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REAUTHORIZATION OF FmHA LOAN PROGRAMS
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HEARING

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 985

A BILL TO AMEND THE CONSOLIDATED FARM AND RURAL
DEVELOPMENT ACT

APRIL 24, 1979

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



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(II)

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REAUTHORIZATION OF FmHA LOAN PROGRAMS

TUESDAY, APRIL 24, 1979

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 9:30 a.m., in room 324, Russell Senate Office Building, Hon. Donald W. Stewart, presiding.

Present: Senators Stewart and Zorinsky.

STATEMENT OF HON. DONALD W. STEWART, A U.S. SENATOR FROM ALABAMA

Senator STEWART. Mr. Secretary, we are happy to have you testify this morning on behalf of Farmers Home Administration and their programs. Senator Zorinsky was supposed to be here this morning, but he was checking out the farm programs in China to find out how to improve the situation over there. His prepared statement will be inserted in the record.¹

If you will, you may proceed with your testimony; then I have some questions that the committee wanted to ask, and I will be glad to submit those to you.

STATEMENT OF HON. ALEX P. MERCURE, ASSISTANT SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. MERCURE. Senator Stewart, I appreciate the opportunity to appear before you. You are going to hear much of the same sort of things that you have heard before. You have a copy of my testimony which was submitted. I would ask it be introduced into the record, and then I would like to summarize it briefly, so we can get on with the questions.

Senator STEWART. That will be fine. Without objection, your statement will be made a part of the record, and you may go ahead and give your summary.¹

Mr. MERCURE. We have submitted some suggested language to amend the Consolidated Farm and Rural Development Act, as required by section 346 of the act. The Secretary, Bob Bergland, presents this as the administration's preferred language in the legislation.²

¹ See p. 11 for the prepared statement of Senator Zorinsky and p. 16 for the prepared statement of Secretary Mercure.

² See p. 12 for a copy of S. 985 and p. 16 for the staff explanation of S. 985.

The Congress, particularly in the past 15 years, has placed more and more responsibility upon the shoulders of the Department of Agriculture for providing financial, technical, and information assistance to farmers, other rural families, and rural communities in situations where they cannot turn to other acceptable sources of assistance. We are going to be talking about that today. I think it is important to note that the role of the Department is to emphasize for rural families, farmers, and communities, whether assistance is or is not available on reasonable terms. These responsibilities currently include administering 36-separate loan and grant programs, and they fall into four general categories: Farming, housing, community facilities, and guaranteed business and industry loans made by private lenders for the development of businesses in rural and smalltown areas.

The complications of such an expanded responsibility require the Department and Farmers Home Administration to develop a distribution system which in our view is probably the most comprehensive that exists for assistance to citizens of this country in rural communities, the primary purpose of which is to improve the quality of life, to expand employment, and income opportunity, and generally to make available to rural residents acceptable levels of public services in rural areas. In that context, I think there has been a tremendous improvement in the past several years in the condition of life in small towns in this country, and we are submitting the legislative language to you in continuing support of that effort to provide assistance to smalltown America, and in terms of the 1980 submission, it represents a level which is consistent with the President's interest in maintaining and reducing the Federal deficit, but it also is consistent, in our view, in terms of maintaining the basic thrust of development which the Congress authorized the Department and expects the Department to fulfill its responsibilities in that respect.

There are some basic elements of the program which are maintained at the same level, some which are being reduced somewhat, and we can get into the specifics of that, if you like. We would appreciate the support of the committee in the administration's recommended levels of funding.

Senator STEWART. If you are through with your statement, I will ask you some questions.

The loan levels sent forward in your request bill stay constant for the 3-fiscal years involved. Do you think it is realistic to consider no increases in these loan programs at this time?

Mr. MERCURE. Well, I guess one could say it is probably not particularly realistic in one respect. On the other hand, looking ahead to what is likely to happen in the economic situation, for example, it is a very difficult process and at present we think that straight line funding probably is realistic. We are looking forward to fairly significant improvement in the farm income and general economic conditions for agriculture, and the evidence that we look at in the Department gives us some cause for optimism. We think that we will see an unprecedented level of use of feed grains, for example.

The livestock industry is healthy. All of those contribute to improving the general economic well-being of smalltowns in this country, because it is that kind of cash flow in communities that generally improves the economic condition. The deposits go up, the tax base of

the community improves, so for the next 3 years I think our most critical problem is not economic growth, but, rather, the problems that economic growth bring about, which is called, in today's jargon, inflation.

Senator STEWART. You have a tremendous backlog in your farm ownership and farm operating loan programs and the demand on your rural development loans is increasing. By recommending that your loan amounts stay constant over 3 years, you are actually decreasing the program levels, in fact, when that kind of thing is taking place.

Mr. MERCURE. To the extent that inflation reduces the number of units, for example, in water and sewage systems and the price of land, for example, that does reduce the number of families and communities we can help. On the other hand, the pressure on our loans probably is as directly related to the tightness of money that currently prevails as anything else, and we find that sometimes, as in today's case, we will be lending \$4½ billion probably by the end of the year in combination with emergency loans, disaster loans, and operating loans and farm ownership loans, and one would hope that that backlog of emergency loan followup that is responsible for that tremendous size can somehow be reduced over the next couple years.

You have to remember that we are still lending for the 1977 large disaster lending program because our borrowers are eligible to come back for subsequent loans for a period of 5 years, I believe, or 6.

Senator STEWART. You mean despite the improvement in the farm economy and the great amount of income that has been received by the farmers, the increases, you all are still making loans? That is sort of a dichotomy there.

Mr. MERCURE. Yes, it is, but in 1977, when we had that tremendous natural disaster, combined drought and flooding, we made 5-percent disaster loans for losses and cost-of-money loans for the other part of the disaster loan. What happens is that those farmers are eligible to come back again for subsequent loans and those are at cost-of-money rates. Well, our cost-of-money rate at 9½ percent today is still significantly better, for example, than it is in the private sector, so people that have borrowed from us and know they are entitled to apply again will return because there is an economic incentive for them to return, even though the Federal Government cost-of-money rate is being applied at that point.

About 75 percent of our current disaster lending is at the cost-of-money rate, as I understand.

Well, I am informed it is about two-thirds.

Senator STEWART. When the Agriculture Credit Act was considered in 1978, one of the justifications given by the administration for raising the interest rate to the cost-of-money level was in order for you to be able to justify asking for increased loan authorization. Now you are telling me you are at the cost-of-money rate, and yet you all want to keep things at a constant level. That is sort of like other things this administration does—says one thing and does another. Is there some reason for that or some justification for that?

Mr. MERCURE. No, it isn't quite true. If I may respond, when we changed the loan rates and included the flexible rate for small farmers and new farmers, we had a farm ownership loan level of \$550 million.

When the interest rate changed, the loan level went to \$800 million, so there was a very significant increase in the loan levels at that time.

Senator STEWART. You are not asking for any increases now?

Mr. MERCURE. For now we are saying we think \$879 million is a level at which we are to maintain our regular farm ownership loans, which represents better than a \$300 million increase from the time of the interest increase.

Senator STEWART. In the real estate loan category, you don't allow any moneys for either the watershed protection and flood prevention loan program or the resource conservation and development loan program; is that correct?

Mr. MERCURE. We are asking for \$60 million for water development, use, and conservation loans.

Senator STEWART. How about watershed protection and flood prevention loans, the R.C. & D. moneys?

Mr. MERCURE. In the R.C. & D. moneys, there is nothing in the farm home loan programs.

What is the figure on that?

It is \$20 million.

Senator STEWART. The staff wants to know if it shows up in total in the bill which you submitted.

Mr. MERCURE. It is in the \$879 million.

Senator STEWART. It is included in there? Is that the answer?

Mr. MERCURE. It is in the \$879 million.

Senator STEWART. There are a couple other questions I have here, and then Senator Zorinsky has come in, and I want to give him an opportunity to ask some questions, or take over because I have to go to the Banking Committee.

Senator Talmadge recently wrote a letter to Secretary Bergland expressing concern about shortages of operating loan money. One of the problems, apparently, was too much reliance on the economic emergency loan program, and now we are hearing from producers who can't get operating loan money and who don't qualify for economic emergency loans. Have you taken any steps to remedy this situation?

Mr. MERCURE. What have we done on that?

Mr. CAVANAUGH. First, it might be worth noting—

Senator STEWART. Identify yourself, please.

Mr. CAVANAUGH. Gordon Cavanaugh, Administrator, Farmers Home Administration.

I would like to report to the committee that for the first 6 months of this year we have already lent in the various farm credit programs \$4 million, so to put that in perspective, in fiscal 1978 the total was \$5 million, which was twice the amount that was ever lent during any 1 year for farm credit in the history of the agency.

Senator STEWART. That was due to the disaster, is that not correct? That is not something that happened as a result of administrative activity, other than the fact you just answered that request.

Mr. CAVANAUGH. I would say in the current year, we have obligated \$1.5 billion in the economic emergency program which is a program independent of natural disaster. We feel that the significant part of the operating credit needs are being met in that program, as well as in the large coverage we now have in the emergency disaster program, both current applicants and those who are entitled to run on operating

credit, as Secretary Mercure described a few minutes ago. There is no question we had a very heavy draw, as well, on the operating loan program and the backlogs are fairly significant there.

We have instructed our field staff to try to redirect those applicants into the economic emergency loans where we do have significant remaining authorization for loans. The main area that would not be covered by those would be farmers who had not previously been in business before the adoption of the Economic Emergency Act, and, second, the major additions to real estate which are not covered by the credit under the Economic Emergency Act.

By the way, we made some special efforts with our staff, to try to utilize the guaranteed authority we have in the operating program. We still have some remaining guaranteed operating loan authority.

Senator STEWART. At the present time?

Mr. CAVANAUGH. Yes, sir.

Senator STEWART. In connection with that guaranteed authority, we have reports of a tight credit situation in the countryside and reports have been received about difficulties being experienced in getting lenders to participate in the ownership and operating loan programs. You only ask for modest levels for guarantees. How does this square with your statement about local private lenders increasing their use of guarantees?

Mr. MERCURE. Are you asking Gordon?

Senator STEWART. Either one.

Mr. CAVANAUGH. The guaranteed authorities for ownership and operating have not been broadly used this year. We are making some very special efforts to see that the amounts earmarked by Congress last year are in fact utilized. We are going to take some very aggressive steps to see the full authorization is used.

I think one of the problems is that many of our farmers are of very limited incomes and the interest rates that are available under the guaranteed programs are quite high and many of them cannot carry credit with the extraordinary rates that prevail. We have had more success with guaranteed lending in the economic emergency program, where we tend to deal with a slightly larger sized farm, and I think the fact is we are more successful there. In any case, some of the larger sized farmers could readily use guaranteed loans.

Mr. MERCURE. The guaranteed loan program had not been a normal part of our lending process. This year we signed an agreement with the Farm Credit Administration to make better use with them of both participations and guarantees, and I think to that extent we make credit more available, but, as Gordon points out, the rate of interest on that, they use a variable rate of interest, so it fluctuates up or down, depending on what the private money market is, and it tends to be a couple points higher than the cost-of-money rates that Farmers Home makes on direct loans.

Mr. CAVANAUGH. I would add one thing in addition to that, we have held meetings with representatives of American Bankers Association, and the Independent Bankers Association, to review with them any problems they see which might be the result of the Farmers Home programs or activities. Representatives of both those organizations feel we have good instructions, that we are handling the program well, that there are reasons, other than our performance, that contribute to that.

Senator STEWART. What are they?

Mr. CAVANAUGH. They say that, one, it is a new program in that it was improved significantly by the Agricultural Credit Act of 1978, that the banks have not yet become fully familiar with the new aspects of the program.

Senator STEWART. So it is just an educational process?

Mr. CAVANAUGH. Right, and we have worked with them in developing a handbook for all bankers that describes the guaranteed lending programs processing and servicing requirements. That book is now in print and has had a wide distribution. Substantial orders have been put in and it is expected that will help familiarize the banking community with the workings of the program.

Senator STEWART. When did you get your instructions out?

Mr. CAVANAUGH. Well, on the economic emergency program, which has a guaranteed feature, the instructions were out within several days of the signing of the legislation; that is, last September. We had to work with temporary instructions on the other programs for several months.

The final instructions were completed in mid-February. However, the field did have some interim instructions under which they could have worked.

Senator STEWART. When you say "the field," you are talking about your folks at your offices around the country?

Mr. MERCURE. County supervisors.

Senator STEWART. But you got some initial instructions in the economic area out in September and the field instructions were out prior to that time? Mid-February you got the other instructions out?

Mr. MERCURE. Yes, sir.

Senator STEWART. Maybe that is the reason it creates the problems with the folks in the South, that the instructions got there a little late. Apparently that is what some of the difficulties are that they have experienced.

Who else, other than Farmers Home, is active in water and sewer lending and how much money is involved in providing communities and, in your opinion, is it satisfying the demands?

Mr. MERCURE. We have a major study underway right now to evaluate what the potential total demand is, but EDA provides water and sewer loans. EPA provides significant sewer grants; HUD provides some, and there are some Community Development moneys, but I don't know what the number is, but in the water and sewer treatment program I believe that EPA is spending in communities that would be our clients for a sewer treatment process something in the neighborhood of \$2 million.

Mr. CAVANAUGH. You have some States, such as Alabama, that uses its general revenue-sharing moneys to support some of those projects.

Senator STEWART. So it is a combination of money?

Mr. MERCURE. That is right. Almost invariably, we will find that where we are involved in, particularly in sewer projects, there will be State agency and a couple other Federal agencies involved. Most of the other Federal agencies involved, their involvement is, or a great deal of it is, grant money.

Senator STEWART. You are still approving facilities just to meet the needs of the areas that are served by your systems or are you

trying to tie them into other systems? What I have seen in the past is where they include systems that have a 6-inch line and might need an 8-inch line later.

Mr. MERCURE. We are doing a great deal more of this regional planning, together with other agencies. Recently we were reviewing some in New York, for example, and there we had for whole townships a great deal more of the expanded growth which was being considered as we planned with communities for their domestic water systems and sewer systems.

Senator STEWART. Do you have a backlog on applications for water and sewer systems?

Mr. MERCURE. We have a backlog in every one of the Farmers Home programs.

Senator STEWART. Those, in particular, what is the backlog?

Mr. CAVANAUGH. About \$1.2 billion. Water and waste disposal loans, the current backlog is about \$1.2 billion.

Mr. MERCURE. It should be noted that the \$1.7 billion is preapplications and applications. Some of those will take quite some time for the engineering and application process to come through, but that is about the size of the pipeline—

Mr. CAVANAUGH. Some may be counted ineligible.

Senator STEWART. What are you asking for?

Mr. MERCURE. We are asking for a billion dollars in water and sewer.

Senator STEWART. I will ask one provincial question. You all handle the feed grain storage program?

Mr. MERCURE. No.

Senator STEWART. Who does that?

Mr. MERCURE. The CCC, Commodity Credit Corporation.

Senator STEWART. What is the interest rate on that now?

Mr. MERCURE. I believe that is cost of money.

Senator STEWART. When did it go to cost of money?

Mr. MERCURE. Two years ago.

Why don't I try to answer that for the record?

[Secretary Mercure submitted the following answer:]

The Commodity Credit Corporation (CCC) currently loans money at an interest rate equal to the cost of money. This rate was established by the Food and Agriculture Act of 1977.

Senator STEWART. It has been pointed out you are asking for \$700 million in insured water and sewer facilities.

Mr. MERCURE. For the loans.

Senator STEWART. Yes, and the grant program raises it to?

Mr. MERCURE. The request is \$265 million for grants, for a total of \$965 million for the water and sewer program.

Senator STEWART. Senator Zorinsky.

Senator ZORINSKY. Thank you, Senator.

I would like to thank my colleague, Senator Stewart, for on very short notice, assuming the chairmanship.

Senator STEWART. I will allow you to take the Chair now.

I hope you enjoyed your trip. I told them you were over there checking out the farm problems.

Senator ZORINSKY. I think there were enough of us over there to have a joint session of Congress.

I would like to ask you about your opinion about the additional requests being made of your agency concerning financing. What degree is inflation and what degree is service increases? In other words, the general public sees a dollar value going up. Is this because of an increase of individual loan clients or because a sewer installation or utility costs more to construct because of inflation?

Mr. MERCURE. There has been a tremendous runup, because of inflation, in costs of virtually any construction. Fortunately, EPA recently—within this past year—under considerable urging by the President and the White House, has relaxed some of the provisions for small town sewage systems, which tends to reduce the cost, and they have provided for more flexible application for small town sewage systems, but inflation continues its inexorable march.

The other fact is that there is an increasing demand. Communities are having, because of requirements as established by Congress and regulatory agencies, to upgrade their sewage systems, and the community water systems, and both are related to the continuing growth of rural communities, where the growth patterns of small communities, generally, in this country are exceeding the rate of urban growth by about a factor of two, and there are about 600 counties which are not growing at that rate or are holding pretty still, so the demands for expanded water systems and expanded sewage capacity is related both to the growth of the community, the new communities that are having to put their systems in process and the inflation factor.

Senator ZORINSKY. Do you feel sufficient attention is given to long-range planning of utility systems? In other words, the cost of construction of a rural utility can be reduced if future needs are adequately planned. I know a lot of times the projected long-range use of a system determines which system one should construct. I know as mayor of a city I was confronted with the fact that as growth occurred we had wider diameter sewage pipes going into narrow diameters, and of course, any system is only as good as its smallest diameter.

Mr. MERCURE. That is right. We have from time to time run into problems, particularly in the water system, where we are constrained to work only for domestic water purposes. So there is some growth in the community water system. The result is if an industrial facility is located in a community, all of a sudden the facility is too small. That is one of the very important reasons why the joint agreements that have been urged by the White House, and in which we fully participated and encouraged, will help us because then our domestic facilities authority, coupled with EDA, HUD, and EPA, can permit us to engineer for that growth in the future, so we don't end up squeezing a big volume into a small-sized pipe.

Up until a couple years ago, there was considerable pressure on our people out in the field to engineer as close to the current population level as possible, and the result was that we did have some systems that were underengineered. I think increasingly that is less of a problem.

Am I about right on that, Dwight?

Mr. CALHOUN. Yes, sir, I think so. Our regulations are broad enough, Senator, that they can design in all of the capacity that you can really finance a system for. In other words, we have no limitation on what size line has to be there. We encourage them to build in for growth, to the extent that a feasible system can be developed.

Senator ZORINSKY. I see. Thank you.

Mr. MERCURE. The joint agreement is very important for us in order to be able to accomplish among the several agencies what each of us by ourselves would be very constrained to do.

Mr. CAVANAUGH. We have some legislation that we believe will come before the committee, but hasn't arrived yet, that would slightly change the language in the community programs to allow for systems that primarily serve residential users and the change would be to primarily benefit residential users, would give us a little more latitude in sewage systems that had industrial usage. We have just restructured our field offices and our district offices, they now handle the water, waste and other waste programs on substate planning district lines to bring us closer, to be able to utilize the local planning that is going on.

Senator ZORINSKY. Do you take into account the flood plain zonings of counties and municipalities?

Mr. MERCURE. Yes; we are very concerned, as the Secretary articulated, about appropriate land use, and I know that is kind of a loaded word, but we don't want to contribute unnecessarily to urban sprawl, we don't want to contribute to the elimination of productive agricultural land unnecessarily.

One of the other kinds of problems we run into is that you get an incorporated city and outside the boundary is a rural area which is eligible for our system, and the amendment that Gordon described permits us to work in such a way that we can utilize resources that are in the incorporated city to serve a rural area, so we don't have to duplicate investments, and that has been a problem we have had before.

Senator ZORINSKY. You are to be commended for your perseverance in this area because utilities and sewers aren't a very dramatic or politically awe-inspiring thing to talk about or to pursue to benefit the people that you are trying to help. Having returned from the People's Republic of China yesterday and having asked them about their sewage systems, I am led to believe that we Americans take our utilities for granted to a great extent. I say this especially since when I asked where the men's room was on a commune, they showed me a hole in the ground. It is certainly a tribute to you to be able to continue to serve the people that you have and constantly strive to improve the service that is available.

I am told that a recalculation of the figures for farm real estate loans does show that watershed protection and flood prevention loans and resource conservation and development loans are not included.

Mr. CAVANAUGH. Senator, I would like to introduce William Noll, who is the budget director for the Farmers Home Administration, and he will clarify some answers we gave to earlier questions.

Mr. NOLL. The breakdown of the \$879.6 million is, as stated, \$800 million for farm ownership loans and then the \$60.5 million referred to for water development use and conservation loans breaks down, \$7.4 for irrigation and drainage, and \$53.1 for soil and water loans to individuals, leaving a remainder of \$19.1, which roughly equates to the R.C. & D. items, which we assumed were included in the \$879.6.

The breakdown for the remaining \$19.1 million is \$2.4 for recreational loans to individuals, \$4.8 for grazing, and \$11.9 for Indian tribe land acquisition loans.

Senator ZORINSKY. Thank you for clarifying the record.

As you explain in your breakdown concerning the programs, is it your desire to have those two programs—

Mr. MERCURE. You mean the resource conservation and development loans?

If they are not included in our budget, the answer is no.

Mr. NOLL. They are in the budget, Mr. Secretary, but they are not covered by the Consolidated Farm and Rural Development Act.

Senator ZORINSKY. The figures don't show up in your loan authorization, but they do show up in the budget figure?

Mr. MERCURE. The Watershed Protection Act is in the budget request as one of the programs of our agricultural credit insurance fund. However, the watershed loans are not covered by the Consolidated Farm and Rural Development Act.

Mr. CAVANAUGH. Senator, I suggest we work with the staff and iron that out.

Senator ZORINSKY. Fine. I would appreciate your working with our staff to clarify which programs are covered in the request bill.

Mr. MERCURE. We will.

Senator ZORINSKY. So we are on the same wavelength. I would request you do that.

There being no further witnesses, thank you very much for your testimony.

Mr. MERCURE. Thank you, Senator.

Senator ZORINSKY. It should be understood that the record will remain open for 10 days in the event that other individuals or organizations desire to provide testimony for the record.

[Whereupon, at 10:15 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Good morning. The Subcommittee on Agricultural Credit and Rural Electrification is meeting this morning to hear testimony from Assistant Secretary Alex Mercure on the appropriate levels of lending for several Farmers Home Administration programs.

As you know, Congress acted last year to amend the Consolidated Farm and Rural Development Act, by revising and extending several credit assistance programs for farmers and ranchers, as well as rural communities. One of the major changes implemented by the Agricultural Credit Act of 1978 was the addition of a new section requiring the establishment of lending limits for FmHA programs.

Section 346 of the act provides that Congress must authorize every 3 years separate lending limits for FmHA direct and insured loans and for guaranteed loans. Overall lending limits for real estate, operating and emergency loans must be established for the 3-year period beginning on October 1, 1979.

Yesterday Chairman Talmadge introduced S. 985, at the Administration's request. The bill sets forth the proposed lending limitations for fiscal years 1980, 1981 and 1982. Secretary Mercure is here to explain and to present the Administration's views on these proposals.

(11)

Calendar No. 180

96TH CONGRESS
1ST SESSION**S. 985**

[Report No. 96-168]

To amend the Consolidated Farm and Rural Development Act.

IN THE SENATE OF THE UNITED STATES

APRIL 23 (legislative day, APRIL 9), 1979

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

MAY 15 (legislative day, APRIL 9), 1979

Reported by Mr. ZORINSKY, with an amendment

[Strike out all after the enacting clause and insert the part printed in italic]

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 346 of the Consolidated Farm and Rural Devel-~~
4 ~~opment Act (7 U.S.C. 1994) is amended by inserting "(a)"~~
5 after "~~SEC. 346.~~" and adding a new subsection (b) as
6 follows:

1 “(b)(1) Loans for each of the fiscal years 1980, 1981,
2 and 1982 are authorized to be insured, or made to be sold
3 and insured, or guaranteed, under the Agricultural Credit In-
4 surance Fund as follows:

5 “(A) real estate loans, \$870,600,000, including
6 \$800,000,000 for farm ownership loans of which
7 \$750,000,000 may be for insured loans and
8 \$50,000,000 may be for guaranteed loans with author-
9 ity to transfer amounts between such categories and
10 \$60,500,000 for water development, use, and conser-
11 vation loans of which \$54,500,000 may be for insured
12 loans and \$6,000,000 may be for guaranteed loans
13 with authority to transfer amounts between such
14 categories;

15 “(B) operating loans, \$700,000,000, of which
16 \$675,000,000 may be for insured loans and
17 \$25,000,000 may be for guaranteed loans with author-
18 ity to transfer amounts between such categories; and

19 “(C) emergency insured and guaranteed loans in
20 amounts necessary to meet the needs resulting from
21 natural disasters.

22 “(2) Loans for each of the fiscal years 1980, 1981, and
23 1982 are authorized to be insured, or made to be sold and
24 insured, or guaranteed, under the Rural Development Insur-
25 ance Fund as follows:

1 “(A) insured water and sewer facility loans,
2 \$700,000,000;

3 “(B) industrial development loans,
4 \$1,000,000,000, of which \$50,000,000 may be for in-
5 sured loans and \$950,000,000 may be for guaranteed
6 loans with authority to transfer amounts between such
7 categories; and

8 “(C) insured community facility loans,
9 \$250,000,000.”.

10 *That section 346 of the Consolidated Farm and Rural Devel-*
11 *opment Act (7 U.S.C. 1994) is amended by inserting “(a)”*
12 *after “SEC. 346.” and adding a new subsection (b) as fol-*
13 *lows:*

14 “(b)(1) Loans for each of the fiscal years 1980, 1981,
15 and 1982 are authorized to be insured, or made to be sold
16 and insured, or guaranteed, under the Agricultural Credit
17 Insurance Fund as follows:

18 “(A) real estate loans, \$1,615,000,000, including
19 \$1,500,000,000 for farm ownership loans of which
20 \$1,400,000,000 may be for insured loans and
21 \$100,000,000 may be for guaranteed loans with au-
22 thority to transfer amounts between such categories,
23 and \$100,000,000 for water development, use, and
24 conservation loans of which \$90,000,000 may be for
25 insured loans and \$10,000,000 may be for guaranteed

1 *loans with authority to transfer amounts between such*
2 *categories;*

3 *“(B) operating loans, \$1,200,000,000, of which*
4 *\$1,150,000,000 may be for insured loans and*
5 *\$50,000,000 may be for guaranteed loans with author-*
6 *ity to transfer amounts between such categories; and*

7 *“(C) emergency insured and guaranteed loans in*
8 *amounts necessary to meet the needs resulting from*
9 *natural disasters.*

10 *“(2) Loans for each of the fiscal years 1980, 1981, and*
11 *1982 are authorized to be insured, or made to be sold and*
12 *insured, or guaranteed, under the Rural Development Insur-*
13 *ance Fund as follows:*

14 *“(A) insured water and sewer facility loans,*
15 *\$1,000,000,000;*

16 *“(B) industrial development loans,*
17 *\$1,500,000,000, of which \$100,000,000 may be for*
18 *insured loans and \$1,400,000,000 may be for guaran-*
19 *teed loans with authority to transfer amounts between*
20 *such categories; and*

21 *“(C) insured community facility loans,*
22 *\$500,000,000.”*

STAFF EXPLANATION OF S. 985

S. 985 would amend the Consolidated Farm and Rural Development Act (which provides loan programs for farmers and rural communities) to meet the requirements of section 346 of the Act that lending limits be set periodically for the loan programs under the Act. Section 346 provides (i) that beginning October 1, 1979, overall lending limits must be established for the programs under each subtitle¹ of the Act every 3 years and (ii) that two amounts must be established for each loan program under the Act—one against which direct and insured loans will be charged, and one against which guaranteed loans will be charged. The Secretary of Agriculture is given authority in S. 985 to transfer amounts between such categories within a program for more effective administration.

S. 985 would add a new subsection (b) to section 346 providing overall lending limits for the initial 3-year period—during fiscal years 1980, 1981, and 1982. The limits would be set as follows:

(1) For loans for each of the fiscal years 1980, 1981, and 1982 under the Agricultural Credit Insurance Fund:

(A) Real estate loans, \$879.6 million, including \$800 million for farm ownership loans—of which \$750 million would be for insured loans and \$50 million for guaranteed loans—and \$60.5 million for water development, use, and conservation loans—of which \$54.5 million would be for insured loans and \$6 million for guaranteed loans.

(B) Operating loans, \$700 million (of which \$675 million would be for insured loans and \$25 million for guaranteed loans); and

(C) Emergency loans: Amounts necessary to meet needs resulting from natural disasters; and

(2) For loans for each of the fiscal years 1980, 1981, 1982 under the Rural Development Insurance Fund:

(A) Insured water and sewer facilities loans, \$700 million.

(B) Industrial development loans, \$1,000 million (of which \$50 million would be for insured loans and \$950 million for guaranteed loans); and

(C) Insured community facility loans, \$250 million.

STATEMENT OF HON. ALEX P. MERCURE, ASSISTANT SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

The significant changes taking place in America's growth and development patterns require that appropriate Members of the Congress and the executive branch meet regularly for discussions such as you plan to hold today.

I am pleased, therefore, to have the privilege of representing the Administration in such a discussion—this time concerning a bill "To amend the Consolidated Farm and Rural Development Act," as required by section 346 of that Act, that the Administration recently submitted to the Congress.

Secretary of Agriculture Bob Bergland has provided to the Senate and House suggested language, in draft form, of such possible legislation. The Administration favors and supports this language.

The Congress, particularly in the past 15 years, has placed more and more responsibility upon the shoulders of the U.S. Department of Agriculture for providing financial, technical, and information assistance to farmers, other rural families, and rural communities in situations where they cannot turn to other acceptable sources of assistance. I'm prepared to talk today about responsibilities you have given, over time, to Farmers Home Administration (FmHA).

These responsibilities currently include administering 36 separate loan and grant programs. These fall into four general categories—farming, housing, community facilities and FmHA guaranteed business and industry loans made by private lenders—all in rural and smalltown areas.

When Congress passed the "Rural Development Act of 1972," it gave the Department clearcut responsibility for Federal programs in nonfarm rural America. This action plunged the Department into a highly complex climate.

Revolutionary changes were underway in many rural communities.

Beginning in the 1960's, we began to see a slowing of the decades-long out-migration of millions of people from rural and smalltown areas to urban centers in search of employment and a better life.

¹The Act has 3 subtitles authorizing loans: subtitle A—real estate loans; subtitle B—operating loans; and subtitle C—emergency loans.

By the early 1970's, this migration pattern had been reversed. More people were moving into rural areas than were leaving them.

As early as 1975, according to a census report, 6.2 million people—one person in eight, five years old and older, in U.S. nonmetro areas—had moved there from a metro area since 1970.

This movement of urban people into rural America continues today. The movement is accompanied by unprecedented growth of job producing business, industry and service enterprises in nonmetro regions. This is the most visible part of rural development, and it is a process that represents the most significant change in the Nation's growth pattern since the industrial, communication and agricultural revolutions that had their roots back in the last years of the previous century.

This movement has the potential to bring to rural areas tremendous benefits. Rural non-farm job opportunities, for instance, are already increasing twice as fast as urban jobs. On the other hand, if rural development is not used creatively, it may bring to these areas much agony. The Congress and the Executive Branch wear heavy responsibilities in helping the people of nonmetro regions ensure that rural development contributes to sound and balanced community development.

To complicate matters, this new growth is not universal throughout the nation. Six hundred of the nation's 3,100 counties (1977) are still experiencing a net outmigration of people.

No one knows how long this trend will continue. Nor do we know the degree and tempo of future trends.

This complicates the planning process at both ends of Pennsylvania Avenue.

Also we need to recognize that rural areas continue to lag behind metro areas in access to health care, family income, wage levels and adequacy of housing and community facilities. Indeed, this persistent problem, rather than the new trend of rural growth, gave rise to the Rural Development Act.

The wisdom of the Congress, over the years, in providing the machinery, resources and guidance for helping farm and other rural families plus rural communities cope with the problems and opportunities of this new era is indeed profound.

We are using these tools to:

- Help farm and other rural families increase their level of income and job opportunities;

- Provide rural and smalltown residents with the opportunity to enjoy a decent home in an acceptable environment and needed facilities in their neighborhoods and communities;

- Enhance the common good by helping rural families, institutions and communities at the lower end of the economic ladder enter the mainstream of American life;

- Create and carry out a process for involving the private sector and appropriate agencies at all levels of government in rural policy development and implementation; and

- Improve the capacity of rural people and their public and private institutions to participate more fully in decisions affecting their economic and quality of life opportunities.

The extent of the use made of our programs by rural people, institutions and communities is a testimonial to the awareness of the Congress not only of the old persistent problems but also the crucial new needs that have surfaced in rural areas.

Farmers Home Administration, for instance, in fiscal year 1978 made 288,000 loans and grants as contrasted to only 190,000 in fiscal year 1971.

Over the years, since the agency was established in 1935 to September 30, 1978, FmHA has made 8.1 million loans and grants totaling \$58.7 billion. Yet \$11.1 billion of these loans and grants—nearly 20 percent—were made in fiscal year 1978.

As late as fiscal year 1971, FmHA loans and grants totaled only \$2.4 billion—less than one-fourth the fiscal year 1978 investment made by the agency in rural areas.

Members of the committee are aware of the workload that today's FmHA staff is carrying.

On July 1, 1971, FmHA had 7,638 fulltime employees. On that same date in 1978, its fulltime staff had increased by 37 people, making a total of 7,675.

Yet during these same years, the caseload carried by that staff had increased from 555,693 to 1,148,062 loans outstanding. And the outstanding dollars to be collected, with interest, had increased from \$7.9 billion to \$27.4 billion.

If time permits, I'd be glad to answer questions later as to what FmHA is doing through restructuring the agency and using electronic automation to help staff handle this vastly expanded workload.

FmHA loans and grants during the current fiscal year may reach as high as \$15 billion, mostly because of a sharp escalation in the level of disaster and economic emergency loans being made by the agency.

While there is no satisfactory way to calibrate and measure the total contribution FmHA programs have made to the Nation's overall well-being during its 45 years of service, certainly its investment in rural America has played a major role in the characteristics one finds there today.

For instance:

The Bankhead Jones Bill passed in 1937 created the agency's Farm Ownership loan program. Since that time 260,000 (as of September 30, 1978) such loans have been made. In short, one U.S. farm in ten has been partly or totally under ownership by a family that would not have been able to finance the purchase without the help of the agency.

The Nation's basic Housing Act was amended in 1949 to permit FmHA to make rural housing loans. Since that time, it has financed nearly 746,000 new single family homes and around 163,000 rural apartment units, making a total of better than 900,000 new home units (as of September 30, 1978). This is approximately one home out of every 25 in rural areas. Besides, FmHA is currently financing about one out of every five homes new under construction in nonmetro areas.

Over time, Farmers Home Administration has financed installation, expansion or modernization of an estimated 11,298 water and/or sewer systems for rural and smalltown communities.

These and many more contributions to the common good reflect a high yield return on the investment resources you have mandated for rural America.

FmHA's annual investment in rural regions has moved sharply upward because:

First, Congress has consistently and progressively increased the scope and level of programs assigned to the agency.

Second, inflation has caused the level of most loans and grants to increase. Between 1971 and 1978, for example, the average FmHA farm real estate loan increased from \$10,000 to \$45,000 and the average modest rural home loan escalated from \$13,000 to \$24,000. All other programs have shown similar increases.

And third, the demand for loans and grants has mushroomed for many reasons. The strain put on many rural communities by a significant acceleration in the rate of growth is one of them.

Many rural communities simply do not have the tax base, credit capability or other resources needed to provide the community facilities and services, including homes, required by the current inflow of people and industries. Credit, in ample amounts, is often unavailable to them. They have difficulty selling their bonds. And they often have trouble financing water systems and EPA mandated sewers and waste treatment plants.

Farmers hit by economic and weather emergencies have come to FmHA in increasing numbers for assistance.

Local private lenders are increasing their use of Farmers Home Administration to guarantee loans made by them for business, industrial and other purposes. The agency is also sharing more loans with private lenders.

And as we increase our outreach to the most needy rural Americans, the rural poor and the aged plus minorities are coming to FmHA in ever increasing numbers for financial assistance.

This is the moving, changing, dynamic and unpredictable climate in which Farmers Home Administration today operates.

It is this climate that causes the agency grave discomfort in spelling out its specific predictions as to its need for new, reduced or expanded programs more than one fiscal year in advance.

It is this climate that caused the Administration to suggest the same level of FmHA programs for 1980, 1981, and 1982 in the draft legislative proposal which you have before you today.

The Department of Agriculture suggests that the legislation may be amended a year from now so as to reflect more accurately its needs for 1981.

It is difficult at this time to accurately predict the overall status of the Nation's economy two and three years from now. Rural needs may be much different than they are today. To what extent will the present effort to control inflation

succeed? Will business, industry and service enterprises continue to expand rural job opportunities in the years just ahead? What about the needs of agriculture in 1981 and 1982?

Indepth shortrange and longrange planning by FmHA and other Executive Branch agencies goes on continuously. But administrators, in fluid times like these years, believe it to be unwise to make firm program level commitments more than 12 to 18 months ahead concerning conditions and needs they will face two or three years hence.

The Administration, therefore, urges Congress to approve the same level of program authorities for FmHA for each of the fiscal years of 1980, 1981 and 1982.

These levels are as follows:

Farm Real Estate loans, \$879,600,000, including \$800 million for farm ownership loans, of which \$750 million may be for insured loans and \$50 million may be for guaranteed loans with authority to transfer amounts between such categories, and \$60,500,000 for water development, use, and conservation loans, of which \$54,500,000 may be for insured loans and \$6 million may be for guaranteed loans with authority to transfer amounts between such categories;

Farm Operating loans, \$700 million, of which \$675 million may be for insured loans and \$25 million may be for guaranteed loans with authority to transfer amounts between such categories;

Farm Emergency insured and guaranteed loans in amounts necessary to meet the needs resulting from natural disasters;

Insured Water and Sewer Facility loans, \$700 million;

Industrial Development loans, \$1 billion, of which \$50 million may be for insured loans and \$950 million may be for guaranteed loans with authority to transfer amounts between such categories;

And Insured Community Facility loans, \$250 million.

The Administration believes that if it appears to be advisable to amend the the above suggested authorities for fiscal 1981, the Congress could amend the law at that time.

Thank you for allowing me this opportunity to share these viewpoints of the Administration with you.

[The following letter and table were received from Secretary Mercure:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., May 1, 1979.

HON. EDWARD ZORINSKY,
Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Senate Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington D.C.

DEAR SENATOR ZORINSKY: This is a follow-up to our testimony before your subcommittee on April 24, 1979. The hearing was to discuss a draft bill as required by Section 346 of the Consolidated Farm and Rural Development Act, as amended, to authorize program levels for the loan programs included in that act.

As we brought out in the hearing, the draft bill contains loan authorizations for farm real estate loans in the amount of \$879,600,000. This amount should be changed to \$867,700,000, a decrease of \$11,900,000. The loan level for the Indian Tribe Land Acquisition program was inadvertently included in the draft bill. Even though the loan authorization for the Indian Tribe Land Acquisition program is included under farm real estate loans in the Agricultural Credit Insurance Fund in the Appropriations Act, this program is authorized by Public Law 91-229, rather than the Consolidated Farm and Rural Development Act. Attached is a table which clarifies the loan programs covered by the Consolidated Farm and Rural Development Act.

The enactment of the draft bill to authorize the loan levels would have no impact on budget authority or outlays above the President's 1980 budget submission. In addition, the Department does not foresee any regulatory impact as a result of enactment of this legislation.

Please let me know if we can provide any further clarification in the deliberation on this draft legislation.

Sincerely,

ALEX P. MERCURE,
Assistant Secretary.

Enclosure.

REAL ESTATE LOANS COVERED BY THE CONSOLIDATED FARM AND RURAL DEVELOPMENT
ACT, FISCAL YEARS 1980, 1981, AND 1982

(Dollar amounts in thousands)

	Fiscal year 1980		Fiscal year 1981		Fiscal year 1982	
	Program level	Current interest rate (percent)	Program level	Current interest rate (percent)	Program level	Current interest rate (percent)
Farm ownership loans.....	\$ 800,000	(2)	\$ 800,000	(2)	\$ 800,000	(2)
Water development, use and conservation loans:						
Soil and water loans to individuals.....	\$ 53,100	(4)	\$ 53,100	(4)	\$ 53,100	(4)
Irrigation and drainage loans to associations.....	7,400	9.00	7,400	9.00	7,400	9.00
Total, water development, use and conservation loans.....	\$ 60,500	NA	\$ 60,500	NA	\$ 60,500	NA
Recreation loans to individuals.....	2,400	(6)	2,400	(6)	2,400	(6)
Grazing loans to associations.....	4,800	9.00	4,800	9.00	4,800	9.00
Total, above.....	867,700		867,700		867,700	
Farm operating loans.....	7,700,000	(8)	7,700,000	(8)	7,700,000	(8)
Water and waste disposal loans.....	700,000	5.0	700,000	5.0	700,000	5.0
Community facility loans.....	250,000	5.0	250,000	5.0	250,000	5.0
Business and industry loans.....	\$ 1,000,000	(10)	\$ 1,000,000	(10)	\$ 1,000,000	(10)
Total, above.....	2,650,000		2,650,000		2,650,000	
Total, farm real estate loans.....	867,700		867,700		867,700	
Grand total.....	3,517,700		3,517,700		3,517,700	

¹ \$750,000,000 may be for insured loans and \$50,000,000 may be for guaranteed loans.

² (a) Insured—9 percent. (b) Insured, limited resource borrowers—3 percent 1st 3 yr; 5 percent next 2 yr; after that interest rates can be anything up to the cost of money. (c) Guaranteed—negotiated between the borrower and the lender.

³ \$47,100,000 may be for insured loans and \$6,000,000 may be for guaranteed loans.

⁴ (a) Insured—9 percent. (b) Guaranteed—negotiated between the borrower and the lender.

⁵ \$54,500,000 may be for insured loans and \$6,000,000 may be for guaranteed loans.

⁶ (a) Insured—9 percent. (b) Guaranteed—negotiated between the borrower and the lender.

⁷ \$675,000,000 may be for insured loans and \$25,000,000 may be for guaranteed loans.

⁸ (a) Insured—9.50 percent. (b) Insured, limited resource borrowers—5 percent, after this rate expires, interest rate can be anything up to the cost of money. (c) Guaranteed—negotiated between the borrower and the lender.

⁹ \$950,000,000 may be for guaranteed loans and \$50,000,000 may be for insured loans.

¹⁰ (a) Guaranteed—negotiated between the borrower and the lender. (b) Insured—9.75 percent except for public bodies borrowing to install community facilities are 5 percent.