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CHANGES IN FARMERS HOME ADMINISTRATION LOAN PROGRAMS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

S. 2146

A BILL TO AMEND THE CONSOLIDATED FARM AND RURAL
DEVELOPMENT ACT, AS AMENDED

NOVEMBER 18, 1977—COUNCIL BLUFFS AND SERGEANT
BLUFF, IOWA

NOVEMBER 19, 1977—ANKENY AND CEDAR RAPIDS, IOWA

PART II

Printed for the use of the Committee on Agriculture, Nutrition, and Forestry



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Changes in Farmers Home Administration Loan Programs:

Oct. 11, 1977.—Part I

Nov. 18, 1977.—Council Bluffs and Sergeant Bluff, Iowa; and

Nov. 19, 1977.—Ankeny and Cedar Rapids, Iowa—Part II.

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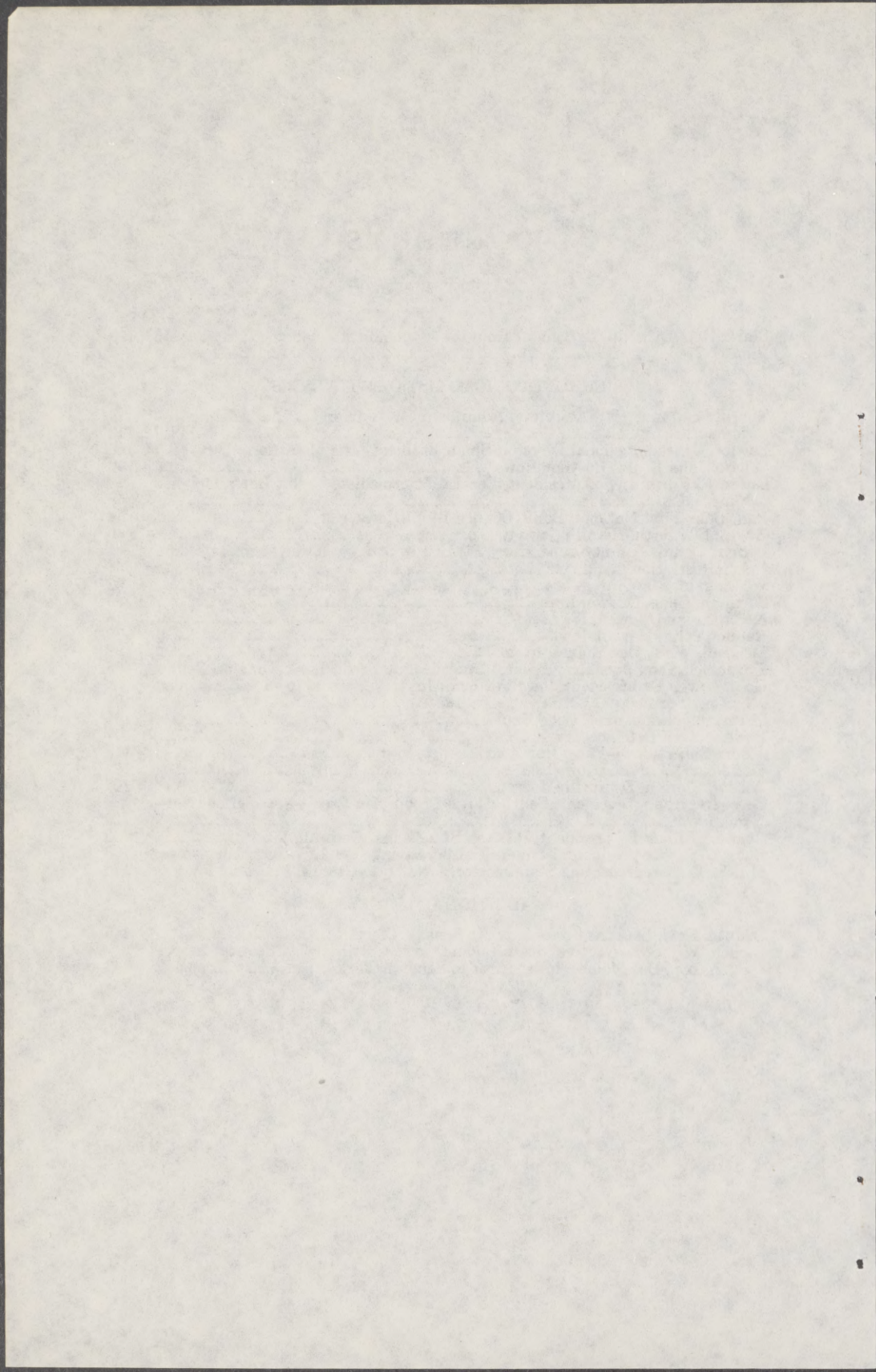
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CHANGES IN FARMERS HOME ADMINISTRATION LOAN PROGRAMS

FRIDAY, NOVEMBER 18, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Council Bluffs, Iowa.

The subcommittee met, pursuant to notice, at 9:30 a.m., in the Federal Building, Hon. Dick Clark, presiding.

Present: Senator Clark.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. The hearing will come to order. The hour of 9:30 having arrived, I want to welcome all of you today to this hearing of the Senate Agriculture Committee. Our topic this morning, as I think you all know, is credit. We're here in Iowa, in fact, to conduct four hearings on this topic; and in that connection we want to try to accomplish two specific things.

First: We want to get your reactions to a bill that is now pending before the Senate Agriculture Committee. This is S. 2146. It has already had hearings in the Subcommittee on Agricultural Credit and Rural Electrification of the Senate Agriculture Committee and been marked up there. It will probably be one of the very first pieces of business we take up as we go back into session. Copies of a summary of that bill were mailed out and notices of the hearing to many of you; and there are, I believe, additional copies of this summary over at the door if you haven't received them, because we'd like to get reactions on that.

Basically this bill would increase the loan limit on Farmers Home Administration, farm ownership loans; the ownership loans from \$100,000 to \$200,000. It would double them. And on farm operating loans, from \$50,000 to \$100,000 for direct loans and to \$200,000 for guaranteed loans. In short, we would double the present limitations on all these loans. By the way, it would also make technical changes in the terms of these loans that we think will help significantly for additional people to qualify.

Now in addition to any comments that you may have on this specific legislation, S. 2146, I want to give farmers, the local bankers and others a chance to discuss farm credit problems. Indeed, anyone who came here today and has anything to say, whether you came prepared to talk or not, we'd like to hear your comments. We may, if we get too many witnesses, have to limit the time, but the

purpose here is not to get some select view from one person or two people or some particular kind of view, but really to let anyone—this is an open hearing—to let anyone express themselves in any way they would care to.

Now much of rural America clearly is in a credit crunch—a crunch that is already upon us and which will worsen, I suspect, as farmers plan next year's crop. Farmers across the Corn and Wheat Belts are in a greatly weakened financial position now as a result of this year's corn and wheat price situation, and as a result of the persistent low cattle prices.

For thousands of farmers, these problems obviously have been worsened by severe drought. I spent the month of August walking from Council Bluffs roughly to Marshalltown in the center of the State, and most of that way I saw farms that wouldn't have produced 10, 15, 20 bushels to the acre. So we know that this whole problem has been significantly aggravated by the problems of the drought.

The weakened financial position of large numbers of the farmers means loan repayment difficulties and large increases in farm lending—changes which have sharply reduced the liquidity of many of the rural banks. Many farmers have stored their 1976 corn, I should say grain crop, and that asset was carried on thousands of balance sheets at well above \$2 a bushel, and the cash flow projections of farmers also priced corn at more than \$2. Current low corn prices have forced bankers to require that their borrowers reflect on their financial statements the sharp decline in the value of the corn that they hold and the corn they expect to grow. In many, many cases, I have been told at least, that farmers are being asked to increase the borrowing on their land in order to finance their production and to solve this problem.

Federal Reserve statistics show that the credit crunch many individual farmers face is widespread and that it's rapidly worsening. In January of 1976 some 22 months ago, for example, less than a third of the banks of the Federal Reserve District Nine in Minneapolis reported a slower rate of farm loan repayments, a slower rate. Last month it was almost three-fourths. It jumped from a third to three-fourths of the banks in this Ninth Federal District, reported a slower rate of farm loan repayments. In January 1976, 22 months ago, less than 40 percent of the banks in that district reported an increase in demand for farm loan renewals. By last month, that figure had increased to 64 percent—from 40 percent to almost two-thirds.

Demands for more and more credit for farmers appears to be straining the capacity of the lending institution. For example, in the State of Iowa, Federal land bank loans outstanding increased by 23 percent during the first 9 months of this year. Production credit loans outstanding increased by 21 percent during the same period of time. Production credit association loans totaled almost \$1 billion for the period, compared to—actually it was \$960 million compared to \$833 million for the same period last year. All of the indicators are there.

For farmers across the Nation, assets increased by \$59 billion during the first 9 months of this year, but farm debt increased by \$15 billion. Furthermore, the debt increase was often not in propor-

tion to increases in assets. Debt increases accrued to farmers in proportion to their production while the increase in assets was in large measure due to the continued increase in the value of land. The individual farmers, the seriousness of the current situation, depends upon their ownership of land, to each individual farmer. In fact, Iowa farmland values increased on the order of 35 percent during this year, 1977.

So we have a tremendous demand for farm credit facing Iowa farmers and the farmers across this country this year. We're just beginning to get in the financial planning for next year's crop. Just as this year's crop comes in, farmers obviously, for the first time now, are going to begin to plan for next year's crop, and that takes money. A major purpose of our hearing today is to get your views on the extent of our credit problem and the effectiveness of our credit institutions in dealing with the problem.

We have in rural America, as in urban America, a very well-developed set of institutions designed to provide agricultural credit. Our credit institutions include commercial banks, insurance companies and individuals who hold well over half of our farm debt for both land and operating capital. The Farm Credit system, with its land banks and Production Credit Association, which have direct access to the Nation's major capital markets and who are not limited by reserve requirements in the same way commercial banks are limited. And the Federal lending agencies, including the Farmers Home Administration and the Small Business Administration, who are represented at this table, which can loan at favorable terms to farmers who are unable to obtain credit elsewhere—Farmers Home and SBA.

A major part of our purpose here today is to attempt to determine whether or not these institutions are adequately serving the credit needs of Iowa farmers during this period of great need. To do that, we'll ask farmers and bankers, and as I said earlier, anyone else, anyone who has come here to describe your problems, your evaluation of the changes that are needed in the system and the system that the Federal Government really has some ability to change.

We have a great deal of ground to cover today and I would hope that those of you who may have prepared remarks—long statements, I'd like to ask you to insert those in the record. They'll be put in the record as if presented, so they'll be in no way slighted. But I would like to have you try to kind of summarize your own feelings either by reading what you have prepared or just by summarizing in your own words what you have to say, because we'd like to ask some questions of each of you as well.

Now I have with me two key Federal officials who have significant policy responsibilities for major agricultural credit programs. Mr. Jim Thornton, who is second here from the end of the table, who incidentally happens to be originally from Sioux City. Jim is Associate Administrator of the Farmers Home Administration in Washington and is in a key policy position there to influence, in a major way, the management of that very huge Farmers Home Administration program, which handles close to \$2½ billion in farm loans each year. And then to his right, Mr. Conrad Lawlor, also an Iowan, who is Regional Director of the Small Business

Administration, which is now making small business loans to farmers. And I might mention also that on my immediate right is Bill Motes, who works on my staff and works particularly with me on the Senate Agriculture Committee. So I'm hopeful that they are going to have questions and comments as well.

I want to start by asking Jim Thornton of Farmers Home Administration to summarize very briefly the key changes proposed in S. 2146. And then I would like to turn to Conrad Lawlor for a few brief comments, and then we'll turn to the witnesses.

Now if there are those who wish to speak as we go along or who know that you would like to add something in the hearing, if you haven't filled out a card over here with Rosemary at the door, let me ask you to do that at this time or as we go along. Then we'll call speakers from the cards that have been submitted. They are just little cards that ask your name, address, and what you do.

So, Jim, if you have some comments specifically on S. 2146, I'd like to have you make those at this time, and anything else you might care to add before we turn to Con Lawlor and then to the witnesses.

At this point I will insert a copy of S. 2146 in the record.
[S. 2146 follows.]

95TH CONGRESS
1ST SESSION

S. 2146

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 27 (legislative day, SEPTEMBER 22), 1977

Mr. TALMADGE (by request) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To amend the Consolidated Farm and Rural Development Act,
as amended.

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 Devel-
4 opment Act, as amended (75 Stat. 307; 7 U.S.C. 1922), is
5 amended by—

6 (a) deleting the language through the first comma
7 and inserting the following: "The Secretary is authorized
8 to make and insure loans under this subtitle to farmers
9 and ranchers, and to private domestic corporations and
10 partnerships controlled by farmers and ranchers and
11 engaged primarily and directly in farming or ranching,

II

1 in the United States and in Puerto Rico and the Virgin
2 Islands who, individually or, in the case of corporations
3 and partnerships, as to their principal stockholders and
4 partners, (1) are citizens of the United States,";

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

13 SEC. 2. Section 304 (a) is amended by deleting the word
14 "individual".

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

22 SEC. 4. Section 307 is amended by—

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

24 "(a) The period for repayment of loans under this sub-
25 title shall not exceed forty years. Any loans made under this

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

1 determined by the Secretary under this subsection shall be
2 adjusted to the nearest one-eighth 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 condi-
8 tions 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 sen-
13 tence in subsection (f) (1) to a semicolon and by delet-
14 ing the second sentence which reads: “The aggregate of
15 the principal of such loans made and not disposed of
16 shall not exceed \$500,000,000 at any one time;”;

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

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

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

23 (b) striking the period at the end of subsection
24 (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 re-
10 spect 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 au-
13 thority may be exercised only after the Secretary determines
14 that an adequate secondary market is not available in the
15 private sector.”.

16 SEC. 8. The language of restrictions appearing in section
17 310B is amended by—

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

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

24 (a) deleting the language through the first comma

1 and inserting the following: "The Secretary is au-
2 thorized to make and insure loans under this subtitle to
3 farmers and ranchers, and to private domestic corpora-
4 tions and partnerships controlled by farmers and ranch-
5 ers and engaged primarily and directly in farming or
6 ranching, in the United States and in Puerto Rico and
7 the Virgin Islands who, individually or, in the case of
8 corporations or partnerships, as to their principal stock-
9 holders and partners, (1) are citizens of the United
10 States,"; and

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

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

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

25 "(a) The Secretary shall make all loans under this

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

20 “(b) Loans made under this subtitle shall be payable
21 in not to exceed seven years. The Secretary may consolidate
22 or reschedule outstanding loans for payment over a period
23 not to exceed seven years from the date of such consolidation
24 or rescheduling, and the amount of unpaid principal and
25 interest of the prior loans so consolidated or rescheduled

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

12 SEC. 12. Section 321 is amended by—

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

15 SEC. 13. Section 331 is amended by—

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

17 “(j) notwithstanding that an area ceases, or has
18 ceased, to be ‘rural’, in a ‘rural area’, or an eligible area,
19 make loans and grants, and approve transfers and as-
20 sumptions, under this Act on the same basis as though
21 the area still was rural in connection with property secur-
22 ing any loan made, insured, or held by the Secretary
23 under this Act or in connection with any property held
24 by the Secretary under this Act.”.

25 SEC. 14. Section 333 is amended by—

1 (a) deleting the semicolon at the end of the sub-
2 section (b) and inserting the following: "*Provided,*
3 *however,* That the Secretary may provide a procedure for
4 appeal and review of any determination relating to a
5 certification or recommendation required to be made by
6 the county committee under this title, and for reversal
7 or modification thereof should the facts warrant such
8 action;"; and

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

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

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

STATEMENT OF JAMES E. THORNTON, ASSOCIATE
ADMINISTRATOR, FARMERS HOME ADMINISTRATION

Mr. THORNTON. Thank you very much, Senator Clark. First of all, it's good to be back in Iowa and good to be back here with Senator Clark, whom I have also had the privilege of working with on the Senate Committee on Agriculture for several years before returning to the Department of Agriculture and the Farmers Home Administration.

We, too, share the concerns of the Senator and others with respect to the current pressures of many farmers, especially in the grain areas, related to low commodity prices, extended drought, and other types of disasters that have occurred in recent several years. As has been indicated, we anticipate many farmers may be facing some very serious cashflow problems in the months ahead. We stand ready, as an agency to assist as a part of the overall farm and agricultural credit system to meet the needs of those farmers who cannot get credit from commercial sources or through the farm credit system. We must remember that the Farmers Home Administration is in business essentially to "supplement" but not to "supplant" these other sources of credit. In other words, we are the credit of last resort. As frustrating as it may be for us, sometimes, we intend to carry out our mission by reaching just as far as the law permits, in terms of helping people, even at some risk in terms of some increased delinquencies, if you will.

Now to move on into the legislation that the Senator has referred to, S. 2146. As indicated, this legislation has already cleared a subcommittee markup in the Senate. It also has cleared hearings in the House. This particular piece of legislation represents a combined effort on the part of the administration and several Members of Congress and committees.

As has already been indicated, this legislation will double the individual loan limits for both the farm ownership and the operating loans of our agency. In the case of ownership, it provides for an increase of from \$100,000 to \$200,000, and for operating loans from \$50,000 to \$100,000.

In addition, for the first time, the legislation calls for a separate guaranteed program for farm ownership and operating programs. In the case of the farm ownership, it would allow us to make guaranteed loans for farm ownership purposes up to \$300,000. In the case of our operating programs it would permit us to go to \$200,000.

Another feature in this legislation that is important in meeting current needs, is the removal of the existing "total indebtedness" provisions of law. We're currently limited to a total indebtedness of \$225,000. This provision prohibits us from being able to help farmers beyond that limit. This would remove that limit and permit the Secretary to administratively adjust the limit periodically to meet changing needs.

Currently in the case of our insured farm ownership program, the interest rate is now at 5 percent. This legislation would permit those interest rates to go up to what we call a cost of money plus—1 percent—which in today's market, would probably come out at around 8 percent. However, the bill would permit a 5-percent interest rate on the first \$100,000 and would provide for an interest

rate on guaranteed loans negotiated between the lender and the borrower. The guarantee could not exceed 90 percent. Also, in the case of guaranteed loans, it would eliminate the current graduation requirement, but would retain the credit elsewhere test.

In the case of the operating loan program, guaranteed loans would be made on the basis of negotiated interest rates between the lender and the borrower. In the case of the insured operating loan program the interest rate would be changed from "equal to" but "not more than" the cost of money. So the bill provides for some adjustments in individual loan limits, total indebtedness, and in interest rates. And it sets out for the first time separate guarantee programs from both ownership and operating purposes.

One thing that is very important to understand as it relates to our ability to go up on interest rates, especially regarding the farm ownership program is our ability to provide more total capital for these purposes. As long as we're limited to charging only 5 percent, which involves substantial Government costs, we will continue to be under great constraints by the budgetary process in obtaining the funds needed to satisfy such loan demands.

The third program addressed by the legislation is the emergency or disaster program. In the case of emergency loans, we currently have no individual loan limits. We currently can basically loan money to almost any type of an agricultural enterprise where those individuals are principally involved in agriculture.

Of course, as you know, the current interest rate on both SBA and Farmers Home loans are at 3 percent. In the case of Farmers Home, the 3-percent rate applies to the first \$250,000; 5 percent between \$250,000 and the total amount of actual loss; and anything above that, of course, is at prevailing market rates.

In the case of S. 2146, the Senate subcommittee would change the interest rate to a two-tiered structure. For those who could not get credit elsewhere, they would qualify for a 3 percent interest rate. And for those who could get credit elsewhere, they could get an EM loan from the Farmers Home at 5 percent.

The President already has indicated that he wants to make some changes in this program and has given some indications what he might accept by way of adjustments in current interest rates. He may accept either a cost-of-money rate—with no add-ons—or a 5-percent rate. In either case there would be a no-credit-elsewhere test. Now that's still very tentative. It is going to be a major question that will have to be discussed when the Congress resumes next year.

We also have a provision in this legislation that would permit Farmers Home Administration to consolidate and restructure two or more loans made to an individual farmer. It would permit us to basically consolidate several notes and give us more time for working out the individual farmer repayment needs.

The legislation would extend for 1 year the current emergency livestock program, which of course now is due to expire in September of 1978.

There are a number of other features that are basically very technical in nature. I think that this basically covers the highlights of the legislation.

Now let me just turn quickly, if I may, to the current situation. Currently in Iowa we have about 2,000 emergency applications on hand, and we expect it to increase further. I just want to make sure that the word goes forth that there is a deadline of December 2, by which time any farmer who has had losses must get that application in to us. He can determine the losses after that date, but he must get the application in to us by December 2, in order to qualify for any emergency loan as it relates to the drought that has occurred.

We are in the process of streamlining many of our administrative procedures relating to the current EM program. We had meetings both last night as well as again this morning with our State staff and with our district directors; and we'll be sending some special teams to Iowa within the next several weeks to accelerate the processing of these emergency loans so that we can get those checks back to the individual borrowers as soon as possible.

Effective next Monday, we also will be instituting a new telephone procedure which will permit our county supervisors, once the loan is approved, to call St. Louis to obligate the money, effectuate a check be written and get the check back in a matter of a couple of days—which now takes several weeks. So, we'll be accelerating that aspect of this activity here over the next few weeks.

Now the pressures that the Senator has alluded to. I attended, in fact spoke to, the Outlook Conference a few days ago in Washington, and I don't think anybody really knows the severity and the potential gravity of the current situation. We're going to start finding that out, Senator, when our loan payments on our farm loans come due in January. And I fully anticipate that we'll have some problems in terms of some of our borrowers not being able to meet those payments; and to the extent they can't, we're prepared to work with them as much as possible to see them through the current environment. So, with that Senator—

Senator CLARK. OK. That's an excellent summary and opening statement.

Let's go on now to Conrad Lawlor, the Regional Director of the Small Business Administration; and Con, you just proceed in any way you think appropriate. And then I might just say, the first witness after that will be appropriately a farmer, John Sellers, Jr., from Corydon, from Wayne County. So we'll go to the first witnesses following Conrad's opening statement.

STATEMENT OF CONRAD LAWLOR, REGIONAL DIRECTOR, SMALL BUSINESS ADMINISTRATION

Mr. LAWLOR. Thank you, Senator Clark. Again, it's a pleasure and I appreciate being invited to this group. Small Business Administration is just getting started in the farm lending business. I'm in a particularly favorable position at this time because we're just getting started and we haven't been in it long enough to be criticized. We're still in the honeymoon period. We haven't been in the credit business with farmers long enough to handle any complaints against our agency—

Senator CLARK. You will probably get some here today.

Mr. LAWLOR. If we do, they are invalid, because we're still feeling our way and we're still in a honeymoon period.

Basically what has happened in the Small Business Administration is last January, we began, for the first time, including farmers as small businessmen in our regular business loan program. We set the size standard of a farm operation, anything less than \$1 million totaled annual receipts, that farm would be eligible for SBA's regular business loan program. We do not have the restriction that FmHA had regarding the organizational structure of the business. Corporations, partnerships, and sole proprietorships are eligible for SBA guaranteed loans.

Now Senator, I'd like to state here for the record, at this point we have made, effective the end of October, \$11,233,000 in farm guaranteed loans in the State of Iowa. This represents only 94 loans or approximately 10 percent of our total volume during this period. We think it's a good record to begin with since we are just getting experience. We in SBA are commercial lenders and we're obtaining experience factors to expand into agricultural finance.

It would be interesting, I think, to this group to know the breakdown of the types of farm loans that SBA has been receiving from the banks. Of the loans we have approved this year, 50 percent were involved in the swine farrowing operation including loans for facility expansion, construction, and in the purchase of breeding hogs. And I should also like to mention that many of these are new partnerships or new corporations—businesses that were formed basically by farmowners. The typical one would have a group of four to six farmers located near each other that decide to put up a facility of this nature.

The second highest number of loans that we've made were for the purchasing of adjoining land. Next comes purchasing loans for the purchase of machinery equipment; and last comes the farmer to us for short-term capital for crops, fertilizer expense in that seasonal line of credit.

Now to go off the regular business loan program, I would also like to mention that on approximately September 1 of this year, SBA also began a disaster loan program to farms, included under our special disaster legislation. And on that date or a few days after, we established a disaster loan office in Des Moines. The SBA can make loans to farmers, ranchers, who have suffered losses here in Iowa as a result of the drought. At that time, approximately—well nearly all counties in Iowa except seven were declared disaster areas.

Since September 1 until the day before yesterday, we have handed out 11,000 applications to farmers. And at this point, we have received 1,100 applications for processing. We have approved 165 loans for \$6 million. Estimated gross loan requests of the 1,100 applications total \$59 million. And based on our past experience in disaster programs, we would estimate that the total demand in the State of Iowa for SBA disaster loan funds will be near \$200 million.

Now the SBA disaster loan program is basically a direct loan program. Our interest rates are low. SBA's business loan program is primarily a bank guaranteed program. SBA has had a long association, close association with the banking industry, assisting

banks in providing a greater percentage of their loan portfolio to small businesses.

Last week, I had the pleasure of attending the National Conference on Farm Credit in Kansas City, and talked with a number of farm lenders across the country. There was a very good cross section representing lenders, Senator, from across the country. I talked with some bankers that had their loan to deposit ratio of only 60 percent, and they were not concerned. Also I talked with a number of bankers who are now at a 90-percent loan-to-deposit ratio. In effect, that they had no more liquidity, that they could not loan more money. These bankers were very concerned both about FmHA programs and SBA programs to assist their farmer customers at this particular stage.

I think it's appropriate from the comments that you have made and that were made regarding Farmers Home Administration, that we do have a serious situation developing within private credit sources, that certainly would be appropriate for us to consider, particularly with this bill, and additional needs within SBA to assist in this unusual time of the agricultural credit crunch in banking.

At that, Senator, I'm available at any time for any comments.

Senator CLARK. Good. Let me just ask each of you one question, and then when we get to the witnesses, there will be people here who will have other questions I'm sure.

How does a farmer make application for an SBA loan? What does he do? Where does he go?

Mr. LAWLOR. Two ways, Senator. If he's coming in on a regular business loan program, he should visit his local commercial banker. This banker has an SBA loan application at hand, in his place. We use the regular business loan application, the kit that we have always used, with the exception that we ask the farmer to provide a different type of balance sheet—one that he normally uses in supplying financial information to his private lenders.

Senator CLARK. What about a disaster loan?

Mr. LAWLOR. Disaster loan, he should contact our Disaster Loan Office in Des Moines. It's also in the Federal Building in Des Moines, and he merely has to send us an address and we will send him a disaster loan application kit. It would be nice if he wanted to come in for an interview, and we could provide more information, perhaps answer specific questions.

Senator CLARK. And what about Farmers Home, on the same two questions? I think most everyone knows here, but let's put it in the record anyway.

Mr. THORNTON. Before I get into Farmers Home, we have just worked out an agreement with Mr. Vernon Weaver, the Administrator of Small Business, between our agency and SBA in terms of effective coordination of our two programs. Also, we are now in the process of securing SBA loan application forms, which will soon be available at Farmers Home local offices. So farmers having difficulty can come to our office for either an FmHA loan or ask for an SBA loan application.

But for the record, of course, Farmers Home has offices in most every county here in the State. There may be several which serve two or three counties, but we have for the most part, most of the

State covered with county offices. That is where any farmer desiring our assistance, should go either in connection with our regular farm programs or emergency programs.

Senator CLARK. Thank you. Let's go ahead now with the first witness. John Sellers is here. Just come right on up here. You just proceed in any way you want to. Glad to have you here.

STATEMENT OF JOHN E. SELLERS, JR., CORYDON, IOWA

Mr. SELLERS. Thank you. I wish I was a little closer to the door.

Senator CLARK. No, you're fine.

Mr. SELLERS. I'm real appreciative to have the opportunity to speak out on this subject of farm credit. I'm at the moment living in a kind of a twilight zone of agricultural credit. I own 330 acres personally. My father and I have got a 520-acre farm which is a family corporation. I have an operating loan from Farmers Home Administration which covers about 40 head of beef cows and farm machinery.

I am unable to get working capital through Farmers Home at this time, so I'm working off the farm in order to support the existing operating loan that I do have.

I needed to refinance because of drought and poor livestock prices. The emergency livestock loan wasn't available to me when it came out because I didn't have a big enough net worth to secure this disaster loan. So my father and I decided—he owned most of the home farm at that time personally, himself—we decided to go in together, form a corporation and establish a new line of credit. So we started in. We got immediately turned down by Farmers Home, of course, because of the corporation. Got turned down by Federal land bank, the PCA and the local bank. Not knowing where to turn next, I went to a loan broker and just plainly got took for \$4,500 in "up-front fees." He led me on for about a year. I just about ruined my credibility and my reputation in my hometown and it lost me a year's operating of productivity. So I saw the handwriting on the wall and started going to insurance companies next. And finally my father and I were able to secure a loan from an insurance company on the land to take care of the existing debt, refinance it. And I wasn't able to go ahead at that time then and operate, so we cash rented the farm out. I kept my personal farm, my cows down there and everything moves along nicely. But I was very, very unhappy from the standpoint of this broker taking me. I got to thinking, how many others are being taken just like I was. I got to noticing around and found out there are hundreds of them being taken advantage of daily because of just—oh, let's see.

Senator CLARK. I understand.

Mr. SELLERS. OK, fine. Well anyway, my estimation right now is that ag credit is just basically a jungle. The farmer doesn't understand what is going on and there's uncertainty, mistrust and deception. There are several reasons besides the obvious natural disasters, low returns for livestock and crops, and high production costs.

First: No lender, whether it be a banker, Farmers Home county supervisor, SBA loan officer, PCA or Federal land bank manager or insurance company loan officer ever gets fired for saying no. He only gets fired for saying yes.

Second: There is a great lack of continuity of attitudes from one lender to the other whether it be in the Federal land bank, PCA, banking community. There is quite a difference in individuals and it shows up in the way they do their business.

Third: The amount of time and paperwork necessary for any credit request to be acted upon, and even get a letter of commitment—I'm not talking about money—just a letter of commitment.

Fourth: The attitude of many farmers is that they are selling their soul to the short and intermediate term lender. Unfortunately, I have talked to dozens of farmers who have been told the lender is running their business, not the farmer himself.

Fifth: The number of unscrupulous people who tell the farmer they can get a loan for them, collect a fee, then they either disappear or procrastinate until the farmer is sold out and goes somewhere else to try again.

Sixth: And the amount of redlining that insurance companies do in regard to a given area or type of operation they don't like.

I'd like to give my impressions of the existing lenders when I was trying to refinance. This took place from—it was about an 8-month span ending, culminating about June 1 of this year.

No. 1: The FmHA, Farmers Home, wouldn't work with the family farm corporation and they wouldn't work with people who, in their eyes, weren't full-time farmers.

The SBA just acted like they were a new bride who had been given a brown wedding dress instead of a white one.

Senator CLARK. Well now, Conrad said they were still in the honeymoon period.

Mr. SELLERS. I know. When he said that, I thought, "Oh, my God."

Senator CLARK. OK, go ahead.

Mr. SELLERS. But their forms are very unfamiliar to the borrower and to the banker. They are understaffed, it seems to me.

Senator CLARK. You are speaking of SBA?

Mr. SELLERS. Yes. Their disaster office has got two individuals, as I understand it, to take care of the whole State of Iowa. And from the number of applications that have gone in and the ones that have been approved, they don't seem to want to have that much to do with agriculture. Now they are making a terrific input into this, and I'm so glad they are, but there are so many of them that are being turned down on technicality after technicality after technicality.

Federal land bank, they are in love with back tax returns. They seem to base this on the amounts of ability to manage and the ability to service debt off back income taxes. A farmer—

Senator CLARK. I'm not sure I understand that. Would you pass that by me again?

Mr. SELLERS. They come in and look at that 1040F, first thing they do, net worth statement and the 1040F. Well, everyone is trying to take every honest valid deduction they can and a farmer is normally able to come up with a real sob story when you get to the bottom of the 1040F. And in many cases, this is what negates the loan application. I know of individuals with \$600,000, \$700,000, \$800,000 net worth applying for a \$100,000 loan and are turned down on the basis of their back tax returns. So I have been to

several, and this is one of the first things they ask for is that back tax return.

And the local bank has the examiners watching them like a hawk. They are always loaned up to 60 or 70 percent. They are not looking for any new customers, and there is so many of them they are just plainly not interested in taking an SBA loan. They are not looking for a guaranteed loan.

And then you have got insurance companies. There's insurance company A, won't loan in south central Iowa, period. Company B wants all tillable ground. Company C won't loan money at anything under 9½ percent which means the farmers got to incorporate to get around the Iowa usury law.

These are thoughts that are really typical of the farmer having credit problems. I don't mean to portray the farmer as being without fault or shortcomings. Lots of them are trying to have the biggest equipment in the world. They are wanting to have that infamous crop rotation from former Secretary Butz, the corn, Miami situation; and lots of times I feel that they have been told that more is better and with these narrowing margins volume is the only answer. They are using credit as a production tool and you can't borrow your way out of trouble. But I haven't the expertise to talk on, you know, corn prices, this sort of thing. There are thousands of people a lot smarter than I that don't have the answers so I'm not even going to try.

In regard to the S. 2146, I really strongly oppose the deletion of the county committee certification. It's a check and balance on the county supervisor, and it spreads the burden for either saying yes or no to four backs instead of one. And I feel the county supervisors would be much happier if that committee had to go stick their necks out on the line right with them.

On the direct loans for both farmers, farm ownerships and operating loans, I would like to see a conditional loan situation similar to Federal land bank's where it's in interest only for 3 to 5 years and then reviewed. This gives a farmer—I don't care what the interest rate is—if he's got a whole batch of principal coming in on the back end of it, also he's in just as much trouble. Give him time to just pay interest only and see whether he's going to be able to make it or not, and then start in on an advertise situation.

I do feel that the Farmers Home Administration should look more favorably upon equipment leasing in order to lower the capital debt loan and the cash flow problems with their operating loans.

And I feel that we're going to have effective local lenders for the guaranteed loans, either FmHA or SBA, we're going to have to include the savings and loan associations in this. It seems like they are getting an awfully free ride in the rural communities right now.

The last thing is I didn't see anything in here, in this summary, on soil and water loans and that Public Law 92-500 is with us. It's a law and I feel that low-interest, long-term loans need to be available for farmers so that they can participate with the voluntary programs now in existence and the ones coming up, instead of it becoming a mandatory thing in the future, because our water quality does need improving and our soil does need protecting.

I thank you very much and if there are any questions—

Senator CLARK. Good. I tell you it's an excellent way to start this hearing I think because you have had some direct problems yourself. You've got some opinions and some criticisms of the present system and I think that's what we're here to learn about. What I'd like to do, if I might, is to ask you five or six questions of just notes that I took down as we went along. Then, as these enter areas that involve the SBA or Farmers Home or—our next witness in fact is going to be associated with the farm credit system here in Nebraska, Edward Gates; and he may well want to address some of the areas this involves. But I think this is the land bank, is it—

Mr. SELLERS. The PCA.

Senator CLARK. The PCA. Yes. This might well involve some of the things that you have talked about as well, because this is what we really want to know about, what kind of problems you run into.

Now you say you own a farm of 330 acres, and your father—you have a family farm in effect that the two of you own together of 520 acres, I guess you said. So you are talking about roughly what, 850 acres?

Mr. SELLERS. Yes.

Senator CLARK. And you incorporated and you have had now some problems in terms of drought. You have had problems in terms of low prices, other things. And you have described the farm credit system. Now, I think you said the agricultural credit system as being a kind of jungle of uncertainty and deception and so forth. Then you went on to try to describe in what way that occurs, specific cases, and those are the ones I'd like to look at a little more specifically.

One of the things that you said was that people, I think you were talking about the farm credit system, I gathered, the land bank, the PCA's but also the Farmers Home Administration and the SBA as being the fact that it's easier to say no than it is to say yes because nobody gets in trouble for the loan that he didn't make or she didn't make. But people get in trouble for making loans that somehow don't work out.

Mr. SELLERS. Right.

Senator CLARK. That's something that concerns us, I think, is whether there is. This is often argued whether there is a tendency to be too careful either in the—really the quasi-Federal, but really private farm credit system or in the Federal Farmers Home and SBA and so forth. Do you have anything further you would like to say about that? That's one area we're particularly interested in, I might say.

Mr. SELLERS. It is so hard for the lender, No. 1: To come up with a projection today that's going to pay out in the first place. I don't really know how you can do it with the latest prices. If you were going in on a 70 to 90 percent borrowing situation, say on land in the \$1,500 to \$2,000 range, not your real good land in Iowa, just your moderate. It just doesn't pay out.

Senator CLARK. Well how can anybody loan money if they can't feel they're getting their money back?

Mr. SELLERS. Right. You've got equity here. If you don't, you're going to be talking to Farmers Home Administration. You have got equity here and you're trying to lever that equity that you have got

in your land. Lots of times, the farmer isn't given credit for that equity rise himself. That's just inflation and it's passed off in this manner.

They cannot or will not structure loans, lots of times, in order to balloon loan it out favorably. Lots of times they guy will come in with a cashflow that says it will work, and they say they start picking. Well, you're too low on family living. You've got your feed in at so and so many pounds through the gestation of a sow. I think it ought to be a little higher, things of this nature. If you're really unsure—if it's a marginal loan, you can spot it immediately—there is infinite variety of ways you can pick the thing apart, of course. And this seems to be the case a lot of times.

Senator CLARK. Now you went on to say that one of the problems is that it takes an awful long time to get an answer and that you think there's an inordinate amount of delay. Where did you experience that? Throughout that system, commercial as well as Federal or are you talking principally about the Farmers Home Administration or SBA?

Mr. SELLERS. SBA mainly.

Senator CLARK. SBA. But the others, when you went to commercial banks—because you were turned down inconsistently with commercial lending because you weren't able to show that you could really—the kind of balance sheet or the kind of cash flow that—

Mr. SELLERS. It was a cash flow situation, not a balance sheet. There was some substantial net worth on paper.

SBA, when I applied to them, went to a local bank, one of the two in my town that would even consider SBA. We started in and the whole process took about 6 weeks for a decline. There were the questions back and forth, back and forth. The banker thought we had a real good shot at it but he didn't understand the forms well enough himself. He was unclear. He'd call up and the people there were unclear; and pretty soon, it's just back and forth on the telephone. It took 6 weeks for the declining letter. That's too long because you have got a farmer that is looking for alternate sources. He's got the lender who is wanting to be either paid off or have some progress made. He's calling this guy up every 3 or 4 days "What are you doing?" "I don't know." Well, you say I'm going SBA. OK. Six weeks later, it's down to two and you start all over somewhere else. You've lost 6 weeks of productive credit searching.

Senator CLARK. Needless to say, Conrad or Jim, if you want to pitch in to their questions as they raise questions about your areas, don't hesitate to speak up.

Mr. LAWLOR. Well, I agree with Mr. Sellers that 6 weeks is much too long. We would like to—our goal is an answer within 10 days. We are not hitting our goal. In September our average loan processing time in the Des Moines office was 16 days. In October it jumped to 29 days, mainly because we have six processing—we have fewer processing loan officers, Senator, in the Des Moines office than we have Congressmen from Iowa, in the State of Iowa.

Senator CLARK. Why is that? Are we just not appropriating the money to do it?

Mr. LAWLOR. We're just not staffed up for this type of loan. We're not prepared for it and it takes years to train a loan officer.

Mr. SELLERS. One question. You said it takes like in October, 29 days. Is that from the finalized formal application with all the details straight or is that from the time the first application hits the office?

Mr. LAWLOR. We start the day the application is received in the mail as time stamped in through the mail. That goes to the day the letter goes out to the applicant or to the bank approving or declining the loan request.

Senator CLARK. So there would be a couple of days on each side in addition to that?

Mr. LAWLOR. Yes, for the banker and the mailman.

Senator CLARK. Well now, let me go on to the Farmers Home and maybe at least we can keep going with it. But you mentioned something that we're particularly interested in, and that is the fact that since you and your father incorporated, you are a corporation, and therefore you're disqualified from Farmers Home. Now that's something that I want to ask Jim to talk to, but that's something we're trying to straighten out in this new legislation that we're having hearings on today.

Frankly, we're not very interested in opening up Farmers Home loans to big corporations. We are not going to do that, but we are interested in trying to get people who are living on a farm and operating that farm to qualify under this system. If we pass this legislation, that change will be made; and we're going to pass this legislation—at least we're very confident we are. But maybe, Jim, you can speak to that a little. Is that all there is to be said?

Mr. THORNTON. Well, other than to say that this has been a major problem for the agency for several years. Two: It is the major reason why SBA got into this business. Farmers Home currently doesn't have the ability to make regular farm loans to family farm partnerships and corporations.

In the application of this new provision, keeping in mind our individual loan limits, I think one can be pretty well assured that we will be still dealing with the smaller, moderate-sized, lower income farmer. We also hope that this particular provision can become effective on day of enactment so we will be able to deal with situations such as you described immediately.

I'd like to also just mention the importance of attitudes. This is a problem and I have seen this among lenders; and yes, even among Farmers Home in certain areas. One of the major problems, without going into all the details here, is that this agency has grown enormously. FmHA county personnel are now administering some 30 individual loan programs. And, under such circumstances, it makes it even much easier, if you will, to turn somebody down as opposed to taking somebody on that is going to be a higher risk, creating more supervision problems, et cetera. However, we're now working on that problem. Let me just mention one major thing that we're now looking at to relieve some of those pressures on county personnel so they can work more intimately with small farm families and their problems in the future. We're now examining the possibility of removing from the county level community development-type lending activities—moving them up to the district level.

Senator CLARK. Like what?

Mr. THORNTON. Water and sewer, community facilities, business and industry loans, housing subdivision loans, and so forth. This would permit county personnel to devote more of their time working with farmers and their problems.

Also, there are some other provisions in the just passed farm bill that gives our agency, for the first time, some added authority that will permit us to defer principal and interest, and to do it in such a way that we can make payments to the holders of our insured notes. This new authority will give us added flexibility in working with new and young farmers and those with limited resources. It will help us minimize cash flow demands on them while they are trying to get their feet on the ground. And there are several other things like that we're going to be looking at to add further flexibility to the way we administer our farm programs.

Senator CLARK. Now I wonder, Jim, one of the other comments that John Sellers made was that he opposes the deletion of the county committee approval, I think you said, of loans as suggested in this bill. I didn't read the bill that way, but maybe I'd better get an expert to talk about it.

Mr. THORNTON. This particular amendment would not remove the committee. The committee would continue to function and determine eligibility. All this would do is to remove the committee's involvement in actually setting how much money the farmer would get.

Frequently, when the applicant files, between that time and the time the loan is approved, his financial needs change. Under current law, every time you have such a change you have to go back and have a committee meeting. There are some other problems with that, but essentially that's all that this affects; just removing the committee's involvement in setting the actual loan amounts. But they will continue to be involved in determining eligibility; and you are right, they perform some very important functions out there as part of this process.

Senator CLARK. Now, one other point before we let you go, that you raised that I was interested in, and I gather you were talking about Federal land bank rather than Production Credit but I'm not sure. You said you felt that they were too dependent upon tax returns. The fact that what your actual profit as reported on the tax forms—it's your feeling that they place too much emphasis on that and that's not an accurate reflection of your income; and therefore, your ability to repay. Was that just land bank, you are talking about?

Mr. SELLERS. Right.

Senator CLARK. You never attempted to get a loan from Production Credit Association?

Mr. SELLERS. Oh, yes.

Senator CLARK. Both?

Mr. SELLERS. Yes.

Senator CLARK. Are you talking about that criticism for both?

Mr. SELLERS. Yes.

Senator CLARK. You were told by them that that single factor disqualified you or can you talk about that or expand on that at all?

Mr. SELLERS. Yes. This is basically what it was. That, and the timeliness of what I owned at that time. When I was operating with Farmers Home Administration, actively farming, I built myself up to where I could expand. So I bought a lot of machinery and quite a few beef calves just in time for the beef cattle price to plummet down. OK, that immediately knocked my net worth down on paper and it also put a real crunch in my ability to service debt and to show cash for it. I held—my county supervisor advised me to sell my calves and therefore take a very low price for them; and I did the exact opposite—held them over and made quite a bit of money off them.

But in the meantime it went from one tax year to the other and it showed me taking a terrific, terrific loss in 1 year when actually I hadn't, and this is one of the reasons that I was denied credit, was that I couldn't get it through their head, dammit, I kept 2,000, 3,000 bushel of corn over; I kept all my beans, I kept all my calves. It doesn't show in here. All I've got is operating costs, but this was an incredible—

Senator CLARK. And the inventory didn't make that much impression?

Mr. SELLERS. No.

Senator CLARK. Well, now you don't have to answer this question if you don't want to, because it's none of my particular business, but do you presently have—I mean as you started, did you have loans from any of the Federal credit systems or did you have private?

Mr. SELLERS. As I started what? My farming?

Senator CLARK. As you bought the farm and as you continued on before the period that we discussed here.

Mr. SELLERS. It was private individuals.

Senator CLARK. All private individuals?

Mr. SELLERS. Yes.

Senator CLARK. So that you really hold no loans now under either the Federal credit system or—

Mr. SELLERS. I have an operating loan from Farmers Home Administration.

Senator CLARK. That you had earlier?

Mr. SELLERS. Yes.

Senator CLARK. OK. Questions from anybody here?

Mr. LAWLOR. I would like to mention, Senator, that in making a credit judgment for a farmer, we have to decide before granting a loan, that there is reasonable repayment ability from that farm operation. If you look only at the schedule F of this tax return, you will never find it. That's correct. The only way to determine repayment ability is to have the farmers provide balance sheets of its farm operation for the past 3 to 5 years, and then do a reconciliation of that net worth figure; and that should also be adjusted in some cases.

And I disagree with you, Mr. Sellers, that the increase in land equity should be given credit, but it's a nonearned income. It's there, fine. It's good for collateral purposes, but it does not affect the earnings ability of a farm to repay loans. But the reconciliation of the net work statement would have to be adjusted to take into consideration the increment of increased land values, market value

of land; and also you would reflect the farmer who is holding his corn, beans, livestock, increase in livestock which would then reflect a true value of what that farm is producing as an operating unit to repay loans.

Credit judgment is not a simple procedure of just looking at an income tax return. It takes training of loan officers to be able to recognize repayment ability and know farm operations; and I think sometimes we all get going so fast we don't take the time to look at those items. The farmer, of course, is going to complain because all this paperwork here you are making him provide. Well in order to make a factual credit judgment you do need some of this paperwork, and a reconciliation of net worth is not an easy thing to do.

Mr. SELLERS. No. 1: I can tell from your comments that your procedures have changed quite a bit since you first got into the agricultural field. In regards to the past, the net worth statements and things of this nature because they weren't initially, and I would agree with you that paperwork is necessary, but why not in English?

Senator CLARK. You think they get a little complicated?

Mr. SELLERS. Well, I have seen bankers that didn't know what to do with them, so they hid them.

Senator CLARK. Jim, do you have any questions?

Mr. THORNTON. Well, just one. You made some comments about savings and loan. Would you elaborate on that? I don't think I understood what you were getting at there?

Mr. SELLERS. Well, I'll probably get hung for this, but savings and loans come into rural areas, offer say, a half of percent or a quarter percent more to depositors, so everybody takes their savings out of the local full-service bank and into the savings and loans. And the savings and loan doesn't loan in agriculture. They loan on houses, basically. The local banks deposit is lower; therefore, the amount they can lend to farmers is decreased, and savings and loans is not, I don't feel, carrying their weight. If they are going to be in a rural community, they had better be loaning to agriculture.

Senator CLARK. Thank you very much. You've got us started on the right track here.

Mr. SELLERS. Thank you very much.

Senator CLARK. OK. We're going to hear next from Edward Gates, from over in Omaha, farm credit system. Actually I think Production Credit Association. We're very pleased to have you here and you proceed in any way you think would be appropriate to proceed.

**STATEMENT OF H. EDWARD GATES, VICE PRESIDENT,
FEDERAL INTERMEDIATE CREDIT BANK, OMAHA, NEBR.**

Mr. GATES. Thank you, Senator, and members of the Senate Agriculture Committee and others present. I would like to just cover a few brief written remarks, a written statement that I have prepared and I do have copies of that for you.

Senator CLARK. Good.

Mr. GATES. It will not be at any great length, and then allow some time if there are any questions. I'll be glad to try and answer those.

I am a vice president of the Federal Intermediate Credit Bank of Omaha. Our bank, through 40 production credit associations, serves over 20 percent of the short and intermediate term credit needs of farmers and ranchers in Iowa, South Dakota, Nebraska, and Wyoming. I have been a part of the Federal Intermediate Credit Bank/Production Credit Association system for 14 years, including 5 years as president of the Sioux City Production Credit Association, Sioux City, Iowa. I appreciate the opportunity to appear before you at this field hearing.

There has been much discussion, concern, and publicity regarding the credit crunch in agriculture. I would like you to know that the availability and the obtaining of the adequate lending funds has not been a problem for the farm credit system, and we do not anticipate that it is going to be. The real problem in agriculture has been rapidly escalating costs coupled with declining markets of farm commodities. This situation has caused a very serious cost-price squeeze which has resulted in cash flow, liquidity, and profit and loss problems for many farmers. Market prices for commodities must return to levels which will enable the efficient farmer to make a reasonable profit.

The farm credit system was organized in difficult times to serve the credit needs of agriculture—good times or bad. We have the people who know and understand the problems of agriculture. We have the tools and the machinery and we are doing our best to meet the farmers' needs for credit during these stress conditions. We only hope that farm commodity prices will increase to a level which will enable the efficient farm producer to realize a profit.

Concentrated market research and development may very well be the best avenue to achieve a satisfactory price level for farm commodities. Senator, we would urge your support to any foreign market development program opportunities that might come available.

I want to thank you for the opportunity to meet with you today, and I'll be happy to try to answer any questions that you might have. That concludes the written statement.

Senator CLARK. We appreciate the statement very much, and I think—let me just comment on the export part for the farm, the nature of the present problem very briefly, even though that's not the principal reason of the hearing. But I think your point is well taken when you say the real problem in agriculture has been rapidly escalating costs, coupled with the declining market prices of farm commodities. I think that is the problem and I agree with you that above all, we have to find ways to increase exports. That would be the most important single thing that we can do, particularly in a time of surplus. And I think there are some things that we can do particularly by way of, I would argue, by way of extending most-favored-nation credit terms to some additional countries. I think we could do more in the food-for-peace programs. We're shipping now less than a third of what we shipped 10 years ago. I think it's a more aggressive policy through our agricultural attaches abroad and our embassies abroad. I think there are a number of things that we can do to try to improve that, and that we have to do to improve it.

Let me ask you just a couple of questions. First of all, a very basic one for the record. Can you kind of explain the structure of the farm credit system? Let us say from Washington and the Governor on down through the regional offices and down through the local—what do you say—district or credit associations? You say you have 40, for example, in this regional area covering Iowa, South Dakota, Nebraska, and Wyoming. Can you just sort of describe that structure so that we're all clear of what that is and how it works?

Mr. GATES. Yes, I'll try to do that as briefly as I can. By virtue of our name, there is an implication that we are owned or controlled or are a Government lending institution, and this is not the case. We are a privately owned farmers cooperative, so that the people who borrow and do business with our system are the owners of the organization. They elect their directors from their own farmer members, and they set the policies of the organization. We are supervised by an agency of the U.S. Government, similar to what commercial banks would be. However, ours happens to be Farm Credit Administration which is an independent agency of the U.S. Government. That's headed by the Governor of the Farm Credit Administration, Donald Wilkenson. They are responsible for over-all supervision of the farm credit system.

The farm credit system is comprised of three parts: The Federal land bank associations are the long term real estate lenders. They are principally in the land mortgage market. The second part of the system are the banks for cooperatives, and those banks do business primarily with farmer cooperatives out in the country—the elevators and the farm co-ops around the district. The third part of the system is the Intermediate Credit Bank and the Production Credit Associations. They are in the business to provide the short and intermediate term of credit to farmers and stockmen.

So between these three segments of the farm credit system, we've pretty well covered the whole farm credit needs picture.

The FICB and PCA system. There are 40 PCA's around the four States that I mentioned. There are several offices in addition to those. I think our total offices in the district now total about 160. So we have good local field service available to reach all the areas.

There are 12 farm credit districts in the United States. Ours happens to be the eighth farm credit district. It's headquartered in Omaha and covers four States. But there are 11 others around the United States just like our district bank in Omaha.

Senator CLARK. Good. Well, that's exactly the kind of thing. So that you were originally chartered and capitalized by the Federal Government, but then all that money was repaid as you got money in and as you got more shareholders, and you eventually then became totally independent except for this kind of quasi-board at the Governor and board at the top and so forth?

Mr. GATES. Right.

Senator CLARK. Now just a couple other questions, and others here may have questions. You said in your statement:

The availability and the obtaining of adequate lending funds has not been a problem for the farm credit system, and we do not anticipate that it will be.

So are there any circumstances that you can see you are not reluctant about at least having all the funds to loan that you feel can be appropriately loaned? Is that what you are saying really?

Mr. GATES. That's correct. And for our source of money, we go into the open money market each month, and we actually have a fiscal agency back in New York that administers our funding program. So we're not relying on the local funds in the State of Iowa. The money we get is largely from large investors such as insurance companies, commercial banks, large individual investors, and other individual investors wanting to invest \$5,000 or more. So the money we're bringing into the Midwest—and we feel this is a very important element of our operations—is money that would not be here otherwise. We are not tapping the local money supply, which is tapped pretty heavily in some cases already.

This may differ with the commercial banks which are in some cases experiencing some problems with loan deposit ratios and availability of funds. But there is variation in that, and I feel basically in Iowa that banks, overall, are doing a pretty good job of providing the funds or have the access to them that agriculture needs.

Senator CLARK. Now let me just follow up on what you have just said. Are there, in your judgment, farmers who cannot—let us say, meet the standard of risk that you establish or the standard of judgment that you establish? In other words, they come to you and get turned down. Do you think there are farmers who nevertheless should have money loaned to them, who are too great a risk for you or for the commercial bankers or others to take or should these people not be in the business?

Mr. GATES. Well, we certainly appreciate having the FmHA and the SBA program. At this point, I'm not that familiar with the SBA program, but there certainly is a need for some of these type of disaster programs. Agriculture over the years has, of course, been subjected to these types of disasters and these types of programs are needed, and they are important for those that cannot obtain credit at conventional sources.

Basically, I would imagine it's probably around 2 to 3 percent at the most of Iowa farmers that we deal with who are facing some type of liquidation other than what you would consider normal—selling off of chattel assets, for instance, or perhaps some land to meet their obligations or to get their debt level reduced to a point that they can live with. But this is not abnormal and it's not too much above average at this point. I'm not talking here about foreclosures or this type of thing. I'm talking about whether they're facing above normal sales of some assets to meet obligations.

Senator CLARK. Suppose that, let's say, that corn prices settle down at about where they are now, maybe \$2 a bushel over this next year. Will this give your borrowers the cash flow that they need to get credit to operate? What happens? Let's suppose that we stay in this condition for a year or two. What kinds of problems does that create for you, if any?

Mr. GATES. Well, for the farmer that's borrowing much of his operating capital, as many of them of course are, it's going to be extremely tight cash flow wise. The cost price squeeze with \$2 or

less corn, or the current price of corn, just doesn't enable even the efficient farmer to make much of a profit. We expect that the cost price squeeze is probably going to continue for 2 to 3 years.

Senator CLARK. What kind of a problem does that cause for the farm credit system or Farm Credit Association? I mean, what's going to happen to you if indeed those predictions come true?

Mr. GATES. We don't expect to experience any difficulty in having the funds to properly finance agriculture. The problems are at the farm level and the producer level.

Senator CLARK. He's not going to have any trouble paying?

Mr. GATES. It's going to be nip and tuck. It's going to mean that they will have to, in most cases, limit expansion plans. They won't be able to buy the capital that they may perhaps need, for instance, in the area of machinery, equipment, facilities. It will be much more difficult for them to consider expanding through land acquisition under present day conditions. They are going to have to concentrate just on meeting their year-to-year operating production expenses.

Senator CLARK. But you would anticipate that they could do that by that process?

Mr. GATES. The efficient farmer, at \$2 for corn, can probably make it through.

Senator CLARK. What about the young farmer that paid \$1,500 an acre for land—you've made some loans, I assume, to young farmers who paid that. So in other words, suppose their production costs, as obviously would be the case and many cases, would be up around \$2.20 or \$2.40 or \$2.60 a bushel. You've got loans out to these people I suspect. What happens? Is there a way for them to meet their payments to you or are they going to be in trouble?

Mr. GATES. There aren't too many young farmers who would have gone out and bought \$1,500 or \$2,000 an acre land entirely on their own. Now they may be operating it. They may own it in essence, but in most cases, it would be through family backing—fathers, brothers, and so forth behind them providing the financial responsibility to enable them to, in most cases, weather through it reasonably well.

Senator CLARK. What about renters? They wouldn't have this asset?

Mr. GATES. Renters have experienced a difficult time during the inflationary period of recent years. I don't know as there are any advantages to inflation over the longer term. I don't think so, but at least the landowner, who had a land base, has experienced quite an appreciation in the value of his land even though the productivity may not have changed much. It has appreciated. The renter has had the full implication of all the rising costs that the landowner has, but had no assets to capitalize, if there is such a thing, on inflation. And I don't know as there is an advantage to inflation, but at least the landowners had that asset behind them and that's been a prime criterion to enable them to weather through these difficult conditions.

One area I would like to——

Senator CLARK. Just before I forget it, you don't say then that you would anticipate that even if your projections are correct, that

you continue with the \$2 corn, that renters will be able to make their payments to you over the next year or two?

Mr. GATES. We expect that they will, you say? Yes. The good tenant, I think, and if he's not carrying an excessive amount of debt and his carryover debt is not excessive. I think if he's got a reasonable degree of volume in his operation, he can cover his cost but not much more.

Mr. WISE [speaking from the floor]. Senator Clark, could I ask one question?

Senator CLARK. Just as soon as he finishes, sure.

You wanted to make another point, you said?

Mr. GATES. Mr. Sellers had mentioned the area of farm credit institutions with the forms and so forth as sort of appearing as a jungle. We've been a little concerned about this ourselves recently. We've got quite a lot of institutions numberwise involved in various ag lending programs varying from conventional lenders to the FmHA and the SBA programs, and some revisions occurring there. And I was extremely glad to hear that FmHA and SBA are coordinating together, working on their programs together, to share information. And I think we have a need for PCA's and commercial banks to work closely with these other lenders. We want to insure through all these programs and as we get several, maybe two or three lenders involved with the farmer, that we're serving the farmers' best interests through all this. And that takes some coordination between the lenders and working together.

Senator CLARK. Let me ask one last question before we go to the other questions. Suppose that farmers cannot make those payments to you, whether young farmers, renters, people you have identified as being in a particular crunch. Suppose they are not able to make their payments to you? Are you going to be in a position to refinance them or are you going to be saying no, go to the Farmers Home Administration or the SBA or what are your alternatives in terms of those people who are going to have troubles that they can't meet?

Mr. GATES. Well to those that have problems, if you say they can't meet their obligations and that's an absolute, we would perhaps refer them to the Farmers Home Administration or the Small Business Administration. But it's our intent to—wherever there is a reasonable chance of recovery and continuing on the part of the farmer, we plan to continue ourselves.

Senator CLARK. OK. We've got about 1 or 2 more minutes. Any questions here? We're going to take one question, actually just one because we want to leave this for discussion at the end. But you had a burning question back there?

Mr. WISE. I also noticed that farmers never get out of paying their interest, but I happen to have a Federal land bank loan on more than one farm. I'm not sure how those are held, but I don't like the idea of the Federal land bank, about 7 or 8 years ago, not paying interest on our stock. I happen to have \$12,700 worth of stock in the Federal land bank that I don't get any interest on at all; 10 or 15 years ago I used to get 3 percent interest on it.

Now they've backed away from paying interest. But they are building new buildings. If we buy new machinery, a farmer, and won't pay interest, why then we're in trouble. I'm just asking why?

Mr. GATES. I'm, of course, not a representative of the Federal land bank, so I can't speak specifically to that. Basically, in the farm credit system we operate on a minimum cost basis; and the gentleman's statement that they used to pay dividends and in many cases, the PCA's also used to pay a dividend. But in looking at this, we really have the option there of operating on a minimum cost basis, in other words, paying our operating expenses, making the addition to the reserves for loan losses and so forth—the minimum requirements we have to meet. Beyond that, we try to reflect out then any savings as such which would be returned in the form of a dividend. Rather than returning it in the form of a dividend, we try to hold down the interest rate to as low a level as possible on which we can operate. That's the general principle. We could charge a higher interest rate to borrowers and then pay a dividend on the stock.

Senator CLARK. What is your rate now?

Mr. GATES. The rate of PCA's varies from PCA to PCA. They aren't all the same, but it ranges generally in the area from $7\frac{3}{4}$ to $8\frac{3}{4}$ percent at the present time. The land banks are all at $8\frac{1}{4}$ percent, which is a half of 1 percent reduction, as of November 1 on the variable rate loans.

Mr. THORNTON. I just want to make one very brief comment and then get to the question, and it's something I think that we often forget in terms of looking at the financial ability of farmers, especially during these times of stress to meet their payments. This year, it is estimated that the realized net farm income in this country will drop to about \$20 billion. Nonfarm income this year is estimated to be \$30 billion to those same farmers. So there are two major sources of income here. That income which comes from the farming operation and that income which comes from nonfarming. The nonfarm income has been one of the things which has helped a lot of farmers basically meet their payments and do things, which if they would have had to rely solely on the returns from farm production, there's no way they'd be able to do it.

Senator CLARK. That's why John Sellers went to work.

Mr. THORNTON. I agree with him by the way insofar as our agency is concerned. We probably have not been as sensitive to the importance of nonfarm income in terms of its importance as an income source for helping young farmers get started and to make a go of it.

I want to again mention that Farmers Home increasingly has been able to provide more real estate money to young farmers through what we call participation loans through the Federal land banks. That is to say we joined with them. For every dollar we put up, we were able to get the Federal land banks and other lenders to put up a dollar and a quarter of matching loan money. They take first lien, we subordinate and we actually supervise the loan which is a way of our getting more capital to the lower income farmers. And I think in 1976, the average age of the farmers that participated in that program was 35 years old. So it has been a very important program to young farmers.

My question to you, sir, in terms of your current view of your PCA operations in this area, are you now estimating any increase

in referrals to Farmers Home within the coming months, given current cash flow problems farmers are now facing?

Mr. GATES. I don't think in most areas—are you referring specifically to Iowa or do you mean that in context of our four States?

Mr. THORNTON. The area you cover.

Mr. GATES. In the area of the four States, I would say we aren't expecting any increase in referrals to FmHA. We, of course, have had the situation in South Dakota the past 2 or 3 years that's been very serious, as I'm sure you are aware; and there were a lot of referrals over there over the past couple of years. I think the FmHA loaned over \$200 million in South Dakota.

And the drought conditions, that's certainly of a temporary concern. We certainly aren't as concerned about the drought at the present time as we are in the economic conditions. We can see the end of the drought. We think the drought is probably short term, and moisture conditions have improved in a lot of areas this fall.

Senator CLARK. We thank you very much for your testimony, Mr. Gates. It has been very helpful. I hope you can stay through the discussion, which will end in about 30 minutes.

But we want to hear next from the third witness, Dale Ball, First National Bank here in Council Bluffs, a successful banker who is very much involved in the questions and the problems that we're talking about today. So, Dale, you proceed in any way you'd like. Glad to have you here.

STATEMENT OF DALE BALL, FIRST NATIONAL BANK, COUNCIL BLUFFS, IOWA

Mr. BALL. Thank you, Senator. I would like to take a path very similar to the path taken by my immediate predecessor in this chair. As bankers, we agree that the money is available and probably will continue to be available. But the problem is not in the availability of money. It's in the cash squeeze that results from the market conditions; and I think that the work that this hearing concerns itself with, an examination of the particular bill and an examination of the entire farm credit situation, is necessary work and time well spent. If we felt that that was the only way in which this problem was being addressed, as a credit problem as opposed to being a market problem, then I would think that this would be frivolous and unnecessary because it is not the central issue.

I have strong feelings that a bank like ours located in Council Bluffs, where we're in both a rural and urban environment and where in various years different problems present themselves, we can look at real estate problems in 1975, for example, and see that the passage of some time can turn that around. But in 1977, we're looking at agricultural problems that seem to us to be built into the system, and we're very pessimistic about the near-term outlook. Therefore, we are saying to our farm customers that they have to retrench—a nautical term like “batten down the hatch” may not be appropriate in the Midwest—but in one way or another, we feel that we have to be mutually very careful; and we don't think that our abilities and our problems as private lenders are very different than the public lenders that are available.

Debt service still is debt service and a loan must be repaid. And if we're not talking about repayment, then we're talking about a

grant or some entirely different vehicle. And if we are talking about loans, and I think that's the only way in which we would address this problem today, if we're talking about loans then we cannot ignore the realities of repayment. And the Federal Government can perhaps tinker with the interest rate, and tinker with the repayment time and make it deferred, but if it's going to take place in an orderly way and not become an increasing and continuing burden on the agricultural unit, then we must deal in terms of a reality of the cash flow that can be generated.

We're urging that many of our people consider their land debt. We're urging that they very carefully consider refinancing the land itself. If the land itself is not refinanced, then the inflation that has impacted that land is not particularly relevant to the current cash squeeze that relates to production problems and the carrying costs of the production effort.

We have also asked that some of our farmers liquidate land, land that might not be contiguous or might not be essential to the basic operation. We feel it might very well be better sold today rather than carried in a laborious fashion.

Finally, farm sales are not unheard of. We, with a good deal of sorrow, watched a long-term customer carry a farm sale on Saturday—this would be this past weekend. If this farmer would have been younger, he might have persevered. With his age and with the near-term prospects, he saw a liquidation as his only means of proceeding, and we agreed. And luckily, the weather was balmy, the crowd was large and the sale was successful; if such a liquidation, as sad as it is, can ever be truly successful.

So my remarks, Senator, are in summary these: We favor the bill that's being considered. We think it's appropriate and logical. We think it's an extension of what has happened in terms of activities and the increasing grouping of farms and increasing inflationary impact on dollar levels. We think at the same time that the real issue is not in the credit side, but the market side of the agricultural question.

Senator CLARK. Good. We think that we've got some credit problems in part because of the low prices, but clearly the problem is price and the solution is price—market price rather than simply credit.

But you have discussed very briefly the issue and I want you to go back and cover a little more thoroughly the issue of why you feel that people ought to refinance in terms of their land. Can you go back over that a little more slowly?

Mr. BALL. Yes. In a period of—we really haven't had a period of farm prosperity for a long time—but in the period of relative farm prosperity, many of our operators expanded by buying an 80 or 160 out of current cash flow and out of bank debt or perhaps PCA debt. None of us encourage that, but it's a logical flow and quite often the land was purchased on time or in some way that a total payment wasn't immediately required. The short-term debt is amortized, repaid if you like, in a short period of time; and therefore, the loan that would apply to that farm unit, because of the necessity of paying off in a short period of time an asset that was purchased to be utilized over a long period of time, I think is inappropriate. Therefore, when money is tight and cash flow prospects are

difficult, then it's terribly important that payments for that land that has been, perhaps been accumulated, be extended over a much longer period of time for repayment purposes rather than trying to be serviced in a short term. So, that's one example of the farm unit that is expanding, but there are all kinds of other examples where there has been passage within families—sons and daughters have taken over, and where there are short-term solutions to what we see as a long-term problem. There are long-term lenders, insurance companies, Federal land bank. There are long-term lenders. We think they must be utilized, and their current appraisal techniques reflect current pricing and therefore it's appropriate. And their time frames for repayment reflect current abilities, and therefore we think that's appropriate.

Senator CLARK. I thought maybe Jim or Con, do you have questions?

Mr. THORNTON. One brief statement again and then also another question. Another source of funds in terms of money to farmers now in this area of course, will be CCC loans, and that's another which I think will play a very important part. It's no substitute for higher market prices, but at least it's another source of getting at least some funds to help farmers meet their financial obligations.

The question I have for you has to do with those provisions of this legislation expanding both our farm ownership and our operating programs in terms of loan guarantees. How do you see the banks viewing that? Do you see heavy participation or no participation in terms of being able to use that 90 percent guaranteed authority to make more capital available for both purposes or—

Mr. BALL. I would see it as a tool that we would aggressively use that would vary with institutions, but we work closely with the Small Business Administration as an institution. We're in their shop, if not weekly, certainly monthly; and we would aggressively seek out guaranteed programs. We think they are very appropriate because they permit the close personal relationship, the proximity to the problem and to the entity, and still provide an ability that sometimes we lack.

Mr. THORNTON. Would you apply that also in the case of real estate loans? You tend to be a much more short-term lender, do you not?

Mr. BALL. Yes. I wouldn't want to rule out real estate loans although I don't think that would be the central thrust. But we do participate with the Small Business Administration at times of long-term loans. I think we have funded a couple of 25-year relationships with you right now, but we can't put very much of the bank's portfolio into that kind of use. But I think there would be situations where we could see a real estate loan as being appropriate in a workout relationship where we might not have voluntarily got into that. But we would accept it as a workout problem.

Mr. THORNTON. If techniques could be developed to get banks to use these programs by development of a secondary market for the guaranteed portion of the loan, would that help you by way of incentive to get into longer term lending?

Mr. BALL. Yes. Let's see if I understood your question. You are saying in a real estate situation, let's just say \$100,000 where we had a 90 percent or \$90,000 guarantee and we were carrying the

10, we would still be carrying the 10 if there was a secondary market and the 90 could be placed somewhere else. Yes, I don't think our bank and I don't think most banks would be concerned with tying up 10 percent of a real estate loan. I don't think the long-term implications would in that way be defeating. I think that would liberate that entire area.

Mr. THORNTON. That is something we are also thinking about.

Mr. BALL. That would be a very interesting help, I really do believe.

Senator CLARK. Thank you very much, Dale, we appreciate it.

All right, we've got about 15 minutes now. I thought we would just open it to comments, discussion, anything anybody wants to raise or ask or say. I'd like to ask you to give us your name and address for the record so that we get it in the printed testimony accurately. But anything anybody would like to raise or say or ask or point out about the nature of this particular problem?

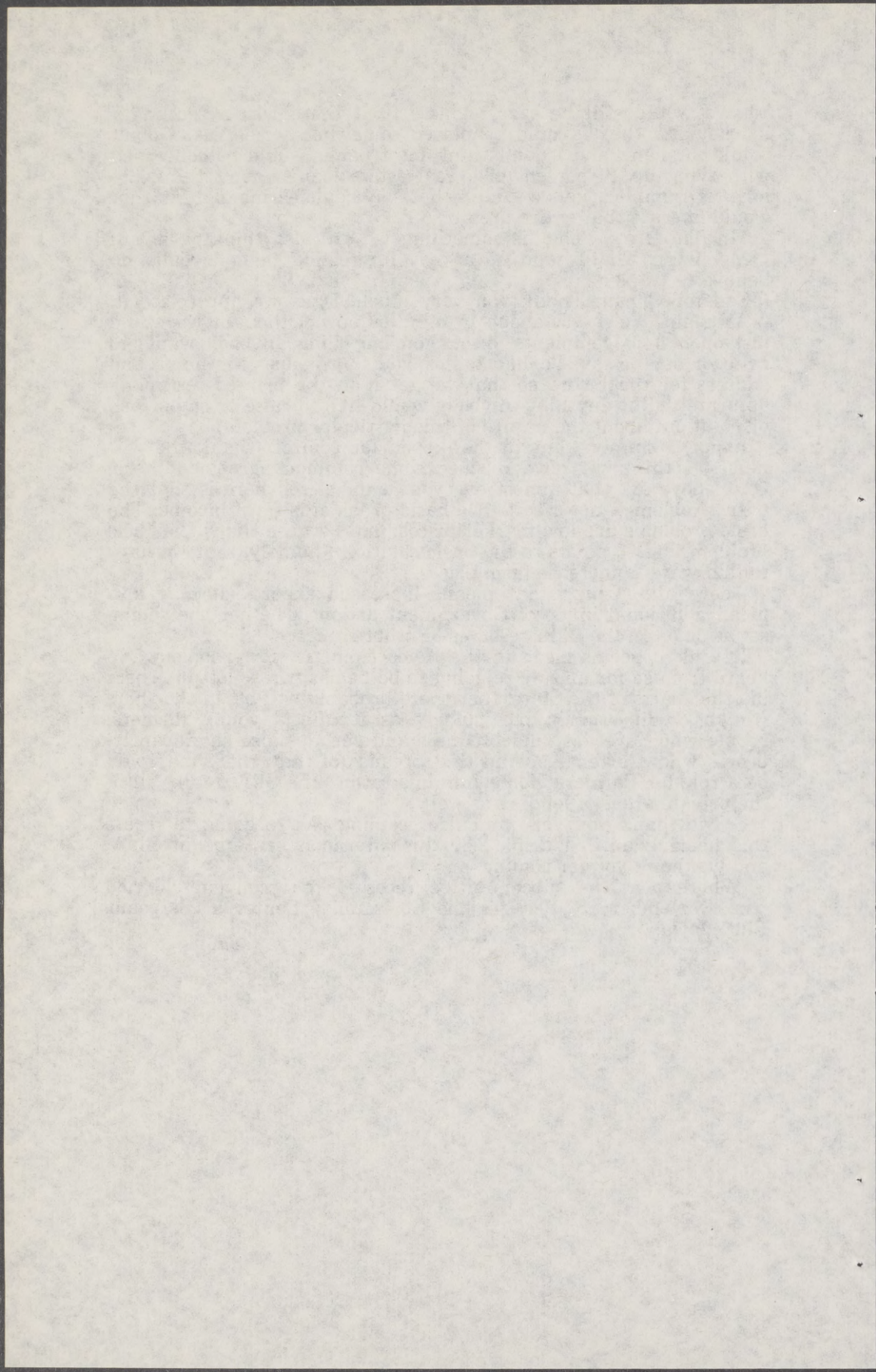
If not, I simply want to thank you for coming, thank the witnesses. I think we have reached some common agreement here. One, above all, that almost everyone emphasized here is that the basic problem is not credit. The basic problem is farm income. The basic problems are low market prices; and because that's the basic problem, it also points to the basic solution—namely, that we have to find ways to increase farm prices.

Above all, I think that means increased exports. It may also mean additional kinds of Government actions whether that being set aside or on the farm reserves or other things.

I think it seems clear in the fields from the few people we've heard from so far and we're going to be hearing from lots of others in other parts of the State, that there probably will be, in the short run, a credit crunch; particularly as it affects young farmers, people who have deep indebtedness and perhaps also significantly, people who are renters. And that because of that, there may well be a role for Farmers Home Administration, the SBA, really all of the private areas of lending as well.

So we thank you very much for coming. We're going to recess this hearing until, I think 2:30 this afternoon in Sergeant Bluff, and we thank you for coming.

[Whereupon, the subcommittee recessed to reconvene at 2:30 p.m., November 18, 1977, in the Community Center at Sergeant Bluff, Iowa.]



CHANGES IN FARMERS HOME ADMINISTRATION LOAN PROGRAMS

FRIDAY, NOVEMBER 18, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Sergeant Bluff, Iowa.

The subcommittee met, pursuant to notice, at 2:30 p.m., in the Community Center, Hon. Dick Clark, presiding.

Present: Senator Clark.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. The hearing of the committee will come to order, and I want to welcome particularly people who have come here to testify and participate in the hearing of the Senate Agriculture Committee.

Our topic, as you know, is credit. Now we're here in Iowa to conduct four hearings on this topic. We were in Council Bluffs this morning. We'll be in Des Moines tomorrow morning—really out in Ankeny near Des Moines, and then tomorrow afternoon in Cedar Rapids. And in that connection, our goal is to accomplish some very specific things, two specific things.

First: I want to get your reactions to a specific bill that is now before the Senate Agriculture Committee, S. 2146. I, and other members of the committee, am sponsoring this legislation. Copies of the summary of that bill were mailed out with notices of this hearing, so I'm sure that some of you have had a chance to see those; and I believe there are additional copies of that summary here on the table to our right.

Now basically, this bill would increase the loan limit on Farmers Home Administration, farm ownership loans. It would increase the amount of money that could be lent under ownership loans from \$100,000 to \$200,000; and on farm operating loans from \$50,000 to \$100,000, for direct loans, and to \$200,000 for guaranteed loans. In other words, we would double the amount of money that could be lent under existing Farmers Home Administration loan programs. It would also make some other technical changes in the terms of these loans, some of which are quite significant and will undoubtedly come up in the process of our discussions this afternoon.

In addition to any comments that witnesses may have on this legislation, I particularly want to give farmers and bankers and others a chance to discuss farm credit problems. So any of you here

are invited to simply fill out a yellow card that Rosemary has at the desk just as you come in, and we'll be glad to hear any ideas that you may have. It's an open hearing. Every person here certainly is encouraged to participate in that process.

Much of rural America, we believe, is now approaching a credit crunch. The crunch is already upon us. And, it will worsen, I think, as farmers plan for next year's crop. Farmers across the Corn and Wheat Belts are in a greatly weakened financial position, as a result of the very low corn and wheat prices and as a result of persistently low cattle prices.

For thousands of farmers, these problems have been worsened by very severe drought. This is most particularly true in our own State. The weakened financial situation position of a large number of farmers means that loan repayment difficulties will occur, and there will be large increases in farm lending; changes which have sharply reduced the liquidity of many rural banks.

Many farmers have stored their 1976 crop, and that asset was carried on thousands of balance sheets at well over \$2 a bushel, and the cash flow projections of farmers also priced corn at more than \$2. The current low corn prices have forced bankers to require that their borrowers reflect on their financial statements the sharp decline in the value of the corn that they hold and the corn they expect to grow. In many, many cases, I'm told, farmers are being asked to increase their borrowing on their land in order to finance their production.

Federal Reserve statistics show that the credit crunch that many individual farmers face is widespread and that it is rapidly worsening. Let me state some statistics: In January of 1976, 22 months ago, less than a third of the banks of the Federal Reserve District Nine in Minneapolis reported slower rates of farm loan repayment, only a third. But last month, almost three-fourths of the banks in that reserve district reported a slower rate of farm loan repayments. So people are not repaying at the same rate as they have in the past.

In January of 1976 again, almost 2 years ago, less than 40 percent of the banks in the district reported an increase in demand for farm loan renewals. Last month that figure had increased to almost two-thirds.

The demand for more and more credit for farmers appears to be straining the capacity of some lending institutions. For example, in the State of Iowa, Federal land bank loans outstanding increased by 23 percent during the first 9 months of this year. Production credit loans that are outstanding increased by 21 percent during the same period. Production Credit Association loans totaled \$960 million for the period compared to \$833 million for the same period last year. For farmers across the Nation, assets increased by \$59 billion during the first 9 months of this year, but farm debt increased by \$15 billion. Furthermore, the debt increase was often not in proportion to increases in assets. Debt increases accrued to farmers in proportion to their production, while the increase in assets was to a large extent due to the continued increase in the value of land. To individual farmers, the seriousness of the current situation depends upon their ownership of land. Iowa farmland

values, for example, increased in the order of 35 percent, by almost a third between February 1976 and February 1977.

So we have a tremendous demand for farm credit facing Iowa farmers this year and we're just beginning to get into financial planning for next year's crop. A major purpose of our hearing today is to get your views on the extent of our credit problem and the effectiveness of our credit institutions in dealing with the problem.

We have in rural America, as in urban America, a very well-developed set of institutions designed to provide agricultural credit. Our credit institutions include commercial banks and insurance companies and individuals who hold well over half of our farm debt for both land and operating capital—these private sources of capital. Then we have the farm credit system, with its land banks and Production Credit Associations, which have direct access to that Nation's major capital markets and which are not limited by the reserve requirements in the same way that commercial banks are limited. And the Federal lending agency, including the Farmers Home Administration and the Small Business Administration which can loan at favorable terms to farmers who are unable to obtain credit elsewhere.

A major part of our purpose here today is to attempt to determine whether or not these institutions are adequately serving the credit needs of Iowa farmers during this period of great need. To do that, we will ask farmers and bankers and others to describe your problems and your evaluation of changes that you feel may be needed in the system.

We have a great deal of ground to cover today. I'll ask people to be as brief as possible. We're going to be here for a couple of hours, and if you have prepared remarks and would like to insert them into the record, I would be happy to do that. But we would also appreciate having a chance to hear from you directly. If your statement is a very long one, we'd prefer that you put it in the record. It will go in as if presented. We would like you to summarize it in as brief a period of time as possible.

I might say that I have with me two key Federal officials who have significant policy responsibilities for major agricultural credit programs. On my second to the right here or second from the end is Jim Thornton, who just happens to also be from Sioux City. Jim is the Associate Administrator of the Farmers Home Administration and is in a very key policy position there to influence, in a major way, the management of that huge program which now handles almost \$2.5 billion in farm loans for each year. On his right, Mr. Conrad Lawlor, who also happens to be an Iowan, who is regional director of the Small Business Administration, which is now making small business loans to farmers.

I want to begin by asking Jim Thornton to summarize very briefly the key changes proposed in S. 2146; this bill which would double the limits of present Farmers Home Administration lending policies, and then turn to Mr. Lawlor for some brief comments about the SBA, and then we'll go on to the witnesses.

Now if there are those here who wish to speak, as I said, who have not filled out cards, please just go up to the door and fill some out. Or if time permits at the end of this period, before 4:30, we'll

just have an open discussion from the floor so that people can say whatever they may have on their minds.

So let's hear first from Jim Thornton, whom I have worked with for several years prior to the time that he went over to the Farmers Home Administration as the staff assistant on the Senate Agriculture Committee, and most particularly in relation to Senator Humphrey. So, Jim, you proceed in any way you think appropriate

**STATEMENT OF JAMES E. THORNTON, ASSOCIATE
ADMINISTRATOR, FARMERS HOME ADMINISTRATION**

Mr. THORNTON. Thank you, Senator. Well, first of all before I review with you the major provisions of this particular legislation, I would like to say that the Farmers Home Administration, of course, stands ready to help in this kind of situation. We are prepared to do what we can within the confines of law and regulations to help our own borrowers, as well as other farmers, who are faced with similar kinds of cash flow problems and who have similarly suffered drought and other extended types of financial problems over the last couple of years.

The Farmers Home Administration "supplements" and also does not "supplant" credit that's available from regular conventional or commercial sources. For us to lend money and assist borrowers, they must first be turned down by conventional sources, whether commercial banks or from the farm credit system.

Having said that, we are prepared to do what we can within the resources that Congress provides us with to supply credit in this kind of a situation. FmHA is basically the so-called credit of last resort and we're going to do everything we can to meet needs of the people who come to us. We realize that if we can't help a farmer, when he leaves our office he is indeed in serious trouble.

The basic elements or provisions of this bill, S. 2146, represents really the combined submissions of both the administration, and several members of the Senate Committee on Agriculture, Nutrition, and Forestry. The bill, as the Senator has already indicated, has cleared the subcommittee of the Senate and will probably go to the full Senate Agriculture Committee in early 1978. Hearings have been completed in the House, but again no further action either has been taken or is likely to be taken for the balance of this calendar year on the legislation.

As has already been indicated, the legislation does increase the individual loan limits on both farm operating as well as farm ownership loans. In the case of ownership, limits will be increased from \$100,000 to \$200,000 as well as adding yet another new feature to that particular program, namely, a guaranteed lending activity, with a loan limit of \$300,000. In the case of the operating credit program, that would go from \$50,000 to \$100,000, again with an addition of a guaranteed loan, with a limit of \$200,000.

There is also a technical change which will be corrected in the legislation which is rather an important one. That is, currently Farmers Home is limited in not being able to provide credit to those farm families that have gone into limited partnerships or who have incorporated for tax purposes. This legislation would permit us to do that. This would be confined to family owned and operated farm corporations.

The legislation also would remove or delete the so-called total indebtedness feature of our insured loan program. That is to say, the current law imposes a \$225,000 total indebtedness limit. That would be removed and then subsequently set administratively by the Secretary to avoid our having to go to the Congress every time to adjust that, which basically would give us an added flexibility in meeting the basic credit needs of farmers.

In terms of the interest rates for these loans, there will be some changes here as well. Our farm ownership, or real estate loans are made basically at 5 percent which is a subsidized interest. This legislation would change that and permit that to go to what we call a cost-of-money, plus 1 percent; which in today's market would probably be somewhere close to 8 percent. However, it would also permit the Farmers Home Administration to continue to make 5 percent loans on the first \$100,000 for those who could not afford the higher interest rate. In the case of the new guaranteed programs for both farm ownership and operating purposes, the interest rate would be regulated between the borrower and the lender. The lender would put up the money, FmHA would guarantee 90 percent. Also in the case of these guaranteed loans, the so-called "graduation" requirement would be eliminated. However, the "credit-elsewhere test" would still apply.

The interest rate now charged under our operating loan program, is at a so-called cost-of-money rate. This legislation would permit that to go up to market rate. Again, one of the major trusts behind some of these changes on interest rates is to increase our ability to make more capital available for these purposes. To the extent we have to depend totally on subsidized interest rates for these purposes we will be subject to the constraints of budget and the amount of funds that will be made available for this purpose.

The other major farm lending activity which this agency engages in, is emergency lending or disaster loans. As you know, with recent changes in the law, we currently offer those loans on a 3 percent interest rate basis for the first \$250,000; 5 percent from \$250,000 up to total actual production loss; and then of course above that, at market rate. This bill would change that, and basically create a two-tiered interest rate program. That is to say for those people who could not get credit elsewhere, they would be eligible for a 3-percent loan. For those who could get credit elsewhere, the interest rate would be set at 5 percent.

Now the administration has some concerns about this particular provision and has already indicated its position on the disaster program in this connection; and I think we'll be formalizing this and sending up some modifications for the Senate committee to consider before they go to the full committee. And that provision will probably be a 5-percent, no-credit test for disaster loans only. It provides for much more greater ease of administration and also for some other reasons we think it would work better than the two-tiered interest rate.

There are other provisions in this particular legislation which again we believe will give us a great deal of needed flexibility in restructuring and consolidating existing debt. That is to say, we would in the future be able to take our several notes and several loans that we now have with farmers and be able to consolidate

them into one note. And we would also be able to simultaneously extend the loan period on such consolidated loans.

S. 2146 also extends for 1 year the emergency livestock program, which is now scheduled to expire in 1978. Here, again, the administration is examining this program and will be submitting some additional recommendations to the Congress for consideration in early 1978.

As of today, FmHA has received about 2,000 emergency loan applications here in the State of Iowa. I want to remind all of the farmers here and their friends that may be eligible for this type of a loan, it's important that you get your application in if you haven't already done so by December 2—which is the cutoff date for the filing of such applications. You do not have to ascertain as to what your actual losses are by that date. You just have to actually get your application in. Losses can be determined after that date, but December 2 is the cutoff date for filing. And I do not see at this point, any hope for extending that date. We just barely got it extended on the last round.

There are a number of other things that we're doing to accelerate and expedite the processing of these emergency loans ranging from the administrative changes to also include permitting our county supervisors—once a loan is approved, to telephone our St. Louis office and obligate the funds and get the check back to the farmer in a matter of a couple of days—which now takes sometimes 2 weeks.

There are other provisions here that mostly are technical. The one that we did run into this morning that I skipped over, is a provision which would take away some authority that is now vested with the county committee system. It does not do away with the county committee system. It merely would take away the need for the county committees to set the individual loan amounts that the prospective borrower is asking for. It would still retain the use of the county committee, which is very important for our operations in determining their eligibility.

So, with that, Senator, if there are any questions, I would be happy to try to respond.

Senator CLARK. OK, fine. Now we're going to hear from Conrad Lawlor who is the regional director of the Small Business Administration. As you know, the SBA is just now getting into the farm loan business and, Conrad, perhaps you could explain that a little bit before we go to our witnesses.

STATEMENT OF CONRAD LAWLOR, REGIONAL DIRECTOR, SMALL BUSINESS ADMINISTRATION

Mr. LAWLOR. Thank you, Senator. I appreciate the invitation to come to this hearing and to explain to the group briefly the new operations that the Small Business Administration has undertaken in the area of farm or agricultural credit.

Early this year, beginning January, we began to receive and process loan applications for the first time in our 25-year history, from an agricultural sector. Prior to this time, farming had been considered not eligible under small business programs and Congress so directed us in the legislation last year to simply include agricultural enterprises in our programs, we don't have a new

program. SBA consider farmers as small businessmen and eligible for all programs under the Small Business Administration programs.

With this undertaking, we began accepting and processing loan applications from farmers last January. This is basically a guaranteed loan program through your commercial banks—commercial banks presenting a loan application to us requesting us to guarantee a portion of that loan they intend to make to their customers. The size standard we established in SBA for farms to be eligible would be those farms having an annual receipt of less than \$1 million. At this time, the maximum SBA exposure that we can have on any one operation would be one-half a million dollars. The use of loan proceeds in SBA's business loan program available to farmers can be to purchase land, purchase of farm machinery, or the operation of or the expansion of farms and in some cases, to refinance existing debt of farmers.

To give you an idea, Senator, what we have done so far this year, and we're still in the honeymoon stage, is to train our commercial loan officers in the intricacies of agricultural finance. At this point we have approved 94 loans for \$11 million here in the State of Iowa. And it's interesting to note in that figure the breakdown of how the commercial banks and farmers have used SBA's program here in Iowa. Fifty percent of those loans that we have approved so far this year went to swine farrowing and other similar expansion and construction, and also in the purchase of breeding hogs. And typically, this type of application is a loan to a corporation, put together by four to five, may be seven or eight farmers. They get together and form a corporation to build a hog finishing or breeding or farrowing house on one of their pieces of land; maybe set aside a few acres and build this unit together. Often they enter into a joint venture together to raise hogs for food and sale as breeding stock.

The second use of SBA's farm programs here in Iowa, Senator, have been the purchasing of adjoining farmland, and typically it's a farmer who has a few hundred acres and maybe wants to add and has available the 80 acres next to him. And his typical situation would be he has a mortgage on his present facility but good equity; doesn't want to disturb that mortgage, and therefore can only offer a second or third lien. Well, obviously, our commercial banks cannot make this type of loan because they require first mortgages as collateral and so they, in those cases, would come to SBA asking for a 90-percent guaranteed loan on the transaction so that the bank can satisfy the requirements of banking laws. The bank examiner would be looking to SBA's guarantee as their prime collateral, rather than a second mortgage.

The third highest use of these loans coming to SBA is in the purchase of machinery and equipment; and the fourth were short-term working capital loans. These loans that we have made in Iowa this year range from a low of \$12,000 to a high of \$600,000.

Now to leave that program, I would like to talk about SBA's disaster loan program available to farmers. This is a direct loan program. There is no limit on the amount of the loan. There is no test of the availability of private credit under the SBA disaster loan program. These loan terms can be 30 years, and the interest

rate is 3 percent on the first quarter of a million, and 6 $\frac{5}{8}$ percent on that amount which exceeds a quarter of a million. The use of proceeds can be used as follows: 50 percent of the eligible loan amount may be disbursed to pay outstanding obligations of the applicant including accounts payable and crop loans. We cannot, however, use any of the funds to pay off our good friends' organizations, the FmHA or the USDA units. And the balance of the loan is to be used for planting next year's crop.

So that you will have an idea of the volume of work that we have undertaken in this program in Iowa, we have handed out 11,000 applications kits to farmers, and at this time, Senator, we have 1,100 applications in that we are processing for a total amount of \$59 million. We are staffing up and we're trying to hire good qualified local people that are familiar with agricultural finance. We have approved 165 loan applications for \$6 million. It is anticipated that the total direct loan funds Small Business Administration will approve is about \$200 million in this drought disaster here in the State of Iowa.

Senator, that concludes my remarks and I'll be glad to answer any questions.

Senator CLARK. OK, good. That is a good start. Now let's start with the witnesses.

First we will hear Ellsworth Hayes who has got a good bit of experience in such things. He lives in Hamlin, a farmer, Audubon County, and Ellsworth, we've got about 10 minutes in all, so you present your material any way you'd like, and then we'll have some questions.

STATEMENT OF ELLSWORTH HAYES, HAMLIN, IOWA

Mr. HAYES. Thank you, Senator. My name is Ellsworth Hayes. I live on a 400-acre farm east of Hamlin, Iowa, in Audubon County.

I appreciate the opportunity to appear before you and give my opinion on farm credit through private and Federal credit programs.

Federal credit programs and especially FmHA have been very helpful to young farmers in their beginning operation. Many have received loans that would not otherwise have been able to farm had it not been for the FmHA operating loan. This is also true for buying farmland.

It seems to me it's very important that a source of credit be available to those who operate farms and own land. I believe S. 2146 is a must. The limitation on FmHA loans needs to be increased. And also, it sets up an appeal procedure permitting an applicant to appeal an unfavorable decision. This provision should have been included from the very beginning.

I realize S. 2146 would raise the interest rate on some loans, but I believe that due to inflation this is also necessary.

I believe it's very important that a farm advisory committee like the present FmHA committee be retained. It's essential that some local farmers be used in this capacity. I realize that Congress writes the laws and the agencies administrate and operate the programs; however, I have always felt that the FmHA supervisor who runs the programs out in the local offices should be picked for the job both from a farm background as well as from consideration

of academic qualification. I have known a number of people who would be excellent supervisors who were not eligible because they did not have a college degree. It must be remembered that most college graduates do not have farm backgrounds. I strongly feel that this farm background is important for employment of Government agencies that loan money to farmers.

Another criticism that I hear from the people living in my area is this: A farmer gets a \$10,000 loan from FmHA. And many county offices police this person as if he might make a mistake and FmHA would not get their money. By the same token, we read and observe first hand about FmHA losing several hundred thousand dollars—loaning several hundred thousand dollars to some group to build a hotel or a golf course without any apparent policing and end up losing 80 percent of the loan. Farmpeople cannot understand this and neither can I.

One of the great services Government credit programs could do for agriculture is to cut the time and paperwork for the farmer. I know of a young man that started farming in my county 4 years ago. It took 1 year just to get a loan from FmHA. That was 1 year of income lost because of the time it took for the loan to come through. Why should it take more than 30 days? All people who get Government loans complain because of the tremendous amount of paperwork involved.

Senator, I would suggest that the Congress look into the procedures used in getting a private loan, and use it as an example to follow in making loan procedures a shorter and less frustrating process.

I said in my opening remarks that we farmers do need Government credit programs and an increase in the amount of loans. However, I would like to leave you with this conclusion.

We should not over extend farmers with more money year after year that they must pay back with interest. It seems to me that the Government's objective should be more farm income. A better farm income would enable farmers to do without borrowing as much money, and to repay their loans sooner.

More credit is not really the answer. Better farm prices is really the answer. Thank you.

Senator CLARK. Thank you. It's a good statement and I think the point that you end on is in many ways the most essential single point that needs to be made. There may be times when additional credit for one purpose or another, particularly in a time of shortage is badly needed; but in the long run, credit is of no value if you're not able to pay the debt. And so I think it's quite true to identify at the outset that the problem that we face at the present time is one of low market prices. And, the solution to that is really higher farm prices. So, I think it's well to keep that in mind. All the credit in the world is not going to help someone who is not able to pay it off. So we view this as sort of two kinds of situations where we do need, we believe, a regular kind of credit available through the commercial banks, through private individuals, through the farm credit system, the land banks, and the Production Credit Association as well as the Farmers Home Administration and the SBA. All of these programs; either ongoing kinds of loans, or emergency loans; drought loans and so forth, help to get

people by. But the ultimate answer obviously has to be higher farm income.

By the way I'd like to introduce the gentleman on my right, Bill Motes, who is my assistant in the agricultural area and assists me in work on the Agriculture Committee.

I want to ask you just a couple or three things, Mr. Hayes, about what you said; have you expand on them a little bit. You mentioned at the outset that you think this bill, one feature that you liked in this bill is the fact that it has an appeal system for farmers who are turned down. Can you expand on that a little?

You said you thought that should have been in the program to begin with. Do you know of circumstances or illustrations of how that can work or why people can be, you feel, mistreated at a local level or what is the problem there?

Mr. HAYES. I think that this is generally true. There is sometimes in county offices, it doesn't matter if it's FmHA or SBA or ASCS or county extension or what, but you will have personnel who clash in personalities, and sometimes in all of these agencies. In private life, this is true. And sometimes, they will be turned down and there has been no place for them to go in the past.

It seems to me that in our system of America, you should always have an appeal procedure. It really doesn't matter whether it's in government, private or whatever it is, you should have an appeal. And this appeals to me because I have known of a couple of cases where people didn't get loans. Of course, I wasn't on the committee, but I felt in my own mind they were entitled to the loan. I can't give you any recent cases, but that's what I had in mind when I said that.

Senator CLARK. Now you say you generally agree with S. 2146. Why do you think it would be beneficial in this case to double the loan rates—not the rates—but to double the amount of money that a farmer can borrow under an ownership loan or an operating loan?

Mr. HAYES. Well, I suppose the simplest answer to that, Senator, would be the fact that it's inflation. Back when, you know—combines now cost \$60,000, and it hasn't been too many years ago combines cost \$30,000. So our operating expense has gone up so much that it seems to me that the \$100,000 is not nearly realistic enough as if it would have been 5 years ago.

Senator CLARK. And the same is obviously true to a greater degree in the terms of ownership loans.

Mr. HAYES. Right—land from \$200 to \$1,500.

Senator CLARK. Now you made another comment that I was particularly interested in and that's this problem of having to wait so long for applications, and along with that, the problem of the amount of redtape that's involved with it; or more specifically, I think you said paperwork?

Mr. HAYES. Right.

Senator CLARK. You have known of cases, you said, where it has taken as long as 1 year to actually get the loan?

Mr. HAYES. That is right.

Senator CLARK. And what—having, I assume, seen these applications and so forth, are they much more difficult than say borrow-

ing the same amount of money from a commercial bank in terms of the paperwork?

Mr. HAYES. I've got to confess, Senator, that I have never had an FmHA loan. So I really can't answer that question. I just know that everybody tells me "My God, if you've got to go through all that paperwork, it's not hardly worth it to get the loan."

When I go to a bank and ask for \$10,000—and of course, there's a difference in banks too, but at least my own bank, and of course they know me there, that probably makes a difference—but we sit down once a year perhaps and fill out a financial statement, and I go in and get the \$10,000. It's a matter of a few minutes. Now I appreciate that under the system we're under with the Government, you can't get a loan that quick. But it seems to me there is something radically wrong when it takes 1 year to get a loan.

Senator CLARK. OK. Hold on just a minute here because I want to see if maybe these other fellows have a question or comment. Jim or Bill or Conrad, do you have any questions?

Mr. THORNTON. Well, I'd like to make a few comments regarding Farmers Home in that regard.

Senator CLARK. You can make very few comments as you just came into power. You see, you don't have to take the blame for the past, but we expect some problems about the future.

Mr. THORNTON. When I first became acquainted with the Farmers Home Administration back in 1960, when I served on the staff of Secretary of Agriculture, Orville Freeman, FmHA had an annual budget of only \$300 million. This year our program expenditures will probably exceed \$9 billion, about \$3 billion of which will go for agriculture loans.

Our county personnel today are administering some 30 individual lending programs ranging from farm loans programs to section 502 single family home ownership loans, water and sewer loans, community facility loans and business and industry loans. This has created, obviously, a tremendous amount of workload pressure on our county personnel. It also has greatly jeopardized the agency's ability to provide "supervised credit" to borrowers which they often require to make a go of it.

One of the most important things that we're now looking at to try to relieve some of those pressures on the county personnel is to reorganize our field delivery system by moving our so-called community-type loans—water and sewer and community facility loans—up to what we call a district level. The idea, among other things, is to free county personnel to basically work solely on farm lending and on single family home ownership lending in the hope that they can do more of that and do it better and faster.

Senator CLARK. I'm sorry, Jim. I didn't mean to interrupt you. You say you are considering this or it's under discussion or you're going to do it or what?

Mr. THORNTON. Well, we're going to do it. It's just a question of working out the mechanics. There are a lot of questions involved that will involve the Civil Service Commission and a number of other things.

Another problem we have related to farm ownership loan delays is available funds. For about every application that we are able to fund under this particular program nationwide, we have three that

we cannot make because of limited amount of funds. However Congress has been increased the moneys for this particular program—in fact, this year we're going up another \$100 million. Iowa, for instance, will have something like a 50 percent increase in its ownership program allocation this year, but will still be far short of what seems to be the demand here in this particular area.

And the other problem, of course, is an administrative one. While Congress appropriates these moneys for an entire fiscal year, the Office of Management and Budget, permits us to let the States and counties loan only a certain portion of that within each quarter. What happens in this type of program is that when we go into a new quarter, there are a huge backlog of applications, and they loan that money in a matter of almost days sometimes, and then they cannot make any more loans until the next quarter. That has contributed to these delays.

Senator CLARK. But you actually turn down three-fourths of the loans that are requested?

Mr. THORNTON. We have backlogs of applications. It gets that heavy at times. For every one we're able to make, we have as high as three that we cannot make, that have to wait until we get more funds or—

Senator CLARK. But you don't actually turn down three-fourths of those?

Mr. THORNTON. No. But it does contribute sometimes to rather extensive delays. And I've got to believe, in the case of real estate loans in particular, that many farmers lose opportunities to pick up parcels of land, due to these loan delays. We've got to somehow or another expedite that by getting more money and/or by working out some new procedures for issuing "letters-of-intent" that might be used by the farmer to obtain a bridge loan, awaiting final approval and funding of his FmHA loan.

Senator CLARK. Jim, do you have any questions of Mr. Hayes?

Mr. THORNTON. No; I just wanted to make those comments on what we run into. We appreciate his comments on the agency. It's nice to hear, once in awhile, somebody say some nice things about us.

Senator CLARK. Conrad, any questions?

Mr. LAWLOR. Yes. Well, I don't have any questions. I would just like to make some comments along the lines that Ellsworth Hayes brought up—the paperwork; and we're making efforts all the time. It's a constant battle on trying to keep this loan application just as simple as possible and to give fast service. As Jim mentioned, if you don't give fast service we are not meeting the farmers' need. If a fellow wants to buy the 80 acres next door and it may be in an estate and the estate wants to sell it, he can't wait a year, he can't really wait 2 or 3 weeks very easily to get his answer to a loan request. So, we're all trying to get this time factor down so we can meet the real need the farmer businessman has.

The SBA goal is loan approval or decline within 10 days of receipt of the application. This can be done only if bankers know how to get the SBA application completed properly so we don't have to send it back.

Senator, mail delivery is one of our biggest delays. This has slowed us down. Sometimes the mail is absolutely unbelievable, the time it takes to communicate back and forth using U.S. postage.

We have had groups of bankers, commercial bankers come to our office and sit down and try to suggest ways of modifying our applications: We ask them "Do we have anything in here we're asking for that is unnecessary in order to make a quick and accurate judgment?" And we have modified and improved our loan applications over the years, Senator, I think we're down to a point where it is very concise but we have to continue to improve it. Most commercial bankers looking at our applications say we don't see anything in there unnecessary in order to make a good credit judgment. Now granted, there are times, many people will look at that and say, "Well, what do you need the cash flow for? Why do you need our income tax returns for 3 years or a profit and loss statement for 3 years or balance sheets over a 3-year period? What's the purpose? You know, that is just a whole lot of extra paper." But you really cannot make a credit judgment without these basic tools; and if a farmer does not or any businessman does not keep proper records and does not have these financial tools available to himself, it is very much of an imposition to ask him to get it now because it may take him or an accountant months to do what he should have been doing all along. And, it's easy then to blame someone, to blame the impersonal Government organization. We are making a constant effort to cut the redtape down and reduce our loan processing time.

Staffing, understaffing and overwork load, as we mentioned these new programs—the new drought disaster loan program has placed great burden on SBA personnel. The new business loan program for farmers has been placed on SBA but no additional personnel to operate these programs. So, that is a factor in slowing down.

Senator CLARK. Now you don't have county offices of course. You operate everything out of one central State office?

Mr. LAWLOR. That's right.

Senator CLARK. Bill, do you have any questions?

Thank you very much, Mr. Hayes. You got us started on the right track here.

We're going to hear next from Dennis Benna, Plymouth County. Dennis, are you here? Come on up. LeMars—you are with the Farmers Home Administration? Are you a county director?

**STATEMENT OF DENNIS BENNA, COUNTY SUPERVISOR,
PLYMOUTH COUNTY, IOWA, FARMERS HOME ADMINISTRATION**

Mr. BENNA. I am a county supervisor in charge of Plymouth County.

Senator CLARK. So, you are in a position to tell about your kind of work. Let us hear about you, whatever you want to say.

Mr. BENNA. OK. I have been a county supervisor for almost 7 years. And as county supervisor, I have been directly responsible for the administration of the programs. I don't plan to represent anyone other than myself and I don't have any type of prepared statement.

The proposals that are being made, I think, are definitely improvements. I think they are things that need to be done. Our

limits aren't realistic with today's demands, and so forth. I endorse Mr. Hayes' comments in regard to the fact that credit is not the sole answer. Historically, our agency has been one of supervised credit. And this is the area I guess that concerns me most: Are we going to have adequate personnel to administer programs?

Over the past several years, we have been given many more new programs under the Rural Development Act and other acts, without the additional increase in personnel that it takes to administer the programs.

Two years ago a study was done in regard to improvements necessary for Farmers Home management. I have a copy of that.

Senator CLARK. That's a GAO study? Yes, I have seen it.

Mr. BENNA. And part of the answer to the question addressed to staffing needs, it appears goes back to a work-measurement system. However, I'm not sure whether this work-measurement system is helping obtain additional staff. For one thing, it does not actually measure the full time spent in the county office. At present time, it is only reporting 40 hours of work, even though certain employees are working overtime.

The second thing it does not actually report is how long it takes to do a job. It only reports how the time is being spent. In other words, to supervise a loan adequately, I believe, means an analysis at the end of an operating year with a farmer to determine exactly what his income and expenses were and to determine if he does have some problem areas and what his financial program will be for the coming year. Without adequate personnel to handle both applications and servicing, the primary thing that gets done is to process the application. In other words, write the new loan and the servicing then does not get done.

Senator CLARK. That's what you sacrifice, is it?

Mr. BENNA. Right. We're sacrificing the servicing of loans. I don't have any answers as far as how you can better measure just how long it should take to do certain jobs, but I do think that—it has been my own experience in the past couple years—that the only way we probably would get additional personnel is to actually include an increase in personnel in the legislation, which is going to increase our workload.

I'm a little bit concerned about the one proposal as far as the two-tiered emergency loan eligibility system.

Senator CLARK. Will you explain that?

Mr. BENNA. My concern?

Senator CLARK. Both. What it is and what your concern is?

Mr. BENNA. OK. The two-tiered system states that—I can't find my copy of that sheet—

Mr. THORNTON. It's 3 percent, 5 percent.

Mr. BENNA. Right. The people that could not get other credit would be eligible for 3 percent money and—

Senator CLARK. You're speaking of emergency loans only?

Mr. BENNA. Right, like drought loans. And those that could get other credit, I believe in the proposal it states that it would be cost-of-money plus one. The administration proposal, like Mr. Thornton stated, would possibly be no test-for-credit and a flat 5 percent interest rate. We did have a program a couple of years ago that did not contain the test for other credit programs, and as a result we

wrote, I think, several thousand loans. This greatly increases the burden of Farmers Home Administration of trying to administer the program.

There are arguments for making emergency loans available, whether or not other credit is available. I've heard people state that, "If I had a loss, I should be able to get an emergency loan just the same as the next guy even if I can get other credit." But it's my personal feeling as a taxpayer, we can't afford to subsidize those people that can get other credit.

That's all I have to say unless anyone else has any questions.

Senator CLARK. I have some questions. Let me just pick up right where you left off. It's your feeling—not necessarily speaking for the Department of Agriculture or Farmers Home, you're not speaking for them—but it's your personal feeling that we probably should not extend credit even under the disaster loans to people who can receive credit elsewhere?

Mr. BENNA. That's my point.

Senator CLARK. That it should be limited to those people who cannot get financing elsewhere? The same kind of qualification that you have on the regular loan program?

Mr. BENNA. Yes.

Senator CLARK. What do you really like about this new bill? You said that you endorsed it. You thought the limits ought to be raised. Anything else in it? You work with these programs everyday. Anything else in it that you particularly like or don't like?

Mr. BENNA. One thing that I really like is under the operating loan programs, the authority to combine notes. Under the present procedures, as we make additional loans to someone that we already have a loan with, say for additional machinery or breeding livestock or whatever, we've set up an additional note. So an individual may have anywhere from one to five or more notes; whereas, many times it would be much simpler to combine the outstanding notes into one new note. Besides being a lot simpler for the borrower to understand and repay, I think it would be a whole lot simpler to administer, both from my standpoint as a supervisor and for our finance office to keep track of such indebtedness.

Senator CLARK. Let me ask you something, or do you have any other comments on the bill? Above all, you are interested in the limits, raising the limits, I gather?

Mr. BENNA. Well, no. I think all of the provisions are important. I agree that with the increased limits, we're going to need increases in interest rates. I think there is a provision that would make the guaranteed loans negotiable. And the present system is inadequate. It contains a flat interest rate to the borrower with a subsidy to the lender. The subsidy to the lender is not enough to encourage a guaranteed loan even if the paperwork were such that the lender would want to undertake the task.

Senator CLARK. Let me ask you, if I'm not getting too personal, just in terms of how you get a job as a supervisor or what kind of background in terms of your own experience or education and so forth? How do you get this kind of job? Tell us about it.

Mr. BENNA. I grew up on a farm and attended Iowa State University with a major in animal science and minor in agricultural business. I started with Farmers Home Administration under a

student training program between my junior and senior year of college. This student training program is an excellent program, I feel, both from the standpoint of providing jobs and training new employees, and actually obtaining additional personnel. It's a temporary type of appointment.

There are provisions for hiring some nonagricultural personnel, and the administration is working on programs to get them qualified to supervise agricultural loans.

Senator CLARK. But you were personally born on a farm, raised on a farm? Where from?

Mr. BENNA. Buena Vista County.

Senator CLARK. Buena Vista, so in this general area. And then your education was really in this area and then you went into a training program. Let me ask you one last question before we go on to the others.

People constantly say—well, let me tell you in advance. My question has to do with this issue of staffing, whether you've got enough helpers and so forth. People constantly say, as you travel around the State or travel around the country, we've already got too many bureaucrats. We've already got too many people in these programs and on government payrolls, and so forth. And yet the testimony that we have had all this year and all of last year and very much the year before, we have heard the same thing that you have said here today. We have had expanding programs. We've got two or three or four times as many loan programs. We're servicing small towns with water and sewer. We're building housing, we're building senior citizen housing. We're making industrial loans. We're making operating loans, farm loans, and so forth. Yet, we're not getting any more personnel and we can't do it.

In that regard, can you talk in terms of just your own office's experiences in LeMars in terms of the expanding workload and/or staffing? In other words, how has that worked out right in the case of your own county?

Mr. BENNA. I tried to analyze that a little bit before I came. At first, I thought I would make that part of my presentation and then decided not to. I went back to 1968 to a caseload report on the number of loans. The number of operating loans at that time was 123. We had no emergency loans and I think we had about 83 farm ownership loans.

Senator CLARK. So 128 operating loans and 86 farm ownership loans?

Mr. BENNA. Somewhere around 83, I think. There were about 114 housing loans, and I think 2, what they call soil and water association loans, which at that time were golf courses.

Senator CLARK. You don't make any more golf course loans, do you?

Mr. BENNA. Not to nonprofit associations. We can still make a loan to a farmer who wants to convert his farm to a golf course. It's an individual type loan called a recreation loan.

Senator CLARK. How long has it been since the FmHA discontinued those loans, about 10 years?

Mr. BENNA. About 8 years, I think.

Mr. ZORTMAN. It hasn't been that long—I'm Gene Zortman from Monona County.

Senator CLARK. Yes?

Mr. ZORTMAN. And I happen to know of a golf course down in Sloan, Iowa, that opened up in the spring of 1972. It was funded within this program. I happen to know, I was there and hit the first ball across the lake. I may also have hit the first one into it.

Senator CLARK. I was going to say, I wonder if it went over.

Go ahead. I'm sidetracking you. So you've got, you say, 128 operating loans, 86 ownership loans, 115 housing loans, 2 golf—whatever loans, and that's 10 years ago. How does that compare in terms of your present load or your present staffing?

Mr. BENNA. OK. At that time, we had a county supervisor, like myself, a full-time assistant county supervisor, a full-time county office assistant, and a full-time county office clerk. The last two are basically the clerical type position; however, our county office assistant has become more involved in management.

Senator CLARK. What's that, five people?

Mr. BENNA. Four.

Senator CLARK. Four people.

Mr. BENNA. At the present time or as of March 1977, that was the last caseload report I could find with any ease, we had 73 operating loans, 44 emergency loans, 88 farm ownership loans, 307 housing loans, 16 rural rental housing loans and 4 soil and water associations loans. Since then we've added an additional, roughly 50—I didn't go back and check, I'm sure though it's at least 50 emergency loans. In addition to what is not counted on that report are roughly 45 emergency livestock loans which are guaranteed. And we still have the same number of full-time personnel. I have had an assistant emergency loan supervisor, which is a temporary employee, but he transferred to Minnesota and I haven't been allowed to get a replacement. Yet, the number of operating loans per se, if you add emergency loans as of March, it hasn't changed too much. But by the time you add the guaranteed loans, there are approximately 100 more operating loan type loans which need more servicing than the farm ownership loans.

Senator CLARK. Well, is it fair to say, and correct me if I'm wrong, is it fair to say that your workload has been about doubled in that period or not?

Mr. BENNA. It has doubled as far as the operating loan and that's the loan that needs the most servicing.

Senator CLARK. OK. Thank you. Questions?

Mr. THORNTON. How much overtime have you been putting in?

Mr. BENNA. Well, since I started the work measurement system, which we could only work 40 hours, I have been trying to hold it at 40 hours. In August and September when we were authorized overtime and worked overtime, I'm guessing that I averaged at least 8 hours overtime a week.

Mr. THORNTON. What's happening in terms of your delinquency rates on your farm and housing loans? Have they been up, stable or gone down?

Mr. BENNA. We work plenty hard to try to keep it stable, and I think it pretty much has. We have a bigger delinquency the first of the year, but in many cases, we wrote emergency loans to bring those loans current and refinance other debt.

Mr. THORNTON. The last thing, could you give us any idea as to how many farmers that have come to your office, say in the last 6 months, that you have turned down or the committee has turned down?

Mr. BENNA. I don't believe we've turned down more than six in the last 6 months, but we do have a backlog of applications.

Senator CLARK. Why is that? What kind of problems?

Mr. BENNA. Part of the problem is that there are a lot of forms, there is a lot of paperwork to complete the applications. And part of it is that we just don't have the manpower to process the number of applications that we have. Like Mr. Lawlor said, most of the forms have a definite purpose, and when you are working with an emergency loan program where you have to compute a loss, this adds quite a lot of time and work to determine what that loss is.

I might throw out a personal opinion again, and that is, if someone has an emergency, rather than take the time to compute an actual loss, why don't we forget about the deeply subsidized money and just write him a loan like we would someone else who can't get the other credit.

Senator CLARK. Do you have any questions, Conrad?

Mr. LAWLOR. Yes; I do. It's good to talk with what we call a working supervisor, and I wanted to ask you if you have looked at this interest rate; and although I'm in a different agency, to me it would look to me like an administrative nightmare, Senator, this interest rate the way it's set out for a supervisor or a loan officer to compute.

Senator CLARK. Are you talking about two levels?

Mr. LAWLOR. Yes. There are two levels and particularly this last statement: The 5-percent rate would apply only until the farmer is ready to graduate to a higher rate, and his rate would then be periodically stepped up until it has reached the full rate. I can think of probably at least seven or eight unresoloved administrative questions that a person at the field level would have to answer in this type of wording.

Senator CLARK. What about that? Do you think—we haven't passed the bill yet, so we're interested in advice.

Mr. THORNTON. First of all, that applies, if I remember correctly, to the ownership program.

Senator CLARK. Yes. Ownership programs.

Mr. THORNTON. Not emergency.

Senator CLARK. What do you think of that?

Mr. BENNA. Well, I agree it's going to be quite difficult to administer, at least as far as I can visualize it now. Although we do a similar type of thing with our interest credit program under the individual housing.

Mr. THORNTON. But don't we also set, periodically, reviews for even our farm borrowers to find out whether or not their incomes have changed to determine whether they might be subject to graduation?

Mr. BENNA. But here again, when we're working with farmers, you have some on a cash accounting system and some on the accrual accounting system and it's going to be a lot more difficult than working with a family on a wage or salary.

Mr. LAWLOR. Also, do you step him up to the interest rate as it was when he got the loan or as it would be 3 years from now, which may not be 7 percent? It could be 9 percent. You'll have an argument going on between the farmer and yourself.

I know, Senator, when we had in our bill, we have two interest rates. Three percent for the first \$250,000. Now that sounds pretty simple, and 6½ for the next \$250,000, and you get into arguments. All right, I make a monthly payment. I want my principal payment to apply to the 6½ percent, not the 3 percent.

Senator CLARK. That's right.

Mr. LAWLOR. Why not? But this puts a loan officer on the spot and with the wording introduces all kinds of interpretation arguments and instructions. Again it puts the loan officer or the supervisor in the field really on the spot.

Senator CLARK. Well, that's right. That will have to be carefully set out in the bill. These are just summaries here. But I think that's something we ought to take a very hard look at so that we're sure we know what we're creating here before we get it created.

Mr. BENNA. I'd like to bring up another point in that regard. We were making loans at 5 percent for actual losses and 8 percent for additional money for major adjustments and annual operating. And then the new law was passed and signed in law on August 4, I believe, which rolled that 5 percent money back to 3 percent money, and that's created the administrative—

Mr. THORNTON. And applied it retroactively.

Mr. BENNA. Right. And it's retroactive. And so I've got maybe 80 some notes that are signed at 5 percent and now are 3 percent, and I'm still not sure whether they are going to have the same payment schedule with a cheaper interest rate or the schedule is going to be rewritten.

Mr. THORNTON. It's going to be rewritten.

Senator CLARK. Thank you very much.

Mr. BENNA. Another thing as far as paperwork on the guaranteed program. We started out with guaranteed operating loans and farm ownership loans, and I think emergency loans; we then got into the emergency livestock loan. The emergency livestock loan originally did not have an intermediate step which the other guaranteed loans had, and that's called a conditional commitment. In other words, if a lender wants to get a Farmers Home Administration guarantee, he first applies for a conditional commitment. Then Farmers Home signs the conditional commitment and then the lender goes ahead and meets those conditions which applies to the guarantee and then applies for the actual guarantee. The emergency livestock program, before it was revised this last time, eliminated that middle step. They applied for the guarantee and it streamlined the whole program.

Senator CLARK. Good. We appreciate having you here.

Mr. BENNA. Thank you.

Senator CLARK. We'd like to hear now from Ed Gates from down in Omaha, the eighth district, Federal—what do I say, Intermediate bank?

Mr. GATES. Intermediate Credit Bank.

Senator CLARK. Intermediate Credit Bank. He's associated with the farm credit system. I think a vice president of that organiza-

tion, and we'd like to hear your comments in terms of what the production credit system is all about and how it looks for the future, and what you see is the immediate nature of the problem.

STATEMENT OF H. EDWARD GATES, VICE PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA, OMAHA, NEBR.

Mr. GATES. Thank you Senator. My prepared comments are quite brief and I'll state those, and then try to answer any questions that you might have.

My name is Edward Gates and I'm a vice president of the Federal Intermediate Credit Bank of Omaha. Our bank, through 40 PCA's, serves over 20 percent of the short- and intermediate-term credit needs of farmers and ranchers in the States of Iowa, South Dakota, Nebraska, and Wyoming. I have been a part of the Federal Intermediate Credit Bank Production Credit Association System for 14 years, including 5 years as president of the Sioux City Production Credit Association.

Senator CLARK. Oh, you spent some time right here?

Mr. GATES. Right here, so I know a little what it's like right here. I appreciate the opportunity to appear before this field hearing of your committee.

There has been a lot of discussion, concern, and publicity regarding the so-called credit crunch in agriculture. The availability and the obtaining of adequate lending funds has not been a problem for the farm credit system up to this point, and we do not anticipate that it will become a problem. We obtain funds through the open money market. We draw those funds from the money market centers out here for Midwest agriculture. So the money that we are lending is new money into agriculture and new money into the Midwest and the State of Iowa.

The real problem in agriculture has been rapidly escalating costs due to inflation, coupled with declining markets of farm commodities as Mr. Hayes mentioned. This situation caused a very serious cost price squeeze which has resulted in serious cash flow, liquidity and profit and loss problems for many farmers. Market prices for farm commodities must return to levels which will enable the efficient farmer to make a reasonable profit.

The farm credit system was organized in difficult times to serve the needs of agriculture—good times or bad. We have people who understand the problems of agriculture. That's where they come from. We have the tools and the machinery, and we're doing our best to meet the farmers' needs for credit during these stress conditions. We only hope that prices will increase to a level which will enable the efficient farm producer to realize a profit.

Concentrated market research and development may very well be the best avenue to achieve a satisfactory price level for farm commodities over the intermediate and longer term. We would urge your support to any foreign market development programs or efforts in that direction.

That basically concludes my written remarks. I'd like to thank you for the opportunity of appearing. I'll be happy to answer any questions that you or others might have.

Senator CLARK. Good. Again, I think it's appropriate that you emphasize that the real problem is market prices; and I think

appropriate emphasis on the export market, because it's difficult to see anything else being as significant and important as in trying to get our supply back down in balance with our demand as exports, and I think it's appropriately said.

As we have talked earlier, there is confusion about the relationship of the farm credit system; the Production Credit Associations and the land banks, and their relationship to the Federal Government, and to the private or commercial banks, lenders, and insurance companies and so forth. Can you explain that relationship to some degree? You were originally capitalized and chartered by the Federal Government and you have a board and so forth. What's that relationship now?

Mr. GATES. We were originally capitalized and the FICB system started back in 1923. In 1933, the PCA's came into existence. The land banks were started in 1917. There was originally capitalization from the Government. This has since been entirely paid back. The last of it went out of our district in 1968, was paid back to the Federal Government. So, we're entirely a privately owned farmer cooperative. In other words, we are owned by the people we do business with, and they elect a board of directors from their own membership who supervise and set the policy of the organization locally. The Farm Credit Administration in Washington is an independent agency of the Government. It is charged with supervision of the farm credit system nationally. To that extent, we do fall under some Government regulations, but that's not really anymore so than commercial banks being under the Comptroller of the Currency.

The three parts of the system are the Federal land banks, being in the long-term mortgage and real estate lending area. The Production Credit Associations are in the short- and intermediate-term loan area for operating, livestock, machinery, and so forth. The third part of the system is the bank for cooperatives, which is in the business of lending or making loans to farm cooperatives. These three areas comprise the farm credit system and pretty well cover the areas of farm financing needs.

Senator CLARK. What are the greatest problems that the Production Credit Association has now in this period of low prices?

Mr. GATES. Well, it's a big job. As Mr. Benna pointed out, it's a servicing and workload problem. We're not concerned about the number of personnel we can hire, but it requires substantially more information and more time with the borrower discussing and planning for his future credit needs. It just takes more time under these types of conditions, and they are entitled to that.

The cost of money has not been a particular problem, although it has increased about four-tenths of 1 percent in the past 4 or 5 months. And we would expect that as far as our cost of money is concerned, that it may increase another half to three-quarters percent in the coming year. But money is available, and rates currently being charged by the PCA's range from $7\frac{3}{4}$ to $8\frac{3}{4}$ percent. The land bank's current rate, as of November 1 on their variable loans, has been reduced from $8\frac{3}{4}$ to $8\frac{1}{4}$ percent.

Loan losses have not been a big problem for us. We have had some, but nothing of major proportions that concerns us as far as our organization or system.

I think the biggest thing that could happen, which would be extremely difficult for agriculture and all farm lenders, would be a significant, serious drop in farm real estate values. There has been some leveling off recently—in some areas, a slight softening in that market. And if that were to drop seriously or significantly, it could make it very difficult for, first of all, the farmers, and second of course, the lenders which finance them. Land equity has been the area which has enabled many farmers to weather through these difficult periods of depressed cattle markets, drought, and other economic stress.

Senator CLARK. Well, you make a good point. Let me ask you one other question. Now I assume you've made a fair number of production loans both to renters and to people who are really just getting into that agriculture. I assume you have processed some of a sizable nature. How high are your largest production loans?

Mr. GATES. Well, we have loans ranging in size anywhere from \$50 to some being up in the several million dollar area, \$3, \$4 million being the largest. That's the two far ends of the spectrum. The average size farm loan would be around \$70,000 to \$75,000.

Senator CLARK. Let's say, a young farmer is just starting out, maybe a year ago. He borrows \$60 thousand. He's now getting in the last 3 or 4 months, all the way from \$1.50 a bushel up to about \$2 a bushel for corn. If that goes on for a period of a couple of years, are these people going to be able to make their interest payments, and their principal payments to you, do you think? I assume some of these farmers, if they just bought their land, it might cost them say what—\$2.50 to produce that corn?

Mr. GATES. Most farmers have bought land in recent years, to expand or add on to an existing land base. Thus, the price they paid for that new purchase could be averaged in with the total land base, which makes a difference. We haven't seen a lot of young farmers who, entirely on their own, have gone out and paid \$1,500 or \$2,000 an acre for their first purchase. It doesn't project to pay.

Senator CLARK. Do some of them do that? Do you loan money to people who do, in those unusual cases, whether they do or not?

Mr. GATES. Well, we have a sizeable number of young farmer loans. About 25 percent of all our loans numberwise are to farmers 35 years of age and below. However, most of them are coming into a family farm operation. They have some support and help from fathers or other relatives within the family. And this provides some financial responsibility and backing for them to get started.

Senator CLARK. Is this virtually all of them or is it now about impossible for somebody other than through inheritance—

Mr. GATES. I'd have to say it's extremely difficult for a young farmer to get established with a land base very soon. They can start on a rental basis perhaps, but with current land prices, it's very difficult to start operating, buy land, and try to do it largely on borrowed capital.

Senator CLARK. Do you expect to get into any trouble on your loans, let us say, to renters, to young renters who don't have that land base to use as collateral and so forth? If these prices stay down, let's say for a year or two, do you think that these renters will be able to meet those payments?

Mr. GATES. Well, farm people are pretty adept to adjusting. They can tighten up the belt. This isn't the first time they have done it. However, with costs as such a high level the risk is much higher for them; but, there are things that they can do. They can reduce their expansion. They can reduce capital spending for machinery and facilities and this type of thing. Some of them can obtain income from off the farm, and many of them supplement that way.

But the renter or the tenant farmer has not been able to capitalize, if there is such a thing, from inflation. He hasn't had the land that has doubled or tripled in value that the landowner has. So he has suffered all cost increases and all the adverse things associated with inflation, but he does not have land assets which would have appreciated in value.

Senator CLARK. How is he going to meet his payments to you then?

Mr. GATES. By cutting back to basic production costs and concentrating on those which he must make, and looking at the avenues of supplementing farm income where that opportunity is available. I think the good efficient operator who has an adequate size unit can operate and pay his costs on \$2 to \$2.25 corn. I would like to see the price of corn a little higher than what it is today though.

Senator CLARK. Do you two gentlemen or three gentlemen have any questions?

Mr. LAWLOR. Yes. I'd like to ask Mr. Gates a question. Does the supervisory agency, the Farm Credit Administration, require that you have first mortgages only as security on your loans?

Mr. GATES. Real estate?

Mr. LAWLOR. Yes, on real estate.

Mr. GATES. In the case of a Federal land bank, yes, they can make only first mortgage loans. They have one special program, the FmHA simultaneous loan program, which is a coordinated effort between Farmers Home Administration and the land banks, and I think can be applied to insurance companies as well. In our instance, it is possible for us to take real estate security, and often times we do, to back the short-term line of credit because it's substantial anymore with high operating expenses. And we can take a second mortgage behind the first mortgage lender.

Mr. LAWLOR. How does this work with the FmHA? You said participation, the participation, how does that work? Would you explain that?

Mr. GATES. I might refer that to the FmHA gentleman.

Mr. THORNTON. What we have done here and continue to encourage—as a means to provide more ownership money to many farmers—is participating loans with Federal land banks and other lenders.

We put up some money and they put up some money. We subordinate to them. They take a first lien and we take second lien and we supervise and service. This program has been especially important to a lot of the younger farmers. In that program alone, the average age of the farmer has been around 35 years old. There has been a lot of young farmers helped by this program.

Senator CLARK. I might, in conclusion, read into the record—this is sort of interesting—statistics on who loans the money to farmers.

On real estate, I see the largest single lenders are just individual lenders—people who through their own family relationships or whatever account for 35 percent of all the money that is loaned. And then life insurance companies, 14 percent; and then commercial banks, 12 percent. Oh, I passed over one. The Federal land bank, 33 percent. In other words, if I can repeat those: individual lenders, 35 percent; land banks, 33 percent; then insurance companies, 14 percent; commercial lenders, 12 percent; Farmers Home Administration, 6 percent.

This has changed over the last few years with the Federal land banks loaning more. They've gone from 23 percent up to 33 percent. And, of course, farming decreased in insurance companies. They've gone down from 22 percent to 14 percent. So, the land banks have tended to pick up really what the insurance companies have cut down.

Now in the non-real-estate loans, commercial banks loan almost half the money, 48 percent; and then the Production Credit Associations, 27 percent; and then individuals, 15 percent; and commodity credit through the regular loan program, 5 percent; and Farmers Home, 5 percent. Again, the major change in this structure over the past 10 years is that 10-point increase by the Production Credit Associations and the 6-percent increase by the commercial banks; and of course a 17-percent decrease in the share held by individuals. So this is kind of an interesting pattern. You see that Farmers Home plays a much smaller role than the others, but again a kind of lender of last resort, and then leaving it to the private sector or both the commercial banks and individuals and Federal credit system.

We thank you very much.

Mr. GATES. Thank you.

Senator CLARK. Now last, but in no sense least, we're going to hear from Jim Whiting who hunts ducks as a profession and then farms a little on the side.

Mr. WHITING. You know me too well, Senator.

Senator CLARK. Then after that we'll open up the discussion. And again, I urge anyone else that wants to testify, who has come here to please feel free to fill out one of these cards. We'll be glad to have you.

Jim, go right ahead.

Mr. WHITING. Senator Clark, and this committee, it's a pleasure to have you here today, to listen to us. I am in agreement with Mr. Hayes' testimony given earlier today. And I thought we would have more big bankers here, so there might be one or two later.

Senator CLARK. They're probably in the back of the room.

Mr. WHITING. They'd be talking.

Senator CLARK. We did have some bankers at our hearing this morning.

STATEMENT OF M. J. WHITING, WHITING, IOWA

Mr. WHITING. My name is M. J. Whiting, and I farm 600 acres at Whiting, Iowa, producing primarily corn, soybeans, and hogs. I have farmed since 1945 and have used considerable credit. With the exception of Commodity Credit Corporation grain loans, the credit has all been privately arranged and guaranteed by myself.

I did have a little exposure to economics prior to World War II and no doubt, took just enough to be considered dangerous. Money and banking, as discussed here today, are beyond me.

Anyway, I think I have seen excessive, easy, cheap, too readily available, however you want define it, credit compound more problems than it has helped. It confuses the economic signals, adds to inflation—our worst enemy in my estimation—further distorts the old law of supply and demand. Even makes cattle feeders think they need to feed more cattle to lose more money. Why, I might even double my hog production along with several thousand others and wreck the good thing we've had going, if I could get cheap, easy money.

The primary point I want to make today is—let's not repeat some of the mistakes that have been made, such as the disaster loans of 1973 that were forgiven; and we didn't get that here, but I did spend the day in the car at Templeton, Iowa, in that blizzard. It was a disaster, I'm here to tell you—and what appears to be developing right now with the 3 percent SBA loans, and the cities bail out. Are they working? My understanding is that New York is ready to have us come back in again.

Let's learn the lesson and profit by it that northwest Iowa cattle feeders and farmers learned the past 3 years with poor crops and cattle feeding losses and that I learned from the short crop of 1976 and the low hog prices of that fall. I didn't like it one bit at the time, but my operation is sure a lot better now. Could be, cattle prices will be much better in 1978, too.

I plead for keeping the credit system with its checks and balances intact and in normal channels on a competitive basis to continue building as our country was built. Thank you.

Senator CLARK. Good statement. In other words, your point is that even though we may be in a fairly critical period in terms of lower prices, either for grain or for cattle, that you would not like to see us over respond to that in terms of making an awful lot of low-interest money available or in terms of particularly disaster loans that would be very cheap?

Mr. WHITING. Right.

Senator CLARK. Because you're afraid it would lead to inflation and perhaps to really more overproduction?

Mr. WHITING. Yes. I have had the opportunity to be through central Iowa twice in the last 6 weeks, and it's near panic getting those SBA loans in down there. And how long has it been since they have had any adversity? We need to keep our agility to be able to adjust to these things or we're going to lose what has made this country what it is, and those are my thoughts. And I also have heard the late Roswell Garst make those comments.

Senator CLARK. And you're particularly afraid that, you said in your statement, that the 3 percent SBA loan can prove to be a real problem. Can you expand on that a little?

Mr. WHITING. Three percent in 30 years, well, that money, with a good tight operation, can be recovered very rapidly, and that fellow can profit the difference between the 3 percent. If he sets it up for 30 years, he can put that money out and add inflation for 30 years. I just don't think it should ever get out. Why I borrowed more money than normal last spring and I had to tighten my belt, and it

was good for me. I plugged some loopholes. It has paid off now, and I think that that's what we need to come to grips with.

And it has been mentioned here today about the young farmer wanting to start out. I know a considerable number of older farmers who would be glad to take somebody in and work them in. There are lots of situations where it can't stay within the family, and that's another area you can get into. But what is bugging me today is this 3 percent SBA money.

Senator CLARK. You think an emergency loan is acceptable, but you would have it at regular interest rates. Is that it?

Mr. WHITING. Possibly as a last resort, and I think that—I'm not sure what restrictions should be made on it, but I think it should be very, very limitedly available.

Senator CLARK. You would not—I think someone earlier testified, Mr. Benna, that he would not personally—not speaking for the office that he works for—that he would not personally like to see extended Farmers Home Administration loan, this sort of loan of last resort to people—emergency loans, disaster loans—to people who could qualify for a regular commercial loan. You do share that view?

Mr. WHITING. I do.

Senator CLARK. How about these three gentlemen. Do you have any questions?

Mr. LAWLOR. I would like to make the statement on the SBA disaster loans. They are 3-percent loans and terms may not exceed 30 years. However, SBA will require that the loan be repaid in a shorter time based upon the applicant's individual situation and repayment ability. We established the term of the loan based on the repayment ability of the applicant who applied for the loan.

Mr. WHITING. At the time the loan is made, but once the loan is made and he has a couple of good years to pay the whole thing off, he still can let it go to maturity.

Mr. LAWLOR. At 3 percent, would you pay it off?

Mr. WHITING. That's when I say you have a problem on your hands.

Senator CLARK. Let me ask you this. When you were talking it occurred to me about that. Do you make 3-percent loans to non-farm disasters?

Mr. LAWLOR. Yes.

Senator CLARK. Suppose the businessman's down here, house—not house, or business, got hit by lightning—

Mr. LAWLOR. Yes, if it was declared a disaster area by the President or SBA administration.

Senator CLARK. You do?

Mr. LAWLOR. Yes. One percent up to \$10,000 on homes; 3 percent from \$10,000 to \$40,000; 6½ above \$40,000.

Senator CLARK. One percent. Not the—

Mr. LAWLOR. Three percent on business up to \$250,000, 6½ percent above this.

Senator CLARK. On homeowners. So anyone who has a disaster to the home, or tornado, and so forth, can get 1 percent interest?

Mr. LAWLOR. Up to \$10,000.

Senator CLARK. Up to \$10,000, for how long? Up to 30 years?

Mr. LAWLOR. That's right.

Senator CLARK. Any homeowner, regardless of their financial condition?

Mr. LAWLOR. Yes.

Senator CLARK. And the same is true of disaster loans for a business?

Mr. LAWLOR. Yes.

Senator CLARK. Is there any limits, any upper limits? Suppose a business that's worth \$10,000,000 was totally destroyed. Could they borrow \$10,000,000 at 3 percent interest regardless of their—

Mr. LAWLOR. I have a \$2½ million loan we processed last week in the Kansas City disaster that's in Washington being considered by the Administrator. There is no limit.

Senator CLARK. There is no—what's the right term?

Mr. LAWLOR. The interest rate, I believe, Senator, is 6½ percent on over \$250, 000. The interest rate is 6⅝ percent.

Senator CLARK. I see. So after you get over a quarter of a million dollars, you charge at a higher interest rate?

Mr. LAWLOR. Yes, the interest rate is based on the cost of the money to the Government.

Senator CLARK. And then the other question in that regard, do they have to be turned down by a commercial lender?

Mr. LAWLOR. No.

Senator CLARK. So you're really applying in this case the same standard to farmers that you do to nonfarmers.

Any other questions? Jim? Yes?

Mr. WHITING. There again, I just think that this test for credit, if it's available, we're becoming more and more dependent, wanting somebody else to do it. Let's do more of it ourselves.

Senator CLARK. And you apply that not just to farmers?

Mr. WHITING. Right. All the way through the financial system.

Senator CLARK. OK. We appreciate very much having you talk. Now, we've got about 15 more minutes. Anybody else who would like to come up and testify? Come right on up here.

Now you pronounce that for me?

STATEMENT OF GENE ZORTMAN ONAWA, IOWA

Mr. ZORTMAN. Zortman, and to identify myself, my name is Gene Zortman, and that's spelled Shortman with a Z, so S-H-O-R-T-M-A-N with a Z first. If you want me to start my testimony, first of all, I'd like to agree with the man from Monona County somewhat on his basis of credit. I do believe that several levels of credit are a bad thing, 1 percent being too low, and 9 percent being too high. I do, however, believe that the credit would be much easier for the young people in farming if it were at a lower level than 9 percent. Without further comment, that takes care of that.

My secondary reason for being here is the fact, Senator, that the ASC offices in Iowa counties, at least Monona County specifically—that's where I'm from—are terribly understaffed at this time. I know this both as a farmer and as an individual who puts up grain bins utilizing commodity loans. There are times when some of the people, like myself, in the category of a grain bin builder, are waiting 3 or 4 weeks to get money on bins that are completed, and the reasons that are given to us are that they just simply don't have enough people to process paperwork. I've talked to the man-

ager of the ASC office in Onawa, to some of the people that work there, and they tell me that they have cried to Des Moines, and they have, also, cried to Washington for relief in this matter. I think that it's time that the plea of these people is listened to.

There are some selfish benefits of my own, because, I'm in the grain bin business, and not in the financing business such as these people are. My wife has made repeated trips to the ASC office for the last 6 or 7 weeks to make collections on bins that are 2 to 3 weeks overdue. While of course, there is a twofold reason here, they tie to the grain bin builders the fact that these things are not yet wired and inspected, therefore, we can't get our money. So, I guess you've got to say I'm here somewhat for selfish reasons. I'm here, also, somewhat to help our people in these ASC offices get the people that they need.

Are there any questions? That's my testimony.

Senator CLARK. So, basically, you're saying that you see much the same problem in the ASC offices that Mr. Benna talked about in terms of the Farmers Home Administration offices, in terms of staffing?

Mr. ZORTMAN. Right. And I might also add, Senator, that I have made several trips to Washington, D.C., to people like Federal Communications and various other agencies of Government, to your own office, Bedell's office, and many more, and I would describe Washington in the terms following: It's kind of like beehives and a farmer who owns these beehives. He's got 40 acres of them. And you go out to find where a sick bee is, in which hive he's in, because his sickness is going to destroy all the other bees. First, you've got to look for that bee, and that's the way Washington is when you're there looking. But you've got to remember, that in this country today, that we're depending on Washington for so much that it's hard for Washington to tell what we want down here.

I would like to testify a little bit further in this respect, and that is that while there are people who are short handed in our ASC offices, and other offices of Government which we have in our local areas, I think the biggest problem is that we're supporting a lot of people who haven't been trained in their own communities to do some of the jobs that are available. Among people who are receiving ADC and other programs—I think there are a lot of good people. I think the Federal Government should not support these people generation after generation because there are no meaningful jobs for them, but should initiate training programs to staff our ASC offices and other agencies with these people.

And here again, that ends my testimony. If you have questions, I'm available.

Senator CLARK. Thank you very much for your testimony. We've got about 10 more minutes. Do you have any comments?

Mr. THORNTON. I'd just like to make one quick comment on the gentleman's concern. Secretary Bergland has requested additional personnel positions for both the Farmers Home Administration and ASCS, and we're hoping to hear from the Office of Management and Budget on what they are going to provide by way of additional positions very soon. The Senator has requested additional personnel positions for both agencies.

Mr. ZORTMAN. Senator, may I add one more comment.

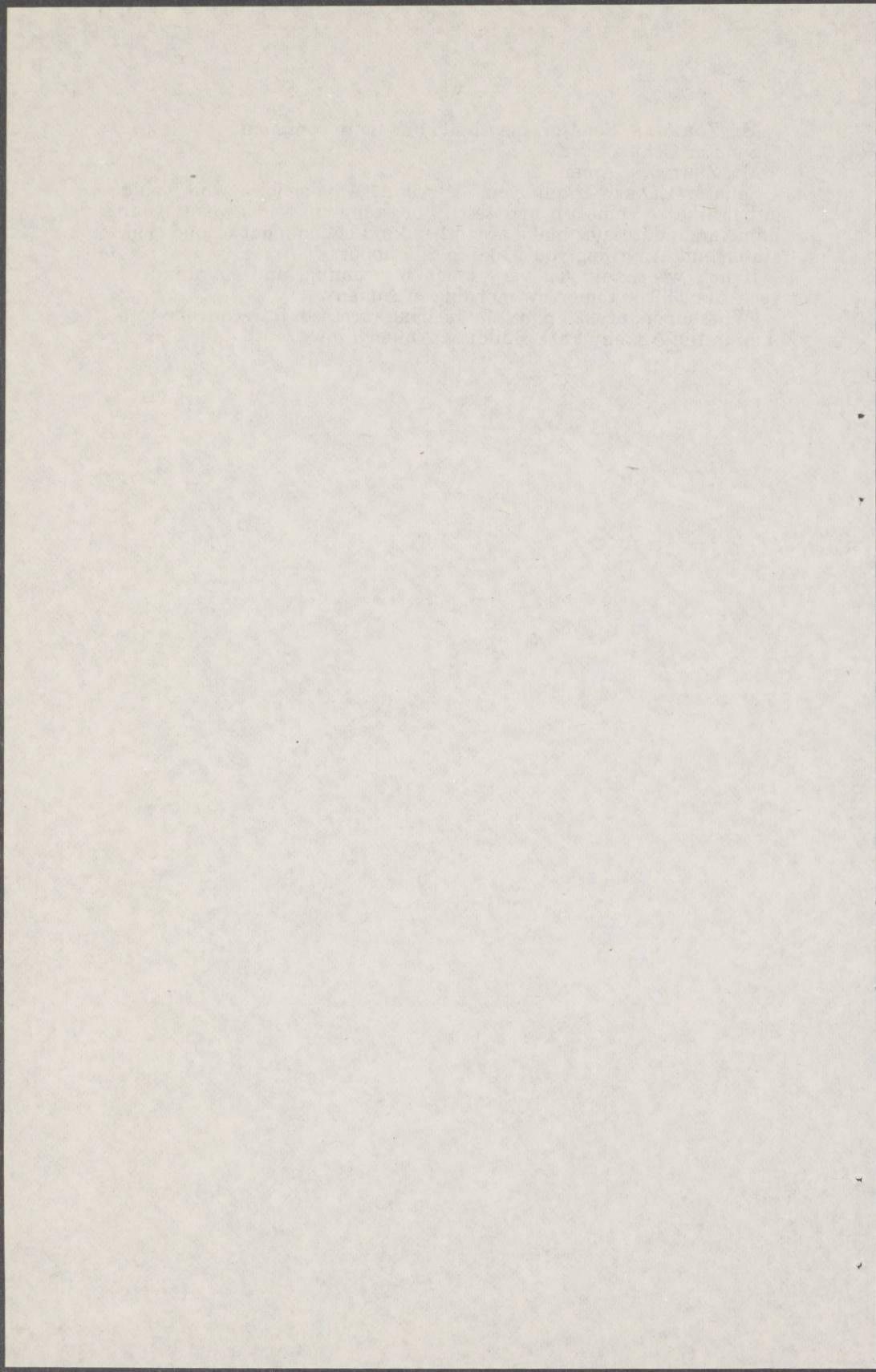
Senator CLARK. Sure.

Mr. ZORTMAN. Amen.

Senator CLARK. Thank you. All right. Anyone else who would either like to come up and testify or stand up and give us your name and address or make any other kind of comment or question, statement? Anything you'd like to talk about?

If not, we thank you very much for coming, and we stand in recess until 9:30 tomorrow morning in Ankeny.

[Whereupon, at 4:20 p.m., the hearing recessed, to reconvene 9:15 a.m. in the Ankeny Park Building, Ankeny, Iowa.]



CHANGES IN FARMERS HOME ADMINISTRATION LOAN PROGRAMS

SATURDAY, NOVEMBER 19, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Ankeny, Iowa.

The subcommittee met at 9:15 a.m., in the Ankeny Park Building, Hon. Dick Clark, presiding.

Present: Senator Clark.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. I want to welcome all of you here today. We are now officially opening the Senate Agriculture Committee hearing today. We have had two hearings, one in Council Bluffs yesterday morning, and one in Sioux City yesterday afternoon, and this afternoon we will be in Cedar Rapids concluding the 2 days of hearings.

Actually, our goal here is to accomplish two things. First we want to get your reactions to the specific bill that is now before the Senate Agriculture Committee. This is identified as S. 2146. We have already had hearings in the Senate Agriculture Committee, the subcommittee, and the bill has been marked up in the subcommittee, but will be taken up in the full committee sometime early next year. Copies of a summary of that bill were mailed out with the notices of this hearing, and there are, I believe, additional copies of the summary back at the door in case anybody may have missed them or perhaps would like to have another one. It is not the bill itself, but it is a kind of concise summary of the bill.

Basically, this bill would increase the loan limits on Farmers Home Administration ownership loans from \$100,000 to \$200,000, and to \$300,000 for the new guaranteed loan program.

The farm operating loans would be increased from \$50,000 to \$100,000 for direct loans, and to \$200,000 for guaranteed loans.

Now, it would also make other technical changes in the terms of these loans. As I read through that, I realize it sounds so complicated, but what we are really saying is that we want to double the limits on existing loans, on operating loans, ownership loans, et cetera. We think, given the problem of inflation alone over the last several years, that that is justified.

Now, remember, I am speaking only of Farmers Home Administration loans.

In addition to any comments that you may have on this legislation by looking through the summaries here and the summaries that we have mailed out to you, we want to give farmers and local bankers and others a chance to discuss the farm credit program. Much of rural America, we strongly suspect, is now in a kind of credit crunch—a crunch that is already upon us, I think, and which will worsen as farmers plan for next year's crop and need money for next year's crop.

Farmers across the Corn and the Wheat Belt are in a greatly weakened financial position as a result of this year's corn and wheat price situation, and as a result of the very persistent low cattle prices, really low cattle prices now for almost 4 years. For thousands of farmers these problems have been worsened by the severe drought, and this is most particularly true here in Iowa.

In fact, it is amazing to look at the statistics on crop reports because every place I go—I remember walking in August from Council Bluffs up through Denison, and starting about in Denison, or even a little farther west, and all the way over to Marshalltown, nobody had a crop, It looked like 5, 10, 15, 20 bushels per acre, and it was like that every place I tended to go.

I was talking to some people from Harlan here who said up in northern Shelby County they were getting 40 bushels an acre. I was down in Shenandoah a couple of nights ago, and they were way down, so we have had some enormous problems with drought, and obviously that has aggravated the situation with regard to credit, as well.

The weakened financial position of large numbers of farmers means loan repayment difficulties and large increases in farm lending—changes which sharply reduce the liquidity of many rural banks. At least, that's our impression, and we have some bankers here today who will, I hope give us some of their judgments and opinions on those problems.

Many farmers stored their 1976 crops. That asset was carried on thousands of balance sheets at well over \$2, and the cash flow projections of farms also priced corn at more than \$2. Current low corn prices have forced bankers to require that their borrowers reflect on their financial statements the sharp decline in the value of the corn that they hold and the corn they expect to grow. Farmers, therefore, are being asked to increase their borrowing on their lands in order to finance their production.

Federal Reserve statistics show that the credit crunch many individual farmers face is widespread, and that it is rapidly worsening. In January of 1976, for example—some 22 months ago—Federal Reserve surveys in the western Corn Belt showed fewer banks—in fact less than a third—reporting a slower rate of farm-loan repayments. Last month a great many banks, as many as three-fourths of the banks, in some of the Federal Reserve districts were reporting a slower rate of farm loan repayments. The same surveys reported a sharply increasing demand for farm loan renewals.

The demand for more and more credit for farmers appears to be straining the capacity of the lending institutions. For example, in the State of Iowa, Federal land bank loans outstanding increased by 23 percent, almost a fourth, during the first 9 months of this

year. Production credit loans outstanding increased by 21 percent during the same period, almost a billion dollars.

For farmers across the Nation during the first 9 months of 1977, farm assets increased by \$15 billion, a record increase for such a short period, by a sizable margin.

Furthermore, the debt increase was often not in proportion to increases in assets. Debt increases accrued to farmers in proportion to their production, while the increase in assets was in large measure due to the continued increase in the value of land. To individual farmers, the seriousness of the current situation depends upon their ownership of land. Iowa farm land values continued to increase by about 35 percent from February 1976 to February of 1977.

We have a tremendous demand for farm credit facing Iowa farmers this year, as we understand it, and we are just beginning our planning for next year's crop.

Now, the major purpose of our hearing today is to get your views on the extent of that credit problem? What is the nature of that problem? How is the present credit system working, and so forth? And how effective are our credit institutions in dealing with this problem?

We have in rural America, and we have in urban America, a very well-developed set of institutions designed to provide agricultural credit. Our credit institutions include commercial banks, insurance companies, individuals—who hold well over half of our farm debt for both land and operating capital—the farm credit system with its land banks and Production Credit Associations, which have direct access to the Nation's major capital markets and who are not limited by reserve requirements in the same way commercial banks are limited, and the Federal lending agencies, including the Farmers Home Administration and the Small Business Administration, which can loan at favorable terms to farmers who are unable to obtain credit elsewhere.

A major part of our purpose here today is to attempt to determine whether or not these institutions are adequately serving the credit needs of Iowa farmers during this period of great need. To do this, we will then be asking farmers and bankers and others to describe their problems and their evaluation of the changes, if any, that are needed in this system, either in the system or in terms of some kind of stopgap measure.

We have a great deal of ground to cover today, and I will ask each person to be relatively brief. I see we have now got seven or eight witnesses here, and I think we have to conclude this hearing at 11:30, and we hope to have a little time at the end for some discussion.

With us today are two key Federal officials who have significant responsibilities for major agricultural credit programs. Mr. Jim Thornton, second from the end. Jim is the Associate Administrator of the Farmers Home Administration, and is in a key policy position there to influence in a major way the management of that huge program, which now handles some \$2.5 billion in farm loans each year, and billions more in several other rural programs.

Then on the far right is Mr. Conrad Lawlor. He is regional director of the Small Business Administration in Kansas City, which is now making small business loans to farmers.

Both these gentlemen, incidentally, happen to be Iowans, and so we are going to listen to them just for a couple of minutes here at the outset.

I think I will call on Jim first, who happens to be from Sioux City and whom I have worked with on the Senate Agriculture Committee for several years, and who is closely associated with Senator Humphrey. I wonder if each of you might limit your remarks to about 3 or 4 minutes, and then we will go ahead with the witnesses.

Jim, perhaps you could go into some of the points that you think are most essential for us to cover here today.

**STATEMENT OF JAMES E. THORNTON, ASSOCIATE
ADMINISTRATOR, FARMERS HOME ADMINISTRATION**

Mr. THORNTON. Thank you, Senator. Let me just say before I get into the highlights of the legislation, that this legislation includes proposals submitted by the administration, along with several introduced by various Members of the Congress. The legislation has so far cleared a subcommittee markup in the Senate. It also has cleared hearings in the House. It is expected to be passed by the Congress and sent to the President by early spring next year.

We are sensitive to what is going on, especially in the grain areas of the country with respect to current low prices for those commodities and the cash flow pressures that many farmers are now facing, particularly lower income borrowers, young farmers, most of whom make up the borrowing public of the Farmers Home.

Also I wish to remind everyone that the basic role of the Farmers Home, particularly in the agricultural credit area, is to supplement and not supplant credit that is available through regular commercial sources. In other words, we are basically a credit-of-last resort agency. It is a role that the agency has played now for almost over 40 years, and a very important role it is.

Now, in terms of the legislation the Senator has mentioned. It would provide an increase in the individual loan limits both in terms of the agency's real estate program and its four operating loan programs. It would double loan limit levels from \$100,000 to \$200,000 in the case of ownership, and from \$50,000 to \$100,000 in the case of operating loans.

In addition, the subcommittee has added yet a new feature to both of these programs. The Senate subcommittee has added a new guaranteed program for both ownership and operating loan programs.

Individual loan limits set by the subcommittee bill are \$300,000 in the case of farm ownership guaranteed loans and \$200,000 for operating. These would be loans made by private lending institutions but guaranteed up to 90 percent by FmHA.

Interest rates also would be affected by this legislation. Currently, FmHA farm ownership loans bear an interest rate of 5 percent. This legislation would permit us to charge, in the case of the ownership, up to cost of money, plus 1 percent. However, it would still reserve the right of the agency to provide subsidized loans for

those farmers that would have difficulty repaying at those higher interest rates.

In the case of the current operating loan program, the interest rate is at the cost of money. This legislation would permit us to go up to so-called negotiated interest rates between the borrower and the lender, but still reserving the right for us to make some of loans at cost-of-money. What we are after here is basically to make more capital available, but yet determine on a more judgmental basis which farmers could afford to pay what interest.

The legislation also would affect the current emergency programs of the agency. While we currently, along with SBA, are charging 3 percent on the first \$250,000, 5 percent above that up to actual losses—market rate above the actual losses—this legislation would basically create a two-tier interest rate structure for emergency loans made by the agency. Under this legislation a borrower who could not get credit elsewhere, could get a disaster loan at 3 percent. If he could get credit elsewhere, he could still borrow from the agency, but at a 5 percent interest rate.

The administration has a problem with this. It thinks it will be difficult to administer. The President has already given some indications that he may go forward with a new proposal next year, when this bill goes to full committee. He may ask the Congress for a straight 5 percent interest rate with no credit-elsewhere test. This would apply to emergency lending only.

The bill also provides FmHA with some very important flexibility to restructure and consolidate several notes it often has with farmers. Instead of having to write new notes on subsequent loans, we would be permitted to consolidate those and at the same time extend the repayment period. This would be particularly helpful in times such as now when farmers are under such severe cash flow pressures.

The bill would also extend the emergency livestock program, which is now due to expire in September of 1978. We have some problems with that only insofar as we are now studying the program, and will be submitting to the Congress some specific recommendations on what we think ought to happen to the program as part of this legislative effort.

There are some other technical changes, one of which I do think is important. The agency still is prohibited under current law from making loans to any family farmer who has gone into a limited partnership or who has incorporated. This legislation would change that. It would permit us to make loans to those types of individuals. I understand that this particular limitation played a role in getting the Small Business Administration into the farm-lending business.

There are some other features in this bill related to our committee system where the county committees would not have to sit and pass on the individual loan levels requested by borrowers; however, the committees would be retained in determining eligibility of Farmers Home borrowers.

There is also an appeal proceeding provided for in this legislation. When somebody felt that they were dealt with unfairly by a committee, they could formally appeal, with powers to overrule at higher levels.

That's essentially the highlights of this legislation. In closing, I want to mention what we are doing in Iowa now on emergency lending. We have received to date about 2,000 applications. I met with State staff and our district directors yesterday in Council Bluffs. We will be sending into Iowa soon some special teams to help accelerate and facilitate the processing of these loans. That will be moving forward beginning next week. We hope to get these loans processed and get checks back to the borrowers just as quickly as possible.

If any of you here, or your friends, have not filed, to date, an application for disaster relief, it is very important that such applications be filed in our Farmers Home offices by December 2. That is the final date for such filing. I do not foresee any extensions of that filing deadline date. We just barely got the last extension through. If they do not get their application in, they will not be eligible. All they need to do is get an application in. We can determine losses after that date, but they have to get the application in by December 2. Mr. Chairman, that's my opening statement.

Senator CLARK. Fine.

Conrad Lawlor, Small Business Administration. Obviously the Small Business Administration is just now getting into the business of loaning also to farmers so, Conrad, do you have a few comments?

Mr. LAWLOR. Yes, Senator.

STATEMENT OF CONRAD LAWLOR, REGIONAL DIRECTOR, SMALL BUSINESS ADMINISTRATION

Mr. LAWLOR. I would like to very briefly describe the two programs that we are providing in the area of agricultural finance to farmers in this area in Iowa.

Last January, for the first time, SBA opened its business loan program up to include farming operations. Prior to that, farmers were not considered eligible under SBA programs. Today any farm that has received less than \$1 million per year in gross income are eligible for SBA's guaranteed loan programs.

Basically what these programs would be used for would be the guarantee of bank-generated loans or bank requests to guarantee proposed loans for the purpose of purchasing land and buildings, farm and machinery equipment, livestock, and operating expenses, and in some cases to refinance some farm debt.

The farmer, in order to use this program, should talk with his commercial banker, who is familiar with the regular SBA business loan program. We have applications we can send to the commercial banks that they will be given to their farmer customer.

To give you an idea of what we have been doing in Iowa since January, we have made \$11 million in loan guarantees in this State in those 9 months through October 31. The use of proceeds of these approved loans that have been sent to us by commercial banks, 50 percent of them have been for swine farrowing operations, including facility expansion and construction for the purpose of breeding hogs.

The second highest use of the SBA guaranteed loans here in Iowa was for the purchase of adjoining farmland and, third, for the

purchase of machinery and equipment, and, last, for short term working capital, crop, fertilizer, those types of things.

The average size of the farm loan we have processed here in Iowa was \$190,000.

Now, I think that is enough on the regular business loan program. I do want to spend a few moments on the physical drought program that SBA is now administering here in Iowa.

On September 1 almost all of the State of Iowa--I think all but seven counties in Iowa, were declared disaster areas. Under this program we are making direct loans to farmers. There is no limit as to the size of the loan, and there is no test for credit in the SBA farm disaster loan program.

These may go up to as long as 30 years; however, the maturity of the loans that we will make will most likely be reduced based on the applicant's ability to repay the loan.

As Jim mentioned, the first \$250,000 of the loan is at 3 percent, and then after that it runs at 6 $\frac{5}{8}$ percent. These loans at this time can be made to any type of organization, partnership, corporation, or individual.

The amount of activity we are generating in this area as of this date--or as of yesterday, we have handed out 11,000 applications here in Iowa. Approximately 10 percent have been returned. We have 1,100 applications on hand, which represent \$59 million.

In projecting out what we anticipate the loan demand here in Iowa through the SBA disaster loan program, we estimate it will be approximately \$200 million in this State. As of this date we have approved 165 loans for \$6 million, and we do have sufficient funds to operate.

Senator, I think that concludes the statements I would like to make, and I will be available for questions.

Senator CLARK. Right. Well, at the end we will have some time for some questions, but let me just ask one quick question of both of you. As I understand it, neither of you can loan money to anyone, with the exception of the disaster loan, without first having been turned down by a commercial lender, is that correct?

Mr. THORNTON. In our regular programs, that's certainly true with us.

Mr. LAWLOR. Yes. We do not have a test of credit, Senator, under our disaster loan program. For every other program we do have a test for credit.

Mr. THORNTON. Our credit justifies both.

Senator CLARK. By the way, I might just read into the record at this point, before turning to our first witness, some rather interesting statistics that show really where the money comes from in agriculture. Really it is the structure of U.S. agricultural debt.

For the real estate area, the largest single lenders are individual lenders; 35 percent of all the money that is loaned is from individuals. Second, the Federal land bank, which is 33 percent, a third of all the money that is loaned. Then life insurance companies, which is 14 percent. Then commercial banks, which is 12 percent. Then the Farmers Home Administration, which is 6 percent. So it is individuals, then land banks, then life insurance companies, then commercial bankers, and then the Farmers Home Administration.

There has been an interesting change there because life insurance companies have fallen significantly from 22 percent to 14 percent, and the land banks have increased significantly from 22 percent to 33 percent over the last decade.

Then in the nonreal estate areas, commercial banks provide the great preponderance of money, 48 percent of it. Then the PCA's, the Production Credit Associations, 27 percent; individual loaners, 15 percent; Commodity Credit Corporations, under the loan system, of course, 5 percent; and Farmers Home Administration, 5 percent, with the SBA obviously just getting into that area.

Again, the interesting point here is that the Production Credit Association tends to be moving upward in that percentage.

I might mention also that on my right is Bill Moats, who is my assistant, agricultural assistant on the Senate Agriculture Committee.

Well, now, let's find out what each of the witnesses have to say in terms of the problem of farm credit. First we are going to hear from Leland North, who is from up in Hamilton County, up by Jewell, farms up there.

Leland, you just proceed in any way you want to, anything you have got to say.

STATEMENT OF LELAND NORTH, JEWELL, IOWA

Mr. NORTH. Well, I am a little bit unprepared for this, but to start off with, I did apply for an SBA loan back in January, February of 1977. That loan was tied in with a banker to participate, and that's where the problem really starts, is I filled out all the application forms for the loan, and SBA in Des Moines approved as far as I had gotten and said that I had to have a banker to participate.

Well, when you go to a small banker—we happen to—I have 1,300 acres of corn and beans, and we have room for 1,200 head of cattle on solid concrete, so it's not a small operation, and it isn't a small loan.

Senator CLARK. Is this an operating loan you are talking about?

Mr. NORTH. Yes. The bankers all talk about going over their loan limits, and so they don't want to participate. Their big reason for not wanting to participate, at least the answer I got, is they say, "If you get in trouble on these darn big loans, it takes 2 to 3 years to get straightened up with SBA on the thing", and I have had three bankers tell me, "I will throw a farmer out before I will even accept one."

Senator CLARK. You have trouble finding a banker who will participate in it?

Mr. NORTH. Right. Our problem was back in 1974 when we had 1,167 head of cattle on feed. It was a bad cattle year. We got hailed out completely the 22d day of June, and we replanted the whole thing, and the 27th day of July, we got it again. I didn't have hail insurance. Between the cattle and no crop, we lost a lot of money, and up to that point we had always borrowed from a commercial bank, and everything was going great. I mean I don't own any land. I should have. I had a time or two that I could have bought some.

Senator CLARK. So you rent this 1,300 acres?

Mr. NORTH. Right. It is all one unit, all one farm. That has been my problem, is, you know, the program is here; the money is available, but you have got to have a banker to go along with it, and the banks to me, or what I found in our area, anyway—most of them are small banks. We don't have any real big bankers, as far as that goes, because there are just small towns around there, but they are not interested in SBA loans from the experience they had prior to going into the farming thing.

Senator CLARK. From their experience with SBA with businesses?

Mr. NORTH. Yes.

Senator CLARK. The only complaint they had, as you explained it here today, at any rate, was that it took them 2 or 3 years to get their guarantee if the loan went bad? Is that what you are saying?

Mr. NORTH. Well, that seems to be their experience in the past with businesses, see, and they figure it is going to be the same way with farmers. The other thing they said was that they didn't know how long the farm thing was going to last, whether it was really going to materialize. We are way too big for FmHA.

Senator CLARK. Why are you too big for FmHA? Is the loan you want too large for them to handle?

Mr. NORTH. Yes. In our total operation, we run \$300,000, or better. With the cattle operation, we have about 1,200 cattle on feed.

Senator CLARK. We have got now a \$50,000 limit on FmHA. We propose to increase that to \$100,000. The advantages in going to SBA were that they had no such limits?

Mr. NORTH. Right. Farming isn't going to get smaller, at least in our area, because it is all corn and beans, and with the price of equipment, and everything, you have got to put out the acres.

Senator CLARK. Let's put Conrad Lawlor on the spot here, and see if it is true, not speaking of the farm loans now because these bankers are talking about their experience with business loans, that it took 2 or 3 years to realize their guarantee if they lost. What about that? Is that typical, or are these bankers telling the truth, as far as you know?

Mr. LAWLOR. Well, I hate to prejudice a banker. I don't know the situation involved, Senator, but it would appear to me from the comments, that what so often happens with loan people is instead of giving a reason, they give an excuse, and there is a great difference between a reason and an excuse.

The statement 2 or 3 years down the road on a guarantee is preposterous. When an SBA loan goes into default, that's when we go into a guarantee. The bank writes a decline letter when it recognizes the loan is in default, and they must write a decline letter within 30 days of default on the note, and we immediately, upon receipt of the decline letter, order a check from the disbursing office in Denver, and buy the loan from the bank, and this is done always within 30 to 60 days of a man defaulting on this loan paper, so it is preposterous to say it takes 2 or 3 years for SBA to honor the guarantee.

We just aren't even set up so that we could handle that. We would probably, if the bank waited that long to make a demand,

say that we didn't have any obligation on that loan if they didn't notify us that the borrower went into default.

Senator CLARK. You don't see any circumstance where it would take more than 2 months?

Mr. LAWLOR. The only case would be if we are actually questioning whether SBA has liability on the loan. We have one or two loans a year—usually one loan, an average of one loan a year here in the State of Iowa, where we may deny liability or consider denying liability, Senator.

Senator CLARK. Why would you do that; under what sort of circumstances?

Mr. LAWLOR. Gross negligence in the administration of the loan. We are being sued by a bank right now on a loan that was made for purchase of real estate, and I think the man took the money and went to Mexico, and we are not going to honor that. If we make a loan to purchase land then we want a mortgage on the land. These are very rare cases, fortunately.

Senator CLARK. So it is your position, having previously directed the SBA loan office in Iowa, that it is inconceivable to you that there could be a loan application that would take more than 2 months, unless there was some particular circumstance?

Mr. LAWLOR. That's right. The other statement, Senator, was that the banks weren't using SBA loan programs. It happens that Iowa is the fourth largest office in the United States in the use of the bank guarantee program.

Senator CLARK. What does that mean?

Mr. LAWLOR. There are only three SBA district offices that rank higher than Des Moines, and Des Moines comes in fourth as to the use of our guarantee programs. We have approved on an average from \$8 to \$10 million a month on loans in our office in Des Moines.

Senator CLARK. I have often wondered about this too. Do you have any figures at all or any estimates on the number of banks in Iowa that have never participated in one or would not? Do you have any projections at all?

Mr. LAWLOR. Yes, we do keep track of this. This is one of our goals, of course, to increase participation of banks. At this time I would estimate, without having the figures—which I can provide to you very easily.

Senator CLARK. Yes, will you do that?

Mr. LAWLOR. There are approximately 850 banks in Iowa, and it is a little under 500 banks that are participating with SBA.

Senator CLARK. A little under 500?

Mr. LAWLOR. Yes. So approximately two-thirds of the banks in Iowa are using our program, and we are constantly calling on other banks that are not participating to try to get them to use our programs; however, you know, you can't force a banker, obviously.

Senator CLARK. That's right. It is their own decision.

Mr. LAWLOR. If they don't want to use the program, they don't have to.

Senator CLARK. Well, we will be hearing from bankers later, and perhaps they can add additional information to this.

Do you have any further questions or comments, Leland?

Mr. NORTH. The only comment I have is, has the thing been changed on the disaster program? Does the crop all have to be harvested before you can apply for a disaster loan for SBA?

Mr. LAWLOR. No; you can turn in an estimate. I would encourage you to do it. File an application and estimate your loss. We need to verify it, but that can be done after you file your application. Let's get it in so that there is no problem with the deadline.

Senator CLARK. Farmers Home has a deadline of December 2.

Mr. THORNTON. December 2. I also would like to mention, Senator, for this gentleman's benefit, that in the case of the Farmers Home emergency program here in Iowa, there is no limit in terms of the amounts involved. Also we can make loans including to those families that have incorporated or are in limited partnerships. Such constraints which do apply with respect to regular programs, do not apply in the case of our emergency lending activities.

Senator CLARK. There is no limit on the SBA emergency loan either, is there?

Mr. LAWLOR. No.

Senator CLARK. Thank you very much. We appreciate your coming.

John Buman of Harlan, farmer. John, we are pleased to have you here, and you just proceed in any way you like.

STATEMENT OF JOHN BUMAN, HARLAN, IOWA

Mr. BUMAN. Well, I guess the reason I am here today is because I attended your hearing in Council Bluffs yesterday, and I guess I got kind of the impression that it wasn't publicly known too much to the farmers, and it didn't seem like there was hardly any farmers there, and I feel that the situation is a lot more serious than was seemed to be brought up at yesterday's meeting, and so today my dad and I and some of our bankers came back to the hearing.

Senator CLARK. Good; very good.

Mr. BUMAN. Our example is quite similar to Leland's. We feed cattle and farm, and we lost a lot of money in 1974 because of the Government involvement in cattle, I guess.

Senator CLARK. Low cattle prices?

Mr. BUMAN. Right. On top of that we had a very bad drought that year and a short crop, so there was only one alternative, really, and that was to go after the emergency cattle loan, on which we were able to carry on, but the problem since then has been that there hasn't been any income from feed and cattle to make payments on the emergency cattle loan, and besides that, we have got an emergency disaster loan through the FmHA because of the short crop, and the thing that really bothers us and the bankers is when you keep producing below cost of production, how are you supposed to make payments?

I am wondering what the FmHA people and even the SBA people are thinking about, being they are getting involved down the road here, making all these loans, and the interest goes on, and you keep getting further behind. What are we supposed to do, and what are their thoughts?

Senator CLARK. Any other comments before we turn to them?

Mr. BUMAN. No.

Senator CLARK. Good. I just want to make sure I understand the situation. You made an emergency cattle loan in 1974 as a result of your losses at that time?

Mr. BUMAN. Correct.

Senator CLARK. Then you had crop disaster in 1975 or 1976 for which you got a disaster loan?

Mr. BUMAN. Well, the loan, I think, was in 1975.

Senator CLARK. So you had another loan in 1975?

Mr. BUMAN. Yes.

Senator CLARK. Do you remember what interest you paid on each of those?

Mr. BUMAN. Well, on the emergency cattle loans, 8½ percent; on the emergency crop loans, 5 percent.

Senator CLARK. Five percent?

Mr. BUMAN. Yes.

Senator CLARK. But your point basically is, what difference does it make how cheap the money is if you can't pay it off?

Mr. BUMAN. Right.

Senator CLARK. What do you do if you can't? In other words, if you find yourself in a position of having continually low prices both in cattle and in grain, or a disaster, one or the other or both, what do you do in terms of meeting the principal and interest payments.

Mr. BUMAN. Right. We got the emergency loan so that we could continue feeding cattle, and it is supposed to be repaid from the profits of feeding cattle. Well, to make 8½ percent to make your interest payments and another 8½ percent so there is profit, or 17 percent on a \$300 animal, you are talking \$51 profit.

Senator CLARK. Before we turn this over, it sounds like you keep pretty close track of what you are doing. You say you are paying 8½ percent on the emergency cattle; 5 percent on the crop disaster. What do you feel you would have to have for cattle, let's say, and/or for corn to really come out on this and be able to pay them off?

Mr. BUMAN. Well, I would say probably close to \$3 corn; \$50, cattle.

Senator CLARK. You don't see that you are going to make it without that kind of price?

Mr. BUMAN. No; because I think if you break down all the expenses that have to be charged against the farming operations, a lot of them will run up to close to \$300 an acre that you have got to take out of the acres and meet the expenses, and at 100 bushels of corn, that's \$3, or 40 bushels of beans is close to \$7, and on top of it this year we had probably a half crop. Some areas in the northern part of the county were hurt worse.

Senator CLARK. Well, I think you make a good point. We are going to ask these fellows whether they can comment on that, and whether they may have some questions of you, but one thing ought to be clear when you are talking about credit for farmers, when you are talking about a credit crunch, and that is that more credit doesn't solve the problem.

Mr. BUMAN. This is right.

Senator CLARK. It might get you over a period of time where you have got a real problem, if you have got a livestock disaster or crop disaster, or something like that. I believe strongly in making credit

available in every way we can, first and foremost through the commercial sources, and as a last resort through the Farmers Home Administration and the SBA, but it doesn't solve the problem. The problem is low prices, and the solution is higher prices. There is no question about that. I think that ought to be clear in the context of the hearing that we are holding today.

It is not going to solve anything simply to make more money available. It may help for a brief period of time because credit is essential in disaster periods or in regular periods, but higher prices have to be the ultimate solution.

Jim, you look like you want to ask a question or make some comment.

Mr. THORNTON. Well, again reiterating, credit is no substitute for income or prices, but credit is important to help farmers through these periods, and we hope that prices and income at some point in the near future will go up. We also were given some new authority recently in the 1977 farm bill. We are now working on regulations for use of that authority. I am referring to the authority that will permit us, as an agency, to defer principal and interest on our loans. While all such loans have to subsequently be paid, it should be helpful to many farmers with respect to relieving their cash flow demands.

In the case of the EM loan, for instance, if I understood you correctly, you say that was at 5 percent. Was that this year?

Senator CLARK. No. It was 1975, Mr. Thornton, 1975.

Mr. THORNTON. 1975. Any EM loan made within the last year, we are restructuring now down to the 3-percent level, With the idea of reducing payment pressures on the farmer.

We have some other strategies we are also going to be working on with the idea of minimizing these payments during this very severe period. That's all we can do because again these are loans that eventually will have to be paid in full, but in the meantime, we are going to do everything possible to stretch out payments for farmers who are severely hit in Iowa with these income problems.

Senator CLARK. Well, now, let me just ask a little beyond that, and maybe Conrad will have a question too, but as I understand it, we gave you authority, the Farmers Home Administration, in the new farm bill to actually devise rules and regulations which would allow somebody in his situation to defer payments if he could show absolute necessity, or to minimize payments, and that those rules and regulations are now being written.

How can John or somebody else really follow through on that? What would they do? Would they simply go to their local county office and make application, and tell them to notify them when that process is available?

Mr. THORNTON. Yes. When those regulations are finalized, they will have to go out through the Federal Register at which time they also will be sent to county FmHA personnel.

Senator CLARK. What is your projection on how long that will take?

Mr. THORNTON. I would imagine it would be another month before we get those finalized, but we are trying to move as fast as possible. Any Farmers Home borrower who is now having difficulty or foresees that he may have difficulty in making his payments,

should go now to his county office and visit with his county FmHA supervisor about those financial difficulties. Hopefully, by that time our county personnel will be equipped with some of these additional authorities to work with such individuals to minimize, as much as possible, those kinds of repayment problems during this stress period.

Senator CLARK. Now, is that going to help you any or not, do you think, John? It doesn't pay the bill, I know that. It doesn't pay anything off. Would that be of use to you?

Mr. BUMAN. Well, it would help in the short term, no doubt. The thing that you wonder is, this has gone here since 1974, and we are in 1977, and we pay a considerable amount of interest and still haven't got anything off that principal, and you wonder how long you should keep fighting it.

Senator CLARK. Can you think of any recommendations? I mean the obvious solution is to try to do everything you can to try to get prices back up, and we are talking about grains, and we are talking about greater exports. I think extending more credit to those countries that do not have most-favored-nation credit at the present time would help, and they could produce some more and take a more aggressive approach on overseas sales through our agricultural attachés. There are a lot of things, it seems to me, that we can do to try to help in that process. Can you think of things in the credit area that you think we ought to consider doing? Do you have any ideas or suggestions of what we could do that would be useful for people in your situation? You are not alone, I am sure.

Mr. BUMAN. Well, I don't know. I am sure what has happened in a lot of areas is up until the last 3, 4 years, when we started having bad crops because we were hit by drought, a lot of people, ourselves included, and the banks, were able to continue because of the inflation in land prices. It was just because of the paper value, and everyone could make loans work on paper.

Well, we reached a point where poor crops or the cost of production had gone up so drastically that everybody was coming back on the land.

Senator CLARK. I think that's very accurately put. We thank you very much for coming up.

We are going to hear now from W. S. McCaull, Rural Route 3, Des Moines, who lives in what, Polk County, I guess.

STATEMENT OF W. S. McCAULL, DES MOINES, IOWA

Mr. McCAULL. I live in Warren County, right on the county line road. I farm in Polk, Warren, Decatur, and Lucas counties.

Senator CLARK. Different farms?

Mr. McCAULL. Yes.

Senator CLARK. I was going to say that I hope they are not all on some corner.

Mr. McCAULL. Mine is a little different from everybody else's. I made money in 1974 and 1975. In 1977, we had a drought on corn. All the corn had aflatoxin, and I could not seal it. I had applied for the disaster loan, and I was turned down.

Senator CLARK. Why so?

Mr. McCAULL. Because they claimed that the land was too high-priced in Polk and Warren Counties.

Senator CLARK. They claimed you had adequate assets?

Mr. McCAULL. They said that I had over a half-million dollars worth of assets, and I got a statement from a banker, and I paid them off each year, and I have got an A-1 credit reference.

Senator CLARK. I'm sorry, I couldn't hear you.

Mr. McCAULL. I have got an A-1 credit rating.

Senator CLARK. A-1, OK. In other words, you could borrow from a commercial borrower?

Mr. McCAULL. Well, yes and no, but I was wanting to get enough from the disaster loan to pay the banker off and to operate for this year too.

Senator CLARK. All right. So your question really is what? Why do you not qualify for a Small Business Administration or Farmers Home Administration loan? Is that your question?

Mr. McCAULL. Disaster loan.

Senator CLARK. Disaster loan, yes. Well, let's hear what they have got to say.

Mr. LAWLOR. Senator, I talked with Mr. McCaull a little earlier this morning before the conference.

Senator CLARK. I guess we are going to have to speak up a little louder. That thing up above is pretty noisy. Can you hear well back there?

Mr. LAWLOR. The question from Mr. McCaull is why he was declined a loan application through the Small Business Administration, and we talked a little earlier this morning, and I've called the disaster office and talked with the acting head of the department. They were in the process of locating the loan application, but in talking with Mr. McCaull, he stated that he did not have a decline letter. He had a verbal decline, which is highly unusual, to say the least.

When we decline a loan, we give written reasons, Senator, why the loan is declined. He mentioned one of the employees that told him this, who was a temporary disaster employee who had probably been on the job 2 or 3 weeks.

I can't give an answer to his problem until we get his file out and find out what it is, but I think from some of the discussion—I think from the previous witness also—I would like to make a comment on that because he talks about the huge amount of debt service that the farmers are getting themselves into. He was talking about his drought loan and his cattle loan.

Mr. McCAULL. Not cattle.

Mr. LAWLOR. I mean the previous witness.

Senator CLARK. He is talking about the previous witness. I forgot to call on you on the previous witness. Go ahead.

Mr. LAWLOR. An alarming and disconcerting situation for us to get involved in is the real, very heavy debt situations. There is only one reason that SBA can decline a disaster loan, Senator, only one, and that is if there is lack of reasonable expectation that the loan can be repaid from the earnings of the business.

Now, in today's wild commodity prices, it is difficult for a loan officer to put on his report and recommendation, that he believes that there is reasonable expectation of repayment. They are doing it, but I am sure if any one of us had to make those judgments, we would say that is pretty difficult for us to say that the prices of

the commodities, the farm prices on these commodities, corn, beans, hogs, and all, are going to be adequate to make the loan repayment.

Now, if he is declined, that would be the only reason that they could use for decline, would be lack of indication that he had enough repayment earnings that he could get enough earnings off that farm that he operates to service all of his debt.

Senator CLARK. Now, you say, Conrad, that first of all, every farmer has the right to make an application, regardless of his particular circumstances.

Mr. LAWLOR. That's exactly right.

Senator CLARK. Second, that he could be declined for only one reason, and that is inability to repay the loan.

Mr. LAWLOR. Considering he is eligible, and he is applying within the amounts for which he is eligible.

Senator CLARK. Right. Now, do you have any figures—I know you are just getting into this business, but do you have any figures of the percentage of people that are turned down?

Mr. LAWLOR. No, but I can get that for the record.

Senator CLARK. Let's do get it for the record at this point. Do you suspect—I mean is this in the range of half or 10 percent, or 1 in 100, or what is your wildest guess on that?

Mr. LAWLOR. The declining rate on our regular business loan program runs somewhere around 30 percent.

Senator CLARK. I am speaking now of farmers.

Mr. LAWLOR. The farm loan program of the disaster loan program?

Senator CLARK. Yes.

Mr. LAWLOR. I wouldn't want to guess at this point. I just don't know. Now, I know on our physical disaster loan program to homes and businesses, such as we are operating in Kansas City, it would be less than 10 percent, much less than 10 percent.

Senator CLARK. These are nonfarm?

Mr. LAWLOR. These are nonfarm. All you do is base the loan on their income from their job.

Senator CLARK. Well, now, what should Mr. McCaull do?

Mr. LAWLOR. I called the office down there. They are getting the file out. They are going to be working today until about 7 o'clock, and he can stop down and visit with them.

Mr. McCAULL. Also I would like to ask one question. Why do they figure the corn at \$2 a bushel at that low yield when the corn has aflatoxin and you cannot seal it or sell it for \$2 a bushel?

Senator CLARK. What is the question exactly? Why does the SBA value the corn that has aflatoxin at \$2 a bushel?

Mr. McCAULL. Yes.

Senator CLARK. I wouldn't imagine they would, would they?

Mr. McCAULL. They do.

Senator CLARK. Well, you mean you have heard this?

Mr. McCAULL. When I put my application in and figured the loss, they figured it at \$2 a bushel for corn, and the corn in Warren County all had aflatoxin, which I cannot seal through the ASCS office.

Mr. LAWLOR. I would suggest, Senator, in this case that he bring a letter from—what is it, ASCS, who says you cannot seal it?

Mr. McCAULL. Yes, I cannot seal it.

Mr. LAWLOR. Bring a letter from ASCS saying that the corn is useless. What do you do with it?

Mr. McCAULL. I got to feed it, but no cattle to feed it to.

Mr. LAWLOR. It does have some value then.

Mr. McCAULL. You cannot sell it for \$2 a bushel. You cannot seal it.

Mr. LAWLOR. Have them place a value on it, and come back in and appeal. These are not set by law. These are administrative determinations as to what your income is off your land, and what your eligibility would be.

Mr. McCAULL. But in the past I have paid the banker off quickly every year, and I have made my farm payments, but I was still turned down.

Senator CLARK. All right. We thank you very much.

Mr. McCAULL. Thank you.

Senator CLARK. We are going to hear from Don Hovendick of Omaha, Nebr. We are particularly happy to have you here, Don. You are the president of the Federal Intermediate Credit Bank. This is connected with the Production Credit Association, I believe.

STATEMENT OF DON HOVENDICK, PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK, OMAHA, NEBR.

Mr. HOVENDICK. Yes.

Senator CLARK. You cover a pretty broad territory, I think, if I recall correctly. You cover South Dakota, Iowa, Wyoming, and Nebraska.

Mr. HOVENDICK. That's right.

Senator CLARK. You have got some feel for what is happening in the credit area, so we are pleased to have you here.

Mr. HOVENDICK. Thank you, Senator.

I have a formal statement, which I will file, but I am going to try to, in the interest of time, scan it just a bit. Maybe there will be some time left to just visit.

Senator CLARK. That's fine.

Mr. HOVENDICK. As you indicated, the Production Credit Associations of those four States are the major users of our money. They serve about 20 percent of the short and intermediate term needs of the farmers and ranchers in those States.

The PCA loans in Iowa now total about \$700 million to 9,000 farm families.

I have been employed by the system for more than 26 years, including 12 years managing PCA branches in Iowa and Nebraska. I was in Iowa, for instance, at Cedar Rapids. I was president of the PCA in South Omaha for 8 years, and I have been president of the bank since 1972.

As you have indicated in your opening remarks, we in the farm credit system do not anticipate a shortage of lending funds. We go through a nationwide network of bond dealers and a New York fiscal agent. Never in our 50-plus years of operations have we been unable to obtain the funds we need.

We had a slight scare back in the sixties when there was truly a credit crunch from the supply end but we are not now concerned in our part of the system about a credit crunch. We are concerned

about the problems farmers are having because there is a credit crunch on their end of the business. As you have indicated, and others before me have indicated, this occurs because of the extreme volatility we have had in prices and an almost continuous upsurge in costs. Of course, there are cash flow liquidity and profit-and-loss problems for many of our farmers. This in turn affects our ability to provide the credit they need to conduct their operations.

As another person has already stated, on top of this came the adverse weather that began in this region in about 1973, ironically about the same time as cattle prices collapsed.

We have a couple of concerns that I would like to express here. No. 1, of course, we are concerned about doing a better job, somehow or other, in developing foreign markets. Our farmers are involved in a world market now. We used to worry about a domestic market. Now we have a world market and all of the uncertainties that go with it. We are hopeful that something can be done about that so we can develop better markets and get stability back in the price part of the picture.

We would also like to encourage that every effort be made to coordinate Government lending agency programs so each of those programs combines with the other in a way that can provide a good service to agriculture. I guess what I am trying to say is that we have concerns trying to help agriculture in a patchwork way and are hopeful that the programs these gentlemen have here will work and are compatible with each other, and are made available throughout our region.

We have some concern also about the lack of local information about these programs. I find that we have PCA's who are not familiar with Farmers Home Administration programs. Of course, this depends on people, a good local PCA man, a good local banker and a good Farmers Home Administration supervisor working with each other. We have some communication problems, we think, that are hampering the operations of these programs.

I think that's all that I would say at this point.

Senator CLARK. Good. A lot of good comments there. I would like to come back over some of those and ask you to develop them a little, and then we will get questions here too.

You have indicated, and others yesterday in testifying from the Production Credit Association made it quite clear that the problem from your point of view is not shortage of funds, because you know how to get more funds. You are able to get all the funds that you can use or all the funds that you need, but the problem is, in a sense, on the other end.

The question that arises to me is whether you, as you look at the outstanding loans—I think you said you had \$700 million in this State with about 9,000 farmers. If grain prices stay, let's say, at where they are now—corn, I guess, is about \$1.95 or \$2 maybe at some places here in Iowa. If it stays at that rate for the next year or two, as many people are projecting that it will, do you anticipate that given the other combination of problems—persistent low cattle prices, significant amount of drought, and so forth—that you are going to have a higher rate of people who can't meet those payments, or not?

Mr. HOVENDICK. Yes, and if this cost price continues another year or two, there will be even more stress on our borrowers. I can tell you quite frankly that many are losing money in their grain production or cattle-feeding operations. What we have been doing is covering the losses, if they own land, with the inflated value of the land. As you indicated from the dollar figures you quoted a while ago, the Federal land bank or other real estate lenders have stepped in and put money into farmers short-term operations.

I will volunteer the information that about 25 percent of our borrowers in this State are having some difficulty. We don't classify those all as extreme-problem loans, but they are having real liquidity problems. We are having to use our imagination to set up loans and renew loans.

Senator CLARK. That's what I was going to ask. What do you do if a borrower comes to you and says, look, I have somebody here who has got a case such as John Buman just described, where he had this disaster with the prices in 1974 on cattle. He had a terrible drought in 1975. Let's say there is somebody like that, and they have got a loan from you. What is your average loan, \$60,000, \$70,000, average, probably?

Mr. HOVENDICK. \$70,000 to \$80,000.

Senator CLARK. They come to you and say, "Look, I just don't have the money." What are some of the alternatives that that farmer has in that situation, other than to sell out?

Mr. HOVENDICK. If he owns real estate, he can fall back on his real estate, if he has borrowing equity in it. We, of course, look also to the loans of the Farmers Home Administration.

Senator CLARK. You might refer him there?

Mr. HOVENDICK. Yes, sir. And we might ask for more collateral, if he has it, in order to go into a heavier loan position.

If they are young farmers, there is an extreme problem, as a rule. The younger they are, the less likely they are to own land. We have had cosigners come in and go on the note to help their sons or relatives, and that sort of thing.

Senator CLARK. Young farmers and, I assume, renters are apt to have the biggest problem?

Mr. HOVENDICK. Yes. About 25 percent of our loans are to farmers who don't own real estate, and interestingly enough, about the same percentage of our farmers are young farmers, under age 35.

Senator CLARK. You see some added difficulty in the present credit crunch on repayment. You say 25 percent of the people in Iowa may have some kind of a problem with that, so you do see some credit crunch coming.

Mr. HOVENDICK. Yes. From the borrower end. For some of them there is a crunch right now, of course.

Senator CLARK. Now, a couple of other things that you mentioned here. Better coordination of Federal lending programs, as you have described it, is kind of a mixed bag; that is, in some places Farmers Home works very closely with the PCA's, land banks, and so forth, with good coordination, good cooperation, and in other places they don't, and you see that principally as a communication problem. Do you have any suggestions at all as to what we could do in the Farmers Home Administration to improve that

situation? I mean are there any mechanisms, any ideas of how we might go about doing a better job with that?

Mr. HOVENDICK. I guess for one thing we need to get together a little more often. We have had a session just recently with Farmers Home Administration people in Nebraska. We have had dialogues, of course, many times with the people here in Iowa. We get busy, and they get busy, and we don't talk enough. Communication would be the name of the game. Somehow or other we must seek them out, and they must remember us.

Senator CLARK. Do you ever cooperate on loans, on a given loan?

Mr. HOVENDICK. We do in another part of our system. The Federal land bank makes joint loans with Farmers Home Administration and has done quite a lot of business in this area.

Senator CLARK. But not the PCA's?

Mr. HOVENDICK. Not in the same loan. Well, we have PCA borrowers, I am sure, who are getting disaster loans and continuing with an operating loan with PCA.

Senator CLARK. Let me ask you one last question. You talk to farmers every day. You are looking at the price situation, and so forth. What, in your judgment, price do we have to get corn back up to to begin to see a normal kind of situation in your business? What do we need, \$2.20, \$2.80, \$3, \$3.30? I know I am asking you an impossible question, but we would like to get some concept of your own experience in terms of what kind of prices we need in cattle and corn to get ourselves at least into a normal situation. I am not talking about anything other than that.

Mr. HOVENDICK. Really, if we want to get a proper return on our investment in Iowa land, for example, then you are talking about corn prices that need to go up to the \$3 area, I am sure, because at \$1,200 or \$1,500, \$2,000 an acre, just getting a decent return on the land investment would require quite a sum of money. We need a \$50 fat cattle market, and a \$5 soybean market. I can give you a rationale or a wide range of prices, depending on the value attributed to the land. On corn, for instance, a couple of dollars to probably \$3.50.

Senator CLARK. OK. Thank you. Other questions?

Mr. LAWLOR. I would like to ask one question.

Senator CLARK. I will tell you, Conrad, we are having trouble with this sound, so we will all have to try to speak up.

Mr. LAWLOR. Just one question. With \$3 corn and \$50 cattle, would the farmland not tend to jump up again? Is that really a solution then?

Mr. HOVENDICK. I don't know what would happen. With the profit picture we have had in the last 3 or 4 years, you see what has happened to the price of land.

Mr. LAWLOR. Yes.

Mr. HOVENDICK. In other words, in the midst of an unprofitable situation, we have had a fantastic inflation.

Mr. LAWLOR. Isn't it a fact, though, that the people or investors are willing to put money in farmland knowing they are going to get a much lower rate of return than they will on anything else?

Mr. HOVENDICK. I believe that's right.

Mr. LAWLOR. If corn prices did go up and stabilize or were guaranteed at \$3, farmland would rise again to balance that to

this very low return, which was what, a 3-percent figure, about a 3-percent return on investment?

Mr. HOVENDICK. I don't know that it would happen. I have spent a career, most of my working life trying to figure out why land prices do what they do, and I don't know yet, and I don't expect to ever know.

Mr. LAWLOR. Thank you.

Mr. THORNTON. Mr. Chairman, I heard a statement made by one of the representatives of the Farm Credit Administration in Washington on this very point. He said, "Too often the worst of loans are made in the best of times."

Senator CLARK. That's true.

Mr. THORNTON. Let me just for the record indicate that in talking about cooperation between agencies, Iowa now ranks fourth in the Nation in participation loans between the Farmers Home Administration, Federal land banks and other lenders regarding real estate loans.

Senator CLARK. Fourth in the Nation?

Mr. THORNTON. Fourth in the Nation. We are getting about a \$1.23 add-on there through the Federal land banks on real estate loans, most of which are going to young farmers. We also, in the case of the Small Business Administration, have several working agreements, for coordinating our farm-lending activities today, both regular and emergency.

The question I have for you is in the case of PCA's, intermediate banks, do you have in your charter anything that would permit you to defer interest and principal for some of your borrowers who are now under high stress?

Mr. HOVENDICK. Can we defer interest and principal?

Mr. THORNTON. Right.

Mr. HOVENDICK. We do. I don't know that there is anything in the charter that stops us from doing that. The way we operate, we want to collect interest once a year. There have been times when we couldn't do that. We have had many examples or instances of deferring principal payments, carrying over old debts. We are quite at liberty in the production credit part of our system to rewrite the terms or renew the loans, and carry over the interest as long as we have a basis for letting the credit ride.

Mr. THORNTON. Just one quick final question. In terms of your view of things through your system, the area that you cover now, given the problems that we are all faced with here, do you foresee in the months ahead, assuming these prices continue to remain relatively low, an increase of your referrals from PCA's to Farmers Home?

Mr. HOVENDICK. Yes; I would say so, some slight increase. I am very proud, of course, of the performance of our system. I have always felt that once we had gone as far as we could go, that's just about as far as anybody should go. Farmers Home Administration can go a bit further.

Senator CLARK. Are you finished Jim?

Mr. THORNTON. Yes, sir.

Senator CLARK. In that regard—I don't know if this is the right phraseology—but what default rate do you have, or however one expresses it?

Mr. HOVENDICK. We don't have a default rate. Our typical PCA right now is charging around 8 percent.

Senator CLARK. No, no. I am using the wrong term. How many loans go bad?

Mr. HOVENDICK. OK. Losses, you mean?

Senator CLARK. Losses, OK.

Mr. HOVENDICK. We lose about 3 or 4 cents for every \$100 we loan. We have a very low rate in losses, and I can assure you we go to the wall frequently with a lot of people.

Senator CLARK. What about FmHA now?

Mr. THORNTON. I think ours is under 1 percent in terms of foreclosure rate. I don't know what it is here in Iowa. Mr. Laures, do you have that figure?

Senator CLARK. Where you lose the money?

Mr. THORNTON. This doesn't mean losing money.

Senator CLARK. I don't know if either one of you are making enough loans if you are that low.

Mr. LAURES. I don't have a real accurate figure, but the one we state on our operating loans is about nine-tenths of a percent loss, hanging just about 1 percent.

Senator CLARK. One percent. That's dollar volume?

Mr. LAURES. That would be dollar volume not loans. On our real estate, with what land has been doing, there has been no measurable loss in real estate.

Mr. THORNTON. I might mention just quickly, Mr. Chairman, that Secretary Bergland has issued an order for a so-called temporary deferral on all of our foreclosure actions now until the end of this year. We are examining all of our monetary foreclosures to try to better understand the nature of them.

Senator CLARK. Do you have any idea what the loss rate, or whatever the term is, for commercial banks would be? Does anybody have any wild ideas?

Mr. LAWLOR. Yes, Senator, I can comment on that. It is much higher.

Senator CLARK. Much higher?

Mr. LAWLOR. Oh, yes. The loss rate of commercial banks will run 3 or 4 percent. That's about what the SBA loss rate is across the country in our regular business loan program, commercial. The loss rate in the social programs, economic opportunity-type loans, nationwide, runs somewhere near 15 to 20 percent.

Senator CLARK. Commercial banks are taking more risks then?

Mr. LAWLOR. Definitely are, and the recoveries are much more difficult, Senator, on commercial loans. Often when a business closes, of course, there are unsecured creditors that are left without being paid, and even the secured creditors often are in a loss position also.

Senator CLARK. I always thought of bankers as being very conservative and people in government as being too liberal with the money.

Mr. THORNTON. There is a side to this that we don't want to lose sight of here, and that is that I would suggest that in the case of many of your commercial lenders, when there is any kind of sizable delinquency that occurs, they are much more inclined to move much faster with a so-called foreclosure action than we are. We are

much more inclined to work with a borrower at refinancing and restructuring his debt and stretching him out, providing that supervised credit, and that is basically what I would suggest is why our rate is as low as it is.

Senator CLARK. Well, we are going to hear from John Chrystal in a moment, so we are going to get the bankers' side of this too. Thank you very much. I appreciate it.

Mr. HOVENDICK. Thank you.

Senator CLARK. Lowell Gose, who is a farmer from over in Jefferson County. Come right up. Jefferson, Iowa, I should say. It is Greene County, isn't it?

Mr. GOSE. Right.

Senator CLARK. Fine. Come right on up here and share that microphone. We have got some testimony here. I might say, of course, that Lowell is also president of the Iowa Farmers Union, and we are very pleased to have you here. Proceed in any way you gentlemen think appropriate.

STATEMENT OF LOWELL E. GOSE, PRESIDENT, IOWA FARMERS UNION, JEFFERSON, IOWA, ACCOMPANIED BY CURT SORTEBERG

Mr. GOSE. Thank you, Senator Clark, and other members of the committee. We are happy to be here.

As Senator Clark said, I am Lowell E. Gose of Jefferson, Iowa, and I represent the Iowa Farmers Union today. I appear here to address the question of credit availability and to comment on S. 2146, a bill to amend the Consolidated Farm and Rural Development Act and the Emergency Livestock Credit Act of 1974.

Our National Farmers Union policy sums up the credit situation very well. It says:

Farm credit is not a substitute for parity farm prices and income. Nevertheless, access to credit at reasonable rates 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.

I think that this statement provides an important context for the consideration of agricultural credit. Credit programs must be considered in the context of a national food policy. This food policy must be based on adequate farm income.

There are indications that the farm credit situation is getting tighter in Iowa. This is especially true for young farmers who do not have adequate equity to weather the current depressed prices. As the money situation worsens, young farmers will be the first to be forced out of business.

As you may notice, there is much in our testimony that have already heard this morning, and I hate to repeat it, but I want you to know that we feel the same way. Much of the testimony that was presented we agree with wholeheartedly.

Now, I will turn to S. 2146, a bill which will bring about significant changes in Government credit policy.

The Farmers Home Administration is an important lending institution. This agency has provided important assistance for those farmers who are in difficult economic straits. Unfortunately, the low prices at the present time will undoubtedly put more farmers in the economically troubled category.

I was disturbed by reports of the Kansas City Federal Reserve Bank which indicated that many banks in that region are no longer lending to farmers. This problem in Nebraska is becoming serious, and Iowa will also experience difficulty if farm prices remain low.

This is a troublesome omen. It means that a greater load will be shifted to the farm credit system, and that system needs to gear up if it is to meet the challenge.

Mr. Chairman, the Farmers Union feels that the proposed legislation before us would significantly weaken the Farmers Home Administration. We have several reservations about the provisions of the bill.

Our main concern is the proposal to remove the interest lid for loans from the Farmers Home Administration. The Farmers Home Administration was established to meet the credit needs of those farm families who had no other source. It has done a good job, and many of its borrowers have graduated to private sources of credit.

It seems to be self-defeating to allow the interest rate to increase to the cost of money to the Government and beyond. The Farmers Home Administration's services have already deteriorated in recent years, and this would destroy the effectiveness that remains. Lower interest rates help those farmers with economic woes and young and beginning farmers by reducing the cost on the borrowed money. This is one of the only real encouragements to keep farmers on the land and to put new people back into agriculture.

We support the increases in the lending limits. Our delegates called for a \$350,000 limit on farm ownership loans and a \$150,000 limit on operating loans. Although the legislation falls short of these levels, it provides a step in the right direction.

In raising the limits, it is important to recognize that additional money has to be provided for the program or the number being assisted will be greatly reduced. Additional appropriations are needed to make credit available for those in need.

The guaranteed loan concept is a poor substitute for Farmers Home Administration assistance. While it would permit more farmers to obtain credit, it would also reduce the effectiveness of the Farmers Home Administration.

It would most assuredly drive up interest rates because the private lenders would not provide loans at lower rates. The farmers union does not see how the guaranteed program would really meet the needs of the traditional Farmers Home Administration borrower. It appears to us to be a veiled threat to the very existence of the Farmers Home Administration.

We are glad to see that the legislation would continue to the 5-percent limit on water, waste disposal, and community facility loans. These loans are absolutely necessary for viable rural services. Because of low population densities, rural communities face serious problems in providing these services for their citizens. The

loans make it possible for these communities to keep the services up to date.

We caution the committee on the provision to extend loan privileges to domestic corporations and partnerships. The farmers union does not object to assisting bona fide family farming corporations and partnerships. If the loan program is extended to these entities, careful scrutiny should be maintained to prevent nonfamily farm investors from using the program to further their own interests. Strict enforcement of the family farm definition and the test of credit provision is necessary to prevent abuses of the program.

The farmers union opposes any attempts to weaken the Farmers Home Administration. In these troubled economic times, the agency is needed more than ever. The agency can also play an important role in assisting young farmers to a greater degree. We support a separate appropriation for a loan program specifically tailored to young farmers. We must halt the migration of farmers from the land, and this would be one vehicle which might help.

We thank you for your concern about agricultural credit. This concludes our written testimony. I do have two or three remarks from notes that I have made as we have listened.

Senator CLARK. Fine, good.

Mr. GOSE. I would like to make just an off-the-cuff remark. I remember news propaganda, which I am going to call it, of several years back when it was said that what agriculture needed was massive amounts of credit. I think that was the most disheartening news I have heard in my 40 years of being a farmer. It just plainly told me that there were not going to be any decent farm prices because if we had decent prices, we wouldn't need all this credit.

Farmers like to operate on their own investment. They like to own their land. They like to be on their own. There is just no way they can do it if the farm prices are not up there.

I would like to make a little statement in regard to the Federal Reserve Board and the statement of the gentleman from Omaha. I had a Government loan several years ago. It wasn't a PCA loan, but it was a loan from the Federal land bank. I bought some land, and I made this loan and, consequently, I got on the board of directors of our local Federal land bank. I was taken to Omaha to be given a briefing, and the gentleman at that time, who later became the top man of the bank, gave us a 2-hour briefing on why the interest rate was going to have to go up. I assume that this was possibly about the time that you, Mr. Lawlor, said we had a credit crunch.

We got a 2-hour detailed information briefing on it. When it was all over—I knew the gentleman—I said, "Did you ever hear of the Federal Reserve Board?" He said, well, yes, he knew about the Federal Reserve Board, which I knew he did. I said, "I just always thought that the Federal Reserve Board kind of set the interest rates", and he said, "Well, they do", and I said, "That's what I thought."

It all revolves around the discount rate. He gave us a 2-hour lecture of why the interest rates were going to have to go up. I am not sure who it was. It could have been Mr. Burns. I just can't remember that far back. Anyway, I knew that the Chairman of the Federal Reserve Board was in the mood to raise interest rates, and

when the discount rate to the main banks is raised by the Government, naturally the prime rate goes up. The prime rate is all you hear about, but the discount rate is what sets the prime rate. You know, most people don't know about this, but it is exactly what happens. The Government itself is the one that lets the interest rates take off.

I would like to mention, that that credit crunch disappeared about the time they got the interest rates up. There was all kinds of money, and just like you say now, there is plenty of money, but the interest rate is almost unbearable.

There is one thing which I agree with George Meany on. I saw in the paper that he said that an interest rate over 6 percent is immoral. Now, I may disagree with George on a lot of other things, but on this one I support him 100 percent.

Getting back to the farm prices that were suggested I wholeheartedly agree with the \$3.50 bushel for corn and the \$7 bushel for soybeans. Actually you need to add about 50 cents to these figures which on the basis of 100 percent of parity is \$3.50 bushel for corn and about \$7.50 bushel for soybeans.

I recall listening to a radio station when Secretary Bergland came out to Lake Mills and said, "Don't sell your corn and soybeans. Don't sell it. It is too cheap." I heartily agree with Secretary Bergland, and I have not sold, and I am not going to sell.

I was fortunate to be that stubborn when I had soybeans on hand, like a reasonable amount, this summer when prices soared, and I swept the bins. I have gone over that peak so many times that it is not going to happen again. If prices are reasonably high, forget getting \$12. Let's take what we can get and run. I did, and I am happy about it, except for the income taxes. We are probably going to have to worry about those shortly.

I just came back from Minnesota where I attended the GTA convention, which is the Grain Terminal Association. As you may know, the farmers union has many connections there with elevators, processing companies, milling companies, et cetera. Farmers need to patronize their co-ops. This is one area where we can do something to help ourselves.

There is just one more thing I would like to mention, and that is the foreign investors coming into this country and buying land. I attended a meeting in Washington about a month ago, and it was a meeting of cooperative elevators, more or less. What was the name of that; do you know?

Mr. SORTEBERG. The trade conference.

Mr. GOSE. Thank you. The trade conference. Anyway, one thing that Strauss told us about France is that the French Government takes exceptionally good care of their farmers. If prices are too low, they make it up to the farmers. I suspected that other countries did much better by their farmers than the United States. These other governments know the importance of farmers to the balance of power. They are democracies, and by taking care of farmers, they assure that the farmers vote for the government in power.

Strauss told us that, undoubtedly, if the farmers switched their votes, that some countries might very easily go Communist or Socialist. We just had a report from our national secretary about the fact that foreigners are investing over here because they fear

that communism might take over some of the countries in Europe. There are families who have owned the land for 1,000 years, who are scared about the possibility of Communist takeover. They are perfectly willing to come over here and buy land because they think this would be the last country on Earth that would go Communist.

Now, I want you to think about this. This is very, very important.

Another item which I picked up from some farmers, who were over here visiting, was that land prices were from, \$3,000 to \$7,000 an acre over there. So, why would Europeans have any qualms about coming over here and paying \$2,000 or \$3,000 an acre for land? That's just one aspect of it.

The other thing that perturbs me is when people say, "Well, the farmers are the cause of the land going up. They bid against each other," and all this. True, they do, but they didn't start it. It started when industry began moving out of Chicago. They would move out little by little buying up land to build factories, and they didn't particularly care what they paid for the land. They were willing to pay farmers high prices to get them off the land.

Since the farmer has this money what is he going to do with it? If he doesn't do something with it, the IRS is going to take it away from him, so he goes out another couple of hundred miles and finds another farm he likes. He persuades that farmer to sell to him, and immediately all the land around this gentleman who just sold out is worth much more. His neighbors feel that their land is worth more, so the land prices rise in the whole area. The whole process is repeated and the escalation continues.

I did not think that land prices would become so high in Iowa that young farmers would have to inherit farms to get started. I am afraid it has happened.

Senator CLARK. It is very hard, obviously, for any young farmer to get started without an awful lot of help. Let me ask you three or four questions. Just looking at your statement, I would like you to elaborate on some of these things. Early in your statement you say, "The farm credit system must gear up if it is going to meet the challenge." What do you mean by that? How would they gear up? What should they do?

Mr. GOSE. Well, I think it was stated here awhile ago, that Government farm credit agencies have lost very little money. I agree with the statement that you made that apparently they are very careful with the loans that they make and—

Senator CLARK. You would like to see more money lent through that system?

Mr. GOSE. Yes, yes, and not be afraid to raise the amounts. My goodness, when tractors start at \$20,000 and go on up to \$70,000 to \$80,000 and combines that could be bought for \$22,500 a few years ago are now \$45,000, it is apparent that a lot of money is involved in agriculture. City people, I guess, just can't realize how much money is involved in agriculture. It is no sweat to have \$150,000 invested in machinery alone.

Senator CLARK. Now, at another point in your statement you say, "The Farmers Home Administration services have already deteriorated in recent years", at the bottom of page 2. Can you go into

that in any more detail? Now, Curt Sorteberg is here too, if you would like to pitch in on that.

Mr. SORTEBERG. Yes. I will take that one because that's a contention from the national policy statement.

We have had a lot of reports that the Farmers Home—in many ways I don't think it is intentional, but they are understaffed not adequately staffed. There are backlogs in processing loans. There are also—for young farmers, we hear about very excessive collateral requirements. Now, that might be a statutory situation. At any rate, we have picked this up in our conventions, a concern, a criticism directed at the Farmers Home Administration, mainly related to the wherewithal of staff capacity to serve the needs of the farmers in their area.

Senator CLARK. Now, let's go through the statement. Either of you here feel free to pitch in. I am particularly interested in your comments on S. 2146 and the areas where you feel there are weaknesses. I gather you basically agree with the increase—you say, "We support the increase in lending limits," although you would have preferred to see those raised somewhat higher, but you conclude that it provides a step in the right direction.

Then I would like to look at the areas where you have problems or where you are critical of the legislation because we are going to be considering this legislation, of course, in January or February. You say, "Our main concern is the proposal to remove the interest lid for loans from the Farmers Home Administration." Now, as I understand what this would do, on the first \$100,000, under the present limits, you would maintain the present interest rate, but you would go beyond that in the additional money added.

Let's get an accurate description of just what the bill does, and then I would like to get your reactions to that.

Mr. THORNTON. Well, in the case of the real estate or farm ownership program, this legislation would really set up two programs, if you will; a guaranteed program and an insured program.

In the case of the guaranteed, the interest rates that changed would be those negotiated between the borrower and the lender. In the case of the insured program, this legislation would provide for a two-tier program: on the first \$100,000, the interest rate would be 5 percent. The amount above that would be so-called cost-of-money. This particular provision as adopted by the subcommittee is somewhat different from that submitted by the administration to the Congress. What we originally submitted was authority, in the case of real estate, to go up to cost-of-money and as low as 1 percent; that is to say flexibility in setting an interest rate for the borrower based on his individual need or repayment ability.

Senator CLARK. Well, now, let me try to simplify that so that even I can understand it. You are talking about an ownership loan now. Suppose a farmer wants to borrow \$100,000 under the present system. He can go that high, can't he, under the present system?

Mr. THORNTON. No.

Senator CLARK. What kind of interest does he pay on that?

Mr. THORNTON. Now, all farm ownership loans are made at a straight 5-percent interest rate.

Senator CLARK. Five percent loans; all right. Now, suppose that this bill was passed and the same farmer under the same circum-

stances, under the same conditions, comes in and wants to borrow \$100,000. How much is it going to cost him?

Mr. THORNTON. \$100,000? It would be a judgment call. Are we assuming we also had the guaranteed provisions of this bill?

Senator CLARK. Assuming the bill passes as it is now, what would that same farmer under those same circumstances pay?

Mr. THORNTON. There would be a judgment call made as to whether or not that farmer would be eligible for a guaranteed program, in terms of whether he could pay a market rate interest. Assuming he could not, he would go into the insured program. Under the provisions in the new bill he would get 5 percent up to the first \$100,000, cost-of-money above that.

Senator CLARK. So he may get a rate as low as 5 percent?

Mr. THORNTON. That's right.

Senator CLARK. He may pay all the way up to the market price?

Mr. THORNTON. That's right.

Senator CLARK. So that from a strictly interest point of view—I am not talking about the equity beyond that—strictly from the interest point of view, this legislation is not going to help his situation. He is not going to get it at any better rate than he could before because he can get it at 5 percent now.

Mr. THORNTON. That's correct. The thing that was mentioned earlier about the importance of these provisions is the need to provide for an increase in the total amount of capital made available to farmers for this purpose. For every farm ownership loan application we are able to make we have as many as 3 that we cannot make. In other words, there has been a tremendous shortage of funds for this particular program, and both the package as submitted by the administration, as well as this one, would in fact provide more total amounts of money that could be loaned by the agency for real estate, and we think that's a rather important objective.

Senator CLARK. So you are saying, in effect, that by going to the \$200,000 limit rather than remaining at a \$100,000 limit, that you may indeed be increasing the interest rate in many cases, not in all cases, but in many cases. Actually if you went above \$100,000, you would in all cases.

Mr. THORNTON. That's another part of this. By increasing the individual loan limits, that's also going to create added pressure on the total amount of money available. Again, I would suggest this adds to the case for trying to increase the total amount of money made available for real estate loan.

There is an important feature that I think is being overlooked here, both as it relates to the operating and the ownership programs as provided by the subcommittee bill. In the case of the ownership program this fiscal year \$550 million has been appropriated. If this bill said, "You can make loans for real estate purposes ranging from a cost-of-money basis to a market rate basis", then I would be concerned because there would be great pressures from the budgeteers and others to push us constantly to the higher rates for all of our borrowers. That is not the case here.

The committee in its wisdom said, "We are going to provide FmHA with authority to make either guaranteed and insured loans, but we are going to set them out as separate program

items." In other words, there will be a separate line-item appropriation for the insured program and a separate one for the guaranteed, which I think is very important in avoiding those kinds of problems.

Senator CLARK. Do you want to expand on this statement at all?

Mr. SORTEBERG. A little. I will take a crack at it here. Perhaps the backers of the bill or the writers of the bill have mollific, you might say, intentions; however, look at the student loan program. That at one time was a direct Government loan.

I happened to be involved in that, if you want to just use an example of what can happen and what our fears are. There they shifted from a direct loan program to a guaranteed system. No. 1, I happened to need the money, and I could not get a loan at all. My bank said, well, my grandfather hadn't patronized it, and so, consequently, the guaranteed program didn't even help me, because frankly it became a substitute after a while for the whole Federal program.

Now, remember, we are talking about Farmers Home loans. This is for people that are nearly destitute. This is not the prime people in the borrowing sector. I do think the Federal program has a continuing role in land reform.

I see young farmers suffering terribly. They are the folks who are really looking hard now. I say that, OK, we set up the guaranteed loan. We gradually take the lids off, not much at first, but then where does it stop? It goes on, and it escalates, and before long you have no Farmers Home Administration. You have a guaranteed farm program that is going to have supercollateral requirements. The young farmer is not going to be helped by it. That's our reasoning on it.

Senator CLARK. I see. In other words, you say that you see a trend beginning here which would, in effect, continue to move interest rates closer to the market price and would continue to move them more into the commercial area and less out of the direct loan area, and you are afraid that that trend might continue to a point where the marginal borrower is going to have less opportunity.

Let's take 30 seconds and see what you, as somebody interested in that legislation, think.

Mr. THORNTON. First of all, I share many of the concerns of the witnesses, as far as those kinds of pressures are concerned. I also share their concerns in terms of what it might mean in expanding the agency's family of borrowers. Our current personnel pressures are enormous, in terms of the number of people we have to administer \$9 billion through about 30 individual loan programs now being administered by the county supervisors at the local level. This is causing great strains in that regard.

Senator CLARK. Do you think the guaranteed program would remove some of that problem, or the insured program?

Mr. THORNTON. Well, yes and no. It would minimize some of the loan servicing aspects, but would increase the total number of borrowers and loans made.

It is going to require careful administration, especially with respect to working out good "lender agreements" between the agency and the banks. We are very sensitive to that.

The other thing I just want to very quickly add on the guarantee is, I have some concern as to how much bank participation we can expect under the operating loan program. We are not going to get much in real estate because they don't tend to be long-term lenders. In the case of the operating, unless something more is done to perfect a secondary market, I am not sure how many banks are going to participate under the guaranteed program.

In the case of our larger guaranteed business industrial loan program something has been happening that is rather interesting. We have what we call a lender's agreement between the agency and the bank, which we would also intend here. This agreement would spell out what servicing requirements would be expected of them, which we would monitor. Also borrowers have been getting anywhere from 1 to 1¼ points under market rate in the case of our guaranteed B. & I. loans. We need to continue leveraging the guarantee in terms of getting a better rate for our borrowers.

Now, admittedly the B. & I. loans tend to be much bigger loans. There are some pros and cons here which we do recognize, and what it all really will come down to, if this legislation is passed, is how well it is administered.

Mr. LAWLOR. Senator, could I ask a question before we finish here?

Senator CLARK. Yes.

Mr. LAWLOR. I note we are getting behind here, but I wanted to raise a point. Mr. Gose mentioned that in talking with the Secretary of Agriculture, he was going to hold his corn and beans that he owns. Do you feel that that will help increase the price if more people would do this?

Mr. GOSE. Oh, definitely. I listen to the markets every day, and the most important thing that is coming out is, "There wasn't any movement in the country. The farmers didn't sell any last night." The price goes up 3 or 4 cents. Every time it goes down, there was a little movement.

At one time they just didn't tell us that. Right now this whole thing is volatile. In other words, the pipeline is not very full. The only way they are getting grain is if the farmers let loose of a little of it.

Honestly, our national board met with the President, and Vice President Mondale, and Secretary Bergland last spring and I guess there is no reason that I cannot tell this. We naturally asked for an increase in the target and loan rates. We asked that support levels be up to at least the cost of production, and, of course, we want 90 percent of parity nonrecourse loans, but he told us to be patient. Now, that's what we came out of that meeting with, Senator. He just said for us to be patient.

Mr. LAWLOR. Mr. Gose, the Farmers Union does not own any grain companies or storage facilities itself, does it? It is an organization of farmers?

Mr. GOSE. They promoted cooperatives and got them started, but they are independent now, but they are associated with the GTA—Grain Terminal Association—which is headquartered in St. Paul—Minneapolis.

Mr. LAWLOR. Would these grain companies like to see low prices on grain?

Mr. GOSE. The other thing that they are supporting is that the co-ops be able to take out loans for their members.

Mr. LAWLOR. But the grain companies that are marketing our grain overseas and selling it, they would prefer to see grain prices as low as possible where they have incentive to do this?

Mr. GOSE. Oh, sure. We just found out the last time I was in Washington that our NFU secretary was down in Argentina. In December I am going to Minneapolis and meet with the Canadian people. All of the other major exporting countries—Argentina, Australia, and Canada—are perfectly willing and anxiously awaiting for us to take the lead in getting the price up because we have 52 percent of all the exportable grain. Our loan becomes almost the world price.

Now, when our big grain companies can buy the grain at \$1.60 per bushel for corn and \$4.50-\$5 per bushel for soybeans, they turn right around and sell the grain to Japan's Government. In all of the other countries, the government does the dealing in the grain, so these grain companies when they were over in Japan were selling the corn to the Japanese Government for \$4 a bushel. Then the Government was turning around and selling it to their farmers for, say, like \$6 a bushel. In other words, we were subsidizing—and I don't mean that our Government was—the Japanese Government. Beefsteaks over in Japan, which the Japanese have just recently begun to eat in any quantity, are \$10, \$12, they tell me, per pound. You know, \$50 cattle, \$40 cattle, I just sold some for \$42. Fifty dollar cattle is not a bit too much for cattle. Actually it should be a little more.

Senator CLARK. I am going to have to cut this off just because we have only 15 minutes more.

Mr. LAWLOR. I just wanted to make one point more, Senator, if I could. I wonder if the Farmers Union was aware that in 1976, and maybe 1975, the grain companies, the elevators, at least where I farm and have my beans and corn, the elevators quietly switched to a new procedure where title passes immediately to the grain company upon the delivery by the farmers of his corn and soybeans to the elevator.

Now, when that farmer thinks he is holding his corn and beans, he is not. Previous to that the corn and beans could be moved but could not be sold until the farmer released title. The new agreements that I received from my elevator stated, "Mr. Lawlor, you don't own these commodities any more, but you can some time within the next 12 months come in and agree to receiving the dollars we offer you on your corn."

Shouldn't farmers be made aware that when they bring their corn into the grain elevators, under these conditions, and do not sell them, that they think they are holding them, but they are not? That's the point I want to make.

Mr. SORTEBERG. Just a short comment on that. The Farmers Union is very aware of that, and that is why we have always been a strong supporter of on-the-farm storage. You know, you do have a warehouse receipt, and they are going away from the warehouse receipt from the commercial houses, but we don't feel very easy even having that.

I agree. We really have supported a good on-the-farm storage program because I think then that farmer can at least feel that the grain is out there and he can see it, and he knows they aren't playing with it. It seems to me that we would surely not disagree with that. We are aware of it, but I think the way you deal with it, at least we feel, is really going to have to have that storage on the farm.

Senator CLARK. Good. Excellent statement. We appreciate it very much.

We are going on now to our last witness, John Chrystal, banker from Coon Rapids.

Mr. GOSE. We thank you very much, and we didn't mean to take so much time. Sometimes I go to conventions and sit there 2 or 3 days talking these things over.

Senator CLARK. Glad to have you.

Mr. LAWLOR. Senator, While Mr. Chrystal is coming up, could I insert something in the record? I do have the information on the previous testimony of Leland North.

Senator CLARK. Right.

Mr. LAWLOR. We wanted to know the number of banks participating in SBA's financial assistance programs. In the last fiscal year, Senator, there were 362 out of 760 banks which participated with SBA here in the State of Iowa.

Senator CLARK. Good.

Mr. LAWLOR. A little over 50 percent.

Senator CLARK. Thank you.

Mr. LAWLOR. Then the other question for the record during W. S. McCaull's testimony, the percentage of declines on SBA farm drought and disaster loans is 29 out of 300, or 10 percent as of this date.

Senator CLARK. That's good to have.

Mr. Chrystal, proceed in any way you think appropriate.

STATEMENT OF JOHN CHRYSTAL, BANKER, COON RAPIDS, IOWA

Mr. CHRYSTAL. I would like to say a couple of things first in reaction to some of the testimony. Mr. Lawlor, there are only 640 banks in the State of Iowa. I was superintendent of banking for 7 years in the sixties.

Mr. LAWLOR. I stand corrected. What did I say?

Senator CLARK. 760.

Mr. LAWLOR. I'm sorry. I misread my numbers. I have 660, but there are 640?

Mr. CHRYSTAL. Yes.

Mr. LAWLOR. We are better off than we thought because we had 360 banks participate last year.

Mr. CHRYSTAL. My impression during those years in the Department of Banking was that the use of the SBA by banks may not be every year, but that the use of the SBA by banks in the State of Iowa is almost universal.

Mr. LAWLOR. Yes. It is much higher than that if we look at it over the years.

Senator CLARK. I see. This is any given year?

Mr. LAWLOR. This is just this fiscal year.

Mr. CHRYSTAL. I think it is almost universal. There might be an individual banker who may not use it, but I think you could almost count on your hand the people who never use SBA.

The reason that banks have a higher percentage of loan loss than, for instance, the PCA, is that agricultural loans tend to be much lower in loss than business loans, and on business loans you can have an inventory which disappears or accounts receivable which are paid and not paid on the loan, and those kinds of things, so the risk with business loans is very much higher. I don't know about the liquidity of Iowa banks this year.

The SBA loans, disaster loans, the FmHA loans, and the emergency payments have been a godsend, not only to farmers, but to bankers. We don't know as yet what that volume is going to amount to, how it is going to be paid out. I really feel that if the farmers take advantage of those programs, that the liquidity problem may not be bad in the next 12 months, but if you make loans, it really doesn't make any difference if they are 3 percent or 15 percent—it obviously makes a great difference—but the difference is whether or not the principal of those loans can be repaid, and the only way they are going to be repaid is from profits.

I am connected with five banks in western Iowa, all of them in areas which grew from zero to 40-bushel corn.

Senator CLARK. That grew what?

Mr. CHRYSTAL. Grew from zero to 40-bushel corn in the areas where traditionally the yield is 100, so it is a very serious loss, and in a good portion of that area, the farmers have suffered cattle losses for the previous 4 or 5 years. The SBA has done a marvelous job with greatly inexperienced people in getting the loan program going. I am still unclear, but I don't know how the business loans connected with the drought are going to proceed. We have really not reached that point yet, and I am frankly rather frightened by the time and the rules of the game.

I don't question the desire of the SBA disaster people to make the loans, but we are so overcrowded that we are making dates at night and on Saturday to help the farmers fill out the loan applications, and we have not really approached the business loans yet at all.

The flowback of the money is just beginning, so I think it is too early to tell. The next year from now is when I think that the agricultural credit will be in difficulty with problems of not enough money to repay those loans.

One of the strange things I see is that the Farmers Home Administration has a network of offices around the State, and I think it would be easier and would have been easier had that network of offices been used. The FmHA has tended to deal, as somebody said here before, with the smaller, less financially able, perhaps less sophisticated farmer, and so they chose to go out into the country. I no longer have very many operating relationships with borrowers, but I do hear my loan officers say that maybe the bureaucracy, maybe rules and regulations have made it more difficult to deal with the FmHA.

Senator CLARK. Just the redtape, probably?

Mr. CHRYSTAL. The redtape of it. The SBA has improved that situation, rather than seeing it deteriorate. I hear some criticisms

of FmHA from loan officers, but I think that while I am here to praise the Government for making these loans, we have got to find some way to have more profit.

You mentioned briefly the most favored nation, changing that system. If we were able to sell on credit, to review that whole policy so that we could issue credit for the purchase of American grain, then we would have an opportunity to see that grain go higher. Everything, in my opinion, is based on the ability to earn money to pay back loans in the years ahead.

I think one of the things we will need, if credit does become gigantic in the years ahead, is we are going to need a secondary market for small banks to dispose of these loans so that they can continue. The banks with which I am connected have about \$125 million in deposits. I suspect 75 percent of the loans are made to operating farmers, and our relationships with the Government agencies have always been good, and they have been most helpful to us, but if those are going to become, in effect, nonoperating loans but kind of capital loans for operating bases, and then finally the well goes dry, there has got to be some place to shove those loans off for warehousing so that you can continue to operate on a traditional lending practice with farmers. I think that's going to be a very necessary thing.

I guess that of the things that have been said here this morning, which you didn't touch on very heavily, is that I would be interested in the most favored nation to increase the exports. It seems to me that if we raise the price of corn or the price of any kind of products to a level that it can't move in foreign commerce, then we will be back at those points of criticism of the fifties, and where we just have mountains of grain and no place to get rid of it, other than through foreign aid.

That's all I have to say, I guess.

Senator CLARK. Good. Well, fine. I would like to have you expand just a little in a basic way, for somebody that is not an expert in this field, as to why are the regular—to say nothing for a moment of the disaster loan programs—but why are the regular loan programs of the Farmers Home Administration, or the SBA as they get into this business, important to farmers, and why are they important to bankers? You say that they are of great importance to both farmers and bankers.

Mr. CHRYSTAL. For instance, the business loans of the SBA—there is a small business in a small town. The smalltown banker and the town and the businessmen want to have that succeed, so they employ people who will deposit money, who will buy things, and all that sort of thing. A bank really can't loan operating money on a long-term basis. The Government decides that that was an adequate way to loan money, and so they came in and guaranteed an operating loan or other kinds of loans, but loans that would not be normal commercial bank lending, and changed the basis of the money, and so they allowed the businessmen to be in business. They allowed the small town to have employees, and they allowed the bank to help itself and the town.

The FmHA really has done a marvelous job by taking people and giving them some added kinds of management that commercial lenders couldn't offer, or it they were offered by them, they were

unacceptable to the borrowers; for instance, getting into the living expenses of the borrower.

They have allowed again operating capital to be on an interim or long-term basis, and they have let young people spread that first bunch of money over a longer period of time. They have been really a godsend to rural America.

The SBA has only been in for a year. I think we only have in the banks that I am connected with, I would suppose, not over a half-dozen loans, SBA loans. I don't understand the Congress as well as you do.

Senator CLARK. Don't be sure.

Mr. CHRYSTAL. It seems to me that those kinds of loans should naturally have been made by the FmHA. I don't understand why they weren't, other than that I think the FmHA is not as easy to work with as it was 10 years ago, and that is spoken as a non-worker with the FmHA, but when I was a loan officer, I had no trouble with them. Now I hear criticisms, and maybe it was simply that we had a Congressman who was chairman of the small loans, and he could be quite effective in that area and could move with great speed.

Senator CLARK. Let me pursue an absolutely different area, but really much the same kind of think you are talking about. We have been talking about the regular loans. What is your feeling about the disaster loans? Are they effective? Have we done anything wrong with those? What about the interest rates? What are your impressions about the disaster loans?

Mr. CHRYSTAL. So far, I would have to say that they seem to be working well. We have only gotten maybe four or five—I don't know how many applications we are going to have, but we are going to have hundreds. One thing about the FmHA that I am slightly disturbed about is since you are dealing with the most unsophisticated borrower and that due date is December 2, I am scared to death that we are not going to get the people that ought to be applying to apply by December 2. That's a very few days away. At least in our case, you have got to get them in the car and drive them there, perhaps, because we are not sure that they are doing it. We have written them a letter, two letters, and I am not sure that it is happening, and if it doesn't, those people are going to need money, and they are not going to have applied.

Senator CLARK. Well, now, we had a couple of witnesses yesterday who said that they didn't think we ought to have 3 percent disaster loan money for people who could borrow—who couldn't show that they couldn't borrow commercially, or could borrow commercially, in other words, from commercial lending areas. Do you have any opinion on that?

Mr. CHRYSTAL. It seems to me that that's Government policy. The Government has decided that the agricultural economy was so important that they were going to do that. I think the fact that people have very large net worths does not mean that they can pay their debts without the liquidation of some of those assets. It is one thing to have a \$2,000-an-acre farm, but if you can't make the mortgage payments or the payments on the lost operating capital, then you have to do something else, and I think the Government

has decided that they are going to phase this disaster year by that means.

Senator CLARK. Of course, we do it in nonfarm areas.

Mr. CRYSTAL. Yes.

Senator CLARK. I mean if the business experiences a tornado or disaster, we certainly do it.

Our time is very short. In fact, it is over. Let's go ahead and take a couple of questions from each of you, if you have any.

Mr. LAWLOR. John, I just want to say that I appreciate the generous comments that you have made about SBA.

Mr. CRYSTAL. You haven't made all the loans yet.

Mr. LAWLOR. I know.

Mr. CRYSTAL. Including mine.

Mr. LAWLOR. I know. We are still in the haggling stage here, John, because we are just really getting started. I did want to make one comment. You said you thought FmHA should be making some of these loans that we are making under our regular business loans.

Mr. CRYSTAL. I am just surprised with the vehicle that the Government used.

Mr. LAWLOR. Let me mention, though, to you, John, that as I began in the testimony here today, fully half of the farm loans we have approved today I think would still even under the new legislation not be eligible for FmHA programs.

Mr. CRYSTAL. But they could have done that.

Senator CLARK. By changing the eligibility.

Mr. CRYSTAL. Yes.

Mr. LAWLOR. Well, these were swine-farrowing loans, and a typical one—and I am sure you have some through your bank—is a group of three or four or five, six farmers will get together, form a corporation, get 5 or 10 acres, build a farrowing house out there, and that still would not be eligible, I don't believe, under the Farmers Home Administration program.

Mr. CRYSTAL. Yes, I agree.

Mr. LAWLOR. If half our loans are running like that, well, maybe it will come closer to 90 percent later that they will be getting. We won't be in competition, really.

Mr. THORNTON. I would just like to mention for the record that the President shares some of your concerns about SBA getting into the farm-lending business. We will have some proposals to deal with those questions come January.

I would like to ask you one additional question in terms of this legislation. I did not mention in the case of the guaranteed provisions of this legislation that this legislation would also eliminate the so-called graduation requirements that are now a part of our insured programs. In the case of guaranteed loans, the money would be provided by a private lender. We would guarantee up to 90 percent. The credit-elsewhere test would apply. Graduation would not apply.

In the case of banks, I would assume the whole key of their participating in this kind of a program again would depend on what can be done to develop a secondary market.

Mr. CRYSTAL. Absolutely.

Mr. THORNTON. Especially as it would relate to any kind of real estate loans, let alone any kind of operating money, is that correct?

Mr. CHRYSTAL. Especially the real estate, and if there are going to be long-term operating loans, a secondary market will be also very helpful. I think it is just essential.

Also rural housing loans need a secondary market very badly. We are now lending \$40,000, \$50,000, \$60,000 on houses in small towns because the traditional lenders really can find other places for their money at equal rates, and we need some way to get rid of those things.

Mr. LAWLOR. John, are you suggesting a Government-structured secondary market rather than private industry?

Mr. CHRYSTAL. Yes.

Mr. LAWLOR. They are not adequately equipped to do the job. I know there has been a lot of interest in the last 12 months in that.

Mr. CHRYSTAL. It is not serving the need.

Mr. THORNTON. This legislation also does contain a provision which would permit the Secretary of Agriculture, if need be, to create a secondary market for guaranteed paper. We do not see our initiating that, however, unless there is a very strong case for it.

Senator CLARK. Let me ask one question of Jim. I am not embarrassed to ask this since you haven't been in the Farmers Home Administration very long. John Chrystal suggests two things, that the loan officers feel that there are increasing difficulties with the Farmers Home Administration loans because of additional redtape, and that his impression of the relationship with Farmers Home Administration is that there has been somewhat of a decline in effectiveness. I think that's a fair assessment. What is the department's own assessment of itself in terms of these directions?

Mr. THORNTON. Well, acknowledging that we are rather new at this in terms of those of us that have now been asked to take on the responsibility of administering the agency, we have discovered a number of cases where we think we have gone too far in terms of too many requirements. We already have moved in a number of cases to loosen up some of those procedures to facilitate faster loan making. In fact, we have several more coming out next week, but we are constantly trying to look at ways to free-up the system, keeping in mind that we are working with more limited resource borrowers that tend to need a lot more supervision. We also have the problem of the tremendous pressures that have been put on our people in terms of proliferation of programs which they have been asked to administer, many of which are quite different in nature. They require the county supervisor to be an expert in farm lending, home lending, water, sewers, and on and on and on.

In that connection, we have one proposal that we are now working on that we think will greatly help the situation. We are now examining the possibility of moving all of these more complicated loans, such as water, sewer, community facilities, and so forth, up to a district level, thereby freeing county personnel of those more complicated loans so that they can concentrate all of their time on farm lending and individual home lending. We would hope that this will be a major contributor toward providing for better service.

Mr. CHRYSTAL. We think that farm lending has suffered to the benefit of other kinds of FmHA lending, and that the attitude of the county officers is not as good for farm lending as it used to be.

Senator CLARK. That movement might make some difference.

Mr. CHRYSTAL. I hope so. I hope so because we have nearly an antagonistic relationship.

Mr. THORNTON. With the provisions of the new farm bill and some additional provisions we have discussed here, we hope to develop a range of new strategies for our county personnel, related to farm lending—to help them in their work with borrowers in terms of offering them a variety of ways in which they should have a good shot at becoming viable.

Senator CLARK. Thank you very much, Tom.

Now, our time is over by about 10 minutes, but I do want to give anybody an opportunity to comment on anything they would like. Is there anybody who would like to say something who may have come today? Yes, sir.

Mr. POWERS. I would like to make a comment.

Senator CLARK. Would you give your name?

STATEMENT OF EARL POWERS, DEFIANCE, IOWA

Mr. POWERS. Earl Powers, Defiance, Iowa. In regard to the collateral requirements on these drought loans, now, the SBA, as I understand it, will file second liens on whatever collateral is available. If the Farmers Home Administration makes a drought loan, they want a first lien, and so they make the small loan on a farm line and they want a first lien, and then the bank is junior, and then how do we finance the farm operation next year?

Senator CLARK. I am not sure you are understanding that exactly.

Mr. THORNTON. Let me just defer that question to Mr. Laures.

Mr. LAURES. All right. If our county supervisor has led you to believe that that's what we do, we have a need for improved communication there because the first thing we look to is to their real estate for security, and we will take first, second, third, fourth, as long as there is some equity in the real estate.

Now, on chattels, if you are staying as the main line of credit, we have found it works out more satisfactorily if we could take selected items from the chattel security and keep off of the main line so that we wouldn't have a conflicting security interest. If that isn't satisfactory to you, we could work out some other arrangement, and we could have a junior lien on that too, if that is the best arrangement. We have to look at each case individually. I hope that answers it.

Mr. POWERS. The selected items are usually the best collateral, which he mentioned. They select this and this and this, and you get down to the end, and there is no collateral left.

Mr. LAURES. We would have to work that out on an individual basis then with him, and maybe he is negotiating a little too hard with him.

Mr. POWERS. Why can't you do like the SBA?

Mr. LAURES. We can do that.

Mr. POWERS. Just go ahead and file a junior lien and leave things as they are.

Mr. LAURES. Yes, as long as you, as the primary lender, do not feel that we will have a conflicting security interest in there and foul up your future lending, so we can go either way, and most lenders prefer that we take selected item from the chattel security.

Senator CLARK. Other comments or questions? If not, we thank you very much for coming.

[Whereupon, at 11:40 a.m., the subcommittee recessed, to reconvene at 2:30 p.m., in the Prairie High School, Cedar Rapids, Iowa.]

CHANGES IN FARMERS HOME ADMINISTRATION LOAN PROGRAMS

SATURDAY, NOVEMBER 19, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Cedar Rapids, Iowa.

The subcommittee met, pursuant to notice, at 2:30 p.m., in the Prairie High School, Hon. Dick Clark, presiding.
Present: Senator Clark.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. The hour of 2:30 almost having arrived, we will go ahead and start. This is a meeting of the Senate Agriculture Committee. This is the fourth in a series of hearings that we have held the last couple of days, starting in Council Bluffs yesterday morning, and in Sergeant Bluff yesterday afternoon, and Ankeny this morning, and the hearing this afternoon. So this will complete the 2 days of hearings of the Senate Committee on Agriculture, Nutrition, and Forestry. The topic is credit.

We want to look particularly at the problems involved, to see if there is now a credit crunch, and to see what we might do about it. We want to look at traditional sources of credit and, we want your comments on a specific bill that is now before the Senate Agriculture Committee, S. 2146.

Copies of summaries of that bill were mailed out with notices of the hearing. There are a number of additional copies over here on the table, if anyone would like a summary of the bill.

We would like to hear opinions on that, if you are prepared to do that, and then beyond that, we are very interested in finding out generally what the credit situation is, and what it may be that we should do about it.

Basically, this bill, S. 2146, would increase the loan limit on Farmers Home Administration farm ownership loans from \$100,000 to \$200,000. In other words, we double the farm ownership loan limit, and we would go to \$300,000 in a new guaranteed loan program. Additionally, on farm operating loans, the non-real-estate loans, which are now limited to \$50,000, we would again double that limit to \$100,000, and to \$200,000 for guaranteed loans. So it would basically double the amount that a borrower could borrow under the Farmers Home Administration ownership and operating loans, and it would provide an additional program of guaranteed

loans. It also makes some other technical changes in terms of these loans that we could talk about.

In addition to your comments on S. 2146, we want particularly to hear from farmers and bankers, anybody that has anything to say, because this is an open hearing, and anyone that cares to fill out a card here, we would welcome to come up and give us any views you have about the whole range of problems dealing with farm credit problems.

Now, much of rural America, we believe, based on these hearings and other information, is approaching and in some cases, already in a credit crunch—a crunch that is already upon us, and which undoubtedly will worsen as farmers plan next year's crop. Farmers across the Corn and Wheat Belts are in a greatly weakened financial position now as a result of this year's corn and wheat price situation, and as a result of very persistent low cattle prices. For thousands of farmers these problems have been worsened obviously by the very severe drought.

Indeed, I think it ought to be said right at the outset that the basic problem is not credit. The basic problem is low prices, and, of course, the solutions have to be in better market prices. Just to loan someone more money doesn't solve any problem. It may help to tide someone over.

But in our discussions here today, I hope we will remember what the essential problem is and what the essential solution is, and those solutions obviously involve a number of things, most importantly I think, increasing or trying to increase our export markets. But the weakened financial position of a large number of farmers means loan repayment difficulties. We have heard from several people who are experiencing that personally themselves.

Now, there are large increases in farm lending, changes which have sharply reduced the liquidity of many rural banks, at least some have so testified to that effect. Many farmers had, of course, stored their 1976 grain crop. That asset was carried on thousands of balance sheets at well above \$2 a bushel, and the cash flow projections of farms also priced corn at more than \$2.

Current low corn prices have forced bankers to require that their borrowers reflect on their financial statements the sharp decline in the value of the corn that they hold and the corn that they expect to grow. In many, many cases we are told that farmers are being asked then to increase their borrowing on their land in order to finance their production.

Federal Reserve statistics show that the credit crunch many individual farmers face is rather widespread, and it is rapidly worsening. Let me just cite a couple of examples.

In January of 1976, some almost 2 years ago, 22 months ago, for example, the Federal Reserve surveys in the Western Corn Belt showed few banks, in fact, less than a third, reporting a slow rate of farm loan repayments. Last month a great many banks, as many as three-fourths of the banks in some of the Federal Reserve districts, were reporting a slower rate of farm loan repayments. The same surveys reported a sharply increasing demand for farm loan renewals, and, indeed, we had the president of the Production Credit Association Bank testify this morning in Ankeny. He said that he felt that according to their estimates about 25 percent of

their borrowers were beginning to experience some kind of problem. It doesn't mean that they are all in arrears and so forth, but it means that about a quarter of their outstanding borrowers are experiencing some kind of difficulty because of the price situation.

Now, demand for more and more credit for farmers appears to be straining the capacity of lending institutions, at least in some cases.

For example, in the State of Iowa, Federal land bank loans outstanding increased by 23 percent during the first 9 months of this year. Production Credit loans outstanding increased by 21 percent during the same period, and totaled almost \$1 billion. For farmers across the Nation during the first 9 months of 1977, farm debt increased by \$15 billion, a record increase for such a short period by a very sizable margin. Furthermore, the debt increase was often not in proportion to increases in assets. Debt increases accrued to farmers in proportion to their production, while the increase in assets was in large measure due to the continued increase in the value of land. To individual farmers the seriousness of the current situation depends upon their ownership of land. Iowa farmland values continued to increase during 1977. I notice in the statement we printed it says by 35 percent, but I don't want anybody to pick that up and repeat it, because it's not 35 percent in the first 9 months of this year, it's 35 percent increase from February of 1976 to February of 1977. That rate has actually slowed down some since.

So we have a tremendous demand for farm credit facing Iowa farmers this year at least, so we have been told. That's part of the reason we are here, to try to get a better understanding of that from people here who may be closer to the problem, and we are just beginning to get into financial planning for next year's crop.

A major purpose of our hearing today is to get your views on the extent of our credit problem, the effectiveness of our credit institutions in dealing with that problem.

In rural America, much as in urban America, we have a very well developed set of institutions designed to provide agricultural credit. These include commercial banks, insurance companies, individuals who hold well over half of our farm debt, and both land and operating capital, and the farm credit system with its land banks and Production Credit Association, which have direct access to the Nation's capital markets, and who are not limited by reserve requirements in the same way that commercial banks are limited, and the Federal lending agencies themselves, including the Farmers Home Administration, the Small Business Administration now which can loan at favorable terms to farmers who are unable to obtain credit elsewhere, kind of a credit of last resort.

Indeed, if you are turned down by the Farmers Home Administration or the SBA, you are the end of the line. There is no place else to go. So they are a credit of last resort.

A major part of our purpose here today is to attempt to determine whether or not these institutions, all of these institutions that I have talked about, are adequately serving the credit needs of Iowa farmers during this particular period of need. To do that, we will be asking anybody, farmers, bankers in particular, but really anyone, for their evaluation of any changes that they think we

ought to be making, or whether they feel that the situation is adequately covered now.

We have a great deal of ground to cover, and I would ask each witness to be relatively brief, but I think we will have 10 minutes or so for each witness for questions and so forth, but if anyone has prepared remarks, I see someone turned in some testimony for the record, we would be glad to make those a part of the record at any point.

Last, I want to mention the people who are sitting here at the table in addition to Mr. Joslin on my left, who will be our first witness, are Bill Motes on my immediate right, who is my assistant in Agriculture. At the far end is Conrad Lawlor who is the Regional Director of the Small Business Administration in Kansas City, formerly director here in Iowa and is an Iowan, and Jim Thornton, next to him, who is the Associate Administrator of the Farmers Home Administration. That means that he is second to the Administrator for that agency, and, of course, both of these agencies loan an enormous amount of money. The SBA just now coming into the farm business, the Farmers Home Administration in farm loans above now totals about \$2½ billion. So we are pleased to have them here to listen and to contribute to the discussion, to ask questions and so forth. I think what we will do is take 3 or 4 minutes now and ask Jim to discuss briefly this bill we are holding a hearing on today, and anything else he might want to add about the Farmers Home Administration, and then Conrad Lawlor briefly about what they are now doing in the farm credit business, and then we are going to turn to Bob Joslin and other witnesses.

So, Jim Thornton, you go right ahead.

**STATEMENT OF JAMES E. THORNTON, ASSOCIATE
ADMINISTRATOR, FARMERS HOME ADMINISTRATION**

Mr. THORNTON. Thank you, Senator. Along with the Senator and others, we too, are concerned, especially in the grain areas where we are now experiencing relatively low prices, as to what that's going to mean and does mean for cash flow problems for many farmers, including a lot of our regular Farmers Home borrowers.

In that regard, we stand ready to work with our borrowers as well as others that might be referred to us during this time of stress by the commercial lenders or by the farm credit system.

As the Senator indicated, we are a credit of last resort. That's something we continue to impress upon our county personnel with respect to reaching out and doing everything possible to work with borrowers that come to us for assistance. We will do that again and again, because if they walk out our door and can't get help from us, that usually means its an exit out of the business, not just out of the office.

As indicated, Farmers Home is in the business to supplement and not supplant credit that's available from commercial lending sources, including the farm credit system. We are basically here to support those systems, not to compete with them. But when they cannot meet those needs, we stand ready to do what we can within the confines of the law and regulations with which we operate as provided to us by the Congress; as well as the funds provided by

Congress, which occasionally also places restraints on what we can do to be helpful.

Our farm lending activities, as the Senator indicated, now represents about \$3 billion of our annual budget. Combining our EM program appropriations this year, along with other programs, we will probably spend nationwide a total of in excess of \$9 billion. I mention this only to dramatize the problems this agency has as it affects farming—and that is, we are operating close to 30 programs, most of which are handled at the local county supervisor level. It has created enormous strains on county personnel in terms of not only being knowledgeable about all programs, but also being able to handle that amount of activity. We are feeling the hurt of all of this activity both as it relates to agriculture lending and nonagricultural lending.

Now I will try to go through the major highlights of this legislation which has cleared the Subcommittee on Agricultural Credit and Rural Electrification. It will probably go to the full committee right after the first of the year. It's cleared hearings in the House, but there's been no markup by subcommittee or committee.

It represents combined submissions by the administration and by several members of the Congress. As already indicated by the Senator, there will be a basic doubling of individual loan limits for farm ownership and farm operating loans. In addition, there will be changes made, at least in terms of added authority given to the agency to increase the interest rates that can be applied in the case of both farm ownership and farm operating loans. That is not to suggest, however, that these authorities to increase the interest rates will mean that all future farm ownership loans will be at a cost-of-money rate. It will not. We will still be able to make 5-percent loans to some borrowers who basically need a deeper subsidy loan.

The administration in this regard submitted a package a little different from what this legislation now contains; we could have gone under the proposal submitted by the administration as low as 1 percent on the insured.

The subcommittee bill does add, which was not submitted by the administration, a separate guarantee program for both the ownership as well as the operating programs. And some of us feel that would add at least some potential for making more capital available to many borrowers by utilizing again the private lending institutions and by guaranteeing funds provided by them. We recognize there will need to be some additional work done probably in the case of getting banks to get into real estate business, in terms of the secondary market. That may also be true with the operating.

In the case of the operating, the bill would permit us to go up from cost of money, which is currently the case, up to negotiated interest between the borrower and the lender. Again, we would apply that kind of authority on a judgmental basis. We could still offer loans at less than the negotiated rate in terms of insured loans.

This legislation also contains some rather important technical changes. For instance, currently under our regular programs we cannot make loans to farmers or farm families that have incorporated or have gone into limited partnerships. This legislation would

change that and permit it to be done. Of course, we can do and are doing that with respect to emergency or disaster lending activities.

It also would make some technical changes in the county committee system. The only change that would be made there with this legislation would be removing their involvement in setting individual loan limits in terms of the loan that would be required for an individual borrower. It would still retain the use of the committees, which is very important in our operations, in determining eligibility of the farm borrower.

It would also eliminate the so-called total indebtedness feature of our program, which is now \$225,000 and would let the Secretary establish the limit administratively in the future rather than doing that periodically by law.

This legislation also would extend by 1 year the emergency livestock program, which now is due to expire in September 1978. The administration will have some additional recommendations probably to the Congress before they go into the full committee markup as to whether this program should be extended, and if so, in what form. We are now studying that program.

The legislation contains some provisions for changing the disaster loan program of the agency. Whereas now loans can be made at 3 percent on the first \$250,000, 5 percent over \$250,000 of the actual loss, and market rate above that, this legislation would change that to basically a two-tiered lending program; that is, 3 percent for those who could not get credit elsewhere, and a cost-of-money rate for those who could. With respect to the administration's position on this, we have some problems. We will be working with the committee and making some additional recommendations on this particular program early next year. The President has already indicated that he may go for a change in the current program to a straight 5-percent no-credit-elsewhere test which involves some other implications that will affect both SBA and Farmers Home.

In brief, those are basically the highlights of the existing legislation in terms of S. 2146. Let me just mention one important thing provided in this bill that I failed to mention. It would also give us some very needed flexibility to restructure and to consolidate the notes of many of our borrowers. At present we have three and four separate notes at times. Passage of this bill will permit us to consolidate those notes and to basically go forward 7 years under those consolidation plans; and with that authority, combined with some recent authority we were just given under the Farm Act, namely authority to defer both principal and interest. I think that that opens the door for us to develop some very workable strategies with many borrowers, especially during stress periods,

Just a footnote on the emergency lending activities here in Iowa. We currently have received about 2,000 applications here in Iowa. We have had meetings here in the last 2 days with the State staff, and with the district directors, and they will soon be meeting with all the county personnel throughout the State, to accelerate the processing of those applications. And we will also be sending in some team leaders from Washington and elsewhere that have been working in other States to facilitate processing of those loans so we can get the checks back to the farmers that need them, not only to

meet their payments, but in some cases to get some money back into the banks' hands.

One thing I wish to remind everybody on in that connection, however, in case any of you or your friends or neighbors may be affected, and that is the filing deadline for these loans is now December 2. They must file by that date if they are going to come to us for assistance under this program. We can settle the matter of what the actual losses are after that date, but they must have that application in by December 2. We already obtained one extension earlier on this filing date, and we just barely made it. It was quite a battle to get that extension, and I do not anticipate being able to get another one. You should urge anybody who has not filed to do so if they wish our assistance. And with that, Mr. Chairman, I will await any questions.

Senator CLARK. Good. Conrad Lawlor, you are just now getting into the farm loan business. Do you want to describe what your activities are there now before we begin the hearing?

**STATEMENT OF CONRAD LAWLOR, REGIONAL DIRECTOR,
SMALL BUSINESS ADMINISTRATION**

Mr. LAWLOR. Yes, Senator Clark. I would just like to mention briefly the two areas that the Small Business Administration is involved in agriculture. Beginning last January, we first began making loans to farmers here in Iowa and throughout the United States under our regular business loan program. Prior to this, Senator, we had an ineligible situation when we came into the farming area. Farmers were not eligible for SBA's program, and on January 1 farmers were, as of that date, considered eligible small businesses. If they had a farming operation, and if their gross receipts were less than \$1 million per year, they would be eligible for SBA business loan programs.

Primarily, we make loans in this area through commercial banks with a guarantee, and SBA guarantee up to 90 percent of the proposed loan that the banker would like to make to their customer. These loans are used to purchase land, buildings, equipment, farm machinery, also used for operating expenses, and in some cases to refinance existing debt.

I think we should note that since we have been in this program, January 1, we have made \$11 million in loan guarantees here in Iowa, and it should also be noted that about 50 percent of these loan guarantees, farm loan guarantees were for the purpose of farrowing, building farrowing houses, swine farrowing, and also breeding hogs, the purchase of breeding hogs, and construction and expansion of this type of facility. This appears to be an area of great interest to farmers in this area, and the banks are bringing these types of projects to us.

The second highest number of loans were made in the purchasing of adjoining farmland by farm operators.

Third, in purchase of machinery and equipment, and fourth, to provide short-term working capital or seasonal line of credit.

Now, to pass off of that program into the drought disaster loan program, approximately September 1 almost all of Iowa except seven counties, I believe, were declared disaster areas because of the drought, and SBA first begun making loans to farmers under

the drought disaster declaration. We have handed out approximately 11,000 application kits to farmers here in Iowa, and have 1,100 applications back which we are processing. I do want to correct the record again, Senator. I just received a phone call from my office in Des Moines. They said the figures that they had given us in earlier testimony in Des Moines, out of 300 approved loans, 29 were declined, and then they went on to say but 20 of those were not farm loans, they were business, commercial business loans that were agriculturally related.

Senator CLARK. I see.

Mr. LAWLOR. And so this turns out, we really declined only 9 out of 300 or approximately 3 percent.

Senator CLARK. Of the applicants that you processed.

Mr. LAWLOR. Yes; of those loans that were processed, approximately 3 percent of the loans were declined as of this date, which is a very good figure, I believe. I am much more pleased with that. The disaster loan program, of course, is a direct Government loan program. The interest rate I believe is the same as the Farmers Home Administration, 3 percent for the first quarter of a million dollars and 6½ percent if the loan exceeds a quarter of a million dollars. There is no limit, and there is no test for credit, Senator Clark, under our disaster loan program for farmers. And the use of proceeds, 50 percent to pay current outstanding obligations, and the balance should be used to help for the new crop, used for that purpose. None of the funds, however, borrowed from the SBA can be used to pay off USDA or any of its agencies.

I think that pretty well covers our two programs that we are involved in agriculture finance, Senator, and, of course, I will be glad to answer any questions as they may develop.

Senator CLARK. All right. Thank you very much. Just two other quick things. One, we would like to put in the record at this point a statement from The Merchants National Bank in Cedar Rapids, who have given us some written testimony that looks interesting and valuable. So put that in the record at this point.

[The letter referred to above follows:]

MERCHANTS NATIONAL BANK,
Cedar Rapids, Iowa, November 17, 1977.

Hon. DICK CLARK,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CLARK: During the past four years the banking system and existing farm credit programs have adequately served the needs of our area farmers. This has been a transitional period for Iowa agriculture with rapidly rising farm land prices coupled with extreme increases in cost of production expenses. The results equally strain the financial system and the farmers' ability to repay. We see imminent problems with high loan ratios of 70 percent to 90 percent in country banks and a need for renewals adversely affecting the agricultural banks' liquidity. We can foresee the adverse effect on next year's seasonal production demands.

As recently as November 8, 1977, the Federal Reserve Bank of Chicago, through Circular No. 2634, referred to the potential need for "adjustment credit" in agricultural banks in the following cautious terms:

"Adjustment credit is primarily intended to accommodate relatively short term needs occasioned by local credit needs or unforeseen deposit declines, or a combination of both. However, it is not intended to facilitate money market reinvestment such as sale of Federal funds or the purchase of securities, for example. The term "adjustment credit" implies that the credit is to be used as temporary funding and not as a part of the ongoing funding base of the bank. There may well be legitimate

peak funding needs for many agricultural banks, varying from several weeks to several months, in which use of adjustment credit would be appropriate."

In addition recent unsubstantiated reports indicate that the SBA drought assistance loan program is proceeding satisfactorily though the extent of the applications may be exceeding anticipated requirements and possibly exceeding the allocated funding for the program.

Concurrent with these reports we are constantly receiving consistent reports that the costs of production in agriculture are exceeding the selling price of the commodity produced. Too often we see evidence of erratic and erroneous reports of the U.S.D.A. Corp Reporting Service, which are adversely affecting the price structure for agricultural products. Projections of "over-production" and projections of "under utilization" coupled with a "cheap food" statement have effectively destroyed the farmers' hope for a pricing range near parity. We abhor inaccurate unsubstantiated and contradictory early winter reports of production surpluses which do not stand the test of late summer carry-over positions. This lack of credibility continues to the present time with reports released only this week.

We believe the U.S.D.A. reporting policy should be closely examined and amended to more accurately report and project actual production and usage of basic farm products. Agriculture needs this service and advantage in its present circumstances. Price inflation, product manipulation and a "starving world" have caused a monetization of land values which has eliminated any "hidden asset" value in farm land. Land values have lost their elasticity and in fact are over-priced greatly when valued on an income or productivity basis. The "family farm" concept of American agriculture is in grave jeopardy and we vigorously resist the idea that we can continually promote a "cheap food" policy nationally when it is based upon the maintenance of our Iowa farmers as second class citizens on a below subsistence level. Why don't we treat agriculture with the dignity of parity price projections? All segments of our economy depend directly or indirectly upon this most basic of industries. The costs and risks of production are too great to be borne by this small portion of society without adequate compensation for the risks.

If the general public in the United States is in fact interested in maintaining a strong agricultural system we need to reassess our priorities. We question the viability of any credit program, private or public, where the cash flow generated by the productive process is inadequate to service the indirect and direct costs of that production. The present "sealing price" for corn at \$2.00 per bushel is below the cost of production by about 25 cents per bushel and is rapidly proving to be the "ceiling price" as indicated by the SBA drought disaster guidelines for "average market price" at \$2.00 per bushel.

We request that the Congress, the Administration, and the U.S.D.A. attempt to raise the prices of agricultural products to the producer. If they would recognize and fairly negotiate the value of our agricultural products as an instrument of world trade, this would favorably impact our balance of payment problem. Nationally, our negative balance of trade problems are no more acute than a continued negative cash flow for our agricultural producers while the solutions to both problems are to a great degree entwined.

Assuming a profitable farm economy is consistently attainable and will be fostered by our social and economic goals, then we believe that a federally sponsored and assisted program of agricultural and transfer and financing is desirable. The government can foster the continuance of the family farm concept as an efficient, mechanized, industrially oriented unit that will supply our future food and fibre requirements.

The broadening and expansion of federal programs through S. 2146 is laudable for this purpose but we suggest further deliberation of the amendments in several respects.

(1) County committee certification of loan amounts and loan approval should be maintained in all programs to maximize control at the local level. The proposed appeal program should be implemented.

(2) The discretion of the Secretary of Agriculture to increase loan rates to 1 percent over the cost of money to the government is unwarranted and unjustifiable. The farmer is entitled to an interest rate contract which should not be manipulated during its term as an instrument of fiscal policy.

3. The "family farm" criteria and "test for credit" standards should be adequately defined in the bill so as to strictly limit domestic corporations and partnerships from unauthorized participation. A provision should be added restricting the program to those entities owned and controlled by United States citizens with forfeiture provisions and strong penalties.

4. The participation of other government agencies under the act is questionable to us and should be approached very carefully. We must avoid unwarranted complica-

tions to a specialized industry such as agriculture which requires the ability to respond immediately to changing economic, financial and weather conditions.

We are appreciative of the opportunity to be heard on the subject of your agricultural deliberations. We hope for the continuation of a profitable, independent, and productive agricultural segment of our society.

Respectfully submitted,

JOHN E. MANGOLD,
Senior Vice President.

Senator CLARK. And I just want to mention something that I find interesting; namely, what the structure of the U.S. agricultural debt in terms of who the lenders are. Let me just read these in the record at this point before we go on to Mr. Joslin. In real estate, in the real estate area, individual lenders are the largest single lenders. 35 percent of all the real estate loans are made by individuals. Second to that is the Federal land bank which makes 33 percent, a third of all the loans; and then life insurance companies, 14 percent; and then commercial banks, 12 percent; and then the Farmers Home Administration, 6 percent. So individual lenders, then the land bank, then life insurance, then commercial banks, then Farmers Home. An interesting trend over the last 10 years, by the way, is that the Federal land banks have moved up from 22 percent to 33 percent. So they have taken—they have loaned more money out than others in terms of increasing their position, and life insurance companies have moved downward from 22 percent 10 years ago to 14 percent. I am not sure what the reason for that is, but it's an interesting trend.

And then in the non-real-estate area, the largest lenders for production loans and so forth are commercial banks, 48 percent, almost half, and then the Production Credit Associations which are 27 percent, the two of those together handling just three-fourths of all the loans; and then individual loans, 15 percent; Commodity Credit Corporation, of course, on commodity loans, 5 percent; and then again Farmers Home Administration, 5 percent. And, of course, the Small Business Administration having just gotten into the business is not listed. But the direct Federal loans then, the Farmers Home account for about 5 or 6 percent in each category, and again the interesting thing in this non-real-estate loans in terms of direction in the last 10 years, there has been a 10-percent-age point increase in the share held by the Production Credit Associations, so they are moving up to be larger lenders over a period of time. And some increase also in commercial banks, a 6 percent increase, and then a corresponding decline of 17 percent by individuals for loaning. So it's kind of an interesting breakdown for actually who lends the money.

Well, we are pleased particularly to have Bob Joslin representing the Iowa Farm Bureau from over at Clarence, and a farmer, Cedar County, actually, and Bob, you can proceed in any way you think appropriate.

STATEMENT OF ROBERT JOSLIN, IOWA FARM BUREAU, CLARENCE, IOWA

Bob JOSLIN. Thank you, Senator. My name is Bob Joslin. I farm near Clarence, Iowa, in Cedar County. We have a grain and live-stock operation. I am currently serving as vice president of the Iowa Farm Bureau Federation.

We appreciate the committee and agency representatives coming to Iowa and holding these hearings at different locations throughout the State. These hearings are important and timely since we are experiencing low grain and livestock prices, severe drought conditions occurred in certain areas of the State, and farm costs are escalating.

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 billion in 1970 to \$671 billion as of January 1, 1977. Total farm debt for the same period rose from \$53 billion in 1970 to \$102 billion as of January 1, 1977. Owners equity improved from \$262 billion in 1970 to \$569 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 applied to individual farmers, especially young farmers. This report indicates that farm debts, as a percentage of total farm assets was 16.1 percent as of January 1, 1977. A recent report in the Farm Credit Administration's Research Journal indicated the average ratio of debt to assets was 35 percent for all Federal land bank borrowers. It was 41 percent for all young, that is under 35, borrowers; and 60 percent for Farmers Home Administration—Federal land bank joint borrowers. This certainly shows the ratio of debt to assets is much higher for certain classes of borrowers than average figures indicate.

When hearings were held on S. 312, a bill "To amend the Consolidated Farm and Rural Development Act," several provisions were considered to correct problems connected with the present Farmers Home Administration lending programs.

The amendment to section 302 would authorize the Farmers Home Administration 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 reschedule outstanding farm operating loans for a period of not to exceed 7 years.

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

We support all the above amendments.

The amendment to section 333(b) would establish a procedure for appeal, review and possible reversal of determinations by Farmers Home Administration 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 ultimate loan decisionmaking responsibility in State or Federal officials could create an undesirable situation, which would not properly reflect the judgment of local farmers who are more familiar with the local situation. We ask that safeguards be included to protect the role of the county committees in the decisionmaking process.

We believe that the use of Farmers Home Administration 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 increase 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.

S. 2126, entitled the Family Farm Credit Act of 1977, contains many amendments similar to S. 312. There is a new section 17 in S. 2126 which would extend the Emergency Livestock Credit Act of 1974 indefinitely. This program, which is a guaranteed loan program, is a useful tool to rural bankers and should be continued.

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

Senator CLARK. I thank you. Basically, you support the S. 2146, I gather?

Mr. JOSLIN. Yes.

Senator CLARK. But you have got some reservations, particularly about bypassing the Farmers Home county committee in terms of the appeal process. You would like to see safeguards that would be included to protect the role of the county committee in the decisionmaking process. Actually one minor point here, probably, but in the last page of your testimony you say the Emergency Live-

stock Credit Act of 1974 would be extended indefinitely. Actually as the bill is now written, it would just be for 1 more year.

Mr. JOSLIN. I see.

Senator CLARK. But it may well be that somebody will offer an amendment. You support the idea, though, of extending it?

Mr. JOSLIN. Right.

Senator CLARK. And you think it's been worthwhile. Do your own figures, as you understand it or as you have looked at the situation, indicate to you that there is somewhat or may well be somewhat of a credit crunch due to the low prices?

Mr. JOSLIN. Yes, particularly in Iowa. The combination of low prices and the drought. In central and southern Iowa it is making it very difficult for farmers.

Senator CLARK. I am trying to find any other areas of S. 2146 where you have disagreement.

Mr. JOSLIN. I think there is only the one.

Senator CLARK. Just the one area?

Mr. JOSLIN. That's on local control.

Senator CLARK. All right. That's very clear, and we appreciate your testimony. How about others? Do you have questions?

Mr. THORNTON. Well, I would like to comment on his concern about the amendment dealing with committees.

Senator CLARK. The county committees?

Mr. THORNTON. The county committees perform two major functions. No. 1, they determine the eligibility of the borrower in terms of qualifying for the loan; and second, of course, is they also rule on how much money the borrower should get. In the case of the appeal system, we feel that this is needed. You have hundreds of these committees around the country. While it is not common, I can tell you in the 2 months that I have already been in office as Associate Administrator, I have signed many letters back down through the chain of command requesting county committees to meet again to reconsider applications. When we have examined many of these loan files we found in our judgment, that some applicants were not dealt with fairly. I believe any time the Government deals with citizens at the local level, the citizens are entitled to a formal appeal, which is not now provided for.

Senator CLARK. Well, now, as I understand it, though—maybe I misunderstood his testimony, Mr. Joslin's testimony. You are actually questioning the appeal system?

Mr. THORNTON. Appeal system.

Senator CLARK. I guess it would be. I guess it would be, yes. You are not saying that maybe we shouldn't do that, as I understand your testimony, but you think there ought to be some safeguards.

Mr. JOSLIN. There ought to be some safeguards, and we are very reluctant to have the local control relinquished.

Senator CLARK. And thereby to give somebody above that the authority—

Mr. JOSLIN. Yes.

Senator CLARK [continuing]. Of appeal.

Mr. JOSLIN. Well, the appeal we don't object to so much, but we do want the safeguards in there because we think that local people really know the situation better than someone sitting in Washington or even in Des Moines.

Mr. THORNTON. We don't anticipate, Mr. Chairman, that overturning of committee decisions will be a common occurrence, please understand. But problems do happen with sufficient frequency that—

Senator CLARK. What you are describing is a case that you felt in reviewing these that the county committee may have discriminated against somebody or were unfair to someone?

Mr. THORNTON. That's right.

Senator CLARK. OK. Mr. Lawlor, Conrad Lawlor, do you have any questions?

Mr. LAWLOR. No questions.

Senator CLARK. Bill?

Mr. MOTES. No.

Senator CLARK. Thank you very much. We appreciate your coming over on a Saturday afternoon and testifying.

Roger Fox. Come right on up. Roger is from Williams. He is a farmer who lives in Hamilton County.

STATEMENT OF ROGER FOX, WILLIAMS, IOWA

Mr. Fox. My name is Roger Fox, and I live at Williams, Iowa, and we went through a pretty tough disaster or drought up there this year. And this is just some of my feelings I would like to tell you. With promises of good prices, the American farmer was encouraged to produce enough food to feed a hungry world. And we have done this. However, instead of the grain flowing overseas, it is filling our elevators of this country, and we are seeing the worst grain prices since the Depression. In addition to this, farmers like myself here in central Iowa have suffered through another year without adequate rain to produce a crop. Needless to say, we are in a bad financial state.

The average bank is no longer able to carry the financial load of farmers. The cost of producing a crop has risen so fast in the past few years, that the return on the money has not been great enough for the farmers to repay the bank at a fast enough rate. A farmer can no longer operate on short-term 9-percent interest from the bank. Many of us have large equities in our land, but the banks will no longer look at equity in land. They loan only on what the land will produce. Even in the best years the land will not reproduce enough to repay these loans when grain prices are so low. We are instead in need of long-term, low-interest loans.

I have applied for a small business loan and have spent 2 days in the disaster office in Des Moines. Their first comments after looking over my financial statements was that since I was a big farmer—I am operating 688 acres—that I did not really need a loan as I have equity in the land. I have an equity in this land only because of inflation, and this equity does not give me money to spend or retire my debt load. I have only farmed for 9 years and have owned 500 acres of this land in the last 3 years. A large amount of my debt at the bank is money for the downpayment on this land, and improvements such as tilling and land clearing and things like this. I have put 115 acres of this land into production that was not in production. And I have borrowed all of this money at 9-percent interest and a short-term loan. In 1975 we suffered great losses because of lack of rain and again this year. So I was

finally told that I might be given half of my loss this year and half of my operating capital for the next year. I have paid all of my operating expenses for this year with the money borrowed from the bank, but because I only owe the bank, they are afraid I am going to retire old debt at the bank, so I'm really not able to require enough money to service this bank loan. And I clearly do not believe that they can understand our borrowing practices. I think they are under the assumption that we are getting this money from the elevator and the grain seed dealers and things like this. They don't realize that we consolidate this loan to get this crop in the ground until we harvest it.

And I also very strongly believe that the Small Business people should operate in cooperation with the banks. The local banker knows and understands the financial need of the farmer, and he knows better than any Government agency how well the farmer will be able to repay this loan.

I have two sons who want to start up farming. One son will graduate in June with a degree in farm operation and management, and the other will graduate from high school. I believe that a long-term, low-interest loan from the Government should be available to help boys like this. Without some sort of help, they will not be able to stay on the farm, and I am afraid that we are going to see more and more foreign investors owning our farm ground. They have the money to buy the ground on which we are farming, and we as farmers do not, and we will be working for them. It is sad to think that a foreign country will be owning the heart of American agriculture, but this is happening more than we are aware of, I believe.

In regard to the bill S. 2146, the amount of money being considered will not buy a farm at today's prices, I could not even buy 80 acres in my neighborhood for \$200,000. The only way this bill will help us is if the money can be used as a downpayment when purchasing ground, and the Federal land bank will loan the balance. The Government does not seem to understand how much money it really takes to buy a farm or to operate one.

Senator CLARK. OK. Good statement. We appreciate that. Let's go back over some of these things now and get some comments and so forth from others here at the table who are close to it, too.

Now, how big a farm—did you say here how big a farm?

Mr. Fox. 688 acres.

Senator CLARK. 688 acres. And how long have you been farming?

Mr. Fox. For 9 years.

Senator CLARK. For 9 years.

Mr. Fox. To give you a little personal, I worked as a truck driver for years, and I worked with a farm, and my relation was farmers. The farm I am living on right now my dad lost in the Depression, I inherited a little money in 1968 and was able to buy this farm on a downpayment.

Senator CLARK. And you have been borrowing, you say, primarily though at commercial rates, at 9 percent for short term.

Mr. Fox. Right.

Senator CLARK. So you are commercial borrowers, you borrow from the bank, so forth.

Mr. Fox. Yes. Now, the reason this can't be put over—you are wondering why we haven't got this indebtedness over on this land, the Federal land bank wants a cash flow when they loan, I have one Federal land bank loan and one as a private individual, and I have 7 more years on the private contract. If I can sweat that through, then we can probably get this on a longer term indebtedness. But Federal land bank says they look at this one farm, and the cash flow will not generate enough to service that debt load for any higher amount of money.

Senator CLARK. Well, now, let's go look at this particular problem that you have here. You say in the third paragraph:

I have applied for an SBA and have spent 2 days at the disaster office in Des Moines. Their first comment after looking over my papers was that since I was a big farmer, 688 acres, I did not need a loan as I have equity in the land.

Now, you say that this was their first comment. What was their last comment? How did you end up by the time you got done?

Mr. Fox. Well, we are going to get a loan, I was going to add this, from them, but we are talking about close to an \$80,000 loss this year on this ground.

Senator CLARK. You are going to be able to establish about, not to your pleasure, but to your disgust, about how much?

Mr. Fox. We had an \$80,000 loss.

Senator CLARK. \$80,000. So you would be eligible for up to that, apparently?

Mr. Fox. Well, that's not so, because I am only coming up with about \$25,000 on the disaster loan.

Mr. THORNTON. Is that the total or just the half?

Mr. Fox. Well, the other half, though, is coming from—I applied for operating money for next year, which is another \$40,000 to get the crop in, and I am getting about \$20,000 there.

Senator CLARK. So you will get about \$25,000 on the disaster and then \$20,000?

Mr. Fox. Yeah.

Senator CLARK. Is that not disaster, that other \$20,000?

Mr. Fox. No, that would be operating.

Senator CLARK. Regular operating loan. Well, we got the Regional Director of the SBA down here. What are the rules and regulations and circumstances there, Mr. Lawlor?

Mr. LAWLOR. Well, I need to ask some questions.

Senator CLARK. Fine.

Mr. LAWLOR. You say your actual loss this year was \$80,000, but using the formula that has been devised, you are only eligible for \$40,000?

Mr. Fox. I am going to get \$20,000.

Mr. LAWLOR. \$20,000?

Mr. Fox. \$20,000. I am just going to get a little over \$45,000 altogether, counting the operating money and—

Mr. LAWLOR. I don't understand, because we are allowing \$2 a bushel for corn, I haven't heard any complaints. This is the first complaint I have heard that it's been too low. Some people say, well, you really have a too high loan eligibility. If your figures are what they are, we would have to allow like \$8 a bushel for corn that you didn't harvest. I don't understand how your costs are so high.

Mr. FOX. Well. Why the costs are so high?

Mr. LAWLOR. Yes.

Mr. FOX. Well, I lost 20,000 bushels of corn for one thing.

Mr. LAWLOR. 20,000 bushels of corn?

Senator CLARK. That would be \$40,000.

Mr. LAWLOR. That's \$40,000.

Mr. FOX. I am short about 7,000 bushels of beans.

Mr. LAWLOR. But if you show that kind of loss, we have a formula of \$2 a bushel for corn.

Senator CLARK. Let us in on the discussion.

Mr. LAWLOR. You are talking about the way the disaster loan is disbursed. There is maybe some confusion there. The use of proceeds in the physical disaster loan for crop losses, up to 50 percent of the eligible loan amount may be disbursed to pay outstanding obligations of the applicant, including accounts payable, crop loans, and notes payable, and reasonable operating expenses, including living expenses, and then the balance, the other 50 percent of the eligible loan amount must be held for the new crop.

Now, what you are saying is the amount that you are going to get, the \$20,000, or 50 percent of your eligibility, doesn't pay all your bills, right?

Mr. FOX. No, no way.

Mr. LAWLOR. And so it's just not enough, you have more bills, you must have bills from previous years then?

Mr. FOX. Not at—well, I have got land payments to make and things like this.

Mr. LAWLOR. OK. Now, the disaster program, we cannot pay off your land debts and all the other debts that you might have. This strictly has to do with your loss in the disaster.

Mr. FOX. Well, my loss in the disaster, though, was \$80,000.

Senator CLARK. See, because he had 20,000 bushels of corn, which comes to \$40,000, \$2, and he had 7,000 bushels of soy beans. I don't know what you give for that, in losses from this disaster.

Mr. FOX. From this 1 year.

Senator CLARK. What do you allow for soy beans, about \$4.50—

Mr. LAWLOR. I got that figure here.

VOICE. \$6.50.

Senator CLARK. \$6.50 that's allowed under his program?

Mr. LAWLOR. That sounds right.

Senator CLARK. So that's another \$42,000, roughly \$43,000. So your losses are—

Mr. LAWLOR. He had an eligibility of \$80,000 then.

Senator CLARK. Eligibility of \$80,000.

Mr. LAWLOR. And so if you applied for an \$80,000 loan, you would get \$40,000 to pay off this year's debts that you have now, and the other \$40,000 you can use only to apply for next year's crop or to put in next year's crop.

Mr. FOX. Well, I was informed that I would only receive \$20,000 to take care of last year's bills, and I get another \$20,000 or a little over to put in in March, to put in another crop with.

Mr. LAWLOR. Well, he has an \$80,000 eligibility. Isn't that—

Senator CLARK. That's right. He has got \$80,000 eligibility, and he is going to get \$45,000, \$20,000 now and \$25,000 next year.

Mr. LAWLOR. The only thing I can say with that, we probably better go back and talk with them again.

Senator CLARK. It would be your understanding as the disaster bill was written or the disaster law was written, that he would be entitled to the full amount of his loss if he met the qualifications?

Mr. LAWLOR. That's right. The formula, Senator Clark, is acres planted times the established normal yields, times the percentage of loss, times the market price, and we know market price has been given at \$2 for corn and \$6.50 for beans, less any recovery crop that you get. Now, that equals your eligible loss.

Senator CLARK. And you are entitled to 100 percent?

Mr. LAWLOR. Of that, yes.

Senator CLARK. Of that loss.

Mr. LAWLOR. But only half of that, Senator, can go to pay last year's debts. We wanted to make sure that the farmer would continue and would apply these funds to next year's crop, so he would have money for next year's crop.

Senator CLARK. Well, we better get you two together after this hearing and see if we can't run down that application and see what the problem is. All right?

Mr. Fox. Yes.

Senator CLARK. Thank you very much. One other question I wanted to raise here with Conrad Lawlor, there is another part of the statement, of Mr. Fox's statement, in paragraph 4:

I very strongly believe the SBA should operate in cooperation with the banks. The local banker knows and understands the financial needs of the farmer, and he knows better than any Government agency how well the farmer will be able to repay the loan.

Do you have any particular response to that?

Mr. LAWLOR. I totally agree with it, Senator. I think it's an interesting statement, because we go back up to the previous statement that Mr. Fox made, it appears that he had, and you may correct me if this is wrong, applied for a loan to refund some of the bank loan or reduce some of the bank's present exposure. He had borrowed for downpayment on land, and then came in, was it for bank guaranteed loan, which SBA was asked to guarantee, and part of the funds would pay off the bank's indebtedness.

Mr. Fox. Right. What I was trying to explain there, that no matter how much equity we have in this land, we have got money borrowed against that, you know, at the bank.

Mr. LAWLOR. But you had come to SBA, or the bank had come to SBA, asking for 90 percent guaranteed on a proposed loan, and this proposed loan would be in effect to pay off the bank on the short-term loans that they had made to you?

Mr. Fox. Right.

Mr. LAWLOR. And, Senator, this is an area we get into quite often. This agency is very sensitive to criticism from both the banking industry and from other areas of the private sector, that on occasion we may be bailing banks out of loans, and we are extremely sensitive about doing this. We have policies prohibiting us from reducing the present bank exposure. Generally, the present bank exposure can be reduced in very extreme cases where the collateral that the bank has on the present loan is well above

what's necessary to secure the loan, and by us going in they are watering down their collateral position.

Senator CLARK. Well, I thought in reference to this, strongly believe the SBA should operate in cooperation with the banks—except for disaster loans don't you always do that?

Mr. LAWLOR. Yes, certainly do.

Senator CLARK. But not in disaster loans.

Mr. LAWLOR. Yes, but not to the extent, Senator, where we are reducing bank exposure.

Senator CLARK. Yes, I understand that.

Mr. LAWLOR. The present bank exposure, and this case would indicate that we would be substituting private risk or Government risk to the private risk that's already there, and we do not like to do this.

Mr. FOX. It was my feeling, though, at the time I spent with them, this was the fact that this was one of their large concerns, and which is necessary. This is something they should watch, that loans through disaster shouldn't be made maybe to farmers that really don't need it, that they may take this money and go out and buy more land and things like this. But by working through the banks, I think you will find that they eliminate that problem, and the banker himself knows which one really needs this money, and I think we can maybe get this administered a little better.

Senator CLARK. All right. Did you want to comment?

Mr. THORNTON. Just quickly, the last paragraph.

Senator CLARK. Yes, the last paragraph. I have marked that, too:

I could not even buy 80 acres from my neighbor for \$200,000. The only way this bill will help us is if the money can be used as a downpayment when purchasing ground, and the Federal land bank will loan the balance. The Government does not seem to understand how much money it takes to buy a farm or to operate one.

Is that what you wanted to comment on?

Mr. THORNTON. Just to this extent. Assuming the borrower would meet our eligibility and credit tests elsewhere, we do exactly that. We participate with the Federal land banks, as well as with individuals selling properties. And for every dollar we provide in real estate funds we get about a \$1.25 through this matching participation. That is to say, in the case of Federal land banks, we will join with them, \$100,000 from us, \$125,000 from them. We take second lien. They take first position, and we supervise. In the case of anybody selling property as an individual, we will provide a Farmers Home real estate loan up front for the downpayment, and subordinate to them and give them first position. So we do do that. This means we are stretching the money we have as well as making more funds totally available.

Mr. FOX. Well, I didn't understand it that way, but this is the only way it would work, because, you know, we buy 80 acres, you are talking about \$30,000-\$40,000 for an 80-acre piece of ground.

Senator CLARK. All right. Let's go on to Florian Recker from Dubuque County, Dyersville. Come on down here, Florian, and we would like to hear what you have to say. You are retired now?

STATEMENT OF FLORIAN RECKER, DYERSVILLE, IOWA

Mr. RECKER. Sort of.

Senator CLARK. Sort of? All right.

Mr. RECKER. I don't know whether you call it retired or not, get up at 4 o'clock in the morning.

Senator CLARK. That doesn't sound very retired. That's tiring.

Mr. RECKER. Drive 100 miles with cattle to get a decent price, and then go out the next day and sit in the sale barn until 6 o'clock to buy some calves back.

Senator CLARK. OK. You go ahead in any way you would like to.

Mr. RECKER. I didn't know I was going to have anything to say here. I was interested in this program as I have my farm leased to my son on a 50-50 limited crop lease. My son has corn that made 50 bushels to the acre, so we made a lot of silage, and so we bought cattle to feed the silage to, and we have some hogs. And otherwise I don't know if I am eligible, as I understand it, and I was curious what this program was, and I read about it in the "Wallace Farmer." I believe it said December 30 was the deadline.

Senator CLARK. December 2, I believe.

Mr. THORNTON. December 2 for Farmers Home, December 30 for SBA.

Mr. RECKER. But the magazine had it December 30.

Senator CLARK. That's true on the SBA, right. I was wrong on that. You are right.

Mr. RECKER. Otherwise I will stick my neck out and make an estimate that the figures I heard that they are going to buy 12 or 20 million tons, metric tons of grain, these foreign countries, we will have \$3 corn again.

Senator CLARK. Don't count on it.

Mr. RECKER. Well, you figure that out in bushels, that's an awful lot of bushels. I remember when they had too much wheat back in the forties, and they turned loose 125 million bushels at a time, three times, and I got some of that in railroad car load quantities at \$1 a bushel and fed it to the hogs. Sold hogs for 12 to 14 cents. I think it's a real good program. And it's hard for young boys to get started, and it sounds good. I think it's better to keep farms in the hands of small operators, and not too small.

Senator CLARK. You would like to keep the family farm operation basically intact then?

Mr. RECKER. I have a son farming on a 50-50 live crop share, and I have two sons that are on their own. They bought farms a few years back and are doing OK.

Senator CLARK. All right. We are very pleased to have you. Any comments?

Mr. THORNTON. No, other than for the record, I would like to say that in the case of our farm ownership program, the average age of our borrowers is 35 years old.

Senator CLARK. The average age of a Farmers Home Administration borrower is 35?

Mr. THORNTON. The age of our farm ownership borrowers.

Senator CLARK. All right. We are going to hear from Alvin Borchers of Newton, president of the Central Iowa Production Credit Association in Newton. We have seen from these figures I read earlier that the Production Credit Association is playing an increasing role in providing money for non-real-estate loans, significantly over the last 10 years or so. You go right ahead, Alvin.

STATEMENT OF ALVIN BORCHERS, PRESIDENT, CENTRAL IOWA
PRODUCTION CREDIT ASSOCIATION, NEWTON, IOWA

Mr. BORCHERS. Thank you, Senator, for allowing me to express a few views here today. Our particular association is located in central Iowa. We service 10½ counties in this area. We have approximately \$90 million in loans outstanding to approximately 950 members.

Senator CLARK. Give me those figures again. Those figures are interesting.

Mr. BORCHERS. We have approximately \$90 million in loans outstanding to around 950 members in a 10½ county area.

Mr. LAWLOR. Ten and a half counties?

Mr. BORCHERS. Ten and a half counties, in this area, sir. We are the largest Production Credit Association in the eight farm credit district, and we are 1 of the top 20 associations in the Nation. So, needless to say, the staff and my capable board of directors, and myself, are deeply interested in the issues involving agriculture.

We recognize only too well that we are experiencing some of the most difficult and trying times in agriculture. This has been brought about by depressed markets, serious cost-price squeeze relationships, and last but not least, the drought. I feel that the most severe problems confronting farmers and lenders today centers around the cost-price relationship brought about by high input cost, and then experiencing a severe drop in the market price for the commodity produced. Invariably this creates high debts, lower repayment capacities, and the end result is an unworkable cash flow situation which makes it extremely difficult to secure necessary credit.

I might add here and now that making more money available for some of these operations doesn't necessarily solve the problem. There are many cases where it even creates more problems. We are seeing situations where people are adjusting their short-term debts by going to real estate, brought about by larger equities, which in turn were brought about by real estate appreciations. And our concern in many of the cases centers around the ability of this operation to generate enough income to service the total debt. I am convinced that our farm credit system has the tools, the machinery, and the people who possess the expertise to do the very best under existing conditions to provide the necessary funding to those who cooperate and have a reasonable chance to generate adequate income to service their debt. We also recognize that need for maximum cooperation and coordination among all lenders and borrowers in carrying out our objectives of financing agriculture under all conditions in order to avoid radical changes in lending philosophies.

We feel that the availability of funds through our present system of securing these funds will be adequate to serve the needs of our agricultural membership. Those of us involved in financing agriculture need to foster an awareness between the lender and the borrower of his credit and financial position in order to avoid any misunderstanding should the risks become too great for either to assume. In times like this, of course, this is where a great deal of confidence needs to be placed in the borrower as well as the lender. These ideas and suggestions should, I think, provide a common

response to our fine system's stance and efforts in financing farmers and ranchers under today's conditions. Thank you.

Senator CLARK. That's a good statement. I was curious as you were reading that statement and thinking about the Production Credit Association, the amount of money that you have got out on loan even in this 10½ county area, which includes Linn County, doesn't it?

Mr. BORCHERS. It includes Linn County.

Senator CLARK. \$90 million and so forth. Do you expect that if corn prices were to, let's say, stay—I read in the paper this morning that central Iowa corn was \$1.96 to \$1.98. If they were to stay at that price, or perhaps even to go down some over a period, and hang there for a year or two, are you going to have problems getting your money, getting your debts repaid?

Mr. BORCHERS. We will have problems.

Senator CLARK. What do you do when that occurs or if that occurs? What kind of recourse do you have?

Mr. BORCHERS. We try to work with a member as closely as possible. We try to in some manner work with him, to adjust his operation. We do recommend from time to time transferring some of his short-term debt to long-term debt, but, gentlemen, this merely transfers debt to another area, but the total debt load remains, and consequently one of the problems that confront the lenders, and it isn't only in our case, is the lack of ability or the lack of the repayment capacity to service the overall debt.

Senator CLARK. So that the answer is better farm prices?

Mr. BORCHERS. That is right.

Senator CLARK. But it's nevertheless valuable to be able to defer some things. You have authority, do you, in the PCA to defer payments if you have to?

Mr. BORCHERS. That's right, Senator.

Senator CLARK. So if you get in a very tight crunch on these, you might find yourself in a situation of doing that?

Mr. BORCHERS. Right.

Senator CLARK. What about if your can't help refinance and so forth, if the conditions are not there, do you then refer them to the Farmers Home Administration or the SBA?

Mr. BORCHERS. We do. We participate in these various programs. We will probably be seeing more of it in a year such as we have experienced this past year, with the prices themselves, and then brought along by the drought situation, we have some members that are in precarious situations.

Senator CLARK. Right now.

Mr. BORCHERS. Right now. We are doing our very best to work our alternate programs for them. We like to think that we do the very best that we know how in trying to keep the operations in business, but you do have casualties in a year such as the one we have experienced.

Senator CLARK. What do you think of the overall structure of agricultural credit now? You got private lenders who are doing an awful lot, you got commercial banks, you got the insurance companies, you got yourself on production loans, you got the land bank on land loans, you got Farmers Home and SBA as sort of as they say, lender of last resort. Is that a good structure? Would you

like—looking at the thing as a whole, would you like to see some changes in it? Is it adequate?

Mr. BORCHERS. I think it's a good structure. I think it provides the competition, the competitive spirit. There is certainly enough business in the agricultural area for all of us. Your comment earlier about the increased activity which we see with our particular Production Credit system, some of this is brought about by active young people employed for us, with us, who are actively seeking business. We are in direct competition and we do not make a secret of it.

Senator CLARK. Sure. All right. I am just going to step out for about 3 or 4 minutes. But I know there are other questions here, so you just keep going.

Mr. LAWLOR. Could you tell me, do you use debt to net worth ratio on each of your applications?

Mr. BORCHERS. Yes.

Mr. LAWLOR. What do you consider an acceptable debt to net worth ratio for the loans that you handle by yourself, and is that a significant ratio when you decide to go to refer them to FmHA or to participate with a Federal agency to spread some of this risk?

Mr. BORCHERS. We would look at it, and, of course, the net worth to debt ratio, you may have individual operators that can handle a 2 to 1 and do a good job. You may have others that will be one-half to one and not be able to make the operation generate enough income to service the debt. The net worth to total debt ratio, while we look at it, we look at it very hopefully in good light. This does vary with the operations.

Mr. LAWLOR. Yes. Are there other ratios that are more significant for your credit judgments rather than that?

Mr. BORCHERS. Short-term debts to short-term assets, long-term debts to long-term assets. We also look at the new wealth potential of the operation, how much new wealth does this particular unit generate. What amount of debt can he service, how much interest can he afford to pay. Of course, the input costs that these people are experiencing over the past few years, the increased costs have been phenomenal, and the returns that they are getting for their commodity is just creating this cost-price squeeze relationship. And this is creating a burden for many of our good agricultural people.

Mr. LAWLOR. Since you are engaged primarily in operating loans, working capital as you might say, do you require a cash flow?

Mr. BORCHERS. Yes, we do.

Mr. LAWLOR. On earnings' projection and budget on every loan application?

Mr. BORCHERS. I will reserve my statement in that relation. You may have some individual cases which are—the financial situation is such that we pretty much—

Mr. LAWLOR. Your history with them, you know what they are—

Mr. BORCHERS. Right, we know what they are capable of doing.

Mr. LAWLOR. And what the needs are.

Mr. BORCHERS. That's right, but for some of the—especially the younger operators that are trying to get started, we take as much time as necessary to sit down with them and try and project out

their operation and see if they are adequately capitalized. We have a tremendous number of young operators in our association.

Mr. THORNTON. A question relating to that. It is estimated for this calendar year—this came out of the USDA outlook conference last week—that while acknowledging that farm income would be down to about \$20 billion—

Mr. BORCHERS. That's right.

Mr. THORNTON [continuing]. Nonfarm income to farmers will be up to \$30 billion.

Mr. BORCHERS. That's right.

Mr. THORNTON. In other words, the latter dramatizes the important role that so-called off-farm income is playing in this picture. Is this something which your association also gives very careful consideration to assessing borrowers capable to repay loans.

Mr. BORCHERS. We do. We look at the off-farm income. We have cases where the wife may be working, maybe teaching school. You get into an area—well, in this area, you go into an area like Marshalltown, where you might have a smaller unit, and the member does some work off farm during the winter months.

Mr. THORNTON. While we all share concern here about low commodity prices and increased production costs, it seems to me that nonfarm income is something that's going to help through this period in terms of some additional protection.

Mr. BORCHERS. And you will probably see more of it, because there are many, many more seeking jobs now after a year such as we have experienced.

Mr. MOTES. Do you have a limit on the size of the loans you can make?

Mr. BORCHERS. No; we do not.

Mr. MOTES. So it is no problem for you that people are requesting more loans and larger loans?

Mr. BORCHERS. No; we have no limit. We only request workability.

Mr. LAWLOR. In the Iowa corn, typical corn, bean, feed corn, feed grain operation, what do you consider a minimum operating unit without outside income, a size of the farm you are talking about?

Mr. BORCHERS. The minimum?

Mr. LAWLOR. Yes; how many acres would be self-sufficient?

Mr. BORCHERS. Without any off-farm income?

Mr. LAWLOR. Yes. And you do take into consideration smaller loans you mentioned?

Mr. BORCHERS. Right, right, but here again, sir, this would depend upon the amount of capital that the individual has. He may be farming with an H or an M tractor in relationship to a four-wheeled drive, and we may have some individuals that can operate 160. Maybe they won't make a lot of money, but they will make it scour.

Mr. LAWLOR. They can make a living, can they, actually?

Mr. BORCHERS. It's the exception rather than the rule, but we could probably find a few. Now, as far as setting down here and saying what would you—I suppose you are leading up to what I would classify as a family type farm.

Mr. LAWLOR. Well, not really. I am wondering what you consider today, at today's costs of operation, a unit that can operate effectively.

Mr. BORCHERS. 320. Now, that's an approximation, subject to variances in the operations.

Mr. LAWLOR. Sure. And you go down much lower than that if the man has outside income?

Mr. BORCHERS. We have some operators on 160's, 120's, but they are becoming fewer and fewer.

Mr. MOTES. Any other comments that you want to make on the legislation or on the general state of the credit crunch, or the economy?

Mr. BORCHERS. No, Mr. Hovendick attended your session this morning, and he entered into the testimony there.

Mr. MOTES. Thank you very much.

Mr. BORCHERS. Thank you for allowing me to visit with you.

Mr. MOTES. Our next witness will be Mr. Ronan, William Ronan from Winneshiek.

Senator Clark is just coming in, Mr. Ronan. You go right ahead and proceed any way you like.

STATEMENT OF WILLIAM P. RONAN, PRESIDENT, DECORAH STATE BANK, DECORAH, IOWA

Mr. RONAN. I do not have a prepared statement here. I want to tell you it's a pleasure for me to be here, not only to see Senator Clark, but also my old friend, Conrad Lawlor. I missed him in St. Louis or Kansas City last week.

I think that I am the only one here who is qualified to appear not only as a banker but as a farmer, and I am very well aware from both standpoints about the situation. I am not alarmed about the situation, but I am concerned about it. It appears to me that my brother—I might start out, we have a \$40 million bank in an agricultural area in northeast Iowa. Our main industry in agriculture up there is hog raising and dairying. We also do some beef work. My brother has a beef herd, I have a beef herd, and we have two dairy herds, and I farm in North Dakota.

The material we buy to operate these farms seems to be indexed in price. It will be a little higher every year. I don't know about mineral—I don't know about the fertilizer for this year. I met some fertilizer people at the ag conference—you were there, Conrad—last week, and they thought it might be cheap. However, there is a danger there. I am told that the big hopper cars that will probably be carrying a lot of corn after the first of the year will be disturbing the transportation of the mineral—the fertilizer to the areas.

The thing that concerns me about this is that I told my farm—we have two farm experts in our bank. One of them comes from Mr. Joslin's territory up there, an expert in his field. Both of them are ag graduates. I told my loan boys the other day, I said we are going to have to skip buying bonds this fall, because we are going to have to maintain our liquidity to take care of these farmers who are not going to have good earnings this year. Fortunately, we have not foreclosed on anybody, and we don't like to. We have one or two that we have asked to cease farming because they are not in the line of work they should be in. It takes a tremendous amount

of capital. I saw a loan go through our bank the other day, the boys got all the papers ready, that I could either veto it or OK it, and I liked it, and the guy borrowed \$260,000. Well, even in a bank our size, and we have several at \$100,000 to \$150,000, and they are working out, the cash flow sheets have been all right up to this year, but some banks are not going to be able to do that.

I talked to a man in Kansas City the other day from a large bank in Iowa—84 percent loaned. I know one in our area, not in the county I am in—81 percent loaned. A younger man heads it, and he came to me the other day and said, "What am I going to do?" And I said, "Well, I don't know, I am not God, but I feel very sorry for you." Our own particular bank is only 62 percent loaned.

Now, for the long pull I am bullish on agriculture. I had a nice visit the other morning with the new comptroller of the currency in Chicago. I was in attending—I belong to a group of bank presidents, and we get together and tear the devil out of each bank twice a year, and the first thing he asked me, he said, "Are you concerned about the low price of farm products?" And I said, "I certainly am." And I said, "Well, sir, what are you concerned about?" He said, "I am concerned about inflation." Well, I said, "That's probably the reason we have low farm prices." Farm prices are not bad—\$40 hogs. My brother has a couple, three buying stations, cattle have gone up, and frankly I am bullish on corn. I am long corn in the market, and it's done very well, and I didn't get long just this week, because the Russians, when they bought that corn, they are shrewd enough they probably bought those contracts last—when corn—let's see, December corn I think got down to about \$1.90. I am not sure on that. That's when they are in there. They didn't buy that corn after you saw that price come out in the paper or that declaration they made.

I am bullish on agriculture for the long period, because I think land is the only hedge against the world inflation that's in existence. I was abroad a year ago. I toured Ireland. I saw land over there, not as good as we have in Winnesheik County, bringing from 1,000 to 1,500 Irish pounds per acre. Well, compare that to our price over here.

Senator CLARK. What is an Irish pound, roughly?

Mr. RONAN. \$1.60. It should be worth more, Senator, than the English pound.

Senator CLARK. That's what the Irish say.

Mr. RONAN. That's what the Irish say. And I saw them paying—we pay \$1.76 for petrol over there, but they do not have the huge tractors, they do not have the large farms over there. Their culture is different.

I would like to see the retention of the family farm. The retention of the family farm has made for excellent independent banking. I am an independent banker, and I have no opposition, I don't care—we need holding companies and banks, but I do believe that banks in our farm area should be allowed to be locally owned and wholly operated, and there is a rapport there that you do not have otherwise by virtue of the fact that I know every farmer that comes in our bank. It's a family affair. We live in a town, a college town of about—well, the town is about 8,000 and we have about

20,000 people, I believe, in Winneshiek County there. It's not good land, it's not bad land. That's about all I have to say.

I am a little bit concerned also about the morale of our young people who are involved in agriculture. They are the ones who seem to be in the biggest debt, and it's not their fault. And they read about the cost of labor, now that's going to be indexed. I have got 40 people that I got to arrange salaries now beginning the first of the year, and that's not an easy problem, but I still am not—I am bullish on American agriculture because of the fact that it supplies protein, and that's the thing that the world is short of, and we are short of energy, but unless we have that protein, we are going to have some wars. So that's all I have to say, Senator, and Conrad Lawlor. Now, I will answer any questions to the best—I might say that my brother and I, we own and operate 1,100 acres of land, so I know what it means to pay taxes. I know what it means to keep tenants satisfied. I do know what it means—we do hedge. I watch that myself, but that's a process in itself, too, and I don't advise very many of our farm people to do it, because it's a sophisticated operation.

Senator CLARK. Let me ask you this, Bill: You say, you talked about liquidity. Is it your impression that rural banks or country banks generally that loan heavily to farmers have a real liquidity problem now?

Mr. RONAN. I think it's arising, yes, any time you get up to 80 or 84 percent loaned. You want to remember, Senator, every deposit in a bank can be characterized as demand money. If you have a \$5,000 time CD in our bank for 2 years or 4 years, at whatever rate we pay, 7 percent or so forth, and you need the money, you can come in and borrow against it and we are forced to loan it to you at 2 percent more than what we pay you, or you can ask for cash by reverting to the 5-percent savings rate, losing the last 3 months of interest.

Senator CLARK. So it's all on demand?

Mr. RONAN. So practically all bank deposits are all demand. I wouldn't want that to come out in the press, but those are the facts.

Senator CLARK. I think you said—

Mr. RONAN. I think Mr. John Mangold there, who is a very excellent banker, very fine banker, would back me up on that. I am concerned about it, and, of course, our first responsibility as bankers is to the depositor, that little old lady or that old man, or that little girl that comes in with her savings account. I have been in banking a long time. I served on the banking board for 8 years in this State. Yes, this is Iowa. And I am conscious, I think I am, of what goes on.

Senator CLARK. Tell me this: What does it mean when a bank gets—you said one banker told you he is 84 percent loaned or 81 percent, or you said 61 percent. What does that really mean and what does that reflect, simply that 81 percent of that money is gone, is loaned out.

Mr. RONAN. Is loaned out.

Senator CLARK. Is that very high, considerably high?

Mr. RONAN. Yes, we regard it as very, very high. If you will go back to the old times in the early thirties, when banks got up to that point they were having trouble.

Senator CLARK. I see.

Mr. RONAN. They are going to have a draw on—I imagine banks that are in the drought area now, and I feel very sorry for them, those people who have—John Jones could have a time CD in there for \$20,000. His neighbors could be having a problem like this fine gentleman here, and he will say to his neighbor, well, I will take that \$20,000 out of my bank and loan it to you so you can get tided over. I don't think farmers should feel despondent over this deal. I have gone through several cycles like this. I got into the banking business by virtue of my father who was a race horse man. I didn't come from a livestock—a banking family. He was involved in the ownership, part ownership of three North Dakota banks. The wheat crop failed out there for 3 successive years back in the early twenties, the banks closed, and my father had to pay 100 percent assessment on the bank's stocks, and he never did understand the collapse of agriculture.

Senator CLARK. Let me ask you this. You said something that I happen to agree with. You said you think the Soviets have already bought the grain.

Mr. RONAN. I am firmly convinced of it.

Senator CLARK. That they were going to buy sometime ago, and now I assume that the grain companies are covering their purchases, and that's driving the price up a little bit in corn in this recent period.

Mr. RONAN. Right, although I am bullish on corn.

Senator CLARK. Why so? That's what I was going to ask you.

Mr. RONAN. Well, right at the moment the conversion price is pretty favorable. We feed about 1,500 hogs a year. I have a finishing place, one of these expensive ones that cost too much money, and here is another thing, and I told this to the—I had an audience with the Secretary of Agriculture in Cedar Rapids by virtue of the fact that his people came from Decorah, and he inquired and so forth, and we discussed agriculture.

I don't think that the American public—people say why are hogs so high price? Brokers have all been telling people to make short sales on hogs. My brother says they are not going down. Why? The hog product that the hog farmer produces is superior to what has been produced in hogs. I have a niece who is a dietetic nutritionist in St. Louis. She and her husband live down there. Five years ago she was telling her patients not to eat pork, those who have heart trouble. Today she is telling them to eat pork. I told the comptroller of the currency the other night, I said, "Have you ever eaten an Iowa cut or a Windsor cut of pork chop?" He says, "I don't know what you are talking about." So I explained it to him. He told his secretary to write it down, and I think that news is sound. I understand the fast food people are promoting it, and did you notice, have you noticed hogs have been up very good this week, and any livestock man here who feeds would be unable to explain it. Well, the reason is the public is using it.

Senator CLARK. Let me ask you one last question, and then they may have some questions. The same question that I was asking the

previous witness. What do you think about the present structure of agricultural credit? Do you like the way it's structured now, would you like to see changes in it?

Mr. RONAN. I like the way its structured. We have sent several loans through Mr. Lawlor's office, the FmHA people, we send customers there, we use the PCA. The amounts are going to have to be more to get over this crunch. I think you are in a cycle now that we are all—even we bankers are going to have to stretch ourselves, and we have to get over this deal. I am bullish for the long pull I can't see it otherwise, unless we have a collapse in our economy, and I don't see that.

Senator CLARK. I don't either.

Mr. RONAN. I talked with some economists.

Senator CLARK. Questions?

Mr. THORNTON. I would merely like to pose a question having to do with the guaranteed loan provision of this bill, This bill would establish both in the case of the real estate or farm ownership, and in our operating program, and separate guaranteed lending program, which, of course, would involve private lenders such as your bank putting up the money and where the Government would guarantee up to 90 percent. The graduation feature, by the way, would be taken out. Credit elsewhere would still apply.

As a country banker, what advantages and disadvantages do you see in this guaranteed provision?

Mr. RONAN. I think it's excellent.

Mr. THORNTON. Would you use it?

Mr. RONAN. Yes.

Mr. THORNTON. You would?

Mr. RONAN. I would use any instrument to be able to supply our customers. I was asked a question in Chicago the other day, "What are you going to do about your customers? Would you sell your securities to take care of them?" Well, if a good farmer came in, my first duty is to him, but you must also maintain that—you must watch your liquidity. We are not in banks—we don't print paper. We have no order of fiat or anything like that.

Mr. THORNTON. What about on the ownership side or real estate side? Most of your credit is operating, is it not, short term?

Mr. RONAN. Most of our credit—although we do make some farm loans, and if they are too big we ask them to go to the Federal land bank or Farmers Home Administration.

Mr. THORNTON. Well, the reason I am raising this question is that there has been some expression of concern, including on the part of banks that unless we can develop an effective secondary marketing scheme, so that banks can take their guaranteed portions and package them and sell them in a secondary market and recover their funds—

Mr. RONAN. I think—excuse me. I think there is some secondary market now, is there not, in some spots?

Mr. THORNTON. There is. It's just a question if you have enough loans to package.

Mr. RONAN. I know what you mean.

Mr. THORNTON. And I just wonder how country banks would handle that. You were saying, earlier, when you said you would

use this program, you would be using it with the thought of selling the guaranteed portion.

Mr. RONAN. That would be the idea. I hope we wouldn't have to sell it at a discount.

Senator CLARK. Conrad, do you have any questions?

Mr. LAWLOR. I don't have any questions, Senator. I would like to make a comment. I appreciate Bill Ronan coming over here from Decorah, and I do want you to know he enjoys a very excellent reputation as a banker—

Senator CLARK. I know that.

Mr. LAWLOR [continuing]. In that area. His bank uses our program and has used the SBA program properly over the years. He is an aggressive banker, and I mean by this that he has a sense of responsibility to be a full service bank in the community, serve both the depositors as well as his business loan customers. He does bring us loans that are just a little bit marginal for him. He does make a lot of business loans without us. And we would like to see that done, but when he recognizes one—Bill, I don't know if we have ever had a loss through your bank.

Mr. RONAN. No; we don't want you to either.

Senator CLARK. You are not going to start that.

Mr. RONAN. Our moral responsibility as a good citizen, you should not dump anything on your government.

Mr. LAWLOR. Right.

Senator CLARK. We thank you very much. We appreciate it.

Mr. RONAN. May I be excused now, Senator?

Senator CLARK. Certainly.

Mr. RONAN. I have been gone for 2 weeks. Thank you for listening to me.

Senator CLARK. Now, we are going to hear from Sam Buck, Williamsburg, a banker, and from Iowa County, of course. Just proceed, Sam, in any way you think appropriate.

STATEMENT OF G. S. BUCK, VICE PRESIDENT, FARMERS TRUST AND SAVINGS BANK, WILLIAMSBURG, IOWA

Mr. BUCK. Thank you. Mr. Chairman and distinguished members of the hearing for Senate bill 2146. My name is Sam Buck. I am vice president in charge of commercial loans at the Farmers Trust and Savings Bank in Williamsburg, Iowa.

I would like to add my recommendations to amending the Consolidated Farm and Rural Development Act and the Emergency Livestock Credit Act of 1974.

Our bank's situation as well as most smaller rural Iowa's banks is getting to the point where it is increasingly harder to handle the credit needs of our community due to the higher cost of land, machinery, and operating costs. Just 18 months ago, our loan to deposit ratio was 60 percent. At this time, we are 81 percent and is on the increase. We don't consider this position to be in the best interest of prudent banking, but due to the depressed cattle market, lowering of grain prices, and the short crops caused by the drought this summer, we are constantly renewing loans that should have been paid and loaning new money for operating inputs.

We have two very fine Government agencies, namely the Farmers Home Administration and the Small Business Administration, to assist the agricultural sector with their financing; however, enabling legislation is too slow in most cases to keep these agencies abreast with current needs. For instance, farmland values have increased an average of 17 percent across the Nation from February 1976, to February 1977, and in Iowa the average increase has been 35 percent for the same period. Operating and machinery costs have risen over 15 percent in that same year.

Now, we are meeting today to discuss the proposed new limits for the Farmers Home Administration to \$200,000 for direct farm ownership loans and \$300,000 for guaranteed loans. These limits today are barely adequate and, with the present rate of inflation, they will be inadequate once again in just a few short years.

I would recommend that the Secretary of Agriculture be given discretionary authority to review the loan limits and interest rates annually and to keep the Farmers Home Administration current with the demands of agriculture.

Our bank enjoys a fine relationship with the Farmers Home Administration as have most banks across the Nation, as I feel this agency is very careful to apply the "test for credit" requirement for their borrowers and are constantly working and supervising to graduate them back to the conventional lenders.

It's important to me and to our Nation to do everything in our power to maintain and strengthen our family farms. For the past several years, our balance of trade has been favorable because of agricultural exports. If we continue losing these farms and more land is acquired by large corporations and foreign investors, we can never expect our balance of trade to be maintained by the agricultural economy and we can also be assured of higher food prices in our Nation.

Having been a county supervisor for the Farmers Home Administration for 4 years from 1961 to 1965, I felt the county committee certification was very valuable, and I leaned heavily on my committee during the investigation and planning. Therefore, I'm not anxious to delete the certification requirement.

Interest rates on all loans except emergency loans should all be based upon the cost of money to the Government. I do not feel a lower rate to agriculture is as beneficial as having adequate loan funds and longer terms of repayment.

We should continue to support the emergency loan provision in Senate bill 2146; however, I would recommend for agriculture emergency loans, that the Farmers Home Administration and the Small Business Administration follow the same procedure for assisting the stricken farmer applicant. In Iowa County, for instance, the Farmers Home Administration uses the Iowa Statistical Service to establish average corn yields for the past 5 years at 101.5 bushel per acre. The Small Business Administration uses the established ASC yield on a per farm basis. The applicants in our bank's trade area will average 118 bushel per acre according to the ASC. Using this example, the SBA will provide \$33 per acre larger loan than the FHA. This is only one small example.

Being more familiar with the Farmers Home Administration, I have found that this is one Government agency that costs the

taxpayer very little. The loans are repaid plus interest. Their loss ratio is very low for the type of borrower they finance. In fact, it is considerably less than 1 percent.

My recommendations to further strengthen this program would be to change our multicounty areas to one office per county. This will increase costs by adding more personnel; however, the county supervisor can spend more time supervising his loans and less time traveling. This would also expedite loan writing and provide for more prompt processing.

The Small Business Administration could be more effective if a smaller branch office could be established in this area of the golden triangle. It would appear the demand in this area for loans to businesses will be increasing in the eastern third of Iowa due to the industrial expansion.

Another point, we get good legislation to support a needed program but our budget commitment falls short of doing the job we set out to do. For example, I have just learned that the drought-stricken farmers have made such a run on small business disaster loans that it is driving that program millions of dollars beyond the commitment Congress budgeted. Can this be corrected?

I would like to thank Senator Clark for his leadership and support to include agricultural credit as a part of the Small Business Administration's authority for guaranteed and direct loans. It is good to see agriculture recognized as a major industry and no longer just a way of life.

Thank you for your attention, and I hope I have fairly expressed some of the sentiments affecting agriculture and our credit system.

Senator CLARK. That's a good statement. It raises a lot of interesting points, and you say, for example, that your bank in Williamburg, the Farmers Trust and Savings Bank, has been stretched because of this price problem.

Mr. BUCK. Certainly.

Senator CLARK. You say your loans are up to 81 percent and you feel that's a little too much.

Mr. BUCK. This is where the guaranteed portion of SBA and FHA cannot help a bank in our situation, because we just don't have the loanable funds. We are turning down real estate loans, some machinery loans, and we are trying to hold the line.

Senator CLARK. So the guaranteed loan really wouldn't help you that much unless you could sell it, sell the paper.

Mr. BUCK. Yes. If there is a secondary market, we would be interested.

Senator CLARK. And you make the point that you think, particularly the Farmers Home Administration, because it requires congressional authority, that it often falls further and further behind inflation.

Mr. BUCK. Certainly.

Senator CLARK. Because you point out now the present increases will not really be adequate for a period in the future. I was wondering, do you remember, Jim when these present limits were established?

Mr. THORNTON. Just 2 years ago. He is right.

Senator CLARK. Two Years ago.

Mr. THORNTON. By the time we get things changed—

Senator CLARK. And you are saying what we ought to do is just give the Secretary of Agriculture discretionary authority to review these and keep up with it without waiting for Congress to act each time to renew those. I think that makes sense, probably.

Then on page 2 you say—I got a question about this. You say, I felt the county committee certification was very valuable and I leaned heavily on my committee during the investigation and planning. Therefore, I am not anxious to delete the certification requirement.

Would the proposed legislation delete that?

Mr. THORNTON. No, sir.

Senator CLARK. Wouldn't delete the certification requirement.

Mr. BUCK. I thought I read somewhere it would.

Senator CLARK. But it would allow appeal above the committee, as I understand it.

Mr. THORNTON. There are two provisions in here dealing with the committees. One, it would repeal or take away from the committee the function it now performs in setting the actual loan amounts a particular borrower will get.

Mr. BUCK. I see.

Mr. THORNTON. It will retain the committee in the eligibility process, and I couldn't agree with you more. That's a terribly important process, and we are keeping it there. We feel getting the committee out of the loan level business would help expedite the overall loan-making process. A lot of times the loan amount need even changes from the time it went to the committee and the time the loan is made. And when that happens we have to reschedule meetings and that sort of thing. The other aspect of this bill that affects committees is that the bill provides for the first time a formal appeal procedure relate to committee decisions. Under this appeal procedure anybody who felt they were dealt with unfairly by a committee could formally appeal it to the Administrator or through delegation, to the State director who would have the power to overrule the decision if he thought the committee's decision would be unfair.

Senator CLARK. What do you think of that?

Mr. BUCK. I think that's excellent, because at present the only way I know that these people can make an appeal is through a Senator or Representative.

Mr. THORNTON. But nobody can reverse their decision.

Mr. BUCK. But they can say, you know, this thing—

Mr. THORNTON. Send them back for another meeting.

Mr. BUCK. Yes, let's take another look at it, and I know of a few cases where this has happened, and I think a formal appeal program is an excellent idea.

Senator CLARK. A couple of other questions. You say we should continue the emergency loan provisions of the Senate bill 2146. However, I recommend for agriculture emergency loans that the Farmers Home Administration and the SBA follow the same procedure for assisting the stricken farmer applicant, and you point out that—an example here of ASC and Small Business and so forth, and conclude by using this example: The SBA will provide \$33 per acre larger loan than the Farmers Home.

Mr. BUCK. Yes.

Senator CLARK. That is an interesting fact, an interesting problem. I haven't given that much thought before.

Mr. BUCK. That's only for feed grains, of course, and then I think SBA goes back to the Iowa Statistical Service by taking the last 5 and throwing out the 1 low year, but it seems to me that they should be eligible for approximately the same amount of money.

Senator CLARK. I think that's probably true.

Mr. BUCK. Through both agencies.

Senator CLARK. What we ought to do is go through the legislation and try to—wherever we get problems of this kind and try to coordinate the two. We had them passing at different times out of different committees. That's why it happens, but the Commerce Committee passes the SBA, now the SBA Committee, and Agriculture passes the other one.

Lastly, you say on page 3, I have just learned that drought stricken farmers have made such a run on Small Business Administration loans that it's driving that program millions of dollars beyond the commitment that Congress budgeted. Can this be corrected? Conrad Lawlor had to leave to catch a plane, but we fairly recently appropriated some more money for that purpose. Now, whether that's entirely solved the problem or not, I don't know.

Mr. THORNTON. I think that is a genuine area of concern. SBA recently received \$1.2 billion which Congress gave them about a month back. There are applications now pending for \$728 million for the SBA above in the State of Georgia.

Senator CLARK. That's almost half of it.

Mr. THORNTON. And SBA has heavy loan activity facing them in the Carolinas, and here in Iowa.

Senator CLARK. Well, I don't want to leave the impression we are not going to appropriate the money to fulfill these. We will.

Mr. THORNTON. There is a problem that SBA has as opposed to the Farmers Home in terms of obtaining additional funds. In our case, when we run out of money, we merely have to go to OMB and request approval for more funds. We then take it out of our revolving fund. We sell more of our paper through the Federal financing bank. We do not have to go back to Congress. Our money is not direct money; SBA's is directly appropriated money. If they run out, they have to go back to Congress.

Senator CLARK. And that sometimes can present a temporary problem, but in the long run there is no question but that Congress will appropriate whatever funds are necessary for the Small Business disaster program, but I agree it makes it more difficult to keep up with the problem, I think.

Mr. BUCK. Right.

Senator CLARK. Any other questions?

Mr. THORNTON. I would like to ask this gentleman the same question I asked the previous banker on the guaranteed program. Do you do any guarantee work now, and, if so, are you selling that paper in secondary market?

Mr. BUCK. We tried with Fanny Mae, and we are finding out that we are too small a bank to be dealing with Fanny Mae after we get several thousand dollars involved, but, no, we do not use a secondary market that much.

Mr. THORNTON. Has there been any discussion among country bankers about the possibility of forming a consortium where they could combine their guaranteed notes and sell them into the primary market?

Mr. BUCK. I think the Iowa Bankers Association is working along these lines, but I don't know how far they are getting.

Mr. THORNTON. It seems to me, if I have been hearing correctly the last few days, that these elements of gaining access to the secondary market is probably going to be quite important to the use of and guaranteed authorities.

Senator CLARK. Do you think if we were to go ahead and establish a guaranteed loan program through Farmers Home that your bank would use that, or it would be useful to you?

Mr. BUCK. Well, we already put one through for \$341,000. By the way, it was turned down by SBA three times. I shouldn't say that behind Conrad's back, but it was denied three different times, and I think primarily it was denied because they didn't understand what we were doing. It was an expansion operation.

Senator CLARK. Did it eventually go through?

Mr. BUCK. Yes, through Farmers Home Administration, went through the first time. They understood it, and the loan even going through the drought, in fact, I had just had the borrower in last night and we drew up a cash projection to see how we are going to follow with reduced crops.

Mr. THORNTON. I wanted to ask you that question, because it seems to me that this might create a problem for some banks on the SBA side. In our case we can make an EM loan or other loans simultaneously. We can work out with the farmer any major adjustment loan needs and advance operating funds, really three loans, to assist him in the future. In the case of SBA's disaster loan program, it's kind of a one shot thing.

Senator CLARK. Conrad has indicated, Conrad Lawlor in earlier testimony here, that, of course, they are just getting into that business.

Mr. BUCK. Right.

Senator CLARK. And they are going to have to develop increasing expertise as they go along. We thank you very much.

Mr. THORNTON. Mr. Chairman, I would just like a little footnote to that process. I understand—and Mr. Lares our Iowa FmHA acting State director is here, and can correct me if I am wrong—that where SBA makes an emergency loan under its current program, and wants to refer that farmer later to Farmers Home, as long as we in checking his EM loan with SBA—

Senator CLARK. EM loan is what, emergency?

Mr. THORNTON. Emergency. If he has, in fact, had more than a 20-percent loss, I think we can consider him for other FmHA loans, can we not?

Mr. LAURES. Yes. If we were to go to a subtitle A or subtitle B, loan needs can be met with one of those adjustment loans, yes, as long as he had a 20-percent loss, qualifying loss.

Mr. THORNTON. Will, this is what we call our major adjustment loan and operating loan, right?

Mr. LAURES. Yes. These are features of our emergency loan—

Mr. THORNTON. Would you explain the adjustment loan for the benefit of the record?

Mr. LAURES. All right. Our emergency loan program really has three parts. We have actual losses for a man who qualifies and has 20 percent or more loss to a basic enterprise. Then we have an adjustment-type loan whereby we can refinance debts secured on real estate, and actually even help him to purchase real estate, if need be, but that is at the actual market rate. The rate for actual loss up to \$250,000 is 3 percent, and above \$250,000 is at 5 percent. The adjustment loan for real estate purposes is identified as subtitle A. Subtitle B is on chattels. We can do the same thing, make adjustments in his farming operation. Then we have a third, which is annual recurring operating expenses for forward financing. So we think we have a complete package under Public Law 94-68 that we can do the job with, and SBA does not have it. We are limited in helping only those who are unable to obtain the credit from normal sources. That's our big restriction.

Senator CLARK. We thank you very much for coming up. We got about 2 or 3 more minutes, so if there are other comments from the floor, give us your name and tell us where you are from for the record, and anything you would like to say.

**STATEMENT OF ROSS MINTLE, REPRESENTING STATE MASTER,
IOWA STATE GRANGE, MALCOLM, IOWA**

Mr. MINTLE. I am Ross Mintle. I am representing our State Grange Master who is at the national convention, and I gave Bob Wegmuller a copy of a paragraph from Washington, from our national master. Do you want me to read that?

Senator CLARK. Why don't you just read it.

Mr. MINTLE. John Scott, master of the National Grange, testified on October 11 before the Senate Subcommittee on Agricultural Credit, supporting provisions of several proposed bills which would raise limits on farm operating loans from \$50,000 to \$100,000 and limits on farm real estate loans from \$100,000 to \$200,000. Scott objected to a proposed substitute of the 5 percent interest rate with a variable interest rate geared to a guaranteed loans based on a rate negotiated between borrower and private lender. The Secretary of Agriculture would have latitude in offering lower interest rates to selected borrowers but with pressure for the change coming from the Office of Management and Budget, it is doubtful if a significant amount would be loaned at the lower interest rates. One way around this problem would be to make all loans at a specified rate, such as 3 percent for the first \$100,000 of the loan and increase the rate as the loan amount increased. This would not only circumvent OMB pressures, but would also make the change acceptable at the county level.

Senator CLARK. Let me say just for a moment, I agree with that. I think we have got to be very careful, because OMB, once we get headed in that direction, that's exactly what could happen. I think it's something that we do have to be very conscious of, because we have seen it happen in some of the loan programs.

Mr. MINTLE. I live on a—own and operate a 160-acre farm now in northeast Poweshiek County, and I visited with my local banker, who is an independent banker, about 2 days ago and then I went

back and visited with him again this morning, and he is concerned that we might make credit too easy. We should be very careful, our supervisors of Government agencies, not to let—go overboard just because we might have an increased limit or program. Now, we have been led to believe that bigger is better by a lot of economists and a lot of the material you read nowadays, but that's increased the pressures on the family farm, because the young fellow has a lot of ambition and goes out and rents more land and agrees to pay at least \$812 an acre cash rent, or else goes out and buys more acres to justify that big tractor or bigger combine, and many other things that have to go with it, but then the fellow who is not in a position to go out and do those, buy that machinery, can't rent land or can't buy land, there is just much pressure there. He can't justify it.

I have been farming since 1938, and I have a son now who would like to farm. He has tried his hand at other things, but he would like to farm, and he bought a farmstead about a mile from me this last spring through the Federal land bank, and he would make a good farmer, I know, but the neighbors who—he has been inquiring for 2 or 3 years if there might be some land available for him to rent, and it's just impossible to get into these big operations, and my 160 acres, I would rent that to him tomorrow. I would like to retire. I am 64. But that won't support both, two families.

Senator CLARK. Yes, we—

Mr. THORNTON. Mr. Chairman, I was just going to make a little quip, and that is, I think if the current situation has any lesson in it for us as lenders, it is that we probably should have been a little bit tougher in those earlier good years.

Mr. MINTLE. Well, you might be right there. I was on the Farm Home Administration Board quite a number of years ago, and a lot of these young fellows that came in to get more money or get the initial loan were very sharp young fellows, and I sometimes felt I was on the wrong side of the table, and I learned a lot.

Senator CLARK. That happens to me a lot, too. Same thing.

Mr. MINTLE. And I learned a lot in that period of time I was on that board, and then you have some who probably couldn't make it under any circumstances.

Senator CLARK. Yes.

Mr. MINTLE. But we need very close supervision on this.

Senator CLARK. We thank you very much, and we thank all of you for coming; 4:30 having arrived, we are going to have to leave, but we appreciate very much having your comments.

[Whereupon, at 4:30 p.m., the subcommittee adjourned, subject to call of the Chair.]

ADDITIONAL LETTERS

NOVEMBER 16, 1977.

Hon. DICK CLARK,
U.S. Senate, Federal Building
Cedar Rapids, Iowa

DEAR SENATOR CLARK: Thank you for inviting me to attend the U.S. Senate Agriculture Hearings relative to agricultural credit. I have other commitments on both November 18 and 19 and will not be able to attend. However, I would like to comment on the subject and you may submit this letter into the record of the hearings.

As you know, I serve on the Board of Directors of the Farm Credit Banks of Omaha (Land Bank, Production Credit Associations and Bank for Cooperatives) . . . the three Banks have more than \$4 billion in loans outstanding to midwestern farmers and their cooperatives. From my vantage point on this Board, I can tell you that many news reports about the lack of credit for farmers are, in my opinion, misinterpretations of the real problem.

The Land Bank and PCA, as well as most commercial banks and insurance companies, have ample loan funds available for agriculture at the present time. In addition, the FHA and SBA have both regular and emergency programs available to serve farmers. In my opinion, the problem is not one of inadequate credit . . . rather it is one of inadequate cash flow in many agricultural operations. In other words, without vast improvement in commodity prices (and in some cases, weather conditions) many farmers just can't demonstrate the ability to repay additional loans. To provide them with additional credit at this time would just temporarily delay their financial demise and probably cause them to dissipate even more of their assets.

If commodity prices stay at present levels, it is questionable whether some farmers will be able to handle the obligations they already have on conventional loans, not to mention any additional credit which they may get. As a matter of fact, it is difficult to figure how some farmers will be able to repay both present loans and pending emergency loans even if corn and bean prices return to the levels of several years ago.

It must be obvious to you that the best solution to the problem is to improve the agricultural income situation so that farmers can again qualify for the conventional credit they need. In my opinion, the best way to improve the income situation is for our nation to work harder at marketing ag commodities abroad and to do everything possible to see that the American farmer gets a fair price from the American consumer. I would particularly urge you to support increased government funding of foreign market development programs.

I hope that my ideas will be helpful to you in your deliberations.

Sincerely,

FRED LUDWIG,
Laurens, Iowa.

IOWA FERTILIZER & CHEMICAL ASSOCIATION, INC.
Des Moines, Iowa, November 18, 1977.

To: Iowa Congressional Delegation

Subject: The Farm Program

Hon. DICK CLARK,

U.S. Senator, Senate Office Building, 404 Russell Senate Office Building, Washington, D.C.

DEAR SENATOR CLARK: Your invitation to attend and present testimony at a Public Hearing regarding the Farm Program received.

My schedule does not permit my attendance, therefore, am filing the following statement for the record and am sending copies to our other Iowa Congressmen for their edification and use.

I have personally studied and reviewed many farm programs and proposals, most of which have never really solved anything because of the many variables involved such as weather, foreign demand, embargos, etc.

Farmers as a group (and I speak as one of them, I operate 25 acres of apple orchards as a hobby) are suspicious of government planning and interference in their operations. Above all else, we do not want the government telling us what we can raise or how we are to do it.

The present problem of over production and low prices must be addressed, however as must the problems of soil conservation and non point source pollution in the 208 Water Program because they affect farmers directly and the general populace indirectly.

Farmers in general abhor the idea of support prices and acreage controls which makes the government a very real partner in their business. As a group, I believe they will also be very adamant against compulsory soil conservation programs and non point source pollution regulations, yet these are in the offing.

Since all three are relatively unsolvable problems in themselves, then why not try to make them palatable to agriculture by combining compliance with the soil conservation program in their area and adoption of best management practices under 208 as a requisite for participation in the government crop loan program and acreage allotment scheme.

Under all former government programs the farmer who historically had planted the greatest acreage of row crops in his farm and thereby generated the greatest soil losses was rewarded by receiving the largest acreage allotment year after year. The farmer who practiced adequate soil conservation that required keeping his most erodible lands in grass, trees, shrubs, etc. was penalized with a smaller acreage of row crops year after year because the determination was always made on a history of cropping basis. This is a negative approach that must be discarded.

A marriage of the three problem areas mentioned into one Farm Program could be a very palatable package for agriculture and work towards a goal of solving these pressing farm problems. Paying farmers for not producing is negative thinking, buying of surplus production by government is also negative thinking and does not solve any problem, it only hides it for awhile because eventually the production must come on the market place at a price and be consumed.

Why continue to support negative programs such as these when we could tie positive programs of soil conservation and best management practices for control of non point source pollution to acreages allotment and price supports.

Lets put the monetary emphasis in the Government Farm Program on positive programs and tie support prices and acreage controls to compliance.

Farmers would then have a palatable package they could readily accept—like motherhood and apple pie and it might just succeed in solving three problems rather than creating more of the same in each area.

Another problem area that must receive attention and support is our Farm Export Program. This should be a first priority of Agriculture Secretary Bob Bergland and the U.S.D.A.

A fire needs to be built under that department in Washington to get out and sell our farm products. The world's hungry people need our food—the demand is there—surely this is the positive answer to our present surplus situation. It could also be a greater part of the answer to our foreign exchange needed to pay for oil imports. Agriculture in 1976 consumed only 3% of the energy used in the United States, yet our Ag Exports yielded enough revenue to purchase 68% of our imported energy. This is a tremendous plus program for all the people in the United States and must be expanded upon to conserve our domestic supplies of oil and gas.

I wish to thank you again for the opportunity to present testimony on the Farm Program.

At any time I can be of service through this office, please be in contact at your convenience.

Sincerely,

WINTON ETCHEN,
Executive Vice-President.

