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Farm Aid Cutback

U.S. Ends the Rural Electric Credit System

Washington (UPI)

Continuing a sweeping budget crackdown on federal rural and farm spending, the administration yesterday wiped out the low-cost REA rural electric credit system launched in New Deal days and replaced it with a system of higher-interest loans.

A spokesman for rural cooperatives promptly denounced the cutback, which is expected to cut federal spending in the current fiscal year by perhaps up to \$279 million, and vowed to fight the move on Capitol hill "with all the resources at our command."

Bitter protests also were expected from other rural groups and lawmakers already up in arms over recent orders to curtail or eliminate conservation subsidy and emergency farm loan programs.

ORDERS

Acting on order from the White House Office of Management and Budget (OMB), the Agriculture Department announced the REA change.

The department said the Rural Electrification Administration (REA) would halt its traditional program of direct federal loans to rural electric and telephone systems, at a fixed 2 per cent interest rate, effective January 1.

The REA program, launched in 1935 to bring light to a countryside still partly living in an oil lamp and candle age, since has electrified practically all rural areas.

In place of the old program, officials said future REA loans would be made with a private fund insured or guaranteed by the government. Interest rates on the insured loans will be 5 per cent, a spokesman said.

PLEA

Robert D. Partridge, general manager of the National Rural Electric Cooperative Association, a trade association for about 1000 REA co-ops, told newsmen his group would urge President Nixon to reverse the action and fight on Capitol Hill should that fail.

Partridge said the switch to higher-cost private financing, unless reversed, "will wipe out many of the more than 1000 rural electric systems."

Agriculture department officials said the change to private, government-insured loans would make \$200 million more total credit available in the current fiscal year than electric and telephone borrowers stand to get under the old REA program.

CHANGE

Under the old REA program, loans for electric and telephone systems were made at a 2 per cent interest while the government was paying 6 per cent to borrow

money for these and other federal programs. Under the new program, the government will sell insured notes to private investors and then lend the money to rural systems at rates closer to its cost.

Officials said the change to private lender financing was being made under authority of a 1972 rural development law.

There had been no mention during consideration of the law of using it to completely replace the REA, but administration spokesmen said yesterday that the act "provided very broad authorities to make guaranteed and insured loans to finance all types of community development programs."