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Report to Selected Members of Congress

November 1992

RURAL CREDIT

Availability of Credit for Agriculture, Rural Development, and Infrastructure

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Resources, Community, and
Economic Development Division

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Congressional Addressees

Concerned about the deterioration of rural communities, the Congress, through the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624) mandated that we study the availability of credit in rural America. This report addresses (1) the extent to which there is adequate credit available to fund agricultural production; rural development, which for the purposes of this report is limited to needs of businesses; and the development of the rural infrastructure (including roads, bridges, and water systems) and (2) the extent to which rural lending institutions are investing in their communities as opposed to areas outside of their communities.

We obtained information on these matters in four states—Kansas, Mississippi, Montana, and Virginia—which were judgmentally selected on the basis of their large rural populations, geographic diversity, and varied industrial bases. Our work in the four states reflects, in large part, the views and opinions of over 300 officials representing federal, state, and local governments; universities; and organizations in the private sector, such as economic development agencies and commercial banks. It should be noted that some of the issues discussed in this report may also apply to urban areas, but a comparison of the availability of credit in rural areas and in urban areas was beyond the scope of our review.

Results in Brief

According to officials in three of the four states we reviewed, credit for agricultural production was generally available for creditworthy borrowers, though loan standards were more stringent in part because of (1) recent problems in the banking and savings and loan industries and (2) rural banks' adverse experiences during the agricultural recession of the 1980s. Among those who may have experienced difficulties obtaining credit were beginning farmers and farmers producing nontraditional plant or animal crops, which in Mississippi, for instance, could be muscadine grapes or freshwater shrimp.

There was less consensus among officials in the four states on the availability of credit for rural businesses. Some officials stated that credit was generally available for business borrowers, while others believed that even creditworthy rural businesses faced difficulties in meeting their needs for credit. Some officials believed that it was more difficult for potential borrowers to obtain credit in part because of lenders' more stringent loan standards. In addition, certain types of borrowers, such as entrepreneurs just starting out in business or businesses seeking to expand their operations, may have experienced particular difficulty obtaining credit because loans for such purposes are considered risky. Finally, some Mississippi officials told us that minority borrowers, both those in business and those in farming, also have faced problems in securing credit. According to state government officials, Mississippi has established a loan guarantee program that has provided credit assistance to minority borrowers since late 1991.

Historically, federal, state, and local governments have assumed much of the responsibility of financing rural infrastructure projects such as roads, bridges, and wastewater treatment systems. However, in some instances, reductions in federal funding and the government's shift from providing grants to providing loans have made it more difficult for states and localities to finance a rural infrastructure that continues to deteriorate. These changes in funding are a particular concern for smaller rural communities, many of which cannot afford to repay a loan at any interest rate because of declining populations and tax bases.

The extent to which rural banks are investing in their own communities cannot be determined because centralized data at the federal and state levels do not always provide sufficient geographic detail about banks' lending. Currently, banks are not required to report lending data that would allow for such a determination. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) (P.L. 102-242, Dec. 19, 1991) requires all banks to collect and report data on their loans to small businesses and small farms, but it does not require the reporting of lending data by geographic area. The act also requires the Federal Reserve Board to begin reporting annually on the availability of credit to small farms and small businesses. To the extent that the Federal Reserve Board collects and reports data in sufficient geographic detail in the future, assessing the degree to which banks are investing in their local communities may be more feasible.[1]

[1]As this report was being finalized, the Federal Financial Institutions Examination Council issued the reporting requirements for FDICIA. We did not evaluate whether these requirements will allow for an assessment of the extent to which banks are investing in their communities.

Credit for Agricultural Production Generally Available for Creditworthy Borrowers

Commercial lenders as well as other officials in three of the four states we visited—Kansas, Montana, and Virginia—agreed that credit for agricultural production was generally available for creditworthy borrowers. Additionally, studies we reviewed indicate that the same was true nationwide. However, lenders were applying more stringent loan standards than in the past. Moreover, certain borrowers in all four states, such as beginning farmers, may have had particular difficulty obtaining credit.

Agricultural Credit Was Generally Available

Commercial lenders in all four states we visited indicated that agricultural credit was generally available. Some lenders noted that the demand for agricultural loans was down. However, in Mississippi, some representatives of the state government, private economic development organizations, and farming interests told us that farmers in their state had experienced difficulty obtaining credit. In support of this view, a Mississippi task force's 1989 study reported that agricultural lending in the state had been cut back because of the more stringent loan standards resulting from the losses on agricultural loans in the 1980s.[2] A number of officials also noted that Mississippi lenders tend to be conservative.

Nationally, the American Bankers Association (ABA) and the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS) both reported that agricultural credit was generally available for creditworthy borrowers. Both ABA[3] and ERS[4] pointed out that the nation's agricultural banks had low loan-to-deposit ratios, which could indicate that there were sufficient funds to loan. ERS also reported that adequate credit was available during 1991 from both the Farm Credit System (FCS), a government-sponsored enterprise that is one of the primary lenders for farmers, and the Farmers Home Administration (FmHA), a federal agency that guarantees farm loans or provides direct loans to farmers who are unable to obtain funds elsewhere at reasonable rates and terms.[5]

[2]Corporation for Enterprise Development for the Mississippi Special Task Force for Economic Development Planning, Financing for a Globally Competitive Economy: Final Report to the Finance Committee (Nov. 1989).

[3]ABA, Agricultural Bank Performance—December 1991 (July 1992).

[4]Agricultural Income and Finance: Situation and Outlook Report, ERS (AFO-44, Feb. 1992).

[5]Agricultural Income and Finance: Situation and Outlook Report, ERS (AFO-44, Feb. 1992; AFO-45, May 1992).

Loan Standards Were More Stringent

While available information indicates that credit for agricultural production was generally available for creditworthy borrowers, lenders were applying more stringent loan standards than in the past in assessing potential borrowers' creditworthiness. According to commercial bankers in the four states, representatives of national banking associations, and ERS officials, commercial banks were using more stringent standards in response to the problems in the banking and savings and loan industries and the problems encountered by farm banks in the 1980s. For example, rather than basing their loan decisions on the value of the collateral (farm assets) offered as loan security, many commercial lenders have been placing greater emphasis on agricultural borrowers' ability to make loan payments out of current income.

Some Agricultural Borrowers May Have Experienced Problems Obtaining Credit

In all four states in our review, certain types of agricultural borrowers, such as beginning farmers and farmers growing nontraditional crops, were generally considered to be higher risk and may have been less able to obtain credit. In addition, some officials in Mississippi as well as several studies expressed concern about the availability of credit for minority farmers in the state.

According to state and local officials, beginning farmers often cannot obtain credit because they lack the required equity. To obtain a commercial loan, a new farmer must have a substantial amount of equity because of the high start-up costs and the risk associated with farming. Some lenders told us that financing 100 percent of a beginning farming operation would be a loan of extremely high risk. In recognition of the problem, Kansas has established a program to aid beginning farmers. This year, Mississippi passed legislation to establish a program to assist these farmers. According to Montana state government officials, the state established a program for beginning farmers in the early 1980s, but funding for the program has not been available for the past several years. According to state government officials, Virginia has not established a program for these farmers. In October 1992, the Congress passed legislation that includes provisions requiring FmHA to provide credit assistance to beginning farmers and ranchers.

State and local officials in the four states we visited indicated that banks are also reluctant to make loans for crops that are not traditionally grown in the geographic area. Still, state officials have recognized the benefits of diversifying their state's agricultural economy. Three of the four states (Kansas, Mississippi, and Montana) were providing assistance for producers of nontraditional crops. According to a state official, Virginia had a 2-year pilot program for nontraditional crops, but was unable to continue it because of budget constraints. (See app. I for more information on federal and state programs assisting agricultural borrowers.)

Additionally, according to some academic and private sector officials who assist minority agricultural and business borrowers, Mississippi's minority farmers have faced particular difficulty in obtaining credit, regardless of their creditworthiness. Similar concerns are expressed in several economic development reports prepared for state and local governments.[6] Although FmHA has a program targeted toward minority and socially disadvantaged farmers, the Mississippi officials stated that the funding was not adequate to reach all potential borrowers. State officials pointed out that one state loan program has been providing assistance to minority borrowers, including farmers, since late 1991.

Opinions Differed on the Availability of Credit for Rural Development

Opinions varied on the availability of credit for rural development in the four states we visited and nationwide. However, officials did generally agree that certain types of borrowers, such as entrepreneurs just starting out in business, may have had problems obtaining credit. Beyond needing credit, many rural businesses also need technical assistance, such as help in preparing business plans and financial statements.

Mixed Views on Availability of Business Credit

We found a mix of opinions on the availability of business credit in the four states we visited. While acknowledging that lending standards had been tightened, rural lenders generally believed that credit was available for creditworthy business borrowers. Several lenders observed that the demand for business loans was down. However, others, such as state government and local planning and development district officials, were concerned about the availability of credit for rural development. Several officials told us that they were aware of cases in which viable business borrowers were denied credit. Some officials attributed these situations to the more stringent lending standards. A number of state government and local planning officials expressed particular concern about the availability of financing for entrepreneurs and start-up companies requiring debt or equity capital.

[6]Mississippi Special Task Force for Economic Development Planning, Seizing the Future: A Commitment to Competitiveness (Dec. 1989); Lower Mississippi Delta Development Commission, The Delta Initiatives: Realizing The Dream . . . Fulfilling the Potential (May 14, 1990); South Delta Planning and Development District, Minority Business Development Plan: A Demonstration Project Conducted in Greenville, Mississippi (June 1990).

National data on the availability of credit also present a mixed message. For example, one organization representing small businesses—the National Federation of Independent Business—recently reported, on the basis of surveys of its members, that the availability of credit for small businesses has eased over the last 2 years. However, the organization added that the availability of credit has not yet eased to the point where it has returned to the level experienced before the most recent economic difficulties. Another organization—National Small Business United—reported that in a nationwide sample, 23 percent of the businesses that had attempted to obtain credit encountered problems.

Other national data indicate that lending by commercial banks has decreased, but the reasons for this decline are unclear. For example, the Federal Deposit Insurance Corporation (FDIC), in its Quarterly Banking Profile for the second quarter of 1992, reported that the loans outstanding at commercial banks declined for the sixth consecutive quarter. FDIC noted that much of the decline was in commercial and industrial loans and that while lending had declined, banks had increased their holdings of government securities. In addition, the Department of the Treasury has expressed concern about the availability of credit in the nation and has directed its banking regulators to examine this issue. These banking regulators are currently holding a series of meetings nationwide to explore concerns about the availability of credit.

Some Business Borrowers May Have Experienced Problems Obtaining Credit

Just as some types of agricultural borrowers in the four states may have had difficulty obtaining credit, so may have some entrepreneurs and smaller rural businesses. For example, those borrowers needing what are termed "micro loans" (generally under $20,000) may have difficulty in acquiring credit. Both federal and state efforts are under way to address this need. For example, the Small Business Administration (SBA) recently developed a pilot program to provide assistance to small businesses needing small-scale financing and technical assistance. At the time of our review, Montana was the only one of the four states that had established a micro loan program.

Besides citing businesses' need for credit, various state and regional officials in the four states also cited the need for additional venture capital,[7] which is often needed primarily by small, new, growth-oriented businesses. Such businesses rarely have access to conventional financing

[7]Venture capital is funding that becomes part of a business's capital base. This capital provides the investor partial ownership, which yields a return that is based on the profitability of the business.

of any sort. Two of the states—Kansas and Montana—established venture capital programs several years ago; however, officials in both states believed that additional venture capital was necessary. Virginia's venture capital program is relatively new and at the time of our review had invested in one business. Although Mississippi's legislature authorized a venture capital corporation in the late 1980s, the program has not been established because of an inability to raise the required funding from the private sector. State government officials stated that they are pursuing another approach to establish a venture capital program.

In addition, some Mississippi officials who assist minority borrowers expressed concern about the ability of minority-owned businesses in the state to obtain credit. As noted previously, several studies raise similar concerns. Although federal and state programs and some private programs have been established to assist minority-owned businesses, these officials believed that additional help was needed. According to Mississippi state government officials, the state is assisting both minority business and farm borrowers through its Minority Business Enterprise Loan Program. The officials noted that the state has leveraged program funds to over $9 million in loans to minority borrowers since November 1991. (See app. II for more information about credit and financial assistance programs for rural businesses.)

Technical Assistance Needed by Small Businesses

Our work and other studies show that in addition to needing credit, many rural businesses need technical assistance. Several officials we visited in the four states said that in many cases, smaller businesses need technical assistance as much or more than they need credit. This assistance includes help in developing business plans, cash flow projections, and other documents that may be required by lenders, as well as help in identifying potential sources of funding. Some officials noted that current programs intended to provide such assistance, such as the SBA-sponsored Small Business Development Centers, require additional resources to more fully address these needs.

Limited Funds Available for Infrastructure in Rural Areas

According to officials in the four states and studies by federal and state agencies and private organizations, rural America's infrastructure is in poor condition—roads and bridges are deteriorating, and many water systems and wastewater treatment facilities do not meet environmental standards.[8] Rural infrastructure projects historically have been financed primarily by federal, state, and local governments. However, financing needed improvements now poses significant problems for many rural areas. In part, these problems result from decreasing federal funds, which have played a major role in financing infrastructure projects such as wastewater systems. Additional federal funding for the transportation infrastructure will be available over the next few years. The Intermodal Surface Transportation Efficiency Act of 1991 (P.L. 102-240, Dec. 18, 1991) provides for about $155 billion in transportation funding over the next 6 years. However, the majority of roads in rural areas are not part of the federal-aid system and therefore do not benefit from federal funds. While local rural governments have assumed greater responsibility for financing their infrastructure, a number of these local communities are finding addressing their needs more difficult because of their decreasing populations and declining tax bases. In addition, many families in rural communities have low incomes or live in poverty, which further contributes to local governments' funding difficulties.

Financing Rural Roads and Bridges

Many rural roads and bridges in the four states we reviewed as well as nationwide are in poor condition and may be in need of repair or replacement. Statistics from the Federal Highway Administration for 1991 indicate that 35 to 50 percent of all local rural roads were in poor condition. USDA's Office of Transportation reported that about 43 percent of the almost 463,000 rural bridges in the nation were deficient, either structurally or functionally. In the four states we reviewed, the percentage of rural bridges that were structurally deficient or functionally obsolete ranged from 38 percent to 66 percent. Almost one-third of these rural bridges either carried weight restrictions or were closed as of 1991.

Nationwide studies by USDA's Office of Transportation indicate that some local governments are experiencing difficulty in financing rural roads and bridges. According to these studies, it is difficult for many local governments to finance these infrastructure projects because of declining populations and tax bases. These trends may be of particular concern for

[8]While this report discusses the difficulties that rural communities often encounter in financing roads and bridges and water systems and wastewater facilities, we recognize that rural communities may also face similar problems in financing a number of other portions of the infrastructure, including airports, railways, hospitals, and affordable housing.

several states' local governments, including those in Kansas and Montana, that are responsible for financing their local roads and bridges primarily from nonfederal revenues, especially property taxes.

Financing Rural Environmental Facilities

According to officials in the four states and various reports, many rural wastewater systems in the states and nationwide do not meet federal environmental standards. A recent GAO report showed that small communities' problems in complying with standards for those systems have not been fully documented.[9] However, states provided anecdotal evidence of unmet needs in small communities. Twenty-four states indicated that unmet needs in small communities will have significant health and environmental impacts. The Environmental Protection Agency's (EPA) funding for these facilities has decreased over the past decade; the responsibility for financing the more than $83.5 billion required to meet the need for wastewater treatment nationwide has been shifted to the states and local governments. To assist in financing these needs, the federal government is authorized to provide $8.4 billion in capitalization grants to establish state revolving funds over a 6-year period, and states are also required to provide a 20-percent match to the revolving funds. States are to use the revolving funds to make loans to local communities to meet their needs in treating wastewater.

It will be particularly difficult for state revolving funds to meet the needs of small communities, our report also pointed out. We noted that the costs per capita for wastewater treatment plants are often relatively high in small communities because they cannot take advantage of economies of scale. When these high costs are combined with a low per capita income, many of the small communities cannot repay loans at any interest rate and cannot compete with larger communities for loans from state revolving funds. For small Montana communities, for example, a study by Montana State University found that low-interest loans by themselves will be of little assistance in financing wastewater treatment facilities and water systems.[10]

This view was echoed by a Montana state government official who stated that many state officials believe there is a pressing and immediate need for

[9]Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs (GAO/RCED-92-35, Jan. 27, 1992).

[10]Richard L. Haines, The Impact of Interest Rates on the Affordability of Water and Wastewater System Improvements in Small Montana Municipalities, Local Government Policy Center (Montana State University, 1991).

additional state and federal grant funds to help small communities meet new federal environmental regulations for improvements to local wastewater and drinking water systems. The problems facing small communities could be exacerbated over the next decade with the introduction of additional, more stringent federal environmental standards.

According to our report, because the state revolving fund program for environmental projects is unable to provide adequate financing for small communities, some states have other assistance programs providing grants and loans. And while other federal agencies, such as FmHA, have programs to provide grants and loans to small communities for wastewater treatment projects, only limited funding is available through such sources.

Our report also noted that local rural governments, which historically have used tax-exempt financing for wastewater treatment facilities, face higher costs. The Tax Reform Act of 1986 restricted the ability of state and local governments to finance infrastructure projects by limiting those governments' ability to issue tax-exempt bonds and increasing the cost of issuing these bonds. In addition, the act lessened the ability of these governments to issue private activity bonds, thereby limiting their ability to turn to the private sector for financing these infrastructure projects.

Legislative Proposals to Fund the Infrastructure

Several federal legislative proposals recently have been introduced to provide additional funding for infrastructure projects, including those in rural areas. One bill (S. 2658) contains a provision for a 10-percent set-aside of funds for infrastructure projects in small communities with populations under 10,000. Another bill (S. 2734) would provide funds to economically distressed communities. (See app. III for a more detailed discussion of financing the rural infrastructure.)

Insufficient Data Available to Assess the Extent to Which Rural Banks Are Investing in Their Local Communities

With the trend towards bank mergers and interstate banking, concern has been expressed about the extent to which rural banks are investing in their local communities. But the extent cannot be determined because centralized lending data at the state and federal levels do not always provide sufficient geographic detail about banks' lending. In each of the four states we reviewed, officials of the state banking regulatory agencies were unaware of data for their state that would allow such a determination. Though the Community Reinvestment Act of 1977 requires banks to help meet their communities' needs for credit, examination reports required by the act generally do not include an assessment of the extent to which banks use local deposits to make investments outside of their communities.

Furthermore, in the four states we reviewed, these same officials—citing the lack of data on lending—could either offer no opinion on the extent to which rural banks were investing in their communities or believed that the banks were investing in their communities.

Banking officials in the four states stated that rural banks have genuine interests in their local communities and try to serve their communities as well as possible. Some banking officials told us that the demand for loans was down in rural areas and that they would like to make more loans. Banking officials acknowledged that their banks have invested in government securities or made other investments when funds were available that could not be loaned out in their areas. Finally, some bankers told us that they would generally refrain from making loans outside their areas. They explained that bank examiners would tend to classify such loans as risky because properly monitoring the financial condition of distant borrowers would be difficult.

We identified some instances in which researchers examined banking data, such as loan-to-deposit ratios, to determine if funds had been shifted from one geographic area to another. For example, one recent study to determine if funds were being drained from one state to another relied on data submitted by banks to regulators.[11] However, questions have been raised about how accurately centralized banking data reflect where loans were actually made. A bank can record and report all loans as originating at its headquarters location instead of the locations where the loans were actually made. To the extent that banks report their data in such aggregated form, the validity of conclusions drawn from such data may be questionable.

The Congress has recognized the need to collect additional information on lending to small businesses and small farms. Section 122 of FDICIA requires banks to include in their reports information on their lending to these types of borrowers nationwide, but this provision of the act has yet to be implemented. The Federal Financial Institutions Examination Council, which is charged with prescribing uniform principles and standards, will

[11] Analysis of Banking Industry Consolidation Issues, Staff Report to the Committee on Banking, Finance and Urban Affairs, House of Representatives, 102nd Congress, Second Sess. (Mar. 1992).

require banks to report data beginning in mid-1993. The Congress has also recognized the need to annually assess the availability of credit to small businesses in the nation. Section 477 of the act requires the Federal Reserve Board to annually collect and publish information on the availability of credit to small businesses, small farms, and minority-owned small businesses for each geographic region of the nation. If the Federal Reserve Board collects and reports data in sufficient geographic detail in the future, assessing the extent to which banks in both rural and nonrural areas are investing in their own communities may be possible.

As part of an ongoing study for the Senate Banking Committee, we plan to examine whether the move towards interstate banking and branching could affect the availability of credit in local communities. We plan to issue a report on the results of this study in the spring of 1993.

Views of Agency Officials

We discussed the information in this report with state government officials in each of the four states we visited and with officials having responsibility for rural development issues in USDA's ERS. These officials agreed with the information in this report, and we have incorporated their comments where appropriate.

This report addresses 2 of the 10 issues the Food, Agriculture, Conservation, and Trade Act of 1990 mandated that we study. The remaining eight issues, dealing primarily with the cost of rural credit and competition between the major agricultural lenders, will be addressed in a separate GAO report.

Our work was performed between December 1991 and June 1992. In examining the availability of rural credit in the four states, we relied heavily on the opinions of federal, state, and local government officials and representatives of banking and private organizations. We supplemented our fieldwork with reviews of published studies and discussions with other officials knowledgeable about rural credit issues. Appendix IV contains details on the objectives, scope, and methodology of our review.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this letter. At that time, we will send copies of this report to interested Members of Congress and other interested parties. We will also make copies available to others upon request.

This work was performed under the direction of John W. Harman, Director, Food and Agriculture Issues, who can be reached at (202) 275-5138 if you or your staff have any questions. Other major contributors to this report are listed in appendix V.

Keith O. Fultz /for

J. Dexter Peach
Assistant Comptroller General

List of Addressees

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The Honorable Kent Conrad
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The Honorable Glenn English
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Committee on Agriculture
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The Honorable Thomas A. Daschle
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Abbreviations

ABA	American Bankers Association
ARC	Appalachian Regional Commission
CDBG	community development block grant
EDA	Economic Development Administration
ERS	Economic Research Service
EPA	Environmental Protection Agency
FCS	Farm Credit System
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FmHA	Farmers Home Administration
GAO	General Accounting Office
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
RDA	Rural Development Administration
REA	Rural Electrification Administration
SBA	Small Business Administration
TVA	Tennessee Valley Authority
USDA	U.S. Department of Agriculture

Programs in Place or Under Consideration to Assist Agricultural Borrowers

Officials in three of the four states we reviewed—Mississippi was the exception—said that agricultural credit was generally available for most creditworthy borrowers. However, the officials noted that some potential borrowers, such as beginning farmers or those producing nontraditional crops, were experiencing particular difficulty in obtaining credit. This appendix discusses existing and proposed programs to address some of these needs for credit.

Programs for Beginning Farmers

Both federal and state governments have recognized the needs of beginning farmers. Some programs to provide assistance to beginning farmers are in place and others are under consideration.

Federal Programs

While beginning farmers have previously been eligible to obtain credit assistance through the Farmers Home Administration (FmHA), the Congress recently passed legislation to provide greater assistance. In October 1992, the Congress passed legislation (H.R. 6129), which includes provisions to aid beginning farmers and ranchers. The act requires FmHA to target beginning farmers and ranchers for assistance for up to 10 years in purchasing and/or operating a farm or ranch.

State Programs

State officials in each of the four states expressed concern about beginning farmers. Three of the four states—Virginia was the exception—have established programs to assist such borrowers.

Kansas uses a bond program to provide subsidized credit to beginning farmers. The program is funded through tax-exempt bonds ("aggie bonds"). The loans are made below market rates through commercial banks and other lending institutions. A state report indicates that interest rates have been from 1 to 3 percent lower than market interest rates. Seventy-eight loans totaling over $6.8 million were made under the program in 1991. The loans can be made for up to $250,000 for land, depreciable agricultural assets, breeding stock, and equipment, though no more than $62,500 can be spent for used equipment.

According to Montana state government officials, the state established a program for beginning farmers in the early 1980s, but funding for the program has not been available for the past several years. Although Montana does not have an active program exclusively for beginning farmers, the state agriculture department administers a program that provides agricultural or agribusiness loans primarily to youth organizations. Loans totaling about $1.9 million were made under the program for fiscal year 1991.

This year, the state of Mississippi passed legislation that established a financial assistance program for beginning farmers. Under the program, assistance can be provided to individuals, partnerships, corporations, and other entities that are engaged in farming or wish to engage in farming. The assistance may be used to purchase agricultural land and depreciable agricultural property and to improve farming operations. The maximum loan available under this program is $250,000.

According to state government officials, Virginia has not yet established a program for beginning farmers, but a number of officials we visited identified the need for such a program. There has been discussion between federal and state officials concerning the "graying" of Virginia's farmers. However, at the time of our review, according to a state official, no concrete actions towards establishing a state program to assist beginning farmers had taken place.

Programs for Farmers of Nontraditional Crops

Three of the four states have programs that can assist farmers engaged in growing nontraditional or emerging crops. Virginia's 2-year pilot program ended in 1990 and was not active at the time of our review. According to an FmHA official, the agency does not have any specific programs to assist farmers in growing such crops; however, it can provide funding for nontraditional crops through its loan programs for farmers.

Mississippi has a loan program to aid the state's farmers with the production of emerging crops. Under the program, an emerging crop is defined as any new nontraditional plant or animal crop for which consumers have a growing demand. Under Mississippi's program, the state's Department of Economic and Community Development is authorized to issue bonds totaling up to $10 million for the payment of interest on approved loans. The maximum loan amount for any one applicant is $50,000. Thirty loans totaling almost $396,000 were made under the program from its inception in 1987 to mid-November 1992.

In Kansas, the loan program encouraging diversified agriculture provides loans of up to $30,000 for terms of 10 years or less for growers of nontraditional crops. The loans are evaluated for feasibility by the State

Board of Agriculture or the state university. Ten loans totaling $242,000 were made under the program between 1989 and June 1992.

Montana's Growth Through Agriculture Program provides credit assistance for developing and commercializing new agricultural products and processes. According to a state official, the program also has the capability to assist farmers growing nontraditional agricultural crops. The state official told us that annual funding of $200,000 is available for the program and the maximum loan or grant amount is $50,000. Twelve loans totaling about $519,000 were made under the program between 1989 and October 1992. According to a state official, the program also provides about $30,000 in grants annually.

Virginia's program to provide credit assistance to farmers producing emerging or diversified crops expired in 1990. According to a state official, the state provided about $100,000 of seed money during the 2-year pilot program. The official stated that the program was successful, but additional funding was unavailable because of budgetary constraints.

Credit Assistance for Rural Businesses

Commercial banks provide much of the credit that rural businesses need to continue their operations. However, in recognition that all businesses may not have equal access to credit, various programs have been established through both governmental and private initiatives. This appendix describes financial assistance programs available to rural businesses from federal, state, and local governments and the private sector.[1] While the majority of these programs are not specifically targeted to rural areas, rural businesses can receive assistance from them.[2]

A number of these programs have been designed to supplement and complement debt financing provided by commercial banks and other private lenders. Most of the assistance is in the form of loan guarantees and grants. In addition, some direct loans are available through such agencies as the Small Business Administration (SBA). This appendix also discusses programs that have been developed for businesses that need smaller loans and/or that present a higher risk.

The programs discussed in this appendix are not necessarily a complete catalog of all programs providing financial assistance to businesses, but are those that officials in the four states identified as the basic ones providing financial assistance that rural businesses can access. Although most of the federal programs are available in all states, the use of some of these programs has varied widely among the states. It was beyond the scope of this review to attempt to determine the reasons for these variations.

Loan Guarantee Programs

Several federal and state programs aid and encourage banks in making credit available for rural economic development by guaranteeing the repayment of a portion of a commercial loan. At the federal level, SBA administers one of the largest loan guarantee programs providing credit to businesses. According to SBA, about 27 percent of the loans guaranteed from 1986 to 1990 were made in rural areas. The Rural Development Administration (RDA) also administers loan guarantee programs for businesses; these programs were recently transferred from FmHA. States varied widely in their use of these federal programs. In addition, two of the states we visited have established loan guarantee programs.

[1]This appendix primarily includes programs addressing rural businesses' needs for credit. However, we also include programs providing the equity or venture capital that is needed by some businesses.

[2]An analysis by the Economic Research Service, in its May 1992 Federal Nonfarm Business Credit Assistance: An Analysis of Disbursements to Rural Areas, suggests that rural businesses are not at a disadvantage in obtaining funds from federal programs.

SBA's Programs

SBA's 7(a) program guarantees up to 90 percent of loans made by private financial institutions; SBA's share generally may not exceed $750,000. These loans may extend for up to 25 years. In fiscal year 1991, SBA guaranteed about 17,000 such loans. The amount guaranteed increased from $2.4 billion in 1989 to $3.3 billion in 1991.

States varied widely in their use of SBA's guaranteed loan programs. In fiscal year 1991, by one measure, Montana ranked first in the nation in its use of such programs—SBA guaranteed one loan for every 174 businesses in the state. In contrast, SBA guaranteed only one loan for every 1,665 businesses in Virginia, 500 businesses in Mississippi, and 393 businesses in Kansas.

Banking officials in the four states expressed different views about the 7(a) program. Commercial bankers we visited in Montana were nearly unanimous in their praise for the program and told us it was vitally important. Bankers in Kansas generally supported the program, but did not praise it as highly as did those in Montana. However, some bankers and other officials visited in Mississippi and Virginia stated that the program was time-consuming and administratively burdensome.

RDA's Programs

RDA guarantees loans for rural economic development through its Business and Industry Loan Guarantee Program. This program and certain other rural development programs were recently transferred from FmHA to the newly established RDA.[3]

Under this program, RDA provides guarantees to private lending institutions to cover defaults on certain loans made to rural businesses and industries. RDA may contract to reimburse the lender for a maximum of 90 percent of the principal and interest, although most guarantees are limited to 80 percent. In fiscal year 1991, FmHA (now RDA) guaranteed 92 such loans for about $100 million.

[3]RDA, mandated by the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624), was created by the Secretary of Agriculture in December 1991 by transferring certain programs from FmHA. On April 5, 1992, the staff of the national office of FmHA's Business and Industry Loan Guarantee Program were transferred to RDA. RDA is organized around seven geographic regions, each with a regional office. Regional offices became operational in October 1992. During fiscal year 1993, FmHA's network of state and district offices will make and service RDA's loans and grants with assistance from the staff of RDA's regional offices.

We recently reported that nationwide, states vary widely in their use of the Business and Industry Loan Guarantee Program.[4] About half of the states did not use FmHA-guaranteed business loans in fiscal year 1991; 13 states and two territories have not used the program in the past 3 fiscal years. In the four states we visited, FmHA guaranteed one loan in both Montana and Virginia, three loans in Kansas, and nine loans in Mississippi during fiscal years 1989 through 1991. In contrast, the agency guaranteed 31 and 26 loans in North Carolina and West Virginia, respectively, during the same period.

State Programs

Two of the four states we visited have loan guarantee programs. Mississippi offers a program to small businesses in order to strengthen them by providing financing that might not otherwise be available. The Mississippi Loan Guaranty Program will guarantee up to $375,000, or 75 percent of a loan, whichever is less. The loan may not exceed 90 percent of the fair market value of the collateral securing it. Guaranteed loans, which may be for up to 20 years, carry the current market interest rate. According to Mississippi officials, during fiscal year 1991, 16 loans totaling about $2.1 million were guaranteed under this program. In Virginia, the Small Business Financing Authority, under its Loan Guaranty Program, can guarantee up to $150,000 or 50 percent, whichever is less, of a bank loan to a small business to improve and expand operations. According to the Executive Director of the Authority, the loans are for terms of 1 to 3 years and are used primarily for working capital or as revolving lines of credit.

Kansas and Montana do not currently have active loan guarantee programs. According to Kansas state officials, the state established a loan guarantee program several years ago; however, funding had not been provided as of October 1992. According to Montana state officials, the state does not have a loan guarantee program; furthermore, loan guarantee programs are not permitted under the state's constitution.

Grant Programs

Several federal programs provide grants for business development to assist individuals, businesses, and communities, including those in rural areas. Grants may be provided to communities and nonprofit organizations, which in turn make loans to businesses creating jobs or

[4] Rural Development Administration: Patterns of Use in the Business and Industry Loan Guarantee Program (GAO/RCED-92-197, July 29, 1992).

engaging in economic development. Often such grants are used to create a revolving loan fund that provides financing to rural businesses.

The Department of Housing and Urban Development's Community Development Block Grants

The Department of Housing and Urban Development (HUD) administers the State and Small Cities Community Development Block Grant (CDBG) Program, which provides funding for a wide range of activities, including economic development. HUD allocates funds for this program to 48 of the states, which in turn allocate the funds to local communities for projects that retain and/or create jobs. (HUD administers the Small Cities Program for the remaining two states.) A primary criterion of the program is the benefit provided to low- and moderate-income individuals.

In a March 1992 report, HUD reported that its State CDBG Program is substantially oriented to very small communities—some 55 percent of fiscal year 1990 funds went to counties or communities with populations of less than 2,500.[5] Funding for the entire CDBG program has averaged almost $3 billion annually in recent years, with about $2 billion going to the Entitlement Program for metropolitan cities and urban counties and about $800 million going to the State and Small Cities Program. In the four states we visited, HUD allocated about $16.5 million to Kansas, almost $32 million to Mississippi, about $6.2 million to Montana, and about $20.7 million to Virginia in fiscal year 1992 for the State CDBG Program.

A number of state and local development officials we visited generally spoke favorably about the program. They said HUD's block grant program was often extremely valuable in anchoring or establishing a project, with additional funding supplied from a number of federal, state, and local sources.

RDA's Rural Development Grant Program

Through RDA's Rural Development Grant Program, which provides grants to local intermediaries (such as planning and development districts), local businesses can obtain loans. In fiscal year 1990, FmHA made 129 of these grants totaling about $16 million. Funds can be used for, among other things, the acquisition and development of land, construction, equipment, or technical assistance. During fiscal years 1989 through 1991, FmHA's Mississippi office funded three rural development grants totaling about $700,000; the Kansas office, seven grants totaling about $550,000; and the Virginia office, five grants totaling about $1.4 million. The Montana office

[5] Annual Report to Congress on the Community Development Block Grant Program—1992, HUD (Mar. 1992).

did not make any such grants during this period. However, Montana state officials noted that one grant for $257,000 was made by RDA in September 1992.

The Economic Development Administration's Programs

The Economic Development Administration (EDA) has several programs designed to alleviate unemployment and underemployment in economically distressed areas and regions and to address the problems that occur when many workers suddenly lose their jobs.

In the four states, grants from EDA were used for a number of purposes. For example, in Virginia, according to a local planning district official, a grant for about $1 million was used to rehabilitate abandoned tobacco barns, which were donated by the departing industry to the locality, for use by light industries. According to the official, the facilities were fully occupied at the time of our review and employed about 500 people.

Other Federal Financing Programs

Officials in the four states also identified additional sources of financing—in the form of grants or loans—that help to support rural businesses: SBA, RDA, the Rural Electrification Administration (REA), Tennessee Valley Authority (TVA), and Appalachian Regional Commission (ARC).

Under SBA's 504 program, certified development companies can provide up to 40 percent of the costs of a business project. In fiscal year 1991, the certified development companies provided about $450 million in loans to businesses.

RDA, in addition to providing guaranteed loans and grants, also provides assistance through its intermediary relending program. Under the program, RDA provides loans to public or private nonprofit organizations, referred to as intermediaries, which in turn lend the money to rural businesses. The interest rate to the intermediaries is 1 percent, with repayment terms of up to 30 years. FmHA made 15 loans under the program in fiscal year 1990, totaling about $19 million. According to agency officials, from fiscal year 1989 through fiscal year 1991, FmHA's Mississippi office made three loans totaling $5.25 million, and FmHA's Kansas office made three loans totaling about $1.4 million. FmHA's Virginia and Montana state offices did not make any loans under this program during the period.

REA, under its Rural Economic Development Loan and Grant Program, is authorized to make grants or zero-interest loans for projects promoting rural economic development and creating jobs. The money may be used to pay for feasibility studies, start-up costs, and other reasonable expenses. From May 1989 to September 30, 1991, REA approved 217 loans totaling about $19 million in 37 states. Of the four states included in our review, Virginia received $100,000; Kansas, $150,000; Montana, $712,500; and Mississippi, $975,000.

TVA, a federal regional resource development agency, has as one of its responsibilities fostering the economic and social development of the Tennessee Valley region. Assistance from TVA is available in parts of two of the four states visited—Virginia and Mississippi. TVA offers a variety of technical assistance and limited financial assistance to clients in business, industry, nonprofit groups, and local government.

ARC also seeks to foster economic development in the areas that it serves. Of the four states we visited, Mississippi and Virginia have areas that are eligible for assistance from ARC. The Commission's grant program assists multicounty development districts in Appalachia; one primary function is to encourage the creation, retention, or expansion of commercial, industrial, agricultural, forestry, and service enterprises. In 1991, Mississippi received grants totaling about $2.5 million for revolving funds in three development districts. ARC did not provide any grants to development districts in Virginia during 1991; however, according to a state official, ARC has provided funding directly for specific projects in the state.

Programs Designed to Address Specific Types of Credit Needs for Rural Development

Federal and state agencies are attempting to introduce or expand other programs to meet the need for credit for rural development. These include programs to provide small-scale loans, loans for economically disadvantaged borrowers, and venture capital.

Micro Loan Programs

Programs within SBA, the Department of Health and Human Services (HHS), and several state agencies have been developed to provide small, or "micro," loans—those under about $20,000. In October 1991, the Congress authorized SBA to develop a micro loan program on a demonstration basis. The purpose of the program is to provide assistance to new or existing small businesses that need small-scale financing and technical assistance. As a result, SBA will make direct loans and grants to selected private nonprofit organizations, known as intermediaries, which will make matching contributions and, in turn, make micro loans and provide technical assistance to eligible small businesses.

Under the $15 million program, up to $750,000 will be available to an intermediary at the interest rate for 5-year Treasury notes, to make loans of not more than $25,000. The program is designed to assist business owners who are women, low-income individuals, or members of a minority group and to assist small businesses in those areas suffering from a lack of credit because of an economic downturn. At the time we were completing our fieldwork, the program was just getting under way.

A second micro loan program—in the state of Montana—called the Capital Opportunities Program is funded by HHS. According to officials of the program, it fills a need in business financing that is not being met by commercial banks or by SBA. The program is designed to allow disadvantaged persons to establish their own businesses and become independent of public assistance. This program offers loans of up to $10,000 to persons who earn less than 125 percent of the federal poverty level, have a net worth of less than $25,000, and are unable to obtain local commercial financing. From its beginning in 1989 until the time of our visit in March 1992, the program in Montana had made over 30 loans.

At the time of our review, Montana was the only one of the four states that had a micro loan program. A Montana Department of Commerce official said that although credit is generally available in the state for business loans, there is a shortage of credit for small loans. He said that many banks do not want to make commercial loans under about $20,000 because administrative costs are high in comparison to the return from the loans. He said that the state created the micro loan program, which was beginning to be implemented at the time of our visit, to meet this need. The loans may range up to $20,000 per business. Nonprofit community organizations in 12 regions in the state will administer the program. The Montana Department of Commerce has begun providing loan funds to the regional organizations, which in turn are making loans to eligible companies in their regions.

Venture Capital Programs

Venture capital (financing needed to start riskier business endeavors) was a concern in each of the four states, and each either has implemented or is working towards implementing a program to provide venture capital. However, only Virginia's program is specifically targeted towards assisting rural businesses.

The Kansas state government has helped fund two sources of venture capital: Kansas Venture Capital Incorporated and the Kansas Technology Enterprise Corporation. Kansas Venture Capital Incorporated is a private for-profit company established in 1976 to provide, among other things, equity capital and managerial assistance to small business. The corporation's $11.5 million of investment capital has been provided by individuals, banks, and corporations, as well as by the state government. As of June 1991, the corporation had invested about $8 million in 14 companies within the state. In 1987, the state government established the Kansas Technology Enterprise Corporation with the goal of creating and maintaining jobs by fostering the growth and expansion of Kansas enterprises utilizing new technology. In addition to funding research, the corporation also provides seed capital for emerging technology-based industries. For fiscal year 1991, the state legislature appropriated about $7.4 million from state lottery funds for use by the corporation.

The Montana Science and Technology Alliance Seed Capital Financing Program is authorized to manage $7.5 million over 5 years to provide venture capital to technology-based companies. Governmental funds must be matched dollar for dollar by private investors. The program was created in 1985 with a goal of strengthening Montana's economy. As of March 1992, about $4 million of the $7.5 million had been invested. In addition, according to Montana state government officials, the state plans to participate in SBA's venture capital program by forming a Small Business Investment Corporation.

VEDCORP, an economic development corporation in Virginia, was founded in 1991 as a private for-profit entity. The corporation's primary mission is to provide capital to promising rural businesses. Virginia helped establish the corporation by contributing $1.8 million, but the state does not control the investment decisions. According to VEDCORP officials, the corporation's investments will typically range from about $100,000 to $1 million for terms of 5 to 8 years; the total amount available for investment is about $35 million. Investors include major corporations, utilities, and banks in Virginia. As of October 1992, according to a VEDCORP official, the corporation had made one investment.

Mississippi does not have a formal program for providing venture capital. According to state officials, although the Mississippi legislature authorized the Mississippi Seed Capital Corporation in the late 1980s, the program has not begun because the required private funding has not been obtained. A 1990 study conducted for one of Mississippi's planning districts concluded that the state does not have sufficient capital nor a large enough market to support a venture capital corporation on its own. Instead, the study recommended that a $40 million fund be established for Mississippi, Louisiana, and Arkansas. According to officials of a private foundation, the feasibility of establishing a regional fund is currently being examined. In addition, according to state government officials, as of October 1992, the state was working towards creating a different venture capital fund that would allow for investments from both within and outside the state.

Financing the Infrastructure of Rural Areas

Many of the nation's rural roads and bridges are in poor condition and in need of repair or replacement. Many rural water systems and wastewater treatment facilities do not meet current federal standards, and a number of rural communities have no such systems or facilities.

Infrastructure projects have historically been financed by various government sources; however, over the past decade, federal and state funding for a number of components of the rural infrastructure has been reduced or eliminated. Many small communities, faced with increased responsibilities for their infrastructure are finding it more difficult to fund necessary projects because their decreasing tax bases will not permit them to repay debts. In addition, state and local governments, which historically have used tax-exempt financing for wastewater treatment facilities, face higher costs as a result of the Tax Reform Act of 1986.

Condition of Rural Roads and Bridges

Many of the nation's rural roads and bridges, including those in the four states we reviewed, are in poor condition and in need of repair or replacement. The Federal Highway Administration's 1991 status report indicates that 35 to 50 percent of all local rural roads were in poor condition.[1] Of the nation's almost 463,000 rural bridges, a report by the U.S. Department of Agriculture's (USDA) Office of Transportation notes, about 43 percent were deficient, either structurally or functionally.[2] Of the rural bridges that were structurally deficient or functionally obsolete, almost one-third either had weight restrictions or were closed. In the four states we reviewed, the percentage of rural bridges that were structurally deficient or functionally obsolete ranged from a low of 38 percent in Virginia to a high of 66 percent in Montana.[3]

Officials in the four states also expressed concern about rural roads. They explained that some of their rural roads have not been fully maintained. In addition, some officials said that existing roads often were not designed to carry the heavier volume of traffic and the trucks with heavier loads that

[1]The 1991 Status of the Nation's Highways and Bridges: Conditions, Performance, and Capital Investment Requirements, Federal Highway Administration (FHWA-PL-91-015, Nov. 1991).

[2]Rural Bridges: An Assessment Based Upon the National Bridge Inventory, USDA, Office of Transportation (Aug. 1989).

[3]According to the Department of Transportation, most structurally deficient bridges are not in danger of collapsing, but they are likely to carry weight restrictions so that heavier trucks will have to take an alternative, longer route. Functionally deficient bridges are those that do not have wide enough lanes or shoulders or adequate vertical clearances or those that do not have adequate waterways, allowing flooding of the roadway on some occasions.

both result from the establishment of new industries, such as logging, in rural areas of the country.

Condition of Rural Water Systems and Wastewater Treatment Facilities

According to one study, many of rural America's water and wastewater treatment systems do not meet federal environmental standards.[4] The study also notes that numerous rural communities are without treatment facilities of any sort.

Some officials we visited expressed concern about the condition of rural water and wastewater treatment systems. For example, Montana state and local officials stated that drinking water systems and wastewater treatment systems are now among the most common needs in the state's rural infrastructure. Many communities, these officials pointed out, cannot afford water and wastewater systems. One state report cited these systems as posing problems that have grown since being highlighted in 1984 by the Governor's Task Force on Infrastructure so they now pose serious health threats to several communities.

Rural Areas' Difficulties in Financing the Infrastructure

Our work and various studies indicate that state and local governments are concerned about their ability to finance the infrastructure in rural areas, particularly roads and bridges and water and wastewater systems. One factor that has reduced governments' ability to raise funds locally is the decrease in the population of many rural areas, which, in turn, can result in a declining tax base.

A change in the funding mechanism for some types of infrastructure projects, such as wastewater treatment facilities, has further complicated rural communities' ability to fund needed projects. For example, one contributing factor to local governments' inability to fund wastewater treatment systems has been the decrease in federal funding over the past decade and the federal government's shift from providing grants to providing loans. According to the Economic Research Service, federal funding for the infrastructure declined during the 1980s. In addition, the Environmental Protection Agency's (EPA) grant program for constructing wastewater systems will be discontinued in favor of state revolving loan funds. Through 1994, EPA will capitalize revolving loan funds in each state

[4]Center for Community Change, Searching for "The Way That Works": An Analysis of FmHA Rural Development Policy and Implementation (Washington, D.C.: The Aspen Institute, 1990).

with federal grants and a 20-percent matching contribution from the state.[5] However, in a recent report on environmental financing, state staff responsible for the revolving funds reported that the loans are often inadequate funding sources for rural communities because they may lack the ability to repay loans at any interest rate.[6] A recent GAO report confirmed this point, finding that some small communities cannot afford a loan at any interest rate because they cannot charge users of the wastewater systems the amounts necessary to repay a loan.[7]

Our report concluded that the gap between the needs for wastewater treatment and the resources available to meet them is tremendous. EPA estimates that governments at all levels will spend approximately $5 billion per year over the next decade to deal with an $83.5 billion problem. This estimate may be low because it does not include many costs associated with new environmental mandates. Small communities will be disproportionately affected because average incomes are generally lower there and the costs per capita for the environmental infrastructure are higher there. EPA has acknowledged that many small communities will face severe difficulties securing the necessary capital to comply with environmental mandates.

State and local governments that historically have used tax-exempt financing for wastewater treatment facilities face higher costs as a result of the Tax Reform Act of 1986, our report also noted. The act restricted the ability of state and local governments to finance infrastructure projects by limiting those governments' ability to issue tax-exempt bonds. For example, the act reduced the percentage of the proceeds from certain tax-exempt bonds that can be used to pay the cost of issuing the bonds. State and local governments must cover any additional cost from general revenues.

[5]Also, in 1990, the Congress authorized the National Bank for Cooperatives (CoBank), which is part of the Farm Credit System, to provide loans for water and wastewater systems in communities with populations of 20,000 or less.

[6]Center for Community Change, Through the Revolving Door: An Analysis of Rural Wastewater Facility Financing (Washington, D.C.: The Aspen Institute, 1991).

[7]Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs (GAO/RCED-92-35, Jan. 27, 1992).

Objectives, Scope, and Methodology

The Congress, through the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624) mandated that we study 10 issues related to the availability and cost of credit in rural America. Two of those issues are addressed in this report—(1) the extent to which there is adequate credit available to fund agricultural production, rural development, and the development of the rural infrastructure (including roads, bridges, and water systems) and (2) the extent to which rural lending institutions are investing in their communities as opposed to areas outside of their communities. The remaining eight issues dealing primarily with the cost of rural credit and competition between the major agricultural lenders will be addressed in a separate GAO report.

Since we were unable to identify any commonly accepted criteria for assessing the availability of credit, our work primarily reflects the views and opinions of over 300 officials representing federal, state, and local governments; universities; and organizations in the private sector, such as economic development agencies and commercial banks. We judgmentally selected the states for our review by reviewing census and other demographic data to initially identify the larger rural populations. We sought to visit states having a high proportion of their population in rural areas. In choosing a group of four states, we also sought geographic diversity and diversity in industrial bases. Using these criteria, we chose Kansas, Mississippi, Montana, and Virginia. Our work was conducted primarily during the early part of 1992, which was a time of economic recession; however, we were unable to assess the extent to which this fact affected the demand for and supply of credit. Finally, it was beyond the scope of this review to determine whether credit was more or less difficult to obtain in rural areas than in urban areas.

For each state visited, we initially contacted the governor's office to identify the state governmental entities having responsibility for rural or economic development. In order to obtain an overview of rural credit issues in each of the states, we interviewed officials in these and other state government agencies, as well as cognizant federal officials. We contacted state bank regulators, officials at state banking associations, and local bankers to obtain their views. In addition, we reviewed reports, studies, and other information on federal and state credit and financial assistance programs.

We also visited two geographic areas in each of the four states to obtain information on rural credit issues from a local perspective. We judgmentally selected these areas on the basis of our discussions with state government officials, who identified for us areas with different economic bases (e.g., farming or industry). In each of these areas, we contacted officials in the local government and regional planning and development districts.

In the Washington, D.C., area, we also met with a number of organizations that have done work or have opinions on various aspects of economic development or rural development and banks' investment in local communities.

Rural development encompasses many different components, areas ranging from health to education to business development to housing. While all of these and other components are important in considering the availability of credit for rural development, we concentrated our efforts on the financing available for businesses since they are a key factor in the economic development of rural areas. Without a strong economy, rural areas will be less able to pursue other important needs of rural development.

For the purposes of this review, we limited our work on the rural infrastructure to rural roads and bridges and water systems, as these were the components identified in the legislation. However, we recognize that infrastructure encompasses a myriad of other items such as health care facilities and hospitals and educational facilities.

Finally, while we identified numerous federal and state programs to assist businesses and farmers in the four states visited, our listing is not intended to be a complete inventory of all programs available.

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