

WATER AND AGRICULTURE FINANCING

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Since the beginning of civilization, agriculture and water have been anonymous. In many areas this creates no great problem. However, in New Mexico it is the abnormal, rather than the normal, year that adequate water for agriculture purposes is available. The term drought is normal and it is only the degree of drought from year to year, or the cycle that we are in at a given time, that is of concern to us.

The establishment of the Farmers Home Administration by the Congress of the United States envisaged an Agency to finance the purchase of farms and ranches of family size. The repayment period would be of sufficient length of time to allow an orderly repayment of the capital investment, plus an adequate cost of living, and the building up of a reserve to meet emergencies that could arise from time to time. With this guideline, the instructions call for a loan to be repaid as rapidly as possible with a maximum repayment period of 40 years. Restrictions were written into the law that when applied in a practical manner, served to identify the people who would be eligible for FHA assistance -- such as:

1. No loan could be made by the Farmers Home Administration when credit was available from a normal lending source (banks, Production Credit Associations, Insurance Companies, Federal Land Banks, private individuals, etc.) at reasonable interest rates and length of repayment periods;
2. That titles must be merchantable after the loan was made and second liens would not be allowed;
3. The maximum real estate debt could not exceed sixty thousand dollars; and
4. The maximum operating debt could not exceed thirty-five thousand dollars or be for a period in excess of seven years.

Other restrictions in the Act have some effect. However, the previous four - when used in a practical manner - have the effect of placing the Farmers Home Administration in a position of being the primary source of credit for young farmers and ranchers just entering the profession. Also, we are the secondary source of credit for those who

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are already in the profession and find themselves in financial difficulty and are unable to get credit from their previous sources. This establishes a "gray area" in the field of agricultural finance. This already high risk of finance now becomes even greater, and compels our agency to give considerable attention to even the smallest detail when deciding if an applicant has a reasonable chance for success.

The individual and his background are important factors to be considered when making a loan. However, when you are considering a final repayment date of the year two thousand and six - it is very evident that other items must receive a higher priority, in order of importance, when the loan is expected to be repaid from the production of agricultural crops over the next 40 years. This is where we get to the most important single item of all factors considered. And, that is the availability of adequate water, both in quantity and quality, to sustain production over this period of time.

In order to give the viewpoint of the Farmers Home Administration on water in New Mexico, we need to identify the agriculture produced and the water needs of the various crops as seen by a financing agency. Agriculture in New Mexico is much more complex than the casual observer might think. It varies from the heavily irrigated crops of cotton and alfalfa in the lower Rio Grande and Pecos River Valleys to the lightly irrigated crops of oats and barley in the extreme northern part of the State, to the dry land grain sorghum areas of the High Plains. Numerous studies have been (and are still being) made as to the amount of water necessary to produce the maximum crop with a minimum amount of water. However, as a financing agency, we do not attempt to innovate new theories as to water use, but tend to rely very heavily upon the Land Grant Colleges (for example, New Mexico State University), the New Mexico State Engineer, and the United States Geological Survey studies to supplement our farm management practices in the State. Decisions on a loan must be made on what the situation could possibly be in the year two thousand and six - or any year in the intervening period of time.

In each county we develop a minimum resources guide which is based upon all of the data available at the present time for each community and agriculture area. We are aware of the net average annual surface water supply of slightly over two million acre-feet per year and the agricultural lands that have a valid water-right that will protect the value of the land and the security of our loans for an indefinite period of time. However, we are not complacent with this situation and it is necessary to keep a careful watch over water legislation on both the State and National level. Reapportioning of the State Legislature will give some idea of our concern as a rural financing agency, since a change in complexion or makeup of our State Legislature will undoubtedly reflect more of the urban and city problems

and less of the problems of the farmer. It is too early to make a prediction on how this will effect agricultural financing.

However, we do know that the value of water for uses other than farming is tremendous. Dr. Ralph Stucky, in his report to this conference in 1962, disclosed that the recreational value per acre-foot of water ranged from \$198 to \$293 and the value per acre-foot of water for municipal and industrial uses was from \$1,273 to \$3,300, while agricultural value was only from \$17 to \$18. This, coupled with an anticipated population growth rate of approximately 75 percent in the next two decades, should warn the farmer that competition is going to be very stiff for the limited amounts of surface water that is and will be available and that the agency providing the agricultural financing will, of necessity, have to adjust accordingly.

Areas of New Mexico where no major streams exist and the preponderant majority of irrigation water comes from ground-water storage present a completely different problem, and one that I am sure keeps bankers and other financial agents from sleeping at night. We were extremely interested in the data for Roosevelt, Curry, Lea, Chaves, Eddy, Dona Ana, Otero and Torrance counties printed in a Basic Data Report by Fred E. Busch of the U. S. Geological Survey (Ground-Water Levels in New Mexico, 1964). This report indicates that although there is a rapid recharge in some areas, the water levels are either at, or near, all time lows in all counties, and that we are continuing to mine our underground supplies at an alarming rate. From the viewpoint of an agricultural financing agency, the question that keeps hovering just out of reach is -- "when do we start the countdown of 40, 39, 38, 37, etc...." and limit our loans to this length of time, so there will be enough time left to amortize the debt before the well runs dry. This is a question that we do not dare - nor are we equipped - to answer since we know that the explosion from the farmers and communities involved would be deafening. We would, however, urge a continuous study of this situation and data be kept current so a reasonable time limit of available ground-water reserves can be estimated by all financing agencies.

A 1965 publication entitled "Characteristics of Water Supply in New Mexico," by W. E. Hale, L. J. Reilend, and J. P. Beverage reported the total acreage irrigated in New Mexico in 1954 was estimated to be 880,000 acres, of which about 335,000 were irrigated entirely with surface water; 400,000 acres entirely with groundwater; and 145,000 acres with a combination of ground and surface water. They estimated the irrigated acreage in 1960 to be 959,000, of which about 484,000 acres were irrigated entirely with groundwater and about 140,000 acres with a combination of ground and surface water. There appeared to be no significant change in the acreage irrigated by surface water in the period of 1954-1960.

It seems that where the surface water is visible, and users can see that there is a limited amount, they are concerned and will take action to preserve certain amounts. However, we are more concerned with the limited amounts of groundwater available, and in preserving these reserves for future use. While the total acreage irrigated went up only an estimated 8.43 percent, the amount of land in acres irrigated by groundwater went up an amazing 19.36 percent. If this trend continues, we are going to find our groundwater reserves depleted to a very dangerous level in a relatively short period of time.

The New Mexico State Engineer administers the water rights in our State in accordance with provisions of the Constitution and the Statutes, the terms of interstate water compacts and international treaties, and rules and regulations of the State Engineer's office. In our opinion, Steve Reynolds is doing an excellent job in keeping the people of this State apprised of the water that is available for all purposes, and we would recommend a continuation of the present program.

We are also blessed by having a Congressional delegation that is conscious of our water problems in financing and we who work in this area are facing the future with confidence.

Historically, a banker or financing agent has been referred to as someone with one glass eye, and that the only kindness or sympathy you would receive from him when discussing your problems comes from that "one glass eye!" We would beg to disagree with this.

The Farmers Home Administration now has outstanding in New Mexico approximately 30 million dollars in agricultural loans. We are presently lending at an annual rate of approximately 9 million dollars. We anticipate this annual rate will go higher as we move toward an industrial state and the competition for banking loans increases.