

Y4
Ag 8/3
F 22/2
PT. 1
GOVERNMENT

1032-B

9544
Ag 8/3
F 22/2
pt. 1

Storage

**CHANGES IN FARMERS HOME
ADMINISTRATION LOAN PROGRAMS
DOCUMENTS**

36 1978

HEARING

PARSONS LIBRARY
KANSAS STATE UNIVERSITY

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. 312

**A BILL TO AMEND THE CONSOLIDATED FARM AND RURAL
DEVELOPMENT ACT**

S. 2126

**A BILL TO AMEND THE CONSOLIDATED FARM AND RURAL
DEVELOPMENT ACT, TO MAKE THE EMERGENCY LIVESTOCK
CREDIT ACT OF 1974 PERMANENT, AND FOR OTHER PURPOSES**

S. 2146

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

OCTOBER 11, 1977

PART I

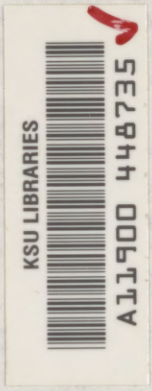
Printed for the use of the Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE

99-762 O

WASHINGTON : 1978



COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

HERMAN E. TALMADGE, Georgia, *Chairman*

JAMES O. EASTLAND, Mississippi
GEORGE McGOVERN, South Dakota
JAMES B. ALLEN, Alabama
HUBERT H. HUMPHREY, Minnesota
WALTER D. HUDDLESTON, Kentucky
DICK CLARK, Iowa
RICHARD B. STONE, Florida
PATRICK J. LEAHY, Vermont
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana

ROBERT DOLE, Kansas
MILTON R. YOUNG, North Dakota
CARL T. CURTIS, Nebraska
HENRY BELLMON, Oklahoma
JESSE HELMS, North Carolina
S. I. HAYAKAWA, California
RICHARD G. LUGAR, Indiana

MICHAEL R. McLEOD, *General Counsel and Staff Director*

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

JAMES B. ALLEN, Alabama, *Chairman*

GEORGE McGOVERN, South Dakota
WALTER D. HUDDLESTON, Kentucky

S. I. HAYAKAWA, California
CARL T. CURTIS, Nebraska

EX OFFICIO MEMBERS

HERMAN E. TALMADGE, Georgia

ROBERT DOLE, Kansas

Changes in Farmers Home Administration Loan Programs :

Oct. 11, 1977.—Part I.

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

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

CONTENTS

	Page
Allen, Hon. James B., a U.S. Senator from Alabama, opening statement.....	1
Curtis, Hon. Carl T., a U.S. Senator from Nebraska.....	48
Dole, Hon. Robert, a U.S. Senator from Kansas.....	57
Bills:	
S. 312.....	5
Staff explanation of S. 312.....	14
S. 2126.....	16
Staff explanation of S. 2126.....	26
S. 2146.....	28
Staff explanation of S. 2146.....	37

CHRONOLOGICAL LIST OF WITNESSES

Bergland, Hon. Bob, Secretary, U.S. Department of Agriculture, accompanied by Gordon Cavanaugh, Administrator, Farmers Home Administration.....	39
Bellmon, Hon. Henry, a U.S. Senator from Oklahoma.....	44
Bartlett, Hon. Dewey, a U.S. Senator from Oklahoma.....	60
Leahy, Hon. Patrick J., a U.S. Senator from Vermont.....	68
Johnson, Reuben L., director of legislative services, National Farmers Union.....	71
Scott, John, master, National Grange, accompanied by David Lambert, director of regulatory affairs.....	75
Fugate, Ivan D., first vice president, Independent Bankers Association of America, Denver, Colo., accompanied by Don F. Kirchner, chairman, Agriculture-Rural America Committee, Riverside, Iowa.....	80
Murray, William E., legislative specialist for rural development, National Rural Electric Cooperative Association.....	87
Cleveland, A. Bruce, president, Bankers Finance Corp., Arlington, Va.....	93

ADDITIONAL MATERIAL

Allen, Hon. James B., a U.S. Senator from Alabama, statement.....	99
Bellmon, Hon. Henry, a U.S. Senator from Oklahoma, statement.....	100
Dole, Hon. Robert, a U.S. Senator from Kansas, statement.....	101
Bartlett, Hon. Dewey, a U.S. Senator from Oklahoma, statement with attached letter from Deputy Secretary of Agriculture John C. White.....	102
Leahy, Hon. Patrick J., a U.S. Senator from Vermont, statement with attachments.....	104
Hayakawa, Hon. S. I., a U.S. Senator from California, statement.....	106
McGovern, Hon. George, a U.S. Senator from South Dakota, statement with attachments.....	107
Church, Hon. Frank, a U.S. Senator from Idaho, statement with attachments.....	112
Johnson, Reuben L., director of legislative services, National Farmers Union, memorandum with attached 1977 policy of National Farmers Union.....	115
Fugate, Ivan D., first vice president, Independent Bankers Association of America, Denver, Colo., statement.....	117
Murray, William E., legislative specialist for rural development, National Rural Electric Cooperative Association, statement.....	121

IV

Cleveland, A. Bruce, president, Bankers Finance Corp., Arlington, Va., statement.....	Page 124
Peterson, Leslie W., American Bankers Association, statement.....	126
Frazier, Charles L., director, Washington staff, National Farmers Organization, statement.....	130
Alman, Elliott, legislative representative, National Association of Counties, letter to Senator Allen with enclosure.....	131
American Farm Bureau Federation, statement.....	132
Powers, William, vice chairman, National Rural Housing Coalition, letter to Senator Allen.....	135
White, John C., Acting Secretary of Agriculture, letter to Vice President Mondale requesting Congress to draft legislation to amend the Consolidated Farm and Rural Development Act.....	1

CHANGES IN FARMERS HOME ADMINISTRATION LOAN PROGRAMS

TUESDAY, OCTOBER 11, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:10 a.m., in room 322, Russell Senate Office Building, Hon. James B. Allen (chairman of the subcommittee) presiding.

Present: Senators Allen, Hayakawa, Curtis, and Dole.

Also present: Senators Leahy and Bellmon.

STATEMENT OF HON. JAMES B. ALLEN, A U.S. SENATOR FROM ALABAMA*

Senator ALLEN. The hearing will please come to order.

With the consent of committee members I would like to insert at this point a letter from John White, Deputy Secretary of Agriculture, to Vice President Mondale, requesting Congress to draft legislation to amend the Consolidated Farm and Rural Development Act, and also bills S. 312, S. 2126, and S. 2146—introduced by request—with staff explanations of each bill.

[The material referred to above follows:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., June 20, 1977.

HON. WALTER F. MONDALE,
*President of the Senate,
Washington, D.C.*

DEAR MR. PRESIDENT: Enclosed for the consideration of the Congress is a draft bill "To amend the Consolidated Farm and Rural Development Act." The bill would make beneficial changes in certain insured and guaranteed loan programs administered by the Farmers Home Administration (FmHA).

The Department of Agriculture recommends that the draft bill be enacted.

The amendment to Section 302 would authorize the FmHA to extend eligibility for farm ownership, farm soil and water, and farm recreation loans to partnerships and corporations. This would permit the Secretary to authorize loans to private corporations and partnerships controlled by family farmers and ranchers who are engaged primarily and directly in farming or ranching. This amendment will not change the size of the enterprise to be assisted from that which would have existed as an individual family farmer operated enterprise. Under the amendment, the credit elsewhere test would apply to both the entity and the principal stockholders or partners. This proposed amendment would not require additional outlays.

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 would also eliminate the \$225,000 limitation

*See p. 99 for the prepared statement of Senator Allen.

on the total indebtedness that may exist against the farm or security. This amendment also eliminates the requirement that the county committee certify as to the maximum amount of such a loan. These changes would permit more adequate financing of family farms than is possible under existing limits and facilitate the use of guaranteed credit. This proposed amendment would not require additional outlays.

The revision to Section 307(a) would authorize interest rates for insured farm real estate-type of loans at a rate based on the average of current marketable obligations of the United States with comparable maturities plus an additional charge prescribed by the Secretary 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, with an interest rate less than the formula rate. Loans for water and waste disposal systems and essential community facilities would be made at an annual interest rate comparable to that prevailing in the private market for similar loans. The attached schedule shows estimated savings in terms of interest subsidy reductions over a 5-year period, assuming the program levels effective in 1977. This amendment would also provide that interest rates on all types of loans authorized under Subtitle A, when made as guaranteed loans, will be at rates negotiated between borrower and lender. Further, it would permit the Secretary more flexibility to react to changing conditions, and to provide interest rates for the various loan programs more in line with rates being paid by borrowers financing projects through conventional sources. This section would also delete the reference to "escrow agent" now found in Section 307(a)(2) of the Act. Such deletion would enable the Secretary, in those cases where he requires prepayments of taxes, insurance and the like, to merge the prepayments with other payments from the borrower, if the Secretary desires to do so for bookkeeping purposes.

The amendment to Section 309(f)(1) would delete the \$500 million maximum limitation on the amount of new loans that may be held in the Agricultural Credit Insurance Fund at any one time. Of the three FmHA insurance fund accounts, only that controlling utilization of the Agricultural Credit Insurance Fund contains such a limitation, with emergency loans being excepted. Elimination of this limitation would simplify the administration of the fund.

Subsections 309(f)(3) and 309A(g)(3) would be amended to authorize FmHA to pay from either the Agricultural Credit Insurance Fund or the Rural Development Insurance Fund deferred installments on loans to the holder of the notes. This authority would allow payments to holders of insured paper to be made on a regular basis from the funds even though the borrowers have been permitted to defer payment of principal and interest of the loans. At the present time, the payments from the borrowers may be deferred but the debt instruments cannot be sold from the funds since holders are not willing to forego interest payments on their loans.

Subsection 309A(g)(8) would be amended to authorize FmHA to transfer any funds made available under the Rural Development Insurance Fund for administrative purposes and merge these funds with any appropriation for administrative expenses of FmHA. This would place the same authority under the Rural Development Insurance Fund as FmHA now has under the Agricultural Credit Insurance Fund and the Rural Housing Insurance Fund which authorize FmHA to transfer administrative funds to its administrative appropriation account. This proposed change would not require any additional outlays.

A new Section 309B would be added which would authorize the Secretary to purchase the guaranteed portion of any outstanding guaranteed loan from the holder and to use the assets of the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund for such purposes. This would permit the Secretary to create a secondary market for the guaranteed portion of loans made by private lenders. It is anticipated that this authority would be used only when the private sector is unable to generate its own market. Further, it is intended that the Secretary would purchase such guarantees at discounts adequate to cover any risk exposure to the Government.

The amendment to Section 310B would eliminate for business and industrial assistance the administrative determinations concerning employment transfers and overproduction in cases where the assistance would not exceed \$500,000 or direct employment resulting from the assistance would not be increased by more than 20 employees. This change would expedite the administrative process and permit more rapid and effective assistance for business and industry in rural areas and would not require any additional outlays.

The amendment to Section 311 would authorize farm operating loans to private corporations and partnerships controlled by family farmers and ranchers and engaged primarily and directly in farming or ranching. Loans in these categories are presently limited to individuals. Under the amendment, the credit elsewhere test would apply to both the entity and the principal stockholders or partners. This amendment will not change the size of the enterprise to be assisted from that which would have existed as an individual family farmer-operated enterprise.

The amendment to Section 313 would increase farm operating loan limits to borrowers from \$50,000 to \$100,000 for insured and guaranteed loans. It would also delete the requirement that the county committee certify as to the maximum amount of operating loans. This amendment would provide an upward adjustment for inflation and permit borrowers to acquire sufficient capital to be effective farmers and ranchers.

Under the amendment to Section 316 the interest rate for farm operating loans would be determined by the Secretary of the Treasury. A like change is provided for Section 307 for subtitle A programs. The amendment to Section 316 would also provide for interest rates on guaranteed operating loans to be negotiated between borrower and lender.

The amendment would permit consolidation or rescheduling for payment of outstanding farm operating loans for a period not to exceed 7 years thus permitting the Secretary more flexibility to meet the credit needs of borrowers. The interest rates on loans which are consolidated or rescheduled could, in the discretion of the Secretary, be changed to the then current operating loan rate except that for guaranteed loans the interest rates would be a matter of negotiation between the borrower and lender.

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

A new subsection 331(j) would be added to permit FmHA to continue to conduct loan and grant operations in connection with properties or facilities securing any loan held or insured by the Secretary, or in connection with any property held by the Secretary, in areas that have passed from rural to urban classification due to population growth.

The amendment to Section 333(b) would authorize FmHA to establish a procedure for appeal and review and possible reversal of determinations made by FmHA County Committees. FmHA would thus be able to rectify any inequities which may result from county committee recommendations, certifications or other authorized actions. The amendment to Section 333(c) would exempt guaranteed loan borrowers from the requirement that they refinance their FmHA debt through conventional lenders when they can secure credit from those sources. By eliminating the requirement of "graduation" in the case of guaranteed loan borrowers, it would permit such borrowers to continue their customary and established business relationships with financial institutions, instead of seeking other sources of credit.

A new section 346 would also be added to the Act to nullify any restriction in another agency's statutory authority prohibiting it from becoming involved where a different Federal agency is rendering assistance. Any such agency would thus be authorized to assist a project that is also assisted by FmHA.

An identical letter has been sent to the Speaker of the House of Representatives.

The Office of Management and Budget advises that there is no objection to the presentation of this proposed legislation.¹

Sincerely,

JOHN WHITE,
Acting Secretary.

Attachments.

ESTIMATED SAVINGS IN PROGRAM COSTS

FARMERS HOME ADMINISTRATION

If community facility type loan interest rates were comparable to that prevailing in the private market for similar loans, certain emergency actual loss loan interest rates remained not more than 5 percent and all other interest rates

¹ The above-mentioned "proposed legislation" was introduced by Senator Talmadge (by request). A copy of the proposed legislation (S. 2146) and the staff explanation appears on pp. 28-38.

were superseded by cost-of-money formula interest rate through enactment of this proposal, it is estimated that the following savings in interest subsidy costs would be realized in programs continuing at levels appropriated for fiscal year 1977:

PROJECTED SAVINGS RESULTING FROM COST OF MONEY LEGISLATION

[In thousands of dollars]

Program	Program level	Savings				
		1978	1979	1980	1981	1982
Farm ownership loans.....	450,000	6,300	19,320	32,820	46,320	59,820
Individual soil and water loans.....	48,000	590	1,901	3,341	4,781	6,221
Soil and conservation loans to associations (I. & D.).....	5,000	34	127	259	409	559
Recreation loans to individuals.....	1,000	13	40	70	100	130
Grazing loans.....	4,000	51	162	282	402	522
Indian land acquisition loans.....	10,000	90	300	562	855	1,155
Community facility loans.....	200	300	1,440	3,620	6,480	9,500
Total savings.....		7,378	23,290	40,954	59,347	77,907

95TH CONGRESS
1ST SESSION

S. 312

IN THE SENATE OF THE UNITED STATES

JANUARY 18, 1977

MR. BELLMON (for himself and Mr. DOLE) introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To amend the Consolidated Farm and Rural Development Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That section 302 of the Consolidated Farm and Rural
4 Development Act is amended by—

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

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

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

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

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

22 "(7) Except as otherwise provided in this subsection,
23 as used in this title, the terms 'rural' and 'rural area' shall
24 not include any city, town, or village which has a population
25 in excess of ten thousand inhabitants: *Provided*, That special

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

16 SEC. 4. Section 307 (a) is amended by—

17 (a) adding a new second sentence to read: "Any
18 loan made under this subtitle as a guaranteed loan
19 shall bear interest at such rate as may be agreed upon
20 by the borrower and the lender.";

21 (b) deleting the words in the current second sen-
22 tence up to, and including, the number "(1)" and
23 inserting in lieu thereof "Loans, other than guaranteed
24 loans, made or insured under this subtitle shall bear
25 interest at rates determined by the Secretary of the

1 Treasury taking into consideration the current market
2 yield on outstanding marketable obligations of the United
3 States with remaining periods to maturity comparable
4 to the average maturities of such loans, adjusted to the
5 nearest one-eighth of 1 per centum, plus not to exceed
6 1 per centum per annum as determined by the Secretary
7 except that loans made or insured under section 304 (b)
8 or 310B shall”;

9 (c) deleting subsection (a) (2) ; and

10 (d) deleting in the unnumbered paragraph follow-
11 ing subsection (a) (2) the words “as escrow agent”.

12 SEC. 5. Section 309 (f) (1) is amended by changing the
13 period at the end of the first sentence to a semicolon and by
14 deleting the second sentence which reads “The aggregate of
15 the principal of such loans made and not disposed of shall not
16 exceed \$500,000,000 at any one time.”.

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

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

1 funds from the Agricultural Credit Insurance Fund in respect
2 of all other loans under this title.”.

3 SEC. 7. The language of restrictions appearing in section
4 310B is amended by adding in each of subsections (1),
5 (2), and (3) after “312 (b)” the following: “, except for
6 cases where such assistance does not exceed \$500,000 or for
7 cases where direct employment will be increased by not
8 more than twenty employees,”.

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

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

20 (b) inserting at the end thereof the following: “In
21 the case of corporations and partnerships the family farm
22 requirement of item (3) shall apply to the farm or farms
23 in which the entity and its principal stockholders or
24 partners, as applicable, have an operator interest and the

1 requirement of item (4) shall apply both to the entity
2 and the principal stockholders or partners.”.

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

9 SEC. 10. Section 316 is amended by—

10 (a) inserting in the third sentence after the word
11 “Loans” the phrase “, other than guaranteed loans,”;
12 and

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

17 SEC. 11. Section 321 is amended by—

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

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

22 SEC. 12. Section 331 is amended by—

23 (a) deleting in subsection (a) the words “and in
24 Puerto Rico and the Virgin Islands”; and

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

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

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

16 SEC. 14. Section 333 (c) is amended by inserting at the
17 beginning thereof the following: “except for guaranteed
18 loans,”.

19 SEC. 15. Section 343 is amended by deleting “and”
20 immediately before “(5)” and inserting the following before
21 the period at the end of the section: “, and (6) the term
22 ‘United States’ shall include the States, the Commonwealth
23 of Puerto Rico, the Virgin Islands, the commonwealths, terri-
24 tories, and possessions of the United States, and the Trust
25 Territory of the Pacific Islands, and the term ‘State’ shall

1 include the Commonwealth of Puerto Rico, the Virgin Is-
2 lands, the commonwealths, territories, and possessions of
3 the United States, and the Trust Territory of the Pacific
4 Islands”.

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

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

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

18 “SEC. 347. Notwithstanding any other provision of law,
19 departments, agencies, and executive establishments of the
20 Federal Government may participate and provide financial
21 assistance jointly with the Secretary to any applicant to
22 whom assistance is being provided under any program
23 administered by the Farmers Home Administration. Partici-
24 pation with the Secretary by any other department, agency,

1 or executive establishment shall be only to the extent au-
2 thorized for, and subject to the authorities of, such other
3 department, agency, or establishment, except that any
4 limitation on joint participation is superseded by this Act.”.

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

STAFF EXPLANATION OF S. 312

S. 312 amends title III of the Consolidated Farm and Rural Development Act, which establishes several farm and rural credit programs.

Section 1 authorizes the Secretary of Agriculture to make farm ownership, farm soil and water, and farm recreation loans under subtitle A of title III to private domestic corporations and partnerships controlled by farmers or ranchers and engaged primarily and directly in farming or ranching. A partnership or corporation and the principal stockholders or partners would have to meet together the family farm requirement, and the credit elsewhere test would apply to both the corporation or partnership and the principal stockholders or partners.

Section 2 would increase the loan limit on insured and guaranteed loans under subtitle A from \$100,000 to \$200,000. It would also eliminate the limitation on the total indebtedness that may exist against the farm or security with respect to such loans, and eliminate the requirement for county committee certification as to the maximum amount of each loan.

Section 3: (1) simplifies the definition of "rural" as used in title III;

(2) gives a preference for loans under title III to municipalities having a population of not more than 5,500;

(3) eliminates the "urbanized and urbanizing" test for business and industry loans;

(4) authorizes the Secretary to determine population levels on a when-needed basis; and

(5) gives a preference to municipalities having a population of not more than 25,000 for small business enterprise and pollution abatement loans.

Section 4 provides that for any loan made under subtitle A on a guaranteed basis, the interest rate will be negotiated between the borrower and the lender. It also eliminates the subsidized maximum interest rate of 5 percent for subtitle A loans and requires, instead, that the maximum rate be set at the cost of money plus a possible add-on of 1 percent. Business and industry loans made on an insured basis would continue to be made at the current formula interest rate, which permits a slightly higher rate of interest than the cost of money formula for other subtitle A loans. This section also deletes the requirement that the Secretary hold required tax and insurance prepayments in a segregated escrow account.

Section 5 deletes the \$500 million maximum limitation on the amount of new loans that may be held in the Agricultural Credit Insurance Fund at any one time. (Such limitations do not exist for other insurance funds administered by the Farmers Home Administration.)

Section 6 authorizes the Secretary to purchase the guaranteed portion of any outstanding guaranteed loan from the holder and to use the assets of the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund for such purposes.

Section 7 establishes an exemption from the prohibition against providing financial or other assistance available under subtitle A for rural development pur-

poses in certain situations. Under current law, such assistance is prohibited if it will result in transfer of employment or overproduction, or if the Secretary of Labor certifies with respect to an application that transfer of employment or overproduction will occur. Exempted under section 7 are cases in which the assistance does not exceed \$500,000 or employment will not be increased by more than 20 employees.

Section 8 authorizes the Secretary to make farm operating loans to private domestic corporations and partnerships controlled by farmers and ranchers and engaged primarily and directly in farming or ranching. Loans in these categories are presently limited to individuals. A corporation or partnership and the principal stockholders or partners would have to meet together the family farm requirement, and the credit elsewhere test would apply to both the corporation or partnership and the principal stockholders or partners.

Section 9 increases farm operating loan limits to borrowers from \$50,000 to \$100,000 for direct loans, and to \$200,000 for guaranteed loans, and deletes the requirement for county committee certification as to the maximum amount of operating loans.

Section 10 provides that the interest rate for guaranteed operating loans under subtitle B will be that negotiated between the borrower and lender.

Section 11 deletes Puerto Rico and the Virgin Islands from the eligible areas for emergency loans under subtitle C of title III since these areas are covered by a new definition added to title III by section 15 of the bill. Similar changes are being made to other sections of title III. This section also specifies that to be eligible for an emergency loan under subtitle C, a partnership must be a United States partnership. A similar requirement is already imposed on corporations.

Section 12 permits the Secretary to continue to conduct loan and grant operations under title III in connection with properties or facilities securing any loan held or insured by the Secretary, or in connection with any property held by the Secretary, in areas that have passed from rural to urban classification due to population growth.

Section 13 authorizes the Secretary to establish a procedure for the appeal of county committee determinations with respect to a loan applicant's eligibility and other qualifications for loans under title III.

Section 14 exempts guaranteed loan borrowers from the requirement that they refinance their loans under title III through conventional lenders when they can secure credit from those sources.

Section 15 inserts a new definition in title III which increases the jurisdictional areas which the Farmers Home Administration may serve to include all commonwealths, territories, and possessions of the United States.

Section 16 specifically authorizes Congress to establish Farmers Home Administration program levels in appropriations acts. Where such a level is established, it must contain both an insured and a guaranteed amount.

Section 17 adds a new section to title III authorizing other Federal agencies to participate with the Secretary in providing financial and technical assistance to persons receiving assistance under programs administered by Farmers Home Administration.

95TH CONGRESS
1ST SESSION

S. 2126

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 22, 1977

Mr. CHURCH 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, to make the Emergency Livestock Credit Act of 1974 permanent, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Family Farm Credit
4 Act of 1977".

5 SEC. 2. Section 302 of the Consolidated Farm and Rural
6 Development Act is amended by—

7 (a) deleting the language through the first comma
8 and inserting the following: "The Secretary is author-
9 ized to make and insure loans under this subtitle to
10 farmers and ranchers, and to private domestic corpora-

1 tions, partnerships, and other business entities engaged
2 primarily and directly in farming or ranching, in the
3 United States who individually or, in the case of a
4 partnership, each member of the partnership is a mem-
5 ber of the family and in the case of a corporation or
6 other business entity, each person who owns any share
7 or interest in the business entity is a member of the
8 family, (1) are citizens of the United States,"; and

9 (b) inserting at the end thereof the following: "In
10 the case of corporations, partnerships, and other busi-
11 ness entities the family farm requirement of item (3)
12 shall apply to the farm or farms in which the entity
13 and each person who owns any share or interest in the
14 business entity or partners, as applicable, have an owner-
15 ship and operator interest and the requirement of item
16 (4) shall apply both to the entity and each person who
17 owns any share or interest in the business entity or
18 partners. As used in this subsection, the term 'member
19 of the family' means, with respect to any individual,
20 only such individual's ancestor or lineal descendant, a
21 lineal descendant of a grandparent of such individual,
22 the spouse of such individual, or the spouse of any such
23 descendant. For purposes of the preceding sentence, a
24 legally adopted child of an individual shall be treated as
25 a child of such individual by blood."

1 SEC. 3. Section 305 is amended by deleting the first
2 sentence and inserting in lieu thereof the following: "The
3 Secretary shall make or insure no loan under sections 302,
4 303, and 304 of this title which would cause (a) the unpaid
5 indebtedness under these sections to any one borrower to
6 exceed \$450,000 of the value of the farm or other security,
7 or (b) the loans under such sections to exceed \$225,000,
8 or in the case of a guaranteed loan to exceed \$300,000."

9 SEC. 4. Section 307 (a) is amended by deleting in the
10 unnumbered paragraph following subsection (a) (2) the
11 words "as escrow agent".

12 SEC. 5. Section 309 (f) (1) is amended by changing
13 the period at the end of the first sentence to a semicolon
14 and by deleting the second sentence which reads "The
15 aggregate of the principal of such loans made and not dis-
16 posed of shall not exceed \$500,000,000 at any one time."

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

19 "SEC. 309B. The Secretary in his discretion is author-
20 ized to purchase, on such terms and conditions as he may
21 deem appropriate, the guaranteed portion of any loan guar-
22 anteed pursuant to this title and may use for such purchases
23 funds from the Rural Development Insurance Fund in re-
24 spect of rural development loans as defined in section 309A

1 (a) and funds from the Agricultural Credit Insurance Fund
2 in respect of all other loans under this title.”.

3 SEC. 7. The language of restrictions appearing in sec-
4 tion 310B is amended by adding in each of subsections (1),
5 (2), and (3) after “312 (b)” the following: “, except for
6 cases where such assistance does not exceed \$500,000 or
7 for cases where direct employment will be increased by not
8 more than twenty employees,”.

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

10 (a) deleting the language through the first comma
11 and inserting the following: “The Secretary is author-
12 ized to make and insure loans under this subtitle to
13 farmers and ranchers, and to private domestic corpora-
14 tions, partnerships, and other business entities engaged
15 primarily and directly in farming or ranching, in the
16 United States who individually or, in the case of a
17 partnership, each member of the partnership is a member
18 of the family and in the case of a corporation or other
19 business entity, each person who owns any share or
20 interest in the business entity is a member of the family,
21 (1) are citizens of the United States,”; and

22 (b) inserting at the end thereof the following: “In
23 the case of corporations, partnerships, and other business
24 entities the family farm requirement of item (3) shall

1 apply to the farm or farms in which the entity and each
2 person who owns any share or interest in the business
3 entity or partners, as applicable, have an ownership and
4 operator interest and the requirement of item (4) shall
5 apply both to the entity and each person who owns
6 any share or interest in the business entity or partners.

7 As used in this subsection, the term 'member of the
8 family' means, with respect to any individual, only such
9 individual's ancestor or lineal descendant, a lineal de-
10 scendant of a grandparent of such individual, the spouse of
11 such individual, or the spouse of any such descendant.

12 For purposes of the preceding sentence, a legally
13 adopted child of an individual shall be treated as a
14 child of such individual by blood."

15 SEC. 9. (a) Section 312 (a) of the Consolidated Farm
16 and Rural Development Act (7 U.S.C. 1942 (a)) is
17 amended by striking out the word "and" at the end of
18 clause (9) ; striking out the period at the end of such sec-
19 tion and inserting in lieu thereof a comma and the following:
20 "and (11) repairing, improving, or constructing any farm
21 facility or building."

22 (b) Section 313 of such Act (7 U.S.C. 1943) is
23 amended by deleting at the end of clause (1) "\$50,000,"
24 and inserting in lieu thereof "\$100,000 or, in the case of a

1 guaranteed loan, to exceed \$225,000, or”, by changing the
2 comma following the word “program” to a period, and by
3 deleting the balance of the sentence.

4 SEC. 10. Section 316 is amended by—

5 (a) inserting in the third sentence after the word
6 “Loans” the phrase “, other than guaranteed loans,”;
7 and

8 (b) adding a new sentence at the end of such sec-
9 tion as follows: “Guaranteed loans made under this sub-
10 title shall bear interest at such rate as may be agreed
11 upon by the borrow and the lender.”.

12 SEC. 11. (a) Section 317 of the Consolidated Farm and
13 Rural Development Act (7 U.S.C. 1947) is amended by
14 striking out “except” in the parenthetical matter and insert-
15 ing in lieu thereof “including consolidated loans made under
16 section 318 of this Act, but not including loans made under”.

17 (b) Subtitle B of such Act is amended by adding at the
18 end thereof a new section as follows:

19 “SEC. 318. (a) Notwithstanding the provisions of sec-
20 tions 312 and 316 of this Act, and any other provision of
21 law, two or more operating loans may be refinanced and
22 consolidated under this subtitle at the request of the bor-
23 rower, subject to the approval of the Secretary, without
24 regard to whether such loans have been previously renewed.

25 “(b) In any case in which operating loans are refi-

1 nanced and consolidated under this section, the Secretary
2 may, in his discretion, release any or all of the security for
3 the prior loans and require such new security as he deems
4 necessary.

5 “(c) Consolidated loans made under this section shall
6 bear interest at a rate computed in accordance with the pro-
7 visions of section 316 and shall be payable in not more than
8 ten years, but in no event may any such loan be made for a
9 period longer than the useful life of the security therefor.
10 The interest and maturity period of any such loan shall be
11 computed from the date of consolidation thereof.”.

12 SEC. 12. Section 321 of such Act is amended by adding
13 to section 321 (b) (2) after “partnership” the words “of
14 the United States”.

15 SEC. 13. Section 333 (b) is amended by deleting the
16 semicolon at the end thereof and inserting the following:
17 “: *Provided, however,* That the Secretary may provide a
18 procedure for appeal and review of any determination re-
19 lating to a certification or recommendation required to be
20 made by the county committee under this title, and for
21 reversal or modification thereof should the fact warrant
22 such action.”.

23 SEC. 14. Section 333 (c) is amended by inserting at the
24 beginning thereof the following: “except for guaranteed
25 loans,”.

1 SEC. 15. At the end of such Act, after section 345, add
2 a new section 346 to read as follows:

3 “SEC. 346. Notwithstanding any other provision of law,
4 departments, agencies, and executive establishment of the
5 Federal Government may participate and provide financial
6 and technical assistance jointly with the Secretary to any
7 applicant to whom assistance is being provided under any
8 program administered by the Farmers Home Administration.
9 Participation with the Secretary by any other department,
10 agency, or executive establishment shall be only to the ex-
11 tent authorized for, and subject to the authorities of, such
12 other department, agency, or establishment, except that any
13 limitation on joint participation is superseded by this Act.”.

14 SEC. 16. Notwithstanding any other provision of law,
15 the Secretary of Agriculture is authorized, in any case in
16 which he is required to satisfy the terms of any loan insured
17 or guaranteed by the Farmers' Home Administration or in
18 any case in which he is required to foreclose on a loan made
19 by the Farmers' Home Administration and such action would
20 result in the borrower of such loan losing his farm or ranch,
21 the Secretary may withhold any foreclosure action and
22 permit the borrower to rent or lease the farm or ranch to a
23 third person for a temporary period of time, not to exceed
24 36 months, if the Secretary finds that the borrower—

1 (1) is unable to meet the mortgage payments on
2 the farm or ranch because of illness, physical disability,
3 or other cause beyond the control of the borrower, and

4 (2) will likely be able to meet the mortgage pay-
5 ments if permitted to rent or lease the farm or ranch.

6 SEC. 17. (a) Clause (3) of section 3 (a) of the Emer-
7 gency Livestock Credit Act of 1974 is amended to read as
8 follows:

9 “(3) the loan is for the purpose of maintaining the
10 operation of the loan applicant, and the total loans made
11 to the loan applicant do not exceed the amount necessary
12 to permit the continuation of his livestock operations at
13 a level equal to its highest level during (A) the eighteen
14 months immediately preceding the date of enactment of
15 this Act in the case of loans made prior to the date of
16 enactment of the Family Farm Credit Act of 1977, or
17 (B) the five-year period immediately preceding the date
18 of the loan application in the case of loans made after the
19 date of enactment of the Family Farm Credit Act of
20 1977, but in no event may the total loans guaranteed
21 under this Act for any loan applicant exceed \$500,000
22 outstanding.”.

23 (b) Section 8 of such Act is amended to read as follows:
24 “SEC. 8. There are authorized to be appropriated such

1 sums as may be necessary to carry out the provisions of this
2 Act.”.

3 SEC. 18. The Secretary is authorized to issue such rules
4 and regulations as he deems necessary to carry out the
5 provisions and purpose of this Act.

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

STAFF EXPLANATION OF S. 2126

S. 2126 amends the Emergency Livestock Credit Act of 1974 and title III of the Consolidated Farm and Rural Development Act, which establishes several farm and rural credit programs. S. 2126 establishes new authority for the Secretary of Agriculture with respect to foreclosure of Farmers Home Administration loans.

Section 1 states that the bill may be cited as the "Family Farm Credit Act of 1977".

Section 2 makes corporations, partnerships, and other business entities engaged primarily in farming or ranching eligible for loans under subtitle A of title III, if the entity and the shareholders (or partners) together meet the family farm requirement. The members of the corporation, partnership, or other entity would have to be members of the same family, and the credit elsewhere test would apply to both the entity and the shareholders (or partners).

Section 3 increases the maximum limit on loans under subtitle A from \$100,000 to \$225,000, and to \$300,000 for guaranteed loans. It raises the indebtedness restriction that applies to the farm or other security from \$225,000 to \$450,000 and limits the restriction to debts under subtitle A. It repeals the provision that no such loan can be in excess of the amount certified by the county committee.

Section 4 deletes the requirement that the Secretary hold required tax and insurance prepayments in a segregated escrow account.

Section 5 deletes the maximum dollar limitation of \$500,000,000 on the amount of new loans under subtitle A that may be held in the Agriculture Credit Insurance Fund.

Section 6 adds a new section to subtitle A which would authorize the Secretary of Agriculture to purchase from the holder the guaranteed portion of any outstanding guaranteed loan under title III and to use the assets of the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund for such purpose.

Section 7 establishes an exemption from the prohibition against providing financial or other assistance available under subtitle A for rural development purposes in certain situations. Under current law, such assistance is prohibited if it will result in transfer of employment or overproduction, or if the Secretary of Labor certifies with respect to an application that transfer of employment or overproduction will occur. Exempted under section 7 are cases in which the assistance does not exceed \$500,000 or employment will not be increased by more than 20 employees.

Section 8 makes corporations, partnerships, and other business entities eligible for farm operating loans under subtitle B of title III, under the same conditions as under subtitle A loans.

Section 9 authorizes operating loans under subtitle B to be made for repairing, improving, or constructing farm facilities, and raises the indebtedness restriction on farm operating loans from \$50,000 to \$100,000, and to \$225,000 for guaranteed loans. It also repeals the provision that no such loan can be in excess of the amount certified by the county committee.

Section 10 provides that the interest rate for guaranteed operating loans under subtitle B will be that negotiated between the borrower and lender.

Section 11 authorizes the consolidation of operating loans under subtitle B.

Section 12 provides that, to be eligible for an emergency loan under subtitle C, a partnership must be a United States partnership. A similar requirement is already imposed on corporations.

Section 13 authorizes the Secretary to establish a procedure for the appeal of county committee determinations with respect to a loan applicant's eligibility and other qualifications for loans under title III.

Section 14 exempts guaranteed loans from the credit graduation requirements of title III.

Section 15 adds a new section to title III authorizing other Federal agencies to participate with the Secretary in providing financial and technical assistance to persons receiving assistance under programs administered by Farmers Home Administration.

Section 16 establishes a new provision of law authorizing the Secretary to withhold foreclosure action and permit a borrower to lease his farm or ranch to a third person for up to three years if the borrower (1) is unable to meet the mortgage payments due to illness, disability, or other cause beyond his control, and (2) will likely be able to meet the required payments if permitted to lease his farm or ranch.

Section 17 makes the Emergency Livestock Credit Act permanent and raises the maximum permissible guarantee from \$250,000 to \$500,000.

Section 18 authorizes the Secretary to make such rules and regulations necessary to carry out the provisions of this Act.

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 Fore-

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,

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;”; and

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."

SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

STAFF EXPLANATION OF S. 2146

S. 2146 amends title III of the Consolidated Farm and Rural Development Act, which establishes several farm and rural credit programs.

Sections 1 and 2 authorizes the Secretary of Agriculture to make farm ownership, farm soil and water, and farm recreation loans under subtitle A of title III to private domestic corporations and partnerships controlled by farmers or ranchers and engaged primarily and directly in farming or ranching. A partnership or corporation and the principal stockholders or partners would have to meet together the family farm requirement, and the credit elsewhere test would apply to both the corporation or partnership and the principal stockholders or partners.

Section 3 would increase the loan limit on insured and guaranteed loans under subtitle A from \$100,000 to \$200,000. It would also eliminate the \$225,000 limitation on the total indebtedness, and eliminates the requirement for county committee certification as to the maximum amount of each loan.

Section 4 would change the maximum interest rate for loans under subtitle A from 5 percent to a rate based on the current average market yield on outstanding marketable obligations of the United States with comparable maturities, plus an additional charge prescribed by the Secretary to cover losses and cost of administration. The Secretary would be further authorized to assist young and other farm families who may not reasonably be expected to make full payments based on such interest rate, by setting an interest rate less than the formula rate.

Also, exception would be made for loans for water and waste disposal systems and essential community facilities. These loans would be made with an annual interest rate comparable to that prevailing in the private market for similar loans.

This section also provides that interest rates on all types of loans authorized under subtitle A, when made as guaranteed loans, will be at rates negotiated between borrower and lender. Further, it would permit the Secretary more flexibility to react to changing conditions, and to provide interest rates for the various loan programs more in line with rates being paid by borrowers financing projects through conventional sources.

This section would also delete the reference to "escrow agent" now found in Section 307(a)(2) of the Act. Such deletion would enable the Secretary, in those cases where he requires prepayments of taxes, insurance, and the like, to merge the prepayments with other payments from the borrower, if the Secretary desires to do so for bookkeeping purposes.

Section 5 would delete the \$500 million maximum limitation on the amount of new loans that may be held in the Agricultural Credit Insurance Fund at any one time.

Sections 5 and 6 authorize FmHA to pay from either the Agricultural Credit Insurance Fund or the Rural Development Insurance Fund deferred installments on loans to the holders of the notes. This authority assures that payments to holders of insured paper will be made on a regular basis even though the borrowers have been permitted to defer payment of principal and interest of the loans.

Similar provisions have already become law with the enactment of the Food and Agriculture Act of 1977, Public Law 95-113.

Section 6 would also authorize the Secretary, with respect to monies made available under the Rural Development Insurance Fund for administrative purposes, to transfer these monies to, and merge them with, any appropriation made to cover such administrative expenses. This would give the Secretary the same authority under the Rural Development Insurance Fund as the Secretary now has under the Agricultural Credit Insurance Fund and the Rural Housing Insurance Fund.

Section 7 would authorize the Secretary to purchase the guaranteed portion of any outstanding guaranteed loan from the holder and to use the assets of the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund for such purposes. This would permit the Secretary to create a secondary market for the guaranteed portion of loans made by private lenders, if such a market was not available in the private sector.

Section 8 establishes an exemption from the prohibition against providing financial or other assistance available under subtitle A for rural development pur-

poses in certain situations. Under current law, such assistance is prohibited if it will result in transfer of employment or overproduction, or if the Secretary of Labor certifies with respect to an application that transfer of employment or overproduction will occur. Exempted under section 7 are cases in which the assistance does not exceed \$500,000 or employment will not be increased by more than 20 employees.

Section 9 would authorize the Secretary to make farm operating loans to private domestic corporations and partnerships controlled by farmers and ranchers and engaged primarily and directly in farming or ranching. Loans in these categories are presently limited to individuals. A corporation or partnership and the principal stockholders or partners would have to meet together the family farm requirement; and the credit elsewhere test would apply to both the corporation or partnership and the principal stockholders or partners.

Section 10 would increase farm operating loan limits to borrowers from \$50,000 to \$100,000 for insured and guaranteed loans, and delete the requirement for county committee certification as to the maximum amount of operating loans.

Section 11 would change the formula for setting the interest rate for farm operating loans under subtitle B. The Secretary of the Treasury could adjust the interest rate to reflect rates prevailing in the private market for similar loans and to take into consideration the Secretary of Agriculture's insurance of the loans. An additional charge could be added onto the rate to cover losses or the cost of administration. This section also provides that interest rates on guaranteed operating loans are to be negotiated between borrower and lender.

The section would also permit consolidation or rescheduling for payment of outstanding farm operating loans for a period not to exceed 7 years, thus permitting the Secretary more flexibility to meet the credit needs of borrowers.

The interest rates on loans which are consolidated or rescheduled could, in the discretion of the Secretary, be changed to the then current operating loan rate except that, with respect to guaranteed loans, the interest rates would be a matter of negotiation between the borrower and lender.

Section 12 specifies that, for a partnership to be eligible for an emergency loan, it must be a United States partnership. A similar requirement is already imposed on corporations.

Section 13 would permit the Secretary to continue to conduct loan and grant operations under title III in connection with properties or facilities securing any loan held or insured by the Secretary, or in connection with any property held by the Secretary, in areas that have passed from rural to urban classification due to population growth.

Section 14 authorizes the Secretary to establish a procedure for the appeal of county committee determinations with respect to a loan applicant's eligibility and other qualifications for loans under title III.

This section would also exempt guaranteed loan borrowers from the requirement that they refinance their loans under title III through conventional lenders when they can secure credit from those sources. By eliminating the requirement of "graduation" in the case of guaranteed loan borrowers, it would permit such borrowers to continue their customary and established business relationships with financial institutions, instead of seeking other sources of credit.

Section 15 adds a new section to title III authorizing other Federal agencies to participate with the Secretary in providing financial and technical assistance to persons receiving assistance under programs administered by Farmers Home Administration. Also, it would nullify any restriction in another agency's statutory authority prohibiting it from becoming involved where a different Federal agency is rendering assistance.

Section 16 would change the name of the Farmers Home Administration of the Department of Agriculture to the "Farm and Rural Development Administration".

Senator ALLEN. Secretary Bergland, we are delighted to have you, Mr. Cavanaugh, and others from the Department to appear before the committee this morning and we welcome your appearance and look forward to hearing your testimony on this important subject of the Farmers Home Administration and their loan programs. We invite you to proceed with your statement in such manner as you see fit.

STATEMENT OF HON. BOB BERGLAND, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY GORDON CAVANAUGH, ADMINISTRATOR, FARMERS HOME ADMINISTRATION

Secretary BERGLAND. Thank you very much, Mr. Chairman, members of the committee.

I believe each member of the committee has a copy of our text which contains a number of amendments in some detail.

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

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

Mr. Chairman, I'll summarize the administration's recommendations.

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

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

It is not our intention that the Farmers Home Administration finance investor-owned corporations or partnerships. Eligibility would remain with about the same size of family farm operation as is being served under the present program. However, it would extend to family farmers who operate on a partnership or corporate basis for tax, estate, or other reasons. No longer would they be excluded from the regular farm program services of the FmHA just because of the way they are doing business. And I might add parenthetically, Mr. Chairman, I was in the other body 3 years ago when the question of the lending to California livestock producers arose. The farmers in that State at that time were bound by some new State laws on water quality and pollution, and we found that the FmHA was not able to serve them because under California law most of them were incorporated. Because of that technical limitation they were prohibited from any credit from the FmHA and they, therefore, went to the Small Business Administration, which had led to a problem that I can discuss later.

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

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

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

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

The Farmers Home Administration has determined that many farmers who have some equity in resources and demonstrated management ability require less management assistance and counseling than others. Their main problem is obtaining adequate credit. For these families, the Department recommends the loan guarantee program at rates attractive to the lender and still in line with rates being charged other farmers and ranchers in the area through guidelines to be established by the Secretary of Agriculture.

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

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

are certain startup costs in farming, as in many businesses, which require varying degrees of assistance to help assure success.

The administration's proposal gives the Secretary more flexibility to serve applicants of special needs. For example, the Secretary could provide a loan with a changing interest rate. Or, if conditions warrant, he might provide for a subsidized rate of interest. Loans could be repaid in unequal installments. With this flexible authority, the Secretary could offer the limited resource family an opportunity to buy land and acquire equity in a farm. As soon as equity is established, the interest rate would be moved to the market rate of interest.

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

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

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

Existing legislation provides that the interest rate for both insured and guaranteed farm operating loans will be based on the cost of money to the Government. The administration proposes that cost-of-money ratio be continued as the interest rate for insured loans, but that a negotiated rate be permitted for guaranteed loans to attract more private capital, and to free up more time for loan supervision and management assistance to those borrowers most in need of such services from FmHA personnel. The Department would expect local lenders to finance farmers' and ranchers' intermediate credit and annual production expense at an interest rate not higher than the rate charged for the lender's other farm and ranch customers. FmHA program regulations would be written accordingly.

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

The role of the FmHA county committee in processing farm real estate and operating loans would be modified by another proposed amendment. Existing law requires that the committee certify as to applicant eligibility and the amount of loan. The administration's proposal would eliminate certification as to the amount of loan. This would be another step forward in the elimination of redtape. Often, at the time an applicant is being considered for eligibility, the amount of the

loan he requires is not known. In any case, the amount is subject to change after the application is filed; and this can lead to needless, costly county committee sessions and delay in taking actions on the farmer's application. Actually, this change would remove from the county committee a loan determination for which the loan approval official should rightfully be responsible. The requirement for county committee certification of applicant eligibility would be retained.

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

Graduation of borrowers to commercial credit is a requirement of existing law in guaranteed as well as insured loan programs except for the guaranteed business and industry and housing programs. The administration strongly recommends an exemption from this requirement for guaranteed borrowers in the farm loan program. The graduation requirement often makes it impossible for the local lender to market such a guaranteed note with a secondary investor. Also, eliminating the requirement of "graduation" in the case of guaranteed loan borrowers would permit such borrowers to continue their customary and established business relationships with financial institutions, instead of seeking other sources of credit.

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

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

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

Business and industrial loan and industrial development grant processing through the FmHA are subject to a requirement, under existing authority, that the Secretary of Labor certify that such loan

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

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

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

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

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

This concludes my presentation of the changes recommended by the administration. Mr. Chairman, I thank you for the opportunity to be heard and will be glad to answer any questions which you or any members of the committee may have.

Senator ALLEN. Thank you very much, Secretary Bergland. We certainly commend you on your initiatives in seeking to make the Farmers Home Administration more serviceable and better equipped to take care of the needs of our farmers as well as the rural areas, and we feel that the thrust of the administration bill is in general the same as the thrust of the Bellmon-Dole bill and the Church bill. Before questioning you, I would suggest, if the committee is agreeable, that we hear from Senator Bellmon so that we might compare the provisions and

be in a position to study and determine which provision we feel would be preferable and then possibly allow you, Mr. Secretary, and Senator Bellmon, to discuss the comparative merits of the various provisions and see if we cannot come to a meeting of the minds with respect to this legislation.

I feel that we all are trying to do exactly the same thing. It's just a question of degree and method.

Secretary BERGLAND. Yes.

Senator ALLEN. Before we ask specific questions then, if it's all right with the committee, we will hear from Senator Bellmon and then discuss the differences between the bills.

STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM OKLAHOMA*

Senator BELLMON. Thank you, Mr. Chairman.

My bill was introduced in January, 8 months ago, and there are several things in the Secretary's statement here which I think are an improvement over what we have in our bill.

He goes a lot more into the administrative problems with the existing program.

I was primarily interested in getting the loan limits up so that they can serve the needs of agriculture more adequately since the cost of farm operations, agriculture, have gone up maybe 200 percent since those limits were set.

I think, Mr. Chairman, this being the first time I saw the statement, there are a lot of things in here that ought to be added to my bill and it ought to be well to go ahead and work on the administration's package.

I don't have a copy of the administration's bill. Is there such a bill?

Secretary BERGLAND. Yes, Senator. It has been introduced by Senator Talmadge at the request of the administration.

Senator BELLMON. Well, maybe it's here. I don't see it; I don't have it.

Senator ALLEN. I think it would be well to use the administration bill as a vehicle.

Senator BELLMON. I think it would be too. The limits are the same. That's the objective I had in mind.

Secretary BERGLAND. I believe they are, Senator Bellmon.

Senator BELLMON. So I think it would be well to work with the administration's bill.

When it's in order, I'd like to ask the Secretary a question or two about his bill, but there may be others who would go first.

Senator ALLEN. Well, I think that would be in order. Do you wish to make a statement with respect to your bill?

Senator BELLMON. I've put it in the record already.

Senator ALLEN. I see. Well, if you wish, go ahead then.

I have some questions I want to ask, but go ahead with your questions. It's your bill. Go ahead.

Senator BELLMON. Well, Mr. Secretary, on page 7 you refer to the fact that there's presently no provision for an appeal from a county

*See p. 100 for the prepared statement of Senator Bellmon.

committee's decision and that you offer an amendment to provide for appeal procedures. Could you explain how this would work?

Secretary BERGLAND. The appeal decision of the county committee is final and many problems have arisen over the years as a consequence of that limitation. Persons have charged that they've been discriminated against in their own kinds of claims and there's been no process by which these complaints could be heard. Under this amendment it could be forwarded first, I believe, to the State director of the Farmers Home Administration, at which time an administrative hearing would take place to determine whether or not the law had been complied with and the application had been given his or her rights, and that decision would be ultimately appealable to me and I could delegate it to the Administrator of the FmHA if I would so choose.

Senator BELLMON. Is this going to have the effect of making the local county committees figureheads?

Secretary BERGLAND. No, sir; we would not so plan. In fact, we would work very strenuously to vest as much authority in the local committee as possible. I believe it's customary under the law—at least, all other programs under USDA with which I'm familiar—that a local decision could be appealed. There's an appeal process in USDA. Any decision is appealable through the ranks if he or she feels she's been disadvantaged due to some local reason. Sometimes we find that members of county committees get into disputes over school board elections or whatever and disputes are dragged into the Government's business, and we want to insure that every decision is made on the basis of the merits of the case.

Senator BELLMON. But I'm curious to know if you feel that you or the State director would be more able to determine the merit than the local people.

I could see appeals for certain reasons, but if the local board turns down a loan applicant in his appeal to the State committee or the State director and the State director overrides the local board, the local board is going to say, "Well, the heck with it. We're not going to have anything to say on it. This is being run by the higher-ups. Let them make all the decisions."

Secretary BERGLAND. It would be written in so that the appeals would be heard under certain prescribed conditions. For example, if the applicant feels he has been denied through charges of discrimination that the administration at the local level had not followed the rules of procedure, the matter could be appealed to higher authority. If it was simply judgment, if the county committee ruled that the applicant was not eligible for whatever reason and the higher authority found that the county committee had exercised a judgment within their authority, that would remain. The county committee's decision would remain final.

Senator BELLMON. Where in the bill is the language relating to this provision? Do you happen to know?

Secretary BERGLAND. I don't happen to know, Mr. Bellmon.

Senator BELLMON. I want to say, Mr. Chairman, that I know this has happened and it's happened in my State and I've got something similar in my bill, but I want to be sure that we protect the autonomy of the local boards to some extent in this.

Secretary BERGLAND. Senator Bellmon, we agree in this.

Senator BELLMON. Section 333—what page is that on?

Secretary BERGLAND. It's on page 9 of the bill, Senator Bellmon—the top of page 9.

Senator BELLMON. This leaves it all up to the Secretary.

Secretary BERGLAND. Yes.

Senator BELLMON. It seems to me it would help a bit if we could get something for the basis of these appeals. If we destroy the local boards, I don't think we can look at it as a program of service anyway.

Secretary BERGLAND. Senator, I would agree with you that it might be well to put some limits in here. It's not our intention to put some limits on the discretionary authority of the local board; we're simply trying to provide an appeal process so that everyone is assured that he or she has been heard through in the appeal process fully.

Senator BELLMON. Mr. Chairman, I have some other questions, but maybe it would be better for some others to go ahead.

Secretary BERGLAND. I would be delighted to work with you, Senator, and your staff in working out language to accomplish what you're suggesting.

Senator ALLEN. Let me inquire, then, if we're working with the Secretary's bill as a vehicle, what are the differences in the loan limits on operating loans and farmownership loans in the two bills? What part is different, Senator Bellmon? What's the difference in the limits in your bill and the Secretary's bill?

Senator BELLMON. Mr. Chairman, if you have this study that the staff has done, on page 6 of the explanation of S. 2146 it shows that the administration's bill increases farm operating loan limits on borrowers from \$50,000 to \$100,000. And the staff study on my bill—that's S. 312—shows that we go from \$50,000 to \$100,000 for direct loans and up to \$200,000 for guaranteed loans. So on the guaranteed loans we're \$200,000, the administration is \$100,000. Other than that we're together.

Senator ALLEN. Well—

Senator BELLMON. The reason for that is it seems to me that when the FmHA is guaranteeing a loan made by a local lender that the exposure is not quite as great to the Government as we're making a direct loan; and, therefore, we're justified in a little higher limit.

Also, this helps—at least, in the way I understand the program—it helps to graduate people from straight direct FmHA loans into the private sector.

Senator ALLEN. Yes. But as to the amount, as I understand it, the amount of guaranteed loan is charged against the limit—exactly the same as if it is a direct loan.

Senator BELLMON. That could be true, but the administration proposes to take the limits off, as I understood your statement.

Senator ALLEN. I see. That's the maximum, the overall limit.

Senator BELLMON. That's right.

Secretary BERGLAND. Mr. Chairman, if I might briefly comment on that, we propose to eliminate the outstanding debt limit which a borrower can have—currently it's \$225,000—no matter how much they want to borrow from us. We have a \$200,000 limit on real estate. The Bellmon bill will have a \$200,000 limit on insured loans and go up to

\$300,000 on guaranteed. So his bill is similar in both operating and the farmownership loans.

Senator ALLEN. Well now, this increase in ceiling—would that not make the overall demand for loans that much higher and would not that have an effect on the amount that's appropriated? Were in serious danger of running out of appropriated funds.

Secretary BERGLAND. We're undoubtedly going to increase the size of these loans by some amount. We don't know by how much, of course, but without an increase in the lending limits proposed now by the actions of the appropriations committees of the House and Senate we would be in some trouble. We would simply service some fewer loans. So we're going to be asking for some increases there too.

Senator BELLMON. But we gave the Department some substantial increases in the 1978 budget.

Secretary BERGLAND. Yes, sir, \$100 million, I'm informed, Senator.

Senator ALLEN. Well, in your funds for the last fiscal year ending October 1, did you not have some \$75 million in the operating loan fund and practically nothing left over in the farmownership loan fund?

Secretary BERGLAND. That's correct, sir.

Senator ALLEN. I know some Senators wrote you urging you to transfer this \$75 million from the operating loan fund over to the farmownership loans? Could you not have done that? Would it have been possible?

Secretary BERGLAND. We could have done it, yes, sir. We encountered strong opposition to that transfer in the House of Representatives on the grounds that it was within a few days of the beginning of the new fiscal year and if we needed extra money that they would strongly prefer that we would come back and ask for money rather than transfer between accounts.

Senator ALLEN. Now, as I see it, you're trying to make more funds available for lending to farmers; but at the same time, by raising interest rates, you're seeking to reduce the cost—overall cost—to the Government. Is that correct?

Secretary BERGLAND. That's correct, Mr. Chairman. We have about a billion dollars in our budget for interest subsidy and all the lending programs are administered by USDA and we're trying to reduce that amount. And by going to cost of money we can start to work down this rather heavy burden we now have to carry.

Senator BELLMON. Mr. Chairman, could I comment on that point?

Senator ALLEN. Yes.

Senator BELLMON. There's another problem with loan interest, particularly farmownership loans; and that is if a couple of buyers or potential buyers are eligible for 5-percent loans and a piece of land comes up for sale, they'll bid that land way high. And it's had the effect of escalating land values all across the country.

I think if we could somehow or other help the young farmer without disguising interest rates the way we do, we could avoid some of the exorbitant prices these young men have to pay for land. If it goes real high, most of the time—if you'll check—it was someone who's eligible for a 5-percent loan who was paying those high prices. Formerly interest on land has run about 9 percent. So the young

farmer who can get a loan for 5 percent can pay a much higher price than anyone else could.

Senator ALLEN. You don't object to the cost-of-money approach except in the case of young farmers or new farmers.

Senator BELLMON. I would agree, and I'd like to examine with the Secretary that provision a little more. But I agree we ought to get the interest rate up to cost of money.

Senator ALLEN. Now, on disaster loans, are you making any change there? That's 3 percent, is that correct?

Secretary BERGLAND. That's 3 percent for 1 year. The 3-percent authorization expires next September. Then it goes to 5 percent.

Senator ALLEN. You mean your authority to make 3-percent loans expires then?

Secretary BERGLAND. Yes, sir.

Senator ALLEN. Well, I mean that could easily be renewed; could it not?

Secretary BERGLAND. It could, Mr. Chairman.

Senator ALLEN. And in this bill?

Secretary BERGLAND. Yes, sir; it could.

Senator ALLEN. Let's make a note of that. [Laughter.]

I'll ask the staff to investigate the possibility of renewing the 3-percent authority.

Senator CURTIS?

Senator CURTIS. May I say something there? Excuse me, Mr. Secretary. Go ahead.

Secretary BERGLAND. I would say only for the record that we would not request the 3-percent extension.

STATEMENT OF HON. CARL T. CURTIS, A U.S. SENATOR FROM NEBRASKA

Senator CURTIS. Mr. Chairman, it seems to me on disaster loans a factor equally as important as the low interest rate is the length of time of the loan. Here's someone who is able to pay the going rate of interest but a disaster strikes and they cannot fold an additional indebtedness into their other purchase contracts and their indebtedness for land. It's not everyone that suffers a disaster that's lacking in resources. But it does call for more time in many cases. They need a little time to work out of their losses.

It seems to me that a 3-percent loan for a disaster isn't exactly necessary, but I think in many instances what they need is enough time so they can spread it over a few years to fold it in with their other expenses, indebtedness, mortgages, and purchase contracts.

Secretary BERGLAND. Senator, we have authority under current law to write these loans over as long a period of time as a farmer really needs. We can go up to 20 years if need be.

Senator CURTIS. Yes; but what I mean is I don't think that everybody who has a disaster is in need of 3-percent money, with all of the other problems that we have here in financing these programs.

Senator ALLEN. Well, that's quite right, Senator. We have a provision in here, you know, that you can't get your 3-percent money if you can get credit elsewhere.

Senator CURTIS. My point is that some of them need the credit because they've reached the limit of their possibilities for borrowing in

an orderly manner. If a disaster unexpectedly strikes, they need the credit; but they can pay for it.

Secretary BERGLAND. Mr. Chairman, in that regard we have a management mess on our hands. It was authorized by a recent change in law that reduced the rate of loan to 3 percent for FmHA and on SBA loans to 3 percent. They have no field staff. They have been put in the farm lending business, I think, against their will. But I would say that we have a very difficult time trying to work out a program with SBA. Word is out in Georgia and other places where SBA has credit available and they have no agents, they have no offices. They have nobody to call. And so our offices and the Farmers Home Administration have been taking SBA materials, the application blanks, and the instructional materials; but we're not prepared in this regard. In our training area it's just not a very good idea to have two agencies running the farm disaster program. Anybody who can establish a loss, Senator Bellmon, is eligible for the 3-percent loan.

Senator ALLEN. Mr. Secretary, I recall meeting you, Mr. Weaver, and several Senators at this table several days ago, and I related my experience down in Alabama during the recess, at which time I went into 37 Alabama counties and talked to farmers in every county. And they were disturbed by the fact that they could not get, in many cases, the farmers' disaster loans because Alabama farmers are good people and they pay their debts and they could get credit elsewhere. And they said that this program was absolutely unavailable to them. And you stated at that time that if you could go to the cost of money that you would not feel that you had to require that they not be able to get credit elsewhere.

Acting on that, I suggested to Mr. Cavanaugh that he prepare an amendment on two different points. You stated you agreed to it, continuing the 3-percent money for those who could not get credit elsewhere—but setting the interest rate at the cost of money for those who did have credit that would enable them to get money elsewhere.

Would you feel that such a provision would be sound with a two-tiered interest rate?

Secretary BERGLAND. It's manageable, Mr. Chairman. The only problem I could see with it is when we have 3-percent credit extended we're going to be putting heavy pressure to pay off that loan because we're putting a deep subsidy on it. It's a burden from the budget standpoint. The higher the interest rate, the less pressure we're going to require on interest payment. We'll require it next year if we can get it, whereas if we can go to cost of money we'll be more able to negotiate and extend and defer.

Senator CURTIS. Would you yield right there? Who must certify that there is no credit elsewhere?

Secretary BERGLAND. I yield to Mr. Cavanaugh, the Administrator of the Farmers Home Administration.

Mr. CAVANAUGH. Well, the borrower must get evidence that he cannot repay the loan and then we review that.

Senator CURTIS. There are people who need a loan in time of disaster who do have credit elsewhere, but it's just not workable and they should pay a higher rate. But I wouldn't want to have it so arranged that there would be a temptation for local bankers to say no just to help a friend get 3-percent money.

Is that a problem?

Mr. CAVANAUGH. It lends itself to that situation. We have to look to the integrity of the lender to give us an honest answer as well as our own judgments of whether in fact the borrower could get credit elsewhere. If our supervisor is dissatisfied with that, we can refer the borrower to other sources to see if he can get it.

Senator CURTIS. But I certainly feel there's a class of borrowers that should be eligible for disaster loans who do not need the interest subsidy, and I think it's unfair to deny those victims of disasters.

Secretary BERGLAND. Senator, one of the problems we run into in that regard is oftentimes a family will have a mortgage to a piece of land at a fairly modest rate of interest under a long-term contract, maybe running 5 or 6 percent. And they have equity in that land, and they can borrow more money on it and they can repay the whole loan; but usually when they repay that loan it comes in at 8 or 9 percent and it becomes a real burden. It really does increase their debt.

Senator ALLEN. Are you through, Senator?

Senator CURTIS. Yes, Mr. Chairman. I have to be excused. Could I ask just one question?

Senator BELLMON. Before you leave this point, Carl, if I could follow up, it seems to me, Mr. Secretary, the danger—if we make 3-percent loans to wealthy people, and a good many are wealthy—is we're going to wind up with a good deal of criticism on the whole program and we'll be in danger of losing it. We have to be careful with someone who has a multimillion network coming in on a 3-percent-disaster loan.

Secretary BERGLAND. The chairman would propose that for those who can get credit elsewhere that the loan be made for not more than the cost of money, which today would be about what?

Mr. CAVANAUGH. About 8 percent.

Senator ALLEN. It would seem to me the way it is now this requirement prevents those who do have good credit from getting the benefit of the disaster program. They shouldn't be penalized just because they pay their debts.

At the same time, I can see that the 3-percent money ought not to be available to them, and that's the reason I'm suggesting a two tiered interest rate.

Senator CURTIS. The Secretary stated very well that they could get the credit, but it would call for a total refinancing and an additional burden on all of their interest loans and so it might render their operation unprofitable.

Senator ALLEN. Sometimes they find that getting the principle is the farmer's concern rather than the interest rate he's paying and that money might not be available from other sources no matter what interest rate is being paid. So I think farmers with good credit and other resources should be able to get the benefits of that program, even though they pay the going cost of money. I think that would be well justified.

Senator BELLMON. The only point I was making, Mr. Chairman: I would hope whatever we do to this bill so far as the disaster provisions are concerned we'll also try to do with the SBA limits. It doesn't make any sense for people on one side of the limits to have easy credit.

Senator ALLEN. I understand.

Senator BELLMON. But we did have the SBA bill before this committee the last time. I would assume that would not happen again.

Senator ALLEN. You're not suggesting, Mr. Secretary, that this 3 percent be eliminated; are you?

Secretary BERGLAND. No, sir; we're not proposing any change in the law at this time.

Senator ALLEN. Farmers with good credit, with other resources could borrow on the disaster program from Farmers Home at the going rate of money.

Secretary BERGLAND. Mr. Chairman, might I ask the Administrator if that would pose a management problem? Would a two-tiered system be difficult to run?

Mr. CAVANAUGH. No, I don't think it would be so difficult to run. I think it would just remove the two-tiered test from directing farmers. It would tend to take us away from that, from people with the least resources.

Senator CURTIS. Suppose to be eligible for the disaster loan at the cost of money that we said that we removed the credit elsewhere but provided that the loan was necessary to prevent the upsetting of their present debt obligations and making their farm operation a doubtful prospect so far as a workable debt arrangement is concerned.

Senator BELLMON. Mr. Chairman, if there's no subsidized interest involved, people who can get credit elsewhere probably are not going to come to the FmHA in most cases. So if you retain the credit elsewhere requirement for the 3-percent loan, then I don't think we have too serious a problem.

Senator CURTIS. Maybe not.

Mr. CAVANAUGH. The problem I see generally is the problem I think Senator Curtis referred to earlier. The 3-percent money is so appealing that there could be connivance with lenders to cast someone in the 3-percent loan by saying they could not get credit elsewhere and that would take some real policing. But I guess it's workable.

Senator CURTIS. Your length of terms is more generous, and I'm in favor of that. Isn't it—rather than the ordinary commercial loan?

Secretary BERGLAND. We can make those loans. I can ask Mr. Cavanaugh.

Mr. CAVANAUGH. I think the issue that's being raised involves two questions that aren't easy to resolve. One is if we went to cost of money for the burden of loans, that might help to clarify the situation with Farmers Home and the Small Business Administration assisting farmers during disasters.

Now we have confusion, as Mr. Bergland described.

On the other side if we take credit elsewhere and get away from the mission of Farmers Home, we begin to change the income levels of those whom we serve and it begins to lead the agency toward competing with private lenders.

Senator CURTIS. But you can give much more liberal terms not only as to rate without a test but also the length of loan, isn't that right?

Mr. CAVANAUGH. On emergency loans we're in step, Senator Curtis. We both have the same authorization at this point.

Senator ALLEN. Except for the credit elsewhere provisions.

Mr. CAVANAUGH. Except for the credit elsewhere provisions and the lack of it.

Senator CURTIS. Well, SBA has a longer term.

Mr. CAVANAUGH. I don't believe so.

Secretary BERGLAND. They can go 30 years, we're told.

Senator CURTIS. And how long can you go?

Mr. CAVANAUGH. Up to 20.

Senator CURTIS. Excuse me, Mr. Chairman, I regretfully must leave.

Senator ALLEN. Secretary Bergland, as I understand it, the main reason that you encourage the guaranteed loan is not to be able to make more loans because that's charged against your appropriation, just like the direct loan, but it is to get private money involved in the process; is it not?

Secretary BERGLAND. That's correct, Mr. Chairman. We'd like to have more and more of the loan management and supervision vested with the private lending world to reduce the burden on the county supervisor who usually has more to do that he or she can possibly handle.

Senator ALLEN. What about the raise in interest rate on the community development loans? That's in furtherance of your desire to take some of the cost off of the Government, is that correct?

Secretary BERGLAND. That's correct, Mr. Chairman. We would propose that those loans be at a rate of interest which would be comparable to the tax-free municipal bond market, and today that would be what, Mr. Cavanaugh?

Mr. CAVANAUGH. It would be between 5.6 and 6 percent. We can tie it to various rates.

Secretary BERGLAND. We think the tax-exempt bond market would be a good indicator of what that money is worth.

Senator BELLMON. Well, Mr. Chairman, why should those loans not be made at a cost to the Treasury?

Secretary BERGLAND. We can do that, Mr. Chairman. If they're so small, it would be very expensive for them to get all the necessary papers in order to issue a bond. And so we believe that in those cases we should make FmHA credit available, even though the community is small, and we ought to take advantage of it.

Senator ALLEN. Mr. Secretary, you stated it would be difficult to estimate the increase that you need in your appropriations occasioned by the raising of the loan limits. Do you feel that OMB would go along with, say, a 50-percent increase in your appropriation for these loans?

Secretary BERGLAND. I'm going to recommend that there be an increase. Why don't I recommend that?

Mr. CAVANAUGH. I think we need to look carefully about how much higher we have to go, Senator. There's some past experience, when the loan amount was raised back in the seventies, that would indicate that we might have to go half again as much, and perhaps a little more.

I don't think either of us can speak for the OMB. However, there does seem to be an attitude there that with cost of money they're willing to allow larger authorization levels.

Senator ALLEN. Well, you do recommend then, Mr. Secretary and Mr. Cavanaugh, that in view of inflation and the cost of land and the expense of operating a farm and producing crops and other agricultural products, that to make your loan programs operable and

of value to the farmers, it's going to be necessary to increase the limits?

Secretary BERGLAND. Yes, sir.

Senator ALLEN. And the limits you've recommended in your bill are the limits that you think are fair and reasonable?

Secretary BERGLAND. We think so, Mr. Chairman.

Senator ALLEN. But you're not embedded in concrete in that, in these figures.

Secretary BERGLAND. No, sir, the limits have not been changed since 1970 and the land values have generally doubled since then. So we think if a \$100,000 limit was reasonable in 1970 that \$200,000 is reasonable today. But we're willing to negotiate that.

Senator ALLEN. Well, do you feel, in view of the fact that a guaranteed loan is charged against your appropriation in the same degree that a direct loan is charged, that there's really too much justification for increasing the amount of the ceiling on guaranteed loans as opposed to direct loans?

Secretary BERGLAND. We're going to need an increase, Mr. Chairman. I'm not sure.

Senator ALLEN. We're going to have a higher ceiling on guaranteed as distinguished from direct.

Secretary BERGLAND. This is a matter which I've discussed with Senator Bellmon and Senator Humphrey and other Members on the other side of the body. We have a continuing problem with our budgeting process, the manner in which we do our accounting. We mix up loans and grants all as outlays, and it's a very difficult thing to explain away to the uninitiated.

Mr. Cavanaugh, do you have something to add to that? It's a matter which is very complex because it requires concurrence not only of OMB but the Congressional Budget Office.

Mr. CAVANAUGH. Yes; I think that Senator Allen raised that issue in connection with the business and industrial loan program last year where I think it provided a reserve rather than a budget level. It appears there are some differences here between the Houses on how that issue is to be approached.

It seems to us, I think that, when we're in a guaranteed loan situation it's a different proposition than when we're making direct and insured loans and any loan that assures a subsidy and there ought to be restriction on the loan levels in that case.

Senator ALLEN. In other words, you think higher loan levels on guaranteed would be justified.

Mr. CAVANAUGH. Yes, sir, I think higher loan levels across the board would be justified.

Senator ALLEN. Not across the board, but there should be a distinction between guaranteed and direct.

Mr. CAVANAUGH. I think, if I can suggest, until we get more experience with the guaranteed program and what relative role it's going to play in our farmownership program, that it might be best to give us some guidelines or, at least, broad discretion for the Secretary to use funds in either of the financing ways—guaranteed or directly insured.

I think after the guaranteed program becomes operative, we would be in a better position to make some forecasts of what level should be guaranteed and what level should be direct.

Senator ALLEN. But you don't see as of now that there's any justification in having larger guaranteed loan ceilings than direct loan ceilings, or do you?

Mr. CAVANAUGH. No, sir, our present estimate is that in the immediate future the guaranteed program might be approximately 15 to 20 percent of the overall farmownership loan program. However, that's without having the experience.

Senator ALLEN. You still haven't answered: Should the ceiling be higher on guaranteed loans than on direct loans?

Mr. CAVANAUGH. No, sir.

Senator ALLEN. That's what I wanted to find out.

Secretary BERGLAND. Because we don't think the demand will be there, Mr. Chairman.

Senator ALLEN. One other thing before I turn it over to you. You're suggesting that the 5-percent interest rate would escalate the building and land prices to the detriment of young farmers, people going into farming for the first time. Don't you feel that in like fashion these raises in the guaranteed ceilings might have exactly the same effect and even a greater effect on land prices?

Senator BERGLAND. Well, Mr. Chairman, the loans we're talking about here, as I understand it, are farm operating loans. They have nothing to do with buying land. Here's the case of a young farmer who starts out with a \$50,000 direct loan and as he has more territory and he grows and as the size of his unit goes up he needs more money than he can get through a direct loan. So by increasing the loan limit on a guaranteed loan he can go into a bank and the FmHA will guarantee that loan and let him go ahead until finally he can clear out of the Government finance business and be with a private lender.

Senator ALLEN. Well, on farmownership loans, do you have a higher ceiling on guaranteed than direct?

Secretary BERGLAND. Normally what happens is the Farmers Home Administration—let me put it another way—they'll go to the Federal Land Bank and get a first mortgage and then the Farmers Home Administration will come along with a second mortgage, and we do increase the amount of farmownership loans the same as we do with farm operating loans.

Senator ALLEN. Yes; that's what I say.

Secretary BERGLAND. It goes to \$300,000 for a guaranteed loan.

Senator ALLEN. That's going to cause exactly the same escalation in cost of land that this 5 percent rate would cause—even a whole lot more.

Secretary BERGLAND. The thing that causes a person to bid up a whole lot more on land is when he can have a smaller annual payment. If you're about to give \$100,000 for a piece of land and considering that you have to pay 9-percent interest if you go to the Federal Home Loan Bank, that means your payment is increased by about \$9,000 a year for the first few years. If you can borrow that at 5 percent, then your payment is increased about \$5,000 the first few years and then have a smaller amount to pay each year.

Senator ALLEN. You have to pay 9 percent on the \$300,000. You're not going to go out there and bid that land; it's the interest rate that causes it.

And I'm not against helping a younger farmer to get started. I think, as the Secretary said, to give the Secretary some negotiating room is a good thing. But when we set up a 5-percent loan it's been my observa-

tion that it increases the price of the land and I'm not sure this helps young people to get started in agriculture.

Secretary BERGLAND. I don't know.

Senator ALLEN. Well, not in Alabama.

Secretary BERGLAND. I don't know about Alabama, Mr. Chairman. You can't get the job done at the kind of limits we have set in Oklahoma; they're just too high.

Let me also say that so far as the amount of money available is concerned, in 1977 there were \$675 million available in operating loans. We jumped that to \$825 million—an increase of \$150 million—partially to take care of this anticipated increase in the limits.

In ownership loans we had \$450 million available in 1977; it went to \$550 million in 1978. And the Senate Subcommittee on Appropriations is now considering an additional \$160 million. This means it will go from \$550 million to \$650 million in 1 year. So I think we'll need the room in here to take care of these higher limits.

Senator ALLEN. Though the Secretary may disagree with it, I think the Congress is trying to provide adequate resources.

Secretary BERGLAND. Mr. Chairman, we think the Congress is providing very well and very responsibly in that regard.

Senator ALLEN. Getting back to this two tiered disaster system, you would interpose no objection to that being added to the bill?

Secretary BERGLAND. Not that I'm aware of, Mr. Chairman, unless we have a management problem that I'm not aware of.

Mr. CAVANAUGH. Only the question that I raised of people trying on the local level to borrow. There ought to be a cost-of-money proviso stating the availability of credit and what might be the longer term implications of getting credit elsewhere from other programs.

Secretary BERGLAND. Mr. Chairman, if I might just add one bit here, we've discussed briefly the hiatus that exists now between SBA and the Farmers Home Administration. We have a kind of management nightmare on our hands. Might I suggest that we try to work something out with the SBA so that whatever we do we work together—

Senator ALLEN. A good idea.

Secretary BERGLAND [continuing]. Because at times we're working with two different sets of eligibility criteria. It's just a mess.

Senator ALLEN. I wish you would discuss with them the two tiered loan as well.

Secretary BERGLAND. Yes, sir.

Senator BELLMON. Mr. Chairman, we're almost down to the end of this session. Can we get something done before the end of this session? Can we act that quickly?

Secretary BERGLAND. I'm going to be meeting with the SBA people tomorrow, I believe, and we'll try to get something back before the end of this week.

Senator ALLEN. That's fine.

Senator BELLMON. Mr. Chairman, I have some more questions. Senator Bartlett is here. I don't know whether you want to recognize him or not.

Senator ALLEN. Well, I thank the Secretary for his time. Do you wish to ask Secretary Bergland some questions?

Senator BARTLETT. No. I'm here on another matter.

Senator BELLMON. In your statement you say something about private capital and freeing up more time for loan supervision and management assistance for those borrowers who are in need of such services.

To me somehow the idea of a negotiated rate is attractive, and yet I wonder how in the world you can administer such a thing. If two farmers come in to one of your local country FmHA offices and want to borrow money, how are you going to determine which of those should have a lower negotiated rate and which a higher rate?

Secretary BERGLAND. A negotiated rate is to describe the usual customary rate of interest charged in the community.

Senator BELLMON. So you're saying a given county would have the same rate to all borrowers.

Secretary BERGLAND. What we would not want to have is—if the going rate, say, is charged by the competition—the credit—or the bank is 9 percent and that's kind of the standard, going competitive rate—the market rate, as it were. That's the market rate that would have to be negotiated, around that 9 percent. Maybe it's $8\frac{3}{4}$, it could be $9\frac{1}{8}$. But we wouldn't want to guarantee a 12-percent note. That's the point.

It's discretionary; it varies from region to region because money rates are less in some places than others.

Senator BELLMON. Well, I guess I misunderstood your intent here. You're not suggesting that you negotiate rates between the lender and the borrower.

Secretary BERGLAND. No; we would guarantee that contract between the borrower and the lender, whatever it was that was agreed to.

Senator BELLMON. Well, I understood your testimony to say that you wanted a lower interest rate for first-time borrowers than for a more established operator.

Secretary BERGLAND. Yes, sir.

Senator BELLMON. How are you going to decide which is which in a case like this?

Secretary BERGLAND. We would propose to have authority to consider each applicant on the basis of his or her ability to repay. An applicant would file a financial statement listing all the usual things, and the county committee and the FmHA supervisor would examine this and make a judgment as to what they thought the applicant could reasonably expect to carry in the way of interest. And that would be discretionary and somewhat arbitrary, but it would be short term, and we think it would enable some persons to get in the business that otherwise simply could not.

Senator BELLMON. Well, how far down do you intend to be able to go in those loans?

Secretary BERGLAND. Well, you could go down to 1 percent, but it would enable them to start.

Senator BELLMON. So you would have discretion then to make a 1-percent loan to some borrowers and then up the cost of money to other borrowers?

Secretary BERGLAND. Yes, sir.

Senator BELLMON. How would you administer such a program at the local level? If someone came in and gave you a hard-luck story that persons got a 1-percent loan, you're going to get nothing but a hard-luck story.

Secretary BERGLAND. That's true, but they'd have to back it up with more than a story. They'd have to have documents listing their income, their assets, and their ability to repay. They'd have to swear to that. And it would be based on a financial report that the supervisor would be able to compute a rate of interest that the borrower ought to carry.

Senator BELLMON. Let's take the son of a wealthy farmer, a young man 21 years old. He wants to start farming. His dad is worth a million bucks. But he doesn't have a tractor, a pickup truck. How are you going to deal with a case like that? [Laughter.]

Secretary BERGLAND. Gordon? [Laughter.]

Mr. CAVANAUGH. We're going to have to have some very careful guidelines, Senator, but I think No. 1, we need to find some way to bring that interest rate down for new farmers. No. 2, we feel that we work very closely out of our county office system with our borrowers in that they're required to disclose their assets.

Senator BELLMON. In this case he wouldn't have any assets. His family has.

Mr. CAVANAUGH. I think if he legitimately has no assets and is someone who has shown himself committed to being a full-time farmer and he subjects himself to the review that we'll give that he may very well be eligible for something less than the cost-of-money rate.

I think that you give perhaps the extreme case, and it's not the kind of person that we would necessarily be out to help. If you're suggesting that he's got his father's resources available to him, we're going to look at that and I don't think we'll be fooled by that. But if, in fact, the applicant is someone who does not have other resources available to him—he plainly has a farm background and clearly needs some adjustment in that interest rate for him to have a minimal livelihood off the farm—I think we can tailor our guidelines and our review at the county office level to set a rate that is reasonable for him.

What we currently have in mind is that we would, in fact, provide such a farmownership loan at a cost-of-money rate in terms of writing the long-term mortgage but that we would enter into something in the nature of an interest credit contract with such a person for a limited period of time—4 or 5 years—whereby we would agree to accept a lower interest rate for that period while he was getting underway.

At the end of that contract period the mortgage would revert to the full cost-of-money rate unless for any reason we foresaw a further need for assistance.

Senator ALLEN. Senator Dole?

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. I assume most of the questions have been answered, so I will just submit something in writing and just ask a couple of questions.

The bill introduced by Senator Church recommends that we make the emergency livestock permanent and raise the limits to \$500,000. Do you have any views? Maybe you've already expressed your view on that.

Secretary BERGLAND. We have not, Senator Dole. The issue has not come up.

Mr. CAVANAUGH. The bill has not yet, I believe, been referred to the Department for comment.

Senator DOLE. I see. Some of us feel it should not be made permanent. I feel it should not be made permanent. I don't know whether the Department has a view or not.

Mr. CAVANAUGH. It has not come to us for comment yet, Senator Dole, but we're aware of the bill. It's my understanding that under the current legislation, we're to report back to the Congress in early spring next year on the workings of the current program and give our recommendations with respect to them.

Senator DOLE. Just generally, I think you got into specifics of limits of insured for guaranteed and direct loans.

Are you going to have enough personnel if we keep expanding the authority? There are reports going around that Farmers Home is not going to be allowed to hire 300 new positions that have been authorized.

Mr. CAVANAUGH. Senator, that's what you call soft talk. [Laughter.]

Secretary BERGLAND. Senator, we're operating under very strict and tight limits, and we're not going to be able to hire enough people to service all of these loans in all cases—particularly in times when an emergency strikes—when they just come in on us by the hundreds and all other work has to be put aside temporarily.

Senator DOLE. Can you transfer people where you have excess positions?

Secretary BERGLAND. We don't have excess positions any place, but we do transfer anyhow. When a disaster strikes, such as most of the Southeast, we bring people in from other regions to help on a temporary basis.

Senator DOLE. Just finally: In some cases you make homeownership loans at 1 percent. Are there any plans to change the deep subsidy in this program?

Secretary BERGLAND. Yes, Senator, there are. And we have a home lending program revision in the works.

Senator DOLE. I can hardly reconcile that with going to the cost of money on the farmownership loans. Is it because of the subsidy involved, or is the same consideration given to some poor guy who wants to get into farming?

Mr. CAVANAUGH. I think with the Secretary's proposed bill among other things it would have a below cost-of-money rate in certain circumstances for the farmer and we begin to approach perhaps sharing some of the program benefits. I think there are some differences in farming. It is a business to a certain degree and it may call for a different view of the interest rates.

I might say even in the housing program, while we can go as low as 1 percent for some people, our experience is that the average interest rate under the subsidized loans is 3 to 3½ percent overall. And, as the Secretary has indicated, we are reviewing that system to see what the modifications there might be in it to, in effect, recover some of the subsidy in some circumstances.

Senator DOLE. Now, you're still going to be relying somewhat on the county committee for their judgment?

Secretary BERGLAND. Yes, sir.

Senator DOLE. I think your bill and Senator Bellmon's contain the right of appeal—which I think should be there. But you're not try-

ing to override the people who would be there on the scene and know the circumstances.

Secretary BERGLAND. No, sir; in fact, this amendment could strengthen the county committee. It's not our intention to second-guess but to insure that no applicant will be hurt and that no discrimination has occurred at any level.

This will give the committee the security and comfort of knowing that his or her superiors will have a chance to look at it.

Senator DOLE. I mean, is it going to take a long time to go through the process?

Mr. CAVANAUGH. Senator, should this be enacted, we will quickly work up some guidelines.

Senator DOLE. Right.

Mr. CAVANAUGH. But we'd like to make it simple and we'd like to limit it to the most serious kinds of concern in terms of appeal. Earlier today we agreed with Senator Bellmon that we'd get together with his staff.

Senator DOLE. I don't want to rehash. What about your modification to the business and industry loan law concerning the Department of Labor requirement. You've modified this in your bill. Why not just eliminate it?

Secretary BERGLAND. Well, we thought we could keep it to 20 employees and limit it to half a million dollars.

Senator DOLE. This delays the loan process in many cases.

Secretary BERGLAND. Yes, sir; and by going to the smaller loans it would eliminate most of the backlog in this regard. And we have some loans which have substantial amounts of money involved. There we think the labor provisions ought to apply.

Maybe 20 isn't the right number, but we think there ought to be some exemption.

Senator DOLE. So that's something we can work with you on. You know, it's a nuisance in a lot of cases, in addition to the delay. And as President Carter has indicated, you've indicated you want to get away from some of this paperwork and move ahead with programs and maybe we can tighten it up a bit.

If I have any other questions I'll submit them in writing, Mr. Chairman.

Senator ALLEN. All right.

Senator BELLMON. I have one question, Mr. Chairman. Senator Dole brought up the emergency loan situation. Is there objection to making those emergency loans? Why do we apply that only to agricultural livestock owners? I know when this was passed it was just as bad off or worse. Can we make those agricultural loans rather than livestock loans?

Secretary BERGLAND. I'd have to yield to counsel on that one. Gordon?

Mr. CAVANAUGH. The main difference is that livestock is not limited to the family farmer or family rancher. It can be a broader business enterprise.

Secretary BERGLAND. It's commercial interest. There's no subsidy involved at all.

Senator BELLMON. So you'd like to keep it just for livestock.

Mr. CAVANAUGH. If we could I'd really like a chance to review it and report to you more fully on some recommendations.

Senator ALLEN. Secretary Bergland, Mr. Cavanaugh, you've been most helpful to the committee and we appreciate the interest that you've shown in expanding the role of Farmers Home, and we do look forward to the report of your conference with the SBA on standardizing the loan process and rates and terms and so forth. So if you would give us a report on that as soon as you can we would thank you very much.

Secretary BERGLAND. Well, Mr. Chairman and members, we'll be pleased to respond in writing to any questions that any member of the committee might have.

Senator ALLEN. Senator Dole said he might have some.

Senator DOLE. I'll see what they have. I don't want to be repetitious.

Senator ALLEN. Thank you very much.

Senator DOLE. Can I put a statement in the record?*

Senator ALLEN. Yes.

Let's go ahead with the hearing, please.

Senator Bartlett, I apologize for being so late.

As I indicated to you, I appreciate your indulgence. So if you would proceed now, as I understand it, you are testifying with respect to S. 207, offering a portion of your bill as an amendment to the Farmers Home bill.

STATEMENT OF HON. DEWEY F. BARTLETT, A U.S. SENATOR FROM OKLAHOMA**

Senator BARTLETT. Mr. Chairman, thank you very much, and I thank you for permitting me to testify.

The problem that I'm testifying about is a problem very familiar to Senator Bellmon and myself—the communities in my State—and other States which have had their power supply reduced substantially by a change from firm power to peaking power through a policy change of the various electric marketing administrations of the Department of the Interior. These include the Southwestern Power Administration, which affects Oklahoma, Arkansas, Missouri, Texas, and Louisiana, and the Southeastern Power Administration, which affects your State, Alabama, Mr. Chairman—

Senator ALLEN. Yes.

Senator BARTLETT. Southeastern serves Florida, Georgia, North Carolina, and South Carolina; Bonneville Power Administration serves 36 municipalities in Washington, Oregon, Idaho, and Montana. Bureau of Reclamation projects, and Alaska Power Administration projects are also included.

In some cases the municipalities involved are constructing new facilities within their corporate limits to provide the additional power. These facilities are required because the power now provided is—or that will be provided is severely limited and they need the additional facilities. Some communities, I think it's going to be a very small percentage of the 17 affected communities, will have a difficult time, even an impossible time, without some outside help for financing their addi-

*See p. 101 for the prepared statement of Senator Dole.

**See p. 102 for the prepared statement of Senator Bartlett.

tional facilities. They have gone to the limit of their borrowing capacity or their ability to levy taxes or their ability to submit bond issues to their citizens; and this has been mainly the result of their meeting the requirements of Federal sewage and water legislation.

So it doesn't mean that they're not progressive communities at all. In fact, in some cases I think the fact that they have been progressive communities has consumed all the financing that they can legally generate. So they're really up against it, and we think that this proposal, which is in the form of an amendment to S. 312, which is Senator Bellmon's bill, would be of great assistance. The amendment is a modified form of S. 207, and could be added to the administration's bill.

The Southeastern Power Administration and Bonneville are changing their programs, and so are the others, over a period of time so that quite a number of municipalities, as shown in my statement—which I would like to have printed in its entirety—will be affected.

The other large Department of the Interior power source is the Bureau of Reclamation that now serves 220 municipal customers in the following States: Arizona, California, Colorado, Iowa, Minnesota, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Utah, and Wyoming, with the last contract expiring in the year 2004.

I believe the first contract expired this year, and it was July 1, 1977. So we have quite a span, Mr. Chairman, of time that these communities will be affected.

I want to stress that not all communities will have a financing problem.

This proposal provides that the eligibility would be limited specifically to those municipalities previously served and—more particularly—to those municipalities that cannot finance construction by any other method. The authority of the legislation will also expire on September 30 of the year 2006. This date is 2 years after the termination of the last existing contract.

Second, the recipient is prevented from issuing tax-exempt bonds on the project. This prevents a type of double dipping into the Treasury, or the creation of a super security—which is not only insured by the Federal Government but also given tax-exempt status.

Third, the actual administration of the project, after the insured loan is made, is turned over to the Rural Electrification Administration. This prevents the creation of a new subagency within the Farmers Home Administration which would duplicate already existing expertise at REA.

Fourth, an additional authorization of \$1.5 million is provided for the Rural Electrification Administration. This will add sufficient staff to handle the additional workload which will be incurred by this legislation. This additional authorization insures that existing programs will not be jeopardized as the Agency takes on this new responsibility.

This legislation may affect 24 States and countless small communities. It's the very small community in my State of just one or two thousand, or several hundred, which is so adversely affected. Some of the larger communities of 25,000 can handle the financing in good order.

I might mention that during your hearings, Mr. Chairman, on the REA legislation, you were kind enough to submit a letter to the Rural Electrification Administration from Senator Bellmon and myself con-

cerning S. 207. As yet we have not received a response. However, I believe that my amendment proposed today will satisfy any comments to be made by the REA. After some what might be called Oklahoma divining or witching for water I developed the present amendment.

We have discussed this amendment with them, and certainly I'm not suggesting that they endorse it, but we personally feel that they will find it acceptable. It's very flexible. It can be broadened. It can be made more specific.

I think it is the least expensive way to provide guaranteed loans to these communities that would be unable to do their own financing.

We think that there would be very few communities in our State, probably only one or two at the most.

In other States it's a little harder to guess, but nonetheless we know that there will be communities faced with a real problem, and if our history is any measure or gauge.

Mr. Chairman, I might just briefly read the real guts of the amendment:

The Secretary may insure loans, in the full amount thereof for the purpose of financing the construction and operation of electric transmission lines, or systems for the furnishing of electric energy to any distribution system receiving bulk power as of October 1, 1976, from the following agencies of the Department of the Interior:

- (i) Southwestern Power Administration,
- (ii) Southeastern Power Administration,
- (iii) Bonneville Power Administration,
- (iv) Bureau of Reclamation, and
- (v) Alaska Power Administration,

and owned and operated by a public body in a city, town, village, or borough. Provided, however, That a loan may not be guaranteed under this subsection unless the Secretary determines that the applicant for such guarantee cannot without such guarantee obtain a loan for such purposes from reliable sources at reasonable rates of interest and terms and conditions.

(B) Provided, however, that the city, town, village, or borough, shall not issue tax-exempt bonds or securities for the project which has been approved by the Secretary for an insured loan.

(C) The Administrator of the Rural Electrification Administration shall be given the authority to administer loans made under this subsection.

(D) The authority provided by subsection (A) shall terminate on September 30, 2006.

Section 5. Section 3109 of title 5, U.S.C. is amended by striking the figure \$22,567,000 and inserting \$24,067,000.

Mr. Chairman, I or Mr. King of my staff will attempt to answer any questions.

Senator ALLEN. Thank you very much, Senator Bartlett.

Now, did you say you had not seen the Department's response?

Senator BARTLETT. No.

Senator ALLEN. Well, there's one available here.

Senator BARTLETT. Yes, it was just handed to me.

Senator ALLEN. I don't know when it came in, it was just handed to me a moment ago.

Now, the Department recommends that the bill not be enacted, and I was just reading it. One reason they state is that the bill could require 100 additional employees with an estimated annual cost of \$3 million a year for the next 5 years to administer the legislation. And they also point out this security that would be issued by these municipalities or local electric associations—or whatever they are called—would be tax exempt and also have a Government guarantee,

which would make it, I guess, not Triple A but Quadruple A of security [laughter]—in that it would be tax exempt and Government guaranteed.

There's no such animal, so far as I know, around. Of course, we know that the Federal securities are taxable, but here we'd have a hybrid animal of Government guarantee and nontaxability. That's another point the Department makes.

Senator BARTLETT. Mr. Chairman, can I respond?

Senator ALLEN. Yes.

Senator BARTLETT. They're commenting on our Senate bill 207 and not the amendment that I presented. The amendment that I've presented was based on what they mentioned in the letter, but I think they're aware of our amendment and apparently in their letter they're not relating any of their comments to the amendment.

On page 2 of the amendment, about at the top, it says:

Provided, however, that the city, town, village, or borough, shall not issue tax-exempt bonds or securities for the project which has been approved by the Secretary for an insured loan.

In my remarks I mentioned that they would not be permitted to issue tax-exempt bonds, but it would be a guaranteed bond or loan.

Section 5—

Senator ALLEN. Now, that's different from the bill; isn't it?

Senator BARTLETT. Oh, yes; but it's consistent with my statement, which was related to the amendment and not to the bill.

Also in the amendment, on section 5, the amount was reduced from \$3 million to \$1½ million and it's a little hard to tell exactly how much or what the cost would be, but certainly they don't need to spend it as far as I'm concerned.

This is the most inexpensive way we can come up with of handling the guaranteed loan program, of having these loans made by the Farmers Home Administration but administered by the REA—which is already set up to administer this program. It will be at minimal expense to them, and I think very little expense for Farmers Home.

Senator ALLEN. Now, how many municipalities are involved in 24 States?

Senator BARTLETT. This is up to a period of time to the year 2004. There were 24 States, I believe. And I don't know whether you—

Senator ALLEN. This would authorize small communities and hamlets to join the power production business, wouldn't it? I wonder if this would be economically feasible?

Senator BARTLETT. This would be not generating their own power but the facilities to bring power in.

Senator ALLEN. From where?

Senator BARTLETT. From sources available, commercial sources.

Senator BELLMON. Mr. Chairman, may I interrupt for a second?

What's happened is—and I joined Senator Bartlett in this amendment—in our State it would be the same and in other States as well. When the Southwestern Power Administration gets out of the business of supplying firm power, it means these communities will have to shift to the public utility normally, but they don't have any resources available to build a transmission line to hook up with their city distribution system and the transmission line of the private utility. And I think this letter which we have from the Secretary of Agriculture, where he talks

about operation of generating plants—that's not anticipated by the Bartlett amendment. I think he made that clear, Senator.

If you would strike out "systems for the furnishing of electric energy"—that sounds like it might include generating. I don't think you really intend that.

Senator BARTLETT. That could be done, yes.

Senator BELLMON. If you limit it to transmission lines.

Senator BARTLETT. We actually said—our colleagues had it in the original bill—"generation." We took that out because that was not really the intent of it.

I don't think, Mr. Chairman, it's to put these people in the business. It's just for the public utility, to meet their needs.

But, as Senator Bellmon said, the "generation" is no problem. That could be specifically stated. That's not the intent.

Let me carry it a little bit further. In association with the power administrations in our State, and I assume the others, there is a private power source. For example, in this area of Oklahoma it's a public service corporation. I think it's Oklahoma Gas and Electric in other parts. The community would get firm power transmitted on public service lines. But when public service was also faced with a decision by Southwestern Power and they offered firm power to these communities, there needed to be—according to them—an investment by the community for additional lines and transmission facilities to take this power and the community would have to pay for it.

And that's where the problem comes in. The community doesn't have—

Senator ALLEN. Are these present systems owned by the communities—the legal entities?

Senator BARTLETT. No; you mean the generating systems?

Senator ALLEN. No; I mean who owns the lines serving these areas?

Senator BELLMON. The lines serving the system are owned by the city normally.

Senator ALLEN. Now, what's wrong with the local REA's? They're anxious to extend their services. Why couldn't a deal be made with the REA?

Senator BARTLETT. We made a proposal to the REA and there's no response.

Senator ALLEN. It seems to me you're going to have a local system and you're going to have the private power companies nearby and you're going to have the REA's nearby. And this would entitle you to go any distance you wanted to to get power, would it not?

Senator BARTLETT. Well, it would be subject to the approval of the Secretary, but this is the distance required by the utility company that would provide the additional power.

Cooperatives have no interest at all in providing additional power, and it would be an extension of—in the case of this one city, I'm more familiar with it than the others, a town of some 2,700—trying to reach out and tie the town into public utility companies' lines. But according to the public service companies it would be the city's responsibility to pay for it rather than a public service company.

Senator BELLMON. All they want to do is build a 7-mile stretch of line to the public utility line that's already in place, which would supply them with power. They've got to have this link or they won't have access to firm power.

Senator BARTLETT. Plus they need some stepdown generators.

Senator ALLEN. Southwestern has a line into this community, does it not?

Senator BELLMON. Yes, but it has been using that line to supply firm power; and I would propose going to peaking power.

Mr. Chairman, this gets very complicated, but the decision has been made that hydropower is ideally suited for peaking. They can turn those hydropower projects off and on very quickly, and these communities should get their firm plants which the public utilities own.

It's a very sound decision, in my judgment, but this leaves a community out there needing to be hooked up with the transmission lines of the public utility. And this is all Senator Bartlett proposed to do, which I think is a good idea.

Senator BARTLETT. The Southwestern Power Administration would purchase firm power; and they're still doing it—even though the contracts have expired, they're still doing it, because the cities have to work out a problem. But they would purchase firm power from, let's say, a public service corporation and sell it to a community.

Well, they are stopping that practice and will save money in doing so. But this puts the burden then on the community to purchase power in the South from the utility company.

Senator ALLEN. Well, I feel that before we attach this as an amendment that we certainly need to submit the amendment to the Agriculture Department and REA—and possibly even the credit rating on the thing—and also I feel that we need some kind of testimony indicating that this is the only way that power can be obtained.

And then after all those things are determined, it seems to me like we might run into the situation—if this is as controversial as it might possibly be—of whether we ought to encumber the Farmers Home bill with, you might say, a nongermane amendment.

But Farmers Home, as they stressed here this morning, makes loans to individuals and corporations that are, in essence individuals, rather than stockholder companies. And I think we'd want to determine whether we'd want to add this amendment to something raising the ceilings on the farmer's home loan or whether the bill ought to travel on its own.

Senator BARTLETT. Agreed.

Senator ALLEN. That's what disturbs me.

Senator BARTLETT. Do you think, in view of this, you should inquire as to whether the Farmers Home Administration has made such loans in the past? We understand they have.

Senator ALLEN. If they have authority to do it, I mean, why do you need additional legislation?

If we're hurrying this bill out, as Senator Bellmon has requested, well, we might need to report this out before we can get all these answers back.

I say that by way of being practical about it, not trying to throw cold water on the amendment. But I'm just wondering to what lengths we go to get a bill?

Senator BARTLETT. Well, I think there's real urgency with the proposal. And I think there, again, are questions. I think most of the questions have been very good questions, and I think they have been answered—and I think they will be answered by REA and the Farmers Home.

There's a question of the authority, but, nonetheless, they did it.

We worked on this rather diligently and we found this being, generally speaking, the only way that we could find a solution to the financing problem. However, there probably are two ways that financing could be approached. One would be to have the Farmers Home Administration handle the loan problem, which we think would be the most expensive.

We think also an expensive way of doing it would be to take care of all the communities involved; only those would be determined by the Secretary in this case that can't find a solution to the financing from anyplace else—either from their own ability to finance or ability to issue bonds or levying a tax or whatever it might be.

So this we don't think is going to be an extremely broad bill as we have it in mind. But we do think it's going to take care of a very difficult problem that will exist in quite a few of the States in the South.

Senator ALLEN. Well, I would request the staff, then, to send this amendment to the agencies that we have mentioned here for their comments. I think that should be done.

Senator BARTLETT. I would hate to have the bill held up by the reluctance of the agencies to respond. We've had some problems with the agencies. So I don't think that's necessarily fair. They can make up their mind, in my opinion, in very short order. But I think it's the only solution we can provide, and it's a problem that's existing now with contracts in our State actually having expired.

Senator ALLEN. Well, we certainly need to have some sort of idea about what the exposure would be—cost exposure—I would think.

Senator BARTLETT. But we don't think it's going to affect many of the communities, and the communities are small, so this is going to have a very limited effect.

Senator ALLEN. Well, the communities might be small, but the distance to power might be great.

Senator BARTLETT. Well, one community, you know, has a real problem. Senator Bellmon said 7 miles.

Senator ALLEN. I thought you said 70.

Senator BELLMON. No, 7 miles; it might be less. I think it's 6 or 7 miles.

Senator BARTLETT. In the case of the one community—the extension of the lines in the case of my Oklahoma—which we cite on page 3 of the statement—the alternative source would be approximately \$600,000. That would be laying the lines to the public service company.

Senator ALLEN. Well, that, of course, would certainly not be objectionable; but I mean I had not known that the amendment was going to be offered. Of course, it would be up to the subcommittee to offer it; but if we can get some sort of favorable response from some of the agencies involved, I have no objection to putting it on. But I would not like to force it on them, on the Farmers Home, as a part of this bill that would have rather general agreement among all parties.

Senator BARTLETT. Well, we would be glad to talk with them about it. We have discussed it too. Is it something new? You know, people are always reluctant to take a slightly different approach to a problem.

Senator ALLEN. I understand that.

Senator BARTLETT. But this is a problem that is occasioned by the Federal Government. However, it's the Department of the Interior's decision.

As Senator Bellmon said, they're fiscally sound decisions. We're not questioning those decisions, but they do provide a real problem. These communities—we've worked with several of them, and Senator Bellmon will agree that they really work hard; and some are working now.

Senator ALLEN. It's been suggested that possibly the Farmers Home might make the loan by using the community facility program, have you given any thought to that?

Senator BARTLETT. It would make absolutely no difference to us, and certainly it's a possibility; yes.

Senator ALLEN. FmHA would have that authority now. It could possibly be handled that way.

I wish you'd have that checked out——

Senator BARTLETT. We will.

Senator ALLEN [continuing]. To see if there's existing legislation now that would permit it. But, certainly, I'd like to see that if you're inclined to this peaking power there. And in this one case the supply had been cut down 93 percent. Well, that doesn't leave enough to operate on, certainly.

Senator BARTLETT. We thought the problem with that program might be the administration; and that's why we suggested the other day letting the REA do it, because it's already set up.

Senator ALLEN. Yes, sir.

Senator BARTLETT. But that's purely a matter of what works out best for the Farmers Home Administration during the entire year.

Senator ALLEN. All right. I'll ask the staff then to send the amendment out for comment and to stay behind the request—see if we can't get an answer on account of the urgency, on account of the time limitation.

Senator BARTLETT. I thank you, Mr. Chairman.

Senator ALLEN. Thank you, Senator Bartlett.

Senator Leahy, did you want to add something to Senator Bartlett's remarks?

Senator LEAHY. No, sir; but I would like to—once it comes to the appropriate time, with the chairman's permission I would like to make a short statement for the record.

Senator ALLEN. Well, the time is now. Go right ahead.

[Laughter.]

Senator LEAHY. Thank you, Mr. Chairman.

I apologize for being late, but I was in California earlier this morning and I've been red-eyeing back to appear at this meeting.

Senator ALLEN. The Chair might propose a penalty—that you take over the Chair for the rest of the hearing then.

[Laughter.]

Senator LEAHY. I'm afraid, Mr. Chairman, of the status of legislation which would come out of such a meeting.

[Laughter.]

Senator ALLEN. Excuse me. Go ahead.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM
VERMONT *

Senator LEAHY. Mr. Chairman, I want to commend the administration for making a determined effort to correct some of the weaknesses of the current FmHA loan program.

I will put my whole statement in the record; and just highlight a couple of points.

A day or two after I was sworn into office, I had a delegation from Vermont that was led by then Commissioner of Agriculture Leo O'Brien, who talked to me about the problems of the Farmers Home Administration. I shall have calls and complaints from people in Vermont about these same problems.

Therefore, I support many of the recommendations of S. 312. Some of them are similar to ones I sponsored in the past.

The extension of eligibility for farmownership and farm operating loans to partnerships and corporations controlled by family farmers and ranchers is long overdue. We are seeing more and more of these business arrangements established as a way of encouraging young people to stay on farms. They can share some of the "action," so to speak—not only in profits, if there are any, but also share in the appreciation factor.

The increase in the loan limitation in both the farmownership and farm operating loan programs also have my support—but I caution that if we increased loan limits, we might also have to increase the loan authorization in both of these programs because we don't want FmHA to serve fewer farmer and rancher families simply because they increased loan limitations.

Section 309(B) allowing the Secretary to, in effect, create a secondary market for the guaranteed portion of farm loans, if one does not exist, might encourage private lenders to participate to a greater degree in the FmHA farm programs. Although I must say frankly that private lending institutions in my area—and I have heard this said about other areas—are reluctant to participate with FmHA because of the redtape, delays, and the inability to get a clear understanding as to loan status from FmHA personnel.

The change recommended in section 316, allowing for the consolidation and the rescheduling of outstanding farm operating loans, is a change I have sought since 1975; and I particularly want to commend the administration for recommending this change. I really hope that that will go through.

I think that especially with a number of farmers who are really having to make the decision whether they'll keep going or just to sell out that consolidation and the rescheduling is the one thing that can finally tip the balance into their staying on the land, keeping that land open, and accomplishing what we all want to do—keep the farms operating.

I do want to take exception with the administration's recommendation in section 307(A), which proposed to increase the interest rate on farmownership loans from the current 5 percent to the average cost of money. I think that if we're going to encourage young people to

*See p. 104 for the prepared statement of Senator Leahy with attachments.

go into farming and for new farmownership that this kind of subsidy—5 percent—is needed.

Senator ALLEN. Senator Leahy, right at that point—

Senator LEAHY. Yes, sir.

Senator ALLEN [continuing]. I might state Senator Bellmon was of the opinion that we needed to go to cost of money, that 5 percent loans possibly caused the price of the land to be bid up, and also, the Secretary pointed out that on new farmers, for a period of 4 or 5 years possibly, the industry could go down as low as 1 percent.

Senator LEAHY. A flexible mortgage, and with it going up subsequently?

Senator ALLEN. No; there would be a lower rate for the first few years—

Senator LEAHY. Agreed.

Senator ALLEN [continuing]. And the cost of money generally would be the rule, but I didn't want you to feel that the Department was freezing out young farmers and new farmers because they do have a plan to cut that way down, way below 5 percent.

Senator LEAHY. Well, Mr. Chairman, if I could, I'd like to take a look at that proposal and have the opportunity within a couple of days—if necessary, perhaps submit something in writing further on that.

Senator ALLEN. Yes.

Senator LEAHY. I was not aware of that. That gives a different view to it than I can.

Senator ALLEN. Yes, sir; it's in the bill, I believe—the provision that would permit that. It might not be readily observable, but I believe it's there. [Laughter.]

Senator LEAHY. It wasn't to me, and I'd want to look at it and the Secretary's testimony.

In addition, I have received, and I'm sure we all have, numerous complaints about the length of time it takes to process FmHA farmownership and farm operating loans.

Now, in a meeting with Mr. Elliot in 1975, I raised the question as to whether a binding letter of "commitment to lend" could be issued by FmHA just so the commercial or the banking institution could go ahead.

Now, I think that's a legitimate request.

He said that he thought, at that time—as I recall—that there was some question whether FmHA had that authority.

Mr. Chairman, I would suggest—especially I doubt very much that there would be an objection to this from the administration—but I'd suggest that we may want to spell that out in the legislation.

Senator ALLEN. Thank you. That's an excellent idea.

In other words, there'd be something in the nature of a takeout letter—

Senator LEAHY. Yes.

Senator ALLEN [continuing]. A commitment to lend—and that being the case, I guess a temporary loan from the bank, the very loan being taken out with Farmers Home.

I think that's a very excellent idea.

Senator LEAHY. Time and time again they're perfectly happy to lend if they just know for sure that Farmers Home is going to go through. If they just get that letter of commitment, heck, they'll move the thing ahead and then go to the permanent loan 3 or 4 months later with the rest of the papers in order.

Senator ALLEN. We should work with the committee staff in drafting an amendment along that line.

I think that's an excellent suggestion.

Senator LEAHY. Thank you, Mr. Chairman, and I will just submit my statement for the record.

Senator ALLEN. Thank you very much.

Senator LEAHY. Thank you.

Senator ALLEN. To fill you in further, it was suggested that both Farmers Home and SBA are in the disaster loan business, but they have different provisions—the Farmers Home requiring 3 percent, but Farmers Home requiring credit not being available elsewhere—whereas SBA doesn't have this requirement.

I made this suggestion to the Secretary. And, by the way, he's going to talk with the SBA and see if they can't standardize—or seek to make recommendations about standardizing—the eligibility for the loans and the interest rate, amount, and so forth.

I think that would be of service. But I pointed out to them that I had brought into the situation with Alabama farmers that they could not get 3 percent disaster money because they could borrow money elsewhere at high rates of interest. Of course, they could borrow it.

Senator LEAHY. Yes.

Senator ALLEN. And I asked them if they would object to a two-tiered loan system of the 3 percent for those who couldn't get credit elsewhere and the cost of money for those who could.

Frequently the problem isn't the interest rate but whether the money is going to be available.

I'm hopeful. They say they would not object to that, so I'm hopeful we could add that as an amendment.

Senator LEAHY. There's another matter that may be more peculiar to our part of the country, Mr. Chairman, than anywhere else and should be considered.

In December of 1975, regulation 1980-403 was added; and that said at least 51 percent of the outstanding interest in a corporation applicant must be owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence. I submit regulation 1980-403 for the record.

[The following was received for the record:]

§ 1980.403 Citizenship of Applicant

Loans to individuals will be made or guaranteed only to those who are citizens of the United States or reside in the United States after being legally admitted for permanent residence. At least 51 percent of the outstanding interest in any corporation or organization-type applicant must be owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence.

That prohibits an alien company to set up an in-State corporation but which doesn't have 51 percent of the outstanding interest by persons residing in the United States after being legally admitted.

Now, SBA has no such restriction. This impacts on us quite a bit because, of course, we border with Canada. It's becoming more signifi-

cant because of the political instability within the Province of Quebec right at the moment.

I don't want to see a situation and I would not encourage a situation where Federal loan programs are being used simply as a means of setting up some kind of an investment shelter for non-United States citizens.

At the same time, however, there are a number of programs that could be worked out whereby some of this foreign investment flows into rural areas and improve the employment situation in those areas.

I'm not suggesting I have the exact answer on how to handle it, Mr. Chairman, but I think it's a point that the staff may want to take a look at.

I certainly would be happy to meet with them personally or have people from my office meet with them and go over some of those issues.

Senator ALLEN. That's a very good suggestion, and certainly we ought to have the same rule for Farmers Home which SBA has. And, if this does impose a hardship on residents of your State, it certainly is worth looking into.

Senator LEAHY. Thank you.

Senator ALLEN. Do you have any further comments?

Senator LEAHY. No. Thank you.

Senator ALLEN. Thank you very much. With unanimous consent statements and accompanying attached material from Senators Hayakawa, McGovern, and Church will be inserted in the record.*

Mr. Reuben Johnson, director of legislative services, National Farmers Union.

Mr. Johnson, we're delighted to have you appear before the committee, and we also look forward to your constructive comments on legislation having to do with farmers. So we welcome your appearance before the committee to give us the benefit of your views.

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

Mr. JOHNSON. Senator, I've been here since 8 o'clock. I've heard the administration's testimony.

I must say that I came here with an objective and open mind—and I really didn't fully appreciate and understand what the administration's position was going to be here this morning because I have only had the bill that they have submitted, as requested by Senator Talmadge, for a very short time.

Mr. Chairman, on September 28, I wrote a letter to the members of your subcommittee, as well as to the members of the subcommittee chaired by Congressman Ed Jones of the House Agriculture Subcommittee on Taxation and Credit.**

As we view the legislation, whatever other constructive provisions may be in the S. 312 and H.R. 8315, we feel compelled to express the objection of National Farmers Union to the provisions of these bills which would allow the Secretary of Agriculture to increase interest

*See p. 106 for the statement of Senator Hayakawa, p. 107 for the statement of Senator McGovern, and p. 112 for the statement of Senator Church.

**See p. 115 for the above-referred to letter from Mr. Johnson.

rates on loans made by Farmers Home Administration for farm purchase and operation, and for rural water and sewer loans above the existing 5-percent rate.

Mr. Chairman, the way that is done in the bill—that's S. 2146—is through the amendment of section 307—to provide, and I quote, "Any loans made under this subtitle as a guaranteed loan shall bear interest at such rates as may be agreed upon by the borrower and the lender."

That is a radical departure from the traditional method of lending available through the Farmers Home Administration. And although these loans are going to carry with them a 90-percent guarantee, we feel the farmer is still going to be placed at a disadvantage.

In the last Congress, then-Congressman Bob Bergland—now Secretary of Agriculture—introduced a very similar bill. At that time we testified against it. As I recall, the only supporters of that bill and this provision were bankers and I can well understand why they would be for it.

This enables the administration—and let me just make one thing very clear, we are not questioning the noble motives, the excellent statements made here by people such as Secretary Bergland and Mr. Cavanaugh, we think we know where the pressure came from in the last Congress for this change. And where the pressure is coming from under this administration for this change. And we might as well just lay it out for you. It's the Office of Management and Budget.

We can envision the Office of Management and Budget embracing a procedure to take pressure off FmHA personnel, to take pressure off of the supervised nature of the lending operation of the agency and to give them elbow room to try somehow or other to see if they can't force some eligible borrowers into the private money sector for their capital requirements.

It is that fear that prompts us to take exception to this language. Ironically, this language found its way into every bill that is before this subcommittee; and that took some doing on somebody's part that that language would show up in every one of these bills.

Mr. Chairman, the Farmers Union has long been a staunch supporter of the Farmers Home Administration program. We have gotten this agency into a rather difficult position administratively because of the number of programs that they carry. And I think this fact may be the reason for the critical comments such as those of Senator Leahy and the statement from my policy program—which I would like to be made part of the record.*

Senator ALLEN. It will be.

Mr. JOHNSON. Part of our delegate concern is spelled out. They criticize many aspects of the administrative functions in the agency. This has been, in large part, due to the fact that the agency is understaffed. The agency personnel feel put upon. And we certainly hope that we can get that corrected.

Now, in this connection, Mr. Chairman, before you move to pass legislation making some rather significant changes here—most of which I think are constructive—it seems to me that you ought to give this new Administrator, Mr. Cavanaugh, and the new Secretary, who is more experienced, of course, in this, because he was chairman of the

*See p. 116 for the policy program referred to above.

committee on the House side, an opportunity to get on top of the programs they already have to deal with. There are problems that need straightening out with existing authorities. And before you start changing the rules it would seem appropriate to give them a little time to work out some of the current administrative problems.

Your two-tiered plan makes sense in the context in which you have explained it.

One of the things that we have been trying to get done is to get a special kind of a program for beginning farmers. There's another opportunity, it seems to me, to make a distinction about how you're going to set terms and interest rates, because certainly a beginning farmer has difficulties that an established operator doesn't have; and he should be eligible for consideration in terms of concessions on interest rates.

Senator ALLEN. You heard the Secretary's testimony on that.

Mr. JOHNSON. Yes, sir.

Senator ALLEN. Of course, it doesn't have sufficient guidelines probably, but it does give him great discretionary authority.

Mr. JOHNSON. I must say he sounded like a good old populist when he was talking about that. But I just wonder whether there are any populists in OMB—whether we have any over there or not. I doubt it. [Laughter.]

One last point: One of the things that bothers us about this guaranteed loan thing and the negotiated interest rate is that it slips us away from the old traditional concept of dealing with borrowers that can't get credit from other sources.

Now, Mr. Chairman, we're going to do this agency a great disservice in its purpose and the need that it serves if we ever slide away from the concept under the traditional lending programs for farmownership—from the concept that a borrower to be eligible for assistance, has not been able to secure the credit that he needs from other sources in the area at something like normal terms and rates.

I conclude my statement.

Senator ALLEN. Thank you very much, Mr. Johnson.

I think we all have some of the same fears that you do about raising the rate of interest to the cost of money. From a practical point of view, it would seem that on the 5-percent rate, if we are going to seek to get private lenders to lend on a guaranteed loan basis, even though 90 percent of it might be guaranteed, still the money would have to be furnished by the private lender. And we can't bring them into such a program where they are paying considerably more than that for money.

So if we are going to have private lenders to lend to the farmers on a guaranteed loan basis, we've got to make it attractive. If we are to draw them in, well, then we've got to line them up to have a rate which is more than what they're paying. Do you not think that's correct?

Mr. JOHNSON. Well, Mr. Chairman, as I understand it, we are doing that now under the participatory arrangements that the agency has. But under these participatory arrangements the agency still has some degree of control over interest rates.

If you go to this guaranteed loan concept where there is open negotiation on interest rates, you leave the lender—well, you force him

out into the private money market. He might as well be out there on his own without the Farmers Home Administration.

Senator ALLEN. Well, the guarantee is worth something, I would think, to the farmer.

Mr. JOHNSON. Well, I would think that a farmer with a 90-percent guarantee could go out and negotiate a loan more favorable than those that don't have it, but I have very serious reservation as to whether it's going to operate in that way.

Senator ALLEN. I think we're all concerned—and Senator Leahy touched on it—that if we, in effect, double these ceilings on the loans and all the money is gobbled up by the big farmers, it might make the administration less capable of handling the loans of the small farmer who needed a smaller loan.

And to that end I did request the Secretary to find out if he felt that OMB would allow an increase and appropriate him some 50 percent more. And he said he was certainly going to urge that.

So certainly we do not want to have all of the loan authority used up by the big loans. We've got to save some for the small farmer.

Mr. JOHNSON. Mr. Chairman, I would hope so. Our delegates recommended under farm ownership loans that they be increased from \$100,000 to \$350,000. They recommended an increase in operating loans from \$60,000 to \$100,000.

I believe that's higher than most of the bills here. But what that says to me is that our farmers out there are under increasing pressures to stay alive and that the only way they can see fit to do it is to get their hands on more capital and we've got to figure out some way to help them do that. But at the same time you're not going to help a farmer by increasing his indebtedness if you go out there and raise his interest rate.

Senator ALLEN. Well, your feeling then is that possibly the ceilings have not been raised high enough, in the first instance, and that, second, we need to guard against runaway interest rates.

Mr. JOHNSON. Mr. Chairman, the Farmers Home Administration—one of the functions of it, as I've been observing it over the years—and it's been more than I'd like to think about [laughter]—is that it was set up to attempt to provide some kind of a yardstick on what the going rate of interest should be.

I go back to the days when I started my employment in Washington with the Farmers Home Administration back in July of 1951, when we used to make 4 percent housing loans and all of that was Government money and we didn't lose anything. It was all paid back into the Treasury. And yet we showed that money throughout those years as an outlay, as an expenditure, and the Government got it all back. And in those years I think interest on operating loans was 5 percent. Most of that money was Government money. And it's always been a mystery to me, when an agency has a repayment record as good as the Farmers Home Administration, why we couldn't put more Federal funds into the program.

I've got nothing against the private sector having a piece of the action, but when you're dealing with an element here in agriculture that qualifies for loans because it can't get credit from a banker—that ought to be adhered to rigidly—he ought to be entitled to some kind of a benefit that other people don't have. When an FmHA borrower is able to move to private credit sources, he should do so.

And I might say to you that the Farmers Home Administration has an admirable record in that regard. They have moved many farmers from a point where he could not get money at the local bank to a point where he could do so. The bankers ought to be proud of that.

Senator ALLEN. Yes; I agree with you. Thank you very much, Mr. Johnson.

John Scott, please?

STATEMENT OF JOHN SCOTT, MASTER, NATIONAL GRANGE, ACCOMPANIED BY DAVID LAMBERT, DIRECTOR OF REGULATORY AFFAIRS

Mr. SCOTT. As you know, Mr. Chairman, I represent the National Grange.

Senator ALLEN. Yes, sir.

Mr. SCOTT. Mr. Lambert is our director of regulatory affairs.

Senator ALLEN. We certainly look forward to hearing your testimony.

Mr. SCOTT. Both I and Mr. Lambert will be available for questions.

Thank you, Mr. Chairman and the committee, for this opportunity to present the views of the National Grange concerning loan limits administered by the Farmers Home Administration.

My own experience with Farmers Home goes back more than 20 years when, as a dairyman, I served in Pennsylvania as a county committeeman. From personal experience, I know the problems of the farmer and the problems faced by the county supervisor. The current financial difficulties being faced by farmers and the manifold increase in the programs administered by Farmers Home have compounded these problems.

There are several bills before this committee, and in each case they raise farm operating loans from \$50,000 to \$100,000 and farm real estate loans from \$100,000 to \$200,000. The farm loan ceiling of \$225,000 would be eliminated. I feel the limit would be lifted in the administration bill.

Senator ALLEN. From \$225,000?

Mr. SCOTT. Yes. I feel there's a real need for these changes and strongly support these new levels. I would also recommend the retention of the 5-percent interest rate for ownership loans.

Mr. Chairman, I'd also recommend that Farmers Home Administration only loan to substandard risks. I think it would be a grave mistake if we get into the general loan business and get out from under the poor risks.

Senator ALLEN. Do you want to confine it to the poor risks?

Mr. SCOTT. Substandard.

You're all aware of the magnitude of the capital required to do an efficient job in farming today. As the capital need increases, it becomes more and more difficult for young farmers or for those farmers wishing to expand their operation to obtain credit.

Although the rural population has been on the increase since 1970, USDA has reported a drop in farm population of some 600,000 persons during the same period. There are a number of reasons for this exodus, but a large part of it can be attributed to the expansion in the size of farms, with established farms having the capability of raising capital

based on equity and would-be new farmers unable to compete financially.

Even today, a number of established farms are facing a financial crunch. Thousands of farmers and ranchers are facing a financial crisis due to the drought and low crop and livestock prices. A number of these will not be able to meet their financial obligations. Rural banks will not be able to satisfy the increased need for capital and as a consequence there will be a greater demand on the Farmers Home Administration.

Even though I strongly support the increase in loan levels, I must point out that this alone is not an adequate measure. If other changes are not made, the increased loan levels could increase current problems. During the early 1960's, the expansion of old programs and the enactment of new programs raised the Farmers Home Administration's total loan and grant program from \$300 million to \$750 million. This was only the beginning of the upsurge in Farmers Home Administration services brought on by the large-scale rural housing and rural development programs enacted in the next 10 years.

Rather than set up new agencies to administer new services, Congress and the executive branch continue to specify that Farmers Home Administration's existing system of county offices, long experienced in serving rural communities, would be used as the delivery vehicle for the new and larger rural programs. The Farmers Home Administration's annual volume now exceed \$6 billion, some nine times greater than a decade ago.

Regardless of the dedication of the Farmers Home Administration field personnel, the system cannot absorb change of this magnitude and continue to offer full service. Something has to suffer, and as you well know, Mr. Chairman, it's been the farm programs. It's easy to see why. Rural housing was just starting when I was on the committee, and it was so much easier to go out there and administer a home loan than it is a farm loan. It was no trouble for people to make their payments on the home loan, and they don't supervise the farmers, and I personally would think that this would lead to failures on farm loans and the record of farmers' loans will begin to deteriorate unless we begin to pick up this management.

From my own observations, from surveys conducted by the Senate Agriculture Committee, and from reports of farmers and bankers throughout the country, it is a story of too little, too late, or not at all. Loan processing is extremely slow, and in farming, decisions must be made quickly or deferred for a year or perhaps delayed indefinitely.

There has been more demand for farm real estate loans than money available. If loan levels are increased, this will compound the problem unless more money is made available.

Borrowers from the Farmers Home Administration come to it because they cannot, for a number of reasons, get credit elsewhere. The county supervisor should assist the applicant in adjusting or consolidating his debts. This is accompanied by technical advice to help borrowers make profitable use of their land and water, labor, capital, and other resources. The borrower should receive advice in keeping accurate records of expenses and income and in budgeting and wise use of income and credit. The supervisor must also stand ready to help a nonborrowing farmer obtain the same help.

This kind of advice requires a background and current knowledge of farming practices. It requires frequent trips to each client's farm

so he has firsthand knowledge of the operation and he can render timely, sound advice.

This kind of supervision is impossible today and, as a consequence, new and young farmers find it increasingly difficult to obtain loans or to receive the kind of full service they need to stay in business.

The only solution I see to this problem is to separate farm programs from rural development programs by placing all farm programs under one USDA agency, and it would be the ASCS. The Grange has made such a recommendation to the USDA.

The National Grange has a heterogeneous membership. Along with farmers, we have educators, bankers, business people, homemakers, youth, blue collar workers, the rural poor and the elderly. We see the need and have been a long-time supporter of the rural development needs of rural America. Individual Grange members, as well as their communities, have reaped the benefits in housing, health, and income from Government programs. Grangers in several States benefit from retirement homes and clinics that were partially or totally funded through Farmers Home programs.

The intent of our recommendation is not to downgrade or criticize rural development activities but to restore the type of service the Farmers Home Administration borrower needs and deserves.

Thank you very much, Mr. Chairman, for this opportunity to express the views of the Grange.

Senator ALLEN. Thank you very much, Mr. Scott.

We appreciate your very fine testimony, which will be helpful to the committee.

I was interested in your statement about the desired role of the Farmers Home in making these loans—that they should make them to substandard risks mainly. It is your theory, then, that Farmers Home could make such loans and over a period of years carry such a borrower along to the point that he could be moved over to private borrowing, is that correct?

Mr. SCOTT. That's exactly right. When I was on the committee back there in the county, at almost every meeting they'd move that farm credit be taken over and it would be finished with.

Senator ALLEN. You don't think then that successful farmers who are making money and building up their farms, adding to their equipment, should continue on the Farmers Home loans but that they should be moved into the private financing?

Mr. SCOTT. I agree with that 100 percent.

Senator ALLEN. Well, how are you going to do that? How are you going to tell a man then who has been borrowing money, with operating loans for several years—he's got a good record of paying, and then you tell him, "Well, it would be best for you to go down to the local bank and get your money and we don't want any more of your business"?

Mr. SCOTT. Well, the way that was done when I was on the committee, the supervisor would take his farmer's records—the records that he had on the farmer—and show them to a private lender. Sometimes it's firm credit, sometimes it's FmHA or a local bank nearest to his own home in that county. And then he'd say, "Look, I feel this man is eligible and he'd be a good risk for you."

And that's the way we unloaded it.

Senator ALLEN. But the farmer might say, "Well, I don't want to get off of this 5-percent money and get over on the 8 or 9 percent."

Mr. SCOTT. Well, the problem there is that if you don't move them off soon, the Farmers Home Administration becomes so bogged down with people who they feel shouldn't be borrowing money so that they can't lend money to the poor guy that needs it.

Senator ALLEN. Well, if we're going to lend to the substandard risk, aren't we running a pretty big risk with the taxpayers' money and doubling the ceilings?

Mr. SCOTT. Not if you have good supervision.

I would like to have Mr. Leahy tell you some time about the program they have in Vermont that's operated through the Extension Service. I think it's the only State that has it. But if you have good supervision, that substandard farmer—the risk is only substandard for one reason, mainly, and that is that he does not know how to manage this operation; and he can be taught to manage it through a good supervisor.

Senator ALLEN. Well, you suggest keeping the 5-percent rate. If we do that, would that not pretty well kill any idea of private financing under the guaranteed loan method? Is 5 percent a realistic rate to attract private lending, even with a private loan guarantee?

Mr. SCOTT. Well, it would have to be subsidized, of course. You know, the bank won't loan at 5 percent. The Government would have to subsidize the guaranteed loan at 2 or 3 percent—whatever it might be.

Senator ALLEN. In other words, you would keep the 5-percent loan, but if they got over into private financing you'd let them pay the 5 percent and the Government subsidize up to whatever was agreed on—

Mr. SCOTT. Right.

Senator ALLEN [continuing]. Or maybe a briefer limit of subsidy.

Mr. SCOTT. Right. Somehow I think we have to separate the farm section of the Farmers Home Administration out of this housing or double the staff in the office and then assign one man to the farmers' home loan—because, you know, it's just impossible almost now and they're not servicing these loans. And as I said before, I think you're going to see some of them starting to go bad because the management supervision isn't there.

Senator ALLEN. Senator Bellmon, do you wish to ask Mr. Scott and Mr. Lambert any questions?

Senator BELLMON. Mr. Chairman, I had another meeting to go to. I apologize that I didn't get to hear the testimony.

Mr. SCOTT, you would recommend that the FmHA loan only to poor risks?

Mr. SCOTT. Only on substandard risks though, Senator Bellmon.

Senator BELLMON. Substandard risks. And who's going to determine that it's substandard?

Mr. SCOTT. Well, when I was on the Farmers Home committee, that was the only thing we determined a man could have.

Senator BELLMON. So you're saying 5 percent to most everybody.

Mr. SCOTT. Substandard people—for the people who can't borrow from the bank through farm credit or whatever.

Senator BELLMON. But you're saying the Farmers Home Administration would have 5-percent loans for everybody who was qualified for those loans?

Mr. SCOTT. Yes.

Senator BELLMON. You're not—

Mr. SCOTT. Until they got to the point where they could move out the farmer's loan to the regular credit lines.

Senator BELLMON. You're not suggesting a lower interest rate to one borrower and a higher interest rate to another borrower?

Mr. SCOTT. I just don't think we ought to get into the general credit business.

Senator BELLMON. You heard the Secretary testify earlier?

Mr. SCOTT. Yes.

Senator BELLMON. He said he'd like to see a system where some loans would be made at 1 percent and some would be made for the cost of the loan to the Treasury. Your testimony says you were a former member of the county FmHA committee.

Mr. SCOTT. Right.

Senator BELLMON. How would you administer a program like that?

Mr. SCOTT. Like the Secretary suggested?

Senator BELLMON. Yes.

Mr. SCOTT. I think you'd have a terrible time. You'd have to have an awful strong supervisor that would be able to discern who deserved the 1-percent loan and who deserved an 8-percent loan.

Of course, we don't recommend the 5 percent on homeownership loans; and the other money, of course, is—as I remember, interest rates weren't so high when I was on the committee, and I'm sure we're just operating homes at the regular credit rate.

Senator BELLMON. Do you feel that those 5-percent loans—the availability of the 5-percent money—causes the land values to be high?

Mr. SCOTT. I heard your discussion of that previously, and I have not been a farmer since 1962 and I wouldn't really be qualified to answer that. You probably know more about that than I do.

Senator BELLMON. Mr. Chairman, I have no further questions.

Mr. SCOTT. It does seem that the liberalization of the loan rate to young farmers—while we all want that, going down to 1 percent—might not be realistic. And I can envision our farmers comparing notes and one farmer getting a 2-percent loan, another farmer the 5-percent loan—or if we go to the cost of money, somebody paying 8 percent. That would just create a furor all over the country, it seems to me.

I think we certainly need some concessions to the young farmers and the new farmers, but that could be carrying it a little bit too far. But I understand that would be, in effect, a subsidy for the first—as Mr. Cavanaugh said—4 or 5 years; but that might be too much. And I think possibly a higher percentage of value would be of more help to the young farmer possibly than this cutting the tax out of the interest rate because the average young farmer would have very little money to invest in the equity. So that should be liberalized, I believe, maybe to a greater extent than the interest rate. But some liberalization of the interest rate ought to take place.

But I'm glad to see the Secretary thinking in terms of giving encouragement to the young farmer because that's an absolute must if

we are to carry on the work that the farmers are doing now in so successfully producing big crops of food and fiber for our people and much of the free world.

Senator ALLEN. Thank you very much, Mr. Scott.

Mr. SCOTT. I might suggest, Mr. Chairman—I just came back a few weeks ago from an agriculture leaders' tour of the United States and Japan. Up in the northern island of Japan they're clearing land and setting up brandnew farms, and they give their help on the basis that if they're giving this rate of interest for a very few years then they begin to pay interest—then they begin to pay the loan off a few years later—and the loans are extended longer. But in the end the farmer pays the Government back everything it put in.

Senator ALLEN. Yes, sir; that's very valid. I'm sure it could be worked out, but I don't believe we've got it spelled out quite right yet.

Thank you.

Senator BELLMON. Mr. Chairman, would it be in order to ask Mr. Scott—perhaps discuss his testimony—by describing how the Japanese program works, the details?

Senator ALLEN. All right—if you would send that to the committee.

Mr. SCOTT. Sure. Thank you, sir.

Senator ALLEN. Thank you.

[The following information was subsequently received by the committee:]

In Hokkaido, the northern island of Japan, the Japanese Government is clearing brushy land and creating new dairy farms of 125 acres each. After a new home, a new barn and a silo are built, and after the farm is equipped, the government sells these farms to farmers for \$185,000. It is my understanding that repayment is made as follows: the first 5 years the farmer pays only the interest on the loan (at the current rate). After 5 years the farmer begins to pay on both the principal and the interest, and the loan is retired in 20 years.

In this way, the Japanese Government has helped farmers to get started.

Senator ALLEN. How many of you gentlemen plan to testify? Will it be one testifying or will more than one testify?

Mr. FUGATE. Sir, I thought I would open with a few remarks, abbreviated remarks, of a statement which has already been submitted to your committee.

Senator ALLEN. Yes, sir. We would appreciate it. It could be delivered in full.

Mr. FUGATE. And then the four of us would be pleased to answer—or attempt to answer—any questions you might have.

Senator ALLEN. Yes, sir.

STATEMENT OF IVAN D. FUGATE, FIRST VICE PRESIDENT, INDEPENDENT BANKERS ASSOCIATION OF AMERICA, DENVER, COLO., ACCOMPANIED BY DON F. KIRCHNER, CHAIRMAN, AGRICULTURE-RURAL AMERICA COMMITTEE, RIVERSIDE, IOWA

Mr. FUGATE. For the record, my name is Ivan Fugate. I'm president of the Western Bank of Denver and first vice president of the Independent Bankers of America. With me to my right is Mr. Don Kirchner, who's president of the Peoples Trust & Savings Bank, Riverside, Iowa, and chairman of our Agriculture-Rural America Committee.

We appreciate the opportunity to appear this morning. We'll try to make our comments as brief as possible.*

I'm certain you're aware of our organization.

Senator ALLEN. Yes, sir.

Mr. FUGATE. We're principally an organization composed of rural banks and, as such, we consider ourselves as partners in progress with our Nation's greatest business: agriculture.

Actually, the fortunes of our member bankers are pretty closely tied to the future of agriculture in this country.

We view the proposals to amend the act from the standpoint of two basic assumptions: first, that the public interest is best served by the competitive economic system—emphasizing locally owned banks, independent businessmen, and family agriculture.

Second, we believe that the goals of our Nation should be accomplished as much as possible through the private sector on a local level. Our organization played an active role in the past.

At the outset, let me say that we think it's rather misleading to speak in terms of "rural development" as though the metropolitan areas and the nonmetropolitan areas of our country were tight little islands having little or nothing to do with each other.

Those terms, "urban" and "rural", are useful in many contexts; but I think they have a tendency to project a polarized view of our country that is perhaps misleading to us, and it doesn't help us in being any more objective. We've heard a lot of spokesmen for large cities talk about "solving urban problems" without at the same time recognizing the fact that there's been an impact of rural America on these very same problems.

One of the basic problems in our cities—overcrowding—can be traced directly to the outpouring of rural citizens into the cities over the last 30 years. And as someone quite eloquently put it in my prepared text, "Tackling the problems of the cities without considering the rural areas is a bit like mopping up the floor without turning off the faucet."

So we believe that a proper development of rural America will result in a wiser allocation of our resources for the good of all.

And providing job opportunities in rural America is an opportunity for all Americans. We must find additional sources of capital for rural development. While most of our member banks rather optimistically feel that they can meet the normal expansion of credit required by their agricultural customers, actually additional infusions are necessary if we're going to meet the needs of rural America and the goals as originally set out in the Rural Development Act.

Traditionally, the rural areas—particularly in the unit banking States through the Midwest—have been served by small bankers. With inflation causing higher and higher land prices, the resources of our small country banks have been strained to the point where their deposit growth—which is linked directly to their lending ability—just hasn't kept pace with the inflation and land prices and the cost of products that the farmer has to use to produce crops.

*See p. 117 for the prepared statement of Mr. Fugate.

We feel that one of the best vehicles available for infusing huge doses of additional credit into the rural economies is to do so through private lenders with the guaranteed loan. And this can be done with a minimal impact on the Federal budget. It could be done with SBA as well as with Farmers Home Administration programs. Actually, whether you realize it or not, the average \$5 to \$10 million bank may have a lending limit of only \$25,000 to \$30,000 but with a guaranteed loan that can be increased as much as tenfold and go to \$250,000 or \$500,000. Thus, the country bank—the typical country bank—can accommodate its customers through the use of guaranteed loans—promoting the development of the rural area where its bank is situated.

Senator ALLEN. Now, how are you going to do that on the guaranteed basis in which a small bank, I assume—you're talking about a half million dollars in loans and so forth. Even though the loan is guaranteed, the smaller bank would have to furnish the money, is that correct?

Mr. FUGATE. That's correct, sir.

Senator ALLEN. And that would tax the small bank greatly. Would you get that from your correspondent bank or will the Safe Banking Act prevent that? [Laughter.]

Mr. FUGATE. Well, the Safe Banking Act might well prevent that, but the way it has worked in the SBA guaranteed loan programs is that a secondary market has been developed through which the banker—the local banker—can sell off the guaranteed portion of his loan, 90 percent of it. He advances 100 percent of the funds. And it has reached the point of sophistication in the secondary market of SBA loans where within 24 hours of a telephone call to Merrill Lynch or E. F. Hutton, or one of many other institutional investors, the bank can have a check for the entire amount advanced—the 90 percent—pertaining—

Senator ALLEN. That's where you would have a negotiated interest rate—

Mr. FUGATE. Yes, sir.

Senator ALLEN [continuing]. Which would be comparable, I assume, to the going rate of long-term Federal securities; is that right?

Mr. FUGATE. Well, I think—

Senator ALLEN. Or higher?

Mr. FUGATE. Well, I think what we're talking about—of course, SBA rates are set by the SBA; and they're at this time about 9½, I believe it is—9½, 9¾. And it would be a somewhat higher rate than what you mentioned. But it would be dictated by the market more than by anything else.

Senator ALLEN. And then you would service the home for a fee, is that correct?

Mr. FUGATE. We would service the home for a very modest fee. We would also retain a very modest percent of the loan—

Senator ALLEN. I understand.

Mr. FUGATE [continuing]. Probably a quarter to a half at the very most; but the guaranteed loan, we feel, is the answer—or one of the answers—to funding rural America—

Senator ALLEN. Yes, sir.

Mr. FUGATE [continuing]. And we feel that the bills—and some of the amendments which have been suggested—should be considered in

the context of a probable secondary market developing quite soon after the enactment of that legislation.

The private investors—Merrill Lynch, the private institutions—are very happy with their SBA program, and we believe that they would pick up a Farmers Home Administration as they do on the B. & I. loans already. The B. & I. loans are already sold in the secondary market.

Senator ALLEN. Well, there's testimony, of course, to the effect that it would be unwise to go above the 5 percent. It's quite obvious then that if the 5-percent figure is kept uniformly both in direct loans and in guaranteed loans, you would not be interested in going into that field, I assume.

Mr. FUGATE. No, I think it would make it impossible to create a secondary market at a rate like that.

Senator ALLEN. Or a primary market.

Mr. FUGATE. Or even a primary market for the banker—that's correct. But actually the guaranteed loan by itself, without the development of a secondary market, is not going to solve our problem. And so you have to link the two together. And the rate is what determines whether or not that secondary market is going to fly.

Senator ALLEN. That's right, but we are running into the demand that the interest rate not be raised above 5 percent. You don't think that's practical, to retain that 5 percent; do you?

Mr. KIRCHNER. No, I don't. Basically, I look at this program as not being for substandard borrowing, when you're talking about a market rate of interest; but the problem that exists in many such banks—and I'll use mine, the one that I'm connected with in particular—we're a \$6 million bank—we have a \$60,000 lending limit. And we're running into more and more of our customers that we are no longer able to serve because they need more than \$60,000.

Senator ALLEN. Well, now, the guaranteed portion of the loan would not be charged against your limit.

Mr. KIRCHNER. Right, and that would let us go ahead and serve them.

Now, we're not looking at that as a giveaway in any way, shape or form, as a good, solid farmer has completely sufficient net worth to cover whatever he happens to want to borrow.

Senator ALLEN. You cannot lend these sums without the guarantee.

Mr. KIRCHNER. Right, but there are many, many banks in rural America that are in the category of 5 percent loaned out. They have money to loan, and there are people that need the money that they have to loan. But it doesn't all happen to fit within the lending limits of that bank, and inflation has exceeded the ability of the small bank to increase its capital structure fast enough to keep up with the increased demand.

Senator ALLEN. Of course, I assume it would depend on the interest rate. But would there be a prospect that making a \$250,000 loan, 90-percent guaranteed, you could sell the 90 percent at a premium?

Mr. FUGATE. It's not customary—

Senator ALLEN. Yes, sir.

Mr. FUGATE [continuing]. At least, in today's SBA secondary market. You usually need to sell it and retain a small amount for servicing—although I heard of bankers who have been able to perhaps pick

up a point above just because someone was hungry for a guaranteed Government loan.

Senator ALLEN. Well, as I see it, the banks then—the small banks—would not be able to participate in these loans unless, No. 1, there's a Government guarantee, and No. 2, the interest rate is at such a level as to interest investors.

Mr. FUGATE. That's correct.

Senator ALLEN. Does that pretty well size up your position?

Mr. FUGATE. A negotiated agreement between the borrower and the lender, just as we would any other loan.

Senator ALLEN. Well, the Government guarantee, of course, would affect the interest rate. But, far more than that, it would affect whether the loan was available or not. Is that not correct?

Mr. FUGATE. That's correct, sir.

Mr. KIRCHNER. Yes; that's the big effect—as to whether or not it's available with the actual money.

Senator ALLEN. I mean as sound as can be, but without the guarantee you couldn't sell it; is that correct?

Mr. FUGATE. That's correct. And the way it is now, the SBA loan is at a fluctuating rate.

Senator ALLEN. Now, gentlemen, due to our time restrictions I will ask you, if you will, to submit your statements for the record.

I'm going to ask you to confine your statement now to specific recommendations—to specific provisions of the bill or specific recommendations that you would make for inclusion of the provisions in the bill.

Mr. FUGATE. All right, sir. We'll move then to—we have the three bills, essentially. We did not have an opportunity to have a copy of the administration bill, and so the numbering by sections—we have one now—but the numbering is keyed to the Bellmon bill.

Senator ALLEN. Yes.

Mr. FUGATE. So section 1—we would support the provisions of the Bellmon bill. However, we would like to see the family-member requirement of the Church bill incorporated in that amendment.

Senator ALLEN. All right.

Mr. FUGATE. Frankly, we are opposed to the credit elsewhere test in determining the availability of the credit under the guaranteed loan program. We believe that the process could be speeded up considerably if it were done as is done in SBA loans, where the lender merely certified that he would be unwilling to make the loan without such a guarantee.

Similar certificates are accepted now by the SBA in loans under \$200,000.

With reference to the farmownership loans, Senate bill 312, which ups insured farmownership loans to \$200,000 and guarantees farmownership loans to \$300,000, we're very much in favor of raising the limits on these loans. However, we would rather see the insured farmownership loan limited up to \$225,000, as is recommended by Senator Church.

Frankly, we have not reached a firm conclusion about the indebtedness restriction in its entirety. Perhaps \$450,000 or \$500,000 would be an appropriate limit, as suggested by Senator Church. But total elimination might lead to a rather chaotic situation at OMB and elsewhere.

The granting of a preference to communities of 500,000 for sub-title A loans—we think that makes good sense, so long as we don't change that population requirement on B. & I. loans.

Section 4—as we've said, we believe in the negotiated interest rate.

And we would endorse section 5, which takes the lid off of the \$500 million total that can be held in the Agricultural Credit Insurance Fund.

The secondary market—I believe in section 6—permits the Secretary to purchase loans, and we would go along with that—providing there be some condition that the Secretary's ability to purchase be exercised only after he determines in his discretion that a primary—rather, a private secondary market cannot be developed.

Section 7—there's been a lot of delay in obtaining these certifications from the Labor Department, and we would endorse section 7.

On eligibility criteria for farm operating loans, we again would like to see that family farm provision included.

On farm operating loans, we again would like to see that family farm provision included.

Section 9, increasing operating loan limits—we're in favor of this. We would also like to see the consolidation of loans, and we think this would add a lot of flexibility to the program.

We also like, frankly, the provision that deletes the requirement that the county committee certify the maximum amount of operating loans.

So far as sections 11, 12, 13, and 14, we support those sections.

Section 15—we would support Senator Talmadge's bill. Frankly, we were at a loss to determine exactly whether or not some of the other islands out in the Pacific would be included, now that we know it includes Puerto Rico and the Virgin Islands and the 50 noncontiguous States that we were talking about. We're in favor of that, sir.

We also agree with the amendment making a difference in the program levels containing both an insured and a guaranteed loan level. And I think this would lead to an increased use of guaranteed loans.

We do feel that instead of having ceilings on loans that we should talk more about setting up a loan loss reserve system, just as a bank does or a businessman does when he does business.

The success of the Farmers Home Administration over the years, with a loss ratio around 1 percent—the B. & I. loans that have just come on fairly recently that have about the same loss ratio experience—would seem to indicate that an annual appropriation really is unnecessary. And if we could reach a figure that everybody was happy with as a reserve, it would result in the infusion of a great deal of money to the world economy without any drain on the appropriations process at all.

Now, Senator, in the past we had an amendment of that—setting up a reserve of, I think, possibly 20 percent of the loans—in 20 percent reserve as against loans—but in conference it was pointed out that the amount that had been appropriated for guaranteed loans was the total amount that they wanted made in guaranteed loans and that if you just had to set up, say, a 20-percent reserve, well, that would increase the amount that could be lent by 400 percent—which the conference committee didn't want to do.

I believe that was your amendment.

Senator ALLEN. Yes; that's correct.

Mr. FUGATE. And we, of course, concurred in that amendment.

I don't know that that's all bad—that it be increased that much—because I think the capital is needed in the rural areas.

Senator ALLEN. Well, I rather believe it was a sound amendment. [Laughter.]

Mr. KIRCHNER. So do we, Senator. [Laughter.]

Mr. FUGATE. Moving to section 17, which merely requires more cooperation between SBA and Farmers Home Administration, I'm certain that everybody is in favor of that. I'm not certain that SBA is really happy being where they are, but they're there. And so long as they're going to be there, they ought to be cooperating.

We also agree with Senator Church's proposed amendment making permanent the Emergency Livestock Credit Act and raising the permissible guaranty to half a million dollars.

We also feel that section 16 of Senator Church's bill, which permits the farmer to lease his land under certain rather restrictive circumstances for a period of 3 years to see if he can get back on his feet, as being worthwhile. At least, it gives him an opportunity to see whether or not he can get back in business.

With that, I think we have covered most of the pertinent sections of the bill; and we'd be happy to entertain any questions, additional questions you might have.

Senator ALLEN. I notice you stated two or three times that you favored the family concept. That would be a restriction then on the lending power of Farmers Home, would it not?

Mr. FUGATE. Well, what we've done, Senator, as I understand the bills—the bills include now corporations and partnerships—

Senator ALLEN. Yes.

Mr. FUGATE [continuing]. And in the past—

Senator ALLEN. The corporations would be though, in fact, family corporations—not public corporations. Private corporations, of course.

Mr. FUGATE. Private corporations. We support the concept of the family-owned partnerships or corporations.

Senator ALLEN. In other words, really, you're not then talking about just individuals as such.

Mr. FUGATE. No, because with many of the sophisticated tax laws many small farmers are incorporated.

Mr. KIRCHNER. We feel the corporate family farm has come about because the Federal tax laws allowed no alternative but to form a corporation and, therefore, you've got to restructure these programs so that they do include that family farm. There still is one. [Laughter.]

Senator ALLEN. All right, Mr. Fugate. Thank you very much.

Now, Mr. Kirchner, do you have some testimony that you wish to give?

Mr. KIRCHNER. No; I do not.

Senator ALLEN. You've been most helpful to us and we appreciate your coming and giving the committee here the view of independent bankers. Certainly we recognize the role of the independent bankers in the agricultural economy and in rural development and the need to have a strong agricultural tie-in.

We feel that you've helped immeasurably in your contributions to the agricultural economy of our country, and I'm glad that moving

in the direction of allowing you to make larger loans without risk to your depositors by the Government guarantee method allows a small bank such as yours—a \$6 million bank, Mr. Kirchner—to make much larger loans to your depositors and have an infusion of capital into the economy.

Mr. KIRCHNER. For my own bank—which is about 52 percent loaned out—it would give us a great opportunity to increase our loan value. But for other banks—and many of them are in the 70- to 75-percent loan category—it would allow them to make that loan and then move it off into the market——

Senator ALLEN. Yes, sir.

Mr. KIRCHNER [continuing]. So that they can still serve.

Senator ALLEN. You cannot do that without a negotiated rate.

Mr. KIRCHNER. Right, the rate has to be established high enough so that it will move into that market.

Senator ALLEN. You either have to keep all Government money at a subsidized rate or put it on a negotiated basis, is that right?

Mr. FUGATE. That's right.

Mr. KIRCHNER. No; we don't at all object to a subsidized rate for special cases like the young farmer. We'd been really foolish to oppose that. [Laughter.]

Senator ALLEN. I understand.

Mr. FUGATE. We'd be putting ourselves out of business.

Mr. KIRCHNER. But for the general run of the guaranteed loan program, we think it would have to be negotiated.

Senator ALLEN. Thank you very much, sir.

Mr. FUGATE. Thank you very much, Senator. We appreciate the opportunity of appearing before you.

Mr. KIRCHNER. Thank you.

Senator ALLEN. Mr. Murray is our next witness, sorry we were so late in getting to you, but we moved this as rapidly as we could, and we appreciate your coming before the committee to give us the benefit of your views. And it might be possible for you to condense your statement or capsulize it and then insert your full statement in the record.*

Mr. MURRAY. Yes, sir.

Senator ALLEN. I rather imagine you'd be interested in the rural development loans and the interest rate on them.

Mr. MURRAY. Yes, sir.

Senator ALLEN. And handle it in any manner you see fit, but don't allow it to go too long. Under constraints of the committee meeting while the Senate is in session, we have to hold our meeting down to 12 o'clock, at this hour, but I believe we'll be able to finish by then.

**STATEMENT OF WILLIAM E. MURRAY, LEGISLATIVE SPECIALIST
FOR RURAL DEVELOPMENT, NATIONAL RURAL ELECTRIC COOP-
ERATIVE ASSOCIATION**

Mr. MURRAY. I'll hurry as much as I can.

For the record, I'm William E. Murray. I'm legislative specialist for rural area development of the National Rural Electric Cooperative Association, a national service organization of nearly 1,000 rural

*See p. 121 for the prepared statement of Mr. Murray.

electric systems in 46 States. These systems bring central station electricity to approximately 25 million farm and rural people over lines in 2,600 of the Nation's 3,100 counties.

Our major concern with these two bills—and the two bills we're testifying on are S. 312 and S. 2146—our main concern is the effect on water and sewer loans, as you just pointed out.

While we didn't hear all of the testimony this morning, we did hear most of it; and I don't think a lot of that testimony directed itself to some of the very serious unanswered questions that these bills raise.

I recall that last year the administration introduced a bill on the House side—H.R. 14641—very similar to this one. It got through a House Agriculture subcommittee but failed in the full committee. And at that time—and I guess it's the same situation now—the Department of Agriculture was asking for an increase in the interest rates on these loans, including farmownership loans, in order to reduce the subsidy.

But we think it may be very doubtful that the Government will save any money, and it may be even more costly if you raise the interest rates on community facility loans.

And we recall last year that the administration, and Secretary Bergland who was then a member of the House Agriculture Committee introduced the bill and testified to this effect, that the USDA would increase the amount of grants it provides to communities unable to pay the full Farmers Home rate for water and sewer loans.

And, of course, when they provide a grant, that in effect reduces the interest rate.

And someone on the committee raised the question: "Well, doesn't USDA know that even grants cost money, something like 7 percent?" But Assistant Secretary Bostic and others who were in support of that bill didn't mention it. I've testified before the Senate Subcommittee on Rural Development several times, and I've heard several witnesses say that even at the 5-percent rate many communities cannot afford a Farmers Home loan and, therefore, they don't get one, even at the 5-percent rate.

Now, certainly Congress has recognized this, and one recognition is the fact that Congress has been very generous in providing Farmers Home grants for water and sewer loans when the administration asked for nothing.

Senator ALLEN. That's a very fine program too.

Mr. MURRAY. Yes. So if you increase the interest rate on the insured loan, there is the possibility that the insured loan program might not be of any substantial value, because you would be forcing most of these communities and the farmownership borrowers to get guaranteed loans.

And then I think it's very important—and Congress certainly recognizes this—that without central water and sewer disposal, the prospects for rural development in many areas are very slight. And I think this was one of the reasons why we have these programs.

So I mention that many communities can't afford to pay even the 5 percent, and this year Congress has in the hopper a couple of bills that would increase the grants from the \$300 million ceiling authorized, to \$1 billion in one bill, and also would increase the grant from the 50-percent limit to 75 or 90 percent.

Some of us see that HUD and EPA are giving away billions for these same facilities. But when Farmers Home makes a loan at 5 percent and the money is repaid, then it's a subsidy; and it's another one of those inequities that penalize rural areas. So the savings to the USDA, I think, might be offset by hundreds of millions in extra grants that might be needed if you want to provide water and sewer facilities.

It's the same way in rural electrification. Without those facilities, it would be a wasteland.

According to a recent USDA newsstory, farmers got 59 percent of all farm income last year. So the jobs that Congress helped create through the Rural Development Act and other programs, have been very important to farmers. Water and sewer facilities are very important investments if you're going to create jobs.

Now, it's my understanding that most farmownership loans, and all water and sewer and all other community loans, are made as insured, which means they come directly from the Farmers Home. Farmers Home, of course, has the authority to make them as guarantee, but no private lender is going to make a guaranteed loan at 5 percent.

One bill calls for a higher interest rate than another, but the administration bill (S. 2146) says the interest rate on the insured loan is to be raised to a rate comparable to that prevailing in the private market for similar loans, plus a number of add-ons. S. 312 adds 1 percent on top of that, which means you might have an 8- or 9-percent rate. Well, when you get the insured rate up to 8 or 9 percent, you're pretty close to the guaranteed rate, so that in a sense you're putting terrific pressure on a community or a farmer to take a guaranteed loan at a much higher rate—maybe 9½ or 10 percent.

Then, of course, Farmers Home would guarantee up to 90 percent of the loan and offer to buy it back if the seller wanted to unload it.

We think that any action to substantially increase the interest rate on these community facilities would have a detrimental impact on rural communities and rural development.

Senator ALLEN. Well, it would be counterproductive—

Mr. MURRAY. Sure.

Senator ALLEN [continuing]. Because there's just so much that the local community can pay. And if the interest rate is raised, that would come down to the portion that they can contribute to the project, and it would make the amount of grant to be increased, if I understand your point. Is that not correct?

Mr. MURRAY. We're talking about maybe 35,000 or 40,000 communities. While I have strongly supported Farmers Home—and it's an excellent agency—you take a look at their water and sewer program. In the 12 years they've been operating it, there has been no appreciable decrease in the number of communities that need this kind of assistance.

And I mention later on that I think there's a better way of operating that kind of a program.

Well, in any case, we certainly would have to ask the question: "Will increasing the interest rate preclude thousands of rural communities from being able to use Farmers Home loans?"

We think it would, and the past testimony certainly indicates this very strongly.

And then the administration said last year, and I guess they would say the same thing now: "As a tradeoff, we'll provide more authoriza-

tion for water and sewer loans." But what happened in 1977? It was Congress that increased it from \$470 to \$600 million, and this year it's the same thing. Congress increased it from \$600 to \$750 million.

And again I have to say it's ironic that if you give the money away, then nobody complains; but if you charge an interest rate of 5 percent, they say, "Well, that's immoral, unjustified."

You know, you can get these communities moving again. There are people out there that are going to get jobs, and that's going to cut down on unemployment. We're talking about cutting unemployment. You need this infrastructure to do it. And it's going to increase Federal taxes and State taxes and local taxes, so there is a positive benefit.

Now, as far as farmownership and farm operating loans are concerned, we're leaving that up to the national farm organizations. They're much more competent than we are to talk about that. But we're not so sure that this may be the only way and the best way.

I recall Senator McGovern had a bill dealing with farmownership. I can't remember the details, except that it was an interesting approach to helping young farmers get farms.

Now, there are a number of provisions in these bills that we would support. They are very helpful. And increasing the ceilings on these loans—farmownership and farm operating—are some of them.

We would particularly support changing the name of Farmers Home. We testified in that respect several times.

I would think, Mr. Chairman, that you would want to have a pretty thorough study of what will be the impact on rural communities resulting from higher interest rates before you pass this legislation because it may be very disadvantageous and it could set rural development back a long way and create unemployment and a lot of other problems.

So we would urge that this thing really be studied. Farmers Home does not know what the situation is, and to come in here and say that "We think we ought to raise the interest rates" doesn't seem to me to be any kind of a resolution to the problem—which is one of the critical problems in rural areas, water and sewage.

And in respect to what I mentioned earlier, it seems to me Farmers Home should take a leaf from the REA book and try to implement its water and sewer program on an areawide coverage basis, instead of making thousands of these little loans to little communities that can't go outside of their borders—perhaps a county or a water authority where over a period of 20 years could bring water and/or sewer facilities to all of the people.

Here we have 640 or 650 loans in the State of Mississippi. Perhaps 40 or 50 entities could do the job for the whole State.

Senator ALLEN. I know some of our counties down in Alabama have gone this route, have countywide water—

Mr. MURRAY. Yes.

Senator ALLEN [continuing]. Which is a real factor.

Mr. MURRAY. It was the same thing in rural electrification. They had to provide countywide or county entities, which is why cooperatives were formed. It certainly reduced the amount of work and turned out very well. It reduced the amount of work for REA. Instead of dealing with thousands of borrowers, REA has to deal with only larger water and/or sewer systems that would be capable of having full-time management.

In most FmHA systems somebody volunteers to be the bookkeeper—you know, that's one of the problems—and FmHA should supply more technical assistance, as REA did in the early years.

There are a number of things like that that I mentioned in my statement. And, further, I want to mention that our national association—the membership of our national association at its last annual meeting in February passed a resolution urging that the interest rate of 5 percent on community facility loans be retained, and a resolution which describes that is attached to the statement.

Now, there are a couple of questions that I'd like to ask or at least raise on this whole matter. There is a lot of legislative history—particularly, during the discussion last year in the House Agriculture Committee—and the discussion had to do with the Emergency Livestock Credit Act. The Senate, I believe, had included an amendment which asked for a moratorium on these livestock loans. And Mr. Bostic, who was then Assistant Secretary for Rural Development of USDA, and Secretary Bergland—who was then on the House Agriculture Committee—made it very clear, as did the counsel for the committee, that a guaranteed loan is not a Farmers Home loan; it's a private loan.

So if you eliminate the graduation requirement and retain the credit requirement elsewhere, you may force present FmHA borrowers to take guaranteed loans at a higher rate of interest.

In any case, you still have to prove credit elsewhere, and that is the bedrock of Farmers Home philosophy—that and the graduation—that even after you got a loan, you have to repay it if a loan from a private source becomes available. These bills would eliminate the graduation. That leaves only the credit elsewhere.

So if you're a farmer and you have a 5-percent loan with Farmers Home and you've signed an agreement with Farmers Home, you will graduate if there's another loan that's available.

I think a lot of banks would take over these loans, particularly if Farmers Home guaranteed 90 percent of it.

So what happens to the people that already have these loans?

And then you can apply these to the housing borrowers. There are hundreds of thousands of them. What happens to those loans? If you take the graduation out, and leave in the credit elsewhere a lot of banks which wouldn't make a conventional loan will make a guaranteed loan—because they know Farmers Home is going to stand behind it.

In fact, we wouldn't need any insured or guaranteed loans if the private lenders were willing to make these loans.

Certainly you wouldn't want to penalize all of the thousands of people and communities that already have Farmers Home loans. I don't see anything in this legislation that grandfathers these people.

And then I think the bills create the situation where FmHA could force its borrowers to take guaranteed loans.

As to the increase in the rate on the insured loan, I don't know what it's going to be. It might be 6, 7, or 8 percent. But if you take the graduation out and you put in the guaranteed authority, you may well be forcing most people to take guaranteed loans whether they want them or not because Farmers Home can say to the individual, or to the community, "You've got to prove you can't get a loan elsewhere, credit elsewhere."

Well, certainly a lot of lending institutions would be very glad to make these loans if the Government is guaranteeing that they'll get 90 percent back. They'll be very glad to take a lot of this business at 9½ or 10 percent.

So, in effect, it seems to me that you are forcing these people. If you are going to take the graduation requirement out, the question is: "Shouldn't you take the credit elsewhere out?"

But if you take the credit elsewhere out, then you have taken away the whole reason for Farmers Home, which was "If you can't get money from a bank or other lenders, come to us and we'll make you a loan."

So I see some real problems here that it should be resolved, along with the problem of what will be the impact on rural communities.

This is a very serious step, it seems to me.

Senator ALLEN. Yet there is some merit in the bill from the standpoint, at least, of raising the ceilings.

Mr. MURRAY. Yes, there are a number of helpful provisions. I think there are a number of beneficial technical amendments, but it's this question of the interest rate. And if you define the Farmers Home guaranteed loan as a Farmers Home loan, then you might eliminate the problem. But in the light of all of the legislative history and the interpretation that the Department has put on it, it seems to me that it's pretty conclusive that a Farmers Home loan is non-Government credit. And in that situation you could get into some real problems, it seems to me.

I suppose you can correct it by changing the legislation, but I think I've said about all of the things that I felt I should.

Senator ALLEN. Well, I appreciate your help, Mr. Murray, and the statements you've given us; and I certainly feel you've made some real fine points. And, in particular, I think that in the matter of the 5-percent loan on community facilities, I don't see how we could raise that. And there might be more justification for raising it on individuals than others.

Mr. MURRAY. Yes. I think Senator Bellmon mentioned that Secretary Bergland was thinking about a subsidized interest rate of varying subsidy.

Well, it was mentioned that that could be complicated, but Farmers Home has been doing that now since 1968 to the tune of about a billion and a half dollars in housing. And what they do is they set an income limit—criteria for providing a subsidy, and the amount of it—and they have done that for years. And a recent bill, S. 1150, would provide even a deeper subsidy where the homeowner would pay only 15 percent of his income and all the rest of it would be picked up by Farmers Home, including the mortgage payments and taxes and so on.

Now, I can't quite reconcile that with a plea to increase the interest rate on community facility loans. And then just recently the interest rate for emergency loans was reduced to 3 percent. That is hard to reconcile.

Well, thank you very much. I appreciate it.

Senator ALLEN. Thank you for your fine contribution.

All right now. Bruce Cleveland is our next witness.

STATEMENT OF A. BRUCE CLEVELAND, PRESIDENT, BANKERS
FINANCE CORP., ARLINGTON, VA.*

Mr. CLEVELAND. Mr. Chairman, I certainly appreciate the opportunity to appear before the committee.

Senator ALLEN. I'm delighted to have you.

Mr. CLEVELAND. For the record, my name is Bruce Cleveland. I'm president of the Bankers Finance Corp., which is one of the largest firms providing a secondary market for Government-guaranteed loans. We're particularly active with Farmers Home loans, and we have done as much as possible to date with the other Farmers Home programs and would intend to provide a market as soon as possible for farmer loans, assuming the legislation in its present form is passed.

The basic issues which appear to be addressed by the three proposed bills relate to borrower eligibility, maximum loan size, interest rate limitations, and generally improving the climate for operation of guaranteed programs.

There is one issue which I think is not controversial here relating to our borrower eligibility. Clearly, family farms—whether organized as partnerships, corporations or proprietorships—should be eligible borrowers.

I also think that the provision in S. 312 which would extend coverage to U.S. territories beyond Puerto Rico and the Virgin Islands, to other U.S. territories, for the various other Farmers Home programs would have merit. We have found that the B. & I. program and the housing program have been particularly successful in Puerto Rico; and presumably the other territories, which are of even lower economic development levels, could benefit more from the kind of credit assistance provided by FmHA.

With regard to the issue of increased maximum size of loans, it seems clear that as inflation eats away, it's necessary periodically to review those limits and raise them. And the question is what level is appropriate. It seems to me that even \$100,000 can often be quite a restrictive size to anyone but a fairly marginal borrower. And in our experience with guaranteed loan programs, we find that many rather modest borrowers do have legitimate needs in excess of \$100,000. So a \$200,000 or \$300,000 limit for both loans—operating loans and farm acquisition loans—would be more appropriate. And it should be noted that the SBA currently has the authority to make loans of up to half a million dollars to farmers. And it would certainly seem appropriate for the Farmers Home Administration to have similar authority, due to the fact that its primary constituency is still the farmer.

And in that connection I would like to address the question of different limits for insured—which is, of course, direct loans—and for guaranteed loans.

It seems to me appropriate for a Government agency to shift its resources, to the extent feasible, toward the borrowers who are less able to fend for themselves. And, therefore, it would seem similarly appropriate that a larger limit might be established for guaranteed loans than for insured loans.

*See p. 124 for the prepared statement of Mr. Cleveland.

And the SBA did that, or their legislation last year accomplished that, where for the first time making a larger loan possible under the guaranteed program than under the direct program. And it seems to have been quite successful so far.

It should be pointed out that if the guaranteed loan is made well and with a good credit evaluation, a fee is paid for the guarantee, the lender does most of the processing and paperwork and all of the servicing that, therefore, the borrower is paying entirely for the service that he is receiving and not the taxpayer.

This brings us to the most fundamental issue being addressed in the three proposed bills, I think, and goes to the heart of an effective guarantee program. My firm has tried as hard as anyone to provide a market for the various kinds of guaranteed loans which are available. And, for example, in the emergency livestock loan program we had bought some loans within a couple of days of the effective date of the regulations—the new regulations making possible a secondary market. We bought a couple million dollars worth of those loans. We propose to do the same thing if the farmers' programs become workable. But I tell you, honestly, that with the current 8-percent limit on the farmer loans made as guaranteed loans, it's simply not possible for us, in this interest-rate environment, to buy those loans at a rate that a banker can live with. And, therefore, the banker won't make the loans. And we can tell you that from fairly hard experience they just won't do 8 percent. Therefore, since the new regulatory program was set up, I've never seen one made; and no one has ever asked to sell one to us, because there just isn't anything in it for the bank and we would be hard pressed to buy at the 8-percent rate.

Senator ALLEN. Where are you buying loans now—from the bank?

Mr. CLEVELAND. Sure. We are, I think, actually, the largest purchaser in the country. B. & I. is our largest program under Farmers Home. We've tried to buy the housing loans—unsuccessfully, so far. There was just some legislation passed—I don't know whether it's signed or not—which would do the same thing for housing loans that's being proposed here for farmer loans.

Senator ALLEN. What's the capitalization and total resources of your company?

Mr. CLEVELAND. Well, we're affiliated with Loeb Rhoades & Co., which has total assets of about \$1 billion and net worth of a little under \$100 million.

Senator ALLEN. What's your company?

Mr. CLEVELAND. Well, our company is rather small—a few million dollars.

Senator ALLEN. You buy the loans and then pass them on to the larger company, is that right?

Mr. CLEVELAND. Well, yes. We essentially operate their program in this area and use their money. And, of course, what we do is put the loans together in packages—pools, as we call them—and place them with institutional investors, so we have a continual flow. And it's approximately \$3 million a week that we process under basically the SBA and FmHA programs.

Senator ALLEN. What interest rate do you buy at in your company?

Mr. CLEVELAND. We buy for our own account using Loeb Rhoades funds and our funds, and we're currently buying at the rate of 8 to

8½—depending upon maturity. So, clearly, if you have a 5-percent interest rate, there aren't going to be very many banks interested in taking the sort of loss they would have to take. And we have, I think, been a significant force in bringing the interest rates down in this particular marketplace. And we pride ourselves on having fairly competitive interest rates.

So I think that what I'm quoting you is fairly representative and about as well as you can do.

Senator ALLEN. Well, do you make guaranteed loans or merely buy—

Mr. CLEVELAND. OK, we buy. We do a few transactions otherwise—but principally we buy the guaranteed portions of the various kinds of guaranteed loans.

Senator ALLEN. You don't make guaranteed loans then?

Mr. CLEVELAND. That's correct. Our customers are substantially all commercial banks, although a few are savings and loans and other kinds of financial institutions, so that the normal course is that the bank makes the loan to the farmer or whoever the borrower is, and then he sells to us the 90 percent portion of the loan which is guaranteed, so in that way he brings money back into the local community.

And typically we buy a quarter of a million dollars at a time from a bank, and typically we sell \$2 to \$5 million to an investor. So we're acting as sort of a distributor for the large blocks of investments we create by buying smaller pieces from smaller banks.

Senator ALLEN. In other words, if the negotiated rate provision doesn't stay in the bill, it would not leave you any field of operation as to these particular loans; is that correct?

Mr. CLEVELAND. That's correct. Not only us, but there would just be no secondary market in the private sector. It would not be possible.

Senator ALLEN. No secondary or primary.

Mr. CLEVELAND. Right. Our cost is determined by the market—which is beyond the control of any of us, really—and what we add to it is quite small, just an eighth of a percent or so to the interest rate.

Senator ALLEN. Do you service loans?

Mr. CLEVELAND. No; the banker services the loans. We have an arrangement where our own bank makes all of the collections from the banks that are doing the servicing and then we pay these collections to the various investors we have.

Senator ALLEN. Well then, you sell this paper to an individual sometimes.

Mr. CLEVELAND. No; we have never sold to an individual investor. Our investors are the full range of financial institutions. These include commercial banks, saving and loan associations, mutual funds—every type of institutional investor.

There's one section of the bill which disturbs me somewhat, and I would like to comment on that before I finish.

Generally, I would support what Farmers Home is trying to do. I think it makes sense to have loan programs for those borrowers who are substantial enough to fend for themselves but need a source of capital in the rural area—to shift those programs into the guaranty field and leave the Farmers Home personnel in a position to handle the weaker borrowers who need greater assistance.

But there's one provision which relates specifically to us and the other firms—which are principally other major security firms—in this industry of providing a secondary market, and that is the section 309 (b), which is in all three bills. The administration bill has an additional sentence. All bills would give to Farmers Home the authority to purchase the guaranteed portions of these loans for its own account. The administration bill would say that the Secretary would have to first determine that an adequate secondary market didn't exist in the private sector.

But this still leaves me with some lack of comfort because if one reviews the history of the Farmers Home Administration, you see that the current insured program started out as bona fide insured loans being made by private institutions and then they evolved to the point where Farmers Home was making the loan, insuring itself—then selling to the lending institution.

Then they started selling blocks to the big institutions; then they created investment certificates. And now they're using money from the public debt to fund these loans, by borrowing from the Treasury.

So essentially you have what started off as an insured program being done in the private sector evolving, through broad legislative authority, into a completely public sector, direct program—all administrative action.

It seems to me, in the case of the guarantee programs—it's clearly the case that Congress' intent with the B. & I. program and with these new programs, if adopted, will be that they remain in the private sector.

And it concerns me that possibly some future administration might use the authority granted in section 309b to determine that the private sector secondary market for some reason is not sufficient, and it would be easier to do it internally.

Then you end up with a situation where you have an increasing staff and increasing internalization and so forth.

So I'm sure that we and the other people that are in our line of business would very much like to see the limiting provision either strengthened further or, preferably, the whole section removed from the legislation.

The B. & I. secondary market has worked very well. There are ourselves and a number of other dealers who are clamoring to buy these things from the banks. The emergency livestock program, as I said, was booming within a couple of days of when it became effective. And it's quite clear and demonstrated at this point that there is a viable secondary market for these programs. It doesn't seem to me that there is any necessity to have statutory authority for Farmers Home to conduct its own market—unless there's an intent, essentially, to bring in within the Federal Government something which is now being done within the private sector.

Senator ALLEN. Well, thank you very much, Mr. Cleveland. You've certainly given us some things to consider, and certainly you're most knowledgeable in this field.

Mr. CLEVELAND. Thank you, sir.

Senator ALLEN. Thank you very much.

That's the last of our witnesses, unless someone here would like to add some on some of this legislation.

If not, we'll stand adjourned, with the record being held open for 10 days instead of a week for further statements and for any questions that any Senator desires to address to any of the witnesses.

Senator Humphrey, who amazingly is keeping up with his responsibilities here in the Senate and is knowledgeable of what's going on, has asked that he be allowed to submit questions. So we are going to hold the record open for a week to allow him to do that.*

[Whereupon, at 11:59 a.m., the subcommittee adjourned, subject to call of the Chair.]

*See p. 129.

The first of these is the fact that the
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...
 ... of the ...

1881

ADDITIONAL MATERIAL

STATEMENT OF HON. JAMES B. ALLEN, A U.S. SENATOR FROM ALABAMA

The purpose of these hearings, as previously-announced, is to consider three bills pending before this Subcommittee providing for changes in the farmer-loan programs of the Farmers Home Administration.

Senators Bellmon and Dole introduced S. 312 in January of this year. S. 2126 was introduced by Senator Church on September 22, and S. 2146 was introduced by Senator Talmadge at the request of the Secretary of Agriculture on September 27. All three bills are similar in the changes they propose in the Consolidated Farm and Rural Development Act.

These three bills basically address themselves to changes in the farm ownership and farm operating loan programs of the Farmers Home Administration. Since the FmHA was first instituted the ownership and operating loans have served American farmers and American agriculture well. In the last 2 years, however, the cost of land has escalated and farm operating expenses have virtually doubled.

With the decrease in value of the dollar, and with the increased cost of land and operating expenses, the present limits prescribed by law for farm ownership loans, farmer operating loans, and total permissible indebtedness allowed the Farmers Home borrowers may well be unrealistic. Our purpose is to examine the situation as it presently exists and make a determination as to the advisability of such proposed changes.

These bills propose to make it possible for the Farmers Home Administration to work more closely with private bankers, improve the quality and expand credit services to rural borrowers, and restore fiscal restraint and responsibility to the administration of these programs.

The present \$100,000 limit on farm ownership loans was established in 1970 and the present loan limit on operating loans was set at \$50,000 in 1972. These limits were set long before the double digit inflation which descended upon our economy in 1973 and 1974. Consequently, there has been no flexibility within the FmHA to compensate for the pressures exerted by this inflation in the last several years.

In extended hearings held jointly by the Senate Subcommittee on Rural Development and the House Subcommittee on Conservation and Credit during the 94th Congress, January 27 through 29 and February 4 and 5, 1976, these problems were addressed by the various witnesses who appeared before these Subcommittees. The then Congressman from Minnesota, the Honorable Bob Bergland, who was serving as the Chairman of the House Subcommittee on Conservation and Credit at the time, introduced legislation to bring about the changes we are addressing ourselves to during these hearings. In fact, the Administration's bill to be considered today is USDA's version of the original Bergland Bill.

According to USDA's Economic Research Service, land prices have increased more than 220 percent since 1970 and according to ERS, the index of prices paid by farmers for operating expenses has increased by more than 160 percent since 1972. When you consider the cost of fertilizer, fuel, machinery, feed, and seed, such statistics are quite understandable. These facts make it evident that the cost of doing business has risen sharply since the last increase in the Farmers Home Administration's real estate and operating loan limits.

U.S. agriculture is second to none in the world. The basis of our success has been the family farmer. The family farmer has been able to make it in the past because of the assistance and responsiveness of the government through the Farmers Home Administration. It is imperative, therefore, that the programs of the Farmers Home Administration keep pace with the times and provide our farm families with the support they need.

We must not lose sight that there are basically three types of farm families with whom FmHA does business. There are those who are fairly well established but need some supervision through the guaranteed loan provisions. There are others who are not so financially secure who need some help through the insured loan route at a reasonable rate of interest, and, thirdly, there are the young farm families who need every assistance available to get their stake. One of the main purposes of the FmHA has been to help young and beginning farmers get established. It is imperative that young farmers be brought into agricultural production to insure the provision of food and fiber for the United States and the world in the future.

These bills we are considering today are aimed at providing access to credit which new farmers must have to get started and which established farmers must have to carry them through when faced with periods when cost exceeds prices.

STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM OKLAHOMA

The purpose of S. 312 is to bring the loan limits of the Farmers Home Administration to levels which reflect, as accurately as possible, changes which have occurred in the costs of farming in the years which have intervened since the present levels were set. Members of this Committee are all closely associated with agriculture and are fully aware of the dramatic changes in farm production costs which have occurred since the loan limits were last changed in 1970.

According to the best information available from the Economic Research Service, nationally land values have increased 220 percent since 1970. In Oklahoma, land values have risen 213 percent since November, 1970. It follows that the present \$100,000 loan limit should be increased to at least \$200,000 to provide the same support as was intended initially.

A similar situation exists in farm operating costs. The present \$50,000 limit was established in 1972. Since that time, the index of prices paid by farmers has increased by more than 160 percent according to Economic Research Service figures. The \$100,000 limit provided by S. 312 is a realistic adjustment.

It is sometimes difficult for those outside active participation in agriculture to realize that farming demands such huge amounts of capital. The fact is that family farmers are faced with high prices of everything they buy from tractors to fence posts and unless they have access to the capital, there is no way they can survive.

The problem is made even more serious by the present depressed prices of farm commodities. The sharp declines in price, especially in grains, which have occurred in the last 15 months have made it difficult for farmers to realize enough cash flow from the sale of their products to meet operating costs. This is a particular problem for the young farmers who have not yet had the opportunity to build up an equity in land. Thousands of these young people, whom the nation will desperately need in a few years, are in danger of being forced out of agriculture unless the Farmers Home Administration loan limits are adjusted to reflect current farm economic realities. This fact is borne out by a recent USDA publication entitled "Special Summary of Farm Financial Situations." The startling facts presented by this document are that 13,900 farmers in the nine Great Plains states were found to have no possibility of meeting their financial obligations in the current year and that 59,300 farmers and ranchers will require refinancing or disposal of some of their assets in order for them to continue in business. This same situation exists in other parts of the country and is likely to be especially pronounced in the Southeast where a serious drought has cut production and income.

Mr. Chairman, the Farmers Home Administration was created to help farmers get started in the agriculture business and to assist them in times of adversity. Current farmers and ranchers all across the country are facing grave adversities. This Committee should act immediately to give the FmHA the loaning authority it needs to meet its current responsibilities. The FmHA has been the salvation of many farmers in the past. The nation is much stronger and better-off as a result. I strongly urge that Farmers Home Administration loan limits be increased as set out in S. 312.

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Mr. Chairman, the hearing we hold today is very important. Farmers all across the country are facing a financial crisis. Many farmers are having to refinance to continue in the farming business. Farmers are borrowing record amounts of money to finance their farming operations.

It is important and timely for this committee to review and recommend changes in the farm credit laws. Our governmental credit institutions need the capacity to finance the family farm operation needs for survival in the late 1970's.

We have written legislation in past years that has helped create for the American farmers various institutions and processes that provide our farmers with the best credit system in the world.

FAMILY FARM FUNDAMENTAL

The American dream of the family size farm, owned by the family which operates it, has been basic to the American heritage for over 200 years and is still fundamental to the continued success of American agriculture.

Throughout history human economic erosion has been evident where people who live by the land have not owned the land. Preventing the social and economic consequences of a homeless, rural class is an important function of Government.

The American tradition of free enterprise necessitates large private and governmental programs and institutions to supply loan funds for owner-operated family farms. The great middle class in American society owes its origin to family-owned farms.

If America is going to provide a large portion of the world's food supply in the last quarter of the 20th century, adequate loan funds for land ownership and farm operation must be available.

America cannot afford to lessen its support of the family farm system at a time when agriculture is the major source of United States economic strength in the export markets.

CHANGING TIMES

There have been many changes in our economic structure and society that have created the necessity to amend the laws governing the Farmers Home Administration. Many of these legal changes should have been made before now. Many are long overdue.

Inflation during the 1970's has increased the price of almost everything the farmer buys. Inflation has hurt American agriculture probably more than any other factor. Inflation robs the American farmer of his economic profit and forces him to buy at ever increasing prices while selling at prices that have been declining at rapid rates.

Many years of high rates of inflation has been the biggest disaster faced by the farmer. Inflation has greatly enlarged the need for credit and has increased the farmers expenses for interest on that credit. The farmer is now paying a higher rate of interest on an increased number of dollars borrowed.

FARMERS HOME ADMINISTRATION

As times, conditions, and circumstances change the enabling laws governing the Farmers Home Administration need to be reviewed and updated. The farmers Home Administration needs to be a viable agency able to meet the changing needs of farmers, especially young farmers.

FmHA has been handicapped in several areas because of legal restrictions.

FARM OWNERSHIP LOANS

The FmHA has had a shortage of farm ownership funds for many years. This problem has existed because the Administration and the Office of Management and Budget has not asked for more funds because of the five percent interest rate.

The five percent rate should be raised only if guarantees are received that adequate loan funds will be asked for by the administration.

The loan ceiling should be raised to a minimum of \$200,000. I would support a direct-insured level up to \$250,000. I would also support a higher level for

guaranteed loans. Kansas farmers, especially in western Kansas, cannot finance adequate farms with the present ceiling. I also support eliminating the total debt limit of \$225,000.

FARM OPERATING LOAN

Kansas farmers cannot operate satisfactorily with \$50,000 operating loans in today's economy. I support raising the operating loan level to a minimum level of \$100,000 and a higher level for guaranteed loans. I would support a direct-insured loan to as high a level as \$150,000. Farmers Home cannot serve young farmers in western Kansas, especially those that irrigate without this new authority.

PARTNERSHIPS AND CORPORATIONS

Many farmers today use the legal entity of a corporation or partnership. I do not feel a family farmer should be penalized from obtaining Farmers Home Administration credit because of the legal arrangement he chooses for his business. I support family held partnerships and corporations being eligible for Farmers Home loans.

EMERGENCY LIVESTOCK CREDIT ACT

I do not support making the Emergency Livestock Credit Act permanent. This was an emergency piece of legislation and should remain that way. If the loan limits are raised on regular operating loans the need for this legislation will be decreased. The present bill does not charge the bank a guaranteed fee. Any permanent legislation should do so.

I also support the other technical admmendments contained in the Bellmon/Dole bill, S. 312.

The time has come to move quickly to amend the Consolidated Farm and Rural Development Act. I urge Senator Allen to consider the three bills and present a bill to the full committee as soon as possible. I would hope this legislation could be acted upon no later than early in the next session of Congress.

STATEMENT OF HON. DEWEY F. BARTLETT, A U.S. SENATOR FROM OKLAHOMA

On January 12, 1977, I introduced legislation S. 207 to resolve a problem that has developed over the past ten years. The problem relates to changes in the entire energy situation of this country, and is exemplified by the change in policy of the Department of Interior as represented through its electric marketing administrations. The change involves those communities that were previously supplied with "firm power" and now will only be served with "peaking power". The change causes the previously served communities to seek new sources of electric energy for their "firm power" needs, and in some cases, causes the municipalities to involve themselves in constructing new facilities within their corporate limits. These new facilities are required to deliver the power that will be contracted for from the outside source.

The state of Oklahoma is one of the first states to be affected because it is served by the Southwestern Power Administration. Southwestern's policy change will also affect municipalities in Arkansas and Missouri.

The Southeastern Power Administration and the Bonneville Power Administration are also changing their policies for municipalities previously served with "firm power".

Southeastern serves 80 municipalities in Alabama, Florida, Georgia, North Carolina and South Carolina. Bonneville serves 36 municipalities in Washington, Oregon, Idaho and Montana.

Since most of Southwestern's contracts are near termination, more immediate attention is needed and I will detail Southwestern's activities in more detail.

SPA serves 35 municipalities, 17 of which are located in Oklahoma. All of these 17 communities have received draft contracts from SPA containing the change from "firm power" to "peaking power". The existing contracts expired on June 30, 1977, and the municipalities are presently operating under the terms of the old contracts pending the settlement of new peaking power contracts.

The SPA will have converted all of the 35 municipalities to peaking power by mid-1983.

Power figures will be cut drastically by the change to "peaking power." As an example, the city of Hominy, with a population of 2,274, received 18,397 KWH,

and under the new contract, they will receive 1200 KWH. This is a reduction of 93.5%, and Hominy's cost to build the necessary facilities to receive power from the alternative source is approximately 600 thousand dollars.

Southeastern Power reports that they are serving 80 municipalities, but does not serve the complete load capacity of any of their preference customers. They currently prorate all power that is available. Southeastern does not anticipate that any of the existing arrangements will be revised in the next two or three years, but due to changes in rate structures of the utility companies serving the balance of the power, the capacity components have increased in cost to such a point that the trend, as existing contracts expire, will be to sell power that more nearly corresponds to "peaking power".

Bonneville Power serves all 36 municipalities with "firm power", and these contracts will expire between 1983 and 1993. Thirty-one of these communities purchase their total power requirements from Bonneville.

The other large Department of the Interior power source is the Bureau of Reclamation that now serves 220 municipal customers in the following states: California, Colorado, Iowa, Minnesota, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Utah and Wyoming, with the last contract expiring in the year 2004.

The problem that currently faces many of these municipalities, and will face others in the future, is the financing of construction for new facilities to enable them to be supplied by alternate power sources. Not all of the communities will have a financing problem, but many of the smaller cities have had to sell large quantities of bonds recently to meet the federal requirements for such things as waste treatment. The small communities no longer have the capacity to sell additional bonds, therefore, it is imperative to provide these municipalities with a means of financing the required facilities. Without the financing, they will suffer needless detrimental impacts as the result of inadequate electric power resources.

Congress talks of a productive economy, and insuring that the life and growth of small communities will be perpetuated. Much of rural America has suffered severe out-migration, and a great deal of effort and money has been and will be spent to attract business and industry to rural communities in order that their young people will remain or will be attracted to return. The communities that are temporarily unable to finance electric facilities should not be allowed to become further depressed.

The essence of my proposal, as now amended, is that Secretary of Agriculture will be given the authority, through the Farmers Home Administration, to make insured loans to the municipalities that were previously served by a federal power administration or the Bureau of Reclamation. These loans will be for the purpose of constructing the necessary facilities required to obtain alternative sources of electric energy.

Several additional provisions are included in this legislation which are designed to insure that the funds are targeted to the proper recipients, and that the federal government is adequately protected.

First, the eligibility would be limited specifically to those municipalities previously served, and more particularly, to those municipalities that cannot finance the construction by any other method. The authority of the legislation will also expire on September 30, 2006. This date is two years after the termination of the last existing contract.

Second, the recipient is prevented from issuing tax-exempt bonds on the project. This prevents a type of "double-dipping" into the federal treasury, or the creation of a "super-security" which is not only insured by the federal Government, but also given tax-exempt status.

Third, the actual administration of the project, after the insured loan is made, is turned over to the Rural Electrification Administration. This prevents the creation of a new sub-agency within the Farmers Home Administration which would duplicate already existing expertise at REA.

Fourth, an additional authorization of \$1.5 million is provided for the Rural Electrification Administration. This will add sufficient staff to handle the additional workload which will be incurred by this legislation. This additional authorization insures that existing programs will not be jeopardized as the agency takes on this new responsibility.

This legislation may affect 24 states and countless small communities, and I cannot stress the urgency of the legislation.

During Senator Allen's subcommittee hearings on REA legislation, he was kind enough to submit a letter to the Rural Electrification Administration from Senator Bellmon and myself concerning S. 207. As yet we have not received a response, however, I believe that my amendment proposed today will satisfy any comments to be made by REA. After some, what might be called Oklahoma "divining" or "witching for water," I developed the present amendment. The legislation is very flexible and can be broadened or made more specific. I make my staff available to work with your subcommittee staff to make any alterations to the amendment that you deem necessary.

I would like to thank you, Mr. Chairman, and the members of this subcommittee for the opportunity to present this solution to the floor of the Senate within the near future.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., September 30, 1977.

HON. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture, Nutrition and Forestry,
U.S. Senate

DEAR MR. CHAIRMAN: This is in reply to your request of February 19, 1977, for a report on S. 207, a bill "To amend the Rural Electrification Act of 1936, as amended to provide authority for the Administrator of the Rural Electrification Administration to guarantee loans for the furnishing of electric energy for certain municipal electric systems."

This Department recommends that the bill not be enacted.

S. 207 provides for the extension of the guarantee authority in the Rural Electrification Act to the financing of the construction and operation of generating plants, electric transmission lines, or systems for the furnishing of electric energy to any distribution system owned and operated by a public body in a community with 25,000 or fewer inhabitants which (1) was receiving bulk power as of October 1, 1976, from certain agencies of the Department of Interior and (2) cannot obtain a loan for the indicated purposes at reasonable terms without such a guarantee.

There are 344 municipalities with 25,000 or fewer inhabitants which receive bulk power from Department of Interior power marketing agencies. There are also 74 public utility districts serving communities with less than 25,000 or fewer inhabitants which receive bulk power from these agencies.

Public bodies are already authorized to issue tax exempt bonds which generally carry lower interest rates than the long-term financing that is being provided by the Federal Financing Bank under REA guarantees. Obtaining financing from a legally organized lending agency interested in tax-free income by combining the tax exempt and Federal guarantee features would be contrary to the credit policies of this Administration. Combining the Federal guarantee with the tax-exempt feature would create a security superior both to the Treasury's taxable securities and to other municipal obligations and would adversely affect the markets and flow of funds for both.

Extension of the guarantee as proposed would involve REA in the analysis of varied financing proposals of an extremely technical nature. It is estimated that this would require 100 additional employees with an estimated annual cost of \$3 million per year for the next five years to administer this legislation.

We believe further study is needed to make certain that the proposed legislation would be the most effective way of resolving the problems faced by public bodies providing electric service for their consumers.

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

Sincerely,

JOHN C. WHITE,
Deputy Secretary.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

I want to commend the administration for making a determined effort to correct some of the weaknesses in the current FmHA loan program. These weaknesses have been brought to our attention far too many times by prospective FmHA borrowers and by many who are already participating in the program.

For some time, I have been particularly distressed by the apparent lack of sensitivity of FmHA personnel to the original intent of FmHA and that is "to provide credit of last resort to family farmers and for farm housing." Of course, I realize that many programs have been added to FmHA since its origin in 1946, however, there is no excuse for the number of complaints that have flowed into my office almost on a daily basis. However, with the appointment of a new regional director in August of this year, there are many signs of improvement.

I want to go on record as supporting many of the changes recommended in S. 312, in fact, some of the recommendations are similar to ones I have sponsored or discussed with the previous administrator on several occasions.

The extension of eligibility for farm ownership and farm operating loans to partnerships and corporations controlled by family farmers and ranchers is long overdue. We are seeing more and more of these business arrangements established as a way of encouraging young people to stay on farms. They can share some of the "action" so to speak not only in profits, if there are any, but also share in the appreciation factor.

The increase in the loan limitation in both the farm ownership and farm operating loan programs also have my support. The elimination of the county committee with respect to certifying the amount of the loan should accelerate the loan process to the benefit of the prospective borrower. However, I want to caution my colleagues that if we increase loan limits we might also have to increase the loan authorization in both of these programs. We don't want FmHA to service fewer farm and ranch families because of the increase in the loan limitations.

Sec. 309(B) allowing the Secretary to "in effect" create a secondary market for the guaranteed portion of farm loans if one does not exist might encourage private lenders to participate to a greater degree in the FmHA farm programs, although I must say frankly, that private lending institutions in my area, and I have heard this said about other areas, are reluctant to participate with FmHA because of the red tape, delays and the inability to get a clear understanding as to loan status from FmHA personnel.

The change recommended in Section 316 allowing for the consolidation and the rescheduling of outstanding farm operating loans is a change I have sought since 1975 and I particularly want to commend the administration for recommending this change.

There are other recommendations equally as important as the ones I have highlighted and I encourage their adoption.

I do want to take exception with the administration's recommendation in Sec. 307(a) which proposes to increase the interest rate on farm ownership loans from the current 5 percent to the average cost of money. I believe that if we are to encourage young people to go into farming and for new farm ownership than this kind of subsidy (5 percent) is needed.

I receive numerous complaints about the length of time it takes to process FmHA farm ownership and farm operating loans. That remains the big question, "Why does it take so long for the county committee or the county supervisor to make a decision with respect to a farm ownership or a farm operating loan request.

In my meeting with Mr. Elliott in 1975, I raised the question as to whether a binding letter of "commitment to lend" could be issued by FmHA so that the borrower could use this letter to obtain temporary financing at a bank or lending institution. I still think this is a legitimate request and if the law is vague on this subject, I suggest the committee clarify the matter so FmHA can follow this procedure if necessary.

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Montpelier, Vt., September 16, 1977.

HON. PATRICK J. LEAHY,
U.S. Senate, Washington, D.C.

DEAR PAT: Enclosed please find a letter which I have sent to the Administrator of the Farmers Home Administration concerning your constituency. Currently in the regulations of the Business and Industrial program of the Farmers Home Administration there is a restriction which prohibits an alien company, which is willing to set up an in state corporation that does not have 51 percent of its principal owners either U.S. Citizens or residing permanently in the United

States from using our guarantee program. In one case, two of the three owners will live in Canada while one will reside here. The Small Business Administration has no such regulation.

This regulation could possibly be detrimental to the States of Vermont and New Hampshire because of the growing interest shown in the northern part of these two states by strong Canadian firms who are willing and able to move into our rural areas.

The help that I would need now is concern expressed by your office to Assistant Secretary of Agriculture for Rural Development, Alex P. Mercure, saying that you also are concerned about this regulation. It is my belief that these companies would greatly help to alleviate the heavy unemployment in our rural north.

If you could please express your interest as quickly as possible to Assistant Secretary Mercure, I would greatly appreciate it. If you have any further questions, please call me at the Farmers Home Administration State Office in Montpelier, Vermont.

Sincerely,

BRIAN D. BURNS, *State Director.*

Enclosure.

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Montpelier, Vt., September 14, 1977.

Subject: Business and Industrial Loan FmHA Instruction 1980.403 Citizenship of Applicant.

To: Administrator, FmHA, Washington, D.C.

In reference to this subject, it is our concern that this paragraph be deleted from the regulations either in its entirety or at least amended to read "U.S. or Canadian Citizens". In doing this and insisting that they be American corporations, it should protect our interest satisfactorily.

I have been informed that this paragraph was not included in the original legislation of the Rural Development Act of 1972 and was not added until December, 1975. The reason for our immediate concern is the current financial situations in Canada. Northern New York, northern Vermont and northern New Hampshire all have an excellent opportunity to pick up growth companies of Canadian industries that have shown interest in moving into some of our high unemployment areas quickly.

We in the Vermont-New England office are working very closely with the Vermont Development Department and others who feel the B&I Program is an ideal vehicle for financing some of these companies.

It seems to be detrimental to our rural areas and contradictory to the intent of the Rural Development Act to eliminate good strong Canadian companies from our B&I financing and force them to move further south into the more urban centers which are able to provide their own development monies or some form of industrial bonding guarantees.

We ask your earliest possible consideration in this matter as they are waiting a reply from us in some form.

BRIAN D. BURNS, *State Director.*

STATEMENT OF HON. S. I. HAYAKAWA, A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman, I appreciate your calling the hearing this morning to examine the current agricultural credit situation. I understand that farmers are having to wait over a year to get farm ownership loans and that the Farmers Home Administration (FmHA) backlog is about \$300 to \$400 million, which is in addition to the loans to be processed next year. Because funds were not transferred between the different credit funds, about \$75 million in needed loan funds were lost during fiscal year 1977 because the USDA failed to act in time.

The three bills before us this morning would increase FmHA's capacity to serve family farmers.

Historically, the FmHA was created as a credit source for people getting started in farming or ranching. Today, with double-digit inflation, costs of production, etc., the present loan limits are unrealistic. The pending legislation increases the limit for both farm ownership loans and operating loans. At the same time, the existing maximum interest rate of 5% would be eliminated and interest would be at a cost-of-money rate.

Since farm families are increasingly becoming corporate or partnership entities, it also seems realistic to permit corporate and partnership entities to be eligible for farm credit, rather than just the individual owner.

Increasing the borrowing and lending capacities can help return the Farmers Home Administration to its initial function—helping farmers help themselves.

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

AGRICULTURAL CREDIT

Mr. Chairman, as ranking member on the majority side of the Subcommittee on Agricultural Credit and Rural Electrification, I am pleased to submit my statement on the legislation before us today for consideration. For a number of years, I was the Chairman of this Subcommittee, and I am thus more conversant than many on the continuing problems of agricultural credit. Under the reorganization of the Committee earlier this year, I am now the Chairman of the newly created Subcommittee on Nutrition. Nevertheless, I continue my active interest in legislation before this Subcommittee now chaired by my able colleague from Alabama, Senator Allen.

In my nearly fifteen years of service on the Senate Agriculture Committee, I have always considered this Subcommittee as a sort of backbone of the Committee's functions because its principal jurisdiction is one of agriculture's principal functions. Without credit, farmers can't function. In these days of credit crunch in the private sector, it is incumbent on the federal government to constantly re-examine its commitment to farmers and their needs for credit in the field of farm ownership as well as the sometimes more volatile area of farm operations.

The bills before us today are S. 312 authorized principally by our colleague from Oklahoma, Senator Bellmon, and S. 2146, introduced recently by our distinguished Chairman, Senator Talmadge, on behalf of the Administration. These measures run in tandem with only minor differences. A further bill for consideration is S. 2126, introduced by Senator Church, which departs conceptually as well as in scope from the two pieces of legislation to which I have referred.

In addition to the legislation which the Committee will consider, I have recently received a policy statement on Agricultural Credit from the Midwest Governor's Conference held in Alton, Oklahoma, on August 7 through 10th. This is a thoughtful statement and it also contains valuable statistical data from the United States Department of Agriculture which we should consider in these hearings.

For some period of time, the limit of farm ownership credit through the Farmers Home Administration has remained at \$100,000. Yet land prices in many areas of the country continue to rise at rates of from 16 percent to 26 percent each year. Obviously, this ceiling is inadequate. Present law authorizes qualified borrowers this money at an attractive 5 percent rate where the conventional Federal Land Bank mortgage ranges from an interest rate of 9 percent to 9½ percent. The Talmadge and Bellmon bills would double to \$200,000 the ceiling but cast the interest rate at cost of money to the government. Obviously, there will be resistance from farmers who have become accustomed to the lower rates. In this connection, I have been advised by the Farmers Home Administration Director in South Dakota that he has 7 million dollars in ownership loan applications backed up on his desk but that the average application is only for about \$50,000.

He aptly points out that his principal need is for more money, rather than for higher ceilings or higher interest rates. He also points out that doubling the ceiling from \$100,000 to \$200,000 would result in only being able to make half as many loans, unless substantially more money is made available. For these reasons, in commenting on the Bellmon and Talmadge proposals, I would suggest that we might consider seriously keeping the first \$100,000 at the 5 percent rate and make the second \$100,000 at the rate of cost of money to the government. In this connection, also, we should assure ourselves in the form of a commitment from the Administration that it will seek in its budget proposals substantially higher appropriations in both the insured and guaranteed funds. I note that there is some movement in that direction since the fiscal year 1977 allocation for South Dakota was 15 million dollars, and that fiscal year 1978 figure is 19 million dollars. Nationally, the movement was raised from 450 million to 550 million dollars. This movement, however, is not nearly enough if we are going to

adopt a form of this legislation and still keep our commitment to agriculture in terms of the number of loans made.

I should point out that where present authority for farm ownership loans lies only with individual farmers, the proposed legislation extends this authority to private domestic corporations and partnerships. So long as the legislative history makes it clear that "corporations" means family type farmers incorporated for one reason or another in which the members of the family hold the stock, I feel that this new authority has merit.

On the operating side, current authority for insured and guaranteed loans is \$50,000. The legislation before us would increase this limit to \$100,000, as well as extend the qualifications to include private domestic corporations and partnerships. Mr Bellmon's bill places the limit on insured operating loans at \$100,000 and on guaranteed loans at \$200,000. Present law provides these interest rates to be cost of money to the government. The Bellmon and Talmadge bills would provide for a slight increase in interest rates to that rate agreed upon by borrower and lender since none of the money in either the insured or guaranteed program actually involves government outlays. I normally come down on the side of low interest rates even if there is some slight cost to the government, and I would do so in this instance. Generally speaking, the operating loan side of the Farmers Home Administration has been more adequate than the farm ownership side of the equation. Higher operating costs would dictate that higher limits are desirable. I again caution, however, that we must be ever watchful that sufficient budgetary recommendations from the Administration are necessary in order to make anything we do in the form of legislation meaningful.

In the interests of time I will refrain from comment on the rural development provisions of the bills we are discussing. They are generally less controversial but nevertheless deserve the careful consideration of the Committee.

I do want to make one comment on the Church bill. I congratulate the Senator from Idaho for his interest and concern in the subject matter since he is not a member of the Committee. His bill would make permanent the Emergency Livestock Loan program and raise its guarantee limits from \$350,000 to \$500,000. I was the author of the original Emergency Livestock Loan program. I supported amendments to increase it to its present limits and authored the amendment to extend its life until September 3, 1978. During the life of this legislation, it has become increasingly popular with both bankers and producers. Bankers in my state have moved many of their customers into this program. It involves no government outlays and is an arm's length transaction between borrower and lender at negotiated interest rates with a small fraction of a percent on the top for the government guarantee. Because of its increased acceptance in the livestock and banking communities, I think it should be made permanent and I think the limit of a half million dollars is realistic. Bankers as well as producers in South Dakota rely on the program regularly and are critical only of the present limit. I thus endorse Senator Church's proposal and I hope that it is enacted.

Let me say that the thrust of the legislation before us today is long overdue. I hope that we will be able to act quickly on these measures in 1978. In consideration of the young farmer just starting to acquire farm real estate and the average loan acquisition application in my state, I feel strongly that we should not destroy the last vestige of a helping hand from the government by eliminating completely the 5 percent ownership program. I think it should be retained in some way or another even though I recognize the increasing trend for money at higher interest rates. I thus hope that any legislation which will emerge from this Committee will keep these sentiments in mind. I am advised that the Administration is not hostile to my suggestion that the first \$100,000 of an ownership loan be continued at 5 percent. I further understand that the Secretary of Agriculture would not be hostile to a concept of flexibility depending on the youth or financial condition of the applicant whereby the Secretary could set low interest rates in the initial years of the loan with higher rates in later years depending on the applicant's ability and resources in servicing the debt. I would consider this approach to be one with considerable merit.

I close by assuring the witnesses here today, as well as the farming community in South Dakota and the nation, of my continuing commitment to the traditional function of the Department in seeing to it that adequate credit sources are available to beginning farmers as well as those qualified to receive federal assistance.

It is obvious to all in these days of inflated land and operating costs that the solutions that were adequate a decade ago are not adequate today. It is my hope as well as my obligation that we continue a fair deal for those farmers who need us most. To that end we must now direct our efforts.

[The following material was submitted by Senator McGovern:]

SPECIAL SUMMARY OF FARM FINANCIAL SITUATION—U.S. DEPARTMENT OF AGRICULTURE—APRIL 1977

According to a special survey of 400 bankers in 9 States, by the United States Department of Agriculture, the financial condition of farmers has deteriorated.¹ Income and credit appear to be major problems for one-third of the farmers borrowing from banks or about 73,000 farmers in the area. Although credit is generally available, loan funds are tighter in localities where farm deposits and farm loans make up a major share of bank business.

The survey findings are supported by information received from other sources in the area. A Nebraska banker in a letter to other rural bankers said, "As long as production costs equal or exceed the prices that our farm commodities are sold for, it is inevitable that the producer will fail. The individual's net worth will determine how long he can survive." He continued, "The short-term lender can look to long-term refinancing to correct this occasionally, but the borrower still owes and must make a profit to pay off any indebtedness." Several bankers used statements such as, "low cattle prices, drought, and skyrocketing operating costs are the main culprits," in indicating the nature of the problems faced. Drought and price problems are also said to be primary sources of problems being experienced by grain farmers who have had "reduced harvest available for sale at the current low prices." In another expression of concern, a lender noted, "In my 20 years of agricultural banking, this would seem to be our most critical economic period as a bank and community, in view of the drought, lower commodity prices, and higher expenses."

PROBLEM AREA

Concern over conditions in the area arose as a result of reports that farmers are having financial problems in areas affected by drought, low wheat prices, and low cattle prices. The area affected includes Montana, North Dakota, South Dakota, Minnesota, Nebraska, Colorado, Kansas, Oklahoma, and Texas (figure 1).

The area has close to 685,000 farms or one-fourth of the U.S. total.

These farms accounted for \$26 billion of cash receipts from farming in 1976, about 27 percent of the U.S. total farm receipts. Also, the people who live on farms in the area are generally more dependent on farming than those in most other areas. Thus, agriculture is vital to the area's economy and crucial to the Nation's welfare.

RESULTS

The special survey showed the severity of credit problems facing some of the area's farmers (table 1). Financial problems were found to be most widespread in Nebraska, Kansas, and Oklahoma where the major agricultural industries are livestock and wheat. Farmers producing these commodities are known to be suffering depressed prices and increasing production costs.

If such depressed prices continue, bankers surveyed expect more than one-fourth of all bank borrowers in the area or about 59,000 farmers to be forced to refinance their loans or dispose of some farm assets to meet their debt payments. Six percent or another 14,000 will not be able to repay their debt from expected income. They thus have the prospect of selling out or facing further action by lenders. Oklahoma bankers reported that if prices remain at present levels they do not expect 3,200 farmer-borrowers to be able to repay their loans. Nebraska lenders said that 2,200 borrowers won't be able to pay. In Kansas, 3,200 farmers with bank operating loans face an equally uncertain future.

¹ The survey was a random sample of banks in the 9 State area. Equal numbers were sampled from six groupings of banks within each State. Those with a larger volume of agricultural loans were sampled heavier than small banks. State totals were expanded to area totals according to the proportion of nonreal estate agricultural loans. Estimated numbers of borrowers affected are based on survey results and data on farm numbers.

AGRICULTURAL FINANCIAL STRESS IN STATES SURVEYED, APRIL 1977

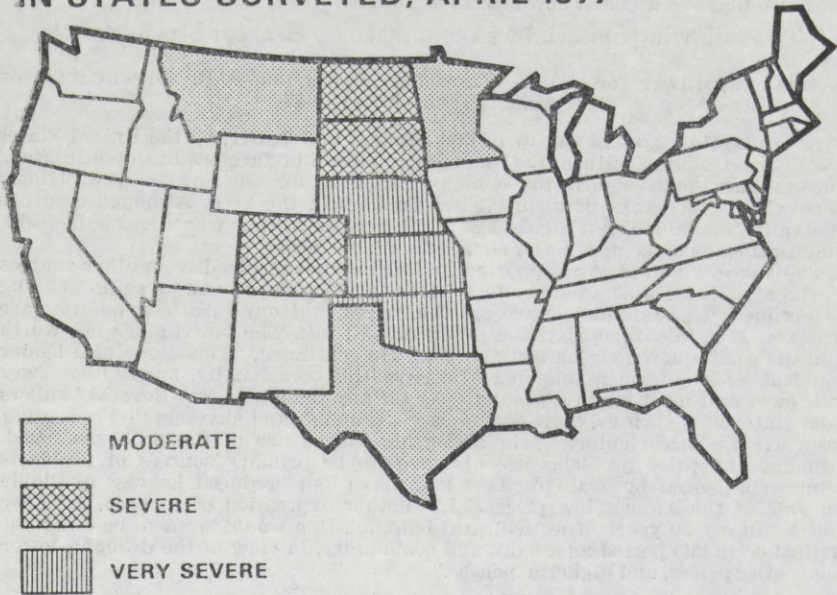


FIGURE 1

Surveyed bankers saw the current repayment abilities of farmers as worse than normal. Three-fifths of the bankers indicated that the number of farmers in sound financial condition was below normal (table 2). More than one-third of the bankers indicated that a larger than normal percentage of farmer-borrowers must be refinanced or sell some of their assets. And, nearly two-fifths said the share of borrowers unable to repay their loans was above normal.

FUTURE IMPACTS

More than nine in ten of all borrowers in the nine States can expect to continue to receive financing from bankers. This suggests that bankers are trying hard to provide money to farmers. However, bankers noted that 3,200 farmer-borrowers in Oklahoma will not continue to be financed. Twelve-hundred in South Dakota and 900 in North Dakota will not be supplied additional credit to continue operations. Throughout the nine State area, the 14,000 farmers that bankers will not continue to finance often have serious cash flow and low equity problems (table 3). Most lenders surveyed did not give shortages of loan funds as a major reason for not continuing to finance their borrowers except in Kansas and to a lesser extent in Nebraska and Oklahoma.

LOAN VOLUME VERSUS DEPOSITS

In the nine State area, total dollar volume of bank loans rose 17 percent from March 31, 1976, to March 31, 1977 (table 4). Agricultural loans not secured by real estate increased 19 percent. Yet, total deposits increased by only 11 percent. Some 45 percent of all banks reported more loans than desired in relation to deposits—a situation which could require reduced lending to insure bank stability. Even though most banks still can make loans, availability of loan funds is becoming more restrictive, since loan volume has increased more rapidly than deposits (table 5). As one banker said, "Since the cash flow from the sale of commodities has been reduced, the banking system in Nebraska is more heavily loaned at this time than it has been for several years."

Information from the Farm Credit Administration on lending by Production Credit Associations to farmers shows that loan volume in the nine State survey area increased about 14 percent from February 1976 to February 1977. PCA's report about the normal rate of renewals and extensions, but indications are that

some local associations in areas roughly corresponding to the survey States have experienced an increase in the number of farmers seeking loans because of their relatively tight financial situation.

RELATED IMPACTS

Continued farm problems could lead to large secondary impacts on rural communities. Decreases in business receipts are evident as farmers forego purchases of machinery and equipment and cut back on other production items and family purchases. Such reductions in income to area merchants could reduce employment in the area. Because of lower farm income and the potential for a decline in land values, local sales, income, and real estate taxes could fall and local communities would be forced to cut services.

TABLE 1.—ESTIMATED NUMBER OF BANK BORROWERS BY REPAYMENT ABILITY, ASSUMING CURRENT PRICES
CONTINUE¹

State	No repayment difficulty	Required refinancing or disposal of assets	Cannot repay	Total
Colorado.....	7,200	3,500	400	11,100
Kansas.....	17,500	11,600	3,200	32,300
Minnesota.....	37,800	6,400	1,400	45,600
Montana.....	5,600	2,600	100	8,300
Nebraska.....	16,200	6,100	2,200	24,500
North Dakota.....	13,200	3,300	900	17,400
Oklahoma.....	11,400	9,700	3,200	24,300
South Dakota.....	11,900	6,100	1,200	19,200
Texas.....	32,100	10,000	1,300	43,400
Total.....	152,900	59,300	13,900	226,100

¹ Sample results have been expanded based on the amount of nonreal estate agricultural debt held by banks. Estimate d numbers of borrowers affected are based on survey results and data on farm numbers.

TABLE 2.—BANKERS' OPINION OF BORROWERS' REPAYMENT ABILITY COMPARED TO NORMAL, ASSUMING CURRENT PRICES CONTINUE¹

[In percent]

Relation to normal	No repayment difficulty	Require refinancing or disposal of assets	Cannot repay
Below.....	16	21	11
Normal.....	36	45	51
Above.....	3	35	38
Total.....	100	100	100

¹ Sample results have been expanded based on the amount of nonreal estate agricultural debt held by banks.

TABLE 3.—BORROWERS THAT BANKERS WILL NOT CONTINUE TO FINANCE¹

State	Borrowers not to be financed	Reasons for not financing ²			Lack of funds to loan
		Inadequate Income	Equity	Poor management by borrower	
Colorado.....	400	240	380	300	50
Kansas.....	3,200	2,400	2,530	1,400	1,400
Minnesota.....	1,400	450	900	600	50
Montana.....	100	70	40	70	10
Nebraska.....	2,200	1,650	170	1,230	490
North Dakota.....	900	450	360	160	40
Oklahoma.....	3,200	2,660	2,500	700	670
South Dakota.....	1,200	680	970	440	40
Texas.....	1,300	870	770	430	70
Total.....	13,900	9,470	8,620	5,330	2,820

¹ Sample results have been expanded based on the amount of nonreal estate agricultural debt held by banks. Estimated numbers of borrowers affected are based on survey results and data on farm numbers.

² Multiple reasons were permitted.

TABLE 4.—PERCENTAGE INCREASE IN TOTAL LOANS, NONREAL ESTATE AGRICULTURAL LOANS AND TOTAL DEPOSITS, BY STATES, MARCH 1976 TO MARCH 1977

State	Total loans	Nonreal estate agricultural loans	Total deposits
Colorado.....	14	23	11
Kansas.....	26	22	14
Minnesota.....	14	11	9
Montana.....	22	19	15
Nebraska.....	18	21	8
North Dakota.....	14	17	9
Oklahoma.....	16	19	10
South Dakota.....	12	7	8
Texas.....	17	23	11
9 State weighted average.....	17	19	11

¹ Sample results have been expanded based on the amount of nonreal estate agricultural debt held by banks.

TABLE 5.—A COMPARISON OF MAR. 31, 1977 WEIGHTED AVERAGES OF CURRENT AND DESIRED LOAN TO DEPOSIT RATIOS, BY STATES¹

State	Current ratio	Desired ratio	Percent of banks with loan deposit ratio above desired ratio
Colorado.....	67.7	68.5	46
Kansas.....	67.7	62.7	58
Minnesota.....	61.2	62.8	30
Montana.....	61.2	61.0	49
Nebraska.....	71.6	67.3	65
North Dakota.....	65.2	64.7	35
Oklahoma.....	59.4	62.8	35
South Dakota.....	64.6	62.2	46
Texas.....	57.4	60.0	29
9 State weighted average.....	64.1	63.4	45

¹ Sample results have been expanded based on the amount of nonreal estate agricultural debt held by banks.

STATEMENT OF HON. FRANK CHURCH, A U.S. SENATOR FROM IDAHO

Mr. Chairman, I appreciate the opportunity to submit testimony on the credit problems facing many of our nation's farm families. American farmers look to this Committee for help and I am sure that you have heard from them on this issue. The good work that you did in writing the Food and Agriculture Act of 1977 demonstrates that you not only listen, you act.

I have also been hearing from farm families on this matter and I hope that I can adequately express the concerns they have raised and thus, in some small way, assist you in your effort to address the credit crunch that plagues so many of our agricultural producers.

We all know that farmers are caught in an economic vise. The Committee recognized this fact when it sought to establish target prices for basic commodities that reflect today's high cost of production.

The cost of things farmers buy or use are skyrocketing and the price of prime farmland is preventing new entries into agriculture. None of this comes as any news to you. It certainly isn't news to farmers; they've been struggling with this pressure for some time.

Farmers Home Administration loan programs do not reflect the modern realities of farming, an increasingly capital intensive venture. At the very least, loan levels for farm ownership and operations must be increased. The present ceilings are clearly inadequate. FmHA also needs more money to loan. In that regard, I hope that the Administration will seek substantially higher appropriations in both the insured and guaranteed funds for fiscal year 1979.

I am aware that there are many similarities between the Administration's bill, Senator Bellmon's bill and the one I have introduced. Therefore, I would like to address the differences.

First of all, let me make a general observation about the operation of the FmHA. I hope we never see the day when FmHA is converted into just another bank or credit association. A FmHA loan is more than just an extension of credit to a farmer or rancher. Each loan made by FmHA reaffirms our commitment to family farms. By offering farmers these loans we're telling them that even if the local banker has no faith in his ability or potential, the Federal government does. The faith the government has shown in American farmers is well-founded. FmHA's record of repayments bears that out.

FmHA exists for the farmer who has his financial back up against the wall. Besides offering credit, FmHA provides technical advice to help borrowers make effective use of their resources. Unfortunately, this assistance is almost exclusively reserved for those borrowing from FmHA. The intensive servicing of FmHA loans is an integral part of the agency's effort to keep a good operator in business and to help new farmers get established. If the same technical service were available to nonborrowers, it might delay the need for FmHA credit assistance.

But look at what's happened. We've saddled FmHA with a whole host of non-farm programs. Sewer and water systems, housing, recreation and economic development now compete with FmHA farm programs for resources. Farmers are not getting the assistance they need because FmHA has been asked to do too much.

I realize that Congress has budgeted for additional FmHA personnel to help alleviate this problem, but more staff isn't the answer. A conflict will continue to exist as long as non-agricultural programs are administered by FmHA. I am not saying that our rural development effort is misguided; I just think it is misplaced.

The Bellmon bill, like the Administration's proposal, would eliminate the 5 percent interest rate on insured farm ownership loans. The argument that has been made to me in support of this proposal is that a subsidized interest rate is unfair to those who borrow from regular lenders, who can get "credit elsewhere". That kind of thinking can be applied to any number of Federal loan programs. The Federal government offers Small Business Administration loans at 3 percent (with no "credit elsewhere" requirement). National Student Direct Loans carry an interest rate of 3 percent with forgiveness features for those who enter the teaching profession. Farmers Home itself offers 1 percent loans for rural housing.

Five percent interest is subsidized interest; that's a fact. But we would do well to remember that the definition of subsidy, like that of beauty, varies with the beholder. To the farmers and ranchers in my State who have received FmHA loans, they have been a godsend. Those who coveted the operations which were saved by FmHA loans likely adhere to a different view.

I think the 5 percent interest rate can be a useful incentive to encourage new entries into agriculture. The lower interest rate is also important if we are to assist those who are suffering from an economic catastrophe and need help in order to remain in farming. In many instances, a higher interest rate may create a financial burden too great for them to bear.

We should make every effort to keep good operators in business and those individuals with potential to make it in agriculture should be given the opportunity. The average age of farmers continues to climb, as does the average acreage of farms. Agriculture needs new blood if we are to maintain the system of family farms that has served this country so well. I think FmHA can help in this regard and 5 percent loans are an important tool.

Unless Farmers Home has the flexibility to operate in light of today's realities, it won't be able to help our farm families and we'll lose many of them. I don't want to see that happen and I know the Committee doesn't.

I've tried to give FmHA some additional flexibility in my bill. It contains a provision which would authorize the Secretary to withhold foreclosure action and permit a borrower to lease his farm or ranch to a third person for up to three years, if the borrower is unable to make the mortgage payments due to illness, disability or some other cause beyond his control, when he will likely to meet the required payments if permitted to lease.

We don't want to force an operator out of business because of some temporary disability, if the farm can be worked successfully during his convalescence and recovery.

I think we should also give FmHA the authority to make loans to farm corporations or partnerships. However, they should be true farm operations in which each member of the partnership or corporation is part of the family running the farm.

In addition, I believe that the Emergency Livestock Loan program should be added as a permanent tool to FmHA's effort to assist family farms. As you know, Senator McGovern authored the original legislation which created this program. His effort in this regard has given many livestock operators a new lease on life during these last few years of depressed prices. The success of this program justifies it being made permanent.

In conclusion, let me say that I recognize the difficult task confronting the Committee. Our farm economy is taking a terrible toll; we're losing farmers daily. I hope we can turn prices around, but until we do, the FmHA remains the best hope for many of our farm families.

I have a great deal of confidence in the judgment of this Committee and look forward to working with you in whatever way I can to produce workable legislation to make FmHA more effective in dealing with the credit problems of our Nation's farmers and ranchers.

I have attached a letter from Rich Curtis of Gooding, Idaho and a statement from Wm. L. York of Boise, Idaho which the committee may find useful.

GOODING, IDAHO, *October 11, 1977.*

HON. FRANK CHURCH,
*Senator, U.S. Senate,
Washington, D.C.*

DEAR SENATOR CHURCH: I received your letter dated Oct. 3, on Oct. 8, 1977 asking my support on the Family Farm Credit Act of 1977.

Certainly there has never been a time when increased amounts of credit were more desperately needed by the family farmer than now.

As you have pointed out, the cost of production has doubled and in some cases tripled for most farmers. These costs are projected to be higher in the future and the only way young people who wish to enter into farming and some farmers who are already established, are going to be able to sustain themselves is with the availability of more money. Your increased limits as to how much can be borrowed and the total indebtedness allowed against a farm are much more realistic than the present ones. An average size farm in Idaho would lose approximately \$250,000 at the present time and operating cost would be somewhere around \$40,000 per year. As you have already seen the need is definitely there.

I support your bill, senator, however I wish to point out that unless the senate takes other steps to help farmers receive prices that reflect costs plus reasonable profits for their production this bill could be like pounding sand down the proverbial rat hole. You can't repay debt with more debt, however increased borrowing ability coupled with more favorable legislation towards more equitable prices could start the American farmer down the road to more prosperity, hence more prosperity to the small businessman and the country as a whole.

I feel that I am qualified to speak out on behalf of farmers as my job entails working with about 400 family farmers in southern Idaho bargaining for prices on their hay and beans. I visit an average of 4 farmers daily through their farm organization that employs me.

Sincerely,

RICH CURTIS.

STATEMENT OF WILLIAM L. YORK, REALTOR, BOISE, IDAHO

Two major problems face the family farmer, especially the young farmer, (1) the increased costs to farmers both operating (seed, feed, fertilizer, fuel and labor) and long term and intermediate type capital expenses, (costs of farms and improvements and the necessary equipment such as tractors, livestock, and irrigation equipment) and (2) credit or lack of credit geared to higher costs.

There is adequate monies available in the cooperative and other commercial lending sources but not for family type farmers getting started or established farmers who have suffered economic reversals traceable to catastrophes or prices received by farmers for their produce. Insurance companies and similar companies will make loans to farmers needing \$500,000 or \$1,000,000 or more, but not the type to purchase a family type farm, develop a new land farm or rejuvenate a badly depreciated farm. Percent of appraisal that cooperative (Federal Land Bank, Credit Unions) and other commercial sources limited to 50 percent to 65

percent of market value appraisal and require a first mortgage situation. The farm credit existing for annual operation and intermediate expenses of family farmers is nil. What is needed is an increase in the loan limits for both purchase of family farms and crops, machinery, and livestock loans.

I recommend that Farmers Home Administration loan limitations on family type farms be raised to \$250,000 by FmHA with a maximum real estate debt limit of \$500,000. Operating type loans of \$125,000 by FmHA and allow subordination by the Government (FmHA) have no limit. Further guaranteed loans in addition to direct from the insurance fund as explained above need a negotiable interest rate and permit the Government (FmHA) to purchase at the higher limits of \$500,000 for operating and intermediate credit with \$650,000 for real estate loans.

As a recent retiree from FmHA after 30 plus years and having spent the last 2 years in the real estate business (served in the Farmers Home Administration as an Assistant County Supervisor, District Supervisor, Real Estate Loan Officer, Chief of Community Programs, Rural Development Specialist, Acting State Director, and Chief of Farmer Programs) I know the administrative dilemma that now exists, did exist and is now getting worse and not better. Every rural credit need that some other department or agency cannot administer or solve for rural people has ended up be assigned to the Farmers Home Administration. Therefore, there is a need to return FmHA to its primary mission to help family farmers with a supervisory credit management as well as farm management.

Supervisors of the FmHA are agriculture graduates and trained in agriculture and it is simple to teach them security and feasibility in relation to credit. They are not construction experts. Time is the second limiting factor. With some innovative programs to allow young farmers to become established on family farms, some further subsidies for recognized average and better farmers is needed along with renewals both on the operating loans and real estate type loans with a trained agriculturist that can recognize good young farmers.

The rural housing program should be returned to H.U.D. The sewer, domestic water and other community loans should also be returned to H.U.D. Business and industry loans be returned to the Small Business Administration. The SBA farm lending to FmHA. Consolidation of county agencies such as Federal Extension Services, SCS, ASCS, FCIC and FmHA to a one stop situation. H.U.D. and SBA and the other department services should be met on a local basis or local community level to properly service the low income and young family needs on a direct basis, not Regional or State contact points.

Now, update the family farm credit limits, modernize pay levels, and return programs to the right agency or department.

We must remember that farmers, especially family-type farms are disappearing and will be replaced by integrated farms or organized similar to labor unions, unless agencies authorities such as Farmers Home Administration are kept current with supervised credit needs.

We don't want all agriculture to be a Simplot type operation!!

[The following was submitted by Mr. Johnson and referred to on p. 71.]

NATIONAL FARMERS UNION,
September 28, 1977.

Memorandum to: Members of the Senate Agriculture Subcommittee on Agricultural Credit and Rural Electrification and the House Agriculture Subcommittee on Conservation and Credit.

From: Reuben L. Johnson, Director of Legislative Services.

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

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

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

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

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

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

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

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

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

P.S. Attached are the relevant policy statements adopted by delegates to our 75th National Farmers Union convention held in San Antonio, Texas last March.

1977 POLICY OF NATIONAL FARMERS UNION ADOPTED BY DELEGATES TO 75TH ANNUAL CONVENTION, MARCH 5-9, 1977

CREDIT POLICIES AND PROGRAMS

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

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

1. FARMERS HOME ADMINISTRATION

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

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

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

2. CREDIT

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

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

3. WATER AND WASTE FACILITIES GRANTS

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

CREDIT

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

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

STATEMENT OF IVAN D. FUGATE, FIRST VICE PRESIDENT, INDEPENDENT BANKERS ASSOCIATION OF AMERICA, DENVER, COLO.

Mr. Chairman and members of the Subcommittee, I am Ivan D. Fugate, president of the Western National Bank of Denver, Colorado and first vice president of the Independent Bankers Association of America. With me is Don F. Kirchner, president of Peoples Trust & Savings Bank, Riverside, Iowa and chairman of our Agriculture-Rural America Committee.

We appreciate the opportunity to testify before the Agricultural Credit Subcommittee today on proposed amendments to the Consolidated Farm and Rural Development Act.

IBAA has a vital stake in these proposals because we are an organization that is primarily of, by, and for rural America. A profile of our membership demonstrates this. Approximately one-half of the 7,300 member banks of our Association are located in towns of 2,000 or less, two-thirds in communities of 5,000 or less, and 90 percent in communities of less than 30,000. The economic keystone of these banks is agriculture. More than 70 percent of IBAA member banks are in rural communities in the 18 major agricultural states.

In short, the typical IBAA member bank is a country banker whose bank's fortunes are tied directly to customers who are farmers and other rural residents.

The member banks of our Association play a major role in the industries that supply the raw materials to feed and clothe the world. Approximately 80 percent of our member banks have assets of less than \$25 million. Studies show that it is the bank in this size category which provides the majority of bank loans to agriculture. Thus the nation's independent banks are partners in progress with America's largest, most vital industry—agriculture.

In addition, community development activities are part of the working life of the independent banker. In most rural communities, you'll find a group of people working to help their community develop and grow. The group is almost certain to include the town's independent banker or bankers. More than likely, these bankers will be leading members of the group, since finance is the lifeblood of any community development effort. The independent banker's interest in rural development results, quite naturally, from his concern about people and profits. If development improves his community's economic status, his bank prospers. The independent banker generally is a life-long resident of his community—he knows and cares about his friends and neighbors, who are also his customers.

IBAA VIEWS ON RURAL CREDIT

Our Association views the proposals to amend the consolidated Farm and Rural Development Act from the standpoint of two basic assumptions. First, we believe that the public interest is best served by a competitive economic system emphasizing locally owned banks, independent businesses and family agriculture. This type of system promotes not only the most service to the customer at the lowest possible cost, but also provides a diffusion of economic power that is essential to the preservation of freedom in our political system. Second, we believe the goals of our nation should be accomplished as much as possible through the private sector on the local level. The people in each community are in the best position to decide what their particular needs and goals

may be. The private sector has the most incentive for carrying out these goals efficiently.

From the beginning, IBAA was an active participant in deliberations that led to the passage of the Rural Development Act of 1972. Our Association has maintained a continued interest in implementation of the Act. Therefore, IBAA is pleased that this Committee is considering amendments to the Consolidated Farm and Rural Development Act which would accomplish many of the goals that our Association strives for and which would be consistent with resolutions passed at our 47th annual convention earlier this year.

It is perhaps misleading to speak in terms of "rural development", as though the metropolitan and non-metropolitan sectors of our nation were tight little islands having little or nothing to do with each other. The terms "urban" America and "rural" America are useful in many contexts, and I will use them frequently here today. Their use, however, may sometimes cloud our thinking by projecting a polarized view of the nation. How often have we heard spokesmen for large cities talk about "solving urban problems" without once taking into account the impact of rural America on these problems.

Yet one of the basic problems in our cities—overcrowding—can be traced directly to the mass exodus of rural people to urban areas over the last 30 years. Tackling the problems of the cities without considering the rural areas is a bit like mopping up the floor without turning off the faucet.

The 30 percent of the population occupying 98 percent of the American land area has a very direct effect on the 70 percent of the population living on the remaining 2 percent of the land and vice versa.

Let us forget the terms "urban" and "rural" temporarily and picture the entire American population, not as two separate entities rigidly defined, but as one economic and social group living in areas of varying degrees of congestion, with a variety of ways of earning a living requiring different kinds of allocations of land and people.

In this context, your proposals are not exclusively for the benefit of those of us who live and work outside the metropolitan areas, but for all Americans living in one interdependent society.

Development of rural America is nothing more nor less than achieving a wiser allocation of our resources for the good of all. Providing opportunities for meaningful employment in rural America is an opportunity for all Americans. For that reason, our basic consideration must be to find additional sources of capital for rural development. While most IBAA rural banks are optimistic about their ability to meet the normal expansion of credit required by their agricultural customers, additional infusions are necessary to achieve the goals envisioned in the Rural Development Act.

In testimony before Congressional committees in the past, we have made a number of recommendations to ensure adequate credit in rural America. We have urged expansion of Farmers Home Administration programs and the raising of its guaranteed loan limits. We have asked the Federal Reserve Board to make its discount program for agricultural loans available to non-member banks. We have participated in efforts to improve the relationship between FmHA, Federal Land Banks and Production Credit Associations with rural banks in supplying credit to agriculture. And we have worked to make the Rural Development Act a more effective instrument for supplying credit to small businesses in rural areas.

Rural areas, particularly in the Midwest, have traditionally been served by small unit banks. With the demand for large agricultural loans, caused largely by inflation, the resources of these banks have become increasingly strained since their lending capacity depends primarily on the growth of deposits. Population and employment growth in rural areas has been relatively slow and has limited deposit growth which, in turn, has put severe limits on the lending ability of rural banks.

One of the best vehicles available for infusing large doses of credit into rural areas through private lenders is the guaranteed loan. With minimal impact on the federal budget, the guaranteed loan programs of the Farmers Home Administration and the Small Business Administration can be effectively used with great benefit to rural communities. Since the guaranteed portion can be carried by a bank as a non-risk asset, in most cases it does not count against the bank's lending limit per borrower. A typical \$5 to \$10 million bank in a small community thus finds that it can entertain loan requests for commercial, industrial and agricultural purposes far exceeding its normal loan capacity. With utilization of the guaranteed loan program, the banking institution can accommodate its cus-

tomers and at the same time promote the development of the rural economy it serves.

Recently, guaranteed loan packagers have found an active market among national brokers, pension funds, insurance companies, and other institutional investors. Banks that could not be expected to carry long-term obligations in their portfolios are able to sell the guaranteed portion of such loans to investors and continue to service the account for the benefit of the small business entrepreneur or other qualified business management.

The need to bring more capital to rural communities is recognized by our members, and they are attempting to do this by utilizing secondary marketing techniques.

This past February our Association sponsored a seminar in the marketing techniques for guaranteed loans and found much enthusiasm among the bankers in attendance for engaging in this type of loan activity.

The bills before this Committee deal with the FmHA programs which in many cases have fallen short of their objectives in providing assistance. Our Association supports substantial increases in the limit on Farm Ownership and Farm Operating loans. They are crucial in aiding the agricultural segment of our economy to weather the effects of drought and the inflationary pressures which currently threaten many of the nation's farmers.

We are pleased to see that the bills that stand before this Committee would substantially increase the limits on both insured and guaranteed loans for Farm Ownership and Operating loans.

DISCUSSION OF THE BILLS

In analyzing the three bills before this Committee, Senator Bellmon's (S. 312), Senator Church's (S. 2126), and Senator Talmadge's (S. 2146), we are pleased to see that each of them incorporates many of the provisions which we have favored in the past. They will substantially aid the farmers and other rural residents which we serve. However, we have difficulty with some aspects of the amendments, and have suggestions for modifications to them. In addition, we would like to see the bills amended to incorporate some other matters of interest to our Association.

Since copies of the Administration bill, introduced by Senator Talmadge by request (S. 2146), have not been available, we have followed the Bellmon bill's section numbering in discussing the proposed amendments.

We are in basic agreement with the purpose of Section 1 in making loans under Section 302 of the Consolidated Farm and Rural Development Act available to private domestic corporations and partnerships controlled by farmers and ranchers and engaged primarily and directly in farming or ranching. This provision also appears in the Administration bill and the Church bill. However, since we are concerned about non-family farm and corporate partnership activity, we would like to see the family member requirement of the Church bill (S. 2126) incorporated in this amendment.

In addition, we have difficulty with the credit elsewhere test. For some time, our membership has been concerned about FmHA regulations which establish a "credit elsewhere test" to determine the availability of credit under the guaranteed loan program. Under this requirement an applicant seeking a farm ownership loan is not eligible for an FmHA insured or guaranteed loan unless he has been turned down by other lenders, such as a commercial bank, Federal Land Bank, or other private lender.

Rural bankers frequently find, however, that a farmer who seeks to finance the purchase of adjoining acreage could consummate this type of financing with his local bank if he could utilize credit available under the guaranteed loan program. Such financing could be set up to meet the needs of the farm owner with far fewer complications than are involved, say, in arranging a complex term loan through a Federal Land Bank.

We recognize that the "credit elsewhere test" is designed to limit FmHA farm loans to borrowers who are unable to obtain credit from private sources. However, it is anticipated that lenders would have to certify that the loan would be made only if a Federal guaranty were available. Similar certifications are accepted by the SBA in communities with a population under 200,000.

Section 2 of S. 312 would authorize farm ownership loans up to \$200,000, rather than the present limit of \$100,000, and up to \$300,000 for guaranteed loans. It further eliminates the \$225,000 total indebtedness restriction that may exist against the farm. We are very much in favor of raising the limits on these

loans to reflect the higher cost factors brought about by inflation. However, we believe that a provision of the Church bill relating to this matter would be even more appropriate, namely to raise the farm ownership loan limit to \$225,000.

The simplification of the definition of "urban" and "rural" provided in Section 3 and granting of preference to communities having a population of not more than 5,500 for Subtitle A loans would appear to be prudent, providing the loans for business and industry purposes would not be subject to change.

With respect to Section 4, we strongly concur in the proposal for a rate of interest which would be negotiated between the borrower and the lender to encourage the utilization of this program by banking institutions. The present ceiling of 8 percent for the most part does not reflect the going rate of interest and acts as an impediment to the guaranteed lending program. We would also concur in the elimination of the subsidized maximum interest rate of 5 percent (which has proven to be extremely costly to the Federal government) with the understanding that all insured loans under Subtitle A would be at a cost of money rate plus an appropriate add-on reflecting administrative expenses.

Section 5 eliminates the maximum dollar limitation on the amount of new loans that may be held by the agricultural credit insurance fund. We approve of this change.

Section 6 would create a secondary market for the guaranteed portion of any outstanding guaranteed loan. We approve the creation of such a market, but would like to see included the requirement of the Administration bill that the authority to create this market may be exercised only after the Secretary determines that an adequate secondary market is not available in the private sector.

In connection with Section 7, we have found inordinate delay in obtaining certifications from the Department of Labor, and would strongly recommend the modifications in procedures proposed under the Bellmon bill. Since, however, the majority of loan applications entertained by the Farmers Home Administration for business and industry loans exceed \$500,000, labor certifications will be required in connection with most projects. It is our considered opinion that such certifications should be requested at the earliest possible date by the Farmers Home Administration to avoid delays in final determination on loan applications.

We again would endorse the change in eligibility criteria for Farm Operating loans suggested by the Church amendment which provides that members of the partnership or corporation would have to be members of a family.

Section 9 increased operating loan limits and deletes the requirement that the county committee certify the maximum amount of operating loans. We believe that is a substantial improvement. However, we would like to see added to that provision that language of Section 11 of the Church bill which authorizes the consolidation of operating loans. We feel that the flexibility which would be created by that amendment by that change would be of great benefit to farmers, who have seen their operating expenses skyrocket.

Section 10 provides for negotiated interest rates on guaranteed operating loans. We have long supported such a change.

As for Section 11, we have no difficulty except as to the very broad definition of Section 15, which we discuss below.

We have no problem with Sections 12, 13 and 14. These are all worthwhile changes. We have long recommended against credit graduation requirements and are pleased to see that Section 14 of S. 312 exempts guaranteed loans from the credit graduation requirements.

Section 15 we believe over-broadly redefines the jurisdictional areas which FmHA may serve. We believe that the agency already is overburdened by not having sufficient staff to carry out the requirements of the Act within the continental United States, Alaska, and Hawaii. We would support the Administration bill's method of handling this matter which, as we understand it, is to include Puerto Rico and the Virgin Islands along with the 50 noncontiguous states. We would be willing to support the broader definition only if FmHA were provided with additional staff sufficient to adequately serve as expanded service areas.

We strongly agree with the amendment proposed in Section 16 which would specifically authorize Congress to establish FmHA program levels containing both an insured and a guaranteed portion. We believe that not enough use has been made of the guaranteed loan program, and feel that this amendment would greatly aid farmers by encouraging the increased use of guaranteed loans. We feel, however, that an additional provision should be inserted dealing with loan loss reserves.

The policy of treating the full amount of guaranteed loan authorizations as outlays of appropriated dollars, has been of great concern to our membership. We do believe that Congress should set higher annual ceilings for guaranteed business, industry, and farm loans. But we have testified before the House that Congress could designate funding levels for all FmHA guaranteed loan programs as reserves against losses rather than ceilings. Loans then could be made under a loan-to-reserve ratio such as 5:1 or 10:1. FmHA's excellent loss record suggests that such ratios would be prudent. During the agency's 40-year history, write-offs have totaled slightly more than one percent of all money loaned. Defaults of loans under the B&L program have been less than one percent of the total guarantee. By considering the levels designated for guaranteed loans as reserves rather than ceilings, tremendous amounts of capital could be released for rural development without having an impact on the federal Treasury.

We thank Senator Allen for his amendment to this year's farm bill, which ties in with this problem. As we understand it, his amendment would have set up a separate reserve fund for loan losses. Although limited to B&L loans, this concept has merit, we believe, on a broader scale for other FmHA loans. Currently, Congress must make annual determinations of the previous year's losses and make appropriations to cover them. The Allen concept could apply across the board, relieving Congress of this annual chore. Guarantee premiums would probably be sufficient to maintain the fund at full strength, once it was established with an initial appropriation.

Section 17 is particularly welcome because we feel that not enough coordination has taken place in the past between different agencies which had the same purpose of helping the farmer, such as between FmHA and SBA.

In summary we believe that the Bellmon bill, which in many ways is similar to the Administration bill and the Church bill contains many worthwhile revisions of existing law, and we support these changes as outlined above.

In addition, we feel that Senator Church in S. 2126 is correct in making permanent the Emergency Livestock Credit Act and raising the permissible guaranty to \$500,000 as he does in Section 16 of that bill.

Furthermore, we feel that Section 16 of the Church bill is also worthy of enactment. This provision would authorize the secretary to withhold foreclosure action and permit a borrower to lease his farm or ranch to a third person for up to three years if the borrower is unable to make the mortgage payments due to illness, disability or other cause beyond his control, but where he will be likely to meet the required payments if permitted to lease his farm or ranch. This would be particularly beneficial to the young farmer just starting out and would serve to reduce the risks of farm ownership so that young people would be encouraged to enter into farming as an occupation.

CONCLUSION

The new wealth of America comes from the land—agricultural production, mining, forestry. These raw materials are produced in rural America. However, a disproportionate share of this wealth has been allowed to flow out of rural America, reducing opportunities in the rural areas. Many of the problems of overcrowding in the cities are the result of a shortage of economic opportunity in rural America.

Our Association will continue to do all it can to encourage its members to utilize the guaranteed loan programs in achieving the objectives of the Rural Development Act, which can do so much to stimulate rural economies and reduce unemployment. We respectfully urge your favorable consideration of the recommendations we have made in our testimony.

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

Mr. Chairman and members of the subcommittee: My name is William E. Murray. I am legislative specialist for rural area development of the National Rural Electric Cooperative Association, a national service organization of nearly 1,000 rural electric systems in 46 states. These systems bring central station electricity to approximately 25-million farm and rural people over lines in 2,600 of the nation's 3,100 counties.

We appreciate this opportunity to make our views known in regard to S. 312 and a similar bill proposed by the Administration, S. 2146.

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

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

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

The bills are very similar to H.R. 14641, which the previous administration succeeded in getting through a House agriculture subcommittee last session.

But it failed to win approval of the full House Agriculture Committee. USDA is seeking to increase the interest rate in order to reduce the interest subsidy cost to the government. Whether that actually would happen is doubtful, particularly if the USDA had to increase the amount of grants it provides to communities unable to afford the full FmHA rate for water and/or sewer loans.

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

Congress in recent years has recognized that many communities cannot even afford the statutory 5 percent for water and sewer loans and therefore has appropriated substantial amount of grant funds which, in effect, reduce the interest rate to below 5 percent. Undoubtedly, Congress felt and still does that such basic rural development components are essential to help rural areas stabilize their populations and to hold or attract new job-creating enterprises. Without central water and sewer disposal, the prospects for development in rural areas are very slight. Thus if the provisions to increase the interest rate in these bills were to become law, Congress would have to appropriate a much larger amount of grant funds to keep the interest rate at a level which rural communities would be able to afford.

There has been extensive testimony before Congressional committees including the Senate Subcommittee on Rural Development that thousands of rural communities are unable to qualify for FmHA water and sewer loans without grants. And even at the higher level of appropriations for grants which Congress has seen fit to approve in recent years, FmHA still does not have sufficient grant money to fill more than a part of the need of these communities. That Congress is aware of this too would seem to be indicated by the several bills now pending that would lift the ceiling on the amounts of annual grants authorized for FmHA from \$300-million to a much higher amount (\$1-billion in S. 1150) and raise the maximum grant from 50 percent to 75 percent or 90 percent.

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

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

the borrower and the lender. We believe it is a safe assumption that the lender will have more influence on what the actual rate is than the borrower will.

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

We believe that before any action is taken to substantially increase the interest rate, Congress should know more precisely what the impact on rural communities and rural development will be. Would it preclude thousands of rural communities from being able to use FmHA loans? Based on past testimony, that would seem to be a distinct possibility. And if that were the case, then the trade off—higher interest rates for more loan funds—could be counter productive. And of course there is no assurance that the administration will request more loan authorization. In fiscal year 1977, for example, it was Congress that increased the FmHA loan level for water and sewer loans from the administration figure of \$470-million to \$600-million. For fiscal year 1978, the administration asked for only \$600-million and Congress increased this to \$750-million.

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

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

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

There are a number of provisions of both bills which could prove beneficial including the increase in the ceiling for farm ownership loans and operating loans and the provision that Congress establish loan levels for both guaranteed and insured loans. We do, however, have misgivings about giving the Secretary of Agriculture the authority to transfer amounts between insured and guaranteed categories. We feel that it would be better if this were left in the hands of the appropriations committees. There are a number of other technical amendments which could be helpful.

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

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

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

Also, we believe that like REA, FmHA should supply technical assistance to its borrowers to help insure success of the project, particularly during the early years. And further, FmHA should engage in research as did REA to develop more

efficient and economical techniques for constructing water and sewer systems and for maintaining them.

Increasing the interest rate on these loans doesn't seem to us to be any kind of a solution to the problem of bringing water and sewer services to rural areas on anything approaching areawide coverage as was achieved by REA with electric service.

Mr. Chairman, I am attaching to my statement a copy of a resolution which the NRECA membership adopted unanimously at its annual meeting this year. It clearly expresses our membership's position in respect to the provisions of the legislation before you that would increase the interest rates on community facility loans. In brief, the membership strongly urges that the present 5 percent interest rate on these FmHA loans be retained.

Thank you for giving us this opportunity to express our views on this legislation.

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

FmHA Community Facility Loans

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

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

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

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

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

STATEMENT OF A. BRUCE CLEVELAND, PRESIDENT, BANKERS FINANCE CORP.,
ARLINGTON, VA.

I certainly appreciate the opportunity extended by your committee to present my views, which I believe to be shared by most of my professional colleagues, regarding the three bills now under consideration to amend the basic legislation governing the Farmers Home Administration.

I am president of one of the larger firms, in dollar volume terms, which provides a central market place for investments based upon Government-guaranteed loans; I am also a member and officer of the association of dealers in this type of investment. My firm is particularly active in providing a secondary market for the guaranteed portions of loans guaranteed by the Farmers Home Administration. It is from this perspective that I am speaking to you today.

The three bills now under review are addressed, it seems, principally to questions of borrower eligibility, maximum loan size, interest rate limitations, improving the operation of FmHA guarantees, and to various technical amendments to the basic legislation. With regard to the question of borrower eligibility, I do not expect much controversy; clearly family farms may be organized legally in other ways than as proprietorships. I would like to also support the pro-

vision in one of the bills extending FmHA coverage to U.S. territories other than Puerto Rico and the Virgin Islands. We have been active outside the continental United States and have seen the significant impact that FmHA credit programs have had, particularly in Puerto Rico; it would seem that the remaining U.S. territories, less developed than Puerto Rico, could certainly benefit from the same kind of credit assistance.

With regard to the issue of increased maximum loan sizes, it seems clear that some periodic action along these lines is necessary to compensate for the ravages of inflation; this is particularly so for farms having marginal profitability, for they may have difficulty just increasing their working capital to keep up with inflation's demands. In our experience with guarantee programs, we have found that for all but the most marginal operators, a loan limit of \$100,000 can at times be quite restrictive. The flexibility provided by a \$200,000 or \$300,000 loan limit is essential, and possibly higher limits should be considered. It should be noted that legislation governing the Small Business Administration, enacted in mid-1976 and only now being implemented, authorizes SBA to make guaranteed loans to farmers of up to \$500,000; it would seem that the Farmers Home Administration should have more authority than it now has to serve its primary constituency.

This point raises another issue of some significance. Two of the bills now being considered provide different limits for insured (which is to say direct) loans and for guaranteed loans. It would seem, philosophically, that government credit agencies should target their direct lending activities towards those eligible recipients least able to fend for themselves, while using guarantee programs to serve the larger more sophisticated borrowers. This was the approach taken for the first time in the 1976 SBA legislation, which limited direct lending to \$350,000, while at the same time increasing the guaranteed loan limit to \$500,000. It is my feeling that this committee could take a meaningful step toward increasing the impact of the Farmers Home Administration without a commensurate burden on FmHA staff or the U.S. Treasury by providing guaranteed loan limits in the farmer loan area which are higher than the insured limits. If guaranteed loans are well made, the guarantee fees charged should defray the loan losses incurred and the administrative costs of the program. If private lenders do most of the work and take a part of the risk, then a service can be provided which is largely paid for by the borrower through his regular interest payments to the private lender and the fee to FmHA, rather than by the taxpayer.

The question of changing the interest rate restrictions now binding the Farmers Home Administration goes to the heart of the present problems with FmHA's guaranteed farmer loan program. We are one of the most active firms in the country in providing a secondary market for FmHA loan paper—and, we think, one of the most aggressive in trying to provide service for all of FmHA's programs. However, it has been plainly speaking, impossible for either us or most original lenders to use the existing guarantee program for FmHA farmer loans. This is largely because present legislation restricts the maximum interest rate that a lender can charge to a rate presently below the market. As of today, the "prime" interest rate is in the range of $7\frac{1}{4}$ percent to $7\frac{1}{2}$ percent; banks rarely make even short terms loans at effective rates of less than 1 percent over the prime. Recently FmHA's maximum rates for farmers loans has been around 8 percent per annum. My firm prides itself on having been a market force which has operated to bring interest rates down in the market-place for guaranteed loans; we feel that in general our interest rates are as low as available anywhere in the country for similar type loans. But it is simply not now possible for us to buy farmer loan guarantees at a rate at which banks can make them profitably. In my opinion and based upon some extensive experience in the guaranteed loans area, it is essential that a provision be adopted, similar to that contained in all three bills now before this committee, to permit interest rates on FmHA guaranteed loans to be set by mutual agreement between borrower and lender.

Competition will do the rest. If a realistic interest rate policy is allowed to FmHA by using the adequate secondary market machinery already in place awaiting this change, the activities of firms such as ours operating in the market-place will cause interest rates to the end borrower to follow in reasonable harmony with changes in the general money market. We saw this happen in the FmHA Business and Industrial Loan program, where interest rates are unregulated and where a viable secondary market was established, permitting national firms such as mine to compete with each other to provide funds. Most

B&I loans now fall within what we consider to be a reasonable interest rate range of 9 percent to 10 percent, solely based upon market forces. When the Government attempts to regulate private interest rates to an artificially low level, activity under a program tends to be cut off just when it is needed most.

I heartily support the provision in one of the bills before this committee which would extend the principle of market interest rates to FmHA insured loans. Most borrowers are pleased to obtain credit on reasonable terms, without demanding a subsidy. This bill makes adequate provision for cases where a "normal" interest rate would cause hardship. It also creates a climate where the Federal Government is not engaged in one-sided competition against private lending institutions willing to make loans under reasonable terms, while bringing FmHA charges in line with the value provided.

These observations bring me to the provision in all three bills which most disturbs me. It is incorporated, I believe, without an appreciation of the potential impact it could have. A new section to the Consolidated Farm and Rural Development Act would be added, Section 309B, which would permit FmHA to purchase directly the guaranteed portions of FmHA guaranteed loans. One bill would require the Secretary to determine that "an adequate secondary market is not available in the private sector." This provides some comfort, but I believe it would be at some future time still vulnerable to the same kind of impulse for aggrandizement that has turned so many guarantee programs into direct Government loan programs staffed at taxpayer expense. It should be remembered that the present "insured" program started as just that, an insured loan program. This was in the late 1940's, when "insured" rural housing loans were being made by private lending institutions under ordinary insurance provided by the Government. By stages, FmHA started disbursing the loans and "insuring" itself before selling the loans to a private institution. Then the loans were kept for aggregation into blocks, which were sold to larger institutions. Then legislation was obtained so that the loans didn't have to be sold at all, but rather "certificates of beneficial interest" could be sold to large investors. Then these CBO's were sold to the Federal Financing Bank, which now borrows money from the Treasury to buy them. The FmHA rural housing program is currently a significant off-budget factor in the national debt, because the same Treasury borrowing that finances the regular Federal deficit also finances this type of FmHA lending. Meanwhile, the staff of FmHA has grown enormously to provide internally the lending function that was previously handled by private institutions; and still FmHA does not have sufficient personnel to handle all of its programs comfortably. One can see the thin edge of the same wedge being inserted into the "guarantee" programs.

The B&I program is becoming one of FmHA's larger programs; it is certainly one of its most successful. However, it operates strictly with guarantees and operates mostly in the private sector with only a very small fraction of FmHA's total staff. Its secondary market has been highly successful, with numerous dealers vying with each other to buy the resultant guaranteed paper, each trying to provide a lower interest rate. There is no question that an "adequate secondary market" can be provided in the private sector, if FmHA and the Congress provide a workable program as recent FmHA regulations and the pending legislation would do. My own interests are clear. But Congress's intent to use a true guarantee program, particularly in the highly successful B&I area is also clear. Pandora's box lies unlocked if future FmHA administrations are permitted the authority to again start down the road of program internalization and bureaucratic growth. Let us seal it before it can be opened.

Mr. Chairman, this concludes my prepared remarks; I would welcome any questions the committee may have. Thank you for your consideration in hearing me.

STATEMENT OF LESLIE W. PETERSON, AMERICAN BANKERS ASSOCIATION

I am Leslie W. Peterson, President, Farmers State Bank, Trimont, Minnesota and Chairman of the American Bankers Association's (ABA) Agricultural Bankers Division. My bank is in a southern Minnesota agricultural community of 900 people and has \$10 million in deposits. I present the ABA's views on much needed revisions to the farm loan programs administered by the Farmers Home Administration (FmHA) as set forth in three legislative proposals, S312, S2126, and S2146.

Our Association, whose membership consists of 92 percent of the nation's more than 14,000 full-service banks supports the objectives of these proposals. How-

ever, we wish to discuss the provisions we feel will best serve the needs of farmers and offer some suggestions which I hope will be helpful to the subcommittee.

Banks are deeply interested in agriculture and rural America. Two-thirds of the nation's full-service banks are in communities of less than 25,000 people. In fact, half are in towns with fewer than 5,000 residents. Nearly 60 percent of the community banks responding to a 1972 ABA survey listed agriculture as the single most important source of income for their communities. Banks hold over \$30 billion or approximately 30 percent of the debt of farm families. The bulk of this—nearly 70 percent—is held by banks under \$50 million in size.

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

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

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

ELIGIBILITY FOR FARM LOANS

We support the provision to extend farm ownership and operating loans to partnerships and corporations which are now excluded. We also endorse the intentions of limiting this to family partnerships and corporations. However, sometimes in family-size corporations one or more family members may hold stock who are not "engaged primarily and directly in farming or ranching." We believe it would be unwise to discriminate against such families and, therefore, suggest a less restrictive wording to allow stock ownership by blood relatives not primarily or directly involved in operating the farm.

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

LENDING LIMITS

We most enthusiastically support the proposals to double the maximum size of direct (insured) operating loans from \$50,000 to \$100,000 and farm ownership loans from \$100,000 to \$200,000. We also endorse the proposal in S312 to increase the maximum size of guaranteed operating and farm ownership loans to \$200,000 and \$300,000, respectively. In accordance with these changes it is also realistic and imperative that the present \$225,000 ceiling on total "unpaid indebtedness" to the value of the farm or other security.

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

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

We have previously recommended that limits for the guaranteed loan program be set administratively rather than statutorily, putting the farm program more in line with FmHA business and industrial loans. Although new higher limits set forth in all of the proposals would be most helpful, we believe the guaranteed

loan limits of \$200,000 for farm operating and \$300,000 for farm ownership provided for in S312 are needed in today's economy.

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

INTEREST RATES

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

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

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

We do not oppose the provision in S2146 that would allow the FmHA to offer farm loans at "lesser rates" if such a need can be demonstrated. We feel such a lower interest rate program should be limited and very tightly administered. Such a program might be useful in helping qualified young people get started in farming. This would certainly be preferable to the establishment of a separate financing program for young farmers, such as has been proposed during the past two years.

FUNDING

We support the provision in S312 which would allow segregation (in appropriations) of the program levels for direct (insured) loans and guaranteed loans. This would make possible the setting of the direct loan program level which is more dependent on government funding at a different level than the guaranteed loan program where the loan funds are provided by private lenders. The absence of separate funding has been a primary reason the guaranteed farm loan programs have not been utilized more extensively.

SECONDARY MARKET

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

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

We do not oppose the general provision that authorizes the Secretary of Agriculture to establish a secondary market in the Department of Agriculture. But as indicated, we are optimistic that this need will be met by the private sector. We feel this is the proper course and therefore recommend adopting this provision as set forth in S2146 which authorizes such a secondary market only after the Secretary determines that an adequate secondary market is not available in the private sector.

I wish to briefly express our view on the provision making the Emergency Livestock Guaranteed Loan program permanent. We supported this program originally in 1974 and the extension in 1976 on the basis of it meeting a temporary need. We are aware of the continuing financial plight of cattlemen, but we do not foresee their economic problems being permanent. At the proper time another ex-

tion may be justified, but we oppose making this emergency credit program a permanent authority.

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

We believe the changes discussed are appropriate and necessary for keeping the FmHA a vital farm credit program in view of the financial troubles facing many of our farm families today and in the foreseeable future. We offer our support and cooperation for these programs which we feel will be in the best interest of farm families and rural communities.

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

[The following question was submitted to Mr. Peterson by Senator Humphrey.]

Senator HUMPHREY. As you have indicated, the American Bankers Association recommends five changes in FmHA loan programs. These recommendations include extending eligibility for farm loans to partnerships and corporations, increasing loan ceilings, removing interest rate subsidies, providing for separate funding of direct and guaranteed programs and strengthening secondary market arrangements. Do these recommendations reflect your personal views as a rural Minnesota banker? In particular, could you comment on the proposed elimination of interest subsidies?

Mr. PETERSON. I support the five changes recommended by the American Bankers Association with the possible exception to the total removal of interest rate subsidies. This exception was discussed briefly in my prepared testimony at the top of page 5, however I personally feel more strongly about the need for some subsidies in certain areas than may have been indicated in the testimony.

The most effective tool that we have as lenders in helping beginning farmers establish a land base is the present Farmers Home Administration Farm Ownership Loan Program with the use of outside lender participation. Most farmers begin on rented land and then attempt to establish ownership of part of their operation as funds, net worth and land availability permit. When the right opportunity presents itself, it is possible to obtain almost 100 percent financing under this program for the purchase of small parcels of land which then form part of the farmer's larger rented operation. With the present high cost of land, the lower average interest rate that can be obtained by the use of a subsidized FmHA loan and the market rate of another lender on a participation loan is often low enough to make purchase and debt service feasible. In many cases, the use of market interest rates for the entire purchase price would make it impossible for the farmer to service the debt on the purchased land.

We have seen many proposals recently in the Congress for special legislation to finance young farmers. It is my opinion that permitting a continued interest rate subsidy on farm ownership loans, together with the increased limits and extending eligibility for these loans to partnerships and corporations will give us the necessary tools that we need to assist most beginning farmers who have the ability and who have some established net worth. These subsidized farm ownership loans should continue to be made directly by the FmHA and in participation with other lenders. There should also be a mandatory graduation clause written into these loan agreements because our experience indicates that borrowers do not like to let a subsidized rate of interest go even if they can later afford to pay market rates.

The potential budget impact of continuing and growing interest rate subsidies has severely limited some of the FmHA programs in the past. It is my opinion that most of these programs could be operated at rates equivalent to the costs of money to the treasury without creating any hardship on most borrowers. The exceptions I would make to this are in the Farm Ownership Program where a

need can be demonstrated or in a case of severe natural disasters which may require subsidized rates.

I would also like to comment on the Community Facility Loan Program which is presently available through the FmHA. This is the only federal program which is readily available to rural communities to improve the standard of living for rural people. The other federal programs for community development now must be cleared through state and regional channels before any funds reach rural communities. It is my observation that the funds through other federal agencies never reach the small community but that the FmHA funds have continued to be available on a direct basis to small communities. My community, Trimont, Minnesota, has used these programs very successfully to provide the necessary municipal improvements to make the community attractive to people.

I would encourage the continuation of the direct community loan programs through the FmHA.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON STAFF, NATIONAL FARMERS ORGANIZATION

We appreciate this opportunity to offer our views on various modifications of the FmHA programs. The following brief comments and recommendations are based on conversations with NFO leaders at the state and county level who are quite familiar with these programs and the need for this type of credit.

Our attitude is best illustrated by a recent statement of Senator Frank Church in which he summed up concern about the proliferation of responsibilities placed upon this agency by the Congress in recent years—"Historically, the main purpose of the Farmers Home Administration has been to help young and beginning farmers get established in agriculture. Unless FmHA loan levels are realistic, fewer and fewer farmers will be coming into the business, and those already in the business will be forced into bankruptcy. The end result will be a continuing increase in the average age of farmers and the size of farms.

"We have saddled Farmers Home with a host of rural development programs that have interfered with its primary mission: to help farmers. It is my hope that the committee will reemphasize and strengthen the mission of Farmers Home: to assist and maintain the family farm tradition of this country."

Loan Eligibility—we concur in the proposal to make partnerships and small family corporations eligible for ownership and operational loans, provided that certain safeguards are retained. The law should clearly require continued application of the "credit elsewhere" test. It should be equally clear in the law that the only corporate structure or partnership eligible to borrow is one in which all the participants are directly involved in farming as the principle source of their livelihood.

Loan Limits—there were variations in the responses of our people on the proposals to increase the limitations on ownership and operational loans. Quite commonly, the attitude was to oppose such increases unless there can be concurrent action to increase the limitations on funds available. With that overriding qualification it may be appropriate to increase the ownership loan limit from \$100,000 to \$200,000 and the operational limit from \$50,000 to \$100,000 in recognition of the inflated prices of land, equipment and operational inputs that confront deserving young farm families today.

It will be highly unsatisfactory, however, if these limits are increased, the applicant lists are extended in local offices and fund limitations restrict approvals of new loans.

Interest Rates—here too, our leaders who are familiar with the problems of young farmers are quite skeptical of any proposal to terminate the availability of 5 percent money for ownership loans in those cases where eligibility can be clearly established under the guidelines that have been traditional in this program.

Said another way, we have a great deal of confidence in the Secretary of Agriculture and the Administrators of these programs. However, we have no assurance that once given the authority to push these loans over to a "cost of money" style of financing the Secretary of the Treasury and the OMB will continue to authorize a sufficient amount of 5 percent money. Such financing will be needed to keep hard pressed, working young families on the land.

It is recommended that the committee continue, as a provision of law, the authority and direction to the agency to make at least one-half of the ownership

loan funds available at the 5-percent rate. A similar provision for operational loans would be in keeping with the goals and purposes of this program.

In conclusion, we want to emphasize the importance of making sufficient funds available, at reasonable interest rates, at a time those funds are required for the farming operations and where the applicant is clearly eligible and deserving of adequate credit. We are not interested in supporting a legislative package that simply creates or enlarges one more channel to move funds from the money market to a selected set of clients at high interest rates.

It will be appreciated if this statement can be made part of the record. We will be available to consult with you or your staff in any manner that is constructive and helpful.

NATIONAL ASSOCIATION OF COUNTIES,
Washington, D.C., October 21, 1977.

HON. JAMES B. ALLEN,
Chairman, Senate Subcommittee on Agricultural Credit and Rural Electrification, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to express the views of the National Association of Counties on S. 312 and S. 2146, which are being considered by the Senate Subcommittee on Agricultural Credit and Rural Electrification. We are the national organization representing over 1,600 of our nation's counties.

Rural County officials are extremely concerned over the provisions in the legislation that would raise the interest rates on the water and waste disposal and other community facility loans. The proposed changes in the Farmers Home Administration programs will significantly increase the cost to all rural communities, while necessary public facilities will be placed beyond the reach of many counties.

These increases will adversely affect rural citizens and hinder the economic development of our rural counties. The reasons for our opposition to the increases are as follows:

1. Rural counties are presently treated unfairly as compared to urban areas. While HUD and EPA readily provide 100 percent and 75 percent grants respectively, to urban areas, the ceiling in FmHA programs is only 50 percent. Moreover, in fiscal year 1976 water and sewer grants averaged only 29 percent of project costs. This means that while the federal government assumed virtually the entire cost of the project in urban areas, rural communities financed 71 percent of the cost through loans. Rural counties already bear an unequitable burden. Increasing the interest rates on the loans from 5 percent to the market rate would only worsen this inequity.

2. To pay the increased cost, rural counties would either have to increase property taxes or user fees or decrease other services. Each alternative is regressive and inevitably burdens those least able to afford it. Moreover, higher taxes or user fees would tend to diminish any economic benefit to the community resulting from the new facilities.

3. Many counties will be financially unable to participate in these programs and will be forced to forego necessary community facilities. Numerous areas experience difficulty with loans at the present 5 percent limit. Any increase will place more and more rural communities out of the program. This means more than just foregoing certain services and facilities, it often translates into loss of business, industries, and jobs.

4. From the point of view of the Department of Agriculture, the purpose of this increase itself remains unclear. No evidence, statistics, or studies are provided to indicate any benefit to either the agency or the rural communities. No claim is made about ability to fund more projects. The agency has stated it will realize savings in interest subsidies. However, it then expresses a desire to provide greater grants in order to limit the actual cost to localities. The problem with this logic is that the grants also cost the government money, and may actually be more costly in the final analysis.

The rural counties of this nation require a determined effort by the federal government in terms of programs and money. At the very least, this assistance should be provided on a basis with that available to urban areas i.e., 75 percent-100 percent grants.

Attached is a waiting list, as of August 1977, for the water and waste disposal grant program. The waiting list exceeds \$395 million for grants and \$1.5 million for loans, far above the current appropriation level for either category.

The task facing the Farmers Home Administration is how to meet that need, a need that continues to grow. More communities need to be served. We submit that increasing the interest rates for loans does not accomplish this purpose.

The National Association of Counties therefore strongly urges the subcommittee to retain the current 5 percent interest rate on water and waste disposal and community facility loans.

Thank you.

Sincerely,

ELLIOTT ALMAN,
Legislative Representative.

Enclosure.

RURAL DEVELOPMENT ACT

WATER AND WASTE DISPOSAL GRANTS AND LOANS WAITING LIST AS OF SEPT. 1, 1977

States	Grants	Loans	Total	Number of applicants
Alabama.....	\$9,266,600	\$26,048,800	\$35,315,400	126
Alaska.....	47,000		47,000	2
Arizona.....	157,400	7,498,800	7,656,200	10
Arkansas.....	7,577,700	24,007,360	31,585,060	149
California.....	38,449,591	81,999,144	120,448,735	269
Colorado.....	13,775,400	20,168,200	33,943,600	93
Connecticut.....		171,250	171,250	1
Delaware.....		2,689,300	2,689,300	5
Florida.....	9,647,439	79,185,616	88,833,055	65
Georgia.....	20,999,400	24,849,900	45,849,300	128
Hawaii.....	550,000	550,000	1,100,000	2
Idaho.....	1,780,600	5,482,700	7,263,300	29
Illinois.....	29,127,926	53,758,667	82,886,593	215
Indiana.....	5,688,500	40,768,400	46,456,900	72
Iowa.....	8,063,850	97,237,180	105,301,030	242
Kansas.....	11,847,617	24,607,141	36,454,758	140
Kentucky.....	28,170,921	52,776,655	80,947,576	166
Louisiana.....	9,553,198	34,307,936	43,861,134	120
Maine.....	3,748,000	13,533,800	17,281,800	37
Maryland.....	101,300	17,671,500	17,772,800	40
Massachusetts.....		1,556,000	1,556,000	3
Michigan.....	1,413,260	51,307,102	52,720,362	46
Minnesota.....	3,450,989	13,329,700	16,782,689	64
Mississippi.....	7,665,400	25,959,300	33,624,700	193
Missouri.....	11,587,640	32,667,195	44,254,835	185
Montana.....	2,506,000	3,723,500	6,229,500	25
Nebraska.....				
Nevada.....	131,499	3,266,390	3,397,889	6
New Mexico.....	2,327,383	4,277,900	6,605,283	43
New Hampshire.....	2,380,000	3,810,000	6,190,000	11
New Jersey.....		67,885,200	67,885,200	45
New York.....	2,933,000	69,087,365	72,020,365	85
North Carolina.....		26,074,723	26,074,723	35
North Dakota.....	2,804,800	23,440,100	26,244,900	47
Ohio.....	18,347,100	32,422,300	50,769,400	107
Oklahoma.....	5,235,950	15,280,930	20,516,880	122
Oregon.....	4,882,412	4,941,472	9,823,884	68
Pennsylvania.....	33,530,604	120,668,585	154,199,189	156
Rhode Island.....				
South Carolina.....	2,477,836	26,034,827	28,511,663	40
South Dakota.....	9,458,000	20,434,500	29,892,500	32
Tennessee.....	15,520,569	51,644,607	67,165,176	227
Texas.....	4,432,300	44,254,022	48,686,322	122
Utah.....	1,004,000	2,882,672	3,886,672	27
Vermont.....	1,093,000	1,250,000	2,343,000	4
Virginia.....	22,041,300	46,902,650	68,943,950	109
Washington.....	2,953,800	7,398,800	10,352,600	37
West Virginia.....	26,138,165	40,583,364	66,721,529	82
Wisconsin.....	6,908,457	9,000,358	15,908,815	93
Wyoming.....	4,767,350	4,271,450	9,038,800	35
Puerto Rico.....	736,000	15,653,000	16,389,000	17
Total.....	395,197,056	1,531,324,661	1,926,521,717	3,839

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

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

Farming is a highly capitalized industry. The 1977 Balance Sheet of the Farming Sector indicates that the total value of farm assets has increased from

\$315.2 billion in 1970 to \$670.9 billion as of January 1, 1977. Total farm debt for the same period rose from \$53.0 billion in 1970 to \$102.1 billion as of January 1, 1977. Owners equity improved from \$262.1 billion in 1970 to \$568.8 billion in 1977.

These figures point out the tremendous amount of capital that is used by producers as a group, but they are somewhat misleading when extrapolated to individual farmers, especially young farmers. This report indicates that farm debts, as a percentage of total farm assets have decreased from 17.3 percent in 1970 to 16.1 percent as of January 1, 1977. This may be an accurate reflection of the economic health of the farm sector, including those who have completely repaid their farm mortgage loans, absentee landlords with outside income and those who inherited their farms. However, this is not a true picture of the credit needs of a large segment of agricultural producers. Young producers who are building their farming and ranching enterprises into viable units must use large amounts of borrowed capital.

The December, 1976, issue of the Farm Credit Administration's "FCA Research Journal" contains a study entitled "Young Farmers: A Profile Analysis of Federal Land Bank Borrowers" which provides a more accurate picture of the financial position of agricultural producers. The study examined the composite of all Federal Land Bank (FLB) borrowers for 1975 excluding those with rural home loans, and compared that group to all young FLB borrowers (under 35) and all FLB and Farmers Home Administration (FmHA) combination borrowers, which includes young farmers under 35 and other farmers over 35. The FCA study indicates that the average debt of all FLB borrowers was \$165,000; that of young borrowers was \$164,000; the FmHA/FLB joint borrower average was \$124,000; and the average for FmHA/FLB subordination loan borrowers was \$126,000. These average ratio of debt to assets was 35 percent for all FLB borrowers, 41 percent for all young borrowers, 60 percent for FmHA/FLB joint borrowers, and 51 percent for FmHA/FLB subordinated loan borrowers.

According to the September, 1976, Agricultural Finance Databook, published by the Federal Reserve Board, the Farmers Home Administration provided funding for 7.8 percent of the outstanding farm real estate debt in 1970. By 1976 this figure had declined to 6.6 percent. We believe that this decline in loan share is explained in part by the increase in FmHA participation loans, the general strengthening of the farm economy during that period and the unavailability of FmHA farm ownership loan funds.

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

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

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

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

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

* * * * *

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

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

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

S. 312. A bill "To amend the Consolidated Farm and Rural Development Act," contains provisions which could correct several problems which encumber the present Farmers Home Administration lending programs.

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

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

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

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

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

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

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

We support these amendments.

The amendment to Section 333(b) would establish a procedure for appeal, review and possible reversal of determinations by FmHA County Committees. We recognize that this is an attempt to try to correct disparities and inequities among county committees. We are concerned that bypassing the county committees and investing the ultimate loan decision-making responsibility in state or federal officials could create an undesirable situation, which would not properly reflect the judgement 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 decision-making process.

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

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

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.

NATIONAL RURAL HOUSING COALITION,
Washington, D.C., October 14, 1977.

Re S. 2146

HON. JAMES B. ALLEN,

Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Senate Committee on Agriculture, Nutrition and Forestry, Washington, D.C.

DEAR SENATOR ALLEN: The Subcommittee on Agricultural Credit and Rural Electrification recently heard testimony on the cited bill. Unfortunately, we of the National Rural Housing Coalition (NRHC) were not able to testify in person. However, we feel that one issue raised by the bill deserves some comment and we request that this letter be made part of the record to reflect our concerns.

Most of S. 2146 is directed to farmer programs and we will leave comment on those provisions to others. We would, however, like to take this opportunity to strongly object to the provision in Section 4 of S. 2146 which would change the lending rate of the loans for water and waste disposal program from the present 5 percent to market rate. Such a move is regressive and will repress the economic development of the very rural communities who could have benefited from the program. Market rate prices for water, sewer, and solid waste loans will raise the price rural consumers must pay, for these basic services at a time when rural utility rates are already two to three times those of urban consumers. Further, raising the cost of FmHA loans forces the agency to violate Congress's own legislation by abandoning service to the smallest, neediest communities cited in the Rural Development Act, becoming instead a banker for the wealthier towns who alone can afford its services.

Thus the biggest loser under S. 2146 are the towns with real possibilities of economic growth but with low-income populations, and it is this group that FmHA is already having trouble serving under its 5 percent loan program. For example, in fiscal year 1976, FmHA did not fund any sewer systems in towns with median incomes below \$3,000 and awarded only 4 towns below \$4,000 median income. This wasn't because these communities didn't need the systems but because they couldn't afford to pay the cost of the current loan program.

The primary concern of the NRHC is directed to the improvement of housing conditions for low and moderate income rural people. It is obvious to us that getting that decent housing for rural people is dependent upon securing adequate water and sewer systems. There are currently some 30,000 communities with inadequate water facilities and almost 40,000 communities with inadequate sewage systems. The term inadequate may be somewhat misleading because this includes communities with no central systems at all. Most of the communities described above are small rural communities. In fact, the smaller the community the more likely it is to be drinking contaminated water and lacking sanitary waste disposal.

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

The present water and sewer loan and grant program administered by the Farmers Home Administration is one of the few resources available to rural communities to overcome the scourge of bad water. The loan provision of the

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

We were advised that the Administration indicated a willingness to increase the level of grants when necessary to take care of problems created by higher loan costs. However, only last week in testimony presented in the rural housing hearings on S. 1150, chaired by Senator Morgan, the Administration opposed increasing the level of water and sewer grants for rural communities so that they would be comparable to urban wastewater grant programs. Therefore, what S. 2146 represents is one fundamentally anti-rural policy of the Administration.

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

We are alarmed and saddened by the FmHA water and waste loan provision in S. 2146 and the policy it represents. We urge the committee to reject this onerous provision.

Sincerely yours,

WILLIAM POWERS,
Vice Chairman.

○