerships the family
11 farm requirement of item (3) shall apply to the farm
12 or farms in which the entity and its principal stockhold-
13 ers or partners, as applicable, have an operator interest
14 and the requirement of item (4) shall apply both to
15 the entity and the principal stockholders or partners.".

16 SEC. 10. Section 313 of said Act is amended by delet-
17 ing at the end of clause (1) "\$50,000," and inserting in
18 lieu thereof "\$100,000", by changing the comma following
19 the word "program" to a period, and by deleting the bal-
20 ance of the sentence.

21 SEC. 11. Section 316 is amended by deleting all of the
22 existing language and inserting in lieu thereof the following:

23 "(a) The Secretary shall make all loans under this
24 subtitle upon the full personal liability of the borrower and
25 upon such security as the Secretary may prescribe. Such

1 loans shall bear interest at a rate not less than that deter-
2 mined by the Secretary of the Treasury taking into con-
3 sideration the current average market yield on outstanding
4 marketable obligations of the United States comparable to
5 the average maturities of such loans, adjusted in the judg-
6 ment of the Secretary of the Treasury to provide for a rate
7 comparable to the rates prevailing in the private market
8 for similar loans and considering the Secretary's insurance of
9 the loans, plus an additional charge, as may be prescribed by
10 the Secretary, to cover the Secretary's losses and cost of ad-
11 ministration, which charge shall be deposited in the Rural
12 Development Insurance Fund of the Agricultural Credit
13 Insurance Fund as appropriate: *Provided*, That the rate so
14 prescribed shall be adjusted to the nearest one-eighth of 1 per
15 centum. Guaranteed loans made under this subtitle shall bear
16 interest at such rate as may be agreed upon by the borrower
17 and the lender.

18 “(b) Loans made under this subtitle shall be payable
19 in not to exceed seven years. The Secretary may consolidate
20 or reschedule outstanding loans for payment over a period
21 not to exceed seven years from the date of such consolida-
22 tion or rescheduling, and the amount of unpaid principal
23 and interest of the prior loans so consolidated or rescheduled
24 shall not create a new charge against any loan levels author-
25 ized by Congress. A new loan may be included in a con-

1 solidation. Such new loan shall be charged against any loan
2 authorized by the Congress. The interest rate on such con-
3 solidated or rescheduled loans, other than guaranteed loans,
4 may be changed by the Secretary to a rate not to exceed
5 the rate then being charged for loans being made under
6 this subtitle. Guaranteed loans under this subtitle that
7 may be consolidated or rescheduled for payment shall bear
8 interest at such rate as may be agreed upon by the borrower
9 and the lender."

10 SEC. 12. Section 321 is amended by adding to section
11 321 (b) (2) after "partnership" the words, "of the United
12 States".

13 SEC. 13. Section 331 is amended by adding a new sub-
14 section (j) to read as follows:

15 "(j) notwithstanding that an area ceases, or has ceased,
16 to be 'rural', in a 'rural area', or an eligible area, make loans
17 and grants, and approve transfers and assumptions, under
18 this Act on the same basis as though the area still was rural
19 in connection with property securing any loan made, in-
20 sured, or held by the Secretary under this Act or in con-
21 nection with any property held by the Secretary under this
22 Act".

23 SEC. 14. Section 333 is amended by—

24 (a) deleting the semicolon at the end of the subsec-
25 tion (b) and inserting the following: "*Provided, how-*

1 *ever*, That the Secretary may provide a procedure for
2 appeal and review of any determination relating to a
3 certification or recommendation required to be made by
4 the county committee under this title, and for reversal
5 or modification thereof should the facts warrant such
6 action;"; and

7 (b) inserting at the beginning of subsection (c)
8 the following: "except for guaranteed loans,".

9 SEC. 15. At the end of the Consolidated Farm and
10 Rural Development Act, add a new section 346 to read as
11 follows:

12 "SEC. 346. Notwithstanding any other provision of the
13 law, departments, agencies, and executive establishments of
14 the Federal Government may participate and provide finan-
15 cial assistance jointly with the Secretary to any applicant
16 to whom assistance is being provided under any program
17 administered by the Farmers Home Administration. Par-
18 ticipation with the Secretary by any other department,
19 agency, or executive establishment shall be only to the ex-
20 tent authorized for, and subject to the authorities of, such
21 other department, agency, or establishment, except that any
22 limitation on joint participation is superseded by this Act."



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

October 5 1977

Honorable Thomas S. Foley
Chairman
Committee on Agriculture
House of Representatives
Washington, D. C.

Dear Mr. Chairman:

Enclosed for the consideration of your Committee is an amendment to H.R. 8315, a bill "To amend the Consolidated Farm and Rural Development Act" which was submitted by the Department to the Speaker of the House of Representatives by letter of June 20, 1977. The amendment would change the name of the Farmers Home Administration of the Department to the Farm and Rural Development Administration.

The Farmers Home Administration, as an agency of this Department, provides credit for various farm and rural development purposes. Operating principally under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) and title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.), the agency provides financial and management assistance to farmers and ranchers through insurance or guarantee of loans for farm operating, farm ownership, emergency, individual soil and water conservation, and recreation purposes. Financial assistance for many non-farm, rural development purposes is provided through insurance or guarantee of loans for rural community water and waste disposal systems, essential community facilities, rural industrialization, watershed protection and flood prevention, and resource conservation and development. Rural housing assistance serves both farm families and other rural residents.

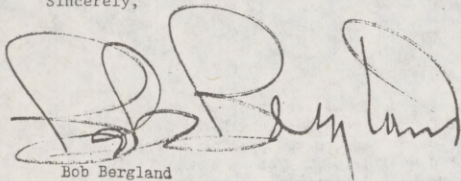
It is our belief that changing the name of the Farmers Home Administration to the Farm and Rural Development Administration will better reflect the overall mission of the agency. Whether one considers the farm program functions of the agency, those functions relating to the financing and development of facilities, services, and businesses in rural areas, or the rural housing functions, all are part of the broader objective of making rural areas desirable places in which to live and work.

We also believe it appropriate to consider this amendment in connection with the Department's draft bill to amend the Consolidated Farm and Rural Development Act to strengthen the agency's farmer-related activities. Strengthening the Department's and the agency's ability to serve farmers and ranchers also strengthens our ability to serve all of rural America.

A similar letter has been sent to the Chairman of the Senate Committee on Agriculture, Nutrition and Forestry.

The Office of Management and Budget advises that there is no objection to the presentation of this proposal from the standpoint of the Administration's program.

Sincerely,

A large, stylized handwritten signature in dark ink, appearing to read "Bob Bergland". The signature is written over a horizontal line.

Bob Bergland
Secretary
Enclosure

Amendment to H.R. 8315

Add at the end of the bill a new section 16 reading as follows:

"Sec. 16. (a) The names 'Farmers Home Administration' and 'Farmers' Home Administration' are hereby amended to read 'Farm and Rural Development Administration' wherever they appear in the following provisions of law:

"(1) Title 5, United States Code, section 5316(4);

"(2) Act of September 6, 1950, section 1 (7 U.S.C. 1033);

"(3) Act of August 3, 1956, section 9(b) (7 U.S.C. 1040);

"(4) Consolidated Farm and Rural Development Act, sections 309(e), 325, 331 (except in the phrase 'Farmers Home Administration Act of 1946') (d), (g), (h) and (i), 335(a), (c) and (d), and 338(a) (7 U.S.C. 1929(e), 1965, 1981(d), (g), (h), and (i), 1985(a), (c) and (d), 1988(a));

"(5) National Housing Act, section 302(c)(2)(A) (12 U.S.C. 1717(c)(2)(A));

"(6) Federal Financing Bank Act of 1973, section 7(a)(4) (12 U.S.C. 2286(a)(4));

"(7) Act of September 12, 1964, sections 1 and 2 (16 U.S.C. 410r-3, 410r-4);

"(8) Title 18, United States Code, sections 657, 658, 1006, 1014;

"(9) United States Housing Act of 1937, section 8(e)(1) (42 U.S.C. 1437f(e)(1));

"(10) Housing Act of 1949, title V, sections 501(a), 514(b)(3) and 517(i) (42 U.S.C. 1471(a), 1484(b)(3), 1487(i));

"(11) Economic Opportunity Act of 1964, sections 731(c)(2) and 744(a) (except in the phrase 'Consolidated Farmers Home Administration Act of 1961') (42 U.S.C. 2984(c)(2), 2985c(a)); and

"(12) Alaska Omnibus Act, section 51(a) (42 U.S.C. prec. §21 note).

"(b) Except where the context otherwise requires, any reference to the Farmers Home Administration in any provision of law not listed in subsection (a) of this section shall be deemed to refer to the Farm and Rural Development Administration.

"(c) The officer occupying the position of Administrator, Farmers Home Administration, on the date of enactment of this section, may assume the duties of the Administrator, Farm and Rural Development Administration. The individual assuming such duties shall not be required to be reappointed by reason of the enactment of this section.

"(d) Upon enactment of this section, the Farm and Rural Development Administration shall succeed to all the rights, duties, powers, and obligations of the Farmers Home Administration."

Mr. JONES of Tennessee. We are delighted that our witnesses are here. The leadoff witness is the Administrator of the Farmers Home Administration, Mr. Gordon Cavanaugh.

Mr. Cavanaugh, thank you for coming. I believe this is your first appearance before the subcommittee, but we have had visits.

We are delighted that you have Mr. Sprague and Mr. Lee with you this morning.

You may proceed and take whatever time is necessary to go through your statement.

Mr. CAVANAUGH. Fine. Thank you, Mr. Jones. Good morning, Mr. Madigan.

I am here on behalf of the Department of Agriculture and Farmers Home Administration to comment on amendments which we have offered to the Consolidated Farm and Rural Development Act, which the chairman has kindly embodied in H.R. 8315.

[The prepared statement submitted by Mr. Cavanaugh follows:]

STATEMENT OF
GORDON CAVANAUGH
ADMINISTRATOR
FARMERS HOME ADMINISTRATION
BEFORE THE HOUSE
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OCTOBER 26, 1977

Mr. Chairman, the Administration proposes a number of amendments to the Consolidated Farm and Rural Development Act.

These changes will substantially improve several major programs of the Farmers Home Administration that serve important credit needs of family farmers and rural communities. They relate to farm real estate, farm operating, community facility, and business and industrial programs.

Before discussing the Administration's recommendations for these programs, I am sure you are aware that recently Secretary of Agriculture, Bob Bergland, announced a package of reorganization initiatives in the Department, one of which is to establish a Farm and Rural Development Administration composed of the present functions of the Farmers Home Administration and the Rural Development Service. We have proposed an amendment to change the name of the Farmers Home Administration to the Farm and Rural Development Administration. The new name will more accurately reflect the overall mission of the agency. Whether one considers the farm program functions of the agency, those functions relating to the financing and development of facilities, services, and businesses in rural areas, or the rural housing functions, all are part of the broader objective of making rural areas more desirable places in which to live and work.

Now, Mr. Chairman, I will summarize the Administration's recommendations.

Farm Real Estate Loans

First -- with respect to farm real estate loans:

The changes we request include a broadening of eligibility for loans, higher loan limits, adjustment of interest rates, and some different provisions for administration of the program.

In the matter of eligibility, the current law provides for loans to individuals only. The Administration recommends that the law be amended to provide also for loans to farming corporations and partnerships where the family farmers are engaged primarily and directly in farming.

It is not our intention that the Farmers Home Administration finance investor-owned corporations or partnerships. Eligibility would remain with about the same size of family farm operation as is being served under the present program. However, it would extend to family farmers who operate on a partnership or corporate basis for tax, estate or other reasons. No longer would they be excluded from the regular farm program services of the Farmers Home Administration just because of the way they are doing business.

The loan limit for farm ownership loans under existing law is \$100,000, and the limitation on the total indebtedness that may exist against the farm or other security is \$225,000. The Administration's proposal would increase the loan limit to \$200,000, and would eliminate the limit on total indebtedness. A loan limit of \$200,000 would be more in line with the average increase in value and cost of agricultural land, buildings, improvements, and land development since the \$100,000 loan limit was established in 1970.

According to the Economic Research Service, farmland values increased an average of 17 percent for the year ending February 1, 1977, raising the U.S. average from \$390 to \$456 per acre. The average value per acre on March 1, 1971, was \$202. Land values increased 126 percent for the 6-year period ending February 1977. This reflects both the land and building value increase.

The maximum interest rate for farm real estate loans is 5 percent. The Administration is proposing negotiated interest rates on private lenders' loans guaranteed by FmHA, and cost-of-money rates on insured loans made by the agency. An exception would be that the Secretary may charge young and limited resources farmers, including beginning farmers and others, an interest rate less than cost of money to the Treasury if they cannot reasonably be expected to make full payments based on the cost-of-money rate.

The intent of these proposed changes is not to levy a higher price for service. Instead, we have two objectives: to provide funding to more applicants by adjusting interest rates to various applicant's reasonable ability to pay; and to generate more involvement of private lenders in FmHA loan guarantee programs. The latter accomplishment could free up more time for our county office personnel to provide loan supervision and management assistance to the farm and family borrowers who need it most.

The Farmers Home Administration has determined that many farmers who have some equity in resources, and demonstrated management ability, require less management assistance and counseling than others. Their main problem is obtaining adequate credit. For these families, the

Department recommends the loan guarantee program at rates attractive to the lender and still in line with rates being charged other farmers and ranchers in the area through guidelines to be established by the Secretary of Agriculture.

A second category of farm applicants comprises those with some equity in their resources and less managerial ability but who will have a reasonable chance of making a success of the farming enterprise if they can receive a reasonable amount of management counseling and supervision and of credit. The Department would serve these farmers and ranchers through FmHA insured loans at the Treasury cost-of-money rate.

A third group of farm families are those with limited resources who need special help including lower interest rates until they are established. They may be young farm families who are buying their first piece of land, minority small farmers, and other limited resource families. They cannot reasonably be expected to initially pay the full market interest rate, yet it is in the national interest to provide them an opportunity to get started on the road to farm ownership and successful operations. This, simply stated, is a recognition that there are certain start-up costs in farming, as in many businesses, which require varying degrees of assistance to help assure success.

The Administration's proposal gives the Secretary more flexibility to serve applicants of special needs. For example, the Secretary could provide a loan with a changing interest rate. Or, if conditions warrant, he might provide for a subsidized rate of interest. Loans could be

repaid in unequal installments. With this flexible authority, the Secretary could offer the limited resource family an opportunity to buy land and acquire equity in a farm. As soon as equity is established, the interest rate would be moved to the market rate of interest.

Farm Operating Loans

We also see a need for improvement of the existing authorities in farm operating loans.

Current law restricts these loans to the individual farmer and rancher. As with farm real estate loans, the Administration recommends that eligibility for FmHA operating loans be extended to the family farming partnership or corporation consisting of family farm operations of about the same size as is being served under the present program. It is not the intent of this change in the law to finance investor-owned corporations or partnerships.

The loan limit on FmHA operating loans is \$50,000 under current law. The Administration recommends that the limit on both insured and guaranteed loans be raised to \$100,000. The present limit is inadequate due to inflation.

Existing legislation provides that the interest rate for both insured and guaranteed farm operating loans will be based on the cost-of-money to the Government. The Administration proposes that cost-of-money be continued as the interest rate for insured loans, but that a negotiated rate be permitted for guaranteed loans to attract more private

capital, and to freeing up more time for loan supervision and management assistance to those borrowers most in need of such services from FmHA personnel. The Department would expect local lenders to finance farmers' and ranchers' intermediate credit and annual production expense at an interest rate not higher than the rate charged for the lender's other farm and ranch customers. FmHA program regulations would be written accordingly.

Repayment of operating loans may be scheduled for up to 7 years under existing legislation, with provision of an additional 5 years if necessary. The Administration proposes to continue the current repayment period with respect to original loans but proposes a change to permit consolidation or rescheduling of outstanding farm operating loans for a period not to exceed 7 years from the date of such action. This change would give the Secretary more flexibility to meet the credit needs of borrowers. The Farmers Home Administration would expect to use the rescheduling and consolidation authority on a case-by-case basis, where borrower need would become the "yardstick". At the same time, the Department would guard against a blanket renewal of every unpaid note each year.

Change in County Committee Certification for Farm Real Estate and Operating Loans.

The role of the FmHA County Committee in processing farm real estate and operating loans would be modified by another proposed amendment. Existing law requires that the committee certify as to applicant eligibility and the amount of the loan. The Administration's proposal would eliminate certification as to the amount of loan. This would be

another step forward in the elimination of red tape. Often, at the time an applicant is being considered for eligibility, the amount of the loan he requires is not known. In any case, the amount is subject to change after the application is filed, and this can lead to needless, costly county committee sessions and delay in taking action on the farmer's application. Actually, this change would remove from the county committee a loan determination for which the loan approval official should rightfully be responsible. The requirement for county committee certification of applicant eligibility would be retained.

Under existing law, no farmer-type loan may be made by FmHA until after the county committee certifies as to applicant eligibility and loan amount, and there is no appeal from the committee's decision. The Administration offers an amendment to provide for appeal procedures. This authority would be used in only a limited number of cases. FmHA would thus be able to rectify any inequities which may result from county committee recommendations, certifications or other authorized actions.

Graduation Exemption for Guaranteed Borrowers

Graduation of borrowers to commercial credit is a requirement of existing law in guaranteed as well as insured loan programs except for the guaranteed business and industry and the housing programs. The Administration strongly recommends an exemption from this requirement for guaranteed borrowers in the farm loan program. The graduation requirement often makes it impossible for the local lender to market such a guaranteed note with a secondary investor. Also, eliminating the

requirement of "graduation" in the case of guaranteed loan borrowers would permit such borrowers to continue their customary and established business relationships with financial institutions, instead of seeking other sources of credit.

Secondary Marketing of Guaranteed Loans

Another recommendation bears on contingency provision relating to a need that might occur in secondary marketing of guaranteed loans. The Secretary would be authorized to purchase guaranteed portions of loans, at his discretion. The Department anticipates that this authority would be used only under the most unusual circumstances, if ever. The proposed amendment would specifically restrict action by the Secretary to accomplish such purchase "only after the Secretary determines that an adequate secondary market is not available in the private sector." However, the authority is needed so that in the event the private sector is unable to perform as expected, the Government can move quickly to generate a secondary market without further legislation. No authorization for such action currently exists.

FmHA Insurance Funds

The Agricultural Credit Insurance Fund (ACIF) is subject under existing legislation to a \$500 million limit (excluding emergency loans) on the amount of loans which have never been sold. The Administration proposes to eliminate this ceiling. There is no such limitation on either the Rural Housing Insurance Fund (RHIF) or the Rural Development Insurance Fund (RDIF). Elimination of the ceiling on the ACIF would permit fund administration compatible with administration of the other revolving funds.

The current law authorizes the Secretary to pay administrative costs of loan programs from the RDIF, RHIF, and from the ACIF. The Administration's proposal would authorize the Secretary to pay such costs either directly from the RDIF or to transfer funds from the RDIF to an administrative expense account.

Modification of Department of Labor Certification for Business and Industrial Loans and Industrial Development Grants.

Business and industrial loan and industrial development grant processing through the Farmers Home Administration are subject to a requirement, under existing authority, that the Secretary of Labor certify that such loan or grant will not (1) result in the piracy of labor or business from one area to another and (2) result in the over production of goods or services. This is a precondition of a business and industrial loan or an industrial development grant. The Administration proposes to eliminate this requirement in cases where the assistance would not exceed \$500,000, or direct employment resulting from the assistance would not be increased by more than 20 employees. This change would accomplish an elimination of red tape which slows down the processing of applications and results in costly and needless delay. Bankers and borrowers alike have complained about the length of time required to get certification on the smaller loans. The change proposed would allow FmHA to serve smaller businesses more expeditiously, and thus improve their chances for success.

Community Program Loans

The maximum interest rate under existing legislation for community facility loans and water and waste disposal loans is 5 percent. Insured loans made by the agency would be authorized at a rate comparable to that prevailing in the municipal bond market for similar projects. This change would allow interest rates on loans to rural communities to be comparable to rates paid by municipalities for tax-exempt issues.

Additional Technical Changes

Existing law is silent on questions that arise with respect to areas of FmHA operation that change from rural to urban classification. The Administration proposes an amendment to authorize the Secretary to continue to conduct loan and grant operations in connection with properties or facilities securing a loan previously made in an area that changes from rural to urban, due to population growth. This revision would offer FmHA an additional tool for helping to protect the Government's interest in such an area. It would also allow FmHA to provide assistance to a borrower in such an area who needs additional loan or grant assistance.

Existing legislation designates the Secretary of Agriculture as escrow agent when borrowers prepay taxes or insurance. We recommend the deletion of all references to escrow agent. This would enable the Secretary, in cases where he requires prepayment of taxes and insurance, to merge the prepayments with other payments from the borrower -- another elimination of existing red tape.

The Administration recommends a specific provision be added to the law to nullify any restriction in another agency's statutory authority prohibiting it from becoming involved where a different Federal agency is rendering assistance. Any such agency would thus be authorized to assist a project that is also assisted by the Farmers Home Administration.

This concludes my presentation of the changes recommended by the Administration. I thank the Committee for this opportunity to be heard, and I will be glad to answer any questions you may have at this time.

Mr. JONES of Tennessee. Are you in a position to remain here for awhile?

Mr. CAVANAUGH. Yes, sir.

Mr. JONES of Tennessee. If you can stay until we have heard all of the witnesses, we would like to question all of you at the same time.

Thank you very much.

The next witness is Mr. John Datt, director of the Washington office, American Farm Bureau Federation.

John is a frequent visitor to this committee.

We are delighted that you are here today. You may bring whomever you have with you and proceed.

Mr. DATT. Thank you, Mr. Chairman.

I have with me Mr. Kirk Miller, who is assistant director of national affairs. He actually does the work of the farm bureau in this particular area. He is much more of an authority than I am to assist in any questions that the committee might have.

Mr. JONES of Tennessee. Welcome, Mr. Miller. We are delighted that you are here.

Mr. DATT. You have our statement. Therefore, I think in the interest of time, I would ask that the statement be printed in the record as presented.

Mr. JONES of Tennessee. The prepared statement in its entirety will be made a part of the record.

[The prepared statement submitted by Mr. Datt follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE
THE HOUSE AGRICULTURE SUBCOMMITTEE ON CONSERVATION AND CREDIT
REGARDING FARMERS HOME ADMINISTRATION LENDING LIMITS AND
ADMINISTRATIVE PRACTICES

Presented by John C. Datt, Director, Washington office
October 26, 1977

The American Farm Bureau Federation is the world's largest voluntary membership general farm organization. Our members utilize large amounts of credit in their normal business activities. Therefore, we are extremely interested in farm credit programs including those offered by the Farmers Home Administration.

Farming is a highly capitalized industry. The 1977 Balance Sheet of the Farming Sector indicates that the total value of farm assets has increased from \$315.2 billion in 1970 to \$670.9 billion as of January 1, 1977. Total farm debt for the same period rose from \$53.0 billion in 1970 to \$102.1 billion as of January 1, 1977. Owners' equity improved from \$232.1 billion in 1970 to \$568.8 billion in 1977.

These figures point out the tremendous amount of capital that is used by producers as a group, but they are somewhat misleading when extrapolated to individual farmers, especially young farmers. This report indicates that farm debts, as a percentage of total farm assets have decreased from 17.3 percent in 1970 to 15.1 percent as of January 1, 1977. This may be an accurate reflection of the economic health of the farm sector, including those who have completely repaid their farm mortgage loans, absentee landlords with outside income and those who inherited their farms. However, this is not a true picture of the credit needs of a large segment of agricultural producers. Young producers who are building their farming and ranching enterprises into viable units must use large amounts of borrowed capital.

The December, 1976, issue of the Farm Credit Administration's FCA Research Journal contains a study entitled "Young Farmers: A Profile Analysis of Federal Land Bank Borrowers" which provides a more accurate picture of the financial position of agricultural producers. The study examined the composite of all Federal Land Bank (FLB) borrowers for 1975 excluding those with rural home loans, and compared that group to all young FLB borrowers (under 35) and all FLB and Farmers Home Administration (FmHA) combination borrowers, which includes young farmers under 35 and other farmers over 35. The FCA study indicates that the average debt of all FLB borrowers was \$165,000; that of young borrowers was \$164,000; the FmHA/FLB joint borrower average was \$124,000; and the average for FmHA/FLB subordination loan borrowers was \$126,000. These average ratio of debt to assets was 35 percent for all FLB borrowers, 41 percent for all young borrowers, 50 percent for FmHA/FLB joint borrowers, and 51 percent for FmHA/FLB subordinated loan borrowers.

According to the September, 1976, Agricultural Finance Data-book, published by the Federal Reserve Board, the Farmers Home Administration provided funding for 7.8 percent of the outstanding farm real estate debt in 1970. By 1976 this figure had declined to 3.6 percent. We believe that this decline in loan share is explained in part by the increase in FmHA participation loans, the general strengthening of the farm economy during that period and the unavailability of FmHA farm ownership loan funds.

Although the USDA Balance Sheet and Farm Credit Administration reports are helpful, they do not reflect the recent downturn in farm prices which is weakening the balance sheet of agricultural producers and making it more difficult for them to meet their debt obligations. The recent downturn of farm prices is also making it much harder for many farmers to refinance or extend their debt obligations, and thus will force many farmers to sell out. This could depress the market for farmland and further accentuate the problem. These prospects are accepted by many farmers as part of the risk of doing business. Others, including many young farmers, feel that they have not yet been given an opportunity to demonstrate their effectiveness. We believe that the Farmers Home Administration should provide assistance to farmers, who would otherwise be denied adequate capital because of their high debt-to-asset ratio.

The official voting delegates of the member State Farm Bureaus to the American Farm Bureau Federation annual meeting in January, 1977, adopted broad policy relating to agricultural credit as follows:

Agricultural and farm forest credit needs are changing and growing. One specific change is the growing need of farmers to borrow money from nongovernment sources on the security of commodity collateral. Farm Bureau encourages the nongovernment suppliers of agricultural credit, especially those suppliers which are owned by farmers and ranchers, to provide credit services to meet these needs. We favor keeping the cooperative credit system for the need of bonafide farmers and ranchers only.

The increasingly heavy investment by farmers and ranchers requires a broad base of finance for operating expenses and for the purchase of farm equipment, motor vehicles, and facilities. This includes the financial services of commercial banks, the Farm Credit System, and the Farmers Home Administration.

We recognize the credit problems of qualified young farmers and ranchers not yet established in agriculture and forestry. Programs designed specifically to deal with their problems should receive special and careful study.

* * * * *

We favor continuation of both the direct and the insured agricultural loan programs of the Farmers Home Administration. These programs should be used to provide credit for farmers, ranchers, and small forest landowners to establish and improve economic production units and to provide aid in times of emergency due to natural disaster.

We support an increase in the present Farmers Home Administration loan limits and total debt limit, to reflect the substantially increased costs of ownership and operation of a farm. These programs should be available to sole proprietors, partnerships, and family corporations involved in farming.

We support increased funding of Farmers Home Administration farmer programs to provide adequate credit and competent counseling for agricultural borrowers.

H.R. 8315, a bill "To amend the Consolidated Farm and Rural Development Act," contains provisions which could correct several problems which encumber the present Farmers Home Administration lending programs.

The amendment to Section 302 would authorize the FmHA to extend eligibility for farm ownership, farm soil and water, and farm recreation loans to partnerships and corporations. This would permit the Secretary to authorize loans to private corporations and partnerships controlled by family farmers and ranchers who are engaged primarily and directly in farming or ranching.

The amendment to Section 305 would increase the loan limits on insured and guaranteed farm ownership, farm soil and water, and farm recreation loans from \$100,000 to \$200,000. This amendment would also eliminate the limitation of \$225,000 on total indebtedness against the farm or security. These changes would permit more adequate financing of family farms than is possible under existing limits and would facilitate the use of guaranteed credit.

The amendment to Section 307(a) would authorize the establishment of interest rates for insured farm real estate loans on the basis of the average for current marketable obligations of the United States with comparable maturities, plus an additional charge prescribed by the Secretary of Agriculture to cover losses and cost of administration. The revision would authorize the Secretary to assist young, and other, farm families who may not reasonably be expected to make full payments based on an interest rate determined as above, by providing an interest rate below the formula rate.

The amendment to Section 311 would authorize farm operating loans to private corporations and partnerships controlled by family farmers and ranchers who are engaged primarily and directly in farming and ranching.

The amendment to Section 313 would increase the farm operating loan limit from \$50,000 to \$100,000 for insured and guaranteed loans.

The amendment to Section 316 would authorize the Secretary of the Treasury to determine the interest rate for farm operating loans. This amendment would also provide for interest rates on guaranteed loans to be negotiated between the borrower and lender. Also the Secretary of Agriculture would be permitted to consolidate or re-schedule outstanding farm operating loans for a period of not to exceed seven years.

The amendment to Section 321 specifies that to be eligible for an emergency loan a partnership must be a United States partnership. A similar requirement is already imposed on corporations.

We support these amendments.

The amendment to Section 333(b) would establish a procedure for appeal, review and possible reversal of determinations by FmHA County Committees. We recognize that this is an attempt to try to correct disparities and inequities among county committees. We are concerned that bypassing the county committees and investing the ulti-

mate loan decision-making responsibility in state or federal officials could create an undesirable situation, which would not properly reflect the judgment of local farmers who more familiar with the local situation. We ask that safeguards be included to protect the role of the county committees in the decision-making process.

H.R. 6407 is almost identical to H.R. 8315 with a few minor differences. Section 305 of H.R. 6407 is amended to increase the guaranteed loan limit to \$300,000 instead of the \$200,000 guaranteed loan limit in H.R. 8315. We support the higher guaranteed loan limit.

Section 307 of H.R. 6407 specifies the formula by which insured farm loan interest rates are to be determined. We prefer the approach in H.R. 8315 which gives the Secretary discretionary authority in establishing interest rates.

Section 345 of H.R. 6407 also contains provisions which specify the designation of amounts contained in future Farmers Home proposals as either amounts for insured loans or amounts for loan guarantees and which require that transferability be stipulated in the appropriation. We support this provision.

We believe that the use of FmHA farm ownership loans for second mortgage loans, thereby allowing private sources of credit to make first mortgage loans, is desirable. We also believe that increased funding of farm ownership and farm operating funds can be effectively used to provide guarantees for loans made by private lenders.

A major roadblock to increased funding for farm ownership loans has been the Office of Management and Budget's objection to the subsidized interest rates for these loans. We believe that this objection should be resolved.

In conclusion, we commend this Committee for reviewing these programs, and we thank you for this opportunity to present our views.

Mr. DATT. I might add, Mr. Chairman, that we feel rather strongly that before any change is made in the procedure as it relates to the county committees that the subcommittee take a good look at what we are doing. We think the existing procedure has worked quite well.

Mr. JONES of Tennessee. Thank you very much, John.

You can remain, can't you?

Mr. DATT. Yes, sir.

Mr. JONES of Tennessee. We will be glad to have the opportunity to question you a little later.

The next witness is our good friend Reuben Johnson, director of legislative services, National Farmers Union.

Reuben, welcome. We are glad to have you back again. You may proceed.

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

Mr. JOHNSON. Mr. Chairman, it is my pleasure to be here again.

I would like to recognize what is turning out to be a very creative new Administrator of the Farmers Home Administration, Mr. Cavanaugh, and to commend the leadership which we recognize he has given in his early days as Administrator of this agency.

The legislation before the subcommittee in its major application to the changes that are being proposed has the support of the Farmers Union.

First, let me ask, Mr. Chairman, that the memorandum I sent out to members of the subcommittee on September 28 be made a part of the record at this point as well as the excerpt from the policy statement of the National Farmers Union.

Mr. JONES of Tennessee. Without objection, those will be made a part of the record.

[The material referred to above follows:]



National
Farmers Union

M E M O R A N D U M

September 28, 1977

TO: Members of the Senate Agriculture Subcommittee on
Agricultural Credit and Rural Electrification and
the House Agriculture Subcommittee on Conservation
and Credit

FROM: Reuben L. Johnson, Director of Legislative Services

Dear Subcommittee Member:

Whatever other constructive provisions may be in the S. 312 and H.R. 8315, we feel compelled to express the objection of National Farmers Union to the provisions of these bills which would allow the Secretary of Agriculture to increase interest rates on loans made by Farmers Home Administration for farm purchase and operation, and for rural water and sewer loans above the existing 5% rate.

In the last Congress, then-Congressman Bob Bergland introduced a similar bill. Farmers Union testified before the Subcommittee on Conservation and Credit on January 29, 1976 in opposition to these provisions.

As you know, Farmers Union has long been a staunch supporter of the Farmers Home Administration program. FHA has provided the loans to purchase farms, and the credit to operate them to farm families who had no other credit source and so strengthened our farm economy and our food production capabilities.

The Farmers Home Administration and its predecessor agencies were created by the Congress to fill a need for farm operating and real estate loans that was not being met by private credit institutions. Thus, the Agency was given a unique role in supplying credit to farm families.

Over the years, the Agency has established an admirable record in that many borrowers have graduated to become eligible for credit from private sources.

Farmers Union has fought consistently for adequate funds for the Agency. We will continue to do so. We note the increased loan levels recommended in the legislation. Although they do not go as far as our delegates believe necessary, they reflect the continuing inflation in land costs and farm operating expenses.

We want to endorse the vital programs in the areas of rural development which are being administered by the Agency. We refer to programs such as those for financing water and sewer facilities in small towns and adjacent rural areas. We should strengthen our rural areas to improve living conditions to meet the challenges of the reversing population trends.

But many of our small towns would be hard put to service increased interest charged on water and sewer loans that would be allowed under S.312-H.R.8315. They would either have to forego the improved service or turn to seek grants, which would considerably increase budget exposure.

We look forward to the opportunity to appear at hearings on this legislation and to put our position on record. In the meantime we wanted to make clear the concern which Farmers Union has on these interest rate matters.

1977 Policy of National Farmers Union

Adopted by Delegates to 75th Annual Convention,
March 5-9, 1977

5. Credit Policies and Programs

Farm credit is not a substitute for parity farm prices and income. Nevertheless, access to adequate credit at reasonable costs is essential if family farmers and ranchers are to operate effectively and competitively. Government policies and programs should be designed to assure an adequate flow of credit to independent farmers and ranchers.

We deplore the constant escalation of interest rates which impose an intolerable burden, especially upon young farmers whose initial capital requirements are excessive. The success of efforts by the capital-furnishing interests in abolishing usury limits dismays us. It is vital to the long-term survival of family farm agriculture to keep interest rates at a minimum.

1. Farmers Home Administration

The lending programs and related services of the Farmers Home Administration have deteriorated to the point that the agency has lost credibility.

The loss of credibility has largely been caused by long delays in processing applications, in turn caused by too many programs, too large caseloads in many county offices, insufficient staffing, making it impossible to give reasonably prompt service to applicants. Additional administrative staff should be provided to reduce caseload when emergency and disaster loans or other unusual programs are initiated.

We urge continuation of a disaster loan program, administered by the Secretary of Agriculture, and available only to family farmers and ranchers who have suffered a disaster. Disaster loans should be at low interest rates and have a repayment period of ten years, with deferral of principal up to a period of three years at the discretion of the FHA county committee.

2. Credit

We recommend at least \$2 billion be made available at 3-percent interest for operating loans and \$2 billion to finance purchases of farms through the Farmers Home Administration for new farmers.

We recommend that the limit on farm ownership loans be increased from \$100,000 to \$350,000, and operating loans increased from \$50,000 to \$150,000 as additional funds become available in order not to reduce the number of farms assisted.

4. Water and Waste Facilities Grants

We urge that every effort be made at the national level to focus attention on the needs that exist for funding and facilitating rural water and waste systems with loans and grants at full levels authorized by Congress, in order to provide these services to rural users at costs commensurate with those in nearby urban areas.

CREDIT

Farmers Home Administration credit for operating loans should adhere to a policy of leniency and greater funding to keep farmers on the land. We recommend a separate new credit agency for beginning farmers which would make direct loans from the government for both land purchases and operating capital.

We request Congress to increase the appropriation to adequately fund the administration of FmHA to be able to accomplish the goals of FmHA.

Mr. JOHNSON. We view the Farmers Home Administration's contribution to the field of agricultural credit as unique. Through the years the agency has dealt with those borrowers who are unable to secure the credit that they need to get into the farming business from other private lenders. Because of the nature of the agency's criteria for eligibility, we have been able through the years to justify a subsidized interest rate.

We began to recognize during recent years that there were those at points in the executive branch—I guess I might as well just name the agency, the Office of Management and Budget—who were attempting to find ways in which they could get away from this concept.

One of the ways that this bill would permit that would be to permit the Farmers Home Administration the authority to provide 90 percent guarantees and send the borrower off to a private lender to negotiate a loan at whatever interest rate could be negotiated. We just do not believe that that is necessary at this point.

We have the participatory provisions of the agency with private lenders. That would seem to us to be sufficient to give the agency a role in assisting borrowers in sharing in borrowing with both the agency and private lenders.

When a borrower clearly becomes eligible for Farmers Home Administration credit, he can be dealt with satisfactorily under the authorities that the agency now has, we believe.

Mr. Chairman, I want to make note of the fact that our delegates did support higher limits on loans for operating and farm ownership loans. They recommended that we increase farm ownership loan limits from \$100,000 to \$350,000 and that operating loan limits be increased from \$50,000 to \$150,000. This is some sizable increase above current levels, but I think it reflects the fact that the farmers who are yet in business are struggling to get money together to expand their operations sufficiently to continue to stay alive and to continue to farm.

In my recent contacts with some of our banker friends I have suggested that we would like to see them more active when we are dealing with legislation here that affects the price and income of the producer.

One of the basic essentials to a successful relationship between a farmer and his banker is that he has the money to repay the loan. That relationship exists even with the Farmers Home Administration where he may have some subsidization of interest rates, but he still has to have the income to repay the loan. Merely the extension of credit is not necessarily the answer to the problem that many producers have at this time.

Mr. Chairman, that concludes my statement.

Mr. JONES of Tennessee. Thank you very much, Mr. Johnson, for your statement. We hope that you can remain with us.

The final witness who is on the agenda today is Mr. William Powers, the vice chairman of the National Rural Housing Coalition.

Mr. Powers, welcome to the subcommittee. We are delighted that you are here. You may proceed.

Mr. POWERS. Thank you, Mr. Chairman. Thank you, members of the subcommittee.

I will submit testimony for the record, then I will be available for the questioning.

Mr. JONES of Tennessee. Without objection, your statement will be made a part of the record.

[The prepared statement submitted by Mr. Powers follows:]

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Testimony of William Powers, Vice-Chairman National Rural Housing Coalition before the

Subcommittee on Conservation and Credit - Committee
on Agriculture - U. S. House of Representatives
on HR8315 & HR6407
October 26, 1977

My name is William Powers, I am vice-chairman of the National Rural Housing Coalition. We are grateful for the invitation to testify on HR8315 today and are pleased to offer our observations. The Coalition is a nonprofit organization, supported by dues and contributions from its membership and is vitally concerned with the provision of decent housing for low income people in rural America. That concern has led many of us who are members of the Coalition to concentrate our attention on the operation and programs of the Farmers Home Administration.

Most of HR8315 is directed to farmer programs and we will leave comment on those provisions to others. We would, however, like to take this opportunity to strongly object to the provision in Section 4 of HR8315 which would change the lending rate of the loans for water and waste disposal program from the present 5 percent to market rate. Such a move is regressive and

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will repress the economic development of the very rural communities who could have benefitted from the program. Market rate prices for water, sewer, and solid waste loans will raise the price rural consumers must pay for these basic services at a time when rural utility rates are already two to three times those of urban consumers. Further, raising the cost of FmHA loans forces the agency to violate Congress's own legislation by abandoning service to the smallest, neediest communities cited in the Rural Development Act, becoming instead a banker for the wealthier towns who alone can afford its services.

Thus the biggest loser under HR5315 are the towns with real possibilities of economic growth but with low-income populations, and it is this group that FmHA is already having trouble serving under its 5% loan program. For example, in FY 76, FmHA did not fund any sewer systems in towns with median incomes below \$3000 and awarded funds to only 4 towns below \$4000 median income. This wasn't because these communities didn't need the systems but because they couldn't afford to pay the cost of the current loan program.

The primary concern of the NRHC is directed to the improvement of housing conditions for low and moderate income rural people. It is obvious to us that getting that decent housing for rural people is dependent upon securing adequate water and sewer systems. There are currently some 30,000 communities with inadequate water facilities and almost 40,000 communities with inadequate sewage systems. The term inade-

quate may be somewhat misleading because this includes communities with no central systems at all. Most of the communities described above are small rural communities. In fact, the smaller the community the more likely it is to be drinking contaminated water and lacking sanitary waste disposal.

Several critical issues are at stake here. First, is the basic right of people to live in rural communities which can provide a healthy environment and this includes good drinking water. Today one out of every four rural persons drinks contaminated water. This is an intolerable and incredible statistic for a technologically advanced society. Today, thousands of communities throughout the country dump raw sewage into our nation's streams and rivers. Clearly this unhealthy situation is unacceptable and must be changed. Second, many of these rural communities which suffer from the lack of adequate facilities are the least capable of dealing with the problem. Third, it is clear that without adequate water and sewer facilities rural small communities will never be able to attract any industrial or commercial activities to improve local economic conditions.

The present water and sewer loan and grant program administered by the Farmers Home Administration is one of the few resources available to rural communities to overcome the scourge of bad water. The loan provision of the program carries a five percent interest rate and is combined with grants of up to 50 percent of total development costs.

The 50% grant limitation is statutory. Even with this program it has been exceedingly difficult for the FmHA to serve more than a handful of communities and those who do get served must pay exceedingly high rates to repay the loan and for maintenance and operation. To further increase the borrowing rate for these loans would guarantee the exclusion of the smaller, neediest communities. There is no justification for such an act. Surely, the national interest is not served by it.

We were advised that the Administration indicated a willingness to increase the level of grants when necessary to take care of problems created by higher loan costs. However, only two weeks ago in testimony presented in the rural housing hearings on S1150, chaired by Senator Morgan, the Administration opposed increasing the level of water and sewer grants for rural communities so that they would be comparable to urban wastewater grant programs. Therefore, what HR8315 represents is one fundamentally anti-rural policy of the Administration.

While millions of dollars in economic and community development "action grants" - which are 100% grants - are being made available to the cities, rural communities are being forced to obtain the same type of basic services through the use of market rate loans. Why should rural people be made to pay for such discriminatory treatment?

We are alarmed and saddened by the FmHA water and waste loan provision in HR8315 and the policy it represents. We urge the committee to reject this onerous provision. We urge instead that the Congress give consideration to HR6236 sponsored by Congressmen AuCoin and Lundine and 23 others. It would increase the grant level of the FmHA water and sewer program to 75% of development costs and raise the authorization level to \$1 billion over three years.

Mr. POWERS. We would urge that in the future you consider, when the opportunity presents itself, increasing the grant level and possibly even lowering the loan rate that presently exists.

We are never going to be able to deal adequately with this unless we make the resources available in the communities which need it at this point.

In that context, while the administration may be considering using increased grant levels, this will only serve to cut down on the number of communities which can be served by this program. We find it interesting to note that they did not support this in recent testimony before the Senate on S. 1150 when they had the opportunity to do so. As a matter of fact, we believe that they asked that that provision in the bill not be supported.

Another important aspect which has not been dealt with is this, and I think on the health issue alone this program is justified and the lowering of rates would be justified. But the water and sewer program is a job-creating program. In few areas of America is it more necessary than in rural communities.

We find it incomprehensible how on the one hand you can pass jobs-creating CETA programs and on the other hand cut back on a program that is supposed to build water systems and create jobs while doing that. On that basis also we would urge that this provision be rejected.

This is no time to be cutting back on the programs. This is the time to expand the programs.

That constitutes my testimony. We certainly appreciate the opportunity to offer it today.

Mr. JONES of Tennessee. Thank you very much, Mr. Powers, for your statement. We note there are some areas in which your statement disagrees with the bills that we have introduced. We appreciate the fact that you are willing to bring those out.

If the other witnesses who are here would return to the witness table, we would be glad to let the subcommittee members pose questions.

If no one on the subcommittee objects, I would like to invoke the 5-minute rule and go around so that we can all get a chance to question. Then if somebody wants more time, he can have it.

Without objection, the clerk will invoke the 5-minute rule.

Mr. Poage?

Mr. POAGE. I have no questions.

Mr. JONES of Tennessee. Mr. Panetta?

Mr. PANETTA. Mr. Cavanaugh, could you respond to the criticism with regard to increasing the lending rate as it pertains to water and sewage?

Mr. CAVANAUGH. We think that the increase in the rate will not be significant. Currently it would move the rate from 5 to something less than 6 percent.

The reason for the amendment is to make the cost of borrowing equivalent in those communities that can use the tax-exempt market with those who cannot resort to it that we aid. We also feel that the interest rate increase will enable us to hope for a higher funding level in terms of the authorizations in the program.

Mr. PANETTA. What is the current market—

Mr. CAVANAUGH. There are two bond indices. The last rate which I saw, which is really several months old now, was about 5.6. Were this amendment adopted, that is the rate that the lendings would be tied to.

Mr. PANETTA. Generally what percentage of your programs is made up of loans for water and sewage?

Mr. CAVANAUGH. Of the entire Farmers Home Administration programs?

Mr. PANETTA. Yes.

Mr. CAVANAUGH. One-eighth.

Mr. PANETTA. Pardon me?

Mr. CAVANAUGH. About an eighth.

Mr. PANETTA. With regard to loans to corporations and partnerships, do I understand that you would support eligibility, for example, of farmer co-ops where the co-ops are made up of family farmers?

Mr. CAVANAUGH. I do not believe at this point we have authorization to make loans to co-ops. It has to be to an individual operation.

Mr. PANETTA. That is correct. Would you support extension of loans to farmer co-ops?

Mr. CAVANAUGH. Yes; I think we would if the cooperative had a legal status that made it a legal borrower, if you will.

Mr. PANETTA. I generally got that tenor from your testimony. I just wanted to confirm that.

With regard to the appeals procedures, what is your position on the type of appeals procedure that ought to take place on decisions by the county?

Mr. CAVANAUGH. We would have an appeal at least to the State director on basic decisions, such as racial discrimination and plain arbitrariness.

We have found that the county committee system has worked well. We have only seen a limited number of occasions where we felt that the decision really warranted overturning it. We do currently have a process that allows, in effect, an appeal up to the State director but the State director cannot overrule the county committee if he finds that they have acted wrongly. We would propose trying to narrow the right to reverse a decision of the county committee to very basic and fundamental grounds and not to be substituting our judgment for that of the county committee on matters that are clearly in their purview.

Mr. PANETTA. Mr. Datt, could you explain what your concerns are about an appeals process? It would seem to me that there is some justice involved in providing at least some limited appeals. It is your position that we should provide no appeals procedure?

Mr. DATT. First of all, I think that based on the record over the years the existing procedure has worked extremely well. Our concern is that once you open this up you do not know where you will end up. There may be a need, as Mr. Cavanaugh has indicated, for some modification of it. I guess our experience has been that the county committee system has worked quite well with the decisionmaking process being there. Our concern is that when you open it up, then you get the decisionmaking being shifted from there to the State level and ultimately to the Federal level. That goes right to the heart of what has been the success of this particular program.

I guess it is more a fear of what we anticipate might happen. I think the proper appeal procedure probably could be supported by the farm bureau.

Mr. PANETTA. Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Panetta.

Mr. Jeffords?

Mr. JEFFORDS. Thank you.

Mr. Cavanaugh, I am very interested in your young farmer provisions of the bill, but I am also concerned as to whether or not that would take care of this situation:

You have a young farmer who starts, say, a dairy farm and the milk situation is one way. Instead of having beginning problems, a year or two or three later he has problems. Maybe he has a cash flow problem and difficulty making his loan.

Is there authority within the law here to allow forgiveness of the interest or to go backward instead of forward to take him out of that cash flow situation?

Mr. CAVANAUGH. Under our existing authority, plus amendments in the recent farm bill, we feel we have a good deal of flexibility now in deferring interest payments as well as principal payments and being able to vary the debt payment load.

Mr. JEFFORDS. You are talking about deferring. What about forgiveness?

Mr. CAVANAUGH. We have no forgiveness authority. We feel that between recasting the debt, deferring payments, and forbearing current collections, that we can at least meet the current cash flow problems of such a farmer. However, we do not have, nor are we asking for, any provisions to forgive any portion of it.

Mr. JEFFORDS. Is there any difference in theory between starting at a lower interest rate and, after a year or two when situations change, changing the interest rate or even forgiving the back interests? I don't see any difference in philosophy if the idea is to try to make sure that young farmers stay in business.

Mr. CAVANAUGH. The idea of trying to reduce the rate for the farmer is to set him up—to analyze his current situation and, in light of that, to set an appropriate interest rate that he can carry for an initial period of time. He then knows what his obligations are.

Periodically we would go back and review his situation and raise or lower his interest as necessary.

We would like to work with him on that basis in terms of reviewing his operations periodically in the context of a farm plan.

I think there is a difference in adjusting the rate and forgiving interest. I think we would have considerable problems in a national program of this scale determining when interest forgiveness should take place.

Mr. JEFFORDS. I am happy to see more flexibility in the consolidating loans within the bill. Of course, it passed the House last session but got kicked out of the Senate.

I am also interested in the guaranteed loan and the credit-elsewhere test. Forgive my ignorance, but is there an authority limit on guaranteed loans? Do you have a limit beyond which you cannot go as to the number of loans you can guarantee?

Mr. CAVANAUGH. Do you mean overall?

Mr. JEFFORDS. Yes; overall. I am not talking about an individual basis.

Mr. CAVANAUGH. Yes. Currently the Appropriations Committee sets a loan authorization level that covers both the guaranteed and the in-

sured loans. I believe Mr. Madigan's bill and a companion bill in the Senate would set separate authorization levels for the insured program and the guaranteed program.

Mr. JEFFORDS. I think the Bellmon bill in the Senate does away with the credit-elsewhere test for guaranteed loans. I presume your objection to that is that you would prefer to give it to those who cannot get credit elsewhere because you have this overall loan limit. Is that the rationale behind that?

Mr. CAVANAUGH. Not just the overall loan limit, but we also feel that Farmers Home Administration is an agency that is really aimed at farm persons who really have credit problems. When someone is in a position to meet the credit test, they should go to private or other funding sources.

Mr. JEFFORDS. You probably already answered this to Mr. Panetta when I was looking at something else, but did you have a comment on the difference in interest rates to which Mr. Powers referred regarding your rationale for going above the 5-percent interest rate?

Mr. CAVANAUGH. I think I would just restate my answer to Mr. Panetta.

Mr. JEFFORDS. If you already answered that, don't worry. I will get that from the record. Thank you very much.

Mr. Jones of Tennessee. Thank you, Mr. Jeffords.

Mr. Harkin?

Mr. HARKIN. Thank you, Mr. Chairman.

I guess I really do not understand your answer to Mr. Panetta. It seems to me that Mr. Powers has given testimony as to a real problem that we in rural America have.

You are aware of the 1-percent rule?

Mr. CAVANAUGH. Yes.

Mr. HARKIN. You are aware that even with a 50-percent grant that sometimes small communities cannot comply because of that 1-percent rule?

Mr. CAVANAUGH. Yes, sir.

Mr. HARKIN. If you raise that interest rate, even if you raise it from 5 percent to 6 percent, a 1-percent raise, then you are going to cut out the possibility of some of these small communities getting these 40-year loans for rural sewer and water. You are going to cut out a sizable portion even if you raise that 1 percent. If you raise it one-half percent, you are going to cut them out.

I just do not see how you can justify doing that. I made a note here. You say you hope to get a higher funding level from Congress. You might be able to do that but, as long as you have that 1-percent rule in there, I don't see that it is going to make any difference.

It seems to me that more and more of the money is going to go to the more affluent towns and communities, not to the less affluent ones that maybe are inherently stable.

Mr. CAVANAUGH. We certainly share those concerns. We have under consideration modifications to the 1-percent rule that would adjust it according to the median income levels in the community. We feel that will in part respond to the problems of the very small and very poor communities.

We also have under review circumstances under which we might request a higher percent grant level for communities that are very small and have a very low income.

Mr. HARKIN. I think Mr. Powers really put his finger on it. The bigger cities, the more affluent ones, are getting grants, and they are getting all kinds of subsidized money that the less developed communities just cannot get.

I will give you a case in point. My hometown where I was born and raised has 180 people living there. We have been trying for years to get a sewer and water system for that town. There have been 10 people in that town since the turn of the century. It still has 180 people. It is a viable community. It is a bedroom community now because of highways to the city of Des Moines.

Every well that was tested in that town 2 years ago, including my own, is contaminated. The sewage was dumped into a ditch by the railroad track. Yet because of the problem with the 1-percent rule, we could never get a Farmers Home grant or loan for rural sewage and water in that community.

It seems to me that if you raise this interest rate you are just going to be penalizing communities such as that that might be just under it or might just barely make it. If you increase that grant to 50 percent, you are going to be penalizing them and saying, no, they cannot have it even though they may be a viable community.

I think Mr. Powers has really put his finger on it.

I would seriously object, and I will object in the bill at the appropriate time to changing that percentage rate from a fixed 5 percent to a cost-of-money to the Government. The cost-of-money to the Government may be—what did you say, 5.6?

Mr. CAVANAUGH. The rate would be pegged to the municipal tax-exempt bond market rate, which is about 5.6. Several months ago it was 5.6. I am sorry that I do not have a current figure for you.

Mr. HARKIN. That could go up to 6 or 6.5.

Mr. CAVANAUGH. Yes, sir.

Mr. HARKIN. What would happen to those communities that have 5 percent loans now? Would anything happen to those communities?

Mr. CAVANAUGH. No, sir. They would continue under their current loan terms.

Mr. HARKIN. I have a serious problem with that. Unless you can convince me, either here now or perhaps in writing later, that the smaller, poorer communities will, in fact, benefit from this, I am going to have to object very strenuously to changing that interest rate.

Mr. CAVANAUGH. I would say, not in disagreement with you, what the shift to the interest rate would do, as Mr. Powers indicated, would be to result in a higher grant usage. For some communities when we got to the 50-percent maximum grant the interest rate would then have an impact on serving those communities. For many communities it would simply mean that we would be putting more of the subsidy up in the front of the project through the grant.

Mr. HARKIN. I also would like to know what proposals you have in mind for changing the 1-percent rule. I know in my own investigations of the Farmers Home programs in the past couple of years that I was very surprised to find that the 1-percent rule was being bent in certain areas. In some areas it was being strictly complied with but in other areas it was not. They would bend it to 1.3 percent or 1.5. I have even seen it as high as almost 2 percent.

Yet in an area that I represent the administrator in that area kept

it strictly at 1 percent. If they could not meet that 1 percent, then that was it; they were out.

Mr. CAVANAUGH. We have found the same thing, that there were a lot of house rules of thumb operating in various States. We have taken steps to correct that and see that it is applied uniformly throughout the system.

The changes that are being considered relative to the 1-percent rule would be to use the lower percentage for communities of lower income level and a slightly higher percentage for communities that had a higher median income level.

Mr. HARKIN. Would that have to be done legislatively or can you do that administratively?

Mr. CAVANAUGH. We can do that administratively if we have the concurrence of the Office of Management and Budget, among others.

Mr. HARKIN. You will keep us informed?

Mr. CAVANAUGH. Yes; I will.

We share your concern, and the statistics are as Mr. Powers has cited them. There are over 30,000 or 35,000 small communities that do not have adequate water or waste treatment facilities. We think that the Farmers Home has played a very important role in that. The most significant portion of our water and waste treatment funds have gone to communities whose incomes are less than \$6,000, but we also know that there are communities beyond our reach.

Mr. HARKIN. I see my time is up, but I have one last question.

Will you begin to move the Farmers Home Administration or are you beginning to address the problem of what we call our rural water systems, water systems that encompass a large rural area?

The problems in the past have been that Farmers Home has not been interested in moving ahead with funding the development of rural water systems in some areas. Again in some areas they did. It depended a lot upon the local administrator.

I am wondering if you are going to develop some new guidelines and how you feel personally about using Farmers Home grant and loan money to develop rural water systems.

Mr. CAVANAUGH. I think perhaps we have made mistakes in the past in funding small, individual systems. With the very high cost of operating and maintaining the systems, we are going to insist—and do, as I understand it—that we look very carefully before we fund a system to see whether or not the expansion of some existing system would serve the same purposes. We have got to spread the costs among a broader number of users, both the capital costs and, importantly in these days, the operating and maintenance costs. That is the policy of the agency—to take every opportunity to see that we are building on existing systems rather than creating new independent systems.

Mr. HARKIN. Thank you very much.

Mr. Jones of Tennessee. Thank you, Mr. Harkin.

Do any other members of the subcommittee have additional questions?

Mr. Panetta?

Mr. PANETTA. I would really like to ask you a question with regard to the administrators in the field. I am not interested in a bureaucratic response. I am interested in a response in terms of your administrators

in the field generally. Are you satisfied with what your administrators are doing out there? You are a new individual who has come in. You are beginning to see what happens out there.

I have been part of the Subcommittee on Family Farms and Rural Development. It is interesting what mixed feelings we have gotten in terms of testimony we have received on that.

I am just wondering from your perspective whether the administrators out there are doing an effective job in terms of using the money that you provide for assistance to rural farmers.

Mr. CAVANAUGH. I was somewhat of a Farmers Home watcher before becoming the Administrator but only really regarding part of its programs.

I am very impressed with the competence and the dedication and the concern of the overwhelming majority of Farmers Home employees. I think they are very committed to their work, and I think they are skillful at it.

I think they have faced some difficult problems in recent years. There have been some shifting policies relative to the organization. Funding has been turned on and off during the course of a given fiscal year so it has been difficult to maintain any continuity in the programs.

Perhaps most important is that the programs have expanded tremendously in the volume, the complexity, and the variety of programs that the staff is being asked to execute in the field. Plainly the system is very heavily burdened in terms of the workload.

I think particularly the people in the county office level where they are dealing directly with the public have increasing difficulty providing the service in a way that they would like to provide it.

Farmers Home really has been a success because it has been able to provide direct assistance and supervision to the borrowers. I think that is very much the feeling and the tradition of the agency and of many of the employees in it.

When they meet with more work than they can handle in a fashion that they feel is the way they would like to serve, it is difficult for them. I think we do have those difficulties.

We are looking at some changes that can be made in the field structure between the State, district, and county offices to try to free up the county offices from the broad scope of responsibilities that they now have and to enable them to better serve the individual kind of borrower, the farmer and to some degree individual-type housing loans. We want to see if we can move handling the more complicated loans, which really come in the door less frequently but yet call for a lot of time, up to a different level of administration. I think that will help us to have a more responsive county office and will help us to give a little more expert attention to more complicated programs that we have, but we will still be an agency that is shouldering a tremendous workload.

Some of the workload comes in ways that you cannot totally plan for. Farmers have had a devastating year from a variety of weather conditions throughout the country. We are now operating emergency loan programs in, I think, 45 States and over 2,000 counties. We have probably processed about three-quarters of a billion dollars more than we normally would have in just farm emergency loans. That is work that has to be accommodated along with the normal flow of work.

Mr. PANETTA. It has been my experience, having served in the executive branch as well as being on Capitol Hill, that the first thing everybody complains about is lack of manpower compared to the rules and regulations that have to be administered. I have heard that for a number of years.

I just hope that in the course of your administration you do not use that as an excuse for people out there in the field not bending over backward to help people who are supposed to be served by this program.

Out in the field we get the same thing. "We are overburdened. We don't have enough people to serve the program. Therefore, we don't always provide the best of service." But I do not think that is an excuse for in individual cases not providing the kind of assistance that is available.

I understand your problems and know what you are dealing with, and we do not address manpower issues in this legislation. However, I think that is very important because any bill that we adopt in this subcommittee and in this Congress is not going to make any difference unless the people out there in the field are sensitive to the issues.

Mr. CAVANAUGH. I think the fact that the Farmers Home staff is so responsive is shown by the fact that the last 30 days of the fiscal year we processed over \$1 billion, which was a very significant share of our total authorizations to have been done in that period of time. That was done by a plea to make sure we made full use of funds and by providing some limited amount of overtime for them to do it. They want to do the job but their job has grown enormously and the staff has not grown at all.

Mr. JONES of Tennessee. Thank you, Mr. Panetta.

Mr. Harkin?

Mr. HARKIN. Thank you, Mr. Chairman.

I want to compliment you on trying to do away with the requirement now that the county committee certifies not only to the eligibility but also to the amount of the loan. I think that is a good step forward to take the amount of the loan criteria out. Let them certify the eligibility but not to the amount of the loan. I think that is very good.

Also, on setting an appeal procedure, I remember the first time that came up about a year or so ago. I mentioned it to the former chairman of this subcommittee, who happens to be your boss now. He was very surprised that there was no appeal procedure at all. This is one of the few instances in our Government where there is not any kind of appeal procedure. I am glad to see you are setting that up to take care of that problem, which I think may come up more than you suspect where a county committee has certified somebody ineligible based upon specious information, let me say, that they may have.

Regarding some of the problems of servicing all of the different programs of the Farmers Home about which Mr. Panetta was talking, have you given any thought at all to this—and I throw this out only as a suggestion I have thought about in my own area. It seems to me that a Farmers Home county supervisor has a lot of different hats he has to wear, such as farm ownership loans, farm operating loans, water and sewer loans, industrial loans, and a lot of different things that he has to do. Nine times out of ten that person is probably

not an expert in any one of those but just sort of lightly touches on each of those.

It would seem if you could take, let's say, four or five counties where the distances were not too great and have one agent who would serve three or four counties only in farm operating loans, then you could have another agent operating only in farm ownership loan. Let's say one agent operating in farm ownership and farm operating loans. There could be another agent dealing with sewer and water grants. Another individual could deal with industrial loans and industrial development grants, and those types of things.

I am wondering if that might streamline it a little bit. Then you would have one person working on one set of loans.

Mr. CAVANAUGH. Mr. Harkin, we are actively working on that problem of trying to sort out the workload in a way that allows more specialization into some of the loans. I think you are correct in observing that you cannot really reasonably expect a person to be an expert in all those fields. Thank heavens those are not the qualifications for an Administrator.

[Laughter.]

Mr. CAVANAUGH. We are looking very actively at that and how we can not only change the office in which the loans are serviced, but also develop more expertise in a narrower range of programs for the Farmers Home personnel.

We ask an awful lot now.

Mr. HARKIN. I know, and again I throw that out as a suggestion that I thought about in my own area where we have four or five counties that are relatively in close proximity. Almost each of them has an agent. I was wondering why one agent could not travel over 3 or 4 counties to service all the farm loans.

Mr. CAVANAUGH. I think with the farm loans we are going to stay with the county office. We really feel that that office should be there to serve the farmer. We think we have strong capacity in our staff to handle farm credit out of the county office.

However, what we want to do is not to ask that same person to be an expert in a number of other programs that can only reduce the effectiveness with which he serves the farmer.

What we are going to try to do is to move up to a district or some broader area basis long the lines you are suggesting. Then we would have some of the more complicated and specialized loans handled by people who would deal only with those. Again, as you suggest, they would deal with them over a broader geographic basis than presently.

A community or a local water association, one, they are somewhat more mobile in dealing with our agency, I think. Second, in some areas, including parts of Iowa, I have seen where the Farmers Home has supported the development of a system that is fairly comprehensive in one section of the State. Somebody can deal with that and then can move on to other sections to begin developing the program.

We are hoping that we will be able to make some progress in that area.

Mr. HARKIN. Thank you.

Mr. JONES of Tennessee. Thank you, Mr. Harkin.

Mr. Cavanaugh, I have a question I would like to direct to you.

In your testimony you indicate that real estate borrowers will be divided into three categories and that they would be charged different rates.

First, let me say that I do not believe that this is spelled out adequately in the bill that we have presented.

What I would like to find out from you is who would be making the decisions as to which borrowers fall into which categories.

Mr. CAVANAUGH. First, we have a set of guidelines, were this legislation enacted, that would give the clear directions to the county staff.

Mr. JONES of Tennessee. Are you saying that the county staff would make the decision?

Mr. CAVANAUGH. That is right, under the national guidelines. We would really look to the county supervisor to make those judgments. That is his business. He is an expert in farm credit. He should be fully familiar with the financial situation of a given farmer who comes to Farmers Home. He should be providing them advice. We think we can put him in a position to make some judgments on the interest rates.

We would like to see whether some of those borrowers in our program who are at the upper ranges in terms of income stability could move on to guaranteed credit. We recognize that there are others for whom that rate will be too high or who may not be able to get it even with a guarantee. We would still see the bulk of our program being in the insured program.

We recognize among other things we have to do is to have a flexible rate for certain very limited income farmers and some young farmers. We would like to have the flexibility to be able to set that rate in the context of each particular situation.

We have in mind, incidentally, setting the below-cost-of-money rates for short periods of time, to be reviewed periodically to see whether or not the borrower has prospered enough to move on ultimately to cost-of-borrowing rates.

Mr. JONES of Tennessee. But the decisionmaking would actually be vested with the county supervisor.

Mr. CAVANAUGH. Yes, sir.

Mr. JONES of Tennessee. Thank you.

Mr. Baldus, do you have any questions? We are sorry you could not be here for the whole hearing, but we would be glad to give you whatever time you need for questions.

Mr. BALDUS. I am also sorry that I could not be here. We were discussing interest rates in the Small Business Committee.

No, Mr. Chairman, I do not have any questions.

Mr. JONES of Tennessee. Thank you, gentlemen.

If there are no other questions, this concludes this morning's hearing. We will be meeting tomorrow morning at 10 a.m.

Thank you very much for being here.

The meeting is adjourned.

[Whereupon, at 11:20 a.m., the hearing recessed to reconvene at 10 a.m., Thursday, October 27, 1977.]

AMEND CREDIT PROVISIONS FOR FARM AND RURAL DEVELOPMENT PROGRAMS

THURSDAY, OCTOBER 27, 1977

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

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1302, Longworth House Office Building, Hon. Ed Jones of Tennessee (chairman of the subcommittee) presiding.

Present: Representatives Poage, Baldus, Bedell, Panetta, Glickman, Madigan, Jeffords, and Kelly.

Also present: Hon. Thomas S. Foley, chairman of the full committee.

Staff present: Anita R. Brown, clerk; Robert A. Cashdollar, James A. Culver, and Roger Grace.

Mr. JONES of Tennessee. The Subcommittee on Conservation and Credit will come to order.

Today we continue hearings on two bills, H.R. 8315, introduced by myself and others, and H.R. 6407 by Mr. Madigan, and related bills to amend the Consolidated Farm and Rural Development Act.

Our first witness this morning is a constituent of the chairman of our full committee, Mr. Foley.

Chairman Foley, if you will, take over and introduce your constituent.

Mr. FOLEY. Thank you very much, Mr. Chairman, and members of the subcommittee.

It gives me a great deal of pleasure to introduce to the subcommittee Mrs. Bryce Cheney, of Pasco, Wash. Mrs. Cheney operates a 2,700-acre dryland and irrigated farm in Pasco and raises both livestock and grains.

She is also the representative of the Washington State WIFE group, as I think the members know, which is an organization that has been active in the State of Washington and other States. WIFE stands for women involved in farm economics. Mrs. Cheney has been an extremely active and able member of that organization.

She speaks, then, not only for herself as an operator of an important farming operation in a very significant agricultural region in my State, but for many hundreds of other farm wives and farmers and ranchers who are very concerned with the problems that face this subcommittee in terms of the financing problems that farmers face today.

It gives me a great deal of pleasure to introduce to the members of the subcommittee Mrs. Bryce Cheney.

Mr. JONES of Tennessee. Thank you, Mr. Chairman.

Mrs. Cheney, we are delighted that you are here. I do not think I have to tell you how well represented you are in the U.S. House of Representatives by Mr. Foley. We highly respect the chairman and have nothing but good things to say about him. He has done a marvelous job as chairman of the full committee.

You may proceed.

STATEMENT OF LORRAINE CHENEY, WOMEN INVOLVED IN FARM ECONOMICS, PASCO, WASH.

Mrs. CHENEY. Thank you, Mr. Chairman.

I certainly do appreciate being here today, and we do appreciate having Mr. Tom Foley to represent us from our district.

I bring our very best to you from the farmers of Washington State, Washington WIFE, and the National Organization of Women Involved in Farm Economics.

Also I bring words from the Washington State strike movement. I am an enthusiastic farmer and have farmed for 20 years in the Columbia Basin. We are north of Pasco, Wash. We are in a Bureau of Reclamation project which buys water from the Grand Coulee Dam on the Columbia River.

I am a member of the National Farmers Organization, the National Farmers Union, and I pay assessments to the Wheat referendum and the National Potato Commission.

In Washington we are very grateful for the farm coalition that passed an improved version of the House farm bill. We are very appreciative of our Congressman, Tom Foley, and his leadership on the floor of the House in passing this measure.

However, much more is needed, much more. Farmers throughout the Nation feel that they have been "ridden hard and put away wet."

A chill breeze is coming up. We will not be able to stand it when we reach rollover time, come the first of the new year. Our local bankers will not be able to rollover the unpaid balance on our 1977 operating loans.

First this is true because in many cases the percentage of money allocated to farm loans is still out.

Second, this is true because very few farmer borrowers will be able to honestly project a profit for the 1978 operating year.

Ordinary banks and PCA's cannot make loans on losing businesses. Under the existing rules even the Farmers Home Administration cannot loan on an unsound projected budget.

A borrower must be able to project servicing his overhead. With farm prices at 42 percent of parity and overriding losses extending from a 2-year period, financing to farmers will be screwed down so tight for the 1978 crop year that virtually no one who really needs an operating loan will get one, except through a reorganized FHA.

Few farmers remain with equity enough to absorb continued operating losses. Very few will and their days are numbered without improved prices. This situation is a threat to U.S. agriculture as we know it, and we farmers are a threat to the financial stability of our country. The only saving grace is the fact that farmers are eternal optimists and that they are willing to bank on the fact that those in

and out of Government who are bent on keeping prices low to the farmer are not always successful. Prices do creep back up accidentally.

Considering the vagaries of weather, and hence a chance at better prices in the world market, and in consideration of this country's real need to keep alive the free enterprise system, family ownership of land, and in order to a very efficient work force on the land, I wish to make the following proposal on behalf of independent family farmers.

To keep us in business while other measures are taken to improve raw prices of foodstuffs, we must enlist the compassion and the respect of the national community to provide a way.

The way we suggest is through an expanded and reorganized Farmers Home Administration program.

First of all, the FmHA bureaucracy would have to receive a firm and specific directive from the Congress to make these funds available to people. To look at the need from the farmer's point of view—which is to say to believe in the future of agriculture and the family farm—this needs to be done.

Where appointments are still open we need to have the State directors jobs filled with farmers who have a feeling and understanding of the farmer's situation and of his individual need and his individual strengths.

The universal reaction among farmers to any mention of Farmers Home Administration is a groan and a sigh. Only the very brave and desperate and the very young are equal to the redtape and the hassle encountered in most local offices. This could be remedied.

The Farmers Home Administration, which has served very well at many times and in many instances in the past, could be the viable vehicle to again help rejuvenate the American agriculture.

I understand this program does not lose taxpayer's money. The 5-percent interest rate with the addition of extra loan fees has not lost money in the past. We need for this loan rate to continue as opposed to the concept of a negotiable interest rate.

If farm prices get so tough that a real estate payment would have to be carried over to a succeeding year or years, the higher interest rate would fatally jeopardize the farmers continued ownership.

With conditions as they are, we are looking at a continuing depreciation of farmland prices. As they go from a gradual slide to a crash, and as everyone puts something on the market in order to make real estate in short-term payments, then that is the position. The next step, then, would be widespread foreclosures as equities disappear.

The alternative to this catastrophe would be supplemental loans through FmHA, including real estate loans that protect from high interest rates. We need to maintain the historic 5 percent on real estate. Commercial-size family farms would need to borrow up to \$300,000 as a second mortgage on the real estate. We customarily have to borrow at least \$200,000 to operate.

It is reasonable to abolish the total indebtedness limit because of inflated costs and unbelievable financial exposure in farming.

Finally, so that local banks and PCA's can stay in the picture, we need a loan established which would guarantee a short-term rollover to the regular banks. This would be similar to other emergency loans which have been in effect. They would be payable over a 7- to 10-year

period at 3 percent interest. Some farmers could then go on with normal banking awhile longer. Farmers Home Administration would not carry the full burden with direct loans.

Now, it is easy to say that some farmers should go broke. But remember, gentlemen, we have been through this weaning out process for the last four decades and some of us still remember the 1930's.

Those who still survive deserve to be allowed to live. As a group, we are the most efficient producers in the world. I raised potatoes this year that will sell for 2 cents a pound; wheat for 3 cents for enough to make a loaf of bread. I may not get paid for last year's potatoes. It appears there are laws to protect everyone in this country but the farmer.

I need a raise in pay to 3½ cents per pound for potatoes and 4½ cents per loaf of bread to cover my risk, my labor, and my investment of 20 years.

If our system is so out of kilter that a raise to 100 percent of parity will cost the customer another 20 cents for a loaf of bread for my 1½-cent raise, and the processed potato package would cost another 20 cents for my 1½-cent raise to 100 percent of parity, then this problem must be approached from a different angle.

To work the willing horse to death is not the answer for the country. If we go down, we will pull everyone else with us, not because we want to, but because in our capitalistic system we all buy and sell to and from each other.

If things go badly for any of us, then we end up owing each other too much and nobody can pay up.

The willing horse is faltering. Will you please help us to pass this bill as an emergency measure by the end of this year? This is for the sake of the country.

Thank you very much.

Mr. JONES of Tennessee. Thank you very much, Mrs. Cheney, for your statement. We hope that you can remain with us until we have heard all of the witnesses. Then we will call you back for questions.

Mrs. CHENEY. I certainly will. Thank you very much, gentlemen.

Mr. JONES of Tennessee. We are delighted that you were able to be here.

Our next witness is Mr. Walter Minger, senior vice president of the Bank of America and also chairman of the American Bankers Association, Agricultural Bankers Division.

He is accompanied by Mr. Leslie W. Peterson, president, Farmers State Bank at Trimont, Minn. He is also past chairman of the ABA Agricultural Bankers Division.

Mr. Minger, we welcome you. I am sure that Mr. Peterson will want to come to the witness table with you.

We are pleased that you are here. You may proceed.

Mr. MINGER. Mr. Chairman, in the interest of time I ask that the full text of the statement be placed in the record. Mr. Peterson would like to follow with a few personal comments.

Mr. JONES of Tennessee. Without objection, your complete statement will be made part of the record, and we would be delighted to hear from Mr. Peterson.

[The prepared statement submitted by Mr. Minger follows:]

STATEMENT OF WALTER W. MINGER
ON BEHALF OF THE
AMERICAN BANKERS ASSOCIATION
BEFORE THE
HOUSE SUBCOMMITTEE ON
CONSERVATION AND CREDIT WITH
REGARD TO THE FARMERS HOME ADMINISTRATION
H.R. 6407, and H.R. 8315

October 27, 1977

I am Walter W. Minger, Senior Vice President, Bank of America and Chairman of the American Bankers Association (ABA) Agricultural Bankers Division. My bank makes approximately \$2 billion in agricultural loans annually.

I am accompanied by Leslie W. Peterson, President, Farmers State Bank, Trimont, Minnesota and immediate past Chairman of the ABA's Agricultural Bankers Division. Mr. Peterson's bank is in a southern Minnesota agricultural community of 900 people and has \$10 million in deposits. We present the ABA's views on much needed revisions to the farm loan programs administered by the Farmers Home Administration (FmHA) as set forth in H.R. 6407 and H.R. 8315.

Our Association, whose membership consists of 92 percent of the nation's more than 14,000 full-service banks supports the objectives of these proposals. However, we wish to discuss the provisions we feel will best serve the needs of farmers and offer some suggestions which I hope will be helpful to the subcommittee.

Banks are deeply interested in agriculture and rural America. Two-thirds of the nation's full-service banks are in communities of less than 25,000 people. In fact, half are in towns with fewer than 5,000 residents. Nearly 60 percent of the community banks responding to a 1972 ABA survey listed agriculture as the single most important source of income for their communities. Banks hold over \$30 billion or approximately 30 percent of the debt of farm families. The bulk of this --

nearly 70 percent -- is held by banks under \$50 million in size.

Agricultural bankers have felt for some time and have recommended through the ABA that the laws applicable to the FmHA farm loan programs need to be changed to assure that this vital program will meet current and future credit requirements of farmers. It is particularly important that changes be made soon so that FmHA programs can adequately help with the current cash flow and credit crunch problems facing farmers in many of our major agriculture regions. We certainly compliment this Committee for turning its attention to credit legislation at this time. There should be a sense of urgency associated with the passage of this legislation.

I will focus my remarks on the following five changes all of which are included in the legislative proposals and which we feel should be given high priority.

1. Extending eligibility for farm loans to family farm partnerships and corporations.
2. Increase loan limits to individual farmers.
3. Remove interest rate subsidies.
4. Provide for separate funding of direct (insured) and guaranteed programs.
5. Strengthen secondary market arrangements.

Eligibility for Farm Loans

We support the provision to extend farm ownership and operating loans to partnerships and corporations which are now excluded. We also endorse the intentions of limiting this to family farm partnerships and corporations. Sometimes in family-size corporations one or more family members may hold stock who are not "engaged primarily and directly in farming or ranching." We believe it would be unwise to discriminate

against such families and, therefore, suggest a less restrictive wording to allow stock ownership by others not primarily or directly involved in operating the farm.

The partnership and corporate forms of ownership are common and valuable tools for farm families in facilitating transfer of a farm unit from one generation to another. Including eligibility for these structures under FmHA lending programs will provide a source of capital and financing for beginning farmers who need the opportunity to gradually buy economically sized operations.

Lending Limits

We most enthusiastically support the proposals to double the maximum size of direct (insured) operating loans from \$50,000 to \$100,000 and farm ownership loans from \$100,000 to \$200,000. We also endorse the proposal in H.R. 6407 to increase the maximum size of guaranteed operating and farm ownership loans to \$200,000 and \$300,000, respectively. In accordance with these changes it is also realistic and imperative that the present \$225,000 ceiling on total "unpaid indebtedness" be eliminated or substantially raised. We favor the provision in H.R. 6407 and H.R. 8315 which eliminates the dollar ceiling and limits "unpaid indebtedness" to the value of the farm or other security.

Statutory limits in the farmer programs have not kept pace with technological changes in agriculture and with inflation. The present restrictions of \$50,000 and \$100,000 are much too limiting, particularly for those producers for whom the program is expected to provide special help: the young farmers, the farmer adversely affected by current economic or weather conditions beyond his control, and new business ventures.

It is essential that financing under these programs provide for the credit needs of economically sized farm units. These farm businesses need to be large enough to provide a reasonable living wage for the farm family and sufficient cash flow to handle increasing levels of business expenses and service debt.

We have previously recommended that limits for the guaranteed loan program be set administratively rather than statutorily, putting the farm program more in line with FmHA business and industrial loans. Although new higher limits set forth in all of the proposals would be most helpful, we believe the guaranteed loan limits of \$200,000 for farm operating and \$300,000 for farm ownership provided for in H.R. 6407 are needed in today's economy.

I would like to emphasize the importance of the FmHA farm ownership loan participation program. In our opinion, this opportunity for FmHA to cooperate with private lenders is one of the best, most effective ways for lenders to funnel money into farm land purchases. This participation program has been and should continue to be the best avenue for financing the purchase of land by young farmers entering agriculture.

Interest Rates

Our Association supports the provisions in these proposals providing that guaranteed farm ownership and farm operating loans be made at interest rates negotiated between lender and borrower. In addition, fees should be set to cover cost of the guarantee service.

We also support the provisions that interest rates on direct (insured) farm ownership and operating loans be based on cost of money to the Treasury.

The interest rate subsidy in the farm program has been costly and has seriously limited program expansion. Therefore, we believe in the long run more realistic rates are in the best interest of farmers.

We do not oppose the provision in H.R. 8315 that would allow the FmHA to offer farm loans at "lesser rates" if such a need can be demonstrated. We feel such a lower interest rate program should be limited and very tightly administered. Such a program might be useful in helping qualified young people get started in farming. This would certainly be preferable to the establishment of a separate financing program for young farmers, such as has been proposed during the past two years.

Funding

We support the provision in H.R. 6407 which would allow segregation (in appropriations) of the program levels for direct (insured) loans and guaranteed loans. This would make possible the setting of the direct loan program level which is more dependent on government funding at a different level than the guaranteed loan program where the loan funds are provided by private lenders. The absence of separate funding has been a primary reason the guaranteed farm loan programs have not been utilized more extensively.

Secondary Market

We have been pleased by the regulatory changes that have been made in recent months by the FmHA to make its various guaranteed loan programs suitable for the secondary market. This has resulted in a substantial increase in such activity by the private investment community.

We urge further refinements that will help in the expansion of the private secondary market. Important among these changes are increasing the individual lending limits, allowing loans to be made at market interest rates, and eliminating the requirement for "graduation to commercial credit." We feel strongly that the "credit elsewhere" and "graduation to commercial credit" tests should be adhered to in the direct (insured) loan program. Since guaranteed loans are made by private lenders at negotiated rates, there is less reason to retain these requirements. Instead, place the guaranteed farm loan programs on the same basis as the guaranteed business and industrial loans. Eliminating these requirements will make a significant difference in the marketability of guaranteed farm loans in the secondary market, and thus a much needed source of liquidity for private lenders in rural areas.

We do not oppose the general provision that authorizes the Secretary of Agriculture to establish a secondary market in the Department of Agriculture. But as indicated, we are optimistic that this need will be met by the private sector. We feel this is the proper course and therefore recommend adopting the provision as set forth in H.R. 8315 which authorizes such a secondary market only after the Secretary determines that an adequate secondary market is not available in the private sector.

Certifications from Department of Labor for Business & Industrial Loans

ABA is concerned over delays that have resulted from the certification required by the Department of Labor. While the changes suggested in H.R. 6407 and H.R. 8315 would offer some relief we would prefer the provisions recommended by the Senate Subcommittee on Agricultural Credit and Rural Electrification in reporting a bill to the Senate Agricultural

Committee which eliminates this requirement in cases the assistance would not exceed \$1 million, or direct employment resulting from the assistance, would not be increased by more than 50 employees.

Additionally, we recommend Congress give high priority to the support of FmHA resource and administrative authority needs for strengthening the agency's field force for effective implementation of its various programs. Bankers have become concerned about the ability of the FmHA with limited staff to properly administer its much expanded programs. We firmly believe the FmHA is the appropriate organization to handle the various government credit programs for rural America including farm, housing, community facilities, and business and industry loans. However, it is important for the agency to have an adequate well trained staff to assure the timely and consistent administration of the programs.

We believe the changes discussed are appropriate and necessary and that the FmHA is the proper vehicle to implement and administer the numerous programs designed by Congress to improve the quality of rural life, enhance opportunity for entry level farmers and mitigate adverse economic and environmental conditions over which the farm family has little control. As active participants in the rural economy we, the agricultural bankers, offer our continued support and cooperation for these family-farm and rural community programs. We want to emphasize the need for early passage of the proposed legislative amendments in light of the present financial plight of many farmers.

The ABA is grateful for the opportunity to express its views. We look forward to working with you, Mr. Chairman, and other members of this Committee as you seek ways to improve the credit program for farm families.

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Mr. JONES of Tennessee. Thank you very much, Mr. Minger. We appreciate the fact that you took the time to be with us today.

Mr. Peterson, we will be glad to hear from you.

STATEMENT OF LESLIE W. PETERSON, PRESIDENT, FARMERS STATE BANK, TRIMONT, MINN., AND PAST CHAIRMAN, ABA AGRICULTURAL BANKERS DIVISION

Mr. PETERSON. I would just like to make a couple of comments as a small country banker and as someone who has been an elected official in a small rural town for several years.

I have had the experience with all these programs. I have utilized in our community and through our bank everyone of the Farmers Home Administration programs with the exception of the business and industrial. So, I do have some experience with it.

But, I would like to comment briefly on two areas. One is the farm ownership loan program. To me, this is one of the best tools that we have to bring young farmers into the business of farming and cooperation between a young farmer and a lender, and the Farmers Home Administration can do amazing things.

We talk about interest rates. There is only one thing worse than market interest rates. That is no money at all on the loan side.

We look at the availability of funds under this program. It has always been restricted. There has always been a program with a limited amount of funds. All the allocated funds have always been used. I guess I would like to encourage an expansion of the farm ownership loan program.

We are often criticized as bankers because we continually support expansion of these programs. But bankers and the lenders are the only ones who ever sit down on a one-to-one basis with the people who need these programs. The young farmer or the person who has a problem comes to us. He does not go to the public. He does not go to the press. He does not write to his Congressman. He comes to his lender with the problem. If we cannot solve it, then it goes by the wayside or the young farmer does not get into the business.

So, I look at the expansion of these limits and the utilization of the partnership and the corporation aspects to enable transfer of land from one generation to another as a way to enable us, as a country lender to do something for these farmers which cannot be done otherwise.

I would like to also comment on the community facility loan. This is the one program which is available to small rural communities without the redtape of going through State and regional forms of government that we have to if we are going to obtain that aid.

My experience is that all the other Federal programs seem to exhaust themselves before they ever get to a community of under 10,000 population. But the Farmers Home program is still available, and I would certainly commend you for your efforts to maintain this community facility loan program. I would like to see that expanded, too, if possible.

Thank you very much. We will be here for questions later.

Mr. JONES of Tennessee. Thank you, Mr. Peterson, for your very good statement. We appreciate the fact that you are with us here today.

We will call you back for questions later.

Our next witness is Mr. Robert McNichols of the National Association of Counties from Pulaski County, Va. Mr. McNichols is accompanied by the Honorable Jerome Decker, county judge, Medina County, Tex., and Mr. Elliott A. Alman, legislative representative.

Gentlemen, we are delighted that you are here. I presume, Mr. McNichols, that Judge Decker is going to give your statement; is that right?

Mr. McNICHOLS. That is correct.

Mr. JONES of Tennessee. You may make whatever introductory remarks you would like.

Mr. McNICHOLS. Judge Decker is from Medina County, Tex., and will speak first.

Mr. JONES of Tennessee. We welcome you, Judge.

STATEMENT OF JEROME DECKER, COUNTY JUDGE, MEDINA COUNTY, TEX.

Mr. DECKER. Mr. Chairman and distinguished members of the Subcommittee on Conservation and Credit, we are most pleased for this opportunity to testify before you today on H.R. 8315, a bill amending the Rural Development Act of 1972. We are testifying on behalf of the National Association of Counties, NACo.

The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban, and rural counties join together to build effective, responsive county government.

The goals of the organization are to improve county government; serve as the national spokesman for county government; act as a liaison between the Nation's counties and other levels of Government; and achieve public understanding of the role of counties in the Federal system.

I am Jerome Decker, county judge from Medina County, Tex. Testifying with me is Robert McNichols who serves on the Community Development Steering Committee of the National Association of Counties. That committee is responsible for recommending rural development policy for our national organization. Accompanying us is Elliott Alman, legislative representative for NACo.

I would like to thank your subcommittee for conducting these hearings. This legislation contains amendments that significantly impact rural counties throughout this country. We are honored to be able to appear before you today and present our views.

Mr. Chairman, we will address our comments to the specific provision of this legislation that is of most concern to us as county officials. That provision is section 4 of the bill, which proposes to amend the law by increasing interest rates in water and waste disposal and community facility loans.

The amendment would eliminate the current ceiling of 5 percent interest. It provides that the loans be issued at the prevailing private market rate, between 9 percent and 10 percent.

As you know, the Rural Development Act was enacted by Congress as a major vehicle to aid rural areas. It was to be the rural counterpart of the urban development programs. But serious questions of equity continue to arise.

HUD and EPA provide 100 percent and 75 percent grants, not loans, to urban communities. At the same time, the Rural Development Act places a legal ceiling of 50 percent on grants for each project. Rural areas are treated differently. For some reason, we are expected to pay more of the cost than are urban areas.

It has quickly become apparent that certain administrative regulations of the agency are costing us even more money. The agency uses a so-called 1-percent rule. This resulted in the average FmHA project in fiscal year 1976 being comprised of 29 percent grant and 71 percent loans, not even the 50 percent-50 percent specified in the law.

We continue to oppose these regulations which place severe burdens on the people of rural America. We also continue to greatly utilize Farmers Home Administration. It is the major source of funding for rural areas and, despite its problems, it works well.

The proposals contained in the legislation before your distinguished subcommittee would, however, make the situation intolerable. It would severely restrict rural counties from continuing to participate in the programs.

The water and waste disposal and community facility loans bear a maximum 5-percent interest rate. This bill would raise those interest rates up to the prevailing market rates plus service charges—probably between 9 percent and 10 percent.

If this provision is enacted, Congress will be telling the people of rural America not to bother to seek Federal aid. More than that, it will be saying that rural areas should do without water and waste disposal systems, that we should learn to accept the lack of community facilities, and that we must forfeit the economic stimulus these facilities bring.

Many rural counties are unable to afford even the current 5-percent interest rate. The changes will place these services and facilities out of the reach of many more.

I submit to you that the sole justification for the programs, and for the agency itself, will be seriously questioned. Why should we apply for a 9- or 10-percent loan, suffer all the redtape, and endure a long waiting list, when we can issue bonds at a lower rate?

Mr. Chairman, the fact is that we, the people of rural America, need these facilities and need these programs. In order to pay the increased cost that these amendments would require, we face a number of unacceptable alternatives.

We can increase property taxes, we can increase user fees, or we can decrease other services. Each alternative is regressive and inevitably burdens those who are least able to afford it. Moreover, higher taxes or user fees would tend to diminish any economic benefit to the community resulting from the new facilities.

In my State of Texas, the waiting list for loans as of September 1, 1977, is over \$48 million. Nationwide it is \$1.9 billion. This list would be even greater, but for the fact that many communities do not even apply when they see how long the wait is.

I have attached this list to my written testimony.

Mr. JONES of Tennessee. Without objection, it will be inserted in the record at this point.

[The material referred to above follows:]

RURAL DEVELOPMENT ACT

Water and Waste Disposal Grants and Loans
Waiting List as of September 1, 1977

<u>States</u>	<u>Grants</u>	<u>Loans</u>	<u>Total</u>	<u>Number of Applicants</u>
Alabama	9,266,600	26,048,800	35,315,400	126
Alaska	47,000		47,000	2
Arizona	157,400	7,498,800	7,656,200	10
Arkansas	7,577,700	24,007,360	31,585,060	149
California	38,449,591	81,999,144	120,448,735	269
Colorado	13,775,400	20,168,200	33,943,600	93
Connecticut		171,250	171,250	1
Delaware		2,689,300	2,689,300	5
Florida	9,647,439	79,185,616	88,833,055	65
Georgia	20,999,400	24,849,900	45,849,300	128
Hawaii	550,000	550,000	1,100,000	2
Idaho	1,780,600	5,482,700	7,263,300	29
Illinois	29,127,926	53,758,667	82,886,326	215
Indiana	5,688,500	40,768,400	46,456,900	72
Iowa	8,063,850	97,237,180	105,301,030	242
Kansas	11,847,617	24,607,141	36,454,758	140
Kentucky	28,170,921	52,776,655	80,947,576	166
Louisiana	9,553,198	34,307,936	43,861,134	120
Maine	3,748,000	13,533,800	17,281,800	37
Maryland	101,300	17,671,500	17,772,800	40
Massachusetts		1,556,000	1,556,000	3
Michigan	1,413,260	51,307,102	52,720,362	46

<u>States</u>	<u>Grants</u>	<u>Loans</u>	<u>Total</u>	<u>Number of Applicants</u>
Minnesota	3,450,989	13,329,700	16,782,689	64
Mississippi	7,665,400	25,959,300	33,624,700	193
Missouri	11,587,640	32,667,195	44,254,835	185
Montana	2,506,000	3,723,500	6,229,500	25
Nebraska				
Nevada	131,499	3,266,390	3,397,889	6
New Mexico	2,327,383	4,277,900	6,605,283	43
New Hampshire	2,380,000	3,810,000	6,190,000	11
New Jersey		67,885,200	67,885,200	45
New York	2,933,000	69,087,365	72,007,723	85
North Carolina		26,074,723	26,074,723	35
North Dakota	2,804,800	32,440,100	35,244,900	47
Ohio	18,347,100	32,422,300	50,769,400	107
Oklahoma	5,235,950	15,280,930	20,516,880	122
Oregon	4,882,412	4,941,472	9,823,884	68
Pennsylvania	33,530,604	120,668,585	154,199,189	156
Rhode Island				
South Carolina	2,477,836	26,034,827	28,511,663	40
South Dakota	9,458,000	20,434,500	29,892,500	32
Tennessee	15,520,569	51,644,607	67,165,176	227
Texas	4,342,300	44,254,022	48,596,322	122
Utah	1,004,000	2,882,672	3,886,672	27
Vermont	1,093,000	1,250,000	2,343,000	4
Virginia	22,041,300	46,902,650	68,943,950	109
Washington	2,953,800	7,398,800	10,352,600	37
West Virginia	26,138,165	40,583,364	66,721,529	82
Wisconsin	6,908,457	9,000,358	15,908,815	93
Wyoming	4,767,350	4,271,450	9,038,800	35
Puerto Rico	736,000	15,653,000	16,389,000	17
Total	395,197,056	1,531,324,661	1,926,521,717	3839

COMMUNITY DEVELOPMENT

Rural Development

WHEREAS the Rural Development Act of 1972 was enacted as a major vehicle to revitalize and sustain rural areas;

WHEREAS Congress has authorized an annual funding level of \$397 million in grants;

WHEREAS the water and waste disposal grant program, authorized for \$300 million yearly, is a key component of this program;

WHEREAS the need for water and waste disposal systems is often the chief obstacle to economic vitality and development;

WHEREAS rural counties have no alternative source of funding for these projects;

WHEREAS many counties within urban areas contain significant rural areas that need Farmers Home Administration assistance;

THEREFORE BE IT RESOLVED that the National Association of Counties urges that:

- * Congress appropriate full funding for the Rural Development Act grant and loan programs and full implementation of these programs,
- * Rural development grants be increased to cover 75 per cent of project cost,
- * The "one per cent rule" be eliminated, and grants be administered on a fixed percentage of project cost basis,
- * Farmers Home Administration promulgate rules equitably defining the eligibility of rural portions of urban counties for rural development assistance, and
- * Preference in awarding water and waste disposal assistance should be given to countywide and area wide systems.

Adopted by the Community Development Steering Committee June 9, 1977

Mr. DECKER. Mr. Chairman, I would like to thank you for your time and consideration.

I would like now to turn to Robert McNichols, county administrator from Pulaski County, Va., to comment further on this bill.

Mr. JONES of Tennessee. Thank you very much, Judge Decker. We appreciate the fact that you took the time to be with us.

Mr. McNichols, you may proceed.

**STATEMENT OF ROBERT McNICHOLS, COUNTY ADMINISTRATOR,
PULASKI COUNTY, VA., ACCOMPANIED BY ELLIOTT A. ALMAN,
LEGISLATIVE REPRESENTATIVE, NATIONAL ASSOCIATION OF
COUNTIES**

Mr. McNICHOLS. Mr. Chairman, I would like to direct your attention to a number of key points.

As a county administrator, I am acutely aware of the importance of Federal programs to help rural people help themselves. If the interest rates to rural counties are increased a great many of our counties will no longer be able to help themselves.

If I may digress for a moment, I will try to explain why. The operation and maintenance charges of any community facility's progress, such as water and sewer, determines the rates that will be charged those users of those facilities. Interest is an operation and maintenance charge. At the current rate of 5 percent, many of our projects are currently marginal with even a 50-percent grant. Therefore, if a 9- to 10-percent interest rate is to be charged, there will be even further communities that will not have economically feasible projects and needed capital facilities that are required by the Federal Safe Water Drinking Standards Act and the other federally mandated programs.

In Pulaski County, water and waste systems and community facilities means jobs. We have been fortunate and have been able to participate in the Farmers Home Administration programs.

The administration has declared itself in support of programs to stimulate the economy. Yet, many rural areas continue to suffer unacceptably high unemployment rates.

Because of our smaller population bases, we suffer greatly when people are unemployed. When a small community loses its only factory, because there is no water and waste system and it is violating one of our environmental laws, the effect can be devastating.

On the other side of the coin, when a rural county can build a water and waste disposal system it stimulates industry, housing, and most of all jobs. One new business can have an enormous impact upon a rural economy.

The task facing Farmers Home Administration and the Department of Agriculture should be to develop mechanisms to meet the needs of rural areas. More communities need to be served, more people need jobs. Increasing the interest rates on these loan programs does not accomplish that purpose.

From the point of view of the Department of Agriculture itself, the purpose of the increase remains unclear. No evidence, statistics, or studies are provided to indicate any benefit to the agency or to rural communities. No claim is made about being able to fund more projects.

The agency has stated it will realize savings in interest subsidies. However, it then expresses a desire to provide greater grants in order to limit the actual cost to localities.

The fallacy with this logic is that grants also cost the Government money. They are not repaid and may actually become more costly in the final analysis.

I seriously question the justification for still other, more telling reasons. The agency did not request more grant authorizations or appropriations, both of which would be required. The water and waste program is currently authorized at \$300 million a year, with the current appropriation level at \$250 million.

Furthermore, in recent testimony before a Senate subcommittee the agency opposed two important provisions dealing with the water and waste disposal program. It opposed increasing the authorizations up to \$1 billion over a 3-year period. It also opposed raising the ceiling on grants from the present 50-percent level up to 75 percent. These changes would have provided the necessary grants needed to limit the costs to rural counties.

The impact of the proposed increases would be immediate and severe. The rural counties of this Nation require a determined effort by the Federal Government in terms of better programs and more money.

Mr. Chairman, the administration continues to talk of urban initiatives. If these initiatives were to be composed of subsidized or market rate loans to rebuild the Nation's cities, the proposal would be met with immediate opposition, and probably laughter. No one remotely considers anything but grants for urban areas. We believe that same consideration should be accorded to the rural communities of this country.

On behalf of the National Association of Counties, we, therefore, strongly urge you to retain the current 5-percent interest rate on water and waste disposal and community facility loans.

Thank you, and we will be happy to answer any questions you might have.

Mr. JONES of Tennessee. Thank you very much, Mr. McNichols and Judge Decker.

If you can remain we will call you back later for questions.

Our next witness today is Mr. Bill Murray, a good friend of this subcommittee and one well known to agriculture over the country, and especially to this committee here in Washington.

Bill Murray represents the National Rural Electric Cooperative Association.

Bill, we are delighted you are here. You were here yesterday to hear the testimony. We appreciate your cooperation and the help that you have given to this committee.

STATEMENT OF WILLIAM E. MURRAY, LEGISLATIVE SPECIALIST, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. MURRAY. Thank you very much, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is William E. Murray. I am legislative specialist for rural area development of the National Rural Electric Cooperative Association, a national service organization of nearly 1,000 rural electric systems in 46

States. These systems bring central station electricity to approximately 25 million farm and rural people overlines in 2,600 of the Nation's 3,100 counties.

We appreciate this opportunity to make our views known in regard to H.R. 8315, a bill proposed by the administration which would amend the Consolidated Farm and Rural Development Act.

At the time we wrote our written statement here, Mr. Chairman, we did not have a copy of H.R. 6407. I have taken a look at it. I took a look at it last night, and I could comment on it later, if you so desire.

Serving as they do about 45 percent of the Nation's rural population, rural electric systems, which are nonprofit cooperative organizations owned by their consumer members, have a major interest in many of the provisions of the legislation. Over the years, NRECA and its membership have strongly supported legislation aimed at providing community facilities of all kinds in rural areas.

Community facilities, particularly water and sewer systems, are not only important to the standard of living of rural people, but they are critically related to attracting and expanding job creating enterprises. Moreover, they have a direct bearing on the health and well-being of rural Americans.

Our main concern with the proposed legislation is that it would increase the interest rate for FmHA water and sewer and community facility loans. And it is to this matter that we would address most of our testimony.

The bill is very similar to H.R. 14641, which the previous administration proposed in the last session and failed to win approval of the full House Agriculture Committee. USDA is seeking to increase the interest rate in order to reduce the interest subsidy cost to the Government. Whether that actually would happen is doubtful, particularly if the USDA had to increase the amount of grants it provides to communities unable to afford the full FmHA rate for water and/or sewer loans.

This is the same justification made by the Ford administration in seeking the legislation last year. At that time, administration officials claimed that FmHA would provide more grants to those communities not able to afford the higher interest rate. We recall during the discussion before the House Agriculture Committee that one member of the committee commented that USDA seemed to assume that grants were cost free when in reality the funds had to be raised by the Treasury at an interest rate of perhaps 7 percent or more.

It appeared from the discussion and the remarks of the Assistant Secretary that there was not a realization that grants are not free.

Congress in recent years has recognized that many communities cannot even afford the statutory 5 percent for water and sewer loans and therefore has appropriated substantial amounts of grant funds which, in effect, reduce the interest rate to below 5 percent. Undoubtedly, Congress felt and still does that such basic rural development components are essential to help rural areas stabilize their populations and to hold or attract new job-creating enterprises. Without central water and sewer disposal, the prospects for development in rural areas are very poor. Thus if the provisions to increase the interest rate in H.R. 8315 were to become law, Congress would have to ap-

appropriate a much larger amount of grant funds to keep the interest rate at a level which many rural communities would be able to afford.

There has been extensive testimony before congressional committees in recent years that scores of rural communities are unable to qualify for FmHA water and sewer loans without grants. And even at the higher level of appropriations for grants which Congress has seen fit to approve in recent years, FmHA still does not have sufficient grant money to fill more than a part of the need of these communities.

I believe the figures in the statement made by the officials of the National Association of Counties bear this out. There is a tremendous waiting list for these grants. There is a tremendous demand. It is larger than Farmers Home can fill.

That Congress is aware of this too would seem to be indicated by the several bills now pending that would lift the ceiling on the amounts of annual grants authorized for FmHA from \$300 million to a much higher amount and raise the maximum grant from 50 percent to 75 percent or 90 percent.

The savings to USDA in interest subsidies—the difference between the present 5-percent rate and what the Treasury has to pay—might be more than offset by the hundreds of millions extra in grant funds that would be required if water and sewer facilities are to be made available in large sections of rural America. It would appear that only by restricting FmHA financing to those communities which can afford higher interest rates and do not require grants will USDA be able to realize any sizable savings.

Most farm ownership and all water and/or sewer and other community facility FmHA loans are presently made as insured which means directly from the agency to the borrower. While FmHA also has authority to make these loans as guaranteed, which means that funds come from a commercial source with an agency guarantee of repayment, the statutory 5-percent ceiling on the interest rate is substantially under that private lenders are willing to accept. However, if the interest rate on the insured is raised at a rate comparable to that prevailing in the private market for similar loans, plus a number of add-on fees which the proposed bill would permit USDA to charge, then this would serve as a powerful pressure to shift these lending programs to the private market. And the guaranteed rate, of course, would be that negotiated between the borrower and the lender. We believe it is a safe assumption that the lender will have more influence on what the actual rate is than the borrower will.

To encourage private lenders to finance these projects, FmHA would guarantee up to 90 percent of the loan and would agree to buy back the loan whenever the lender wished to sell it.

This is a secondary market which the bill provides which, in a sense, seems to us to provide a double guarantee. It also seems to us that it raises some interesting questions and contradictions.

We believe that before any action is taken to substantially increase the interest rate, Congress should know more precisely what the impact on rural communities and rural development will be.

I do not think Farmers Home yesterday made this case as to what the impact would be. I think it is important both to the USDA and rural areas to know that before action is taken on this measure.

We wonder if it would preclude thousands of rural communities from being able to use Farmers Home loans. Based on past testimony, that would seem to be a distinct possibility.

Mr. Cavanaugh said yesterday, if I recall correctly, that there were still 35,000 rural communities without adequate water and sewer systems.

So, there was a big job still to be done out there.

If that were the case, then the trade off—higher interest rates for more loan funds—could be counterproductive. Also, of course, there is no assurance that the administration will request more loan authorization. In fiscal year 1977, for example, it was Congress, not the administration, that increased the Farmers Home loan level for water and sewer. Congress increased the administration figure from \$470 million to \$600 million. The same thing happened this year, Mr. Chairman. Congress increased the administration request of \$600 million to \$750 million.

It seems ironic to us that at the same time that billions of dollars in grants are being provided for water, sewer, and other community facilities to metropolitan areas under HUD and EPA programs, the administration is insisting rural communities pay the full cost of financing such facilities. This, in our opinion, is another example of the inequities that penalize rural areas. Under the FmHA loan program the Government gets its money back and with interest. To be consistent, should not the administration switch from grants to loans for metropolitan areas and require repayment at a rate of interest comparable to that prevailing in the private market for similar loans?

In our view, FmHA loans are justified since these basic facilities represent valuable investments by the Federal Government which help rural communities retain their residents and expand job opportunities. As a result, Federal expenditures for unemployment are reduced and Federal, State, and local taxes are increased.

In respect to farm ownership and farm operating loans, we feel that the farm organizations are more competent in analyzing the impact of an increased interest rate than we are. But we feel strongly that there should be adequate credit available to farmers including financing for purchasing farms by younger farmers. We are not sure, however, that increasing the interest rate substantially for farm ownership loans is the best way of doing this.

There are a number of provisions of H.R. 8315 which could prove beneficial including the increase in the ceiling for farm ownership loans and operating loans. Also, the amendment to change the name of FmHA to Farm and Rural Development Administration seems to us appropriate. There are a number of other technical amendments which could be helpful.

As we stated, however, our main problem with the legislation is the increase in the interest rate for water, sewer, and community facility loans. As mentioned, it is our hope that a thorough study of the impact be made before any action is taken to increase the rate.

We feel that Farmers Home should know, and USDA should know, how it would affect the strategy they are now developing for rural development.

In this room in August the Congressional Rural Caucus had the benefit of Assistant Secretary Mercure's remarks on USDA's plan for rural development. He revealed then that USDA was developing a

national plan, including strategy. We wonder how this would affect that plan.

Lack of water and sewer service in rural areas is one of the most serious problems today. Even after 12 years of FmHA's water and sewer program the number of rural communities without adequate water and sewer facilities has not appreciably decreased.

As we have testified before this subcommittee previously, we believe that FmHA could borrow from the experience of the Rural Electrification Administration by adopting a similar approach to financing water and/or sewer systems. This would involve developing systems on a county or multicounty basis, in contrast to FmHA's method of financing a large number of small, isolated projects. The advantages have been apparent in rural electrification. The area-coverage approach would result in larger, more viable systems capable of expanding to meet the needs of areas in addition to providing full-time management.

We understand Farmers Home finances about 1,400 new projects a year. This is 400 more systems than the entire 1,000 REA borrows for electric utility loans.

I understand there are about 10,000 of these borrowers now compared to 1,000 Rural Electric borrowers. It seems to me that the larger systems would be more viable and more capable of expanding to meet the needs of the area and better able to provide management.

Also, we believe that like REA, Farmers Home should supply technical assistance to its borrowers to help insure success of the projects, particularly during the early years.

In conclusion, Mr. Chairman, increasing the interest rate, in our opinion, on these loans does not seem to be any kind of a solution to the problem of bringing water and sewer services to rural areas on anything approaching areawide coverage as was achieved by REA with electric service.

I am attaching to my statement a copy of a solution which the NRECA membership adopted unanimously at its annual meeting this year. It clearly expresses our membership's position with respect to the provisions of the legislation before you that would increase the interest rates on community facility loans.

In brief, the membership strongly urges that the present 5-percent interest rate on these loans be retained.

I think, Mr. Chairman, in addition to my statement, and in looking at the legislation, I had a number of points that seem to me it would be helpful for Farmers Home to clarify. I do not see anything in this bill that would grandfather present holders of Farmers Home insured loans. Every borrower signs an agreement saying that they will graduate or they will take another loan if it becomes available to pay back the Farmers Home Administration.

Yesterday, Mr. Cavanaugh said that he would like to see a lot of these farmers move up to the upper income range, that is, the upper income borrowers to move to the guaranteed program. Maybe this is in the bill and I have not seen it. But unless there is some grandfathering, it seems to me Farmers Home might be able to force the present holders of insured loans to take guaranteed loans which would be at a much higher rate, 5 percent, compared to what the guaranteed rate would be.

So, this seems to me to be something that you might need to clarify.

Also, with regard to the secondary market, I would like to say this. Generally it is something that sounds like it might be needed. But this seems to us to create some problems—you may be forcing a lot of people to take guaranteed loans because a guaranteed loan, as has been pretty well demonstrated, is not Farmers Home credit, but private credit.

After this guaranteed loan is made—and this could apply to the community facility loans also—the lender might decide that he wanted to unload it. If enough of these were sold back to Farmers Home, then Farmers Home would have a terrific portfolio of these loans which might bear an interest rate of 9 or 10 percent.

I do not know who benefits in that respect because 9 or 10 percent would be higher than really Farmers Home would need to be getting on those loans, even if their interest rates were increased as the administration has asked it to be increased.

Thank you very much, Mr. Chairman. I will be glad to participate in any question and answer session.

Mr. JONES of Tennessee. Thank you, Bill Murray. We do appreciate the fact that you are here and that you provided us with a good statement with sound information and recommendations. The resolution attached to your statement will be placed in the record.

[The resolution referred to above follows:]

RESOLUTION ADOPTED AT ANNUAL MEETING OF NATIONAL RURAL ELECTRIC
COOPERATIVE ASSOCIATION AT ATLANTA, GA., FEBRUARY 24, 1977

FMHA COMMUNITY FACILITY LOANS

The Department of Agriculture's attempt last year to increase the interest rate on FmHA water and sewer loans from 5 percent to 8 to 9 percent would have seriously impaired the ability of large sections of rural America to obtain these facilities so basic to stabilizing population, attracting new job-creating enterprises, and providing modern housing.

At rural development hearings before both Senate and House committees during the past several years, knowledgeable witnesses have testified that many rural communities cannot qualify for a loan at the present 5 percent rate. That is the reason Congress has consistently provided grants so as to reduce the effective interest.

If the interest rate were increased on these loans, thousands more communities would find they were unable to qualify for FmHA assistance. As a result, Congress would have to appropriate millions more in grants if such communities were to be able to secure these facilities. That could result in a higher cost to the government.

Billions of dollars in grants for water, sewer and other community facilities are now being made available to metropolitan areas under EPA, HUD and EDA programs. It would be ironic to require rural communities to pay the full cost of such facilities. Under the FmHA program, the government funds are repaid with interest. If rural communities were to be required to pay a much higher rate, then consistency and fairness would dictate that cities do so.

We believe that water and waste disposal systems are sound investments serving as they do to help rural areas retain their residents and expand economic opportunities. Therefore, we strongly urge the new Administration to retain the present interest rate on FmHA community facility loans.

Mr. JONES of Tennessee. The House is in session this morning at 11 o'clock. We have already had a quorum call. So, we will recess the committee long enough to go and record our presence. Then we will return for questions and answers.

[Recess taken.]

Mr. JONES of Tennessee. Ladies and gentlemen, we will call the subcommittee back to order. We would ask you to approach the witness table as a panel. The committee, then, will have some questions to direct to you.

I apologize again for having to recess the meeting. But we did have to go answer the quorum call. Hopefully we will conclude our hearing today before we have another vote.

Mr. Poage, do you have any questions?

Mr. POAGE. Yes, Mr. Chairman.

I want to suggest this. I recognize there is going to be a vote on the floor before too long, and we will have to get over there, and we will have to forego some of this discussion. But I would like to bring this up.

I think it was brought up better this morning than it has been brought up at any time about the inequity that exists between the treatment of rural and urban areas in our development programs.

I appreciate the fact that several of our witnesses did bring that up. I am deeply interested in the statement made by Mr. Minger. I think it was a good statement taken as a whole. But I would like for you, Mr. Minger, to explain, if you can, just why there should be this different treatment of the rural and the urban areas.

I am sure that you are suggesting very sound approaches toward the development of our rural areas. It seems to me they ought to have equal treatment with the urban areas unless you have in mind some special reason. I wonder what your reasoning is.

Mr. MINGER. Mr. Poage, I am not so certain that I know all the reasons for the possible inequities in treatments for people in the rural areas versus people in the urban sector.

Mr. POAGE. You do realize that most of the billions and billions of dollars is going to our cities and that a large part of it goes in the form of grants rather than that of loans. You probably do not realize, but the judge who was here does realize, that in the State of Texas, for instance, we only got 10 percent of the money for these developments. Only 10 percent was in the form of grants and 90 percent was in the form of loans on which you suggest that we should pay the going rate, which is roughly 10 percent. We cannot pay it.

Of course, that would put us out of the program if we had to pay 10 percent on 90 percent of the development funds that we get.

You are from San Francisco, I believe. San Francisco is not paying 10 percent on even 10 percent of the money they are getting from the Federal Government.

Now, why should the people of Texas pay 10 percent on 90 percent of their help. Why should the fellow out there in Medina County be paying 10 percent when the man in Bayer County, which is San Antonio, may be paying 2 or 3 percent?

Mr. MINGER. I would suggest maybe a reason or two. On the community facility loans, the density of people that you find in the urban sector is more densely populated. These areas represent a better source or a more consistent source of income that can service the costs of these—

Mr. POAGE. May I break in right there? New York City, the largest city—with the exception of Los Angeles—in this country has been finding it impossible to pay their debts. I refer to Medina County because of the judge who was here.

I will say of the 254 counties in the State of Texas there is not one of the counties that I know of that has ever defaulted on their debts.

You cannot get away with that proposition that the cities are better credit risks than the counties of Texas. I think the counties of California are in the same situation.

Mr. MINGER. I guess I should have prefaced my remarks by saying that we should think in terms of feasible projects. I guess New York City has funded some things that were not very feasible.

But even at that, the cost per user of some of the public facilities, because of the density of population, is less in the cities than it is in the country. This puts a different sort of burden for repaying on people in the less densely populated areas.

That is only maybe a reason why there are these inequities in the community facility areas.

As far as some of the other programs go, like farm financing versus commercial financing in the cities, I would suspect that just looking at our own experience in the bank that one of the reasons that agriculture does not get the same shake that other businesses get is because of the quality of financial data that is available.

While some farmers do an excellent job of recordkeeping and of monitoring their expenses and the like, on average I think most of us would have to admit that the farm sector does not do the same kind of job of supporting its credit requests as do major commercial entities in the urban sector.

Mr. POAGE. I agree with you entirely that the commercial entities do a much better job and are able to bring in a balance sheet that you can say you know something about their business when you read it.

If I brought in mine, you would not know anything about it. I would not either. Neither do most of the farmers in my county keep those kinds of records. You are exactly right from that standpoint.

That makes these individuals in the businesses a better risk. But it does not make the Government entities a better risk. Experience has proven they are not better risks.

So, as I see it, we should not charge these farmers a higher rate of interest through their water and sewer systems than we charge the cities. I do not think we should give farmers something that we do not give others. I am not advocating that.

I was one of the authors of one of these community development bills, the Poage-Aiken bill, which is the grandfather of all of these community developments. It is the original water district bill. Senator Aiken and I deliberately put in there a prohibition against more than a 50-percent grant. We thought we were generous. At the time I guess we were.

But we did not want to see these things develop into a burden on the Federal Government. I personally think that your answer should be that we have gone too far with the cities rather than trying to suggest that we ought to give the cities more than we give to the rural areas.

I think the cost of the utilities of those people that is necessarily greater than the cost per unit in the city—and it is on the water or sewer system—is higher in those rural areas. I do not see why they should be burdened if they pay their debts. Experience has been that they have paid their debts.

I said that the Poage-Aiken was the first, but, of course, the electric systems were really the first of this sort of thing.

The defaults in the rural electric systems are less than one-half of 1 percent. I do not know the exact figure. It is practically nothing.

Those rural systems have been paying out. They have been paying their debts even though they have had to pay more than the people in the urban areas. I am just saying this. Why should not they be treated as well as the people in the urban areas?

Maybe we need an equalization. Maybe we need to bring somebody up and somebody down. Maybe we need an equalization, but I think it is clear that we ought not to establish different standards.

Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Poage.

Mr. Baldus?

Mr. BALDUS. Thank you, Mr. Chairman.

Mr. Chairman, I am interested in the community loans and the proposal to increase the interest rate to the cost of money.

I am also interested in the proximity that by the use of municipal bonds that currently might be 5 or 5.5 percent and what effect that would have on communities and just what they might do.

A quick glance at it—and again following up on Mr. Poage's suggestion—maybe what we should do is increase the grants and sort of bring them up equitable to what large cities get.

Maybe we could allow the community to go to municipal bonds which probably would not be much higher than 5 percent at the present loan rate to get the additional funding. It would make them more equitable that way.

I am interested in anyone who would like to respond and to react to that problem or that question.

Mr. PETERSON. I would respond to that. We have very effectively, in our community, used the Farmers Home Administration loans. We have done it because we could not sell in the market sufficient amounts of bonds. The rate would have been too high or the rating too low so it would not have been investors that would have taken these.

I think it is going to have to be the prerogative of the Congress to determine just how they balance off the grant and the interest subsidy and which is going to be the most expensive.

It has always been my opinion that people are willing to pay for a service if the service is worth the cost. Certainly any of these services are worth something. Maybe it will be better than to subsidize the interest rate and reduce the amount of grants and the overall effect on the Treasury in the long run might be less.

Mr. BALDUS. You would agree that if we go to cost of money for community facility loans of that ratio that would change drastically?

Mr. PETERSON. The cost of money to the Treasury now would be somewhere in the area of 7 percent, probably, and will go up 2 percent. This could create a hardship. I would reflect back on my own community, and I would say we would still be able to make those payments, but it might be a hardship on some of the people because this would be reflected directly back into assessments on those people.

Mr. McNICHOLS. Mr. Baldus, I would like to address that.

If we could, in fact, sell revenue bonds or if we could, in fact, sell general obligation bonds on a feasible project, I can assure you we would have been doing it because who would want to go through the wage requirements and what county would want to incur the additional costs of the Fair Labor Standards Act and all the other red-

tape involved in working with the Government bureaucratic tangle?

I can assure you that we are unable to sell revenue bonds because the projects are such that they are not economically feasible without considerable grant money because the user bills, for example, for 2,000 gallons of water without grant money would be \$13 a month. The average city bill for that same 2,000 gallons would be \$2 a month.

So, without a 50-percent grant, you cannot get the user rates down.

In many States in the United States, in order to sell general obligation bonds, you must pledge the full faith and credit of the county which would require a referendum, and the referendum may affect a service area. But under the constitution of some States you must hold the referendum in the entire county.

So, you would have people voting for a referendum which, in fact, would not affect them. Of course, the tendency is to vote against that that does not affect you.

Mr. JONES of Tennessee. We have another vote on the floor. I apologize again to the witnesses. We will have to recess briefly again.

[Recess taken.]

Mr. JONES of Tennessee. The subcommittee will come back to order.

Mr. Baldus was in the middle of his questioning. So, Mr. Baldus, you will continue.

Mr. BALDUS. Thank you, Mr. Chairman.

I wonder if there is general agreement that if the 5-percent rate for small communities is moved up to the cost of money, that it would generally foreclose an avenue or greatly increase it because small communities do not have the same capability of going to the municipal bond market that large communities have because of size, and the rate will vary considerably.

Is there general agreement on that?

Mr. McNICHOLS. I would like to address that briefly. Many, many counties in the United States, 1,500 of them, are considered rural out of 3,000. You will effectively wipe out 1,500 counties from being able to participate in a program when you raise the interest rate to the commercial lending rate on community facilities.

Community facilities includes such things as hospitals, water, sewer, fire stations, and all the necessary things that are required by communities that are modernizing and catching up with their urban sisters.

Please, gentlemen, let us not inhibit rural development. Let us do, as the act provided in 1972, let it go forward by continuing with the present interest rate and continuing with the grant program.

Mr. BALDUS. Are you then saying that we would increase the inequity between large communities and small communities?

Mr. McNICHOLS. There is no doubt about it. I can see you now suggesting to the mayor of Detroit that he go down to his local bank and pay 10 percent on any loan rather than receiving a 100-percent grant. He would laugh at us all. He is receiving his HUD development block grants direct to the city in millions of dollars each year at 100 percent grant level.

Yet, we ask our sister counties that happen to be rural in nature to participate in a loan program at a 50-percent rate, at least, and generally at the 70-percent rate, and pay 5 percent now. Now you will ask us to pay 10 percent?

This is a total inequity.

Mr. BALDUS. Does anyone else care to respond to that point?

Mr. MURRAY. I was going to ask a question. We talked about communities issuing tax-exempt bonds. But it is my understanding that a sizable part of Farmers Home loans for water and sewer go to associations. I do not know whether these associations have authority to issue tax-exempt bonds. I would guess that a lot of them do not.

I know in Texas there are an awful lot of water associations that are Farmers Home borrowers. I do not know whether they can issue tax-exempt bonds or not.

But, you cannot just talk about tax-exempt bonds as the solution for all of the Farmers Home borrowers.

Mr. BALDUS. If you are addressing that question to me, I will seek refuge by saying that we are here to ask the questions. [Laughter.]

Mr. MURRAY. I am sorry about that. [Laughter.]

Mr. BALDUS. Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Baldus.

Mr. Panetta?

Mr. PANETTA. Thank you, Mr. Chairman.

First of all, as the representative from California, I am pleased to see Mr. Minger here, who is with the Bank of America. It is a primary lender for agricultural loans in the State of California. They do an outstanding job in that area.

With regard to that, I would be interested in Mr. Minger's comments as to the interrelationship with Farmers Home at the present time.

What are the problems that you, in the banking industry, see with regards to the interrelationship of Farmer Home loan rate?

Mr. MINGER. Mr. Panetta, much of the testimony representing, I guess, a consensus of country bankers is what we gave here this morning in the full text.

But in California we have, I think, some of the same problems that we talked about in our appended testimony. First, I think there is a lack of funding available commensurate with the demand from the country from the rural sector. I think the experience of our State office in California has been that they have always been out of funds long before the end of the quarter comes around.

So, the first problem I think that comes up is an inadequate level of appropriate funds.

Second, with the proliferation of programs in the Farmers Home Administration, there has been too great a demand on the capabilities of the existing staffs of Farmers Home Administration. These folks have been asked to do just a lot more than they ever have before.

Their expertise some years ago was in administering closely supervised agricultural credits. Now these folks are required to get into corporate finance associated with business and industrial loans, housing, community development, emergency loans of all kinds, and so forth.

They have become almost all things to all people. The staffs have not grown to that extent. There has been an inadequate time, I think, to provide the kind of training and the backup systems that would make them operative.

Mr. PANETTA. Is it fair to say that at the present time your experience is that they are not picking up the loans that they should be under present rules?

Mr. MINGER. That, in a sense, is a little bit unfair. They are usually all the funds for loans that is budgeted and all the appropriation that is budgeted for California. So you cannot say they are not doing the job.

But I think where the frustrations come in on the part of the farmer and the rancher and the people who use these programs and the lender is the length of time that it takes to get the job done.

It is an inordinate amount of time to get a response on some of these credits.

Mr. PANETTA. At the present time with regard to young farmers specifically, and family farmers, do you find that there is an increasing number of loans going to the more established farmers rather than the young farmers? If so, do you think that the Farmers Home Administration is picking up farmers who you cannot serve? What is your experience there?

Mr. MINGER. Mr. Panetta, over the years our customer base has been shrinking, as it has in most areas. There is not an increase in the number of people farming. That number is shrinking.

The use of money, however, is growing every year. So, that is one of the things that lenders have to contend with.

Our average age in California is also growing. The farmer, on average, is getting older.

During the high-income years we saw a reversal of the aging process and more young people became interested in, and had the ability to participate with the father and the father-in-law and get started on their own and get back into agriculture. Since we have had the downturn in some of the commodity prices, that has gotten tougher to do. Along with that we have had the huge increase in land prices and the costs of machinery and the like which increases your investments substantially.

So, to answer your question, I guess a little more directly, at the moment we do not see any great increase in the number of young people getting into farming. The Farmers Home Administration and I think the farm credit system probably in this respect do a better job of financing young people into farming than does the commercial banking system.

Mr. PANETTA. Mr. Peterson, I would be interested in your comments.

Mr. PETERSON. It is our experience, at least, that we can use the Farmers Home Administration program as a banker in working out an adequate financing program for young farmers. Quite often we can.

The big problem comes particularly in the land purchase area with the delays that are involved with these loans. If there is a piece of land for sale that is normally on the market for 30 to 60 days and then it is sold, and if we have a young farmer and the terms and situation fits him, and if he has to wait for 6 months for the Farmers Home Administration commitment or the seller has to enter into a contract for a deed to wait that long for potential financing, then he is not going to sell to this fellow.

So, the land then tends to consolidate into the hands of an established individual who can come up with the payment when the seller wants it.

So, the problem I see, at least in the Corn Belt, in trying to perpetuate some of these young farmers in business is to have adequate funds available when they are necessary.

The Farmers Home gives us figures of close to 60 percent participation money in most of these farm ownership loans and 40 percent coming from Farmers Home Administration. When you look at the average, then, of interests costs between the 5-percent Farmers Home loan and the 9 percent which is about the going rate for Federal land banks in our area, total APR, you are looking at about 7.25 to 7.5 average cost.

We can work that in. This is probably higher than the average cost of money to the Treasury if the Farmers Home Administration were to come in at that kind of a rate and fund the entire loan.

So, again, we are going to have to seek some kind of balance in these farm ownership loans and maybe have to make some concessions interest ratewise for beginning farmers. This bill, of course, does give the Secretary that authority.

We do have the problem in those loans of the people who are unwilling to graduate after they can afford to pay the going market rate. I have one customer in particular. He owns 380 acres of land that is now worth over \$2,000 an acre. He probably has a net worth statement of about \$1 million, but I know he still has an \$18,000 5-percent Farmers Home loan. He is on social security most of the year, but he still farms 20 acres of that piece of land just so he can retail that subsidized loan. This is not right.

There has to be, I think, if we are going to go into those subsidized rate loans, some mandatory review at the end of a 5-year period or something like that, so that we can graduate these people to market rates of interest. Otherwise, it is my dollar and your dollar that goes to fund this gentleman's higher standard of living when he really does not need it.

Mr. MINGER. Mr. Panetta, let me add just another comment.

One of the other problems in putting the young people into farming with the present limitations is that those are far too low. You have operating credit and farm ownership. If you do that to a young person, actually you are doing him a disservice because even though you can finance him initially, the size of the operation that he can undertake with the financing available under those limitations of the Farmers Home Administration, you cannot generate enough cash flow to the point where it can make any progress. If he cannot progress, then he is not going to become a viable commercial farmer.

Mr. PANETTA. I understand that. My concern is that Farmers Home was developed to try to protect those who were in farming and try to help young people get into farming. I think my fear is that we are providing larger loans to larger and larger farming operations. Obviously, that is the direction we are heading. I am not sure it is the right direction.

I am not sure that this trend can be reversed at this point. But I think we have to try to protect those farmers that the program originally was intended to protect.

Let me ask this generally. With regards to the rural communities and going beyond the 5 percent on the loans, the testimony yesterday

by the administration indicated that we would be going to roughly a 5.6-percent loan rate based on the current market. I notice you mention a 9- to 10-percent rate in your testimony.

Can I ask what the basis of the 9- to 10-percent rate was?

Mr. ALMAN. We were using the current market negotiable rate with the typical private lender in a rural area and what he can expect to receive from a bank, plus what we interpret as a service fee or points that are added onto the loans. That is how we reached the 9- to 10-percent interest rate.

Mr. PANETTA. The testimony yesterday by Mr. Cavanaugh was that they hoped to fill in the gap with grant money. Is it your feeling that that will not happen?

Mr. ALMAN. I had a couple of comments as far as filling in the gap with the grant funds. Based on the way the program is run right now, there is a critical shortage of grant money. We have documented the waiting list of grants.

What the agency is proposing is to increase the interest rates and, in turn, give more grants which would keep the costs down. Well, they would have to have even more grant money than they are getting now. The agency did not request any increased grants for fiscal year 1978 nor, I believe, did they indicate they would be requesting additional grants for fiscal year 1979.

We are looking at a maximum authorization of \$300 million a year. We are very close to that. In fact, if we look at the program right now, we have got \$250 million appropriated for Farmers Home water and sewer grants and the rest of that money has been used on the drought program. That is the emergency drought relief program.

So, actually there is no leeway as far as the grant money is concerned. If a proposal is to use more grants, then it would have to be accompanied by a proposal to increase the authorization. I have not seen it.

Mr. PANETTA. I am thinking that their commitment is somewhat less than trustworthy at this point.

Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Panetta.

Mr. Kelly?

Mr. KELLY. Thank you, Mr. Chairman.

Mr. Minger, you seem to take the view that making bigger and bigger loans is a good thing. You do not seem to put the great emphasis on starting young people in farms. Why is that?

As a banker, is it one of the primary criteria that you use that when someone comes in and wants to borrow money to get into any kind of enterprise—and let us say agriculture is an example—the first thing that you look for is he young and poor? Or, do you look for such things as does he know what he is doing, is he reliable, can he produce food, can he make it in the market? Or, do you just look for people who are young and poor?

Mr. MINGER. Mr. Kelly, no. In response to the way we try to operate—

Mr. KELLY. What does that mean exactly? You mean you try to stay alive in the real world as opposed to running some sort of a charitable organization?

Mr. MINGER. We are not as yet a charitable organization. Let me tell

you a little bit about the constitution of our present portfolio of the farmers and ranchers we finance.

We loan about \$2 billion a year to farmers and ranchers. There are probably a minimum of 3,000 or so farm customers each year. Those people run the gamut from folks borrowing \$1,000 seasonally to finish out a crop to our largest customer who has a line of credit of some \$45 million. The average of our borrowers has a line of credit of about \$85,000 to \$90,000 for each seasonal operation.

So, we have rather a broad constituency of borrowers and some of those people you would consider small farmers, and some of them are medium sized, and some, of course, are very large.

We do not ask a person whether he is poor, or we are not particularly concerned about his age. We do expect that when someone requests operating credit that he also can reasonably demonstrate a repaying of those operating funds. That is the No. 1 criteria.

Mr. KELLY. Then in the district that I represent, I am starting to get complaints from the farmers that the Farmers Home Administration is just out there loaning money to people who are young and poor. The people do not know what they are doing, apparently. It is really a beautiful thought to think of some young man having a fresh start in a profession as close to motherhood as farming is. It is really a beautiful thing, especially if it has a sunset in the background.

But these farmers are really concerned about the idea that the Government is taxing them to death and regulating them to distraction and then out there loaning money to people who do not know how to farm. The first thing they do is buy a new pickup truck.

Is any of this of concern to you, or as long as you get your guarantees, does it really make any difference?

Mr. MINGER. Having a guarantee is prop, of course, in answer to the credit support for your credit. But there really is not any substitute for being able to demonstrate that the enterprise itself is viable. A lender would be doing a poor job of lending if he relied on guarantees which always presuppose that before you can demand performance on a guarantee the person is in default, the borrower is in default, and you liquidate the borrower's assets before you call on the guarantor.

Mr. KELLY. Then being young and poor is really more of a campaign speech than any sort of criteria for doing business in the real world that you live in; is that right?

Mr. MINGER. We do not advertise for clients who are young and poor. We do advertise that we will undertake and consider the financing of people who know what they are doing.

Mr. KELLY. You people represent rural America. I am from the country myself. I am just as confused as I can be. You are dashing here to Washington and several of you—but the one I am looking at right here before me—is Mr. Murray. He said, on page 2 of his written testimony, that “undoubtedly Congress felt, and still does, that such basic rural development components are essential to help rural areas stabilize their populations and to hold and attract new job-creating enterprises.”

That sounds like it makes a whole lot of sense, does it not? Except this Congress right now is just aquiver trying to find ways that it can do the same things for the urban areas.

How are you going to manage this? Out in the country you do not have enough people in the jobs, and in the city they are trying to keep theirs, and the Government is going to help both of you fight each other.

It would seem as though it is a good thing to build water systems and sewage treatment systems if you are in that business or if you have a friend that is. But if you are building these things simply because Government money is available with the idea that you are going to do these things, then you have got to recognize that the Government is doing the same thing for urban areas but on a much vaster scale because they have more political clout. We are just going to collapse the whole Nation in the process.

Have any of you considered what is really going on overall with Government when you come here with these requests, or is this just a request in isolation?

Mrs. CHENEY. I can consider this in the whole context. I came here talking about keeping farmers in business. These are farmers who have been investing time and money and their families' labor over a period of several generations. I think we do have to consider the total impact.

I will not say that we do not need these projects in the country to get water and so forth to the people. But I think the important consideration at this point, the primary consideration, has to be to keep agriculture in this country from collapsing.

Mr. KELLY. I understand that.

But we are talking now about water treatment plants and sewage treatment plants which have more to do with high density and with attracting people and making the land available for an introduction of larger populations. That does not have anything to do with producing food.

As a matter of fact, all those people kind of get underfoot and in the way.

Mrs. CHENEY. I think I have to agree with you on this point. I think that what we first have to do is to save agriculture and then develop the communities. I think that the communities will develop on their own if there is enough business going on.

Mr. KELLY. I want to reverse some of the flow of knowledge. That is not what is going on in this Congress now. What is going on in this Congress is a bunch of nonsense. The Government is helping you attract the people out of the cities and helping the cities retain the population that they have and attract those people back. The country is paying the bill for it. We just happen to be going broke in the process.

As a matter of fact, the \$700 billion indebtedness that they talk about is only a tiny part of it. There are trillions of dollars of indebtedness and part of it is in these loan guarantees which does not ever occur on the budget or become involved with the national indebtedness.

But you people are contributing to it, and I wanted to get some response from you about your contribution.

Mr. MURRAY. Mr. Kelly, I wanted to cite a figure here that came out of USDA just recently. It says that off-farm income accounted for 59 percent of the income of all farmers last year. So, this kind of a component of water and sewer and other community facilities is very

important to providing these jobs that both farmers and nonfarmers use to supplement their income.

In addition, title IX of the Agricultural Act of 1970, as you will recall, Congress gave the highest priority to rural development as—

Mr. KELLY. What year?

Mr. MURRAY. Title IX of the Agricultural Act of 1970. It made a firm commitment to revitalizing rural areas as an alternative to piling up everyone in the cities which was going on at that time.

Fortunately, since the early 1970's, there has been a big reversal. People have started to come back to rural areas to some extent because of what Congress has done in the Rural Development Act and in other programs.

We recognize that we are not in the same league with the big cities which are getting all kinds of grants from HUD and other places. But these programs of Farmers Home, as Congress has recognized, and as we have recognized, are very important to stabilizing the population and water and sewer and community facilities are a very, very important part of the total rural development picture.

Mr. KELLY. Let me ask you this. Is it not to a large degree a truth that the Government, the Federal Government, directly or indirectly through its impact on local government is compelling the construction of these water treatment plants and sewage treatment plants when the people there do not really want them and cannot afford them, but if they are compelled to have them, then they have the Federal money to get them?

This is part of the problem.

Mr. McNICHOLS. Mr. Kelly, I would like to address that.

As you recall, the Congress of the United States passed the Waste Water Control Act and the Pollution Act and the Solid Waste Control Act and the Toxic Substances Act, and most recently, the Safe Water Drinking Standards Act.

Pulaski County nor the National Association of Counties or any of the other 3,000 counties in the United States passed those acts. We are now mandated by the Federal Government to provide water and sewer services to those concentrations of populations that exist in rural counties. We have no choice in the matter.

The EPA tells the State Water Control Board, or whatever it is called in the individual States, that they will by 1978 control all discharges into any of the waterways of the United States.

The Corps of Engineers says the farmers will not drain their feed-lot wastes into any of the waterways of the United States.

Pulaski County did not create that problem. The U.S. Congress brought that about as far as mandating programs is concerned.

Therefore, rural counties which cannot afford multimillion-dollar sewage treatment plants, which the one under design in Pulaski County will cost, must look to the Federal Government for the necessary 75-percent grant.

Mr. KELLY. Then let me ask you this. Then why is not the approach put on that level, "Hey, you bunch of dummies said we had to have this stuff we did not need. We do not have the money to pay for it, so come up with the money. You want our vote, and you want to do something nice for us, so give us some money so we can do it."

Mr. McNICHOLS. That is what we are doing here today. Further, if I may, I have a correspondence file with Hon. Congressman William Wampler and Hon. Senator Harry Byrd and Hon. Senator William Scott which shows that we have, for years, advised of our concern about this sort of mandated project in the United States, particularly the rural areas.

But now that we do have these acts, and it does not seem that Congress is going to reverse itself, we must implement and we must provide these services to our citizens or be sued.

The county of Pulaski was most recently sued by the State health department for not providing proper solid waste disposal.

The town of Boones Mill, near Roanoke, Va., sued and was in turn sued by the State water control board for not having a sewage system. They now have a sewage system under construction. It does not work. The only thing that works is do what the law provides. We must seek the moneys to do those mandated programs.

Mr. KELLY. Let me ask you this. In order to help you defray the costs, there was some suggestion, I believe, by Mr. Minger and Mr. Poage, my colleagues from Texas, disagreed, that the urban areas are a better credit risk with regard to the things that they control.

If they would operate their business in a manner that they could afford, then they are a better credit risk because of the density and because of the tax base.

Is not that true? There is a real problem for rural areas in that you do not have a tax base and if you try to tax the land, then you aggravate the problems of agriculture. Then you have a problem of density in order to pay for this.

So, one of the things that you did to revieve that is through the chambers of commerce and other efforts to try to attract industry which will help defray the costs of these systems that you put in. Is that true?

Mr. McNICHOLS. The county of Pulaski has had the good fortune to have industry located in Pulaski County, such as White Motor trucking plant. We did not invite that industry in. We did not solicit that industry. We, in no way, asked that industry to locate in our county.

It located and it uses existing services. There were no additional grants required for that industry to locate.

But since the Federal laws have been mandated for additional services for population centers that do not have services, we now must implement those programs.

Mr. KELLY. Let me ask you this. Is it not true that the rural areas and the small towns and the small counties are creating industrial parks and trying to attract industry that will bring jobs and help the tax base situation?

Mr. McNICHOLS. Many rural counties and many rural towns, in fact, are using Farmers Home Administration industrial development programs to create industrial parks and provide the necessary services for the economic base to provide for industry.

But I would like to note one other thing. Many rural counties have 20 percent unemployment rights. They have seasonal unemployment. They do have difficulties in having Federal money that go to cities such as Comprehensive Employment Training Act and getting into the

rural areas. It does not happen because governments are not in the habit of creating jobs for the unemployed.

So, they have tried with their spirit of getting those done on their own to develop these industrial parks so they can have the industrial base to take the burden off the agricultural sector of the economy.

Mr. KELLY. Then when the Government gets into the act of trying to solve the unemployment problem in the urban areas, then this puts the Government in direct competition with these rural areas; does it not?

Mr. McNICHOLS. Yes, sir. That has been going on for years.

Mr. KELLY. But help me out a little bit. Does that make any sense to you?

Mr. McNICHOLS. I do not know that I could comment on what the Congress has done as to whether or not it makes sense should be treated in an equitable manner. In order to maintain the stable economy, there is a necessity for jobs.

Mr. KELLY. Does that boil down to this? As long as you get your share you do not care what happens?

Mr. McNICHOLS. The National Association of Counties represents 3,000 counties. Many of them are rural in nature. Our statement from the National Association of Counties is to treat all the counties equitably and hopefully our statement did provide for that treatment.

Mr. KELLY. Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Kelly.

Mr. Glickman?

Mr. GLICKMAN. I would like to go back to a statement that was given by Mr. Minger. It concerns the critical nature and sense of urgency of the general farm credit problems.

When we were debating the farm bill—and I come from a wheat-producing area which is, because of prices, probably one of the worst areas—there was some discussion about the fact that if we get the target prices up high enough—which we did—then it would perhaps solve some immediate credit cash problems, both for wheat and feed grain farmers, because they would be getting payments from the Government through the commodity programs.

What I want to know is this: Are the problems created by the need for additional capital and the additional lending authority and the need for more money? Are they based upon a bona fide need for additional money as a result of natural factors in the farm economy? Or, are they based upon the fact that farmers are going to go bankrupt unless they get these additional funds?

What I am really asking is this: Are we really prolonging somebody's problem by providing this kind of additional lending authority? Or, I suppose what I am concerned about is this: Are there certain natural phenomena happening in American agriculture which may lead to the point where we can provide more and more loans and the farmers will go more and more in debt when maybe there are fundamental changes happening within American agriculture?

I am playing the devil's advocate a little bit here because I fought for higher target prices. I have tried to argue for the family farmers. But what worries me is that we may be prolonging some problems.

Mrs. CHENEY. I would like to respond to that.

I think we are definitely prolonging the situation, but I think at this point we cannot decide it is a helpless case. There have been elements in the pricing of farm production in the past that have contributed quite unexpectedly to price rises.

I understand that Secretary Bergland is looking for foreign markets for our food. I think if we decide that the family farmer is going to go the way of the albatross, then we are assuming something that is too detrimental to the country. I think we have to fight to keep the family farmer going, and we have to look for other ways of solving the problem and for getting a price that will get the cost of production, plus a reasonable profit, as our banker friends here said.

You cannot stay in business unless you can make a profit and unless you can progress.

Also, I would like to comment that the Department of Agriculture has told farmers for the last 15 years, that I know of, that we would have to get bigger and more efficient and that we would have to get into the more progressive ways of raising produce and we would have to raise it for less money and we would have to be better managers.

So now we are told that we have overproduced and that we did it wrong.

I think this is really not the farmers' cross to bear. I think the farmers, at this point, have to look to the Government for some protection. I think that the cause is not lost.

Mr. GLICKMAN. Thank you.

Mr. Peterson?

Mr. PETERSON. Besides the change in the size of the loan that we are talking about, it does not even reflect the change in inflation over the last 15 years since those limits were set.

So, really what we are doing is trying to bring us back to the same place we were 10 or 15 years ago as far as limits under the programs are concerned.

Mr. GLICKMAN. But the statement from Mr. Minger was that there was a sense of urgency, and there seemed to be involved there a capital crisis, I assume. There was a sense of urgency on the part of farmers.

I recognize the inflation impact, but as I gathered it, he was saying that we ought to do this legislation or we will have bankrupt farmers.

Mr. PETERSON. It is probably true. We are probably going to look at some credit problems over the next 2 years that we have not yet had to face up to in the last 5 years because of the profitability within agriculture.

We prolonged some of the agony of some of the farmers because with the profit margins that have been available to agriculture in 1973, 1974, and 1975, it has been possible for almost anyone to make a profit in this business.

But now we are getting back to where we are going to start weeding out the marginal operators. This is the way it has been since the beginning of time and from the beginning of agriculture in this country. Under our free system this is not going to stop unless you decide you are going to legislate farm size and who operates and owns his farm.

So, there is going to be an attrition. We have seen a delay in attrition. But when we, as lenders, look at a farm operator and say to ourselves

that this is a viable unit and the man has experienced some problems and that with the use of these programs and with expanded limits, we can salvage what we think is a viable farm operation, then we want the opportunity to do that.

Mr. GLICKMAN. Right.

A point is that the responsible expansion of credit is necessary. I just do not want to get into the position where we prevent arbitrarily certain natural things from happening that would otherwise happen except we happen to live in a society now where people do look to the Government to protect them against everything.

It is a difficult situation to balance.

Mr. MINGER. Mr. Glickman, I think it was 1926 when we started to get a reduction in the number of farmers. That continues year after year. When you have problems like we have had in livestock, for example, and problems with some of our basic commodities, then you accelerate the demise of people who tend to be on the marginal end of commercial agriculture.

But some of the provisions of the two bills that you are considering would have an impact if they were enacted in a couple of areas. One of the problems in the financial field is that with the carryover of stocks, the reserves held on the farm of feed grains and wheat, there is developing an liquidity problem among the lenders out in the country.

Some of the provisions of these acts would help reduce that liquidity problem and provide a source of funds for lenders to take on on-going needs of farmers.

Aside from liquidity, there are some people who, because of economics and because of the problems of commodity pricing, which is an economic problem, are tending to be marginal. I mention that we are seeing the accelerated demise of these people down to the bottom end of the economic ladder.

But if you want to keep some of those folks in business—and most of them have been in this business a lifetime—then some of the provisions of your bills will serve to provide programs that will give some of those folks breathing room and keep them in business. I cannot sit in judgment on some of those people. This is their livelihood. Some of the economic problems were caused by governmental actions.

For example, the embargoes are one. There is the need to plant wall-to-wall wheat which was articulated by Government. Our farmers responded to this. Now they have got some problems.

So, some of the provisions of your bills will help, and there is a sense of urgency getting some of it passed.

Mr. GLICKMAN. Thank you.

I appreciate your answers.

Thank you, Mr. Chairman.

Mr. JONES of Tennessee. Thank you, Mr. Glickman.

Mr. Kelly?

Mr. KELLY. Mr. Minger, you mentioned something about these bills reducing the liquidity problem that either now exists or may exist in the near future. Is that what I understood?

Mr. MINGER. Yes.

Mr. KELLY. Pretty clearly what we are talking about is credit allocation. You want this Government to defy the forces of the market-

place and just arbitrarily put money in there in order to buoy up people who would not otherwise be able to survive if the marketplace acted normally.

Is that about what you are saying?

Mr. MINGER. I think that is right.

Mr. KELLY. Then is it your position that you do favor a proposition where this Congress in its infinite wisdom and people like me start using our vast intelligence to allocate credit for this country rather than do it by the forces of the marketplace? Is that your proposition? Is that what you believe?

Mr. MINGER. I am afraid that if it got down to a consideration of credit allocation, I would have to be against doing that.

Mr. KELLY. Right, but that is exactly what you are asking to be done except in this case you think it will benefit the people that you represent and yourself and your bank and your interests. Is that not true? So, it is a good thing.

But you and I both know it makes a lot of nonsense; do we not, unless we believe that, do we not?

Mr. MINGER. Credit allocation, I would agree, is nonsense, generally.

Mr. KELLY. All right.

The business about the Government coming and saying that "we should plant fence-to-fence, and therefore, now, you have to come and do something good for us."

What if they told you that you should start a new ranch where you were going to cross geese and Herefords? So, you went out there and got all these houses and machinery and everything and you were going to have a "Gerford" farm—a cross between geese and Herefords.

But it did not work somehow.

Then should I give my money to help you out with your problem in that regard? Just because you and the Government are dumb should I help you?

If you had made money, that would have been a fine thing. That is why you farmers did that. You did not do that because you were wanting to help the country. You did that because you thought you were going to make a profit; is that not so?

Mr. MINGER. Most people, I think, are not in farming for the pleasure. They are into it to make a dollar.

Mr. KELLY. Not even including the glory of the sunset?

Mr. MINGER. Out looking at the Golden Gate; yes.

I disagree, though, that these programs are necessarily credit allocations. They are not mandatory that the lender get involved with these programs.

Mr. KELLY. But what they do is this. You said it would solve the liquidity problem and that means that the natural forces of the marketplace would not send money there under those circumstances, but for Government intervention.

In effect, what they do is credit allocation.

I want to tell you something. I think it would be a pretty good deal for you and the people you represent and the farmers in this country who have to be a preferred class, but the problem is that the Government is doing this for everybody else, everybody else, not just you. Therein lies the problem.

If you could get a guarantee from Congress saying they would do it only for the farmers, then sentimentally we would both have to say, "OK, let us do that."

But they are not going to do it. They are going to mess up the whole economy because they are going to do it for every constituency in America.

Mr. Chairman, I thank you.

Mr. JONES of Tennessee. Thank you, Mr. Kelly.

I will not prolong the hearing. It is 12:45 now.

I have a question or two that I would like to ask the entire panel.

I have listened attentively to this testimony that we have had today. I fear that there are some problems with the bills that have been introduced.

I want to ask you this question, and I would be glad if all of you would respond, or any one of you.

Are we on the right track with this proposed legislation? I am talking about H.R. 8315 and H.R. 6407. There is not that much difference between the two bills, really.

How do you feel about it? I need to know, and I think this subcommittee needs to know what your feelings are in this regard.

Mrs. CHENEY. Mr. Chairman, from the point of view of the farmers, I think you are definitely on the right track. I think that farming is an industry in this country that we cannot allow to collapse. It will affect too many other people adversely, and in the end it will cost people too much for food.

I think that the limits that have been proposed are too low. I think the real estate limit should be \$300,000, considering that we have to live in the real world also. I think the financing loan limit should be \$200,000. I think that the amount for refinancing loans through one's local bank as a guaranteed loan should be undetermined at this point. There is lots of room for discussion concerning that amount.

I think it is very necessary to remove the total indebtedness limits in the bill concerning farmers because in our area land is selling, or it was selling for up to \$1,900 an acre and now is selling for \$1,300 to \$1,700 an acre. It costs me \$900 an acre to plant potatoes and harvest.

So, you can readily see that our exposure is really unlimited.

I think there is a definite urgency for getting this bill passed and for saving American agriculture as we know it. I think it is something that the country could not afford if we did collapse agriculture and if we did have to rely on another way to furnish food for the country.

Thank you.

Mr. JONES of Tennessee. I believe that the most critical thing that you had to say about the legislation in your testimony was the fact that you fought the management of the Farmers Home Administration, especially on the county level. Is that not correct?

Mrs. CHENEY. I think it is a very definite problem. I think that the county offices and the FmHA organization would have to be reorganized in such a way that it would be responsive to the prospective lenders.

But I think this could be done without an awful lot of problems.

Mr. JONES of Tennessee. Thank you.

Mr. Peterson?

Mr. PETERSON. Mr. Chairman, I think we are on the right track with this legislation. We have proposed this previously I have testified before this committee several times.

One of the objectives of the banking industry with the guaranteed loan program is to take off the top level of the workload burden from the Farmers Home Administration personnel and hopefully route it back into the banks. We have seen this work very effectively in some of the disaster areas in western Minnesota in the last 2 years when it has been impossible for the Farmers Home Administration to cope with the workload. Lenders have gone in and made guaranteed loans and done a very effective job of it. They have taken some of the burden off.

I think the Congress in its own infinitive wisdom will have to look at the interest subsidies and make their decisions as to the balance off grants versus subsidized interest rates on the community development side of these programs, and probably also on some of the farm ownership loan programs, as well.

You are going to have to make your own judgments on that. But the thrusts of the legislation, we think, is constructive.

Mr. JONES of Tennessee. How do you feel about the limits on finance that we have put in the bill?

Mr. PETERSON. I think the limits are going to be adequate, as long as we still have the provision for participation under the farm ownership loan programs so we can take out larger loans. If you remove that total debt limit so that we can use the participation loan, then we can do a lot of things within those limits.

Mr. JONES of Tennessee. I presume that your bank makes a good number of farm loans itself.

Mr. PETERSON. Ninety percent of the loans in our bank are farm-operating loans. I hate that kind of concentration, but that is the only avenue we have for loans.

Mr. JONES of Tennessee. What is the average size farm in your area?

Mr. PETERSON. The average size farm now in our county is 290 acres. We are financing the smallest operation, which is 40 acres, and the largest is 2,400 acres.

Mr. JONES of Tennessee. What is the principal crop?

Mr. PETERSON. Corn and soybeans with hog operations and some cattle feeding.

Mr. JONES of Tennessee. Thank you very much, Mr. Peterson.

Anyone else? Mr. Murray?

Mr. MURRAY. I would like to reiterate that our main concern with the bill concerns the increase in the interest rate for community facility loans. We have trouble with this, and we do not think the administration yesterday made a very good case for it. I think Congress would want to know a good deal more about the impact of an increase on rural development in rural areas.

Also, we wonder how this might affect the direction that Congress has given to the USDA to come up with a national rural development program which these community facilities are an extremely important part. We are not talking about things that are not closely related to stabilizing populations and improving job opportunities.

Thank you.

Mr. JONES of Tennessee. Mr. Minger?

Mr. MINGER. Mr. Chairman, you asked if the committee was on the right track in holding hearings on these two bills. The act was passed some years ago, and our testimony has been consistent in the Senate hearings as well as here.

If the legislation is to stay on the books, the provisions of those acts should be such that they are workable. Most, if not all, of my testimony supports that objective and that is to change them slightly to make them operable.

Mr. JONES of Tennessee. Thank you, Mr. Minger.

Anyone else?

Mr. McNICHOLS. Mr. Chairman, the National Association of Counties' main concern with this bill is the interest rates. We would respectfully submit that the Congress give serious and deliberate consideration to maintaining those interest rates at the present level, that is, for community facilities programs.

Mr. JONES of Tennessee. At the present level?

Mr. McNICHOLS. Yes; which is 5 percent.

Mr. JONES of Tennessee. Does anyone else want to add anything?

I want to know whether or not where we are is where we think we are. Some of the members of the committee believe we are on the right track. We do not agree with everything that has been offered in the bills. We hardly ever do. But we realize that we are in an area of compromise which Members of Congress usually are in.

Judge Decker?

Mr. DECKER. Mr. Chairman, I, too, think that you are on the right track, but I would like to reemphasize the words of Mr. McNichols.

In the event that higher interest rates are created, it would effectively kill FmHA operation in my part of the State. Thank you.

Mr. JONES of Tennessee. Thank you very much.

Mrs. CHENEY. I would like to second that motion. It would kill the facility loans in our area also. I am talking about the farm loans.

Mr. JONES of Tennessee. The operating loans?

Mrs. CHENEY. Yes; if they were at a negotiated rate, which would probably be an 8.5- to 9.5-percent rate in our area, then it would not serve the purpose of being a lender of last resort, I think.

Mr. JONES of Tennessee. Let me ask you this.

Is that rate not less than the local financial institution's rate?

Mrs. CHENEY. I think the negotiated rate on operating loans would be at the local rate, which at this point is about 9 to 9.5 percent.

On the real estate loans, we need to retain that 5 percent interest rate in order for the program to help.

Mr. JONES of Tennessee. Thank you.

If there are no other questions, I do want to say again that we appreciate the fact that you have come here. We will do our best to get out a piece of legislation that you favor. If you favor it, the voice of the rural agriculture that we have in America will be heard. Then we will know it is the type of legislation we should have.

The subcommittee stands adjourned, subject to the call of the Chair.

[Whereupon, at 12:55 p.m., the subcommittee adjourned.]

[The extraneous material submitted to the committee follows:]

STATEMENT OF HON. KEITH G. SEBELIUS, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF KANSAS

Mr. Chairman, today in my district and throughout the High Plains we are in the midst of a severe price, credit and cash flow crisis. Early in this session of Congress, I reported to this committee that the picture in wheat, feed grains and livestock country was bleak and that if something was not done we could experience an agri-tragedy.

During the farm bill deliberations this year, we all became familiarized with the economic crisis in wheat country. Many grass roots meetings, led and organized by concerned farm wives, resulted in many farmers and their wives coming to Washington to educate the Congress and the Carter Administration of their plight. They have asked how the farmer can stay in business when everything they must buy goes up in price and the product they sell keeps going down. The obvious answer is that they cannot. Volumes of testimony by dozens of farmers, farm wives, bankers and agribusiness representatives have also dramatized the current situation.

The increase in the target price deficiency payments provided for in the 1977 Food and Agriculture Act will help, but let me stress that throughout the High Plains the attitude of farmers, farm wives, farm organizations, and now our business interests and financial institutions has turned from concern to fear. They feel that given the continuation of prices below the cost of production, lack of sufficient federal assistance, inability to obtain Farmers Home Administration loans because of antiquated regulations, or bureaucratic red tape or insufficient funding, and unworkable and discriminatory set-aside regulations, they may have no alternative but to consider militant action and an agricultural strike. A grass roots movement to strike on December 14 for 100 percent of parity is gaining momentum throughout the Great Plains.

I would like to point to a Kansas Bankers Association survey of 309 banks which was conducted last summer in my behalf which shows that 45 percent of our farmers are in "serious trouble" and predicts 86 percent of our State's wheat producers will lose money this year due to the current farm price crisis.

The term "serious trouble" includes 8.7 percent of the farm bank customers who cannot repay current debts and 36.2 percent of farm customers who have gone through major refinancing of their assets. Our rural banks are presently carrying debt loads of up to 80 percent. We are facing an agri-tragedy in wheat country and are in danger of losing a generation of young farmers.

The Kansas bank study only confirms the findings of a special USDA survey in April that revealed that 10 percent of farmers in Kansas were unable to pay their debts at that time and that 35 percent had to refinance or dispose of their assets. The figures were similar for a nine-State area.

The Kansas State University Farm Management Association records show that the average net income of its 2,500 association members has dropped 84 percent in the last three years. No business can take losses like that and still remain solvent. No one in our economy has taken losses like that, and yet, somehow, the farmer manages to tighten his belt and hang on.

Let me emphasize this situation is especially critical to our younger and more progressive farmers. Quite frankly, these farmers have exhausted their credit sources. They find themselves in a highly leveraged position and in danger of going under as a result of an increasingly burdensome debt service and negative cash flow. This is a generation of young farmers who found it economically possible to get into the business of family farming only to see their dreams shattered. Who will take their place? Who will produce the food and fiber for our Nation and a troubled and hungry world?

On January 17, I introduced H.R. 1973, The Emergency Farm Credit Act of 1977, to assist farmers experiencing financial difficulty from depressed prices and rising production costs. I believe there are several provisions in this bill that deserve consideration in your subcommittee mark-up. First, there is Title I which would provide an emergency "line of credit" by guaranteeing up to 90 percent of short term loans made by commercial lending institutions at competitive interest rates. There is a recent precedent for this legislation as represented by the Emergency Livestock Loan Program of 1974. The outstanding balance would not exceed \$350,000. This "line of credit" will eliminate a certain amount of red tape and provide both the lender and the borrower with much needed flexibility in this program. By using this process, borrowers would not need to go through time-consuming procedures of taking out new loans. Rural banks have traditionally handled their loans with implement dealers on this basis, and for

purposes of efficient administration and flexibility, it appears advisable to offer loans on a line of credit basis.

Mr. Chairman, this provision is not a program to bail out farmers. It is simply a method to assist them through a period of economic adjustment and bring the entire industry back to a position of financial stability. This is necessary for producers, as well as consumers.

Finally, I support the provisions of H.R. 8135 which open FmHA to family farm corporations and partnerships. Although the Small Business Administration has had some involvement in this field within the past year, farmers have found SBA to lack the familiarity with the farm financial picture and also lack the convenience of being structured through a network of county supervisors as

Mr. Chairman, I wish to underscore the fact that time is of the essence in regard to providing adequate farm loan legislation for farmers, I would hope this legislation could be acted upon no later than early in the next session of Congress.

The provisions under Title II of H.R. 1973 are similar to H.R. 8315 in that they deal with modernization of the Consolidated Farm and Rural Development Act.

Farmers Home Administration is supposed to be a government program to help farmers, but its limits in the law are about five years behind. Consequently, its program doesn't fit the needs of the 57-county district of western Kansas that I represent.

A case in point, farm operating loans which are made to finance farm or ranch production, equipment and supplies, home operations and refinancing of debts. The \$50,000 limit on operating loans which has been in existence for five to six year is archaic. FmHA has enough funds but in Kansas can't find farmers to qualify. Both my bill and H.R. 8315 would raise that amount to \$100,000. Possibly, this figure should be tied to an inflation escalator.

The farm ownership real estate loan category also needs definite improvement. Farm ownership real estate loans are most often used to buy or enlarge farms, to construct, improve, or repair farm homes and farm service buildings, to drill wells and otherwise improve water supply systems for home use, livestock, and irrigation, and to refinance debts. The maximum total real estate debt ceiling should also be increased from \$225,000 to \$325,000 of the value of the farm, whichever is greater. The Farmers Home Administration's share of the farm ownership loan should also be increased from the present \$100,000 to \$150,000. Most states in the Midwest in recent years have been from five to seven months behind in funding farm ownership loan applications, and in some cases are running seven to twelve months behind. States like Kansas and Oklahoma have enough applications already processed and approved to utilize all of the funds available for the next twelve months. A Kansas farmer who applies for a loan today cannot expect to have his application processed until fall and cannot expect the funds until approximately June 1978. Of course, this is mostly an appropriations problem, but it is also an indication of the existing bureaucratic snarls.

Probably one of the most controversial issues deals with whether the interest rate should remain subsidized at 5 percent.

My bill, H.R. 1973, would maintain the interest rate on farm ownership real estate loans at 5 percent, rather than offer it at the cost of money to the government as H.R. 8135 does. The farmer is caught between the impasse that exists between Congress and the Office of Management and Budget on this matter. I appreciate the problems that subsidized loan rate poses in getting adequate funding from the Office of Management and Budget. The U.S. Treasury can absorb only so much and it is imperative that the program contain adequate funding. I am willing to consider some type of formula that would lessen the impact of the U.S. Treasury and the Administration's proposal to allow FmHA to provide interest rates at less than the cost of money to the government to low and moderate income farm families deserves serious consideration.

Finally, I support the provisions of H.R. 8135 which open FmHA to family farm corporations and partnerships. Although the Small Business Administration has had some involvement in this field within the past years, farmers have found SBA to lack the familiarity with the farm financial picture and also lack the convenience of being structured through a network of county supervisors as FmHA is.

Mr. Chairman, I wish to underscore the fact that time is of the essence in regard to providing adequate farm loan legislation for farmers. I would hope this legislation could be acted upon no later than early in the next session of Congress.

STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF NEW YORK

Mr. Chairman, I wish to express my support for the general concepts outlined in H.R. 8315, which you introduced, and for Mr. Madigan's bill, H.R. 6407, of which I am a cosponsor.

I have long supported increasing the current Farmers Home Administration loan limits and overall debt limits incurred by farmers under the FmHA loan program. The unquestionable necessity for increasing these loan limits is borne out by the ever accelerating costs of farm ownership and operation.

Moreover, as John C. Datt, President of the American Farm Bureau Federation, has pointed out to this Subcommittee, the "highly capitalized" nature of the farming industry, demands adequate sources of credit and "competent counseling for agricultural borrowers."

More specifically, it is my contention that in light of spiralling inflation—reflected in the significant increases in both the cost of farm land and farm machinery—farm loan limits must be increased to \$200,000 from the present \$100,000, and that the guaranteed loan limit be raised from the current \$200,000 loan limit to \$300,000.

To broaden access to these farm loans, eligibility should be extended to corporations and partnerships as long as the entity receiving the loans does not apply these funds for operations of a larger than family size farm.

Provisions before the Subcommittee enabling young farmers easier access to start-up funding, are well-reasoned and urgently needed if we are to maintain this nation's tradition of family farming.

Land costs and the vicissitudes of farming are denying many in a younger generation of hard working farmers, the opportunity to demonstrate their determination to establish and run a productive family farm—an opportunity that was once within the grasp of many young farmers.

My interest in revitalizing the administration and direction of the Farmers Home Administration's loan program focuses also upon restructuring FmHA's emergency loan program. Earlier this year, I introduced legislation, H.R. 8141, designed to correct the maladministration and shortsightedness plaguing FmHA's emergency loan program. Farmers in Orange and Ulster Counties in New York (in my home district) know all too well the inefficiency and inequity characterizing FmHA's disaster loan program.

Their farms devastated by the full fury of Hurricane Agnes in June 1972, disaster-stricken farmers were subsequently victimized by a haphazard and inequitable emergency farm loan program.

H.R. 8141, as does H.R. 8135 and H.R. 6407, addresses the critical problems of "the credit elsewhere test," unmanageable interest rates, and restrictive repayment schedules.

Moreover, H.R. 8141, urges the Department of Agriculture to: (1) assign to an area, only FmHA personnel adequately prepared to understand the particular needs and problems of farmers in the area to which these Department representatives are assigned; and (2) assign a high priority to keeping existing farm entities operating.

I believe the legislation currently before this Subcommittee on Conservation and Credit to be an important step towards ensuring that this nation's agricultural sector continue to benefit from the enterprising vitality of both beginning and established farmers.

STATEMENT OF HON. ROBERT W. KASTENMEIER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF WISCONSIN

Mr. Chairman, I want to commend you for holding these hearings on amendments to the Consolidated Farm and Rural Development Act which would improve Farmers Home Administration guaranteed and insured loan programs.

The role of the Farmers Home Administration in American agriculture is critically important. We focus considerable attention on how each agricultural bill will affect America's family farmers. We have spared few words recounting, again and again, the virtues of our family farm system of agriculture and we have repeatedly reaffirmed our support for that system. This attention focused on family farmers is certainly appropriate because it goes to the heart of a very fundamental question facing the nation. That question is: Who will own and control America's highly productive agricultural land in the future? No farm

program deals with that question more directly than the guaranteed and insured loans provided by the Farmers Home Administration.

In recent years this subcommittee and others have wrestled with the difficult problem of financing young, entering farmers who face soaring farm real estate values and inflated prices for virtually every item needed in a viable farm operation. A solution to this problem has eluded us thus far. But on one point most seem to agree: the Farmers Home Administration must play a larger role in providing the credit needs of our future farm families.

Just how large a role does the Farmers Home Administration play today?

In my home state of Wisconsin the outstanding farm real estate debt in 1975 was \$1,452 million, according to the Wisconsin Department of Agriculture. Only about 10 percent of that debt, \$146 million, was financed by the Farmers Home Administration. Slightly less than 20 percent of the debt was financed by our self-supporting Federal Land Banks, leaving roughly 70 percent in the hands of private individuals and institutions.

If we really want to do something to insure that American agriculture remains fundamentally a family farm system, then we must concentrate on making capital available to young, entering family farmers. As we all know, price supports in and of themselves can provide a degree of farm prosperity. But for the most part it is class legislation, despite payment limitations imposed in recent years, and all producers benefit whether they are family farmers or multinational corporations. If we want to promote family farming, we must see to it that the land and productive resources of agriculture are owned and controlled by family farmers. And there is no better way to do that than through the Farmers Home Administration.

Mr. Chairman, the bill you have introduced at the Administration's request, H.R. 8315, contains amendments which will substantially improve several major programs of the Farmers Home Administration. These amendments reflect changing conditions in rural America and will make the programs more responsive and effective.

An extremely important change is one I proposed when I introduced H.R. 3663. Current law permits farm real estate and operating loans to be made only to individuals. My bill, and a provision in the Administration's package, would permit loans to family farmers who operate on a partnership or corporate basis for tax, estate or other reasons. No longer would this growing group of family farmers be excluded from Farmers Home Administration assistance just because of the way they are doing business. It is not intended, however, that the Farmers Home Administration finance investor-owned corporations or partnerships. Eligibility would remain with about the same size of family farm operations now being served under present programs.

Another important amendment would increase loan limits for real estate loans from \$100,000 to \$200,000, and operating loans from \$50,000 to \$100,000. The existing limitations were established in 1970. Since then farm land values have increased more than 126 percent, according to USDA. In my home state of Wisconsin, where family dairy farms are the backbone of agriculture, \$185,000 was the minimum amount necessary in 1976 to establish a viable dairy operation with 188 acres and 41 cows, according to the Wisconsin Department of Agriculture. That is about the average size of a Wisconsin dairy farm.

The Administration's bill would also change Farmers Home Administration interest rates and other terms for guaranteed and insured loans. The purpose of these amendments is two-fold: to provide assistance to more applicants by adjusting interest rates to various applicant's ability to pay; and to generate more involvement of private lenders in loan guarantee programs. This would be accomplished by providing for negotiated interest rates on guaranteed loans and cost-of-money rates on insured loans, but with one safeguard. The Secretary would be permitted to charge young and limited resource farmers, including beginning farmers, an interest rate less than cost-of-money to the Treasury if they cannot reasonably be expected to make full payments based on cost-of-money.

I agree with the thrust of the Administration's proposals in this regard. I think it is important in all programs that the level of federal assistance be tied to an applicant's need. We should not be subsidizing interest rates for individuals who can afford going interest rates and we should be providing more assistance to those who need it most.

Finally, I want to emphasize the need for reducing the red-tape encountered by applicants for Farmers Home Administration financing. A February 10, 1977, Comptroller's report, titled, "Procedural Operations of the Farmers Home Ad-

ministration in Wisconsin," focused considerable attention on delays in processing loan applications in county offices. These delays, while not all attributable to red-tape, have had obvious adverse affects on the program, and nobody knows how many qualified individuals may not have sought assistance due to these delays. The Administration's bill includes provisions designed to reduce red-tape and delays and I would hope the subcommittee's report will address this area.

Summing up, the changes proposed are significant, important and above all timely. They are not, however, a panacea for the problems that plague our family farmers, but they are a first step. I can only hope that their implementation will increase the share of Wisconsin's farm real estate debt financed by the Farmers Home Administration to something better than 10 percent, and do likewise throughout rural America.

Thank you.

Hon. MAX BAUCUS,
Washington, D.C.

As of September 9, 1977, Montana Farmers Home Administration had 112 farm ownership loan applications on hand for \$7 million ready for approval. We have an additional 127 farm ownership applications for \$7 million on hand, but not processed, due to lack of funds. During the 1977 fiscal year, Montana received only 7 million 6 hundred thousand dollars, as a regular allotment. \$14 million is urgently needed to process the applications now ready for approval. If the farm ownership limitation is increased to \$250 thousand, Montana will need at least an additional \$20 million in farm ownership funds.

Farmers Home Administration is unable to assist many farm ownership applicants because of the present limitations on total indebtedness ceiling. We urge that the ceiling of total indebtedness be removed.

WALLACE B. EDLAND,
State Director, Farmers Home Administration,
Bozeman, Mont.

STATE OF WISCONSIN,
DEPARTMENT OF LOCAL AFFAIRS AND DEVELOPMENT,
Madison, Wis., November 15, 1977.

Re H.R. 8315.

Hon. ALVIN BALDUS,
U.S. House of Representatives,
Washington, D.C.

DEAR REPRESENTATIVE BALDUS: I understand that the House Agriculture Subcommittee on Conservation and Credit recently finished receiving testimony on H.R. 8315.

There is one provision of this bill that causes particular concern within the Department I head. That provision is the one that would increase the interest rates on rural development loans for sewer and water and community facilities.

Rural development programs already have stiff requirements that are difficult for communities to meet. For example, the rural grant programs require a 50 percent match, while comparable HUD programs provide 100 percent grants. I also fear that allowing the interest rates to rise would cause many rural communities to decide not to participate in these programs, despite the fact that an estimated 35 percent of this nation's community development needs are to be found outside of metropolitan areas.

I realize that it will be some time before your Subcommittee decides on the final form of this legislation. Nevertheless, I did want to share my concerns with you.

If the Department of Local Affairs and Development (DLAD) can be of any assistance to you in this or any other matter, please contact us.

Sincerely,

CAROL T. TOUSSAINT,
Secretary.

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National

FARMERS ORGANIZATION

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Corning, Iowa

November 9, 1977

Mr. Ed Jones, Chairman
Subcommittee on Conservation
and Credit
House Agriculture Committee
Room #1301, Longworth Bldg.
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the members of the National Farmers Organization and all farm families who are rather hard pressed for credit because of drought, low farm commodity prices and other unavoidable circumstances, I should like to emphasize certain viewpoints on the operation of the FmHA loan program. We are pleased that your Committee is considering the recent recommendations of the Administration and various alternatives designed to make the handling of these loans more realistic under the circumstances prevailing today.

Enclosed as a matter of record is a copy of our statement filed with the Senate Subcommittee on October 11, 1977. Since then, that particular Committee has agreed upon a draft bill that would raise the loan limitations to \$200,000 and \$300,000 respectively on operational loans and ownership loans. Other provisions have been tentatively agreed upon. At this point in the legislative process, we believe it is important to think carefully along the following lines.

The availability of funds at reasonable interest rates is of vital importance if this program is to be of any service to those farm families who are capable, hardworking and deserving of this type of credit. In many local FmHA offices, applications for ownership loans and operational funds have been held up for many months at a time. Perhaps informal consultation with the Appropriations Committee of the House would be a constructive step.

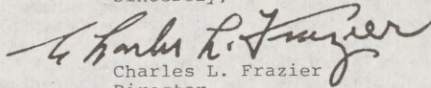
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Timeliness of Congressional action will determine whether the proposed modifications are of any real benefit to operators in the coming year. Firsthand accounts of the credit standing of many deserving potential borrowers indicate that they will do well to survive the year's end in their farming setups -- they will be forced to come up with new satisfactory credit arrangements in January or February in many instances or give up their farming enterprises. I should think that it would be a credit to your Committee if you can be prepared to move early in January with your version of the bill.

The proposal to increase interest rates on ownership loans to the going money market levels is highly questionable as a change of policy in this program. We want the 5% ownership loans to remain available to this class of borrowers. In fact, if the program is to continue to serve honestly those borrowers who are unable to arrange for credit elsewhere -- if this program should be a meaningful part of the government's stated policy of supporting family-sized farming operations in our agricultural economy -- a portion of the operational funds should also be made available at the 5% level. The move to place a large number of these ownership loans at interest rates between 8% and 10%, irregardless of the good intentions of the sponsors of this move, will merely make this program another effective channel to move money from the central markets to the farm economy at profitable interest rates. We are not interested in that approach.

It is hoped that these thoughts will be of some value to you and the Members of your Committee in the coming weeks. If we may be of assistance to you or your staff, please do not hesitate to call on us.

Sincerely,



Charles L. Frazier
Director
Washington Staff

CLF:ljj

Enclosure

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Moyett, Kansas

October 11, 1977

Senator James Allen, Chairman
Subcommittee on Ag Credit &
Rural Electrification
Agriculture, Nutrition,
and Forestry
Room #324, Russell Bldg.
Washington, DC 20510

Re: S. 312; S. 2126; S. 2146

Dear Mr. Chairman:

We appreciate this opportunity to offer our views on various proposed modifications of the FmHA programs. The following brief comments and recommendations are based on conversations with NFO leaders at the state and county level who are quite familiar with these programs and the need for this type of credit.

Our attitude is best illustrated by a recent statement of Senator Frank Church in which he summed up concern about the proliferation of responsibilities placed upon this agency by the Congress in recent years -- "Historically, the main purpose of the Farmers Home Administration has been to help young and beginning farmers get established in agriculture. Unless FmHA loan levels are realistic, fewer and fewer farmers will be coming into the business, and those already in the business will be forced into bankruptcy. The end result will be a continuing increase in the average age of farmers and the size of farms."

"We have saddled Farmers Home with a host of rural development programs that have interfered with its primary mission: to help farmers. It is my hope that the committee will reemphasize and strengthen the mission of Farmers Home: to assist and maintain the family farm tradition of this country."

Loan Eligibility -- we concur in the proposal to make partnerships and small family corporations eligible for ownership and operational loans, provided that certain safeguards are retained. The law should clearly require continued application of the "credit elsewhere" test. It should be equally clear in the law that the

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only corporate structure or partnership eligible to borrow is one in which all the participants are directly involved in farming as the principle source of their livelihood.

Loan Limits -- there were variations in the responses of our people on the proposals to increase the limitations on ownership and operational loans. Quite commonly, the attitude was to oppose such increases unless there can be concurrent action to increase the limitations on funds available. With that overriding qualification it may be appropriate to increase the ownership loan limit from \$100,000 to \$200,000 and the operational limit from \$50,000 to \$100,000 in recognition of the inflated prices of land, equipment and operational inputs that confront deserving young farm families today.

It will be highly unsatisfactory, however, if these limits are increased, the applicant lists are extended in local offices and fund limitations restrict approvals of new loans.

Interest Rates -- here too, our leaders who are familiar with the problems of young farmers are quite skeptical of any proposal to terminate the availability of 5% money for ownership loans in those cases where eligibility can be clearly established under the guidelines that have been traditional in this program.

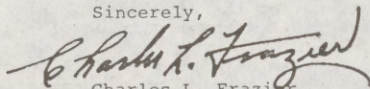
Said another way, we have a great deal of confidence in the Secretary of Agriculture and the Administrators of these programs. However, we have no assurance that once given the authority to push these loans over to a "cost of money" style of financing the Secretary of the Treasury and the OMB will continue to authorize a sufficient amount of 5% money. Such financing will be needed to keep hard pressed, working young families on the land.

It is recommended that the committee continue, as a provision of law, the authority and direction to the agency to make at least one-half of the ownership loan funds available at the 5% rate. A similar provision for operational loans would be in keeping with the goals and purposes of this program.

In conclusion, we want to emphasize the importance of making sufficient funds available, at reasonable interest rates, at a time those funds are required for the farming operations and where the applicant is clearly eligible and deserving of adequate credit. We are not interested in supporting a legislative package that simply creates or enlarges one more channel to move funds from the money market to a selected set of clients at high interest rates.

It will be appreciated if this statement can be made part of the record. We will be available to consult with you or your staff in any manner that is constructive and helpful.

Sincerely,



Charles L. Frazier
Director
Washington Staff

CLF:ljj