A few concessions

The Fed decision to let some farm banks have more funds is a sop little better than Carter's plan to save politically friendly homebuilders.

The threat of impending bankruptcies among farmers and small businessmen in rural areas of the country has forced a concession out of the Federal Reserve—albeit a tiny one. On April 17 the Fed announced that it was expanding its temporary, seasonal loan program to enable small banks to continue to make loans to credit-dependent farmers and businessmen in their communities.

Under the expanded program, the Fed will make available six to nine month loans via the discount window to both member and nonmember banks with less than $100 million in deposits. Most of these banks are already heavily loaned up—with loan-to-deposit ratios in excess of the 68 percent "danger point"—and have been recently cut loose by their money center correspondent banks. In the absence of the program, they would have to cease all new lending activity.

The Fed will lend the banks 70 percent of new loan commitments at the 13 percent discount rate, on the first 5 percent of the increase in the banks' loans outstanding. Spokesmen for the Federal Reserve have estimated that the program could involve between $1 and $3 billion in new lending by the central bank to as many as 6,500 qualifying small banks.

Most of the small rural banks have been loaned up for around three years, but until recently they could at least count on being able to borrow funds from their correspondents in the Federal funds (interbank) market. However, the Fed's decree of March 14 limiting loan expansion at the nation's banks to six to nine percent for the year changed all that. To stay within those limits, the large commercial banks, who had no intention of renegging on loan commitments to their good corporate customers, put the screws on loans to consumers and small banks— their fairweather banking correspondents.

"The situation among small banks is utterly desperate at the same time that the requirements of the spring planting can't be postponed," one well-placed bank analyst commented in an interview. "The Fed would look pretty bad if it allowed these guys to be the first victims of the credit restraint program."

The scope of the program "seems very small indeed," he added. "It won't do much good, but it is the first of a number of gestures that the Fed and the administration are going to be forced to make."

Another such 'gesture' has materialized in the form of a promised revision of the "Section 235" housing program of the Department of Housing and Urban Development (HUD), ostensibly to give a shot in the arm to the sagging home-building industry. The new program announced by President Carter on April 21 has not yet come out in final form, however Carter indicated it would involve increasing the limit on the size of mortgages that can be subsidized by HUD in the S 235 program to $60,000 from the current maximum of $38,000; raising the interest rate that home buyers would pay for subsidized mortgages to at least 11 percent from the current 4 percent maximum; and lifting the lid on income eligibility for the program. Carter predicted that the plan could stimulate the construction of up to 100,000 new single-family housing units.

Merril Butler, president of the National Association of Home Builders, responded to the President's announcement by saying that the plan would assist some builders, but that it certainly was not the answer to the problems that have been brought on by record-breaking interest rates. The NAHB recently revised its forecast of housing starts for 1980 from 1 million units down to 900,000 units. In the current scheme of things, 100,000 units would hardly be a drop in the bucket.

Worse, the S 235 program of HUD has notoriously been used to funnel federal subsidies into mortgage bankers and builders who are "friends of the administration." A number of small home builders have confided to the *Executive Intelligence Review* that Carter's new program is intended to keep a select group of builders alive, while the bulk of the nation's small home builders are driven under.