95th Congress } COMMITTEE PRINT
2d Session

1979 FOOD AND AGRICULTURAL OUTLOOK

Papers Presented at the Food and Agricultural Outlook Conference Sponsored by the U.S. Department of Agriculture—Held in Washington, D.C., November 13–16, 1978

PREPARED FOR THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

DECEMBER 29, 1978

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

U.S. GOVERNMENT PRINTING OFFICE
35–448 WASHINGTON : 1979

PROJECTED GOVERNMENT CREDIT ACTIVITY IN 1979 WITH RESPECT TO AGRICULTURE AND RURAL AREAS—FmHA ACTIVITY AND PROGRAMS

(By James E. Thornton, Associate Administrator, Farmers Home Administration)

This has been a year of action by Congress and the administration to reinforce the credit structure supporting American agriculture.

The backup role of the Farmers Home Administration has been increased.

The Farm Credit Act of 1978 raised FmHA loan limits, broadened the rules of eligibility for FmHA credit, and improved our ability to stimulate private lending through loan guarantees.

And we have a new authority, the economic emergency loan, to help farmers out of a credit squeeze brought on by economic distress such as high cost and low return.

Farmers Home has just come through a record $5 billion year of agricultural lending in fiscal 1978—twice the volume of just a year ago. 1978 was the first fiscal year since 1969 that farm credit exceeded rural housing in FmHA's total volume of farm and rural development credit.

This $5 billion level of farm lending is expected to continue in 1979. As in the past year, more than $3 billion will be devoted to easing financial emergencies for farmers and ranchers. The rest will go for the purposes traditional to FmHA's reason for existence—helping limited resource farmers and low-income young farmers, other family farmers lacking conventional sources of credit for their real estate and operating needs; for projects that contribute to better use of soil and water resources, irrigation systems, pollution control, Indian tribal land recovery, and other special purposes.

Percentagewise, the FmHA share of all agricultural credit remains modest as compared to the private sector. As the principal Government lender in agriculture, we'll hold about 7 percent of all farm credit outstanding on January 1, 1979—about $9.8 billion out of $136 billion as estimated by the Economics, Statistics, and Cooperatives Service of USDA (ESCS).

But the FmHA share of production credit is up 3 points over the past year, from about 5½ to 8½ percent. The real estate share holds at a fraction over 6 percent.

The upsurge in production credit reflects more than $3½ billion of FmHA lending the past fiscal year to farmers eligible for emergency credit. About $3.4 billion of this lending was based on drought and other recent natural disasters. About $75 million was added by the emergency livestock program, and $108 million by the new economic emergency loan program.

For 1979, the terms and varieties of FmHA farm loan programs have been recast to be more responsive to the needs of today. This has been accomplished both through legislation and administration efforts.

I reviewed our goals along these lines in our Outlook Conference report of a year ago. Let me summarize now the extent to which those goals have been fulfilled.

Last year at this time, we were working with the Congress on revisions to the Consolidated Farm and Rural Development Act and the National Housing Act to—

Raise the loan limits in FmHA farm loan program;

Establish cost-of-money interest rates where practical, in order to minimize credit subsidies and allow a larger volume of lending;

Expand the amount of farm and rural home lending by private credit institutions through FmHA guarantee;

Open up FmHA nonemergency farm loan services to family-size farms operated as family partnerships and corporations;

Provide better credit opportunities to low-resource families to develop their farming and become owners of adequate homes; and

Change the agency name to Farm and Rural Development Administration—a name more appropriate to our role as a multipurpose credit agency, delivering services in agriculture, rural housing, rural community facilities, and rural business-industrial development that now total over $11 billion a year.

All of these authorizations except the change of name have now been enacted.

In addition, certain other highly significant ideas were introduced and adopted as the legislation took final form this year. The Agricultural Credit Act signed by President Carter on August 4 also raised grant limits in the rural water and waste disposal program to 75 percent of projects cost, and set up the economic emergency loan as a major form of relief for the farmer caught up in unmanageable debt due to economic conditions beyond his or her control.

The new terms of our regular, nonemergency farm credit programs, under title I of the Credit Act of 1978, are these:

Limits on insured loans made directly by FmHA are doubled—to $200,000 for farmownership and other real estate loans, and $100,000 for a production loan. Limits on loans by private lenders guaranteed by FmHA are $300,000 for real estate, $200,000 for production. These changes bring the FmHA loan limits more into line with family-farm credit requirements under current economic conditions.

Interest rates on insured loans, both real estate and production, will ordinarily be the Government's cost of money (what the Government pays to investors in Government securities who supply funds loaned by FmHA), plus an administrative add-on of up to 1 percent. Under this formula, the present rate to borrowers is 8½ percent. Commercial lenders make guaranteed loans at rates negotiated with borrowers, but are expected to use the rate they give their best customers.

Less than cost-of-money rates may be authorized by the Secretary of Agriculture for loans to small farmers of such limited resources that they could not pay the full rate. The beginning of repayment on limited-resource farm loans may be deferred for 3 years. Under the current interest rate schedule, these loans for real estate purposes can draw 3 percent interest for the first 3 years of repayment; then 5 percent for an indefinite period, until the borrower prospers to the point of being able to afford the cost-of-money rate. Limited-resource production loans carry a minimum rate of 5 percent, with graduation to full rate as soon as possible. The repayment ability of limited-resource borrowers is reexamined every 2 years.

Terms of repayment can still be a maximum of 40 years for real estate loans, and are liberalized to 7 years for operating loans other than those that cover annual recurring expenses. Production loans can be rescheduled for up to 7 additional years, and under special conditions can be repaid over 20 years.

Eligibility for FmHA nonemergency credit previously was restricted to family farmers operating as individuals. Now it is open to partnerships, corporations, and cooperatives whose members are related by blood or marriage, and whose operation is on the family-size scale. This is a change expected to bring about 60,000 more farms into eligibility for FmHA credit. Eligibility is still restricted to American citizens, and to those who find no credit available except through an FmHA-insured loan or guarantee.

And now to summarize the new economic emergency loan.

It is established under title II of the 1978 Credit Act. It has been characterized by President Carter as a measure that, for many farmers of the highest ability and diligence, may "mean the difference between staying in farming and being driven out."

In the language of Congress, it is a refinancing opportunity for the farmer who has become overburdened with debt due to forces beyond the farmer's control, such as "a general tightening of agricultural credit or situations such as high production costs and low prices for farm goods." Many farmers found themselves in that predicament during 1978, unable to secure further credit from their usual sources. It was the economic legacy of several years of cost-price inequities.

This program is open to any farmer, partnership, corporation, or cooperative whose situation corresponds to the definition of economic emergency. Where questions of priority arise, preference goes to the operation in which primary operation and management is done by the farm family.

The limit on an economic emergency loan is $400,000, but a borrower may carry a maximum of $650,000 economic emergency and other types of FmHA loans combined.

Loans may be used to pay installments of principal and interest on farm or ranch debt; refinance existing debts incurred from operations; change or reorganize an operation so it will be economically viable; pay operating expenses; make farm improvements except for the purchase of additional land; refinance nonfarm real estate debts at rates and terms within their repayment ability.

We will consolidate, reschedule, reamortize, or defer (up to 3 years) loans for operating purposes or for annual recurring expenses, if necessary to help a farmer who has run into problems getting back on an orderly repayment schedule. Collateral in the form of crops, livestock, farm machinery, and real estate will be taken insofar as available, but exceptions can be made in taking account of the applicant's repayment ability.

Otherwise, the cost-of-money interest rates and other conditions prevailing in regular FmHA real estate and production loan programs apply to insured economic emergency loans. Negotiated "best customer" rates apply for guaranteed loans made by other lenders. It is a major purpose of the act to try to preserve the relationship between farmers and commercial lenders who have served them, hence a hope that about half of the credit generated by this program will take the form of guaranteed loans. Guarantees cover 90 percent of any loss a lender might take.

The act authorizes FmHA to carry as much as a $4 billion principal outstanding in economic emergency loans at any one time.

Lending began within the week after President Carter signed the bill on August 4. Loans made totaled $223 million by the end of October, and the program is still gaining momentum. At least $2 billion is in prospect for 1979. The program is now timed to expire on May 15, 1980.

Somewhat parallel to the economic emergency program is the Emergency Livestock Credit Act authority for FmHA to guarantee other lenders' loans to livestock producers affected by adverse economic conditions. That limited program, criginated in 1974, has been extended by Congress to September 30, 1979. It may be superseded in some degree by the more general EE program.

Economic emergency has just gained full acknowledgement as a disaster situation that can overwhelm the farmer.

Natural disaster assistance is one of the longstanding FmHA loan services, and it soared to the unprecedented level of $3.4 billion during the past year—this in the wake of drought losses and other weather misfortunes experienced by farmers during 1976 and 1977, and coming at a time of widespread credit difficulties in the private market.

Even without new major disasters in the coming year, disaster emergency loans probably will continue at a billion-dollar level through fiscal 1979. This is due in part to the law's provisions that a farmer who becomes a disaster emergency borrower may get subsequent credit for 6 more years, if necessary, to bring the operation back to par.

This year's legislation makes some changes in our natural disaster emergency program. Loans against actual loss for disasters occurring on or after October 1 of this year will cost the borrower 5 percent interest; other loan amounts based on disaster eligibility will bear a prevailing market rate determined by the Secretary—now 8½ percent. Loss loans for disasters occurring between July 1, 1976, and September 30, 1978, have a limit of $250,000, but the borrower will pay 3 percent. Other lenders making FmHA-guaranteed disaster emergency loans will receive not more than the market rate—now 8½ percent—with FmHA subsidizing the difference between that rate and what borrowers pay for loss loans. It is still required that bcrrowers show no other credit available before receiving FmHA insured or guaranteed natural disaster loans.

The new credit act has enabled Secretary of Agriculture Bergland to take action to speed up FmHA response to natural disaster. He has abolished a previous cumbersome system that called for county governments and State Governors to recommend, and the Secretary to approve most designations of counties as eligible for disaster credit. Loans now can be authorized by the Farmers Home State Director as soon as he or she confirms the need.

Certain technical improvements in the handling of guaranteed loans are of interest to commercial lenders. Congress has abolished the troublesome requirement that guaranteed borrowers may have to "graduate" and refinance without a guarantee during the life of a loan. Provision also is made for the secondary marketing of the 90-percent guaranteed portion of a loan, so that these shares become 100-percent guaranteed instruments. These changes that may encourage more other lender participation in the FmHA programs.

We expected a year ago that Congress would clear up duplications and contradictions in the farm loan services of FmHA and the Small Business Administration.

That action failed to materialize, and it was one of the reasons given by the President for his recent veto of a small business bill that still obligated SBA to lend to farmers. That agency and the President still contend that farm credit is a line of duty burdensome to SBA, one for which the agency is ill equipped. The President has asked again that Congress relieve the Small Business Administration of agricultural lending.

For the present, with disapproval of the new legislation, SBA reverts to a previous law under which its interest rates on emergency loss loans are higher than those of FmHA, although SBA still does not require the test for credit.

In total, FmHA operations for fiscal 1979, some $7 billion of our $12 billion total program budget, will apply to elements o rural development other than agriculture. They include:

The still massive need for better housing in towns and countryside alike;

Rounding out a full complement of essential public facilities in rural communities; and

Business-industrial development to provide more opportunity for people to find work in rural areas.

These missions, and our role in farm credit, are not disconnected, unrelated packages. They constitute a spectrum of common need in the countryside communities of America. Agriculture is the foundation of rural society and rural economy. At the same time, most rural Americans live in counties where less than 10 percent of the employed residents work directly in faiming.

By the nature of its locally based, county-by-county service structure and its broad experience in rural finance and rural development, Farmers Home Administration constitutes a one-stop service system for the delivery of Federal assistance to rural areas.

And this Administration is moving with great emphasis to improve this delivery system, and inject better qualities of leadership and cooperation into FmHA's working relationship with the States and local communities where we serve.

During the past year, we have moved from the planning to action phase in our program to revamp our FmHA field office structure, looking both to immediate and long-range goals.

County offices are near the point of being relieved of all but individual lending in farm and housing programs. A new type of substate district office is being created to handle community and organization loans and grants.

In all cases, the grouping of counties within FmHA districts will be the same as in substate development planning districts. This will enable us to coordinate better with the development objectives adopted in rural areas, and help to develop and support investment strategies that will bring about fulfillment of those local and area goals.

35-448—78——10

We intend to function more as a development agency, and less as a lender taking no interest in factors looking beyond the immediate loan or the single project. We feel that we can stay true to our basic purpose of providing for minimum basic needs of the most distressed rural people and communities, while considering the broader context of State and local development plans and goals. We have recently taken a lead in initiating studies to pin down answers to what rural America needs—to strengthen the economy, assure healthful and adequate water, provide decent shelter, establish basic community facilities, and bring reasonable health and transportation services for all people on farms and in small towns who need it most.

There are questions about personnel to accomplish all we aim for in this program for improving and extending our services. We loaned last year four times as much money as in the year 1971 with approximately the same number of full-time staff. We carry now a caseload of 1¼ million borrowers, mostly with long-term loans adding up to a balance of about $30 billion. This imposes a massive task of loan servicing and borrower supervision, even without the annual mounting up of new accounts.

As a final note with respect to farm loan services, we welcome and hope for an ever greater participation by private lenders in programs they can share through the FmHA guarantee. It brings us their assistance in servicing, and makes for less budget impact in an era when inflation is a number-one concern. And it brings into rural areas a great new flow of capital from central money markets not otherwise accessible to the farmer and small community.