ANALYSIS OF PROPOSED FARM CREDIT DEFICIENCY BILL

Attached is a proposed bill to improve and expand existing legislation to provide more nearly adequate farm credit facilities.

The proposed bill authorizes the initiation of two completely new Federal credit programs of direct and insured loans, and makes various improvements in existing provisions of the Bankhead-Jones Farm Tenant Act and other legislation. The chief of these improvements are lowering the maximum interest rate and increasing the maximum size of allowable loans.

Section 1 adds two new titles to the Bankhead-Jones Farm Tenant Act. Title V is designed to provide needed credit for farmers and related small businesses in rural areas who are suffering from economic distress of the farm recession to re-finance their existing indebtedness and readjust their operations on a sound basis.

The new Title VI to the Bankhead-Jones Farm Tenant Act authorizes a "crash" program to eliminate rural poverty in the nation's 500 most poverty-stricken rural counties.

Existing legislation covering direct and insured general farm credit loans includes: The Bankhead-Jones Farm Tenant Act, as amended; the Water Facilities Act, as amended; Public Law 38 (Emergency Loans), as amended; and Public Law 727 (Emergency Credit), as amended.

NEED FOR AUXILIARY OR DEFICIENCY FARM CREDIT

The credit needs of family farming are tremendous and growing. Credit should be available at the times needed and its terms and conditions should be adapted to characteristics of farming as a combined business and way of life.

Much of the credit needs of family farming can be met by loans obtained from private individuals and such credit institutions as banks and insurance companies. Farmers themselves can meet other needs cooperatively through credit unions and the institutions of the Farm Credit system. Together, it should be expected that these sources should supply the great bulk of the credit needs of agriculture.

However, inasmuch as all of these must obtain their funds from commercial money markets and conduct their operations along traditionally conservative financial lines, they find themselves unable to perform the entire farm credit job. Such institutions find it difficult to pioneer in the meeting of newly recognized or newly emerging farm credit problems. They are not set up to use their credit resources in meeting the high risk needs of severe disasters and emergencies, economic or natural.

They cannot afford to participate in credit operations when a relative high intensity of technical assistance and loan servicing are required to render loaning activities essentially sound from a strictly financial viewpoint.

Moreover, all of these private individual corporate and cooperative institutions have a marked tendency in the absence of outside stimulation to become traditional, custom-bound, and increasingly restrictive in their credit policies.

There is nothing morally wrong about this nor even economically unsound. It just means that the best interests of family farmers require a separate supplemental and yard-stick credit operation. This can best and most efficiently be supplied to the nation by the Federal government. Such an agency should have the legal authority and sufficient funds to meet all of the family farm credit needs not filled on reasonable terms by private cooperative and other corporate lending agencies.

This is a problem not strictly of young farmers, nor of low income farm families, nor of disaster situations. It is a need that extends across the board. Such an agency would stand ready to meet any legitimate farm credit need not met by existing private agencies on reasonable terms. The agency would make both direct governmental loans and would insure loans of private lending agencies.

WHY ADDITIONAL LEGISLATION

This is the field partially covered by the operations of the Farmers Home Administration under the Bankhead-Jones Act, as amended, and the other legislation listed above.
Existing legislation could probably be construed by aggressive administrators to authorize the extension of auxiliary farm credit now required by the deteriorating farm income situation. But we do not have an administration that is aggressively trying to meet farm credit needs and there are various limitations and vague gaps in existing legislation behind which reluctant administrators can hide.

The two largest gaps are these: (1) the need to provide for a really significant program to begin to eliminate chronic dire rural poverty in the so-called "problem or by-passed" areas, where practically everyone in the area, as well as farmers, has poor facilities and low income. The proposed new Title VI authorizes a "crash" program calling for the cooperative application of the resources of the Federal government to eliminate the chronic causes for poverty in such areas. Title VI in the Sparkman Family Farm Development Bill (S. 1199) as introduced last year.

A second large gap in Federal farm credit facilities is the lack of authority to make economic emergency loans for refinancing purposes to ordinarily adequate farmers and related small businesses in rural areas whose usual capital and credit resources have become exhausted owing to the 4-year drop in farm prices and income, compounded in many areas by drought and dust storms. This gap would be filled by the proposed new Title V to the Bankhead-Jones Act.

**PROVISIONS OF THE PROPOSED FARM CREDIT DEFICIENCY BILL**

Sec. 1 provides for the following improvements in Title I of the Bankhead-Jones Farm Tenant Act. This is the authority for Farm Ownership of Tenant Purchase long term real estate loans. The proceeds of the loans are used for purchase, improvement, and enlargement of farms:

1. Expands authority to allow loans to farmers who work part-time in their own part-time non-farm business or other occupation. Change required because the recent severe drops in farm income have greatly decreased the proportion of family income from farming in total income of many such families.

2. Allows non-farm income to be used in determining repayment ability of borrower.

3. Maximum interest rate chargeable reduced from 5 to 4 percent.

4. Raises the permissive volume of insured loans from $50 million to $150 million per year.

5. Interest rate paid to insured lenders is reduced from 4 to 3 percent.

Sec. 2 would make the following improvements in Title II of the Bankhead-Jones Act:

1. Change names of these short-time loans from "Production and Subsistence Loans" to "Operating Loans".

2. Make part-time farmers eligible to become borrowers.

3. Increase maximum permissive size of initial loan from $7000 to $25,000 and the maximum permissive "total outstanding" from $10,000 to $40,000.

4. Reduces the rate of interest on such loans from 5 to 3 percent.

Sec. 3 amends Title IV of the Bankhead-Jones act to make it consistent with the amendments of the Bill to Title I and II and would reduce costs of administration by technical improvements in handling small and troublesome accounts.

Sec. 4 improves the water facility and soil conservation loan act.

Sec. 5 improves the emergency credit and special livestock loans legislation (so-called Public Law 38) by an indefinite extension and authorizes the extension of funds for repayment of existing indebtedness. Extends the maximum period of the loan from 3 to 10 years. And provides for loans of feed grains in kind to be repaid in kind or cash.

Sec. 6 amends the Emergency Credit Act (Public Law 727) by extending it indefinitely and authorizing repayment of existing indebtedness out of proceeds of the loan.

Sec. 7 establishes the Rural Adjustment Credit Program and would enact the Family Farm Development Act.
Sec. 9 directs the Secretary to reactivate voluntary farm debt adjustment service.

Sec. 10 authorizes use of a complete rather than a partial variable repayment plan geared to the borrower's earnings and ability to pay year to year.