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APPROVED

OCT 15 1976

8 10/15
in Iowa

THE WHITE HOUSE
WASHINGTON
October 14, 1976

ACTION

Last Day: October 18

~~Statement~~
~~Remarks~~ issued
10/15/76
in Ames, Iowa

Posted
10/15/76

Archives
10/18/76

MEMORANDUM FOR THE PRESIDENT
FROM: JIM CANNON *J. Cannon*
SUBJECT: H.R. 15059 - Emergency Livestock Credit Act Extension

Attached for your consideration is H.R. 15059, sponsored by Representative Bergland.

The purpose of the enrolled bill is to extend from December 31, 1976 to September 30, 1978, the Emergency Livestock Credit Act of 1974.

In reporting to the Congress, Agriculture supported the enactment of H.R. 15059 subject to the extension being limited to one year - until December 31, 1977. Since it is difficult to estimate the long term credit requirements of farmers and ranchers under this program, the Department believed a one-year extension would be preferable to a longer term.

A detailed discussion of the provisions of the enrolled bill is provided in OMB's enrolled bill report at Tab A.

Agency Recommendations

Agriculture and the Farm Credit Administration recommend approval while Treasury expresses no objection to approval.

The Council of Economic Advisers (Greenspan) recommends disapproval. CEA sees no economic justification for this legislation, and it argues that in the case of declared disaster areas the Federal Government is already subsidizing the costs of hay transportation and oats for farmers.

OMB recommends approval of the enrolled bill.

Max Friedersdorf, Counsel's Office (Kilberg), Bill Seidman and I recommend approval of H.R. 15059.

RECOMMENDATION

That you sign H.R. 15059 at Tab B.





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 11 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 15059 - Emergency Live-
stock Credit Act extension
Sponsor - Rep. Bergland (D) Minnesota

Last Day for Action

October 18, 1976 - Monday

Purpose

Extends, from December 31, 1976 to September 30, 1978,
the Emergency Livestock Credit Act of 1974.

Agency Recommendations

Office of Management and Budget	Approval
Department of Agriculture	Approval
Farm Credit Administration	Approval
Department of the Treasury	No objection
Council of Economic Advisers	Disapproval

Discussion

Under provisions of the Emergency Livestock Credit Act of 1974, the Secretary of Agriculture is directed to provide loan guarantees covering up to 90 percent of the loss on private lender loans which are made to bona fide farmers and ranchers who have substantial operations in breeding, raising, fattening, or marketing livestock. The total loans guaranteed for any loan applicant may not exceed \$350,000, and the aggregate of such loans may not exceed \$1.5 billion at any one time. The Federal Financing Bank is authorized to hold the guaranteed portion of these loans. The loans must be repaid

within 7 years with Secretarial discretion to renew for up to 3 additional years. Eligible loan purposes include beef cattle, dairy cattle, swine, chicken, turkey, sheep and goats. The authority to make new guaranteed loans expires on December 31, 1976.

The enrolled bill would amend the Emergency Livestock Credit Act of 1974 as described above to extend the authority to make new loan guarantees to September 30, 1978.

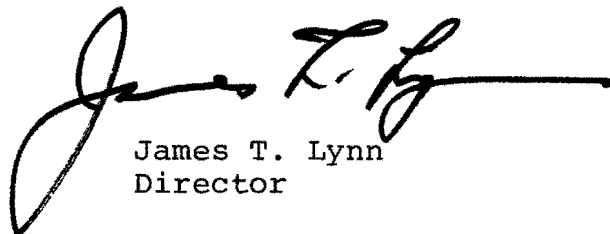
In reporting to the Congress, Agriculture supported the enactment of H.R. 15059 subject to the extension being limited to one year -- until December 31, 1977. Since it is difficult to estimate the long term credit requirements of farmers and ranchers under this program, the Department believed a one-year extension would be preferable to a longer term.

In their attached enrolled bill letters, Agriculture and the Farm Credit Administration recommend approval while Treasury expresses no objection to approval. Agriculture notes that there has been a recent increase in the demand for these loans, and concludes, in light of certain adverse factors now affecting livestock producers (drought, etc.), that this loan program will not taper off as soon as previously predicted. The Department further advises that some \$773.4 million has been obligated (guarantees) with loan failure losses of \$1.2 million over the program's 25 months of operation. Agriculture estimates administrative costs of the program at slightly in excess of \$1 million annually.

However, in its attached enrolled bill letter, the Council of Economic Advisers recommends veto. CEA sees no economic justification for this legislation, and it argues that in the case of declared disaster areas the Federal Government is already subsidizing the costs of hay transportation and oats for farmers and ranchers. Finally, the Council states that the extension period is too long and that the enrolled bill would encourage commercially unwise loans.

Conclusion

While we share the concerns expressed by CEA, we believe that the Emergency Livestock Credit Act of 1974 has been, and would continue to be, a useful and necessary program in assuring that the livestock industry, a major sector of American agriculture, can obtain the credit it must have in order to complete its return to a healthy and stable position. It was our hope that the Administration's proposed one-year extension would have given the livestock industry sufficient time to fully recover, and thereby have provided a basis to terminate the program at the end of next year. However, we do not believe that the congressional approach of a one and three quarter-year extension is sufficiently different from the Administration position as to warrant veto. Moreover, as noted above, the direct Federal cost for program administration and loan default payments continues to be modest. Accordingly, we join Agriculture and the Farm Credit Administration in recommending approval.



James T. Lynn
Director

Enclosures

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

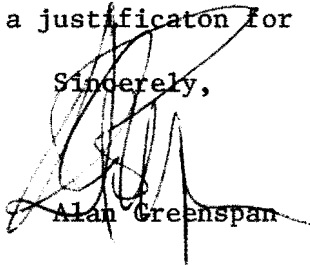
October 7, 1976

Dear Mr. Frey:

This is in response to your request for CEA's recommendation on enrolled bill H.R. 15059, which extends to September 30, 1978 the authority to make new loan guarantees under the Emergency Livestock Credit Act of 1974. We recommend that the President veto the bill.

Livestock producers in many areas have been seriously harmed by drought and low cattle prices this summer. However, relief for disaster areas by means of transportation subsidies on hay and subsidized sales of CCC oats under the emergency livestock feed program are already available. H. R. 15059 is not a disaster bill in that it is not limited to disaster areas, and extends to two years from now, longer than this summer's temporary problems warrant. Moreover, credit from commercial sources is available for viable enterprises. This bill would encourage loans at the margin which are commercially unwise. Therefore, on economic grounds, we do not see a justification for this legislation.

Sincerely,



Alan Greenspan

Mr. James Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D. C. 20503

Attn: Ms. Ramsey
Room 7201 NEOB



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: October 12

Time: 115pm

FOR ACTION: Paul Leach *PL*
Max Friedersdorf *MF*
Bill Seidman *BS*
Bobbie Kilberg *BK*
Robe

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey
Stray app.

FROM THE STAFF SECRETARY

DUE: Date: October 14

Time: 300pm

SUBJECT:

H.R.15059-Emergency Livestock Credit Act Extension

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

please return to judy johnston, ground floor west wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: October 12

Time: 115pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bill Seidman
Bobbie Kilberg

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey

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SUBJECT:

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For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

*No objection
K. Jayrus
10/13*



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon
For the President

THE WHITE HOUSE

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WASHINGTON

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Date: October 12

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Max Friedersdorf
Bill Seidman
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For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

please return to judy johnston, ground floor west wing

*Recommend
Approval.*

[Signature]

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James M. Cannon
For the President

THE WHITE HOUSE

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ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

*APPROVAL
LWS*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

JAMES M. Cannon
For the President



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

Honorable James T. Lynn
Director, Office of Management
and Budget
Washington, DC 20503

October 7, 1976

Dear Mr. Lynn:

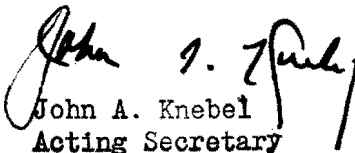
In reply to the request of your office, the following report is submitted on the enrolled enactment H.R. 15059, "To amend the Emergency Livestock Credit Act of 1974."

This Department recommends that the President approve the bill.

The guaranteed emergency livestock loan program is designed to assist livestock producers to continue their normal operations through the current adverse economic period affecting the livestock industry. The demand for these loans took a sharp rise in August 1976 and is expected to increase substantially during the loan renewal period beginning this fall on through the next six months. Also, the drought in broad sections of the country is causing livestock producers to have further setbacks in addition to those brought on by economic conditions. In view of the current overall situation, we do not believe the need for the program will taper off as soon as previously predicted. Therefore, we do not object to extending this program from December 31, 1976, through September 30, 1978, as proposed by H.R. 15059. This will permit lenders to obtain guarantees on loans to new applicants, and continue making advances to those borrowers already indebted under this guaranteed loan program.

This program has been operating since July 25, 1974. Through August 31, 1976, \$773,404,980 has been obligated. Loss claims paid to lenders because of loan failures have amounted to \$1,211,541. It is impossible to estimate the amount of such losses that will be charged against the total program. Consequently no estimate of ultimate losses due to loan failures under the extension is available. We estimate that enactment of this legislation will result in a total need of \$940,000 additional for administrative costs in carrying out the proposal for the period January 1, 1977, through September 30, 1978.

Sincerely,


John A. Knebel
Acting Secretary



THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

OCT 5 1976

Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for Legislative
Reference

Sir:

This report responds to your request for the views of this Department on the enrolled enactment of H.R. 15059, "To amend the Emergency Livestock Credit Act of 1974."

The enrolled bill would extend the authority to make new guarantees under the Act from December 31, 1976 until September 30, 1978.

The Department would have no objection to a recommendation that the enrolled enactment be approved by the President.

Sincerely yours,

General Counsel

Richard R. Albrecht



490 L'ENFANT PLAZA, S.W. WASHINGTON, D.C. 20578

October 6, 1976

Director, Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Attention: Assistant Director for
Legislative Reference

Subject: Views on enrolled bill H.R. 15059

This is in response to your request of October 4, 1976, for the views of the Farm Credit Administration on enrolled bill H.R. 15059, "To amend the Emergency Livestock Credit Act of 1974." The amendment would extend the expiration date for authority to make new guarantees under the Act from December 31, 1976, to September 30, 1978.

Under the Act, the Secretary of Agriculture is authorized and directed to provide financial assistance by guaranteeing up to 80 percent of any loan made by a legally organized lending agency to a bonafide farmer or rancher who is primarily and directly engaged in livestock production.

The Farm Credit Administration recommends that H.R. 15059 be approved by the President.

Sincerely,

A handwritten signature in dark ink that reads 'W. M. Hardy'. The signature is written in a cursive style with a large, sweeping 'H' and a small flourish at the end.

Governor

EXTENSION OF THE EMERGENCY LIVESTOCK CREDIT ACT AND OTHER DISASTER RELIEF FOR FARMERS

SEPTEMBER 20, 1976.—Ordered to be printed

Mr. MCGOVERN, from the Committee on Agriculture and Forestry,
submitted the following

REPORT

[To accompany S. 3713]

The Committee on Agriculture and Forestry, to which was referred the bill (S. 3713) to extend the Emergency Livestock Credit Act of 1974, having considered the same, reports favorably thereon with an amendment and an amendment to the title and recommends that the bill as amended do pass.

SHORT EXPLANATION

S. 3713 extends the Emergency Livestock Credit Act of 1974 for twenty-one months; makes provision for the granting of loan repayment grace periods of up to two years for certain agricultural borrowers located in disaster or emergency areas; and changes section 813 of the Agricultural Act of 1970 to include hay in the disaster reserve and enable the Secretary of Agriculture to acquire hay and other commodities for such reserve by direct purchase through January 1, 1978.

COMMITTEE AMENDMENTS

The Committee amendments add three new sections to the bill.

New section 2 directs the Secretary of Agriculture to encourage, in such manner as he deems appropriate, lenders of loans guaranteed under the Emergency Livestock Credit Act of 1974 to modify the repayment schedules on such loans to allow up to two-year grace periods on principal repayment for borrowers whose livestock operations are in areas designated as major disasters or emergencies during 1976 or 1977.

New section 3 authorizes the Secretary of Agriculture, with respect to loans made by him under the authority of the Consolidated Farm and Rural Development Act, to modify repayment schedules for such loans to allow up to two-year grace periods on principal and interest repayment, for those borrowers whose farming, ranching, or aquaculture operations are located in areas designated as major disasters or emergencies during 1976, 1977, or 1978.

New section 4 enables the Secretary of Agriculture to acquire hay, as well as wheat, feed grains, and soybeans, in establishing and maintaining the disaster reserve created by section 813 of the Agricultural Act of 1970, as amended, for use in alleviating distress caused by natural disaster, and to obtain stocks for this reserve by direct purchase through the Commodity Credit Corporation. The amendments to section 813 will expire on January 1, 1978.

The Committee also agreed to report the amendments to S. 3713 as a separate bill.

BACKGROUND AND NEED FOR LEGISLATION

EXTENSION OF THE EMERGENCY LIVESTOCK CREDIT ACT OF 1974

I.

The Emergency Livestock Credit Act of 1974 authorizes the Secretary of Agriculture to guarantee loans to eligible livestock producers in temporary financial difficulties who are unable to obtain financing necessary to permit continuation of their livestock operation without a guarantee. Farmers eligible are those who were in operation prior to July 25, 1974, and who are engaged in agricultural production and have substantial operations in the breeding, raising, fattening, or marketing of livestock (including dairy operations). The Secretary may guarantee loans in amounts necessary to permit continuation of the livestock operation, but the total amount of loans guaranteed for any one borrower cannot exceed \$350,000 at any one time.

Loan funds may be used for agricultural production purposes essential to conducting livestock operations, such as replacing livestock, providing feed, grazing fees, moving livestock, providing farm machinery, building or repairing pens and fences, or for essential family living expenses. They may also be used for refinancing debts which the applicant is unable to pay and would cause the livestock operation to be discontinued if they are not paid.

The emergency livestock credit program has worked well. It has met with wide acceptance and substantially helped many of the Nation's livestock producers survive the disastrous economic conditions of 1974 and the crop shortfall in the 1974-75 crop year.

It should be noted that the purpose of the program is not to bail out livestock producers who unfortunately bought high and are forced to sell low. It is simply a method to assist producers through periods of economic adjustment and provide financial stability to and preserve this basic industry. The failure rate on these loans to date has been extremely low—much less than 1 percent.

However, the Emergency Livestock Credit Act of 1974 is not a permanent measure and the Secretary's authorization to make new loan guarantees is presently set to terminate in less than four months, on December 31, 1976.

II.

Another threat to the health of the livestock industry has arisen this year as a result of crisis drought conditions in the Upper Great Plains. That area is suffering from the most devastating drought in 40 years. Sixty-four of 67 counties in South Dakota, 60 counties in Minnesota, 43 counties in Wisconsin, and 21 counties in North Dakota have been declared as drought disaster areas this year.

Substantial numbers of livestock producers in these States have been affected by the drought and are faced with almost insurmountable problems in keeping their operations going.

Due to the lack of moisture, grain crops and, more importantly, the hay crop needed to feed cattle will be drastically below normal levels this year. With livestock producers unable to grow sufficient feed on their own farms, feed available in the marketplace is selling at premium prices. As a result, foundation dairy and beef herds are going to market in unprecedented numbers in this area.

As these foundation herds are lost in great numbers today, not only are many livestock producers' operations seriously debilitated, but the stage is set for shortages of beef for the consumer in the long run. And with shortages, the price of beef can be anticipated to rise next year, which will benefit neither the consumer nor the livestock farmer forced to liquidate his cattle herd this year.

III.

To avoid perhaps irreparable harm to the cattle business in the Upper Great Plains, additional forced liquidation sales of foundation herds must be prevented. To prevent such forced sales, producers clearly need additional operating funds to see their herds through the approaching winter. There is no question that producers want to stay in business if they possibly can; but the drought conditions and the failed crops have placed a great strain on normal lending sources.

Therefore, the successful emergency livestock credit program already in place should be extended. Although this step is not, in itself, the full answer to the plight of livestock producers, it is an important step. It will give them access to necessary lines of credit.

TWO-YEAR GRACE PERIOD ON LOAN REPAYMENT

I.

Catastrophic drought conditions have spawned not only problems for livestock producers in obtaining needed credit to continue their operations, but have put tremendous pressure on these producers and farmers of all types whose production this year is being decimated, in servicing existing debt obligations.

Obviously, the farmers worst hit by the drought in this regard are those, such as livestock producers, who because of hardship in the past have obtained assistance through Federal loan programs, and who are now paying off such loans. They obtained these loans under hardship conditions to begin with, and now have to contend with additional hardship.

Besides the emergency livestock credit program, there is another important Department of Agriculture loan program for farmers who encounter difficulty in obtaining credit necessary to stay in operation. This is the loan program under the Consolidated Farm and Rural Development Act, administered by the Farmers Home Administration (FmHA).

There are three types of loans provided under this Act:

(1) Farm ownership loans made by the Secretary of Agriculture to family-size farmers and ranchers who are unable to obtain needed credit from normal commercial sources. These loans are primarily for the acquisition, enlargement, or improvement of farms or refinancing of existing indebtedness.

(2) Operating loans made by the Secretary of Agriculture to family-size farmers and ranchers who are unable to obtain needed credit from normal commercial sources. These loans can be made for, among other purposes, the costs incident to reorganizing the farming system for more profitable operation, purchasing livestock, seed, feed, and fertilizer, or refinancing existing indebtedness.

(3) Emergency loans made by the Secretary of Agriculture to farm operators in declared major disaster or emergency areas who are unable to obtain needed credit from normal commercial sources and who have suffered damages or loss as a result of natural disaster. These loans can be for any of the purposes for which farm ownership or operating loans are made. They are not limited to the amount of actual loss or damage, but can include amounts to cover crop or livestock changes deemed desirable by the applicant.

II.

FmHA is a relatively small agricultural lender through these programs and supplies only about 7 percent of the total farm real estate credit loans and 4 percent of the nonreal estate credit loans for American farmers. However, FmHA's importance to borrowers is far greater than the numbers suggest. This is because these loans are made to new farmers or farmers who are experiencing particular financial hardships and who have exhausted other means of credit.

While these loans could be considered "hardship" loans, the repayment history, like that with emergency livestock credit loans, is most impressive. Since its inception, the Government has written off less than 4 percent of the emergency loans it has made. With operating loans, the write-off rate is approximately 1.6 percent. And with farm ownership loans, the write-off for the almost 40 years of the program has been less than two-tenths of one percent.

While default has not been a serious problem with these programs nor with the emergency livestock credit program, many farmers in the Upper Great Plains who obtained such hardship loans are now

experiencing an extended drought disaster or, in some cases, successive drought disasters. They must continue to meet principal and interest payments even though their cash or feed crops have been wiped out this year.

The problem with loan repayment schedules facing borrowers on these loans is not the length of the repayment period. Rather, farmers affected by the disastrous dry weather this year are in need of more flexibility within the fixed repayment schedules.

III.

S. 3713 would respond to these needs and make changes in these programs that would:

(1) Give the Secretary the authority, with respect to FmHA loans, to defer interest and principal payments for up to two years depending on borrower circumstances.

(2) Require the Secretary to encourage private lenders of guaranteed loans under the Emergency Livestock Credit Act of 1974 to defer principal payments for up to two years depending on borrower circumstances.

These provisions would not stretch out the loan beyond the current maximum; nor do they contain any forgiveness features. Further, they would create no general waiver of payments for all borrowers since any deferment would have to be commensurate with borrower circumstances. They would merely provide means whereby hardship cases could be dealt with in a more appropriate and compassionate manner. The deferment of payments or "grace period" would allow these borrowers some breathing space during the duration of the drought and the recovery period following its end.

It is clearly desirable for the farm economy and the Nation as a whole that foreclosures on farm loans be avoided, especially in light of the fact that almost certainly the loans will be repaid when finally due.

At a hearing held on July 1, 1976, by the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices and the Subcommittee on Agricultural Credit and Rural Electrification, Under Secretary of Agriculture John Knebel testified (with regard to existing FmHA loan programs) that the Department would be liberal in refinancing loans in situations where farmers are carrying FmHA credit at the time of a disaster. He expressed the view that present law appears broad enough to cover foreseeable exigencies.

However, the authority to defer repayment schedules on principal and interest is not expressly provided for in the applicable Acts. The Committee believes that in light of the pressing need for immediate and definitive relief of this nature, the Congress should resolve any possible doubt about the authority for "grace period" provisions.

DISASTER RESERVE INVENTORY

Section 813 of the Agricultural Act of 1970, as added by the Agriculture and Consumer Protection Act of 1973, provides that a disaster reserve be established and maintained, composed of not to exceed 75,000,000 bushels of wheat, feed grains, and soybeans, for use in alle-

viating distress caused by natural disaster. Under present law, stocks of these commodities are to be acquired for the reserve through the price support program. The stocks are to be disposed of for use in emergency situations stemming from a natural disaster or a civil defense emergency.

In conjunction with this statute, the Department of Agriculture operates an emergency livestock feed program under section 407 of the Agricultural Act of 1949, as amended, and the Act of September 21, 1959, as amended. These laws provide for the sale of commodities at beneficial prices to farmers to provide feed for livestock in any area determined by the Secretary of Agriculture to be an emergency area as the result of a natural disaster that creates a shortage of livestock feed. The commodities sold under this program are taken from the disaster reserve.

The present drought disaster has exposed some shortcomings in the effectiveness of this reserve.

At this time, there are approximately 3,000,000 bushels of oats in the disaster reserve. Several witnesses at the hearing on July 1, 1976, testified that a reserve of 3,000,000 bushels is hardly sufficient to deal with the emergency situation existing today in the Upper Great Plains. Further, oats alone are not a sufficient diet for livestock. Hay is crucial to maintaining healthy cattle.

However, since stocks may be acquired under present law only through the price support program, hay is not part of the disaster reserve. Also, due to the market situation, almost no grain is expected to be acquired in the near future through the price support program. In fact, the reserve will soon be exhausted.

To remedy these problems, the disaster reserve must be expanded to include hay. In addition, the Secretary's authority to acquire commodities must be expanded to include that of direct purchase through the Commodity Credit Corporation, rather than depend solely on the price support program.

SECTION-BY-SECTION ANALYSIS

The bill being reported by the Committee consists of four sections.

Section 1. Extension of the Emergency Livestock Credit Act

Section 1 amends section 8 of the Emergency Livestock Credit Act of 1974, as amended, to extend the Secretary of Agriculture's authority to make new guarantees under that Act, until September 30, 1978. Under existing law, the authority to make new guarantees will terminate on December 31, 1976.

Section 2. Modification of repayment schedules under the Emergency Livestock Credit Act

Section 2 amends section 2 of the Emergency Livestock Credit Act of 1974, as amended, by adding a new subsection (g). Section 2 of the Act authorizes the Secretary of Agriculture to provide financial assistance to livestock producers by guaranteeing certain loans made to such producers. Subsection (f) specifically sets the maximum limits for repayment schedules on such guaranteed loans.

New subsection (g) would require the Secretary, with regard to such repayment schedules on guaranteed loans, to encourage lenders to modify schedules for borrowers whose operations are located in areas declared as disaster or emergency areas during 1976 or 1977 to make the schedules commensurate with borrower circumstances in light of the disaster or emergency conditions. The modifications would consist of deferrals of principal repayment on the loans for up to two years depending on individual circumstances. Borrowers would still be required to make annual payments equal to one percent of the principal during the deferral period. Modifications would be limited to borrowers whose operations are located in areas designated as major disasters or emergencies by the President pursuant to the Disaster Relief Act of 1974, or as emergency areas by the Secretary of Agriculture pursuant to section 321 of the Consolidated Farm and Rural Development Act. The provisions of the subsection would expire on January 1, 1978.

Section 3. Modification of repayment schedules under the Consolidated Farm and Rural Development Act

Section 3 amends section 324 of the Consolidated Farm and Rural Development Act, as amended, by redesignating its provisions as subsection (a) and adding a new subsection (b). Section 324 of the Act deals with the liability of borrowers of emergency loans made by the Secretary of Agriculture under subtitle C of the Act, and sets repayment schedules and interest rates.

New subsection (b) would authorize the Secretary, with respect to emergency loans under subtitle C, farm ownership loans under subtitle A, and operating loans under subtitle B, to modify the repayment schedules of such loans for borrowers whose agricultural operations are located in areas declared as major disasters or emergencies in 1976, 1977, or 1978 to make the schedules commensurate with borrower circumstances in light of the disaster or emergency conditions. Authorized modifications would be deferrals of principal and interest payments on such loans for up to two years depending on borrower circumstances. Borrowers would still be required to make annual payments equal to one per centum of the principal during the deferral period. Modifications would be limited to borrowers whose operations are located in any area designated as a major disaster or emergency by the President pursuant to the Disaster Relief Act of 1974 or as an emergency area pursuant to section 321(a) of subtitle C. The amendment provides that interest shall accrue on deferred principal during such deferral period, but not on deferred interest. The Secretary's authority to make such modifications would terminate on January 1, 1979.

Section 4. Disaster reserve

Section 4 amends section 813 of the Agricultural Act of 1970, as added by the Agriculture and Consumer Protection Act of 1973. Section 813 requires the Secretary of Agriculture to establish a disaster reserve of commodities (wheat, feed grains, and soybeans) for use in alleviating distress caused by a natural disaster.

Section 4 amends subsection (a) of section 813 by adding a sentence that would enable the Secretary to acquire hay as well as wheat, feed

grains, and soybeans in stocking the reserve. This does not affect the 75,000,000 bushel limit to the size of the reserve inventory. The amount of hay acquired (converted into bushels based on its feed grain equivalent) would count against that limit.

Section 4 also changes subsection (b) to authorize the Secretary to acquire stocks for the reserve by direct purchase through the Commodity Credit Corporation. Under existing law, the Secretary is required to acquire stocks through the price support program only.

The amendments made to section 813 by the bill are effective only through the period ending January 1, 1978.

ADMINISTRATION VIEWS

In a letter to the Chairman dated August 24, 1976, the Under Secretary of Agriculture stated that the Department of Agriculture recommended the enactment of S. 3713, as introduced, if it was amended to limit the extension of the Emergency Livestock Credit Act of 1974 to one year—until December 31, 1977. The letter from the Under Secretary reads as follows:

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., August 24, 1976.

HON. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request of August 4, 1976, for a report on S. 3713, a bill "To extend the Emergency Livestock Credit Act of 1974."

This Department recommends enactment of S. 3713, if amended as set forth below.

The purpose of this bill is merely to extend the Emergency Livestock Credit Act of 1974 which expires December 31, 1976.

This program has been operating since July 25, 1974. It was extended for approximately a year and a half. Through June 30, 1976, \$683,948,150 has been obligated. Loan defaults by borrowers through June 30, 1976, have been \$488,056. It is impossible to estimate the amount of defaults against the total program. Consequently, no estimate of ultimate losses due to defaults under the extension is available. Furthermore, it is not possible to make a long term estimate of credit requirements under this program. Therefore, the Department recommends that the extension be limited to one year—until December 31, 1977.

We estimate that enactment of this proposed legislation would result in administrative costs of \$570,000 for carrying out the program for the period January 1, 1977, through December 31, 1977.

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

Sincerely,

JOHN A. KNEBEL,
Under Secretary.

COST ESTIMATE

In accordance with section 252 of the Legislative Reorganization Act of 1970, the Committee estimates that increased Federal costs will result from (1) the extension of the Emergency Livestock Credit Act and (2) the amendment of section 813 of the Agricultural Act of 1970 (the disaster reserve). The Committee estimates that only minor increased costs will be associated with the provisions of the bill permitting the granting of grace periods.

The major cost of extending the Emergency Livestock Credit Act arises from the possible defaults that may occur. There are two variables in this regard: (1) the amount of loans guaranteed during the extension period, and (2) the ratio of defaults.

Using historic use rates for the program and weighting for anticipated demand, increased guarantees are estimated at \$450 million. This assumes about two-thirds of the demand in fiscal year 1977 and about one-third in fiscal year 1978. These assumptions are based on high current need associated with drought conditions and lower demand with more normal weather and market conditions in 1978.

The default rates for other FmHA emergency loans is 2.85 percent, which appears to be the most appropriate loss ratio to use. The total costs from defaults would, therefore, be about \$12.8 million over the life of the emergency livestock credit program. However, the bulk of these losses would be expected in the third and fourth years of the program with virtually no costs in the first two years.

Administrative expenses are estimated by the Department of Agriculture at \$940,000 for fiscal years 1977 and 1978. The Committee believes that this estimate is reasonable; however, a share of the costs is fixed and will be incurred regardless of the enactment of S. 3713. This is also true of the administrative costs beyond fiscal year 1978. However, some additional costs would occur as a result of the default problem in the later years.

COSTS ASSOCIATED WITH EXTENSION OF THE EMERGENCY LIVESTOCK CREDIT ACT

	[In thousands]					
	1977	1978	1979	1980	1981	1982
Defaults.....	\$89.8	\$1,218.4	\$3,193.4	\$3,026.7	\$2,013.5	\$3,360.2
Administrative.....	400.0	540.0	91.0	86.0	57.0	96.0
Total.....	489.8	1,758.4	3,284.4	3,112.7	2,070.5	3,456.2

The potential cost of the provisions to amend section 813 of the Agricultural Act of 1970 are difficult to estimate. First, it is impossible to predict disaster conditions which would trigger utilization, and second, the use of the emergency feed program has been at about 17 to 18 million bushels annually. However, this is not a good indicator of need because this average level has been influenced by a fairly rapid depletion of the stocks and the fact that oats have been the only commodity available.

If the Secretary enters the market for grain and resells it at the county loan rate, the cost exposure for corn would be approximately \$1.25 per bushel. If this were extended over 25 million bushels—slightly more than average usage—the increased costs incurred by the Federal Government would be a little over \$31 million.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman) :

EMERGENCY LIVESTOCK CREDIT ACT OF 1974

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Livestock Credit Act of 1974".

SEC. 2. (a) The Secretary of Agriculture is authorized and directed to provide financial assistance to bona fide farmers and ranchers who are primarily and directly engaged in agricultural production and who have substantial operations in breeding, raising, fattening, or marketing livestock. In the case of corporations or partnerships, such financial assistance shall be extended only when a majority interest in such corporations or partnerships is held by stockholders or partners who themselves are primarily and directly engaged in such agricultural production. For purposes of this Act, the term "livestock" shall mean beef cattle, dairy cattle, swine, sheep, goats, chicken, and turkeys including dairy cattle raised and maintained for the primary purpose of marketing dairy products.

(b) The Secretary shall guarantee loans, including both principal and interest, made by any legally organized lending agency which otherwise meet the purposes and conditions of this Act. As used herein, a guaranteed loan is one which is made, held, and serviced by a legally organized lending agency and which is guaranteed by the Secretary hereunder: *Provided*, That the term "legally organized lending agency" shall be deemed to include the Federal Financing Bank only to the extent that such Bank may hold the guaranteed portion of such loans.

(c) No contract guaranteeing any such loan by a lender shall require the Secretary to guarantee more than 90 per centum of the principal and interest on such loan.

(d) No fees or charges shall be assessed by the Secretary for any guarantee provided by him under this Act.

(e) Loans guaranteed under this Act shall bear interest at a rate to be agreed upon by the lender and borrower.

(f) Loans guaranteed under this Act shall be for the period reasonably required by the needs of the borrower, taking into consideration the security the borrower has available, but not exceeding an original term of seven years. Loans may be renewed for not more than three additional years.

(g) *With respect to loans guaranteed under this Act made to borrowers whose livestock operations are located in areas which are designated as major disasters or emergencies by the President pursuant to the provisions of the Disaster Relief Act of 1974 or designated as emergency areas by the Secretary in accordance with section 321 (a) of the Consolidated Farm and Rural Development Act, as amended, during calendar years 1976 or 1977, the Secretary shall take such action as he deems appropriate to encourage lenders to modify repayment schedules on such loans to be commensurate with borrower circumstances by postponing all principal payments for up to two years, except for annual payments equal to 1 per centum of the principal. The provisions of this subsection shall expire on January 1, 1978.*

SEC. 8. The provisions of this Act shall become effective upon enactment, and the authority to make new guarantees [shall terminate on December 31, 1976] shall expire on September 30, 1978.

CONSOLIDATED FARM AND RURAL DEVELOPMENT ACT

SEC. 324. (a) Loans made or insured under this Act shall be (1) at a rate of interest not in excess of 5 per centum per annum on loans up to the amount of the actual loss caused by the disaster, and (2) for any loans or portions of loans in excess of that amount, the interest rate will be that prevailing in the private market for similar loans, as determined by the Secretary. All such loans shall be repayable at such times as the Secretary may determine, taking into account the purposes of the loan and the nature and effect of the disaster, but not later than provided for loans for similar purposes under subtitles A and B of this title, and upon the full personal liability of the borrower and upon the best security available, as the Secretary may prescribe: *Provided*, That the security is adequate to assure repayment of the loans; except that if such security is not available because of the disaster, the Secretary shall (i) accept as security such collateral as is available, a portion or all of which may have depreciated in value due to the disaster and which in the opinion of the Secretary, together with his confidence in the repayment ability of the applicant, is adequate security for the loan, and (ii) make such loan repayable at such times as he may determine, not later than that provided under subtitles A and B of this title, as justified by the needs of the applicant: *Provided further*, That for any disaster occurring after January 1, 1975, the Secretary, if the loan is for a purpose described in subtitle B of this title, may make the loan repayable at the end of a period of more than seven years, but not more than twenty years, if the Secretary determines that the need of the loan applicant justifies such a longer repayment period: *Provided further*, That notwithstanding the provisions of any other law, any loan made by the Small Business Administration in connection with a disaster occurring on or after the date of enactment of this amendment under section 7(b) (1), (2),

or (4) of the Small Business Act shall bear interest at the rate determined in the first paragraph following section 7(b)(8) of such Act for loans under paragraphs (3), (5), (6), (7), or (8) of section 7(b).

(b) *Notwithstanding any other provision of this title, with respect to loans made under this title to borrowers whose farming, ranching, or aquaculture operations are located in areas which are designated as major disasters or emergencies by the President pursuant to the provisions of the Disaster Relief Act of 1974 or designated as emergency areas by the Secretary in accordance with section 321(a) of this title during calendar years 1976, 1977, or 1978, the Secretary is authorized to modify repayment schedules on such loans to be commensurate with borrower circumstances by postponing all principal and interest payments for up to two years, except for annual payments equal to 1 per centum of the principal. During this grace period, interest shall accrue on principal, but shall not accrue on the deferred interest. The authority to modify repayment schedules under this subsection shall terminate on January 1, 1979.*

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AGRICULTURAL ACT OF 1970

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DISASTER RESERVE

SEC. 813(a) Notwithstanding any other provision of law, the Secretary of Agriculture shall under the provisions of this Act establish, maintain, and dispose of a separate reserve of inventories of not to exceed 75 million bushels of wheat, feed grains, and soybeans for the purpose of alleviating distress caused by a natural disaster.

Such reserve inventories shall include such quantities of grain that the Secretary deems needed to provide for the alleviation of distress as a result of a natural disaster. *In addition, the Secretary is authorized to acquire hay for inclusion in such separate reserve, for use in alleviating distress caused by a natural disaster.*

(b) The Secretary shall acquire such commodities through the price support program. *The Secretary is also authorized to purchase, through the Commodity Credit Corporation, wheat, feed grains, soybeans, and hay in order to establish and maintain such reserve inventories.*

(c) Except when a state of emergency has been proclaimed by the President or by concurrent resolution of Congress declaring that such reserves should be disposed of, the Secretary shall not offer any commodity in the reserve for sale or disposition.

(d) The Secretary is also authorized to dispose of such commodities only for (1) use in relieving distress (a) in any State, the District of Columbia, Puerto Rico, Guam, or the Virgin Islands and (b) in connection with any major disaster determined by the President to warrant assistance by the Federal Government under Public Law 875, Eighty-first Congress, as amended (42 U.S.C. 1855 et seq.), or (2) for use in connection with a state of civil defense emergency as pro-

claimed by the President or by concurrent resolution of the Congress in accordance with the provisions of the Federal Civil Defense Act of 1950, as amended (50 U.S.C. App. 2251-2297).

(e) The Secretary may sell at an equivalent price, allowing for the customary location and grade price differentials, substantially equivalent quantities in different locations or warehouses to the extent needed to properly handle, rotate, distribute, and locate such reserve.

(f) The Secretary may use the Commodity Credit Corporation to the extent feasible to fulfill the purposes of this section; and to the maximum extent practicable consistent with the fulfillment of the purposes of this section and the effective and efficient administration of this section shall utilize the usual and customary channels, facilities, and arrangements of trade and commerce.

(g) The Secretary may issue such rules and regulations as may be necessary to carry out the provisions of this section.

(h) There is hereby authorized to be appropriated such sums as may be necessary to carry out the purposes of this section.

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[NOTE: The amendments made to section 813 by the bill are effective only through the period ending January 1, 1978.]

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Ninety-fourth Congress of the United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Monday, the nineteenth day of January,
one thousand nine hundred and seventy-six*

An Act

To amend the Emergency Livestock Credit Act of 1974.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 8 of the Emergency Livestock Credit Act of 1974 (88 Stat. 391, as amended; 7 U.S.C. Prec. 1961) is amended to read as follows:

“SEC 8. The provisions of this Act shall become effective upon enactment, and the authority to make new guarantees shall expire on September 30, 1978.”.

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*

OFFICE OF THE WHITE HOUSE PRESS SECRETARY
(Ames, Iowa)

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
UPON SIGNING H. R. 15059
EMERGENCY LIVESTOCK CREDIT ACT EXTENSION

IOWA STATE UNIVERSITY
COLLEGE OF VETERINARY MEDICINE

3:23 P.M. CDT

Distinguished guests, ladies and gentlemen:

I am glad to be in the Iowa version of the Rose Garden. (Laughter) I don't think they can say we are hiding out in the Rose Garden in Washington, D. C., because we are in the beautiful new complex of the Iowa State School of Veterinary Medicine, and it is a pleasure and a privilege to be here.

But it is also a great pleasure and a privilege to be able to sign this legislation which extends the Emergency Livestock Credit Act through September 30, 1978.

American agriculture and our livestock industry in particular is the envy of the world. We all want to keep this industry strong so that our farmers and ranchers can continue to provide the food that America needs.

This legislation provides a useful and necessary program to insure that the livestock industry can obtain the credit it needs in order to return to a healthy and a stable position.

This and other actions I have recently taken, such as signing the much needed packers bonding legislation and the imposition of quotas on meat imports, will help to strengthen the American livestock industry. I consider it critically important that we continue to provide the relief to the livestock industry where it is experiencing the current economic adversities.

The bill which I will sign very shortly will assist livestock producers, provide stability in the marketplace, and help to insure an adequate supply of meat for the American consumer at reasonable prices.

Thank you all very much.

END (AT 3:26 P.M. CDT)