Luncheon Address: What Role for Public Policy in Rural Capital Markets?

Dayton J. Watkins

Good afternoon. I am pleased to be here today to represent the Department of Agriculture and pass along Secretary Glickman’s regrets at not being able to attend.

I have been asked to address the issue of “What role for public policy in rural capital markets?” Actually, I don’t believe there is only one role for public policy.

There are many different roles different components of the federal government must play to assure that growth in the rural economy takes place and is balanced with different sectors—and that people of different economic groups are able to participate in and benefit from that growth.

I believe that the Clinton Administration is committed to making a maximum effort to improving life in rural America. I see that every day in the three organizations that report directly to the Under-Secretary for Rural Development: the Rural Housing Service (RHS), the Rural Business-Cooperative Service (RBS), and the Rural Utilities Service (RUS).

Obviously, this commitment goes way beyond the business, housing, utilities, and development programs administered within the Rural Development mission area.

I think the results speak for themselves.

Total farm cash receipts for 1996 could reach a record $200 billion, $29 billion above 1992 and far beyond the $144 billion average for the 1980s.

Much attention has been given to agriculture’s $30 billion trade surplus. That’s not unfair—it’s one of the biggest success stories in the U.S. economy. By the end of the year, U.S. farm exports are projected to reach $60 billion, a 50 percent increase since President Clinton took office.

And these numbers translate into higher prices, higher incomes, and more jobs. In 1995, U.S. agricultural exports supported nearly 1 million jobs—one-third of them in rural areas.

But, Secretary Glickman also understands that for many small and midsized farm operations a local farmers market can provide increased outlets and prices for production. Measured across all crops and livestock, farmers are now getting prices 20 percent higher than they got in 1992 and nearly 25 percent above the average for the 1980s.

Farmer cooperatives are another success story. Coops reported record net income of nearly $2.4 billion last year—up 20 percent from 1994.

The value of farm assets—including land—which dropped significantly in 1980s, continues to rise and much faster than farm debt levels. The overall equity position of U.S. farmers is increasing—up nearly 15 percent since 1992.

Having said all that, I believe the role of government will remain to ensure that whether someone chooses to live in rural America or urban America, that person has access to good quality health care and good quality education,
and that there are economic opportunities so that families and communities can prosper.

Why? Because the well-being of America’s rural citizens is critical to our nation’s continued prosperity.

The numbers alone demonstrate that rural America contains 83 percent of the nation’s land and is home to 21 percent of the population. Rural America supplies 18 percent of the nation’s jobs and generates 14 percent of the gross domestic product.

*The Wall Street Journal* reported in June that population is growing in most rural areas at the fastest rate in more than two decades. The same article discussed a USDA report which showed employment expanding faster in nonmetro communities than in urban areas, which have been hit more directly by corporate layoffs.

Agriculture remains a primary component in the rural economy—but it’s not as large a component as many urban residents might think.

Over the past 20 years, the percentage of the rural workforce employed in farming has decreased from 14 percent to 8 percent; at least 80 percent of rural residents are supported by non-farm income.

The largest and growing share of rural employment comes from the service sector, which employees about one-half of all rural workers. Real earnings per job remain lower in rural areas than in urban areas, however, declining by more than 6 percent from 1979 to 1989. In 1994, rural jobs averaged $21,500 in earnings, 72 percent of the urban average.

For the majority of farm operator households, those with less than $50,000 thousand in gross sales, off-farm income is critical. The off-farm incomes—such as wages and salaries; income from an off-farm business; unearned income such as interest and dividends; and royalties, annuities, and Social Security—make the difference between a good year and a bad year.

So you can see that small and midsized farmers depend on a strong rural America.

A strong rural America and a strong America require an investment in people and communities for the future. They require efforts toward self-sustainability and competitiveness in the global economy.

It means investments to improve the physical infrastructure, quality of life, and job opportunity in rural America. It also depends on continuing expansion of economic opportunities for all Americans.

The public policy question before us today is the role of government in rural capital markets.

The rural marketplace has experienced dramatic shifts in the profile of its local economies. Economies once rich in agricultural successes are wavering as the economic landscape has become more competitive and global in nature. Economic shifts have eroded the balance of services at all levels in rural areas. The access to, and in some cases the availability of, rural capital has impeded the development of rural marketplaces.

Rural credit service providers are faced with the challenge of reinventing the existing credit structure which services rural areas. Both institutional and structural changes must take place to provide the framework necessary for rural areas to become sustainable and reverse the effects of job loss, out-migration, inadequate access to capital for business start-ups, new ventures, and a failure to support intergenerational transfers of existing farms and community businesses.
The papers being delivered to you today touch on, and make some profound contributions toward, discussion of many of these issues.

I can tell you this subject is squarely in front of the Department of Agriculture today.

Section 650 of the 1996 Federal Agricultural Improvement and Reform Act, Public Law 104-127, calls on the Secretary of Agriculture to report to the Senate and House Agriculture Committees on the demand for, and availability of, credit in rural areas for agriculture, housing, and rural development.

The purpose of the study is to ensure that Congress has current and comprehensive information as it deliberates on rural credit needs and the availability of credit to satisfy the needs of rural areas. The law specifically directed that the study be based on the most recently available data to analyze:

1) Rural demand for credit from the Farm Credit System, the system’s ability to meet that demand and the extent to which the Farm Credit System provides loans to satisfy the demand;

2) Rural demand for credit from the banking system, the system’s ability to meet the demand and the extent to which banks provide loans to satisfy demand;

3) Rural demand for credit from USDA, the ability of the department to meet the demand, and the extent to which the Secretary provides loans to satisfy demand;

4) Rural demand for credit from other federal agencies, the ability of the agencies to meet the demand, and the extent to which the agencies provide loans to satisfy demand;

5) What measures exist to gauge overall demand for rural credit, the extent to which rural demand for credit is satisfied, and what the measures have demonstrated; and

6) A comparison of the interest rates and terms charged by the Farm Credit System Farm Credit Banks, production credit associations, and banks for cooperatives with the rates charged by banks for credit of comparable risk and maturity.

USDA was further directed to consider proposed changes to the Farm Credit System advanced over the past several years and the impact of enacting those changes on the Farm Credit System, banks, and the overall provision of credit in rural America.

USDA’s Economic Research Service and the Policy and Planning staff of the Rural Development mission area is working on that study. It is hoped to be delivered to Congress early next year.

As you can see from the Congressional mandates, this study is not designed to answer the question, “What role for public policy in rural capital markets?”

Rather this effort will be a factual examination of the current status facing rural borrowers in getting credit for their various purposes.

This will provide an empirical basis for the argument over the appropriate role for the federal government in securing adequate credit for rural borrowers—even whether there is any appropriate role for the federal government in this sphere.

That debate is to ensue next year and the department’s study is still in draft and so it would be premature for me to comment on it—or to attempt to make any policy statements regarding the study. Clearly, however, I can say...
from my personal observation and experience that the credit programs housed in the agencies of the Rural Development mission area, the Rural Business-Cooperative Service, the Rural Housing Service, and the Rural Utilities Service have a very proud history of improving the lives of rural people.

The agencies take pride in our history of providing credit to businesses, families, and communities that don’t have effective access to credit because of the isolated nature or small scale of the rural market and of providing subsidies to those businesses, low-income families, and communities that could not otherwise afford rent or debt service payments.

In the last three years, USDA Rural Development has provided new home ownership opportunities to over 230,000 people and rental housing for another 30,000 families.

We’ve helped 500,000 students in 230 schools and 112 medical facilities serving over 134,000 patients have improved access to educational and health care resources through the Distance Learning/Medical Link program.

We’ve created or saved nearly 110,000 jobs through loans and grants to rural businesses.

Just this summer, USDA gave $70 million in grants and loans to 54 communities in 35 states to build, improve, or expand public drinking water systems as part of the Water 2000 Initiative.

I believe that we will continue to do so under the Clinton Administration. This Administration is committed to working closely with businesses, industry, and rural communities in tackling the important issues of jobs, trade, and the preservation of a way of life for rural Americans.

In his Fiscal Year 1997 Budget, President Clinton proposed a $2 billion increase for rural development programs. The total of $9.6 billion for loans and grants for rural housing, utilities, and business programs would make a dramatic impact in rural America.

Congress reduced the President’s budget request to about $8.7 billion. We’ll do the best we can with the resources provided us.

The role of USDA is also to help establish the framework to assist entry into farming, entrepreneurial activities, new and existing business expansion, and facilitate changes in the existing structures and roles of the institutions serving rural areas.

The department also believes a comprehensive broad-based approach is needed to provide access to capital and rural credit. Decisions affecting the structure of this retooled credit system would be made at the regional, state, and local level. USDA is, of course, a lead agency providing capital and access to credit in the rural areas.

USDA helps to match rural borrowers with rural lenders, reducing the number of credit denials being experienced between rural businesses and urban or larger banking institutions to attack the “Crisis of Poverty” in areas such as the Mississippi Delta, the Colonias, the Native American Nations, and the Appalachian Region.

The department is also the primary source of technical assistance for building capacity in local communities; small businesses must continue to be a priority, with emphasis on cultivating capacity which will remain in the local communities as opposed to being imported on a temporary basis until the funding has been expended. This will help to assure that Native American Nations and other populations living within the persistent poverty areas of the country are developing capacity within their own communities.
I believe the department’s study will show a lack of certain types of credit opportunities in rural America. Rural entrepreneurs, for example, often experience problems in arranging financing packages for start-up ventures or business expansion.

This may result from lack of sophisticated project analysis by local lenders, limited capacity by local banks to bear credit risk, and loan limits at local lenders that are below the required level of financing required.

Lack of sound business plans, management strength, and viable business opportunities also are factors in limiting access to financing.

This is where the agency I head can play a critical role. The mission of RBS is to enhance the quality of life for all rural Americans by providing leadership in building competitive businesses and cooperatives that can prosper in the global marketplace.

RBS accomplishes this mission by investing its financial resources and technical assistance in businesses, cooperatives, and communities and by building partnerships that leverage public, private, and cooperative resources to stimulate economic activity.

The goals and objectives are to:

(1) Promote a dynamic business environment in rural America;

(2) Work in partnership with public and private organizations to empower rural residents to pursue economic development opportunities through networking, leveraging loan and grant funds, and through access to the Information Superhighway;

(3) Assist in the development of strategic, sustainable, and environmentally sensitive economic growth that meets the expressed needs of rural communities;

(4) Ensure agency benefits are available to all segments of rural America, with emphasis on those most in need;

(5) Provide a high standard of customer service;

(6) Expand the number of program benefits and recipients; and

(7) Assist in the development of high-technology industries.

We focus our program resources on areas that have experienced pervasive poverty, out-migration of population, or sudden, severe structural changes in their economies.

We empower rural residents and develop economic opportunities by enhancing the existing public and private credit structures through our loan and grant, cooperative development, technical assistance, and technology development programs.

Despite decades of investments in infrastructure and business development, rural America continues to face many significant challenges. Some of the challenges, like the persistence of poverty in major parts of the South and in Appalachia, have been with us for a long time.

Others, such as the loss of jobs and businesses from rural economies, are due to changes in the structure of rural economic bases and the globalization of competition.

Increasingly, new problems—problems that center on the role rural communities will play in a future that relies less and less on raw materials as economic assets—dominate the rural policy agenda.
Today, we are more concerned about creating jobs in remote places and in developing new industrial uses for traditional commodities.

We are concerned about building economic linkages between rural businesses and the urban and global marketplaces to which they must sell.

We are concerned about building economic bases on regional scales to achieve economies in production that will make rural competitiveness feasible.

And we are concerned about finding solutions that pool the assets of public and private organizations to achieve holistic and forward-looking approaches to economic development.

The service’s activities are mostly carried out through a variety of loan programs. We predominantly support small businesses. This is not an impediment to having a profound, positive impact in rural America.

As the world economy becomes bigger and more open, the opportunities for small and medium-sized companies will grow faster than the opportunities for bigger firms.

Today, the Fortune 500 produces approximately 10 percent of America’s gross national product. In 1970, that figure was 20 percent. Fifty percent of U.S. exports are created by companies with 19 or fewer employees.

In addition, the information revolution is making it possible for people to make greater profits from smaller businesses. Tourism is an outstanding example. Worldwide, the travel industry employs 204 million people, or roughly one in every nine adult workers.

Now I’d like to briefly summarize our programs.

The guaranteed Business and Industry (B&I) loan program guarantees all types of businesses except those engaged in agricultural production with the exception of aquaculture, commercial nurseries, forestry, livestock and poultry processing (except for working capital), and the growing of mushrooms or hydroponics.

These companies create and save jobs, upgrade the infrastructure, and improve the lives of rural residents. We’re especially proud of several projects we have done with minority-owned businesses.

In 1995, we provided a $10 million guarantee for a clothing manufacturer in Alabama. That financing saved 290 jobs; the company was the only minority-owned apparel firm licensed to market 1996 Olympic products.

The Intermediary Relending Program (IRP) invests federal funds to leverage local funds in support of rural businesses and jobs. Loans go to nonprofit intermediaries who in turn re lend them to rural businesses to improve business, industry, community facilities, jobs, and economic diversity of rural areas. The program makes investment capital available to entrepreneurs who cannot obtain financing from conventional sources.

Data show that every $1.00 loaned to an ultimate recipient results in $3.76 in leveraged funds. Accordingly, the $85 million lent to intermediaries in Fiscal Year 1995 could leverage more than $319.6 million in other funding. And, on the average, each $100,000 of IRP money loaned by the intermediary provides employment opportunities for approximately 20-25 people.

The Rural Business Enterprise Grant (RBEG) Program finances and facilitates the development of small and emerging private business enterprises. This program can be used for eco-
nomic development projects which will help to sustain rural communities. These grants are used to finance and facilitate development of small and emerging businesses in rural areas with a population of less than 50,000.

RBEGs may be used for (1) the acquisition and development of land, easements, and rights-of-way; (2) construction, conversion, enlargement repairs of buildings, plants, machinery, equipment, access streets, roads, parking areas, utilities and pollution control, and abatement facilities; (3) revolving loan funds; and (4) technical assistance.

The Rural Economic Development Loan and Grant Program promotes rural economic development and job creation projects. These zero-interest rate loans made to Rural Utilities Service electric and telephone borrowers are re-lent to provide start-up financing, project feasibility studies, and other expenses associated with creating business enterprises in rural communities.

But programs can’t be successful if people don’t know enough about them to want to use them or if our regulations and processes make applying for the programs too difficult or time-consuming. We’re honest enough to acknowledge that those criticisms were made about our programs over the years. RBS has made a concerted effort to improve our customer service.

The guaranteed Business and Industry (B&I) loan program can serve as an excellent example of how RBS is reducing unnecessary paperwork and giving our field staff more authority and flexibility to manage the program.

In an effort to streamline and update the B&I program, RBS has recently proposed to replace the existing regulations for the program. The revised regulations are shorter, simpler, clearer, and more logically organized. The volume of material in the new regulations is about one-half that of the current regulations.

The proposed program changes will shift some responsibility for loan documentation and analysis to lenders, make the program more responsive to the needs of lenders and businesses, and provide for smoother and faster processing of applications. We believe our regulatory streamlining will increase the use of the B&I program and enable the agency to deliver a larger program. The proposed changes will also meet the objectives of the National Performance Review regarding improved customer service, less regulation, and streamlined agency operations.

Last fall, we began automating our B&I application process. Working in partnership with financial institutions, RBS has developed an automated application procedure for B&I lenders. Ten states have been selected to participate in the user validation demonstration program for testing this new product.

The new system will alleviate some of the concerns expressed by our customers regarding repetitive requests for information and cumbersome and complicated regulations and forms. The automated application software will be released nationwide at the same time the streamlined B&I regulation is released.

As I mentioned earlier, the Rural Business-Cooperative Service is proud of its achievements. But, let me state plainly that President Clinton, Secretary Dan Glickman, the Under-Secretary for Rural Development, Jill Long Thompson, and I all believe that traditional federal programs are not the cards we should hold for the future if we intend to make a better life for rural Americans.
We need a new approach, new ideas, and a new emphasis on what the federal government can do and what it can do well. The key to our future efforts on behalf of rural America and the people that live there will be partnerships.

A federal partnership does not mean an exclusively federal way of doing business. The days that federal resources can be thrust on local governments—with all the regulations and requirements and strings that come attached to federal aid—are gone. Uncle Sam doesn’t have the financial resources, the staff, or the inclination.

In the single-family and multifamily housing loan programs, we have encouraged leveraging, which utilizes our direct loan funds in partnership with another lender’s funds. We take the second lien on the property, with the private sector lender or housing finance agency in first position.

For example, the Federation of Appalachian Housing Enterprises (FAHE), a home grown financing intermediary in Kentucky, is working with us and seven community based non-profits to provide leveraged loans so low- and very low-income rural residents can achieve the dream of home ownership.

These leveraged loans will be funded through a creative blending of funds from the HOME program, Appalachian Regional Commission funding, the FAHE Home Loan Fund, individual groups’ home loan funds, local bank support and, of course, Rural Development financing. We expect that the partnership funds will provide approximately 30 percent of the needed financing, and Rural Development will provide the remainder, stretching our resources greatly in this high-need area.

Another partnership example is the Pacific Northwest, where the Rural Development mission area has been a key player in addressing the economic ills of a regional economy impacted by changes in the timber industry.

State governments in Oregon, Washington, and California, a dozen federal agencies, and numerous local governments were brought together through Community Economic Revitalization Teams to address the consequences of a regional economic dislocation.

This partnership has helped build medical clinics and multifamily housing projects, provided clean drinking water for rural families, and created seed money to establish small businesses in timber-dependent areas.

Consider, for example, an employee-owned sawmill and plywood manufacturing company with an annual payroll of $30 million located in Omak, Washington, that received a $4.9 million business and industry-guaranteed loan last year.

Almost 500 families depended on its operation directly. With the economic downturn in the timber industry, the business was headed for closure unless its debt was restructured.

The Bank of Washington participated by providing a $10 million line of credit for inventory and working capital. The employees sacrificed $28 million in stock to ensure the future success of the business. This means $38 million of other credit or debt of the company were leveraged against the $4.9 million B&I-guaranteed loan.

This B&I guarantee saved 476 jobs—approximately 20 percent of the community’s workforce. Other jobs such as truck drivers, loggers, and raw material suppliers were also saved since there are no other sawmills for over 100 miles in that part of the state.

We like what we’ve seen working with partners; we’re going to increase our use of partnerships,
letting us leverage our limited resources, building private, nonprofit and other public sector participation in local rural efforts, and increasing our likelihood of success. In many cases we’re going to structure our programs around partnerships.

Under the new Farm Bill that was signed into law by President Clinton, we’re poised—now more than ever—to take a holistic approach to our program delivery structure and to work even more closely with state and local governments, businesses, community organizations, foundations and the private sector in working toward a vision all Americans share: a vibrant and prosperous rural America with opportunities for all its residents.

The rural development provisions of the Farm Bill will fundamentally change the way federal rural development programs are delivered by the Rural Development mission area. They build on an initiative first proposed by President Clinton in his Fiscal Year 1996 budget.

They will promote genuine partnerships at the grass roots level by establishing a mechanism to identify the needs of rural communities at the local level and foster flexible and innovative approaches to rural development.

The new law will also change the funding mechanisms for rural development programs to ensure that our state offices have flexibility to work with states and local communities.

Our state directors are to develop strategic plans that formulate community development objectives and establish links between local, state, and RECD field office program administrators to integrate state development programs with assistance provided under this proposal. Priority, under the plan, would be given to communities with the smallest populations and lowest per capita income.

Under the law, we will combine 14 eligible purposes into the three funding streams proposed by the President and allocate funding to states by formula. States could transfer up to 25 percent from one funding stream to another for any authorized program purpose. On an aggregate national level, no more than 10 percent of any fund’s budget authority could be shifted.

For the first time, the Farm Bill authorized grants to states for rural development. States that match the initial federal dollars two for one could receive another grant equal to the first.

That funding would be utilized by states to provide grants, direct loans, and loan guarantees for the same types of purposes as our programs. States would be precluded from using any funds provided under the grant for any administrative costs incurred by the state. Only by working in partnership with state and local governments, foundations, charities, businesses, and regional interests can the federal government help to see that rural communities have access to certain basic services—safe drinking water, health care, decent and affordable housing, telecommunications, education, and transportation—so that businesses and workers can compete in the global economy which will lead to economic growth, business expansion, and increased employment.

Congressional appropriators made several fundamental changes in the RCAP structure—we cannot transfer funds between the three streams or make grants to state governments this year. But, we still have more flexibility in administering our programs than we’ve ever had.

This Administration is committed to working closely with communities in tackling the important issues of jobs, trade, and the preservation of a way of life for rural Americans as our nation enters the next century.
I’m honored to have the opportunity, as the Administrator of the Rural Business-Cooperative Service to play a role in this debate. We intend to continue serving the needs and enhancing the quality of life for residents in rural America.

USDA’s Rural Development (RD) Services have undergone a reorganization in the past year, designed to promote local participation, and to utilize RD human and fiscal resources more efficiently and effectively when addressing rural development needs. The reorganization of RD has been further augmented by National Performance Review (NPR) initiatives.

As a result, RD employees are being retrained to assume a greater role in providing technical assistance and stimulating sustainable rural development.

USDA must maintain a continual focus on resolving issues and leading development and analysis of rural development policy, helping to get rural America from where it is now to where it needs to be in the future.

Toward this end, USDA must be the entity which develops the factual—not anecdotal—base of research and information on the state of rural America and the programs already in use.

We must understand how rural folks live, how they earn a livelihood, deal with shelter, achieve mobility, and why they stay or leave rural areas. Within this arena, we must form partnerships with other entities.

The problems in some areas of the country have been intractable, persistent, and unyielding. It is clear the normal way of doing business hasn’t reached them. This is the reason for many of the special initiatives pursued by the federal government.

USDA must be the engine of innovation, gathering what seem to be working models and mechanisms, germinating and incubating these new ideas, then evaluating them to see if they really achieve the intended—or other beneficial—objectives.

Or USDA must determine if they offer promise but need further development. Some ideas may be new and untested but still warrant testing on a pilot basis.

If USDA is to maximize its ability to leverage its resources and affiliate with other national, state, and local partners, we must carefully examine what processes have been useful to us and other entities in “getting things done.”

Other entities need not be governments. For example, we should feel free to adopt mechanisms used by private business, interest groups, and public-private partnerships. Partnerships can be with such national entities as FNMA, other agencies and levels of government, private businesses, and national/state/local eleemosynary institutions.

This mission area, like many other agencies in the federal government, is changing the way we do business. We will not always have resources to match the need. We will be operating out of fewer offices—we will have fewer people.

It’s part of what the President called for: a “leaner but not meaner” government that works better and costs less. No agency has made a greater commitment to “reinventing government” than the Department of Agriculture.

USDA’s plans for reorganizing local program delivery through field service centers has already saved taxpayers over $900 million and cut staff by 10,000 positions.
President Clinton’s rural Empowerment Zones/Enterprise Communities initiative proves that some of the best ideas and initiatives are those that start at the local level.

Communities that went through the EZ/EC application process—even those not selected—succeeded in getting a clearer idea of their own potential and learned that by working together they could realize that potential. The ideas, initiative, and efforts are driven at the local level—not by the Federal government.

Instead of telling local governments what the problems were and how those problems needed to be solved, the EZ/EC process has asked local residents to identify and help solve their own problems.

Through our own staff and the work of others, the administration has offered technical assistance, assisted communities as they build effective partnerships, and supported efforts to design economic and community development plans.

This effort is not all grand schemes. I’ll use as an example our new NOFA service. NOFA stands for “Notice of Funding Availability.” Before, officials in thousands of small rural communities would each have to search through the Federal Register to find these notices that are published by individual federal agencies.

Now, our EZ/EC Task Force updates a NOFA database daily and puts the information up on the Internet. Any official in rural America can now sign on to the EZ/EC web site, click on the “What’s New” page and get started to find the items that could be of assistance to the community.

In Rural Development, we’re also taking big steps to change the way we do business.

In one of the most ambitious efforts in the entire federal government to reengineer, Rural Development is modernizing its single-family housing loan program, which has provided housing loans worth $46.8 billion to more than 2 million rural Americans. DLOS—or the Dedicated Loan Origination/Servicing System—is a modern, automated loan processing and servicing system which will be administered in a national service center similar to the type used by the private sector to improve customer service and reduce costs.

DLOS will reduce the time-consuming and often duplicative work now being handled—often manually—in thousands of field offices across the nation.

As part of our DLOS initiative, we are combining the guidance provided in 16 different regulations totaling 290 pages into one consolidated rule.

We estimate the final rule, after DLOS is fully implemented, will cover approximately 30 pages in the Code of Federal Regulations, which represents a 90 percent reduction in regulations from the 290 pages.

The new loan system is now being implemented and is scheduled to become fully operational in October 1997. On October 1, two pilot states, Virginia and Missouri, began processing new loans using DLOS and will convert all their existing loan portfolios to DLOS next year.

The high level of automation offered by DLOS will have a major impact on staffing levels needed to handle Rural Development single-family housing loan program. At present, 3,300 staff years are needed to operate the program.

The DLOS-driven system will require only 1,800 staff years—with about 1,200 staff years remaining in local offices handling loan origi-
nation and servicing and 600 position moving to the DLOS service center in St. Louis. It will save taxpayers $250 million over the next five years.

But we will not use reduced personnel as an excuse. Our commitment is to better customer service and better, more efficient ways of doing business.

I will leave it to other presenters to pursue the theoretical question as the role of public policy on rural capital markets. The Rural Business-Cooperative Service and the other agencies of the USDA Rural Development have played—still do play—and have every intention of continuing to play a vital role in providing credit and technical assistance to rural homebuyers, businesses, governments, and community organizations.

Thank you again for giving me this chance to be with you for this important conference and to represent the thousands of USDA employees who advance this agency by serving farmers, ranchers, and the rest of rural America every day with dedication, great skill, and enthusiasm.