

Testimony of Congressman Les AuCoin
Subcommittee on Consumer Affairs of the
House Banking, Finance and Urban Affairs Committee
September 8, 1978

Mr. Chairman, I want to thank you for allowing me to testify before your committee today about an issue which is very important to agricultural groups in my State and, indeed, across the country.

Let me begin by saying that I admire, Mr. Chairman, your efforts to protect the consumer from misleading and fraudulent banking practices. It is vital that those who borrow infrequently and have little knowledge of finance be given every reasonable protection. You have done an excellent job and I support your efforts.

Without diminishing the Truth in Lending Act, I believe there are significant steps that can be taken to ease the burden of compliance with the Act and to erase unnecessary requirements.

At the present time, agricultural loans over \$25,000 are subject to the requirements of the Truth in Lending Act. I believe that such a requirement is excessive.

Farmers have unique borrowing requirements. They borrow many times during the year to meet payrolls, and buy supplies. Most farmers receive a substantial amount of income only once a year at harvest, so borrowing is an important aspect of their business. Farms today are essentially commercial enterprises. And the fact is that agricultural borrowing is essentially commercial in nature. As you know, regular commercial loans are exempt from the requirements of the Truth in Lending Act.

The Truth in Lending Act is designed for the occasional borrower who has limited experience with financing. But the requirement seems unnecessary for agricultural borrowers who are generally better informed than ordinary borrowers.

In addition, agricultural loans are extended on different terms and conditions than consumer credit. Consumers typically borrow under a standardized financial package. Agricultural loans on the other hand are financing packages tailored to the needs of the specific borrower. When the consumer loan oriented requirements of the Truth in Lending Act are applied to agricultural loans the result is a complicated and time-consuming disclosure process.

The disclosures required by the Act for agricultural loans are often misleading and meaningless. When an agricultural loan is made, it is next to impossible to accurately predict the likely costs of credit. The reason is that the borrower does not know exactly when he will need disbursements of loan funds, or for what length of time.

Mr. Chairman, we are talking about experienced borrowers who deal frequently with lenders and have financial requirements that are very unlike those of ordinary consumers. In sum, Mr. Chairman, the rationale for applying the Truth in Lending Act requirements is not present in the case of agricultural borrowers.

Mr. Chairman, let me make it clear that I propose only to exempt loans made for agricultural purposes. I do not believe that a blanket exemption should be granted to agricultural lenders.

The Senate has included an exemption for agricultural loans in its Truth in Lending reform bill. I would urge this committee to support a similar provision in House legislation. This legislation is supported by the National Grange and the American Farm Bureau Federation.

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