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THE FARM CREDIT CRISIS

HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

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THURSDAY, JULY 3, 1986

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY AND FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9 a.m., in the city council chambers, Idaho Falls, ID, Hon. Steven D. Symms (chairman of the subcommittee) presiding.

Present: Senator Symms.

Also present: Joe Cobb, professional staff member.

OPENING STATEMENT OF SENATOR SYMMS, CHAIRMAN

Senator SYMMS. First I just want to introduce the subcommittee council, Joe Cobb, who's with us; Dixie Richardson in the back of the room; Dick Buxton and Barbara Watkins from Senator McClure's staff. So I think if there's anybody that wants to get ahold of the office, we are here.

And I thank all the witnesses for their interest in this, the people that are here to prepare our panels and prepare our case.

This is a meeting of the Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee. I called this hearing because I do share the concern of many of you about farm credit. I've had several meetings with many different farm groups and farm credit people in the State prior to this, and it seemed to me like it was appropriate that we try to get it all on the record and hopefully come out with a positive recommendation on what needs to be done to move forward to make sure that qualified farmers will be able to have available credit, so that the qualified people that are strong and can make a go of it in agriculture are not going to be left out there because they can't get the available credit.

I don't have the exact number, but it appears that all the agriculture credit in Idaho amounts to about $3 billion. That figure doesn't sound quite right to me. I'll check that out when some of you get up here.

In today's hearing, I hope to accomplish several objectives:

(1) To determine if all eligible borrowers have been able to secure adequate loans. And I emphasize "eligible" because, as we know, no lender can supply credit without a reasonable prospect of recovering capital and interest.

(2) A second concern, almost as significant as the total volume of credit, is the way that credit is allocated and administered.

(3) There's a general perception that many commercial banks are getting out of the farm loan business. That is a business decision,

but it changes the credit picture and we need to know how significant it is.

(4) By the same token, I'm told that overall the farm credit system is not doing all it can to accommodate problem borrowers. Again, if this is true, it's important that it be understood. There seems to be some question about the role of the capital corporation. I hope the Farm Credit System spokesman will address this.

Another point is, and I'm among those who are disappointed that the Farmers Home Administration's guaranteed loan program hasn't been better utilized. And I would like to have comments from all of you on why that is and if there's something that could be done to improve the viability of the guaranteed loan program.

Congress has been concerned about the farm credit issue and positive steps have been taken. I voted for the Agriculture Program Adjustment Act of 1984, which increased the FmHA emergency loan fund by $253 million. I also cosponsored a resolution expressing the sense of the Senate that the administration should provide emergency operating farm credit. Early this year, I cosponsored the Landowner Protection Act of 1986, requiring the Farm Credit System to restructure rather than foreclose on a loan to an eligible borrower if foreclosure costs equal or exceed restructing costs.

I contacted Secretary Lyng, urging him to make $700 million in FmHA emergency loans available for operating loans. This was done, and Idaho got more than its pro rata share of this funding.

As a member of the Senate Finance Committee, I supported an amendment to broaden the number of farmers eligible for special treatment when farm debt is reduced, so that farmers can avoid bankruptcy whenever possible.

The best single thing that can be done for farm credit is to get interest rates down. I personally am old fashioned enough to believe that that will happen when Congress gets the deficit down.

Hearings such as this are one of the tools I use to keep current on the farm credit problem. They help me determine if additional legislative or administrative action is needed to make credit available.

Again, I want to thank all the witnesses, and I want to just say again that I think that agriculture is so important to this State, that without a strong agriculture, most anything else that we do in the State is going to be a long time in coming, as far as strengthening our economy.

So without any further ado, I'd like to call up the first panel, because we have a big set of witnesses here this morning. There are 12, and there may be others in the room that we would like to hear from if they have comments or contributions they would like to make to the hearing record.

The hearing record will also be kept open for 10 days or so for those who might want to submit testimony later.

I'd like to call up the first panel which will be Glenn Bennett, Director, Farm Real Estate and Production Division of the Farmers Home Administration. Glenn, we welcome you here in Idaho from Washington and hope that you'll be able to get back with your family by the Fourth of July. We also hope you'll be able to get a feel for how tough things are down on the farm.

I'd like to ask Bill Norberg to come on up to the witness table. He's the Idaho State Director of the Farmers Home Administration in Boise; Nolan Furniss, FmHA borrower of Blackfoot; and Bruce Bingham, FmHA borrower of Rupert, ID. First we'll hear from Glenn Bennett.

STATEMENT OF L. GLENN BENNETT, DIRECTOR, FARM REAL ESTATE AND PRODUCTION DIVISION, FARMERS HOME ADMINISTRATION

Mr. BENNETT. Good morning, Mr. Chairman. I appreciate this opportunity to appear before the Monetary and Fiscal Policy Subcommittee today. It seems especially appropriate to be here on the eve of Independence Day to talk about America's farm economy. Farm families in Idaho and throughout America typify our hard-working, freedom-loving forefathers who founded and defended our democracy two centuries ago. From America's earliest days, family farmers have been strong, tough, independent and reliable citizens. They had to be to survive the hardship and dangers they faced in those years.

Much has changed in 200 years. But today more than ever, farmers must be tough and strong to survive. The boom years of the 1970's are gone, and recent years have brought hard times for many farm families. They have been forced to borrow heavily to stay in farming. Farmers in marginal financial health today face more financing, increasingly heavy debt and bleak prospects for the future.

We are here today to talk about the availability of agricultural credit. The subject is of great concern to the Farmers Home Administration, because our borrowers are family farmers, many of whom are in serious financial condition.

Because we lend to borrowers unable to obtain credit through other sources, the term "qualified" is less restrictive for FmHA than for other agricultural lenders. We do have eligibility requirements, however, and because we are lending Federal funds we have an obligation to American taxpayers to use those funds as prudently as we can.

This year, FmHA began the 1986 spring planting season with $1.7 billion for direct operating loans. Responding to growing concern and at the urging of Members of Congress, the administration authorized the transfer of an additional $700 million to our direct operating loan fund. FmHA then began careful, direct distribution of our operating loan funds, in a largely successful effort to meet the credit needs of as many qualified applicants as possible.

At the same time, we have been encouraging the use of our guaranteed loan program. Until this year, FmHA had limited success with its offer of a 90-percent guarantee on loans made through other lenders. Some felt that there was too much redtape involved. We were told that some lenders were burdened with enough bad agriculture debt and didn't want anymore. But this year, because of changes made in the program that made it more attractive to the public, the program is becoming more widely used and is providing credit to many qualified borrowers. As of June 25, FmHA has guaranteed twice as many loans (12,296) nationwide as on the same date 1 year ago.

One incentive is FmHA's new interest rate buy-down program. This program allows a participating lender to reduce a borrower's interest rate with Federal reimbursement of up to one-half of the lender's loss of interest income, to a maximum reimbursement of 2 percent. This was one of the changes included in the recent farm bill, and another evidence of congressional concern about farm credit availability. There was $490 million earmarked for this program over a 3-year period. That $490 million can leverage about $24.5 billion in guaranteed farm credit, over 3 years.

FmHA is in the process of making an important change in the interest rate buy-down program. It is clear that many borrowers cannot cash-flow under the current repayment schedule, of equal payments up to 7 years. We are working on new regulations to allow the lender additional latitude in working out the borrower's cash-flow, including options of unequal payments, a balloon payment at the end of the payment schedule, and refinancing at that time for up to an additional 15 years. These new regulations are in final clearance. Our goal is to implement the changes within 30 days.

As we came down to the end of the planting season a few weeks ago, our direct operating loan funds were nearly depleted. Our guaranteed loan program had plenty of funding to meet remaining operating credit needs. Some FmHA eligible borrowers still need operating loans, and their county FmHA offices had completed all the paperwork on their applications. In an effort to help these borrowers, Administrator Vance Clark introduced Operation Assist.

The Administrator instructed all State Directors to see that FmHA county supervisors arrange to go directly to agriculture credit lenders with the borrower and the borrower's credit file. We hope the supervisors' personal intervention on behalf of the borrowers will be helpful in lender-borrower negotiations for guaranteed operating loans. Many times the FmHA supervisor has information and assurances the borrower can't provide. This program has been well received by borrowers and lenders. As of June 27, we have in place more than $26.4 million of these "Operation Assist" loans with private sector lenders.

These initiatives are examples of the effort by FmHA to meet its borrower's credit needs. With the end of the 1986 operating loan season the immediate need for credit should ease. We will continue to work closely with other agricultural lenders to encourage guaranteed lending. Looking ahead, by careful use of both direct and guaranteed loan programs, adequate credit for our eligible borrowers should remain available.

After exploring all avenues of assistance, some family farmers still are unable to obtain further credit. They simply cannot show repayment ability and are unable to handle the debt they have already incurred. Since February 1986, FmHA has been working with more than 64,000 borrowers in default to help them resolve their FmHA debt.

Our new regulations require that FmHA explore in detail with delinquent borrowers actions that can be taken to resolve their debt. After being fully informed, if the problem with the debt cannot be resolved, the agency must inform them of the specific details of the appeals process. If, after exploring all possible choices, FmHA delinquent borrowers lose their farms, they may have the options to lease back their homes and surrounding acreage and their farmland. Under certain conditions borrowers may be able to buy back the property.

All of these options show great forebearance and latitude toward borrowers in financial trouble. FmHA has gone the extra mile and then some in its efforts to help borrowers find ways to solve their loan problems. As we process cases of default, there will be unavoidable instances when borrowers will have to sell, convey, or otherwise lose their farms. But we will explore every possible alternative before recommending or implementing such extreme action. We want to keep these cases to the absolute minimum.

I hope this discussion of FmHA credit availability, regulations, and policies have been helpful. Again, Senator Symms, thank you for this opportunity. You are to be commended for your concern for Idaho's family farmers. I will be happy to respond to questions.

Senator SYMMS. Thank you, Mr. Bennett.

Next we will hear from William Norberg, Idaho State Director of the Farmers Home Administration in Boise.

STATEMENT OF WILLIAM C. NORBERG, JR., IDAHO STATE DIRECTOR, FARMERS HOME ADMINISTRATION

Mr. NORBERG. Thank you, Mr. Chairman, and members of the subcommittee. I appreciate the opportunity to be with you today to discuss the activities of the Farmers Home Administration in Idaho.

As you know, Farmers Home provides credit to farmers and ranchers, low income rural homemakers and rural communities unable to obtain financial assistance from commercial lenders at affordable rates and terms. This credit helps finance the operation and purchase of farms, the purchase or repair of single family and rental housing, and construction of community needs such as water and sewer systems and health clinics. Loans can be guaranteed for business and industry projects meeting agency eligibility requirements.

Altogether, Farmers Home has $877 million in its portfolio for all types of loans and grants in Idaho. Farm loans top the list. Ownership loans total almost $188 million; operating loans account for $85 million; disaster emergency loans total almost $88 million; and economic emergency loans, authorized in the late 1970's and early 1980's, amount to almost $128 million. Rural housing loans total more than $300 million and community loans total more than $40 million.

The Farmers Home Administration finances about 12 percent of farmers on a national basis. In Idaho, the agency provides credit for about 17 percent of the State's farm operators.

As you know, this administration is emphasizing loan guarantees in place of direct loans as a proper way to assist farmers unable to obtain commercial credit, as a matter of both philosophy and practical financing. Administration policy is that the private marketplace should provide for the private needs of the people except under unusual circumstances. Government guarantees of loans by commercial lenders meet that test and provide assistance for those good farmers unable, for various reasons, to meet the commercial lender's normal eligibility requirements.

For the most part, this practice is working well in Idaho. The Farmers Home Administration, however, does have on hand 14 applications for direct operating loans—totaling $995,140—that cannot be closed because funds have been exhausted. The applications represent only 2.6 percent of the total number of direct operating loans this fiscal year, as of June 16. As of June 27, more than $451,000 in approved direct operating loans has been converted to guaranteed loans through Operation Assist. The dollar amount of direct operating loans this year is in the $28 million range, and guaranteed operating loans total $14 million.

Farm ownership loans this year total $5 million in direct loans and more than $3 million in guaranteed loans. The guaranteed loans, both operating and ownership, taken together, are about six times the total guaranteed in fiscal year 1985.

So far this fiscal year, FmHA in Idaho has directly loaned or guaranteed $63 million for farm purposes compared to just under $50 million at the same time last year.

Mr. Chairman, we think that FmHA has been able to meet the needs of those eligible farmers and ranchers this year, both from a lending and servicing standpoint.

For those needing credit to meet their financial needs—and we recognize that economic circumstances beyond their control have caused problems for a number of farmers—we have been able to help. For others, who need assistance with their existing loans, we are in a position to lend a hand in the form of deferrals, rescheduling, reamortization or limited resource interest rates. We anticipate that we will continue to be able to meet those needs in the future.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions you might have.

Senator SYMMS. Thank you very much, Bill. I want to ask one question: $63 million you've lent out this year compared to $50 million last year?

Mr. NORBERG. That's correct.

Senator SYMMS. Is that a record?

Mr. NORBERG. Well, the total amount of dollars loaned out every year has run up and down like a yo-yo over the years. The big years were the late 1970's and probably 1981 was the biggest year. But I'd have to back up and refresh my memory.

Senator SYMMS. Also, you said you had $877 million in Idaho?

Mr. NORBERG. No, that's the total portfolio of all of our programs, about 54 percent of that total portfolio is in farm loans.

Senator SYMMS. Next we'll hear from Nolan Furniss, an FmHA borrower.

STATEMENT OF NOLAN E. FURNISS, FmHA BORROWER, BLACKFOOT, ID

Mr. FURNISS. Thank you very much, Senator Symms.

Senator SYMMS. Do you have a prepared statement?

Mr. FURNISS. Yes, it's right there.

I'll preface this prepared statement by saying for a few generations we have been involved in PCA Federal Land Bank. Because of a potato disaster this year, we turned to Farmers Home, that program, and I'll preface my remarks there.

I appreciate the opportunity to share with you some concerns and joys I have of American agriculture. The Furniss family has been farming nearly as long as Idaho has been a State, and have tried to put back into the soil more than we have taken out. This is still, by far, the greatest land—choice above all others—and we're proud to be tenants. Yet the concern is becoming even more prevalent that the "landlords" may not have the best interest of the "tenants." The time has come that requires more than a good tractor and a 20-hour day to return a portion of dignity and encouragement, maybe even survival, to the oldest honest profession in this great land.

I have many concerns, a few insights, and a burning desire for the success of American agriculture. Nowhere is the risk, investment, and challenge so great as it is in effective, or even ineffective, agriculture. In early October we were worth multidollars. By harvest end we had to mortgage everything we owned to banks or politicians to try and regain a portion of that which Mother Nature foreclosed on. Twenty years of sacrifice will be required now to recover what a couple of nights killing frost accomplished. Why do we do it? Well, as long as there is a vision of agricultural independence, the strong-willed farmer will take up the challenge. But when he's lost dignity and hope—well, there aren't enough middlemen or bureaucrats to put a balanced meal before your families. The farmer is just as integral a part to the balance of nature as is the sun or the soil. Sacrifice one and you sacrifice the desired end product. It's hard to eat "red ink."

Now in reference to your petitioned inquiries.

(1) Probably 10 percent of the farmers in this area are not financed; 25 percent to 50 percent are inadequately financed; and in March when they needed it the most, probably 75 percent were given little if any encouragement.

(2) A better market will always make credit abundant, not always the best, though.

(3) The future of credit is "solidly unstable." Given another crop failure or disaster—well, it will be a disaster.

(4) Repayment regulations are a concern. Some lending institutions don't want to reschedule over a long term the huge debt that this year's potato disaster left. They are also unwilling to participate in programs, as ill fated as they may be, that were designed to help in this crisis. Although the FmHA does have the capabilities of long-term forebearance, they encumber many times the equity that is needed. I guess they're scared.

(5) Any neighbor ought to act like a neighbor or should have to answer for his actions.

Yes, this winter has been unequaled with its challenges. It hasn't been easy, at times very frustrating, and I know many would have given up and thrown the plow in long ago. But I guess when you're dealing with problems of agriculture with the amounts that we're assuming, we all need to cooperate and be patient. I'm not saying that any one player on the American team is more important than the other, but as a coach I vividly realize that when there are no substitutes on the bench, then the whole team had better be around when the final buzzer sounds. Sincerely optimistic, Nolan E. Furniss.

Senator SYMMS. Thank you very much, Nolan. Bruce Bingham, over here from Rupert. We're glad to have you here, please proceed.

STATEMENT OF BRUCE BINGHAM, FmHA BORROWER, RUPERT, ID

Mr. BINGHAM. Thank you very much, Senator Symms, and I appreciate the opportunity to address you today and other members of the Subcommittee on Monetary and Fiscal Policy.

My name is Bruce Bingham, and I farm in Minidoka County in Rupert, ID. I would like to comment on two areas I think should be improved in order that farmers such as myself might plan the necessary resources for successful farming operation.

The two areas I want to discuss are the restructuring of both long-term and short-term debt, and also one of the loan programs of the Farmers Home Administration, the home guarantee program.

First on restructuring debt, farmers such as myself who have significant amounts of debt due to the purchase of land during the last few years while it was of a relatively high——

Senator SYMMS. Bruce, do you have a prepared statement?

Mr. BINGHAM. I do, but I don't have copies. I apologize for that.

Farmers such as myself who have significant amounts of debt due to the purchase of land during the last few years while it was at relatively high value, only to have that land value decline and erode away at our net worth, and due to the fact that they have been unable to completely repay one or any operating loan for any of the last 4 or 5 years, because of poor yields, disasters, or low commodity prices or whatever the cause, are faced with high debt and asset ratios, and a host of other problems that make farming a lot of fun. We need some way to structure our debt so that we can pay it off rather than have a foreclosure or liquidation of assets.

One plan that may work is to have the lending institution and the farmer determine together how much debt he can service each year and then have him make payments on that debt. The remainder of the debt and above that which is serviceable could be isolated, and perhaps a reduced interest payment only be made on the debt until the time when it can also be paid as well. No debt, I believe, should be forgiven. There may be some regulation changes needed in order for this kind of situation to occur, and I would urge that those regulations be made, changes be made so that lending institutions are willing to accept a plan like this one.

My second area of concern was the loan guarantee program of the Farmers Home Administration. As I understand the goal of FmHA is to have most farmers move from the direct loan program to the guaranteed loans, from which the operator would borrow the operating capital and then the loan would be guaranteed by FmHA.

This program, I believe, can have a future, but some changes need to be made for it to work. May I point out some problems that I see with this program?

No. 1, it is too complicated. It is complicated for a farmer and also the banks that are going to participate in this program to understand and administer. And it needs to be simplified, so that they and us, as farmers, may be more willing to participate.

No. 2, I believe that the limits need to be raised. As I understand the current limits are $400,000 for operating loans and $300,000 for real estate. In some cases this is not adequate.

One of the major problems, No. 3, is that I believe that, as I understand the program, Farmers Home will guarantee up to 90 percent of the loan, as far as operating loan goes. But in the case of capital payments on capital investments, such as equipment or real estate or whatever, they only guarantee 20 percent. And this is inadequate.

A farmer in the situation that he needs to have this operating loan guaranteed doesn't have probably the assets to cover the rest of those payments, the additional 80 percent of those real estate and equipment payments. And this is something that needs to be changed.

The banks usually are not willing to loan over what the guarantee is, so if they only loan 20 percent of what you need to cover those payments, it's a real difficult situation for the farmer to come up with the rest of it to make that work. That's something that needs to be changed.

I believe that Farmers Home should look in terms of guaranteeing 100 percent of the operating loan and other real estate and other capital investment things that need to be made.

Also, there's a matter of a loan fee. There's charged a 1 percent loan fee on the maximum amount of the loan that is guaranteed to each particular farmer, and with the current cap of $400,000, that's an additional $4,000 that the farmer has to come up with to make this program work.

Now I understand those funds have to be allocated and have to be held and be available so they can be there, and I'm sure that's what the loan fee is for, but if you want to help the farmers out with a credit program, let's see if we can find another way for holding those funds without charging an additional fee which has to go in an already strained budget.

Senator SYMMS. What interest rate are you paying now with FmHA?

Mr. BINGHAM. OK, I believe we're at 9 percent, I think on the operating loan. My real estate loans are 5 percent. They've been in existence for awhile.

Senator SYMMS. I was thinking about the operating loan.

Mr. BINGHAM. My operating loan comes from banks still, and we're getting charged 12 or 13 percent in that area.

Senator SYMMS. Go ahead.

Mr. BINGHAM. OK, the loan fee is something I think we need to look at to find an alternative way of securing those funds for the loan guarantee without a farmer having to pay for that loan fee.

And probably the biggest problem I see with the loan guarantee program is the problem of having that guarantee released in subsequent years. This is a complicated procedure, but consider an example:

Very few farmers that I know completely repay their operating loan from the previous year before they start arranging the loan for the next year, even though they may have the capital and the resources and crops on hand to cover those debts. They're not all received in time to cover them to pay those loans before the next year.

Okay, this presents a problem with the loan guarantee program, because you can't, as I understand, have two guarantee loans at the same time. So this means your previous loan has to be incorporated into your future loan, so that you have the one guarantee and then you have to pay the fee on it, and in essence you're paying a fee twice on the money from the previous year. You've already paid the loan fee.

This is something that makes it real difficult to negotiate a loan in future years, after you've used the program in the past.

And also, if a case comes where you're short of paying your previous year operating loan, you're locked into a program which you can't hardly get out of, because you need to go usually to a direct loan program with the FmHA. You can't do that. It's a real difficult situation to change that. That's just banks and farmers wanting to participate in this program.

And finally, there's one other item that's also significant that I think needs to be changed. As I understand it, and I hope that I don't give you the wrong information, but as I understand the loan guarantee program, certain loans, only certain loans are eligible to be guaranteed. If a farmer's loan is classified to the point with his bank that there's a cut-off point where FmHA won't guarantee that loan, and then on the other hand if the farmer's in good enough shape he doesn't need that program, of course, he's not going to use it. But this leaves a range of farmers eligible for this guarantee program, and that's the reason it hasn't been used more widely in the past, because there's a limit as to who's eligible.

I don't think very many farmers fall into that category when you get right down to the basics of it.

Basically, that's the problems I see with this program, and I appreciate the opportunity to address these. Thank you.

Senator SYMMS. Thank you very much. What about the participation in the guaranteed program? How much of your portfolio is guaranteed?

Mr. NORBERG. Well, we've made 96 operating loans this fiscal year, and——

Senator SYMMS. In the guaranteed program?

Mr. NORBERG. That's right, and 19 farm ownership loans. I don't know where this 20 percent thing came from. It's interesting.

Mr. BINGHAM. May I comment on that again?

Senator SYMMS. Right.

Mr. BINGHAM. I may not have explained that fully, but as I understand—I have used this loan guarantee program and this is the way it works——

Senator SYMMS. Did you mean 80 percent guaranteed and 20 percent——

Mr. BINGHAM. No, no, on operating loans, the guarantee goes up to 90 percent, as I understand it.

Mr. NORBERG. It's 90 percent on both of them.

Mr. BINGHAM. In my own case, and I'm sure many other farmers are the same way, we have payments on real estate to make, payments on whatever. They will not guarantee an operating loan to cover those payments, only up to 20 percent.

It's 20 percent of the unpaid balance or 20 percent of that year's payment, whichever is lower, is all they'll guarantee in that area.

Senator SYMMS. You're talking about borrowing the money to make your mortgage payments?

Mr. BINGHAM. That's correct, or equipment payments, whatever, anything that's not classified in operating.

Senator SYMMS. In the operating loan?

Mr. BINGHAM. Yes, the farm itself, but you know, that's something we live with every year. We have to make those——

Senator SYMMS. But you're talking about accumulating more debt to service another debt.

Mr. BINGHAM. No, not—in my operation, when I set up a budget for the year with my bank, I have the operating funds, and I also in that operating budget or in that budget, I include payments that I have to make for real estate or equipment or whatever, and the guarantee doesn't cover those. So the bank doesn't want to budget those out to you so you can make them.

Senator SYMMS. Do you want to comment on that, Bill?

Mr. NORBERG. I'm not quite sure I follow this thing. When you're dealing with a bank, you've got—the bank has the opportunity to negotiate with you. We have certain powers to negotiate, also, but we're bound by rules that the banks are not bound by in that respect on how they're going to deal with it. And if that's the way they choose to set it up, then I don't know if we're in a position to argue about it. Mr. Bennett might want to make some comment about that.

Senator SYMMS. Overall, are you satisfied that the guaranteed program is working as well as some people thought from Washington, that there would be more use of the guaranteed loan program by the commercial banks? How do you feel that has been, good, bad, indifferent? What could you do to help it? Do you have some thoughts on that?

Mr. NORBERG. I think this year the guaranteed loan program in Idaho is working remarkably well. We put out $14 million in guaranteed operating money and $28 million in our insured operating money, and $3 million in guaranteed farm ownership.

I think there needs to be an explanation here of why Idaho may differ from some other States. The question evolves around the types of banking system this State has. Idaho's predominantly a chain banking State. You take States like Iowa, Nebraska, Illinois, and some of the Midwestern States back there, they're independent bank systems, not chain banks.

There's a couple bankers over there that may want to disagree with me.

Senator SYMMS. They're going to get their chance in a minute. That's what I want to hear. I want you folks to lay it all out here.

Mr. NORBERG. In my opinion, the chain bank is not a good candidate for a guaranteed loan program for this reason: Let me use an example. Idaho First National Bank in the State of Idaho is the ninth largest ag lender in the United States.

Senator SYMMS. Ninth largest?

Mr. NORBERG. Ninth largest ag lender. Now the interesting thing about this is that the ag portion of their portfolio is only about 10 percent.

You see, they're not particularly concerned about offsetting the ag losses they have there, because they have a widely diversified portfolio.

You get into an independent bank, and that's a different situation. Independent banks generally have a rather large portion of agricultural areas, have a large portion of their portfolio in ag loans. And I think unless one of the bankers here wants to correct me on that, that the portion of independent banks in Idaho, for instance, are running 35 to 65 percent of the portfolio being in ag loans.

Well, if you're going to take a big hit in ag loans, your bank is in trouble, no question about it. But the large chain banks don't have that particular problem, because they're offsetting that.

Senator SYMMS. So are most of these 96 guaranteed loans in independent banks, then?

Mr. NORBERG. I can't answer that, Senator. I don't know where those are.

There's tendency here in Idaho that the chain banks participate less in our program than the small independent banks.

Senator SYMMS. Than the small independent banks? Mr. Bennett, do you find that true nationally?

Mr. BENNETT. I'm not sure that we have figures that would give us that. We look at the total guaranteed dollar amount. It's an interesting point. I really—I don't know how those figures would stack up nationwide.

Senator SYMMS. Let me ask you—go ahead, Bill.

Mr. NORBERG. I did an analysis of the guaranteed loan program a couple months ago, and of all the Western States, Idaho, strangely enough, has a greater participation in the guarantee program than any other State except Montana. Montana has considerably more guaranteed loans than we do.

Most of the Western States are chain banking States. Now I think Montana has a mixed bag up there, a greater mixed bag than we do.

Senator SYMMS. Let me ask you another question. I think you've both brought up the point about the due date when your loan comes due in getting the crop money in. Is there a set due date on loans at FmHA? Is it the end of the calendar year? When is it?

Mr. NORBERG. January 1.

Senator SYMMS. Every year? Is there any reason why that has to be so rigid on that, or is there any way that could be more flexible on a case by case basis?

Mr. NORBERG. Mr. Bennett may be able to address that better than I. I don't know how that was arrived at. I think at one time they did have loans maturing at different dates, but there is a reason for it and Mr. Bennett probably could describe it better than I could.

Mr. BENNETT. As you get into loan making, you're looking at a crop year and income that would be derived. And you would be thinking about a 12-month period, normally, for a schedule of payments of a loan. And those loans generally would be coming due on January 1. This, I think, would be a lot of times maybe relating to State law, but we would need payment based on the crop year basis, within that general period of time when the income would probably be there.

Senator SYMMS. Say that again, on the end of the crop year?

Mr. BENNETT. No, what I'm saying is that as you move into loan making, you would have a payment that would be on a 12-month basis. And this payment would be January 1 schedule, normally.

Senator SYMMS. What about the—Bill, you mentioned in your testimony that Farmers Home does have on hand 14 applications for direct operating loans that cannot be closed because funds have been exhausted.

Did the President signing this thing last week change that?

Mr. NORBERG. No, no. The last availability of money was through the transfer of the $700 million. And that $700 million, my best understanding, has been depleted.

Senator SYMMS. What is the backlog in Idaho, then, for unfunded direct operating loans and farm ownership loans that have been approved that are pending in both State and national?

Mr. NORBERG. Fourteen at the State level. We've got 14 stacked that have been approved and I believe requested funds. But, of course, we're not getting a positive answer back.

Senator SYMMS. Do you want to comment on that, Glenn?

Mr. BENNETT. As I mentioned earlier, one of the major efforts we're in right now is to try to work any way we can with commercial lenders to move the loans over to the guaranteed loan program under what we call Operation Assist.

And since this went into effect, there's been something over $26 million funded under that program. And nationwide, we're looking very closely—working very closely with other lending agencies to try to get a full understanding of the guaranteed loan program.

We appreciate comments we've had here today. I think as we go into the future and get a better understanding and get more of the routine as to how the guaranteed program works, it's going to work better for both the lenders as well as borrowers.

This is where now that we're looking, have funding for, would be under the guaranteed authority.

Senator SYMMS. OK. I've got one other thing I want to being out. I know the hours are moving on here, but we had some questions about the interpretation of what a family farm is on these disaster loans, and the recent decision by FmHA that the blood or marriage provision of the farm bill related to partnerships and corporations under the family farm criteria does not apply to the disaster loan program.

What's the national FmHA interpretation of congressional intent behind the family farmer criteria being extended to the disaster loan program, and is this criteria being uniformly applied throughout FmHA?

Mr. BENNETT. Senator, it's our interpretation and working with our office of general counsel is that the current law does not apply to the emergency loan program as it relates to larger than a family farm, and as it relates to the blood and marriage provision.

And that would be uniform throughout the country.

Senator SYMMS. When you say current law, do you mean the new farm bill?

Mr. BENNETT. Yes, sir.

Senator SYMMS. And because it didn't speak directly to the disaster loan program or——

Mr. BENNETT. It's my understanding as they look at the provisions of the law, "they" being the legal interpretation of that, it does not address the emergency loan program as it relates to the family farm provision.

Senator SYMMS. Well, we've got several bills, I know I've discussed it with you about some of these operations, Mr. Furniss, do you want to comment on that?

Mr. FURNISS. I guess that's why I was invited, because of our work on this disaster loan. It was turned down two times, our operation, because my brother and myself farm it together. They assumed it was bigger than a family-sized farm.

Finally, with the reconvening of the committee, the county committee going over it with a fine-toothed comb, what our operation actually entails, it was real easy for them to say no and put it out, but being persistent, we decided we qualified, and we needed to do what it takes to get it done.

So the reconvening of the committee, going over it and actually having, this coming year, to cut back a portion of our operation, because they wouldn't divide that into two farms. They considered it one as a partnership. I know there are people of the committee who have farms just as large, just one family, and because of that we had to cut back our operation a little bit which inhibits paying some of the debts we need to satisfy.

But finally, it was approved and the work's been done. It has been 6 months.

Senator SYMMS. But you did get approval on the disaster loan?

Mr. FURNISS. We got approval just yesterday that the funds were actually made available. But the family-sized farm is a problem, because there's no question you're a family farm, a family-sized farm. And that needs to be handled, be satisfied to where it's accurate.

Senator SYMMS. Any recommendations on that, Bill?

Mr. NORBERG. Well, various attempts have been made over 40-some years concerning the family farm question. It's not a new one.

Senator SYMMS. It just absolutely blows the minds of some people in the East to find out that a family farm out here may be 40,000 acres.

Mr. NORBERG. Well, Senator, if you go back to the origins of this program, it was designed for something entirely—that I think is entirely misunderstood and not understood today. The program was not intended to—as a bail-out program, and I hate to use that word, but in a sense that's what it finally boils down to.

It was a starting farmer program, and it provided the bare necessities to a tenant farmer and particularly directed at the problems that existed in the Midwest and South.

The West is certainly different, but what has been lost in this definition is the word "small." And there's where we get into the problem of what is a family farm. There is a definition, but in my opinion it is kind of nebulous—what that definition is. And at this point we'd have to leave it up to the county committee to judge in their opinion what a typical family farm is in their locality.

And you know, there is a lot of disagreement with that. That's about the best we could do with it, and it's going to vary.

Senator SYMMS. I'll tell you one thing that the Congressman that is the chairman of the House Ag Committee—his definition of what a small family farm is is different than what we're talking about here. And I think you've really hit on a key problem, and he shares, basically, the same value system as most people in Idaho do, and he doesn't think some of these big spreads out here are what this farm bill is all about. And there is a real conflict here and I think you're right on a key point that it's going to require a lot of thoughtful consideration.

I don't know as I have the answer to it, but these people definitely end up in a disaster. There's no question about it. I went through—did you have some of these warehouses full of rotten potatoes last year?

Mr. FURNISS. Not a warehouse, but my cellar had over a third of the potatoes dumped.

Senator SYMMS. I went through some of these big operators, cellar after cellar and warehouse after warehouse, and I asked a couple of them how much it cost to fill that cellar, and they said $300,000, and some of them had four or five of them that they dumped them all. And some would say they're not family farmers, they're big operators, but when you have a disaster and it's all in the family——

Mr. FURNISS. One loan officer I was visiting with, an idea he had was rather than determine by family-sized farm, if funds were available and they're willing to loan up to x amount of dollars, then loan up to x amount of dollars and cut it off at that.

If the loss was greater, you'd have to seek elsewhere. If it was less, proportion it out.

Senator SYMMS. What are some of these farmers doing that aren't getting credit? Your mentioned 10 percent didn't get financed. Are they just farming——

Mr. FURNISS. Many crops are grown out there without sufficient fertilizer. The farmer finds a way to get his crops planted.

I only know of one other disaster loan, I think, in the Bingham County area that was approved. I know that disaster hit many, many farmers, and I know you get into the problem of repayment, cash-flow and different things like that, but there are—for most of the banks that come through now, but like I said when they needed the money, it wasn't available. And I know there are farmers right now, one farmer in particular that more than qualifies on the disaster, but can't get approved on the disaster loan.

Of course, that's the banker's decision, but he doesn't know whether he's going to fertilize his potatoes and this and that.

I don't know the answer, but, yes, there are those who are farming right now without funds. What they're going to do for fertilizer, I don't know.

Senator SYMMS. Well, they won't be as far in debt as they might have been.

Mr. FURNISS. Might be better off.

Senator SYMMS. That's one thing about it, you know I've talked to so many farmers in this State with a 21-percent interest rate, they borrowed against their capital to pay the interest rates when they were up at the really high rates. I'm talking about they got so far in it's just a combination of a whole lot of things that I think have hurt the U.S. ag picture. We had a hearing yesterday, and we talked about the exports versus imports and so forth, and the U.S. record is not all sure-fire clear. We had the embargo and the artificially high-loan price, and basically provided umbrella to help the Japanese and others go in and finance agriculture to compete against us. We've got it so bad now that Saudi Arabia can export wheat. It costs them $14 a bushel to grow it, but they can still do it and export it, and they do a little. It's just unbelievable what agriculture—and a lot of the blame is right here in the United States. It's our own inadequate ignorant farm policies that brought it about and got our farmers in a jam over the past 20 years.

Well, I really appreciate this panel. I think they're made some very excellent points. We want to thank you for coming out all the way from Washington and Bruce, for coming from Rupert and Furniss and Bill Norberg, I guess the picture, then, I might just kind of summarize it: The picture with Idaho FmHA is that the guaranteed loan program is working some, and you're all probably going to be able to stay here so you can hear some of the comments of the others. I'll ask them the same questions.

Do you have a plane to catch?

Mr. BENNETT. I do have at 11:50, Senator.

Senator SYMMS. OK, well I'll get the next panel so you can hear some of their comments.

Mr. FURNISS. Just one comment I would like to make on obtaining this loan. I think that concerns me. We had to mortgage probably three times the value of that loan, which I don't think was necessary at all. In fact, they said on emergency loans they had to take a blanket mortgage on everything you own.

Now we separated what was needed to cover that, and they turned around and took a position behind or first or whatever the case may be on everything, and I don't think that's right.

I don't think we should have to mortgage to the Government more than the equity of the loan, and those were the deflated ground and machinery values we have now. But they still came in and took everything.

That concerns me, not so much right now, but it may in a couple of years if they don't release that. That's the policy.

Senator SYMMS. That's the policy, and I'm just shooting off the top of my head here. One thing about it that's a tremendous incentive for a borrower to get out from under that and go elsewhere.

Mr. FURNISS. If they will release it when the time comes.

Senator SYMMS. Well if you got a——

Mr. FURNISS. It's a 20-year note.

Senator SYMMS. I see what you mean.

Mr. FURNISS. See what I'm talking about? Where you satisfy that——

Senator SYMMS. Well what are these rates of interest?

Mr. FURNISS. Five percent.

Mr. NORBERG. Five percent for the first $100,000 and 8 percent for the next $400,000.

Senator SYMMS. That's going to be the kind of loan you won't want to pay off if things stay as they are now.

Mr. FURNISS. But there might be something you want to do with some of the other——

Senator SYMMS. Right. OK, well thank you all very much. I appreciate it very much, I think we got a lot of valuable information.

Next we have Rick Floyd from the First Interstate Bank of Idaho; Blair Hawkes from the Ireland Bank in Malad; Gene Davis, a rancher and feedlot operator from Bruneau; and Bert Marble, a farmer-rancher from Malad. I appreciate all of you being here, and Rick, we'll lead off with your testimony.

Good morning, gentlemen, and I thank all of you for being here. Rick, whenever you're ready, we'll get your water there.

STATEMENT OF PATRICK M. FLOYD, LOAN ADMINISTRATOR, FIRST INTERSTATE BANK OF IDAHO

Mr. FLOYD. Thanks very much. I appreciate the opportunity to speak before you today regarding general financial conditions within Idaho agriculture. My occupation is that of a banker. Specifically, I am a loan administrator for First Interstate Bank of Idaho, a member of First Interstate Bancorporation, a bank holding company. My role as a loan administrator is to approve and decline loans submitted by branch lending officers from 15 major branches within our State ranging from Wilder, near the Oregon border, to Idaho Falls. My perspective is one which is well rounded, since I have the opportunity, on a daily basis, to review and make credit decisions for a variety of rural, commercial, and light industrial loans, agri-businesses as well as agricultural production lending.

It is more than fair to say that these are turbulent times within the financing of production agriculture. Unfortunately, however, the major emphasis within a variety of media has focused upon the results and consequences of this turmoil and not upon the basic foundations of why so many farmers are financially foundering today.

My educational background entails a bachelor's degree in agricultural economics from the University of Idaho, and I have professionally served as chairman of the Agricultural Steering Committee of the Idaho Banker's Association, and later represented Idaho agricultural bankers to the American Bankers Association in Washington, DC. I believe I can speak with adequate perspective to the concerns possessed by commercial and agricultural lenders within the State of Idaho.

We continue to see a declining number of qualified borrowing applicants who are desirous of obtaining operating lines of credit. The credit decisions on the lenders' side of the table for such seasonal financing requests have always been basically driven by forecast profitability and margins. Most financial institutions use a three-pronged approach in such seasonal credit requests, which include:

(1) Will they repay the bank? Integrity and stability are considered, and if unsatisfactory, proceeding to other tiers of loan consideration is halted.

(2) Can they repay the bank? This is often described within our banking vernacular as a primary source of repayment. It is this very point of economic viability that I would like to more thoroughly discuss.

(3) What does the bank do should the "roof fall in"? This is often described as the secondary source for repayment and is the foundation for why collateral is provided to secure a loan accommodation. Such collateral typically consists of fixed assets in which the bank receives a perfected security interest.

As just noted, the primary source of repayment is the heart of the problem today. This primary source for repayment is simply the budget or profit projection which underlies a loan request and has as its foundation: historical yields, fixed and variable costs, along with current (and projected) unit pricing for crops and livestock.

The precipitous drop in typical Idaho crop commodities, for example, dry beans, potatoes, corn, feed barley, spring wheat and winter wheat, have compressed gross revenues so tightly that it is difficult for many farmers to recoup their variable input costs and make payments on their machinery (or alternatively pay for custom machinery operators hired) and have anything left within the profit projections to then service fixed payments such as real property rental or real property payments.

Senator Symms, in corresponding with me regarding this meeting queried, "What percent of qualified Idaho agricultural borrowers are currently unable to obtain adequate credits?" My response is that almost all qualified borrowers are receiving at least nominal lines of credit. The hook, however, is the definition of a qualified borrower. Unfortunately, many commercial banks are unable to qualify farm customers due to the inability to base the credit extension on a profit projection. This is directly tied to the severely depressed national commodity prices from 3 and 4 years ago. On the one hand, my judgment is that most borrowers of banks are able to continue to receive seasonal credit. The other side of that same coin is that there is an increasing level of those who are not qualifying any longer.

In my opinion, the root problem is that dealing with the transition U.S. agriculture is now making. Recapturing international markets is certainly laudable, however, it would be more than simplistic to believe that Canada, Australia, Brazil, Argentina, and other major agricultural product exporting nations will readily release market share without meeting U.S. depressed prices on the world markets.

The impact in Idaho is most severely felt by those in the 25- to 40-year-old age bracket. Oftentimes, these are the best and brightest of farmers—those who have been educated both in the school of hard knocks as well as at various land grant State universities. Unfortunately, however, it is this very group that purchased land and other fixed assets with values at decade highs and thus simply employ the highest degree of financial leverage. Such financial leverage is best described as the small amount of equity maintained within equipment and land, which results in little or no secondary source for repayment to a farmer's banker.

The media, and even various governmental tracking statistics, have well documented the precipitous slide in both farmland and equipment values and equities, along with well publicized "debt to asset ratios." These major collapses in asset values are often identified as the principal reason why bank financing is denied. As just noted, though, bankers almost always focus on the profit projection, or primary source for repayment, long before evaluating secondary sources.

With crop and livestock prices at so low a level after bank financing is denied, unless other creditors can be aligned, sales of these and fixed assets are poured onto an ever enlarging pool of used equipment and land for sale driving market values lower and lower.

The Farmers Home Administration is fulfilling a vital role within the financing of Idaho agriculture. Unfortunately, however, the guarantees given by the Farmers Home Administration for commercial-agricultural loans are far different from that of the Small Business Administration guarantee. At the time when Idaho agriculture requires efficient and speedy responses, so that the farmer may evaluate different alternatives, we find the governmental redtape within the FmHA programs are abundant and unnecessary. The regulations provided by the FmHA allow for a matrix of guarantees which result in a game of high ball-low ball when initially requesting a 90-percent guarantee. Further, the Farmers Home Administration guarantee is a guarantee regarding loss amounts rather than the loan balance outstanding. This difference in governmental guarantees serves to further tighten credit requirements of banks on farmers.

Now it's my belief that although there is little problem with adequate liquidity within major Idaho banks to make seasonal farm loans, the degree of risk will continue to increase. Obtaining credit will become an increasing problem for Idaho farmers, for I refer back to may initial indications that without a profit projection (that would be a primary source for repayment) along with other assets for the banker to turn to should Mother Nature wreak havoc within the farm enterprise, such as equity within fixed assets as a secondary source of repayment for the loan, more and more farmers will be forced out of business.

Office of the comptroller of the currency and national bank examination regulations provide little latitude in assessing credit quality. Often, yardsticks of valuing assets are applied with a broad brush approach by such examiners. Should their estimate of value be less than the bank's, typically the bank is constrained to begin charging the loan off our books as a loss to principal. Obviously, this is not the posture to address forebearance.

In summary, the economic turmoil within production agriculture is continuing, and will until more profitability can be obtained by the average farmer. This distress is finding its way to many main street firms and Idaho will continue to bear a significant burden of this transitional pain. I thank you for the opportunity to address you.

Senator SYMMS. Thank you very much for a very well thought out statement, which isn't necessarily optimistic, but may be very realistic. I appreciate it very much. We will now hear from Blair Hawkes.

STATEMENT OF R. BLAIR HAWKES, PRESIDENT, IRELAND BANK, MALAD, ID

Mr. HAWKES. My name is Blair Hawkes, Malad, Idaho. I'm the president of Ireland Bank, a bank of $45 million in assets. We are predominantly an agricultural bank with $25 million in loans. Of that 47 percent are agricultural, or agricultural-related loans. We have four offices, all in communities that are heavily dependent on agriculture as the mainstay of their economy. The numbers that were previously given are a misnomer in that the business and personal loans we have are heavily dependent on agriculture. I would think that 90 percent of our loans are agricultural dependent.

It is my understanding that the thrust of this hearing is related to the availability of money to be lent to agriculture. It is my opinion that money is available to agricultural borrowers. We have made and still are making loans to people who do no other thing but farm. It is, however, more and more difficult to find borrowers who can show a means of paying back their loans. The erosion of real estate and equipment values, coupled with the animal and commodity prices, have made it hard to find farmers who can cashflow their debt. The above-mentioned scenario makes it very difficult to find "qualified borrowers." I think that the word "qualified" needs some definition here. A qualified borrower is one who has character, capacity and capital to handle the credit of which he asks. As previously stated, these people are hard to find.

It is hard for a bank of my size, or any size, to make loans of a term that is presently needed. The term reduces payment amount and helps qualified people who on a short term could not qualify. However, how does one make a 10-year loan against a 6-month deposit?

If one were to secure loans, which we try to do, how do you use real estate values or machinery values or cattle values or crop values? In each instance we have seen huge reductions and gyrations in values. Real estate has dropped 50 percent; machinery values are 10 cents on the dollar of used versus new machinery; cattle prices have been poor because of the dairy buy outs and imports; crop values are hurting because of the huge deficit created by an inability to compete for markets in the world. So where does a lender find a position to take? It is equally difficult when things are out of one's hands.

Congress' policies have had a lot to do with the problems. The administration's policies have had the same effect. The effect of large unaddressed deficits have been terrible to farmers as the cost of everything has escalated except farm income from farm products, which has declined. Lenders have felt that if necessary, debt could be paid by selling real estate. But with the erosion of value, who wants real estate?

The Farmers Home Administration program can help a great deal. Farmers Home Administration was the lender of last resort, but they have moved from that position to a competitive lender. The most recent position of loan guarantor has helped the lenders find ways to loan and be somewhat protected. It has given terms when term was not available. The largest single problem is the evasive policies largely determined on the basis of personality, rather than fact, and that's difficult to deal with. Unless something happens to sure up commodity prices and reduce cost, agriculture as we know it in this country will be a thing of the past.

Terms help, that's not a panacea. The loan still has to be paid back. All the terms in the world cannot pay back the debt if the borrower is in too deep. The old addage that, "One cannot borrow themselves out of debt" has great meaning.

If the past trends continue into the future, no amount of credit or forebearance will see us out of this agriculture quagmire. Frankly, I do not see a light at the end of the tunnel as far as agriculture is concerned. The problems in agriculture have virtually affected everyone who is a farmer.

The cost of maintaining the present type of program in relation to the percentage of the population must be looked at. With virtually 100 percent of the agricultural sector impacted, perhaps it is now time for the government to get out of the agricultural market. Leave the crop alone. Leave dairy alone. Leave cattle alone. Let the market seek its own level. You may impact some, but not all with such a program. Whatever impact would be straightened out in the next round.

Dollars committed by the Government to agriculture far outweighs the proportionate percentage of the population. There is money to be lent, so why not make commodity prices the area of repair rather than the availability of credit. If prices were to strengthen or stabilize, if costs were to go down, then the question of qualified borrowers would be considerably lessened. The Government's agricultural program seems to be counter to the above proposal.

A case in point is a commodity credit loan. A farmer comes in and takes a loan against his crop. Let's say the loan level is $3.20. The farmer keeps his grain in storage, able to sell when wheat prices reach target prices of $3.45. Wheat reaches $3.45 so the farmer sells his wheat and many other farmers do the same thing, so wheat prices never get above $3.45. The Government program is counter to what its intention should be by keeping commodity prices low.

If we are to maintain commodity prices on a world basis, we must be a consistent player. Government policies have done us in here again. We, by our own economic policies, have priced ourselves out of world competition. We have used food as a weapon. The policy of food as a weapon is silly. We put an embargo on Russia for wheat, and all of a sudden looked and Spain imports 50 billion bushels of wheat. They then make a killing by selling it to the Russians. Get out of the market. If Russia cannot buy from us on a regular basis, they can from the Canadians or the Australians or the Argentines. The same can be said of our commodities.

Obviously, the dollar is linked here. The strong dollar has made our commodities unattractive. We now show huge deficit trade balances that will right themselves if we insist our trading partners trade with us openly as we do with them.

We know about this displacement in agriculture. We have watched the struggle of the Federal farm intermediate system stay afloat. We have watched the gyrations of the Farmers Home Administration. We have seen two banks in our service area go broke. We have even purchased one in the last month that was struggling.

We have made a commitment to agriculture. While things are tough, we still find a place to fill our niche. We think that a good portion of the problem of agriculture would go away with some stronger prices for agricultural commodities. Strong prices could be had by balancing the budget, which would bring the dollar down. A weakened dollar would make our produce less costly in foreign markets, thereby suring up prices, which as previously stated is the largest single help.

I think that every problem that we face in agriculture is caused by one thing: Our fight against inflation. The fight is right and best be maintained, but the disposition is hard to live with. That situation by all measures was created by a government who was willing to spend more than it has. People were encouraged to do the same thing, and now we are paying the price for it.

The message in my mind is loud and clear: Get the Government out of agriculture as soon as possible. Is it a matter of pride not to withdraw? Take courage, there never has been a successful agricultural program by an administration. If you would erradicate yourselves, no longer would you have to worry about their vote. After all, those farmers are really a small percent of the population. They could well take care of themselves if you left them alone.

Senator SYMMS. Thank you very much. I wish we could do as you suggest in getting the Government out of agriculture, because they've certainly—every time the Government tries to help one group, it hurts somebody else. And I think you're right on target on that.

Next witness is Mr. Gene Davis, who probably has something good to say about the dairy buy-out program, don't you, Gene?

Mr. DAVIS. Do I have to comment, Senator?

Senator SYMMS. No, I don't want to ruin your day. But welcome to the subcommittee. Glad to have you here from Bruneau.

STATEMENT OF EUGENE C. DAVIS, BRUNEAU CATTLE CO., BRUNEAU, ID

Mr. DAVIS. Thank you, it's nice to be here, Senator. I guess in regard—since I've been prompted on the dairy program, aside from my prepared statement—I would say that it was a terrible disaster. I think everyone, even the Secretary of Labor would admit at this point in time, but at this time, because of some actions that were taken, I think it's going to ease out of the thing.

Senator SYMMS. I think the worst part is behind us. Of course, Secretary Lyng was fighting the thing at the beginning. He didn't want it in the first place and got it shoved down his throat. And it really was psychologically, probably, worse than its actual reality. But that's all it takes in the market, as you know.

Mr. DAVIS. I appreciate this opportunity to appear before this subcommittee to discuss the adequacy and availability of agricultural credit. I wish someone in this room had all of the solutions to the problems that face American agricultural producers in today's disinflationary period. Unfortunately, no one person has all of the solutions, so it is necessary for each of us to present our opinion based upon our own perspective, to policymaking groups such as this one.

You are to be commended, Senator, for bringing these hearings to Idaho. And I encourage you to continue these efforts to communicate directly with the grassroots producers who are impacted by the agricultural and trade policies of the Federal Government.

I will address the four points of particular interest to this group as outlined in the invitation to testify here today. Then if I may, I will suggest what I see as potentially beneficial policy changes that could be made to help alleviate some of today's agricultural credit difficulties.

The first point to be addressed is: In your judgment, what percent of qualified Idaho agricultural borrowers are currently unable to obtain adequate credit?

Again, what is qualified? Who determines qualified? I say here all qualified borrowers are able to obtain adequate credit. The problem is that the definition of a qualified borrower has changed drastically in the last 2 years. In the past, if a loan showed an adverse trend, but still had good, solid security, a lender could stay with it and most likely it would recover to a strong position. Today, if a loan shows a 2-year adverse trend and a debt to asset ratio of greater than 50 percent, it is classified as a problem loan.

The lender must then increase his reserve for loan losses, which is a charge against earnings, so he isn't particularly anxious to take on the challenge of salvaging that loan through a debt restructure or any other way. The reduced risk-taking ability of the lender dictates that those kinds of loans be avoided. I believe that the lender and more importantly, the lender's regulatory agency, must recognize the cyclical nature of agriculture and realize that 1 year's data does not a trend make.

One lender I visited with in preparation for this hearing indicated that half of the loans in his office fall into that category today. In the past, he feels that his institution could have stated with and salvaged 90 percent of those. Today he has no option but to try to get out of those loans.

The second point to be addressed is: What suggestions do you have to make credit more available for qualified borrowers?

The plain truth is that a 10- to 15-percent increase in commodity prices would change the scenario so quickly that we wouldn't even be talking about credit problems. Unfortunately, that will not occur overnight. Some regulatory relief may be called for. As mentioned above, a lender's risk-taking ability can be greatly affected by the credit quality of his loans outstanding. I realize that this type of relief can be dangerous. I am not so naive as to suggest that if we close our eyes, the problem will go away. There have been suggestions made that the farm credit system should be recapitalized though an infusion of Government funds on a loan basis. This may be necessary to make credit more available to agricultural borrowers in the immediate future.

I do believe that commercial lenders will need to be treated equally. It is true that a commercial bank has much more diversification than an entity that loans only to agriculture. Nevertheless, without equal treatment, even that diversity enables a bank to maintain an acceptable overall credit rating. Major depositors and stockholders will soon tire of any agricultural portfolio that receives continued scornful treatment by credit review teams. Such a scenario would not enhance the availability of credit to the agricultural producer. It would only force him to seek a new lender. We don't need a program that creates an either/or situation. We need to treat commercial credit in the farm credit system in ways that enable each of them to remain as viable sources of agricultural credit.

At any rate, a capital infusion to the farm credit system or regulatory relief for all agricultural lenders should be viewed as short-term solutions. To make credit more available to qualified borrowers in the long term, national policies must be adopted that will restore stability to commodity prices. We can more easily survive with stable prices at medium levels than we can with boom and bust fluctuations. Artificial commodity price supports, as we have known them recently, are not the answer. Government policies should be to continue to gradually withdraw from direct price support programs and focus on monetary and fiscal policies that will allow agricultural commodities to be competitive on world markets.

Again, I am not so naive as to suggest an abrupt about face in agricultural policy. I do believe that a goodly portion, if not all of the money being spent today on direct price supports, should be better utilized to subsidize our agricultural commodities at the export level. Then we would be competing with our own people on an equal basis. I cannot, as an individual producer, compete with a foreign government willing to subsidize the export of its farm commodities or unfairly limit the import of our commodities. Neither can I compete with my own Government much longer.

Ill-conceived price support programs that benefit one segment of agriculture at the expense of another, ultimately result in more uncertainty in the marketplace and therefore, less willingness on the part of agricultural lenders to share the risk of a production loan. To me as a beef producer, the classic example of this is the dairy buy-out program. I won't belabor this issue, but I would like to point out that today the question is not how much worse will this program get, but when and how devastating will the next one be?

By the same token, when I talk about subsidies at the export level, I am not endorsing a two-tiered market approach as was discussed in last year's farm bill. As was pointed out in those discussions, to force domestic users of feed grains to participate in the market at a higher price level than the exporters of those commodities is a damn poor way to treat your biggest customer.

The third point to be addressed is: Do you think credit will be more of a problem in the near future?

Without drastically decreased production costs or increased commodity prices, the answer is definitely yes.

If the profitability of agricultural enterprises continues to lag for another 2 or 3 years, you are going to have to look at some other policy changes to serve as stop-gap measures.

As financial institutions acquire more and more real estate through foreclosure, voluntary conveyance, or compromise indebtedness, you have to ask yourself how big you are willing to allow the snowball to get. The Farmers Home Administration is to be commended for not placing all of its acquired property on the auction block at fire sale prices. This policy needs to continue. You may also need to consider reform of the regulation that requires commercial lenders to dispose of other real estate within 5 years of its acquisition.

The fourth point to be addressed is: Do present regulations provide enough latitude for forebearance for borrowers with repayment problems?

I guess I would have to say I don't know. How many farmers do we need to keep in business? There is no question in my mind that more farmers are going to go out of business, and some of them probably should, or at least have gone past the point of even hoping for a recovery. In the case of the office, I spoke of near the beginning of this testimony in which the lender felt he had no latitude left with half his loans, even though 90 percent of those are probably salvageable, the answer is no.

However, it is pointless to talk about forebearance for the borrower if the regulatory agency that oversees the lending institution will not or cannot forebear for the lender.

Let me make another point: I believe that we need a viable agricultural industry in this country. I also believe that the economic catastrophe that has befallen agriculture is not going to end at anytime soon. Agriculture will not return to financial health until this period of disinflation has had time to run completely through the economy and affect our input costs as well as our commodity prices.

Slaughter steers at $56 a hundredweight won't justify $6 a hundreweight barley. Barley at $4 a hundredweight won't justify $120,000 combines. Hay at $40 a ton, won't justify $100,000 worth of haying equipment, much less a $15,000 pickup to haul it to a $350 cow.

Agricultural lenders and producers are going to need changes in regulations to survive the short-term pressure. Lenders and producers are going to need changes. This nation needs agricultural and trade policy to restore long-term financial health to the agricultural industry.

To summarize, some specific topics I believe should be considered for their long-term benefits to agriculture:

(1) Continue current monetary and fiscal policy to control inflation and the Federal deficit.

(2) The U.S. Government should continue to gradually withdraw from direct commodity price support programs.

(3) The Congress should give serious consideration to the recommendations of the National Commission on Agricultural Trade and

Export Policy. These folks came up with some very, very noteworthy suggestions on something we should pursue.

(4) The U.S. Government should not hesitate to meet head on the unfair trade practices of foreign governments which make it impossible for our agricultural commodities to compete in world markets. If this means subsidizing our exports or severely restricting imports to this country, we must have the fortitude to take those actions.

Until these policies have had time to work, you will need to stand ready to implement some other measures that will serve to preserve a viable agricultural base. Some of these measures, as I see them, are:

(1) Regulatory relief for agricultural lenders, so they can show forebearance when needed.

(2) Capital infusion to the farm credit system with similar treatment for commercial lenders servicing agriculture may become necessary to restore the lender's risk-taking ability.

(3) Allow FmHA to continue to hold foreclosed properties, rather than force the sale of these lands.

(4) Regulatory change to allow commercial lenders to hold other real estate for longer than 5 years.

(5) Please continue to communicate with those of us involved in production agriculture.

Thank you for the opportunity to appear before you today.

Senator SYMMS. Thank you very much, Gene, for an excellent statement. That was well thought out, also. The next witness is Mr. Bert Marble, from Malad. Bert, welcome to the subcommittee, and we're glad to have you here this morning.

STATEMENT OF BERT R. MARBLE, FARMER-RANCHER, MALAD, ID

Mr. MARBLE. Thank you, Senator. My statement will be a little different than those in the past. I have a prepared statement there. I'm going to forego that with the permission of John Hatch, who I talked to last evening.

On the lighter side, I have a daughter that just tried out for Junior Miss, and her father being a farmer, I guess they felt it was important to discuss farming in the interview. And they asked her to her knowledge, what would be the best thing that they could do to straighten up the Farm Program. She said that she wasn't able to answer that question, because the Federal Government had been trying to straighten it out for 100 years, and they hadn't figured it out either.

I'm a little bit that way. Now in my prepared statement, I tried my best to straighten out this program. But with John's permission last night——

Senator SYMMS. Your entire prepared statement will be put in the record, and you can go ahead and say what you want to say.

Mr. MARBLE. I appreciate that. I think it's a waste of my time. It's exactly what has to happen, and it's already been covered.

But I want to tell you a little bit about my operation. I own 4,000 acres of ground and I rent another 700 acres of farm that went into a chapter 7 just last week, and the farmer came to me and asked me if I'd rent it this year.

I'm one of the farmers that is not financed. My crops do not have fertilizer on them, and they are in good shape, other than they need the fertilizer to do the best job.

I would like to explain a little bit of what I've done to obtain financing and to whom I have gone.

First, I was in the bank, which is the First Bank & Trust that went in—that was taken over, that went broke, the way us farmers have been doing. I guess we caused it.

Prior to that time, I went to the FmHA. I went to get a disaster loan. We had grasshopper damage on our farm, in fact, we never cut a share of our crops last year. I was considered too big a farmer to be able to get a disaster loan, and then I asked for a guaranteed loan. The bank was very helpful. They would help me get it, but there, too, I was considered too large of a farmer for a disaster loan.

As I called the committee members of the FmHA, I was told that a director said I was too large for a family farm, and they were concerned, because they didn't have an input in that. And they felt—in fact in one case, he said, "I don't know that there's a reason for us being there, because we aren't able to make those decisions for the farmers."

OK, then I went to the the Federal land bank. I told them there was some problem, but I felt that I'd be able to make my payments this year, and that I was going to pursue it that way. He said that I was the only farmer north of the Idaho—the Utah-Idaho border, up to my place—I live about 16 miles from the Idaho border, that had said they were going to be able to make a Federal land bank payment that year.

However, the dairy program did change this quite a bit. I'm going to come into that in a minute, but at that time, the Federal land bank officer said, "There's only two things you farmers can do in this area. You can either take out bankruptcy or you can wait until we foreclose."

And my neighbors have experienced both since that time.

At that time it made me angry, and I said I didn't feel like there was any sense in us continuing this discussion any further at that time. He said, "Don't leave angry."

I said, "Well, I came here to let you know my position and not to be discouraged."

Senator SYMMS. This is at the Federal land bank?

Mr. MARBLE. This is the Federal land bank. Okay, at the bank foreclosure, as it was turned over to the FDIC, and at that point they sent us out a letter, said to come in and explain the situation we had or what we was going to do with our loans.

So I went into the FDIC and at the first meeting I set down knee to knee to two of their officers, and he brought out the papers with my loans, and he said, "Is that your name on the loan?"

I said, "Yes, sir."

He said, "I want my money."

And I said, "Yes, I'm sure you do."

And he said—we went by this thing for 15 minutes. He kept saying, "Is this your name on the loan?"

"Yes, sir, it is my name on the loan."

Senator SYMMS. This is at the bank?

Mr. MARBLE. This is at the FDIC, at the bank with the FDIC officers. And this went on and on, and finally this fellow, the one that was doing the interrogation—is what I called it—he finally was called out to one of the other areas to work, and when he left, the other officer said, "Well, he came on awful strong. We don't generally do that until the third meeting."

And I said,"Well, sir," I said, "I don't have my wallet with me today," I said, "but if he would ask me for $100, it would be just as impossible as the $450,000 I owe you." So I said, "We'd better sit down and discuss what we're going to do about this problem."

And he said, "What is the situation? How come it is not paid?"

I said, "The crop was produced; the crop was sold; the dairy buyout came in; I lost 17 semiloads of hay per week with no recovery in sight. I have the hay today."

So the dairy buyout put me in a position where I'm an unqualified borrower, and I guess the only difference between an unqualified borrower and a borrower that isn't unqualified is maybe 2 years more of this type of program in the Federal Government.

The only way a person can remain a qualified borrower in this country is to be able to make a profit in his business, and in the ag business it's very hard at this time. We need a price for our product, and a place to sell it. I had both to a degree with hay.

Senator SYMMS. Are you primarily an alfalfa hay producer?

Mr. MARBLE. I am this time. I raise grain; I have beef cattle; I pump water.

Senator SYMMS. To irrigate the hay?

Mr. MARBLE. Uh-huh, our production last year went over 20 tons to the acre, with our hay and silage added together. Some of our acreage we cut it as dry hay and some as silage.

The FDIC fellows then explained to me that I'd have to have a program; I'd have to have financial statements; and, come back into them and see what could be done.

On the next meeting, I had my attorney and accountant with me, and we met with the head man. And he proceeded to ask my attorney, he said, "Can an attorney from Soda Springs, ID, represent this farmer with our attorney in Oregon and using some Idaho attorneys out of Boise? Do you think you're qualified to represent this farmer?"

He said, "We have represented a few," and so that's where it stayed.

At this point I refused to give my financial statement, the reason being, he said that everything I had on the farm that was in the form of a commodity or machinery and everything I obtain would be theirs.

So consequently, the dairymen that owed me money, all that money would be tied up. I asked the question, "How can I be financed this year?"

He said, "You will have to be financed strictly on credit."

I said, "That's impossible for this community to carry." I am one of the larger farmers, and I can't ask those people to carry me with that kind of situation.

Well, as far as the bank that took over our First Bank and Trust, Idaho First National Bank, I had previously met with them after the buyout and asked them if they would take us. We knew the bank was in trouble. He said, "There is one reason we can't take you, and that's your carryover of crop."

Senator SYMMS. What's the market for hay right now?

Mr. MARBLE. The market for hay is—on the farm, about $40, $35 or $40. My average for the last few years on my hay, I marketed that for $55. I have a record of every load, and my belt hay, I've sold it for $80.

And as far as marketability, where you can go market it, I don't know. There are a few. I have two dairies left, and of those two dairies, both of them I think will be out of business within the very near future. One of the families, they're in their seventies, and they have their son working for them. Their farm and ranch and dairy was worth about $1 million a year ago. They owe $360,000 to the Federal land bank and $50,000 to PCA, and they can't borrow any money, and with the dairy buyout and their additional taxes, they say they will be walking away unless they can find somebody that will take 50 cents on the dollar, anything they can get.

So the market for hay is very low. Our grain prices have gone down; cattle prices are down. FDIC says I can't sell the cattle. I've got them ready to go. They're setting there and being fed every day.

Senator SYMMS. What do you mean you can't sell them?

Mr. MARBLE. They said I couldn't sell them until they decided what they were going to do with the commodities on our place.

Senator SYMMS. Are you finishing these cattle off or are they just——

Mr. MARBLE. No, they're ready to go to a feedlot. They also called my wife, in between these times after the first meeting, they called up and said, "We've got to go out and see where your equipment is and what the numbers are. We think we've got it all sold."

We're in no position for that. That is simply a scare tactic. We have the crops.

Senator SYMMS. You've got to have equipment to harvest, don't you?

Mr. MARBLE. That's right. They come out; they took all the numbers; they did their thing. And I haven't communicated back with them, and I'm operating on loan money. And I don't know how long I'm going to be able to do it, but that's the situation. And John gave me permission to go ahead with this, and I appreciate it.

[The prepared statement of Mr. Marble follows:]

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PREPARED STATEMENT OF BERT R. MARBLE

PURPOSE: To discuss the adequacy and availability of agricultural credit.

#1 In your judgment what percent of qualified Idaho agricultural borrowers are currently unable to obtain adequate credit?

I would assume 90%. As I go from farmer to farmer marketing my hay, I have yet to find one farmer who says he can get adequate financing.

#2 What suggestions do you have to make credit more available for qualified borrowers?

I suggest that the government take drastic steps to make the farmer more solvent so their credit requirements are reduced.

At the current price levels we cannot payback the loans we now have. New credit is not what we need. We need a new market, a price for our produce, we need an income that is more in line with the economic conditions of today.

While visiting with a FLB officer, the statement was made, "Farmers have two ways to go. They can farm until they are foreclosed on and get their debts reduced, or they can take out bankruptcy." He went on to say, "This washing the debts from the property and having the property reclaimed at it's actual value would make it possible for someone to farm with some margin of profit."

Visiting with a FHA representative a simular statement was made. While elaborating on the sufject, it was suggested that there were laws in effect which would allow the farmer to turn everything over to FHA, with or without decl-aring bankruptcy. They in turn would re-value and forgive all debts and allow the property to be purchased at it's actual value. But, it would be impossible for the farmer to retrieve the ground because he would have no borrowing power. In such a case, they would allow him to rent the property. But, he would have no machinery and no operating money, making it impossible for him to farm the ground. So, in a sense, he becomes penniless to help someone else capitalize on his loss. Thus making the wealthy become more wealthy and himself a burden on society.

To correct this situation, it is imperative that steps are taken to assure that this does not happen.

A. There has to be a write-down of debt.

B. There have to be steps taken to reduce the risks for the American farmer.

C. In such cases of foreclosure or repossession, the farmer's interest in the property must be protected. Liquidation of a person's property and life's work at 10 to 20 cents on the dollar must cease.

D. The farmer should have the right to his interest in his property, plus the right to buy out the other person's interest at the price they are willing to sell it for.

E. The loaning institutions have got to take the responsibility to see that their loans are secure enough that they will not pass the obligation of a bad loan on to others.

It is better that credit is tight rather than have loose credit and penalize all other borrowers to cover their losses.

#3 Do you think credit will be more of a problem in the near future?

Credit will be a greater problem because farmers will continue to loose their net worth until they either loose their farms or changes are made to see that they are able to turn a profit on their investment. Steps must be taken to insure that the agricultural community is strong and healthy.

#4 Do present regulations provide enough latitude for forebearance for borrowers with repayment problems?

No. If they have the ability to write everything down or sell it for 10 cents on the dollar, the farmer should have the right to farm it at the new value. It will make no difference to the financial community--but the farmer will not become a burden to society.

#5 Other.

What determins whether an agriculture borrower is qualified or Not? A dairy man became an unqualified borrower when the government levied the tax on him. I became an unqualified borrower when the dairy buy-out went into effect and I lost my customers. Under the current policy of the federal government, it seems that all people in agriculture will be unqualified borrowers simply because of the fact that there is virtually no profit in agriculture. Many of the qualified borrowers this year will be unqualified next year because they have borrowed on their net worth and it has diminished. There are other facters that have contributed to this situation. Because of the farm failures, bankruptcy, foreclosures, and repesession, etc., this has lowered the value of the land and properties. General prices to farmers have fallen to levels that make it virtually impossible to cover the costs of production.

Other factors that have led to this critical farm crisis are:

1- High interest rates
2- High fuel costs
3- High machine costs
4- High labor costs
5- The spiraling reappraisal of ground and properties

The loaning institutions have appraised the ground at higher levels to make the borrower become a qualified borrower, attempting to justify the indebtedness on the property, or to enable them to transfer the property to another borrower. Thus giving the land a false value. Later, it became apparent that reguardless of the value placed on the land, unless the unit showed an adequate cash flow, it could not remain solvent.

As a farmer in Southeast Idaho, there are other factors that have contributed heavily to our present condition:

A- Wheat embargoes
B- Long-shoreman's strikes
C- Variable farm programs
D- Dairy taxes
E- Economic injury loans
(Given to cover losses sustained by low prices due to the government's cheap food programs and the import-export practices.)
F- Disaster loans
(Given to cover losses the farmer had no control over.)
G- Dairy buy-out
H- Beef cattle prices have dropped
I- Our grain prices have dropped with no recovery in sight

J- Our land value has dropped

The majority of the money we owe is the result of the above government policies. The most recent and most devastating to us in our 30 years of farming has been the dairy buy-out program. No other program, to my knowledge, has caused more turmoil and discouragement than the dairy buy-out in this area. We lost 17 semi-loads of hay sales per week. It took us 10 years to develop this market. Out of all of our hay customers, we kept two. And, because of the dairy taxes, the remaining two and others will be out of business in the very near future, loosing their homes, dairies, livestock, and farms, and in many cases loosing everything they have accumulated in a lifetime of about 70 years of running an efficient dairy and farm. Farms that a few years back were totally out of debt.

In addition, we feel that the dairy buy-out was a big factor in the failure of our bank, the First Bank and Trust. The bank received some immediate monies from those that were bought out, but it weakened the agricultural community so that they had no pay-back-ability to keep the bank solvent.

When the FDIC took over the First Bank & Trust, which was the main agricultural bank in Southeast Idaho, the FDIC made it known to us that they had taken over the bank's position in all loans and securities, and made all debts long term and short due and payable. This makes it impossible to go to another banking organization long term or short to borrow money. The Idaho First National Bank, according to the director of the FDIC, has attempted to turn all agricultural accounts over to the FDIC. The Idaho First National Bank has taken those accounts which were current that the FDIC would not accept. In talking with farmers who are still with Idaho First National Bank, I found that many of their accounts which are not currently due, had been made due and payable also. According to the director of the FDIC, the Idaho First National Bank is not an agricultural bank.

There were other factors, the FHA, FLB, PCA, and other agencies were unwilling to help finance the farmers in our area. When in fact, there were programs available that were not exercised.

The private banking community cannot carry the responsibility for the agricultural economic condition, nor can they finance farmers when they are unable to show a profit or an adequate payback ability.

It is the responsibility of everyone in this nation to see that these conditions are changed. It is in the best interest of every American, tax payer or not, to see that the agricultural community is strong and healthy for they are producing the food we eat daily. A large percent of the job force in America is generated through the farm community. If we do not produce the food--it will be imported, resulting in the loss of our stability and independence as a nation.

Senator SYMMS. Well, I appreciate having that real live story. That's a tough situation. I said this in Twin Falls yesterday, that things are really tough on the farmer. And your statement certainly makes my statement an understatement. Does that sound right? I don't know how it could get much tougher.

But I got a question I want to ask the panel, particularly Gene. I think you made a pretty good statement of what you think it would take to restore the confidence.

Look, I was interested in your comments and Blair's both, but you made a statement, Rick, if I can find the paragraph here about, you know, my question basically is what do we do to restore confidence to agriculture and to agricultural lenders and to restore profitability. And you made a statement here about Argentina and Canada:

> Recapturing international markets is certainly laudable, however, it would be more than simplistic to believe that Canada, Australia, Brazil, Argentina and other major agricultural product exporting nations will readily release their market share without meeting United States depressed prices on the world markets.

As I know you're aware of, in 1975 when the soybean embargo went in and in 1979 when the wheat embargo went in, this generated big investments out of Japan and other places where capital went into develop agriculture to provide alternative source of supplies from the United States. But at what point do you think our lower loan prices in wheat and corn and these commodities where we're becoming competitive, will slow down some of the planning in Australia and Canada and Argentina? That's my question to you as an ag economist.

What you're saying is this is going to be a long tough fight to get these markets back. If that's the case, then we're going to have to ring out some more farmers is what it amounts to.

Mr. FLOYD. I'm afraid I'm going to have to agree with your last statement. I'm going to have to harp back to the old yarn and disclaim being an economist that the old yarn of he who lives by the crystal ball soon learns to eat ground glass. And I've eaten my share of ground glass when it comes to what price levels will support increasing sales of ag commodities.

I don't have a ready response as to what price level. We are certainly seeing this transition, and that really is the heart of my testimony today. To qualify more agricultural borrowers, we need to have more profitability. To have more profitability, you need to have greater amounts of sales at a profit. And unfortunately, I don't have a ready response.

At what level Canada will start to compete with us head to head and allow us to capture market shares and market more of our products, I don't know, Senator. I do have this inclination and this fairly certain assumption, that they will retain—they will want to retain and will continue to retain their international market share in that it provides a profitable return to farmers from Australia to Brazil to Argentina, and it's going to be perhaps a ringing out process as we have embarked upon it.

Senator SYMMS. Blair, do you want to comment on that? Your bank is 90 percent lent to agriculture is what you really stated.

Mr. HAWKES. That is true.

Senator SYMMS. And you're still in business and still banking and still hopeful that agriculture is going to maintain enough of a basis to keep your community alive, is basically what your future is?

Mr. HAWKES. That's a fair assumption. Obviously, we're dependent on agriculture, the total of the community, the bank is. As I stated, we bought a bank within the last month that is an ag bank, but there are those who are suffering; there are numbers who are not. That's not to say they're not impacted, but people who are older and who have incurred the initial capital response of buying land or making adjustments for machinery, et cetera, who haven't had to borrow, they're still there.

But you see the future can't hang on an older man's hat. We need to start replacing the older fellows—I'm getting to that age.

Senator SYMMS. No, I don't put you in that category at all. See what that would be doing to me? I'm older than you are.

Mr. HAWKES. But we need to replace those people with younger people. Because of the capital intensiveness of farming and the lack of profitability, it's awfully difficult to anticipate a future. In our instance, we tried to spread the base. We're actively involved in seeking new industry, be it complementary to agriculture or otherwise. Some of the younger men had to go to work in the plants, and fortunately we've had Thiokol. Unfortunately, they had a problem with the space shuttle, but nevertheless, there is a future in agriculture in my opinion.

But you know, we were in a meeting not long ago in which Mr. Simplot addressed us. And he was telling us that he owns the largest single strawberry processing plant in the world. It's in Santa Maria, CA. In Santa Maria, CA, he pays those people, ladies who pick the stems off the strawberries and make them ready for processing, $8 an hour. He's built one in Mexico, and it's rapidly becoming a large processor of strawberries, and he pays those people $3 a day.

So when you're talking about profitability, where do you go? I think that's why it's important we recognize we're dependent on the world market. That's why it's so important to have markets that we are able to sell to, because we've got to do something different.

Senator SYMMS. Well, the point Gene made, I think in his statement there that I think is a straight statement. He said to hold the course. You don't want to go back to inflation, you want stability, you want real growth with noninflationary growth is really what he said. And you want profits to be real, not artificial through an expanding, rising price that discombobulates everything. But he also said that a guy can't have $100,000 worth of haying equipment to sell hay at $40 a ton. You said that in your statement.

Now this equipment, you go out and buy this farm equipment, somebody said here for 10 cents on the dollar used, but it's in fine condition. That gives the adjustment process to take place that Rick's talking about, and it's an adjustment of somebody going in and capitalizing on the poor farmer is what you're saying.

But that's certainly tough on those people that are already out there.

Mr. HAWKES. I think that's the largest single problem. You're seeing adjustments take place, but how long can we stand adjustments? The point you're making with the machinery prices is exactly right. Why go and buy new machinery when you can pay 10 cents on the dollar for slightly used? You see you break down the total infrastructure of agriculture by doing that, and you're right. There is an adjustment. It is taking place, but it's a terribly painful adjustment.

Senator SYMMS. And what you must be doing in your ag loan in both cases for the commercial bankers here, is people that you perceive that, even though they may have a cash-flow problem, if they can service their debt, you're staying with them right now. I mean if they're servicing their debt and hanging on——

Mr. HAWKES. When you send in the FCA, we don't have a competitor; we have to do something different. And we are trying to hang on. Of course, that's where Farmers Home comes into place.

Senator SYMMS. How about these guaranteed loans?

Mr. HAWKES. Exactly, I think Mr. Norberg's testimony was exactly right. We are independent banks. We are not chain banks and we can utilize that considerably more, because we don't have a place to spread our base.

Senator SYMMS. Are you getting some of those guarantees?

Mr. HAWKES. We are.

Senator SYMMS. Now I had some complaints about the fact—but you don't grow many potatoes down in Malad.

Mr. HAWKES. We have one grower of seed potatoes.

Senator SYMMS. I think I talked to you one time earlier this year, and another person in the bank was trying to get the cash-flow so they could get guaranteed loans on the price raise from $3.25 to $4 something. What could be done to encourage the First Interstate, for example, to do more guaranteed loans?

Mr. FLOYD. Basically, the two things I mentioned, that of the complexity and the rules and regulations. I didn't mention redtape as a generalism. As was noted in the panel earlier, there is a significant amount of discussion and interpretive ruling between this matrix of percentage guarantees. It takes an awful lot of time to go in and high ball-low ball, to find out what percent the Farmers Home will, in the end, guarantee.

As a commercial lender, we would like to know right off the top it's a 90-percent guarantee or an 85-percent guarantee and make our decisions and lay out the alternatives for our customer. We don't hold the customer captive by any means. In the commercial banking room, there are many competitors. We like to lay out our alternative to our customers.

To spend enumerable numbers of hours to find out what percentage guarantee is, to find out if the cash-flow is expendable, to run all the figures back and forth through Farmers Home is time consuming and unproductive in our eyes.

The second is that in contrasting the SBA and Farmers Home Administration guarantees, there is a very significant difference, and that impedes the usage of Farmers Home guarantees, because it is so different than SBA.

SBA is a time proven vehicle which commercial lenders have long utilized, and the Farmers Home product is not as efficient as that of the SBA.

Senator SYMMS. Well maybe the Farmers Home people can sit down and counsel with the SBA people and find out how they're doing it. Of course, SBA has been on the chopping block here lately.

Mr. FLOYD. Well they have been lately, but certainly the core of the thrust of programs, the structure of regulation has been one that's been well received by commercial lenders in extending credit to those in new businesses, the small start-up businesses and so on.

Senator SYMMS. Gene, you've got your hand up there.

Mr. DAVIS. If I could, Steve, you mentioned the disinflationary period, which I testified, yes, we're there. We need some adjustment on both sides. Our input costs in agriculture, as we're all aware have not gone down significantly on fuel, and so on, but machinery costs are still up there. We need to pull from both sides. And I'd just like to throw out the question, the statement was made here, when will Canada react if we get competitive? I say, let's get competitive and try and see. We're sure as the devil not doing any good the way we are.

Mr. FLOYD. Well, I would certainly agree with that. I mentioned earlier in my embracing your comment of a ringing out process. I think I followed that by saying it's a ringing out process that we have embarked upon. I'd like to clarify the "we."

Senator SYMMS. I don't like—that's the world situation.

Mr. FLOYD. That's right. The "we" is that of the USDA, which is setting the tone. It's a tough tone to live with. As commercial bankers, we like a mutually beneficial, mutually profitable relationship.

We make profits as our farm customers and other commercial customers make profits. This ringing out process of the USDA has given to the ag economics is very difficult for us, as bankers, to live with.

Senator SYMMS. Of course, it has been going on since 1900. I mean, this isn't anything new. This has been happening in agriculture all my life and it's happening all my dad's life and all of his dad's life. And there's been less and less people on the farm since the turn of the century.

You know the so-called ringing out process, and at what point it stops, I don't know. But as long as we have financed what our own competition receives, in many cases, now we even find out that we send foreign aid dollars overeas to countries where they are short or need food supplies, and they've been buying up the food supplies with cash from some of our competitors.

And I've introduced legislation to say that they have to take our commodities, not something else. I mean it's outrageous. The copper mining industry is a classic example. U.S. taxpayers, copper workers, pay taxes, send their money to the World Bank, which financed copper mines 40 miles south of the Arizona border. The guys north of the border got put out of work, and they've financed the money. They used our kind of technology. It isn't backward type, it isn't that our workers aren't competitive. We've exported the technology, the financing, the managing skills, and the whole thing. It knocked the U.S. copper industry flat on its back.

And the same thing is happening in U.S. agriculture. We propped up these prices with that high loan price, but what I'm asking, I guess, is $2.40 competitive? I agree with Gene. I'd like to take the $17 billion we mail out in checks and go buy these markets back. But I suppose we'd have such a trade war going on, but we've got one going on now, and we're losing.

Mr. FLOYD. There's the difficult balance, because by the time we find our products are higher priced than those in other nations, we then find that either the World Bank has approved loans to go to other major nations, we find that teams of agricultural scientists are going to go improve wheat and grain yields in our competing nations. It's a difficult balance to strike.

Senator SYMMS. The World Bank lent money, $80 million last year to communist Hungary for the purpose of developing and producing and processing red meat for export. When I found out about it is when we introduced the fair bill to try to block that, but the problem with my fair bill, to be candid and look at the bill in the face, it's just aimed at agriculture. And that's, of course, where my interest is coming from. Idaho, primarily, is agriculture. But money is fundable, you know that as bankers, and if you just stop communist Hungary from getting a loan through the World Bank that the U.S. might have financed just on agriculture, they say, "Fine, we'll take our own money and do our agricultural thing and take this money and do something else."

We've got to broaden our attack to encompass all sectors of our economy and stop doing this as a national policy through all these banks.

I saw Mr. Congo on TV this morning talking about the importance of the world economy and the World Bank's contribution and so forth and how the U.S. is the largest contributor. I think we contribute 25 percent of the money that goes to—and then I hear a story like yours, and I think we'd better send you to a world banker to come out to Malad and get some help here.

Gene, you indicated you wanted to say something.

Mr. DAVIS. Yes, sir. You indicated that the decrease in farm numbers has been going on for eons, and it has. And I suppose someone would take exception to the statement I have made, but I would say we're down to the point now where we're going to lose that basic capability of being that efficient ag producer. We're losing a good, good producer today, because of the drastic and catastrophic economic situation of farming. And I think it's more serious than it's ever been.

Senator SYMMS. I agree with you.

Mr. DAVIS. But every business was bad during the Depression. Today, it's a selected few, and it's the basics that are the wealth of any country, agriculture, timber and mining, all in the doldrums. How long can we go on this way before we really have to start producing some wealth?

Senator SYMMS. See, my theory is you can't, because everything you've got comes out of a hole in the ground. If you don't have that new wealth produced, sooner or later you're so dependent on everyone else, that you cannot maintain the peace, and there's a national security argument here, also, that without the United States, we were almost where we recovered in national security. We recovered the credibility of the United States in the last 5 years from the standpoint of being a credible force for peace in the world, and for freedom.

Without that, the Soviets are going to continue to expand, because they've got their goals and their setup, but the United States is the one last great hope for the free world. Without us, they can't do it, and if we can't keep our basic industry resources, this is a bigger question than just pure economics. And when you talk to these people, economists, free traders and so forth, I start losing patience with them, because I understand that trade is good. We have to trade, but we cannot have our pants down, so to speak, the way we've been, or we're just going to be bushwhacked.

Mr. DAVIS. Just one point, and I'll be quiet. We know, I guess, or accept the fact that we're a service and information society today. There is where the wealth is coming from, but again, does not that service or that information have to evolve back to the basics of industry and the basics that have made every country wealthy? That's where we are today.

Senator SYMMS. Bert, do you want to make a comment?

Mr. MARBLE. Yes, I wanted to ask one question, through the FmHA and other programs, these loans can be forgotten or forgiven, but first the farmer has to turn the land over to them, and then they'll let them take it back at its new value. Why is it so important to sell the machinery at 10 cents on the dollar and sell the farm at 50 cents on the dollar to someone else?

Why can't it be turned to the farmer himself at 40 cents on the dollar and 60 percent on the dollar? Just a question.

Senator SYMMS. I don't know as I can answer that, but that's a question maybe we can explore with the next panel, see if they want to comment.

Blair, do you want to comment on that?

Mr. HAWKES. Well, in the instance of the individual bank, obviously you have to recover as much as you can, and do that as quickly as you can, because the longer you hold it the less recovery. But in the instance of someone who doesn't have any regulation, I think it's a legitimate question.

But you see, you come to a bank, and we're obligated to some other regulator in the context of running a sound bank and keeping that thing responsible financially, obviously we have to account to that regulator. So we're asked to eliminate those things as quickly as we can.

I just want to say one other thing, and that is, we find that all of the basic economic thrust of this country is impacted. You've already talked about mining, timber, farming, steel, copper, whatever. And in each instance, the reason it is is because of the involvement of the Government unwittingly or wittingly, whatever the case may be.

We're talking about coming into a service society. A service society reminds me of the chain letter business. You know, we get together, we design a letter. You send me $50, and I get five other people to do that or six other people to do that, you see, and I end up with $300.

So those six people get someone else to send them $300. Where do they get the money from? Just out of your pocket. There wasn't anything done to generate that, and I think we're headed on the course of a great big chain letter, and I think we're about there in agriculture. We need to get ahead of this.

We talk about Argentina, we can compete with these people if you'll allow us to. If you take care of the other things that impact agriculture that are out of our hands, we can compete. We can do that because people are productive and resourceful. I think we have the ability and have demonstrated that for years, but we can't be innately resourceful with the milestones around our neck that have been placed there. If we remove those things, we can compete, but the problem is give us a chance, and that isn't in our hands to do that.

Senator SYMMS. Thank you all very much. That was an excellent panel. I'm going to break here for about 2 minutes.

The next panel will be Al Haslebacher, vice president of legislative and public affairs, Farm Credit Services of Spokane; John Wissel, PCA borrower from Mountain Home, Idaho; Blair Parker, FLB borrower from St. Anthony; and Gerald Tews from Filer, can all come up here and be seated at the panel. I'll be right back.

[A brief recess was taken.]

Senator SYMMS. I want to welcome all of you to the subcommittee. I guess some of you had a chance to hear what's been said here before, and I think we've had a pretty good caliber of witnesses. I don't know if we've got solutions, but I think we're going to get to the bottom of what some of the problems are.

Al, we welcome you here from Spokane. It's good to have you down here. I hope you've got all the problems worked out between the Spokane Federal Land Bank and the Eastern Idaho PCA. We hope that's worked out.

STATEMENT OF AL HASLEBACHER, VICE PRESIDENT, LEGISLATIVE AND PUBLIC AFFAIRS, FARM CREDIT SERVICES, SPOKANE FARM CREDIT DISTRICT

Mr. HASLEBACHER. Thank you, Senator. It's my pleasure to represent the farm services at this hearing here today. Just for a little background, not so much for yourself but for the audience, as you know, we are a farmer owned federally chartered cooperative loaning in the States of Oregon, Idaho, Washington, Montana, and Alaska. And as of the end of 1985, we had $4.4 billion in loans outstanding with about $1 billion of that in the State of Idaho, the PCA and FLB borrowers, and cooperatives, about 13,000 farmers, ranchers and cooperatives, to give you some background. I know the hearing is focused on the adequacy and availability of credit here today, but I would be remiss if I didn't start out by making four points that I think are very key to what we're facing: It's already been said, but I must emphasize again the declining profitability in agriculture is the basic problem facing all of us, farmers, lenders, agri-business, and a couple other points that follow that. Increased credit is not the solution, is not a substitute for profitability in agriculture, and the fact that additional credit, in some cases, will worsen the problem to many borrowers.

And as has been alluded to by the last panel or even stated pretty directly, this lack of profitability in agriculture is not only affecting the farmer, but the agri-businesses and the agricultural lenders and the Farm Credit System in particular directly.

Maybe just a brief comment about how to get here:

In the 1970's, many people thought the golden age of agriculture had arrived. We had $5 and $6 wheat, you know, and 80- to 90-cent calves. It wasn't just farmers and lenders that believed that, university economists and Government policymakers and officials all believed that, and the counsel of the day was to expand and modernize.

And our farm debt increased from $64 billion to $214 billion in the decade of the 1970's.

So we have a tremendous amount of debt to service. That, with the declining farm income that started in the early 1980's just cannot be serviced at the levels of net income agricultural is serving now.

This decline in the net farm income that's been going on continuously for the last 4 to 5 years has caused a number of problems: Increased bankruptcies, delinquencies, and foreclosures in all lending institutions, particularly in the Farm Credit System, and a decrease in land values. In our district, since the peak of land values in 1982, we've seen a decrease in values of approximately one-third, and our estimate is that the State of Idaho on a composite basis, is about 35 percent.

There's some types of enterprises and operations that are 50 to 70 percent decreased and some a lot less. But on a composite basis, about 35 percent.

We are near but not at the bottom of the land value decline, and it will not stop until agriculture earnings either pay for the land or outside investments come in like it did in the 1970's to put an equilibrium point on real estate values. We are nearing that point, we think. The slowdown in the decrease is evident at this point in time.

To illustrate the pressure that this has put on lenders and farmers, bankruptcies, which we have the best figures on the Federal land bank, increased from 66 in 1982 to 237 in 1985, last year.

Senator SYMMS. Is that in Idaho you're talking about?

Mr. HASLEBACHER. That's districtwide.

Senator SYMMS. Districtwide?

Mr. HASLEBACHER. Districtwide. Delinquencies increased from 1,766 borrowers districtwide or 4.2 percent of number to 2,986 or 7.8 percent of number and this yearend figures, and foreclosures in the land bank for the same period, districtwide again, increased from 141 to 347. That's the loans called for foreclosure in this year 1985. And in the State of Idaho, that figure was something like 81 in 1985. It was not the highest State. Montana and Oregon both had higher numbers than Idaho did in the year 1985.

I think the production credit system programs are so well documented, we don't need to say too much about that, other than PCA's went into liquidation in 1983 and 1984 and then in 1985, the FCA in Spokane received $135 million in financial assistance through the sale of loans from the capital corporations.

So I think that illustrates the problems that the Farm Credit System has, one of the major lenders.

And to put things in perspective, many economists, which I personally agree with, say there's $25 billion to $50 million of farm debt that's going to have to be eaten by farmers, by lenders and agri-businesses before we reach an equilibrium point, assuming that agriculture doesn't return to the profitability stage it had in the 1970's. And that isn't realisticlly expected in the long run.

If you look at the Farm Credit System's own figures, you'll see we lost $27 billion as a total in the national system last year. In our Spokane district, it was $89 million.

Farmers and lenders alike have to take steps to try to remain viable in this period of economic stress, and I think it's well known the steps we've taken. We've pooled capital in our association, we went to joint management at the banks at most of the association levels, and even though that is producing significant savings of 15 to 20 percent at many farm credit services offices, that is not enough to help us bring interest rates down, particularly in the land bank, to a competitive area, because particularly on the long-term side, the cost of borrowed money is the biggest single factor. And that runs about 95 percent of our operating costs.

So even if we eliminated every point and were able to have an ultimated loan system, we'd still have the cost of money as our biggest single factor.

As you know, I think you've heard in the discussions in recent months, the Farm Credit System for years has set interest rates based on the average price of bonds outstanding concept. And that is great during escalating interest rates. When the prime rate was 20.5 in 1980, PCA's were at 16 and 17 percent and everybody thought that was great. But the average cost pricing on the way down holds interests rates up, and it certainly has created an additional compounding problem for the Farm Credit System, because it has made it difficult for us to be competitive, and we are losing, particularly in 1986, some of our stronger borrowers, which then further weakens the problem of the loan portfolio.

Senator SYMMS. What do you have to do to be able to be more flexible on the way down? If you lost $89 million last year, maybe you can't——

Mr. HASLEBACHER. Yeah, there are two things: One is the financial reality of how much you can reduce your rates and how much that will affect your earnings. And I'd have to say the process is that all interest rate changes are approved by the regulator of the Farm Credit Administration.

They are concerned about capital dissipation of the system, because of the legislation, late 1985, that provided that we would be—that the capital corporation created by statute could assess district banking associations to move capital from the strongest banks to the weakest.

So they're concerned about that. So we have the earnings situation and the other is the change to competitive pricing, which the system proposes to do. We have submitted a model pricing program to our regulator, which would be based on marginal cost pricing. As the cost of bonds go down, we would price on a more competitive basis, and the only thing is that means that we have to price that way when costs are going up. You can't have it both ways, and there is some concern on the part of the regulatory and some of the directors of the system that there would be a tendency to do marginal pricing on the way down and to average the pricing on the way up. You have to build earnings on the way up so you can do that when it goes down.

This is one of our problems. However, we have implemented in the PCA system on February 1 a differential interest rate policy similar to commercial banks, based on quality of credit and effective on July 1. We now are able to offer 9.5 percent rate to our best PCA borrowers, which is extremely competitive.

Our problem, as you know, is in the land bank system where at 12.25 percent, we've been there since October 1, 1984. We saw a need to raise rates in early 1985 and held the line, because of the problems in agriculture, trying to be of benefit to our borrowers. We didn't raise the rates. Late 1985, we've been trying to reduce rates, and then we run into the capital adequacy considerations of the capital corporations.

However, we have proposed a differential rate policy to our regulator for the Federal land bank, and we expect to have that approved in the near future, which will allow us to offer more competitive land bank rates in the relatively near future.

Senator SYMMS. Down to 9.5 percent?

Mr. HASLEBACHER. That's the PCA that's 9.5 percent. I would suspect with any rate decreases in the land bank, if it was across the board, it would be under 1 percent and on a differential basis, we may get down then as low as 10 or 11 percent for the best borrowers and up in the current range for the weakest class of borrowers.

I'm speaking in each case of the simple interest rate without the stock, so you don't think we're trying to promote any false information. The cost of stock will impact the annual percentage rate or APR under truth and lending with a little less than a percent, in some cases as much as a percent. With 5-percent stock in the land bank, it's near 1 percent, depending on the length of the loan. And the PCA is usually over 1-percent effect of the cost of stock there.

Senator SYMMS. Isn't it a fact, though, that when the loan is finally redeemed, the stock value goes back to the——

Mr. HASLEBACHER. This is correct. On the PCA's, there's an automatic stock reduction program as loan payments are made on the operating loan, the stock is reduced accordingly on a computerized program, and the land bank system, basically, is not confused in the last payment when the loan is paid off, either part of the last payment or a refund in cash if the final payment is made.

I think there is one thing about the farm credit system we have to express in relation to problems in agriculture, and that is the fact that we are totally a single industry lender. There was talk from commercial bank representatives about the diversification portfolio, and we are totally agriculture or rural related. We have some small amount of rural housing loans, but there's no way to diversify our risk, and I think the thing I like to say in these types of forums is that as agriculture goes, so goes the Farm Credit System.

So we are very dependent on agriculture in eastern Idaho.

Now to your specific questions, you asked about the rate of availability of credit, and we don't have any accurate figures, I don't think, any better than anyone else does in a total composite basis. Our best estimate is that near 10 percent of the farmers and ranchers in our district in 1986 were probably unable to obtain commercial credit. And I include Farmers Home in that category. Now some of those people who didn't receive a loan as we heard earlier, either received dealer credit or in some cases, partial credit from a lender in a workout loan situation. Not full credit, but partial credit so—not the full 10 percent of the farmers are not operating this year, but they are certainly operating with less than full credit.

One thing was alluded to and that we see very strongly is that farmers have tightened themselves strongly. They have reduced capital expenditures; they have, in many cases, voluntarily reduced fertilizer, and some of these input costs, and they're holding down the borrowing costs to the absolute essential minimum.

As to whether this problem will increase, you know the availability of credit problem, I would have to echo what commercial bankers have said, if you use the term "qualified borrowers," there is no lack of credit for qualified borrowers. But since the problem, basically, is lack of repayment capacity, and since the outlook for agricultural income is very bleak for at least the next several years that we can foresee, repayment capacity problems are going to increase, which means more and more farmers are going to find themselves in the problem of not being able to obtain credit from some type of lender.

In our district, and particularly the farm credit system, livestock loans and grain loans are the predominant enterprise in our lending operations. And those are the ones that are certainly suffering the most right now, as you've heard earlier. There is no good outlook on the horizon for those.

I've got a table in the prepared statement on the Spokane Land Bank adversely classified loans, and just to show you trends. I won't read them all, but from the yearend 1983 to yearend 1986, the adversely classified loan volume has increased from $218 million to $578 million, which by volume is 6.2 to 18.4 percent, or by number from 3.8 to 8.1 percent.

It certainly shows the stress on agriculture and on agricultural lenders. I don't have figures for the PCA system, because they're not comparable, because we've sold in 1985, $200 million worth of nonperforming loans to the capital corporation, and it changed the statistics quite a bit.

You also asked if the present regulations provided enough latitude for forebearance for borrowers with repayment problems, and we really believe that the regulations do provide enough latitude for flexibility for the forebearance to work with borrowers who have any reasonable chance of working out of their burden of debt.

I would like to hit just a couple of highlights. You mentioned in your questions would we talk about the charge that we're not doing all we can to work with our borrowers. I have in the prepared statement some of the forebearance and restructure policy, and it just states that the banking associations will administer troubled accounts on a case-by-case basis with the objective of minimizing the risk of loan loss. Then I'd emphasize that the best interests of the institution, member stockholders generally, and the individual effective borrower will be considered in each decision. FmHA loan guarantees or other loan restructuring measures will be the preferred alternative to foreclosure when an analysis of the economic factors indicate the greatest return of principal and interest may result.

And I won't go through all of the other points there, but I just point that out that we have a formal forebearance and restructuring policy, and I would note the difference between forebearance and restructuring. Forebearance is the type of thing we have done for years, where you still expect to collect the full amount of the loan. That includes rescheduling, reamortization, changes in installment due dates, partial releases, et cetera, but you still expect to receive the full payment in the long run.

Restructuring, on the other hand, that includes both voluntary conveyances to the lender in satisfaction of the debt, but also reduction of interest rate, reduction of principal or both, and it's a compromise of indebtedness. And it's an action that can be taken when that will minimize the impact on the rest of the borrowers who are stockholders in the cooperative.

I think it would be fair to say this in restructuring loans, this is not something that's a panacea and it's not something that's done lightly. It has to be supported by a factual analysis of the total situation. You have to have current information and balance sheets, cash-flows, analysis of the cost of foreclosures, analysis of whether the lowered or restructured debt can work out, and in effect, which will be the lower cost alternative to the stockholder on hold, because in effect, what we are asking, what we are doing when we restructure a debt on a compromise basis is saying, "Mr. Stockholder: A, B, and C. Do you want us to reduce your capital surplus or increase your cost of operation by *x* amount to take this action?"

We are a cooperative, and, yes, that does have an impact on the rest of the borrowers. So we have to look at that when we take these actions.

And as a specific piece of information to indicate that we are working with troubled borrowers, in 1985 the Federal land bank PCA system in the Spokane district restructured or rescheduled or forebeared on 2,152 loans.

Senator SYMMS. 1985?

Mr. HASLEBACHER. 1985, and that's compared to less than 400 cases that were called for foreclosure.

Senator SYMMS. Al, I'm going to have to ask you to summarize, because I've got a meeting at noon and we have some farmers here I want to hear from too.

Mr. HASLEBACHER. All right, well, I would just state in summary that there have been statements in the national press and administration and other sources questioning whether a specialized agricultural lender is still needed in the agricultural system. And our belief is that agriculture is still in a position where a specialized agricultural lender, which is the Farm Credit System, is still essential. Because agriculture cannot now and probably will not in the foreseeable future be able to compete in the money markets on the highest return basis for the funds.

And we say that our only purpose is to serve farmers and ranchers. We need farmers and ranchers, farm organizations and congressional support, and without that, we will not be able to serve the mandates we have, which is to be a source of credit to all size of farmers in all geographic areas in all times for those who can repay. So my final concluding comment would be that the Farm Credit System has a very key role in whatever restructuring and transition that agriculture goes through in the next few years as it rings out this period of economic stress.

We appreciate the opportunity to make some comments.

Senator SYMMS. Thank you very much. Your entire statement will be on our records plus what you added.

Mr. HASLEBACHER. Thank you, Senator.

[The prepared statement of Mr. Haslebacher follows:]

PREPARED STATEMENT OF AL HASLEBACHER

MR. CHAIRMAN, MY NAME IS AL HASLEBACHER. I AM VICE PRESIDENT FOR LEGISLATIVE AND PUBLIC AFFAIRS FOR THE FARM CREDIT SERVICES. I AM PLEASED TO REPRESENT THE SPOKANE DISTRICT FARM CREDIT SYSTEM AT THIS HEARING.

THE FARM CREDIT SYSTEM IS A FEDERALLY-CHARTERED, FARMER-OWNED CREDIT COOPERATIVE LOANING MONEY OBTAINED BY SELLING SECURITIES IN THE NATION'S CAPITAL MARKETS. THE SPOKANE DISTRICT SERVES THE STATES OF ALASKA, IDAHO, MONTANA, OREGON AND WASHINGTON. ON 12-31-85 THE THREE SPOKANE FARM CREDIT BANKS HAD $4.4 BILLION IN LOANS OUTSTANDING TO ABOUT 45,000 BORROWERS/STOCKHOLDERS. NEARLY $1 BILLION OF THIS AMOUNT WAS OUTSTANDING IN IDAHO TO 13,000 FARMERS, RANCHERS AND THEIR COOPERATIVES.

THIS HEARING IS FOCUSED ON THE ADEQUACY AND AVAILABILITY OF AGRICULTURAL CREDIT. HOWEVER, AS VITAL AS ADEQUATE CREDIT IS TO AGRICULTURE, I WOULD BE REMISS IF I DIDN'T STATE FOUR THINGS UP FRONT:

1) DECLINING PROFITABILITY IN AGRICULTURE IS THE BASIC PROBLEM FACING AMERICAN FARMERS AND RANCHERS;

2) MANY PRODUCERS HAVE MORE DEBT NOW THAN CAN BE REPAID FROM THE LONG-TERM RETURN ON AGRICULTURAL ASSETS;

3) ADDITIONAL CREDIT WILL NOT SOLVE PROBLEMS FOR MANY PRODUCERS AND MAY WELL INCREASE THE PROBLEM FOR SOME;

4) THIS LACK OF PROFITABILITY IS SERIOUSLY AFFECTING NOT ONLY THE PRODUCER, BUT ALSO THE AGRIBUSINESS SUPPLIER AND AGRICULTURAL LENDER.

IN THE EARLY 1970s WITH $5 TO $6 WHEAT AND 80 TO 90 CENT CALVES, MANY FARMERS, LENDERS, ECONOMISTS AND GOVERNMENT OFFICIALS THOUGHT THE "GOLDEN AGE OF AGRICULTURE" HAD ARRIVED. MODERNIZE AND EXPAND WAS THE COUNSEL OF THE DAY. FARMLAND VALUES QUADRUPLED IN FIVE

YEARS IN MANY PARTS OF OUR DISTRICT AND NATIONALLY FARM DEBT INCREASED FROM $64 TO $214 BILLION IN THE DECADE OF THE 1970s.

WITH THE DECLINE IN NET FARM INCOME STARTING IN THE EARLY 1980s, FARMLAND VALUES HAVE DECLINED EVERY YEAR SINCE THEIR PEAK IN 1982. FARM BANKRUPTCIES, LOAN DELINQUENCIES AND FORECLOSURES HAVE INCREASED EVERY YEAR. IN OUR DISTRICT LAND VALUES HAVE DECLINED ONE-THIRD FROM THEIR PEAK AND IN IDAHO LAND VALUES DECLINED 35%. WE ARE NEAR BUT NOT AT THE BOTTOM OF THE LAND VALUE DECLINE. THE DROP IN VALUE WILL NOT STOP UNTIL AGRICULTURAL EARNINGS EITHER PAY FOR THE LAND OR OTHER FACTORS SUCH AS PURCHASES BY INVESTORS PROVIDE AN EQUILIBRIUM POINT.

BANKRUPTCIES OF FEDERAL LAND BANK BORROWERS INCREASED DISTRICTWIDE FROM 66 IN 1982 TO 237 IN 1985. FEDERAL LAND BANK DELINQUENCIES INCREASED FROM 1,766 OR 4.2% OF NUMBER TO 2,986 OR 7.8% OF NUMBER IN THE SAME PERIOD. FEDERAL LAND BANK LOANS CALLED FOR FORECLOSURE INCREASED FROM 141 TO 347.

PRODUCTION CREDIT ASSOCIATION PROBLEMS ARE WELL KNOWN WITH EIGHT PRODUCTION CREDIT ASSOCIATIONS GOING INTO LIQUIDATION IN 1983 AND 1984 AND THE SPOKANE FEDERAL INTERMEDIATE CREDIT BANK RECEIVING $135 MILLION OF FINANCIAL ASSISTANCE IN 1985 THROUGH THE SALE OF NON-PERFORMING LOANS TO THE FARM CREDIT SYSTEM CAPITAL CORPORATION.

IT IS ESTIMATED THAT BETWEEN $25 TO $50 BILLION IN AGRICULTURAL DEBT WILL BE ABSORBED AS LOSSES BY PRODUCERS, AGRIBUSINESSES AND LENDERS BEFORE STABILITY RETURNS TO THE AGRICULTURAL SECTOR. THE FARM CREDIT SYSTEM ALONE HAD $2.7 BILLION IN OPERATING LOSSES IN 1985 AND THE SPOKANE DISTRICT LOST $89 MILLION. DURING THIS TRANSITION IN AGRICULTURE, PRODUCERS, AGRIBUSINESSES AND LENDERS MUST ADAPT TO THE CHANGING ENVIRONMENT IF THEY WISH TO SURVIVE. IN THE SPOKANE DISTRICT WE HAVE POOLED ASSOCIATIONS' CAPITAL AND IMPLEMENTED JOINT MANAGEMENT TO HELP REMAIN VIABLE. WHILE THIS IS PRODUCING A COST SAVINGS OF 15 TO 20 PERCENT AT MANY FARM CREDIT

SERVICES OFFICES, THE COST OF BORROWED MONEY IS THE MAIN DETERMINANT OF FARM CREDIT SYSTEM INTEREST RATES. FOR THE FEDERAL LAND BANK, BOND COSTS COMPRISE APPROXIMATELY 95% OF THE TOTAL COST OF OPERATION.

THE FARM CREDIT SYSTEM SETS INTEREST RATES BASED UPON THE AVERAGE COST OF BONDS OUTSTANDING. THIS HOLDS DOWN INTEREST RATES WHEN MONEY COSTS ARE RISING (WITNESS THE 16 TO 17% PRODUCTION CREDIT ASSOCIATION RATES WHEN PRIME WAS 20.5% IN 1980) BUT SLOWS THE FALL OF INTEREST RATES WHEN MONEY COSTS ARE FALLING. THE HIGHER RATES HAVE CAUSED A SUBSTANTIAL NUMBER OF THE FARM CREDIT SYSTEM'S STRONGEST BORROWERS TO REFINANCE, COMPOUNDING THE SYSTEM'S PROBLEMS AND FURTHER WEAKENING THE QUALITY OF THE LOAN PORTFOLIO.

IN ORDER TO REGAIN COMPETITIVENESS, THE FEDERAL INTERMEDIATE CREDIT BANK IMPLEMENTED A DIFFERENTIAL INTEREST RATE POLICY ON FEBRUARY 1, 1986, WHICH EFFECTIVVE JULY 1, 1986, PROVIDES THE MOST CREDIT-WORTHY BORROWERS A RATE OF 9.50% EXCLUDING THE EFFECT OF STOCK COSTS -- A RELATIVELY COMPETITIVE RATE. PRODUCTION CREDIT ASSOCIATION RATES HAVE DROPPED NEARLY ONE PERCENT THE LAST FOUR MONTHS AS THE AVERAGE BOND COSTS HAVE DROPPED. THE FEDERAL LAND BANK RATE ON THE OTHER HAND IS PRESENTLY NONCOMPETITIVE AT 12-1/4% -- THAT RATE INCREASED FROM 11-3/4% ON OCTOBER 1, 1984 AND HAS NOT DROPPED SINCE. THE FEDERAL LAND BANK HAS SUBMITTED A DIFFERENTIAL INTEREST RATE PROGRAM TO ITS REGULATOR, THE FARM CREDIT ADMINISTRATION, AND EXPECTS TO BE ABLE TO OFFER MORE COMPETITIVE RATES TO STRONG BORROWERS IN THE NEAR FUTURE.

THE FARM CREDIT SYSTEM ALSO HAS SUBMITTED A "MODEL PRICING PROGRAM" TO THE FARM CREDIT ADMINISTRATION THAT WOULD CHANGE THE WAY FARM CREDIT SYSTEM INTEREST RATES ARE SET. IF APPROVED, THE FARM CREDIT SYSTEM WOULD MOVE FROM AVERAGE BOND COST PRICING TO "MARGINAL COST" PRICING. THIS WOULD PROVIDE INTEREST RATE RELIEF TO ALL BORROWERS BUT WOULD ALSO INCREASE SYSTEM LOSSES IN THE SHORT RUN.

AS YOU LOOK AT THE PROBLEMS OF AGRICULTURAL PRODUCERS AND AGRICULTURAL LENDERS, IT IS IMPORTANT TO KEEP IN MIND AN IMPORTANT CHARACTERISTIC OF THE FARM CREDIT SYSTEM. THIS IS THE FACT THAT THE FARM CREDIT SYSTEM IS A SINGLE-INDUSTRY LENDER WITH 100% OF ITS LOANS IN AGRICULTURE AND RURAL LENDING. THUS IT CANNOT DIVERSIFY ITS PORTFOLIO TO REDUCE RISK. ALSO, IT WAS CHARTERED BY CONGRESS TO PROVIDE DEPENDABLE AND CONSTRUCTIVE CREDIT IN ALL GEOGRAPHIC AREAS TO ALL SIZES OF FARMERS AND RANCHERS WHO ARE CREDIT-WORTHY. THIS INCREASES COSTS OF OPERATION. FINALLY, BECAUSE OF THESE FACTORS, THE FARM CREDIT SYSTEM'S FUTURE IS TIED DIRECTLY TO THAT OF AGRICULTURE -- AS AGRICULTURE GOES, SO GOES THE FARM CREDIT SYSTEM.

AVAILABILITY OF CREDIT

WHILE ACCURATE FIGURES ARE NOT AVAILABLE, WE ESTIMATE THAT NEARLY 10% OF FARMERS AND RANCHERS ARE UNABLE TO OBTAIN CONVENTIONAL OPERATING CREDIT. THAT FIGURE WILL VARY BY REGION AND WILL BE WORSENED BY LOCAL FACTORS SUCH AS THE SEVERE FROST AFFECTING POTATO GROWERS IN EASTERN IDAHO. THIS DOES NOT TAKE INTO ACCOUNT THE FACT THAT SOME OF THESE PRODUCERS ARE OPERATING WITH DEALER CREDIT OR PARTIAL CREDIT FROM A LENDER IN A WORK-OUT SITUATION. CONSIDERING THE SEVERE ECONOMIC STRESS IN AGRICULTURE, THIS FIGURE IS LOWER THAN WOULD BE EXPECTED. HOWEVER, FARMERS AND RANCHERS HAVE TIGHTENED THEIR BELTS, POSTPONED CAPITAL EXPENDITURES AND GENERALLY REDUCED CREDIT NEEDS TO ABSOLUTE ESSENTIALS.

SINCE THE AGRICULTURE INCOME OUTLOOK IS BLEAK FOR THE NEXT FEW YEARS, INCREASING NUMBERS OF FARMERS AND RANCHERS WILL HAVE DIFFICULTY IN OBTAINING BOTH CONVENTIONAL CREDIT AND DEALER CREDIT. HOWEVER, THE QUALIFIED BORROWER WILL HAVE ACCESS TO MANY CREDIT SOURCES. SINCE REPAYMENT CAPACITY WILL BECOME MORE AND MORE OF A PROBLEM BECAUSE OF THE DECLINING CATTLE AND GRAIN PRICES (BASIC COMMODITIES FOR BORROWERS IN THE SPOKANE DISTRICT), CREDIT PROBLEMS CAN BE EXPECTED TO INCREASE.

AS EVIDENCE OF THIS TREND IN DECLINING REPAYMENT CAPACITY AND THE RESULTANT EFFECT ON CREDIT QUALITY, I OFFER THE FOLLOWING STATISTICS.

SPOKANE FEDERAL LAND BANK ADVERSELY CLASSIFIED LOANS

DATE	VOLUME ADVERSELY CLASSIFIED	% VOLUME ADVERSELY CLASSIFIED	NUMBER ADVERSELY CLASSIFIED	% NUMBER ADVERSELY CLASSIFIED
12-31-83	$218,667,445	6.2%	1,551	3.8%
12-31-84	376,549,557	10.5%	2,187	5.5%
12-31-85	489,904,699	13.9%	2,892	7.5%
3-31-86	578,431,760	18.4%	3,017	8.1%

PRODUCTION CREDIT ASSOCIATION FIGURES ARE NOT COMPARABLE BECAUSE OF THE SALE OF APPROXIMATELY $200 MILLION IN NONPERFORMING LOANS TO THE FARM CREDIT SYSTEM CAPITAL CORPORATION IN 1985. HOWEVER, THE TREND IS SIMILAR AND EVEN MORE ADVERSE AS REPAYMENT PROBLEMS SURFACE FIRST WITH THE SHORT-TERM LENDER.

FORBEARANCE

YOU HAVE ASKED IF PRESENT REGULATIONS PROVIDE ENOUGH LATITUDE FOR FORBEARANCE FOR BORROWERS WITH REPAYMENT PROBLEMS. WE SINCERELY BELIEVE THAT PRESENT REGULATIONS PROVIDE SUFFICIENT FLEXIBILITY TO ASSIST BORROWERS WITH LOAN PROBLEMS FOR THOSE WHO HAVE ANY REASONABLE CHANCE OF WORKING OUT OF THEIR BURDEN OF DEBT.

THE FARM CREDIT BANKS OF SPOKANE FORBEARANCE AND RESTRUCTURING POLICY STATES:

PHILOSOPHY

THE BANK AND ASSOCIATIONS WILL ADMINISTER TROUBLED ACCOUNTS ON A CASE-BY-CASE BASIS WITH THE OBJECTIVE OF MINIMIZING THE RISK OF LOAN LOSS. THE BEST INTERESTS OF THE INSTITUTION, MEMBER STOCKHOLDERS GENERALLY, AND THE INDIVIDUAL AFFECTED BORROWER WILL BE CONSIDERED IN EACH DECISION. FmHA LOAN GUARANTEES OR OTHER LOAN RESTRUCTURING MEASURES WILL BE THE PREFERRED ALTERNATIVE TO FORECLOSURE WHEN AN ANALYSIS OF THE ECONOMIC FACTORS INDICATE THE GREATEST RETURN OF PRINCIPAL AND INTEREST MAY RESULT. RESTRUCTURING MEASURES MAY INCLUDE FEDERAL- AND STATE-FUNDED INTEREST-RATE BUYDOWN PROGRAMS.

ELIGIBILITY

AS A PREREQUISITE FOR CONSIDERATION OF ANY LOAN SERVICING ACTION INVOLVING FORBEARANCE OR TROUBLED DEBT RESTRUCTURING:

1. THE BORROWER MUST HAVE A HISTORY OF ACTING IN GOOD FAITH IN MANAGING HIS BUSINESS AFFAIRS AND A COOPERATIVE WORKING RELATIONSHIP WITH THE LENDER.

2. THE BORROWER MUST PRESENT A PLAN WITH REASONABLE ASSUMPTIONS SHOWING A HIGH PROBABILITY OF RETURNING TO FINANCIAL VIABILITY AS A RESULT OF THE FORBEARANCE RESTRUCTURING.

3. THE RESTRUCTURING MUST MINIMIZE ANY LOSS THAT WILL BE BORNE BY THE OTHER BORROWERS/SHAREHOLDERS OF THE BANK OR ASSOCIATION.

FORBEARANCE

IN A FORBEARANCE SITUATION, THE LENDER IS TO RECEIVE ALL THAT WAS AGREED TO IN THE ORIGINAL CONTRACT. HOWEVER, THE LENDER WILL REFRAIN FROM ENFORCING THE CONTRACT TERMS AGAINST THE BORROWER WHEN

THE DEBT FALLS DUE. EXAMPLES OF FORBEARANCE INCLUDE SUCH LOAN SERVICING ACTIVITIES AS RESCHEDULING OF PRINCIPAL AND INTEREST, AGREED CARRYOVER, WAIVERS AND SUBORDINATIONS. ANY FORBEARANCE ACTION WILL BE EVIDENCED BY ENFORCEABLE DOCUMENTATION AND SUPPORTED BY APPROPRIATE ANALYSIS MAINTAINED IN THE LOAN FILE.

FORBEARANCE SHALL CONTINUE TO BE OFFERED ON A CASE-BY-CASE BASIS TO ASSIST ELIGIBLE BORROWERS PROVIDED THE BORROWER IS:

1. ACTING IN GOOD FAITH TO MANAGE AND OPERATE THE AGRICULTURAL BUSINESS PROPERTY.

2. APPLYING THE PROCEEDS OF PRODUCTION (MINUS REASONABLE AND NECESSARY LIVING AND OPERATING EXPENSES) TO THE PAYMENT OF DEBT OBLIGATIONS.

3. MAINTAINING THE BUILDINGS, IMPROVEMENTS AND FARM ASSETS IN A REASONABLE STATE OF REPAIR.

4. WORKING OUT OF THE EXISTING SITUATION AND HAS THE RESOURCES TO OPERATE THE AGRICULTURAL BUSINESS EFFICIENTLY.

<u>TROUBLED DEBT RESTRUCTURING</u>

A RESTRUCTURING OF DEBT INVOLVES THE LENDER GRANTING SOME FORM OF CONCESSION TO THE DEBTOR THAT IT WOULD NOT OTHERWISE CONSIDER. IT MAY BE THE RESULT OF AN AGREEMENT BETWEEN THE LENDER AND CREDITOR OR MAY BE IMPOSED BY LAW OR A COURT.

ANY DEBT RESTRUCTURING PLAN MUST BE SUPPORTED BY ANALYSIS WHICH SHOWS THAT THE RESTRUCTURING MAY REDUCE THE AMOUNT OF LOSS ULTIMATELY TO BE BORNE BY THE OTHER BORROWERS/SHAREHOLDERS OF THE INSTITUTION. EVERY EFFORT WILL BE MADE TO NEGOTIATE A REALISTIC FORBEARANCE ACTION WHICH WILL RESULT IN FULL COLLECTION OF THE LOAN ACCOUNT BEFORE CONSIDERING A DEBT RESTRUCTURING CONCESSION. NO DEBT RESTRUCTURING PROGRAM SHOULD BE ENTERED INTO UNLESS THE

BORROWER IS CONSIDERED TO HAVE A REASONABLE CHANCE TO REHABILITATE FINANCIALLY AND RISK TO THE LENDER IS REASONABLE AND MEASURABLE.

EXAMPLES OF LOAN SERVICING ACTIONS WHICH CONSTITUTE TROUBLED DEBT RESTRUCTURING:

1. TRANSFER OF REAL ESTATE, RECEIVABLES, OR OTHER ASSETS TO THE LENDER TO FULLY OR PARTIALLY SATISFY A DEBT, INCLUDING A TRANSFER RESULTING FROM FORECLOSURE OR REPOSSESSION.

2. MODIFYING THE TERMS OF A DEBT BY:

   - REDUCING THE STATED INTEREST RATE FOR A PERIOD OF YEARS, UP TO THE REMAINING ORIGINAL LIFE OF THE DEBT.

   - EXTENDING THE MATURITY DATE AT A STATED INTEREST RATE LOWER THAN THE CURRENT MARKET RATE.

   - REDUCING THE PRINCIPAL AMOUNT OF THE DEBT.

   - REDUCING ACCRUED INTEREST.

TROUBLED DEBT RESTRUCTURING IS TO BE CONSIDERED ON A CASE-BY-CASE BASIS. THE ANALYSIS SHALL DOCUMENT THE POTENTIAL COST AND BENEFITS OF RESTRUCTURING TO THE BANK OR ASSOCIATION INVOLVED VERSUS THE LOSS WHICH WOULD LIKELY OCCUR USING TRADITIONAL METHODS OF ASSET LIQUIDATION AND FORECLOSURE. RESTRUCTURING SHOULD BE CONSIDERED WHEN THE LENDER MAY OTHERWISE TAKE A GREATER LOSS.

AS EVIDENCE THAT THE FARM CREDIT SYSTEM IN THE SPOKANE DISTRICT IS WORKING WITH TROUBLED BORROWERS, I NOTE THAT THERE WERE 2,152 FORBEARANCE/RESCHEDULING ACTIONS IN 1985 COMPARED TO LESS THAN 400 FORECLOSURES. FORECLOSURE IS THE LAST RESORT ACTION, RELUCTANTLY MADE BY FARMER BOARDS OF DIRECTORS WHEN IT IS THE ONLY COURSE OF ACTION LEFT TO MINIMIZE COSTS TO STOCKHOLDERS AS A WHOLE.

OUR OBJECTIVE IS TO MINIMIZE THE EFFECTS ON OTHER STOCKHOLDERS. IN EFFECT, WHEN A COOPERATIVE COMPROMISES A DEBT, THE REMAINING STOCKHOLDERS ARE BEING ASKED TO COVER THE COST THROUGH LOSS OF CAPITAL RESERVES, HIGHER INTEREST RATES OR BOTH. BOND HOLDERS MUST BE PAID IF THE FARM CREDIT SYSTEM IS TO CONTINUE TO SUPPLY CREDIT TO FARMERS AND RANCHERS.

YOU HAVE ASKED THAT WE COMMENT ON WAYS TO MAKE CREDIT MORE AVAILABLE TO QUALIFIED BORROWERS. BORROWERS WITH REPAYMENT CAPACITY HAVE NO DIFFICULTY OBTAINING CREDIT. HOWEVER, THE BORDERLINE CASE CAN BENEFIT BY DEVELOPING ACCURATE RECORDS OF PAST PRODUCTION LEVELS AND COSTS AND DOING A THREE- TO FIVE-YEAR PROJECTION USING REASONABLE ASSUMPTIONS. SOMETIMES IT WILL PAY TO HIRE AN ACCOUNTANT OR FINANCIAL CONSULTANT TO HELP ANALYZE PAST PROGRESS AND ESTIMATE FUTURE OPERATIONS. THE MAIN THING IS TO BE REALISTIC AND TO COMPLETELY UNDERSTAND THE SITUATION.

ANOTHER SUGGESTION IS FOR TROUBLED BORROWERS TO ARRANGE A MEETING WITH THEIR SHORT-TERM LENDER, LONG-TERM LENDER, ACCOUNTANT AND IF NEED BE, ATTORNEY, TO DETERMINE WHAT CHANGES, IF ANY, CAN BE MADE TO MAKE AN OPERATION CASH FLOW. IF AN OPERATION CANNOT BE MADE PROFITABLE, IT IS OFTEN BEST TO RECOGNIZE THAT FACT AND BEGIN EFFORTS TO SALVAGE THE REMAINING EQUITY BEFORE IT IS EATEN UP BY OPERATING LOSSES AND/OR LEGAL AND FINANCIAL ANALYSIS FEES.

IN SUMMARY, THE FARM CREDIT SYSTEM WAS BORN IN A PERIOD OF AGRICULTURAL ECONOMIC STRESS AND ORIGINALLY FUNDED WITH GOVERNMENT CAPITAL. IT IS NOW FARMER-OWNED AND ITS OPERATING COSTS, INCLUDING LOSSES, COME OUT OF FARMER'S POCKETS. THE SYSTEM WAS CREATED BECAUSE THERE WAS A NEED FOR A SPECIALIZED AGRICULTURAL LENDER TO CHANNEL FUNDS FROM THE CAPITAL MARKETS. SOME SAY, LET THE CAPITAL MARKETS CHANNEL THE FUNDS WHERE THE RETURN IS HIGHEST AND THAT A SPECIALIZED LENDER IS NO LONGER NEEDED.

WE BELIEVE THAT AGRICULTURE AND PARTICULARLY THE FAMILY FARM STILL CANNOT EFFECTIVELY COMPETE FOR THE LIMITED RESOURCE OF CAPITAL

BECAUSE OF LOW NET RETURN ON AGRICULTURAL ASSETS. THE FARM CREDIT SYSTEM EXISTS ONLY TO SERVE THE NEEDS OF FARMERS, RANCHERS AND THEIR COOPERATIVES. WE NEED THE UNDERSTANDING AND SUPPORT OF FARMERS, FARM ORGANIZATIONS AND CONGRESS TO FULFILL THAT PURPOSE.

MR. CHAIRMAN, I THANK YOU FOR THE OPPORTUNITY TO COMMENT ON THE AGRICULTURAL CREDIT SITUATION.

Senator SYMMS. I'm going to try to answer some questions, if I don't have to run off.

John Wissel from Mountain Home. Welcome to the subcommittee, John.

STATEMENT OF JOHN A. WISSEL, PCA BORROWER, MOUNTAIN HOME, ID

Mr. WISSEL. Thank you. On these questions, I have been farming for 20 years in a partnership and corporation with my brother in Elmore and Canyon Counties in irrigated row crops. Part of our land is owned and part of it is leased.

Senator SYMMS. Where is your property in Canyon County?

Mr. WISSEL. Over off Karcher Road west of Nampa on Midway Road.

As a borrower and not a banker, I feel that there is probably 20 to 60 percent of qualified farmers not adequately financed. Adequately is what I'm speaking of. As Al said, some of them are financed but not adequately. I'm speaking of the farmers and ranchers—I want to speak about the farmers and ranchers I call the middle group of farmers of the $400,000 plus in gross sales. This group of farmers are the ones that produce the majority of the farm products in this country. These farmers and ranchers that are in between the small part-time farmers and the large corporate farmers and are the forgotten farmers. These farmers in the middle are the ones who do not qualify for Farmers Home Administration help or low-interest loans, and they also have problems in complying with the $50,000 maximum on the ASCS program.

We need to get control of the Farm Credit System back into the hands of the local people. The present system is not working. Many times the whole Farm Credit System has become less efficient with the consolidation of farm credit and other loaning institutions. There needs to be more work done on the 90-percent loan guarantee, so that the Farm Credit System and also the banks will work with this. And somehow in these days of deflating land prices and deflated machinery values, the lending institutions need to put more stock in the individual farmer's ability to produce rather than in all solid collateral.

There should be more local control. People who deal with the farmer, such as the lending officer as well as when we have the local boards are in the best position to see what's really going on. I'm not advocating it is necessary that every farmer should have a guarantee of success, but those who have gotten into financial trouble because of commodity prices and are yet faced with a deteriorating land value that are still top producers, do deserve a chance to reorganize.

The Farm Credit System and other lending institutions need to look at term payments on past debts and not liquidation. In these times, too many lending institutions look at liquidation rather than trying to work with the top producing farmers. There are bankruptcy laws, but many times a chapter 11 reorganization is the only other choice that some farmers have. These are not only costly, but do not really fit a farmer's cash-flow ability, having been designed for a monthly cash-flow. There needs to be some changes in these laws.

Many farmers with financial difficulty, when trying to deed back land to reduce debt load, are often caught with large tax problems. This compounds the financial problem and there needs to be some incentives to banks or the Farm Credit System to get these problems worked out.

In the past, having served on the local farm loan board, I felt that in the late 1970's, and early 1980's the Farmers Home Administration had a lot of, what I would call, unqualified farmers on low productive ground in our area, resulting in a lot of foreclosures that they're now faced with. There are definitely going to be more problems unless we get a turnaround of prices and lending policies. I think that the farmers are doing everything possible to cut costs and still are losing money, and they can't continue.

Whatever we do in the future, whether it is through Farmers Home Administration programs or incentives to private banks and lending institutions, we must realize what a family farm is. These are the middle farmers that are the backbone of this country, and we need them.

Senator SYMMS. Thank you very much, John. Let's hear from Blair Parker from St. Anthony.

STATEMENT OF BLAIR PARKER, FLB BORROWER, ST. ANTHONY, ID

Mr. PARKER. Thank you, Senator. I appreciate this opportunity being this far down, this is a little repetitious, but I'll try to bring out the ideas I thought might be something new. Going over the list here of questions, to start with on what percent of qualified Idaho agricultural borrowers are currently unable to obtain credit. I agree with the last gentleman that from a banker's standpoint, a qualified farmer is the one who can show repayment on all of his loans. And they're probably 100-percent financed, but if you were called a qualified farmer, a farmer who's been in business for several years and done a good job but who's in trouble because of a disaster or poor commodity prices, I would say at least 25 percent and maybe as high as 40 percent are not adequately financed. By "adequately," I mean that they've had a disaster, and they have to have something to stretch this out to get them a repayment schedule. Some of these who are financed this year, they still have this old debt load hanging over their heads, waiting for this fall, and if this is not adequate, they're going to be in big trouble. And we've got them up there that have their crops planted, no fertilizer, they've got 60-day notes, things like this. I think there's been very few of——

Senator SYMMS. Potatoes with no fertilizer on them?

Mr. PARKER. Yes, as well as some grain. Potatoes, a lot of them planted their own seed back hoping to get—some of them are on 60-day notes, and things like this, doing everything they can. As far as adequate financing, there's probably 25 to 40 percent. There's been very few disaster loans that FmHA approved up there, as far as I know. And as far as adequate, there's very few of those.

Some suggestions to make credit more available for qualified borrowers, I was trying to think of something that would work for farmers. They've got to have something to get this big debt load off their backs, and the Government has got to come up with some innovative loan programs so that they can bring their short-term loan and credit current and then stretch this out over 20 or 30 years at a lower interest rate. Maybe this would be a one-time deal. If it doesn't work out, then they're going to have to go down the drain, I guess. But there are many good farmers out there who have got to have some kind of innovative loan program to bring their short- and long-term loans current and give them a new chance, because of what they got into of the disaster and mainly commodity prices.

I don't know whether it would work out, but if they could get a long-term, 20- or 30-year deal, just to get them current and give them some 6- or 7-percent money, I think these good farmers might survive. Otherwise it's going to be a terrible ringing out process as to who will survive this.

As far as do you think credit will be more of a problem in the near future, I think if the agriculture situation doesn't turn around, it will be in the very near future and very much more serious. It will snowball very rapidly.

Do present regulations provide enough latitude for forebearance for borrowers with repayment problems? I think all of the loaning institutions, considering their own financial conditions and reserves, are doing about everything they can. It looks to me like, as I mentioned above, we need a program to loan the farmer money to bring his loans current and have these for long term at low interest.

I think all the institutions are doing about what they're able to do with the reserves and that. They've got to have some sort of program to keep these loans current and get them off their backs, because their hands are somewhat tied when they get to a certain position unless the farmer has an out, there isn't much they can do.

There are two things I wanted to address on loans, speaking as a borrower and a board member for farm credit, specifically the Federal land bank, we've got to get these interest rates down. The Federal land bank interest is 12.25 percent. With stock this makes the effective rate 12.85 percent. With the profit margin in agriculture any farmer who is leveraged very much cannot survive this. The bill Congress passed to shore up the Farm Credit System is not helping the farmers.

In my opinion, this was passed—I think Congress passed this with the intent of helping the farmers. We as local grassroots directors in this area have tried to put pressure everywhere we can to get the Federal land bank to get the interest rate down to approximately 3 percent. This would help cash-flow and would give them a lot more new business, and let them go to the bond market to get the average cost of this loan portfolio down.

After speaking with Jim Peffer, who's vice president of finance up there, I don't think this is going to be near as costly as they think it would be in lost earnings, because they'll get into this bond market, this 6.6- and 7-percent money, as well as the new business and they'll be able to cash-flow a lot more loans. But it seems like they resist it. Everytime they go to the FCA, they ask for half a percent, which is, in my opinion, ridiculous with a 13 percent on long-term loans. And the FCA turns them down everytime they go.

The only programs they've come up with is just to save their own hides, is for the $1 million loans that'll give them a preferential rate. To me a million dollar loan isn't basically, helping the family farmer. That's a very, very small percent. In our Rexburg association, maybe two people qualified for this. They're not getting down to the $100,000 to $500,000 rates where they're helping the average family farmer. There's been no program really designed to get down to this rate and help them. This 13 percent is just totally out of line with the profit margins. We can't survive this, and what we're doing is taking the good borrowers and the good farmers who are able to stay above water and stay on the FmHA, and killing them with the 13-percent interest rates. Somehow there has got to be some pressure or something put on to get the FCA to reduce this interest rate significantly.

My final comments concerning the agriculture economy, I don't think Congress realizes how serious the economy of the rural America is. When you see all the statistics, that farmers are using up their equity, in my opinion this has snowballed and is getting way out of hand in these things. These statistics are going to start to double every year and that is going to be very serious. One comment we keep hearing from Washington is if we can get these prices low enough, we can export the product. But the prices they talk about don't leave the farmer any profit, so it seems rather futile. I've heard a lot of talk about exports here this morning, and I cannot see if we have to get the price of wheat down to $2 to export, I cannot see how that's going to help the American farmer.

It may, but when you can't produce it for $2, I cannot see the rationale in all this. That seems to be—I had a friend that spent time in Brazil. These underdeveloped countries are tremendously developing their agriculture. He said they're putting in pivots down there, their labor is $3 a day. He came back and he said, "Hey, I don't know how we're going to compete with those guys."

And I don't think we, basically, have an export market out there to sell to.

I have a couple of comments that may probably shake everybody up. I don't have the answers, but the only way a farmer with many fixed loan payments and operating expenses can survive lower commodity prices is to try and produce more and more commodity. It sounds drastic and something none of us likes to think about, but with our export market gone, the American farmer can drown this country in food. Maybe we will have to think about a national quota on a lot of products.

Where I'm coming from, the dairy has really been getting the bum rap in here today on some of this, but some of these programs—and I'm not in the dairy buyout except they're taking a big chunk out of my check starting in a month. But the only way we have, as the prices go down, the only way we have of staying in business—like I say, maybe we should just get out of business. Most of us, you know, we've been there a long time and we just hate to walk off and leave it. That's to produce more and more milk is the only way we can pay these bills. It's just a simple fact. They talk about, well, let's just bring it out and shake it up. OK, we'll go from $10 to $9 on the price of milk. Well, there goes a few more. By the time the last guy gets left in the United States producing milk—I'm just using this.

It's the same with all commodities. You know, he's going to be so far in debt he won't know what he's doing there either. I don't know, from the dairymen in Canada I've talked to that have been on the national system up there, they've come to the conclusion they would rather produce less milk and make a living at it than they would produce five times as much and go broke. But I don't know, this is a serious thing. It's not the American way, I realize. Everybody says get the Government out of things, but there is some thought in my mind for agriculture to survive, I don't know what we're going to do with our product.

We have gotten so darn good in this country, like I say, we can drown this country in food. I don't know anyplace to export it. The other countries are gearing up, and they all want to export it. Maybe we are going to have to have innovative programs, and maybe we're going to have to have some kind of quota system, you know, I'd rather milk less cows and make a living. I don't have to be rich, just keep adding more cows every year. It may take me 1, 2, or 5 years to go broke, but that's what we're all going to do.

Senator SYMMS. What you're basically saying is, when you raise that that you're going to have to start writing that check for 50 cents a hundredweight or 52 cents in order to pay your share of the dairy buyout, you've got to milk more cows to pay for it?

Mr. PARKER. It took $1,200 a month out of my check starting the first of April, and they'll be 25 more cows in my herd this fall. I realize that's a terrible attitude, but if it's going to survive, well this might help me survive 1 more year. And that's what we're all going to do.

Senator SYMMS. I'm going to give it to Jerry here, because I'm supposed to be leaving soon. Thank you very much, I appreciate your statement.

I also want to just say for our reporter, I have the statement here from Mrs. Tom Loertscher of Idaho Falls, to be added to the record.

[The statement of Mrs. Loertscher follows:]

STATEMENT OF LINDA LOERTSCHER, IDAHO FALLS, ID

SENATOR SYMMS, GENTLEMEN, I APPRECIATE THE OPPORTUNITY TO TESTIFY TODAY. MY NAME IS LINDA LOERTSCHER, MY HUSBAND'S NAME IS TOM AND WE FARM APPROXIMATELY 10,000 ACRES--3000 ACRES ON THE FOOTHILLS EAST OF IDAHO FALLS, AND 7000 ACRES LOCATED IN THE BONE AREA. WE HAVE FINANCED WITH EASTERN IDAHO PCA APPROXIMATELY 14 YEARS. WE ALSO HAVE A LONG TERM MORTGAGE ON THE RANCH IN BONE WITH FEDERAL LAND BANK. WE HAVE FARMED IN IDAHO 19 YEARS. BEFORE THAT TIME MY HUSBAND'S FAMILY FARMED IN UTAH 40 YEARS.

MY COMMENTS TODAY WILL BE FROM THE PERSPECTIVE OF A FAMILY FARM THAT FINANCES ITS OPERATION THROUGH BOTH FARM CREDIT SOURCES--FEDERAL LAND BANK, AND EASTERN IDAHO PCA. FURTHER THESE COMMENTS WILL BE ADDRESSED FROM THE PERSPECTIVE OF A FARM THAT DOES NOT FIT THE NORMAL CATEGORIES OF A FARM IN TROUBLE I.E. BAD DEBT ASSET RATIOS.

LIKE OTHER FARMS AT THIS TIME OUR CHIEF PROBLEMS HAVE COME ABOUT AS A RESULT OF BACK TO BACK EXPORT EMBARGOS, HIGH INFLATION, HIGH INTEREST RATES, AND STEADILY DECLINING COMODITY PRICES. AT THE PRESENT TIME OUR PROBLEM, BEING FINANCED IN THE FARM CREDIT SYSTEM ARE ARTIFICIALLY HIGH INTEREST RATES. WHILE OTHER CREDIT SOURCES HAVE BEEN OFFERING MONEY AT CHEAPER RATES, WE WHO ARE LOCKED INTO THE FARM CREDIT SYSTEM MUST PAY THE BILL FOR BAD MANAGEMENT PRACTICES, NOT ONLY OF OURSELVES BUT OF POOR DECISION MAKING ON THE PART OF THOSE OPERATING THE PCA'S AND FLBA'S OF THE COUNTRY. DUE TO THE FRICTION THAT WE HAVE FELT EXISTS BETWEEN THE LOCAL FEDERAL LAND BANK AND EASTERN IDAHO PCA THOSE OF US IN THE POSITION THAT WE HAPPEN TO BE IN OF OWING MONEY TO BOTH ORGANIZATIONS, ARE HAVING EXTREME DIFFICULTY. FOR TWO YEARS RUNNING, THE PCA HAS BEEN UNWILLING TO BUDGET FUNDS FOR MEETING THE FLB PAYMENTS. THIS HAS PLACED AN EXTREME AMOUNT OF PRESSURE ON OUR OPERATION. THE FEDERAL LAND BANK WAS COOPERATIVE IN THAT THEY PROVIDED A ONE TIME REAMMORTIZATION THE FIRST YEAR WHICH RESULTED IN RAISING THE ANNUAL PAYMENTS SUBSTANTIALLY. THIS YEAR WE PROPOSED SEVERAL ALTERNATIVES INCLUDING REFINANCING FROM OTHER SOURCES, AND ALSO THE FEDERAL LAND BANK IN AN EFFORT TO EXTEND THE TERMS OF THE SHORT TERM DEBT. WE HAVE BEEN LEFT WITH THE FEELING THAT BECAUSE EASTERN IDAHO PCA IS INVOLVED, NO MATTER WHAT OUR EQUITY PICTURE REFLECTS, THAT THE FEDERAL LAND BANK HAS NOT CONSIDERED OUR SITUATION BECAUSE IT COULD BE CONSTRUED TO HELP THE PCA. EASTERN IDAHO PCA HAS ALSO APPEARED TO BE UNWILLING TO NEGOTIATE WITH US IN ANY MEANS TO MEET OUR FEDERAL LAND BANK PAYMENT. WE FEEL LIKE WE ARE CAUGHT IN THE MIDDLE OF A FIGHT GOING ON BETWEEN TWO ORGANIZATIONS THAT RESULTED BECAUSE OF THE FAILURE LAST YEAR OF THE MERGER EFFORTS OF THE FARM CREDIT SYSTEM.

IN OUR VIEW, THE TWO ORGANIZATIONS SHOULD BE BROUGHT INTO A MORE COOPERATIVE EFFORT SO AS TO ALLOW THOSE WHO DO BUSINESS WITH BOTH THE OPPORTUNITY TO NEGOTIATE RESOLUTIONS TO PROBLEMS IN SITUATIONS WHERE DEBT ASSET RATIOS ARE IN

GOOD CONDITION, AND WHERE THERE EXISTS THE OPPORTUNITY FOR THAT FARMER TO SURVIVE, GIVEN TIME TO DO SO.

IN THE RECENT PAST WE HAVE BEEN HEARING THROUGH THE MEDIA THAT SOME RELIEF TO FARMERS IN THIS TYPE OF SITUATION WAS IN THE OFFING. AS OF THIS DAY, WE ARE UNAWARE OF THE EFFORTS BEING MADE BY EITHER OF THE LOCAL ORGANIZATIONS. THOSE PROPOSALS WERE ALONG THE LINES THAT WHERE EQUITIES WERE SUFFICIENT THAT A WORKOUT PLAN WOULD BE CONSIDERED AND IN CASES WHERE SUCH A PLAN COULD BE DEVISED, TO INSURE THAT THE DEBTS COULD BE PAID, GIVEN ENOUGH TIME, THAT IT WOULD BE THE POLICY OF THE FARM CREDIT SYSTEM TO SET UP SUCH A PLAN. WE THINK THAT THIS WOULD BE A GOOD MOVE AND WOULD ENCOURAGE YOU, SENATOR SYMMS, TO LOOK INTO WHETHER THIS IS HAPPENING.

WE CAN ASSURE YOU THAT OUR EFFORTS ON THE FARM HAVE BEEN IN THE INTEREST OF RESOLVING OUR PROBLEMS WITH THE DEBT THAT HAS BEEN GENERATED. WE ARE NOT BLIND TO THE FACT THAT THIS IS OUR PROBLEM TO SOLVE, AND IT IS OUR DESIRE TO DO SO, PAYING BACK EVERY CENT THAT WE OWE. WE HAVE NO INTEREST IN SEEING ANYONE LOSE MONEY BECAUSE OF US, AND IN FACT IN OUR PARTICULAR CIRCUMSTANCE, SHOULD FORECLOSURE AT SOME TIME COME TO PASS, THE BANKS ARE SECURED AT LEAST 2 1/2 TIMES ON WHAT THEY HAVE LENT TO US. SO THEY WILL LOSE NOTHING. WE THEN BECOME THE LOSERS AND WE DON'T WANT THAT TO HAPPEN EITHER. GETTING FINANCES THIS YEAR TO RAISE A CROP WAS THE MOST DIFFICULT PROCESS OF ANY WE HAVE EVER GONE THROUGH--IN SPITE OF OUR EFFORTS TO REDUCE OUR REQUIREMENTS AND TO PRESENT A POSITION THAT WOULD RESULT IN A NET PAY DOWN OF OUR DEBT. THE PCA HAS FORCED ON US TERMS AND CONDITIONS WHICH THEY KNOW FULL WELL CANNOT BE MET. WE FEEL THAT THE FARM CREDIT SYSTEM WAS ORIGINALLY SET UP TO HELP FARMERS IN GOOD TIMES AND IN BAD. IN REALITY IT IS MERELY A SLOGAN WHICH THEY USE IN THEIR ADVERTIZING. BAD TIMES ARE ON US IN AGRICULTURE. WE DESIRE NO HANDOUTS FROM THE FEDERAL GOVERNMENT OR FROM THE LENDING INSTITUTIONS, BUT DESIRE ONLY THAT THEY SIT DOWN WITH US IN A COOPERATIVE MOOD IN ORDER TO WORK THESE PROBLEMS OUT. IT IS OUR FEELING THAT THE FARM CREDIT SYSTEM SHOULD BE EXAMINED IN DEPTH TO SEE IF THEY ARE LIVING UP TO THEIR ORIGINAL CHARTER.

I WISH TO EXTEND WARM REGARDS FROM MY HUSBAND TOM WHO IS UNABLE TO BE HERE TODAY BECAUSE WE HAVE HAD TO WORK SO HARD AND FREE TIME IS SOMETHING WE DO NOT HAVE. THE STRESS THAT WE HAVE GONE THROUGH THIS LAST YEAR HAS BEEN A GROWING EXPERIENCE TO SAY THE LEAST. WE HOPE WE DON'T HAVE TO GROW TOO MUCH MORE. WE HAVE ACCOMPLISHED GREAT TASKS WITH OUR FAMILY TO PLANT AND HARVEST OUR CROPS. OUR CHILDREN HAVE WORKED LONG HOURS. THEY HAVE LEARNED TO COOPERATE TOGETHER AND THEY HAVE LEARNED TO DO THINGS, WHICH PREVIOUSLY WAS DONE BY HIRED HELP. WE HAVE DONE ALL THAT WE KNOW HOW TO DO IN ORDER TO WORK OUT OUR PROBLEMS

THANK YOU AGAIN FOR THE OPPORTUNITY TO TESTIFY TODAY.

STATEMENT OF GERALD TEWS, RANCHER, FILER, ID

Mr. TEWS. Senator, as you know we've been working on the farm credit system for quite some time, and we do have all the problems, plus what's been recognized here today. And we've got to get interest down, and how do we do it? We say recapitalize. Get some money in there and pay it off like we did in the 1930's.

Senator SYMMS. You're referring to the second Swan Falls agreement?

Mr. TEWS. Yeah, or something similar.

Senator SYMMS. Do you have a copy of that?

Mr. TEWS. Yes, you should have a copy there.

Anyway, how do you handle the world situation as imports and exports, where do we go? We know where we've been, but where do we go? It was a sad day here quite recently when we had a little family session. Our oldest boy is 17, and we had to tell him he'd better go out and get an education off the farm. It doesn't look very good. So some of that information in there, Steve, is just information. On the back page that tells about the World Bank loaning money to Argentina so they can compete better on the world market producing food.

So I think that the solution is not to produce more. As I go broke, I don't farm, but that land is still farmed. And this is what people forget.

The land is always farmed and always produces, so maybe there needs to be more land taken out. Maybe we need to have less production, mandatory, which is against our way of life.

Our wheat program this year, April, $3 per bushel at $2.45 with the set-aside increase today at $2.16 a bushel, it's $2.70 a bushel. I can't raise wheat and stay in business.

We can't raise yearling cattle for $52.55. So what we need to do, our cost of operations versus ratio to income is completely out of balance.

[The prepared statement of Mr. Tews follows:]

PREPARED STATEMENT OF GERALD TEWS

First, to answer the questions: (1) Qualified borrowers have no problem getting credit. The real problem is with the commodity price ratio to the cost of production. Paying back loans at the current interest rates is almost an impossibility.
(2)
Lower the interest rates through recapitalization. Allow some profit in the industry. Without profits there are no qualified borrowers.

(3) Yes, with the surpluses and devaluation of land, it will be harder to qualify for loans, short or long term. They are predicting a drop in land value of 14% in 1986 and 5-6% in 1987.

(4) Yes, They have always been able to adjust and work with the borrowers. The new words are restructuring of loans. Is it cheaper to write down the loans or to foreclose? With writing down a loan, perhaps the present operator can stay and work his way out, but who pays for this???? The remaining stockholders and the Farm Credit System, which holds interest up and in turn, puts more borrowers in the position in question (4).

What we need in the FCS is to recapitalize like we did in the 1930s. (We finished paying back the government in 1968). We will borrow the money now and pay it back later when agriculture gets better.

The three billion that congress approved in the 1985 Farm Credit Act could be used to buy down the FCA's outstanding high bonds to a point that would equal 8% money. The bond market currently is around 7%. We could repay this over a period of time.

We must make sure that the FCA allows the local PCAs and FLBs to operate in a good businesslike manner that allows for profit and does not strangle the associations or the borrowers with rules, regulations and auditors.

Senator SYMMS. Let me interrupt here, if I can now, because I'm interested in your idea about recapitalizing, and ask this question here: Al, you're talking about getting some 9.5-percent money available for PCA operating loans. And Mr. Parker said we need to get out there and sell some bonds in the market, get that money available for Federal land bank, so that these people can refinance at a lower rate. Have you looked at this plan that Jerry Tews and some of them have been working around to try to get some money infused in the farm credit system and have the farmers have a balloon payment on the end, say 4 or 5 years down the road? Tell us what's wrong with that idea.

Mr. HASLEBACHER. I haven't seen the second Swan Falls agreement or whatever you're talking about. I have talked with Jerry about the recapitalization program.

Mr. TEWS. It's the same.

Mr. HASLEBACHER. The same?

Senator SYMMS. I referred to it on television that way yesterday. That's why I told him that this morning.

Mr. HASLEBACHER. This is a pretty sensitive subject within the Government administration on whether or not financial assistance for the Farm Credit System is needed or will be available, you know, the Gramm-Rudman and all these things. But in reality, unless we can reduce our interest rates, we can't help the farmer. And the farmers need a reduced interest rate to help them in this economic period. And we are unable to get very much of the new money in, because of the refinancings that are going on. We're being paid down. We've had nearly a half billion dollars pay down in the last half year.

So everytime a bond matures and comes up, the amount of new cheaper money that we can put into our average cost is a very small amount, because we're using the money from the pay in.

Senator SYMMS. Jerry, are you talking about selling bonds to get this capital?

Mr. TEWS. No, our basic proposal is to go to the Government and ask for a loan, like we did in the 1930's. And then in a period of time, we would pay it back, after 5 years, start paying interest and gradually pay it all back.

Senator SYMMS. Get the loan at Treasury rates right now, which is very much more competitive?

Mr. TEWS. And then inject that money in and at that time, we're talking $10 to $12 billion to do this, to bring the interest rates down. Because, if you don't get it down, people won't survive, and we've had good reception, but the question is, where do you get the money?

I was told that the Treasury, even on our $3 billion that you guys put in on the Farm Credit Act, could be used. They say there's no way until you go to zero. The Undersecretary of the Treasury told me that.

Senator SYMMS. In other words you have to use up the $3 billion before we can get more?

Mr. TEWS. No, we've got to use up all of our reserves that the Farm Credit System has, which is approximately—when they get done off the worst of this year, might be about $2 billion.

Senator SYMMS. Left?

Mr. TEWS. Left, out of how many billions do we have out?

Mr. HASLEBACHER. That was over $6 billion. We're down to $3.1 billion at the end of the first quarter on surplus left.

Senator SYMMS. What you're saying, Al, if I hear it right is as your old bonds mature, then you go into the market and refinance at a better rate.

Mr. HASLEBACHER. Our average cost is coming down. It's now $11.03 billion on the land bank on the average cost of money, compared to $11.4 or $11.5 billion at the first of the year.

But then that's coupled with the concern on the part of the regulator about capital dissipation, because we need to move capital around the system to—you know, some districts have $400, $500, or $600 million operating losses in 1985.

Senator SYMMS. This farmer like John here, talking about this middle-sized farmer that there's lots of them out here in Idaho, that are in that category. I talked to a lot of them and they tell me they don't know whether it's the Government is their biggest enemy, or whether it's the FmHA or who. They can't qualify for anything. They're under a lot of pressure.

How can we do something to get their rates down quick? That's the problem.

Mr. TEWS. We have to recapitalize.

Mr. PARKER. We can lower their rates immediately, whether the FCA likes it or not, use up the reserves of the Federal land bank. Then go to Congress, because the bill is passed to help them with the money if they need it. We're going to let the farmer die to save the system. We should save the farmer and let the system save itself. We're not going to do that. They're going to save the system and let the farmer die, because they won't lower these rates.

I think that's what your bill was passed for, basically, was help the farmer get these rates down. And they won't do it.

Mr. HASLEBACHER. Let me say the system is the farmer, and without—there's no way of saving the system for somebody else, because the farmers own the system.

Mr. PARKER. That's what you're doing.

Mr. HASLEBACHER. We're on your side, but the regulator is concerned about what they perceive as the intent of Congress that the system use up every dime of its reserves before they tap the line of credit established in the Farm Credit Act of 1985.

Senator SYMMS. What you're saying is, if you lower the rates now, then that's going to put you where you lost $89 million last year, you might lose $189 million this year and we'll use up that reserve faster.

Mr. TEWS. Right, but then get the new business, then get into the bond market, and it's not going to be the kind of loss—because they're losing all their business. We've only got, I think, 25 percent of the loans right now they had a year ago. If this continues, next year they won't be loaning anybody anything. What good are they then if they're not loaning any money?

If they don't loan any new dollars, they won't get into that bond market ever. They can't ever get their costs down.

Senator SYMMS. Are you in a Federal land bank system, John?

Mr. WISSEL. Well, yeah, we are. We're actually one of the ones with the capital corporation. We're in a little different part of that.

Senator SYMMS. Explain to me how that works. The capital system bought your portfolio?

Mr. WISSEL. They bought 90 percent of it last summer, and then they were supposed to work this deal out. We proposed an offer to them to work it out in 5 years, and they said no, sell out. We said no, but we're actually operating with their money in a chapter 11.

Senator SYMMS. But that's costly, too.

Mr. WISSEL. Very costly.

Senator SYMMS. You're in a situation where you're not even supposed to go out there and eat a piece of sweet corn hardly.

Mr. WISSEL. That's right. And like I said, the problem with the chapter 11 is that it does not fit farmers, because of the monthly reports and things, but the biggest problem I want to say on the capital corporation, was that they sold all these loans, and we went through 6 months of last summer until, basically, the first of the year, before we could really find out what the hell was going on with them.

And nobody could tell us in the farm credit system, and I felt at that time—of course at that time, we could not go to a commercial bank, so we ended up doing it the way we are.

Senator SYMMS. Then do you feel like the capital corporation is following congressional intent?

Mr. HASLEBACHER. The capital corporation hasn't really fully got off the ground under the statutory restructuring or the creation under the statute of the farm reduction of 1985. It really hasn't demonstrated what it will be doing.

It was slow being formed by the regulator, appointments were slow. They are in the process of evaluating requests for assistance from various districts that are severely impacted, like the Midwest. And I can't really tell you what they're doing in the way of policy.

Senator SYMMS. Let me ask a question, what interest rate do you think a farmer has to have to be able to compete in this environment, for your whole kit and kaboodle, what, 5 percent?

Mr. TEWS. Eight percent; we could live with that.

Senator SYMMS. In other words, the cost of interest is one of the most—biggest costs anybody is leveled at all nowadays?

Mr. TEWS. That's correct.

Mr. PARKER. A guy that's leveraged 50 percent, you put him up there at this 12 and 13 percent, and he's got to take 6 percent right off the top for interest, and farmers aren't returning that kind of thing right now.

Mr. TEWS. Steve, we have this $3 million that Congress put in.

Senator SYMMS. $3 billion.

Mr. TEWS. $3 billion, yes, is there some way we could use that money to buy down some of our high bonds, and pay that back in time, maybe—the Texas district did that, and it cost them $40 million to do it, but they could loan on their interest 2 percent.

Mr. PARKER. They used some of their reserves.

Mr. TEWS. We don't have any reserves to do anything with. I don't care what the administration says, our reserves are gone after this year. Just like one gentleman told me in Twin Falls and Magic Valley, as far as Federal land bank goes, it's basically on a death march, because people aren't paying, can't pay. Modern prices and no future, they're behind.

So we desperately need some help, and it's not a cure-all. Zero interest won't help everybody, some people are going to go through, in the general course of business. We feel like if Congress will just give us the opportunity, and the administration to recapitalize, however, under a program, and we'll agree to pay it off in time like we did before. It's just one of the things that'll keep us in business, and keep the family farm, the big farm, whatever, but the way we're going, no way.

So you guys have got a big job back there, and I certainly appreciate Steve's efforts in working on public lands issues and farm credit.

Senator SYMMS. I guess what we have to do, whatever's going to be done needs to be done soon. And I don't know whether that's doable, to be very candid. Right now with the election this year and all the other things that are going on in Congress right now, it needs to be done now to get these rates down. It's unfortunate that in the restructuring, any refinancing and infusion of money in the capital corporation, there wasn't enough to get the rates down.

Mr. HASLEBACHER. Senator, I want to make a point for the benefit of anyone who may really believe there was any Federal money put into the Farm Credit System. There was not one dime in the 1985 amendment put into the Farm Credit System.

They're talking about the system using its accumulated surpluses on a system-wide basis.

Senator SYMMS. Right.

Mr. TEWS. Then if all else fails, if the Treasurer will agree, they can go to $3 billion.

Senator SYMMS. Do you have any questions we need to get asked here, counsel?

I thank all of you very much for testifying on all the panels today. Each panel seemed to make a good contribution. I think we know what the problem is, nothing that price wouldn't help solve, both price of interest and price of commodities, and we need the interest down and commodities up would help the farmers.

So I thank you all very much. I promised there would be a period of open mike. If there are people in the audience that wanted to make a comment or two, my schedule tells me I have to leave. I can leave Joe Cobb here, if any of you have anything you want to get into the record. Dixie, you're signaling me?

Ms. RICHARDSON. Mrs. Loertscher has a statement she'd like put into the record.

Senator SYMMS. Yes, we have included that statement. That will be part of the record. I thank you very much.

Somebody else had their hand up here. If it's not a long statement, I can stay for another minute or two. But I absolutely have to leave. I could leave my counsel here to take care of it. Thanks very much, I appreciate it.

STATEMENT OF REED OLDHAM, FARMER, REXBURG, ID

Mr. OLDHAM. My name is Reed Oldham, I farm in the Rexburg area.

Senator SYMMS. Reed what?

Mr. OLDHAM. Oldham.

Senator SYMMS. How do you spell that?

Mr. OLDHAM. O-l-d-h-a-m.

Senator SYMMS. OK.

Mr. OLDHAM. When I was a teenager, if somebody called me that I would knock their block off, but I've been around longer than most of you. I remember the 1930's. We are now in 1928, and unless something is done, and I have no magic formula, we will see 3,500 on the stock market, and we'll also see 800 in the next 3 years.

And our smokestack industry has gone. We've exported it. We are exporting our farm market, and the people who think that they can live on a service oriented society, as the man stated, they are using a chain letter.

And people get tired of that. The stock market today is the biggest chain letter in the Nation. If you don't believe it, just get in there and get your money. It's going on up, but when it falls, you won't be able to catch it.

And that's all I have to say, Senator Symms. Unless we save the agricultural industry, and we're not going to do it with $2 wheat, because we can't produce it for $2. We're not going to do it by exporting, because those people aren't going to give up their export market that we gave them over the last 5, or 6, or 10 years. We gave it to them, and they're going to keep it regardless of costs.

The people in Brazil paid $3 for labor. Mr. Simplot is going across the border and paying $3 for labor, and they're getting their machinery on an export subsidy cheaper than we can buy machinery. We're just got to turn the thing around.

Senator SYMMS. Thank you very much. I want to thank all of you, and the subcommittee stands adjourned.

The record will be kept open for a few days if any of you want to file a statement, just give it to Dixie Richardson.

[Whereupon, the subcommittee adjourned, subject to the call of the Chair.]

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