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RURAL TELEPHONE FINANCING

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HEARINGS BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

TITLE V AND TITLE VI
COMMITTEE PRINT NO. 3

H.R. 14837



SEPTEMBER 13 AND 14, 1966

Serial XX

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RURAL TELEPHONE FINANCING

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RURAL TELEPHONE FINANCING

TUESDAY, SEPTEMBER 13, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1301, Longworth House Office Building, Hon. W. R. Poage, chairman of the subcommittee, presiding.

Present: Representatives Poage, Gathings, Stubblefield, Greigg, Callan, Teague, and Dole.

Also present: John J. Heimburger, general counsel; Christine S. Gallagher, clerk; Fowler West, staff assistant.

Mr. POAGE. The committee will please come to order.

We have met this morning to give any further consideration that is necessary to title V and title VI of H.R. 14837; that is, the telephone bank sections. We had testimony on this in the full committee, but we now have a committee print that has some minor changes in it from the original bill, and I invited witnesses here that might want to express any opinion on the legislation as it now stands.

Frankly, it is my hope that we can get this matter completely shaped up as to the provisions that are in dispute and get some general agreement on it in the next few days.

(Committee print No. 3 of H.R. 14837 title V and title VI follows:)

[COMMITTEE PRINT NO. 3]

AUGUST 24, 1966

[H.R. 14837, 89th Cong., 2d sess.]

A BILL To amend the Rural Electrification Act of 1936, as amended, to provide additional sources of financing for the rural electrification and rural telephone programs, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is hereby declared to be the policy of the Congress that the growing capital needs of the rural electric and telephone systems require the establishment of a rural electric bank and a rural telephone bank which will furnish assured and viable sources of supplementary financing, with the objective that said banks will become entirely privately owned, operated, and financed corporations. The Congress further finds that many rural electric and telephone systems require financing under the terms and conditions provided in titles I and II of the Rural Electrification Act of 1936, as amended, and declares that nothing in this Act shall be construed to change the loan purposes, terms, and conditions authorized in titles I and II. In order to effectuate this policy, the Rural Electrification Act of 1936, as amended (7 U.S.C. 901-924), is amended as hereinafter provided.

SEC. 2. The Rural Electrification Act of 1936, as amended, is amended by adding the following four new titles:

* * * * *

"TITLE V

"SEC. 501. RURAL TELEPHONE ACCOUNT.—There is hereby established in the Treasury of the United States an account, to be known as the rural telephone account, consisting of:

"(1) all notes, bonds, obligations, and property delivered or assigned to the Administrator pursuant to loans heretofore or hereafter made under section 201 of this Act, including notes, bonds, obligations, and property held in trust by him on behalf of the Secretary of the Treasury, as of the effective date of this title, which shall be transferred to and be assets of the rural telephone account;

"(2) undisbursed balances of telephone loans made under section 201, which, as of the effective date of this title, shall be transferred to and be assets of the rural telephone account;

"(3) all collections of principal and interest received on and after July 1, 1966, on notes, bonds, judgments, or other obligations made or held under title II of this Act, which shall be paid into and be assets of the rural telephone account;

"(4) all appropriations for telephone loans made under the authority of section 3 of this Act and funds obtained in accordance therewith and the unexpended balances of any funds available on the effective date of this title for telephone loans under section 201 of this Act, including any funds made available for telephone loans under the item 'Rural Electrification Administration,' in the Department of Agriculture Appropriation Acts current on the date of enactment of this title, and said appropriations, balances, and funds shall be assets of the rural telephone account; and

"(5) shares of the capital stock of the Rural Telephone Bank acquired by investment of the rural telephone account pursuant to section 502(b)(3) of this title, dividends paid on said shares of stock, and moneys received from said Bank upon retirement of said shares of stock in accordance with the provisions of title VI of this Act, which said shares, dividends, and moneys shall be assets of the rural telephone account.

"SEC. 502. LIABILITIES AND USES OF ACCOUNT.—(a) The notes of the Administrator issued to the Secretary of the Treasury to obtain funds for loans under section 201 of this Act, and all other liabilities against the appropriations or assets in the rural telephone account in connection with telephone loan operations shall be liabilities of the rural telephone account, and all other obligations against such appropriations or assets arising out of telephone loan operations shall be obligations of the rural telephone account.

"(b) The assets of the rural telephone account shall be available for the following purposes:

"(1) loans under section 201 of this Act and for advances in connection therewith, except that no such loans shall be made in any year in excess of the amounts previously authorized therefor in appropriation acts for such year or available pursuant to section 3 of this Act; the amounts so authorized for loans and advances shall remain available until expended;

"(2) payment of interest as it accrues on loans to the Administrator from the Secretary of the Treasury for telephone purposes pursuant to section 3(a) of this Act;

"(3) investment in the capital stock of the Rural Telephone Bank in accordance with section 606(a) of this Act: *Provided*, That such investment shall be deemed paid in capital of the said bank notwithstanding that funds representing the proceeds from the purchase of such stock shall remain in the rural telephone account until required for actual disbursement in cash by the said bank; and

"(4) payment of principal when due on loans to the Administrator from the Secretary of the Treasury for telephone purposes pursuant to section 3(a) of this Act.

"SEC. 503. DEPOSIT OF ACCOUNT MONEYS.—Moneys in the rural telephone account shall remain on deposit in the Treasury of the United States until disbursed.

"TITLE VI

"SEC. 601. ESTABLISHMENT, GENERAL PURPOSES, AND STATUS OF THE TELEPHONE BANK.—(a) There is hereby established a body corporate to be known as the Rural Telephone Bank (hereinafter called the telephone bank). (b) The general purposes of the telephone bank shall be to obtain an adequate supply of supplemental funds to the extent feasible from non-Federal sources, to utilize

said funds in the making of loans under section 608 of this title, and to conduct its operations to the extent practicable on a self-sustaining basis. (c) The telephone bank shall be deemed to be an instrumentality of the United States, and shall, for the purposes of jurisdiction and venue, be deemed a citizen and resident of the District of Columbia. Its property, franchise, capital, reserves, surpluses, security holdings, and other funds, and its income shall be exempt from all taxation now or hereafter imposed by the United States or by any State, territorial, or local taxing authority: *Provided*, That the telephone bank is authorized to make payments to State, territorial, and local governments in lieu of property taxes upon real property and tangible personal property which was subject to State, territorial, and local taxation before acquisition by the telephone bank. Such payment may be in the amounts, at the times, and upon such terms as the telephone bank deems appropriate, but the telephone bank shall be guided by the policy of making payments not in excess of the taxes which would have been payable upon such property in the condition in which it was acquired.

"SEC. 602. GENERAL POWERS.—To carry out the specific powers herein authorized, the telephone bank shall have power to (a) adopt, alter, and use a corporate seal; (b) sue and be sued in its corporate name; (c) make contracts, leases, and cooperative agreements, or enter into other transactions as may be necessary in the conduct of its business, and on such terms as it may deem appropriate; (d) acquire, in any lawful manner, hold, maintain, use, and dispose of property; (e) accept gifts or donations of services, or of property in aid of any of the purposes herein authorized; (f) appoint such officers, attorneys, agents, and employees, vest them with such powers and duties, fix and pay such compensation to them for their services as the telephone bank may determine; (g) determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid; (h) execute, in accordance with its bylaws, all instruments necessary or appropriate in the exercise of any of its powers; (i) collect or compromise all obligations assigned to or held by it and all legal or equitable rights accruing to it in connection with the payment of such obligations until such time as such obligation may be referred to the Attorney General for suit or collection; and (j) exercise all such other powers as shall be necessary or incidental to carrying out its functions under this title: *Provided*, That the telephone bank shall undertake no new types of activities not included in the annual budget program.

"SEC. 603. SPECIAL PROVISIONS GOVERNING TELEPHONE BANK AS AN AGENCY OF THE UNITED STATES UNTIL CONVERSION OF OWNERSHIP, CONTROL AND OPERATION.—Until the ownership, control and operation of the telephone bank is converted as provided in section 610(a) of this title and not thereafter—

"(a) the telephone bank shall be an agency of the United States and shall be subject to the supervision and direction of the Secretary of Agriculture (hereinafter called the Secretary);

"(b) in order to perform its responsibilities under this title, the telephone bank may utilize the facilities and the services of employees of the Rural Electrification Administration or of any other agency of the Department of Agriculture, without cost to the telephone bank, except to the extent that administrative expenses are recovered by the telephone bank under section 608(b)(2) of this title;

"(c) notwithstanding the provisions of the second sentence of subsection (d) of section 303 of the Government Corporation Control Act, as amended (31 U.S.C. 868), all debentures issued by the telephone bank shall be issued at such times, bear interest at such rates, and contain such other terms and conditions as have been or may be approved by the Secretary of the Treasury;

"(d) the telephone bank when designated for that purpose by the Secretary of the Treasury shall act as fiscal or other agent of the United States and when acting as such shall perform such duties as shall be prescribed by the Secretary of the Treasury;

"(e) the telephone bank shall have power to obtain services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a); to use the United States mails in the same manner and under the same conditions as the executive departments of the Federal Government; and shall have, in the payment of debts out of bankrupt, insolvent, and decedents' estates, the priority of the United States, except where such priority is waived by the telephone bank; and

"(f) the telephone bank shall be subject to the provisions of sections 507(b) and 2679 of title 28, United States Code, and section 367 of the Revised Statutes (5 U.S.C. 316).

"SEC. 604. GOVERNOR.—Subject to the provisions of section 610, the Administrator of the Rural Electrification Administration shall serve as the chief executive officer of the telephone bank (herein called the Governor of the telephone bank). Except as to matters specifically reserved to the Telephone Bank Board in this title, the Governor of the telephone bank shall exercise and perform all functions, powers, and duties of the telephone bank.

"SEC. 605. BOARD OF DIRECTORS.—(a) The management of the telephone bank, within the limitations prescribed by law, shall be vested in a board of directors (hereinafter called the Telephone Bank Board consisting of thirteen members.

"(b) The Administrator of the Rural Electrification Administration shall be a member of the Telephone Bank Board. Six other members of the Telephone Bank Board shall be designated by the President, three of whom shall be officers or employees of the Department of Agriculture but not officers or employees of the Rural Electrification Administration, and three of whom shall be from the general public and not officers or employees of the Federal Government. The Administrator and other officers and employees of the Department of Agriculture shall serve as members without additional compensation.

"(c) As soon as practicable after enactment of this title, the President of the United States shall appoint six additional members of the initial Telephone Bank Board to be selected from the directors, managers, and employees of any entities eligible to borrow from the telephone bank and of organizations controlled by such entities, with due regard to fair representation of the rural telephone systems of the Nation. The six members thus appointed shall serve until their successors shall have been duly elected in accordance with subsection (d).

"(d) Within twelve months following the appointment of the six members of the initial Board as provided in subsection (c), the Governor of the telephone bank shall call a meeting of all entities then eligible to borrow from the telephone bank and organizations controlled by such entities for the purpose of electing members of the Telephone Bank Board. Each such entity and organization shall be entitled to notice of and shall have one noncumulative vote at said meeting. Six members of the Telephone Bank Board shall be elected for a two-year term, three from among the directors, managers, and employees of cooperative-type entities eligible to vote and organizations controlled by such entities, and three from among the managers, directors, and employees of commercial-type entities eligible to vote and organizations controlled by such entities. These six members shall be elected by majority vote of the entities and organizations eligible to vote and such entities and organizations may vote by proxy.

"(e) Thereafter, in accordance with the bylaws of the telephone bank, the six members of the Telephone Bank Board shall be elected by holders of Class B and Class C stock, three from among the directors, managers, and employees of cooperative-type entities and organizations controlled by such entities holding Class B or Class C stock, and three from among the directors, managers, and employees of commercial-type entities and organizations controlled by such entities holding Class B or Class C stock. These six members shall be elected by majority vote of the entities and organizations eligible to vote and such entities and organizations may vote by proxy.

"(f) Any Telephone Bank Board member may continue to serve after the expiration of the term for which he is elected until his successor has been elected and has qualified. Telephone Bank Board members appointed or elected pursuant to subsections (c), (d), and (e), shall receive \$100 for each day or part thereof, not to exceed one hundred days per year, spent in the performance of official duties, and shall be reimbursed for travel and other expenses in such manner and subject to such limitations as the Telephone Bank Board may prescribe.

"(g) The Telephone Bank Board shall prescribe bylaws, not inconsistent with law, regulating the manner in which the telephone bank's business shall be conducted, its directors and officers elected, its stock issued, held, and disposed of, its property transferred, its bylaws amended, and the powers and privileges granted to it by law exercised and enjoyed.

"(h) The Telephone Bank Board shall meet at such times and places as it may fix and determine, but shall hold at least four regularly scheduled meetings a year, and special meetings may be held on call in the manner specified in the bylaws of the telephone bank.

"(i) The Telephone Bank Board shall make an annual report to the Secretary for transmittal to the Congress on the administration of this title VI and any other matters relating to the effectuation of the policies of title VI, including recommendations for legislation.

"SEC. 606. CAPITALIZATION.—(a) The telephone bank's capital shall consist of capital subscribed by the United States, by borrowers from the telephone bank, and by corporations eligible to become borrowers from the telephone bank. Beginning on July 1, 1966, and ending fifteen years thereafter, the United States shall furnish capital to the telephone bank, in the amount of \$20,000,000 in any fiscal year, from net collection periods in the rural telephone account created under title V of this Act, unless an appropriation Act shall specify another amount, and it shall be in order for appropriation Acts to contain such provisions but not in amounts exceeding \$20,000,000 in any fiscal year: *Provided*, That on or before July 1, 1971, the Secretary shall make a report to the President for transmittal to the Congress on the status of capitalization of the telephone bank by the United States with appropriate recommendations. As used in this section, the term 'net collection proceeds' shall be deemed to mean payments from and after July 1, 1966, of principal and interest on loans heretofore or hereafter made under section 201 of this Act, less an amount representing interest payable to the Secretary of the Treasury on loans to the Administrator for telephone purposes pursuant to section 3(a) of this Act.

"(b) The capital stock of the telephone bank shall consist of three classes, Class A, Class B, and Class C, the rights, powers, privileges, and preferences of the separate classes to be as specified, not inconsistent with law, in the bylaws of the telephone bank. Class B and Class C stock shall be voting stock, but no holder of said stock shall be entitled to more than one vote, nor shall Class B and Class C stockholders, regardless of their number, which are owned or controlled by the same person, group of persons, firm, association or corporation, be entitled in any event to more than ten votes.

"(c) Class A stock shall be issued only to the Administrator of the Rural Electrification Administration on behalf of the United States in exchange for capital furnished to the telephone bank pursuant to subsection (a), and such Class A stock shall be redeemed and retired by the telephone bank as soon as practicable after June 30, 1981, but not to the extent that the Telephone Bank Board determines that such retirement will impair the operations of the telephone bank: *Provided*, That the minimum amount of Class A stock that shall be retired each year after said date and after the amount of Class A and Class B stock issued totals \$400,000,000, shall equal 5 per centum of the amount of loans made by the telephone bank during such year.

"(d) Class B stock shall be held only by recipients of loans under section 608 of this Act. Borrowers receiving loan funds pursuant to section 608(a) (1) or (2) shall be required to invest in Class B stock 5 per centum of the amount of loan funds so provided. No dividends shall be payable on Class B stock. All borrowers shall be entitled to patronage refunds in Class B stock under terms and conditions to be specified in the bylaws of the telephone bank.

"(e) Class C stock shall be available for purchase and shall be held only by borrowers, or by corporations eligible to borrow under section 608 of this Act, or by organizations controlled by such borrowers and corporations, and shall be entitled to dividends in the manner specified in the bylaws of the telephone bank. Such dividends shall be payable only from income and, until all Class A stock is retired, shall not exceed the current average rate payable on its telephone debentures.

"(f) After payment of all operating expenses of the telephone bank, including interest, and dividends on Class C stock, setting aside appropriate funds for reserves, and making payments in lieu of taxes, the Telephone Bank Board shall annually set aside the remaining earnings of the telephone bank for the payment of dividends on Class A stock and patronage refunds. Such remaining earnings shall be divided at the time they are set aside in proportion to the total amount of outstanding Class A and Class B stock at such time. The proportion available for the payment of patronage refunds shall be distributed in accordance with the bylaws of the telephone bank. At the time of such distribution, the proportion available for the payment of dividends on Class A stock shall be paid into the Rural Telephone Account.

"SEC. 607. BORROWING POWER.—(a) The telephone bank is authorized to obtain funds through the public or private sale of its bonds, debentures, notes and other evidences of indebtedness (herein collectively called 'telephone debentures'). Telephone debentures shall be issued at such times, bear interest at such rates, and contain such other terms and conditions as the Telephone Bank Board shall determine: *Provided, however*, That the amount of telephone debentures which may be outstanding at any one time pursuant to this subsection (a) shall not exceed eight times the paid in capital and retained earnings of the telephone bank. The telephone bank shall insert in all its telephone debentures

appropriate language indicating that such telephone debentures, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the telephone bank. Telephone debentures shall not be exempt, either as to principal or interest, from any taxation now or hereafter imposed by the United States, by any territory, dependency, or possession thereof, or by any State or local taxing authority. Telephone debentures shall be lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority and control of the United States or any officer or officers thereof.

"(b) If there are insufficient funds in the assets of the telephone bank available for the purpose to pay interest or principal on its telephone debentures, the telephone bank may obtain funds for this purpose by making and issuing notes to the Secretary of the Treasury. Such notes shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield, during the month preceding the issuance of the notes, on outstanding marketable obligations of the United States having comparable maturities. Such notes may be redeemable before maturity in such manner as may be stipulated in the notes. Interest payments on such notes may be deferred with approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. The Secretary of the Treasury is authorized and directed to purchase any notes issued by the telephone bank pursuant to this subsection (b) and for such purchases may use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which such securities may be issued under such Act, as amended, are hereby extended to include any such purchases.

"SEC. 608. LENDING POWER.—(a) The Governor of the telephone bank is authorized on behalf of the telephone bank to make loans, in conformance with policies approved by the Telephone Bank Board, to corporations which have received a loan or loan commitment pursuant to section 201 of this Act, (1) for the same purposes for which loans may be made under section 201 of this Act, (2) for the purposes of financing, or refinancing, the construction, improvement, expansion, acquisition, and operation of telephone lines, facilities, or systems, in order to improve the efficiency, effectiveness, or financial stability of corporations financed under sections 201 and 608 of this Act, and (3) for the purchase of Class B stock required to be purchased under section 606(d) of this Act but not for the purchase of Class C stock, subject, as to the purposes set forth in (2) hereof, to the following provisos: That in the case of any such loan for the acquisition of telephone lines, facilities, or systems, the acquisition shall be approved by the Secretary, the location and character thereof shall be such as to improve the efficiency, effectiveness, or financial stability of the telephone system of the borrower, and in respect of exchange facilities for local services, the size of each acquisition shall be not greater than the borrower's existing system at the time it receives its first loan from the telephone bank, taking into account the number of subscribers served, miles of line, and plant investment.

"(b) Loans under this section shall be on such terms and conditions as the Governor of the telephone bank shall determine, subject, however, to the following restrictions:

"(1) No loan may be made hereunder for a period exceeding fifty years.

"(2) Intermediate loans shall bear interest at a rate equal to (i) a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield, during the month of May preceding the fiscal year in which the loans are made, on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans, or (ii) 4 per centum per annum, whichever is lower. All other loans made hereunder shall bear interest at a rate which reflects the current average rate payable by the telephone bank on its telephone debentures, and administrative expenses and estimated losses of the telephone bank in respect of such other loans, all as determined by the Governor of the telephone bank. Intermediate loans shall not be made to a borrower which is determined by the Governor of the telephone bank, under standards to be established by the Secretary, to be capable of both paying the interest rate applicable hereunder to loans other than intermediate loans and achieving the objectives of the Federal rural telephone loan program. The authority to make intermediate loans hereunder shall terminate on June 30, 1981, or such earlier date as conversion takes place under section 610(a): *Provided*, That on or before July 1, 1971, the Secretary shall make a report to

the President for transmittal to the Congress on the status of the intermediate loan program with recommendations concerning its continuation thereafter.

"(3) Loans shall not be made unless the Governor of the telephone bank finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed.

"(4) No loan shall be made in any State which now has or may hereafter have a State regulatory body having authority to regulate telephone service and to require certificates of convenience and necessity to the applicant unless such certificate from such agency is first obtained. In a State in which there is no such agency or regulatory body legally authorized to issue such certificates to the applicant, no loan shall be made under this section unless the Governor of the telephone bank shall determine (and set forth his reasons therefor in writing) that no duplication of lines, facilities, or systems, providing reasonably adequate services will result therefrom.

"(5) As used in this section, the term 'telephone service' shall have the meaning prescribed for this term in section 203(a) of this Act, and the term 'telephone lines, facilities, or systems' shall mean lines, facilities, or systems used in the rendition of such telephone service.

"(c) The Governor of the telephone bank is authorized to adjust the schedule of payments of interest or principal of loans made under this section upon his determination that with such readjustment there is reasonable assurance of repayment: *Provided, however*, That no adjustment shall extend the period of such loans beyond fifty years.

"SEC. 609. TELEPHONE BANK RECEIPTS.—Any receipts from the activities of the telephone bank shall be available for all obligations and expenditures of the telephone bank.

"SEC. 610. CONVERSION OF OWNERSHIP, CONTROL, AND OPERATION OF TELEPHONE BANK.—(a) Whenever after retirement of Class A stock issued to the United States has begun pursuant to section 606(c) of this title, the total amount in stated value of Class B and Class C stock outstanding equals two-thirds of the total amount in stated value of Class A, Class B, and Class C stock outstanding, as determined by the Secretary, and if there shall then be no outstanding indebtedness of the telephone bank to the Secretary of the Treasury on notes issued pursuant to section 607(b)—

"(1) the powers and authority of the Governor of the telephone bank granted to the Administrator of the Rural Electrification Administration by this title VI shall vest in the Telephone Bank Board, and may be exercised and performed through the Governor of the telephone bank, to be selected by the Telephone Bank Board, and through such other employees as the Telephone Bank Board shall designate:

"(2) the six members of the Telephone Bank Board designated by the President pursuant to section 605(b) shall cease to be members, and the number of Board members shall be accordingly reduced to seven unless other provision is thereafter made in the bylaws of the telephone bank;

"(3) the telephone bank shall cease to be an agency of the United States, but shall continue in existence in perpetuity as an instrumentality of the United States and as a banking corporation with all of the powers and limitations conferred or imposed by this title VI except such as shall have lapsed pursuant to the provisions of this title; and

"(4) the authority of the telephone bank to borrow funds from the Secretary of the Treasury to enable it to pay interest or principal on its telephone debentures, as provided in section 607(b) of this title, shall terminate as to all telephone debentures issued thereafter.

"(b) When all class A stock has been fully redeemed and retired, loans made by the telephone bank shall not be subject to the restrictions prescribed in the provisos to section 608(a) (2).

"SEC. 611. CUMULATIVE NATURE OF TITLE VI; AMENDMENTS THERETO.—Notwithstanding anything in this Act, powers and authority provided for in this title VI shall be cumulative, and nothing herein shall be deemed to limit powers and authority provided for in any other title of this Act. The right to repeal, alter, or amend this title VI at any time is expressly reserved."

SEC. 3. (a) Subsection (f) of section 3 of the Rural Electrification Act of 1936, as amended, is repealed.

(b) Section 201 of the Rural Electrification Act of 1936, as amended, is amended by inserting "to public bodies now providing telephone service in rural areas", immediately after the word "areas" in the first sentence and also immediately after the word "areas" in the first proviso of the second sentence.

SEC. 4. Section 201 of the Government Corporation Control Act, as amended (31 U.S.C. 856), is amended by striking "and" immediately before "(5)" and by inserting " and (6) the Rural Electric Bank and the Rural Telephone Bank" immediately before the period at the end.

SEC. 5. The second sentence of subsection (d) of section 303 of the Government Corporation Control Act, as amended (31 U.S.C. 868), is amended by inserting "the Rural Electric Bank, the Rural Telephone Bank," immediately following the words "shall not be applicable to".

SEC. 6. This Act shall take effect upon enactment.

Mr. POAGE. Mr. Clapp, the Administrator of the REA is here. I take it that he wants to give us some words of wisdom.

We will be glad to hear from you, Mr. Clapp, on any phases of the telephone financing that you feel should be discussed.

STATEMENT OF NORMAN M. CLAPP, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION; ACCOMPANIED BY CHARLES U. SAMENOW, CONSULTANT, OFFICE OF THE ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION; AND LOUIS GORRIN, DIRECTOR, RURAL ELECTRIFICATION DIVISION, OFFICE OF GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE

Mr. CLAPP. Thank you, Mr. Chairman and members of the committee. I do welcome the opportunity to appear this morning with particular reference to the telephone titles of this proposed legislation, because although the telephone titles do not have the controversy within the industry which is attendant upon the electric titles, they are no less important to the future rural utility program in which the Federal Government is interested and to which it is committed.

I would like to call attention to the financing requirements which have been mentioned in the general statements made to the committee on previous occasions with particular reference to the telephone program. There has been loaned to rural telephone systems over the past 15 years since 1950 approximately \$1,300 million. As we project the requirements of the rural telephone systems with which REA works over the next 15 years, we have come to the conclusion that these systems will need about \$3 billion of new capital in the next 15 years. This is roughly twice the amount of capital which has been made available through the REA program over the past 15 years. When we look at it from the standpoint of annual capital requirements we find that from 1951 through 1960 the average level of annual loan authorizations for the telephone program of REA was \$68 million. In 1961 through 1965, it was \$104 million. It is anticipated that the annual capital requirements in 1980 at the end of this 15-year period of which I speak will be \$260 million. I think it is clear, Mr. Chairman, because of these projections of future capital requirements, the need for supplemental financing is every bit as acute for the telephone systems as for the electric systems.

I say this in full recognition of the fact that the President, the Bureau of the Budget and certainly the committees of the Congress have been very sympathetic and understanding of the needs of this program; yet in view of all the pressures on the Federal budget these days, I think it is a general but considered judgment that it is unrealistic to look forward to meeting the total capital requirements of

these rural telephone systems through the direct loan program of REA. Some kind of supplemental financing is essential if the rural telephone systems which serve somewhere between 8 and 10 million American people in this country are to be able to move ahead, expand, improve service, and meet the requirements of the rural communities they serve consistent with the general standards of service prevailing in the telephone industry.

Just to underscore the immediacy of this overall problem, I might point out that we are experiencing right now a steady acceleration of telephone loan applications at REA. On June 30, 1966, REA had on hand 286 applications—this is at the close of the fiscal year—totaling \$197 million. On August 31, this total had risen to 309 applications totaling \$234,400,000. These are alltime records. We used to look at this program as a relatively stable program requiring roughly \$100 million a year but the developments in the industry, the pressure toward upgrading service and the general demands for more and better telephone service in rural areas has produced an acceleration which we simply must recognize and face.

In order to make do and make our loan funds cover as wide a territory as possible, we have in the past fiscal year attempted something which is new to the REA programs, and that is a stretchout of loans through the sectionalizing of loan applications. In other words, we have divided loan applications and made the loan for a part of the amount applied for, or a part of the improvements applied for, and have deferred until a future time the funding of the balance of the project submitted. There were a total of 24 applications received last year which were cut back in this fashion.

We have in the backlog of applications at the present time the deferred portions of these 24 applications. I think this illustrates the urgency of an approach to supplemental financing for the telephone program as well as for the electric program in the rural areas.

Just for purposes of clarification I might point out, Mr. Chairman, that when I appeared before the committee on July 13, I presented a revised draft of titles III and IV, dealing with supplemental financing for the rural electrification program. This, as you will recall, was developed at the committee's suggestion, to provide complete provisions for conversion of the electric bank to borrower operation and control in accordance with the farm credit pattern, and to attempt to resolve some of the differences between the two bills before the committee at that time. This draft was printed as a committee print substantially as presented and is dated July 14.

Subsequently, we sent to the committee a proposed revision of titles V and VI, dealing with supplemental telephone financing, which substantially followed the pattern of the revision of the electric bank titles. These titles were incorporated in Committee Print No. 2 of H.R. 14837 substantially as submitted to the committee. But for purposes of clarification of the record, and to alert the committee to the background of these sections, I should like to note briefly the differences between the draft which we submitted and Committee Print No. 2.

In section 602, page 31, lines 10 and 11—

Mr. TEAGUE. Excuse me 1 minute, Mr. Chairman. We have Committee Print 3 before us. Is the telephone section the same in each print?

Mr. CLAPP. I wonder if the pages are the same. I think we can give you the page reference in Committee Print No. 3, Mr. Teague. It would be on page 33, lines 13, 14, and 15. This proviso contemplating the submission of an annual budget program is not consistent with the mixed ownership corporation status given the telephone bank nor is it consistent with the treatment given in the electric sections. We feel that this should be deleted as it was in the corresponding electric bank section.

Section 608(b)(5), page 47, lines 4 to 9, deletes the language which we had incorporated to provide for the possibility of financing telephone facilities which might be used to accommodate CATV, where there was a demand for this type of service. This reference in our submission has been deleted in Committee Print No. 2. We simply point this out for the benefit of the committee.

Mr. POAGE. You are satisfied with what has been done?

Mr. CLAPP. In all of these items, except for the proviso on page 33 referring to the submission of annual budget programs, Mr. Chairman, we feel that the changes made are not basic to the general thrust of the bill and we are perfectly willing to concur with the wisdom of the committee.

Mr. GATHINGS. Let us just review a little now. We do not have Committee Print No. 2 and we are talking about language in Committee Print No. 2 and language in Committee Print No. 3 and the changes that have been recommended.

Mr. POAGE. The language is identical. The pages are different. The wording here is word for word the same, as I understand it.

Mr. CLAPP. The language is the same.

Mr. POAGE. The language is the same; it is that the pages are not the same.

Mr. GATHINGS. You recommend that beginning on line 13 with the word "provided" and going through line 15, that language be deleted on page 33 of Committee Print No. 3?

Mr. CLAPP. Yes, this would be our recommendation to make it conform to the theory of the mixed ownership corporation which is the theory behind these conversion principles both in the electric sections and in the telephone sections.

Mr. GATHINGS. That would make them both the same.

Mr. CLAPP. Yes, sir, in treatment.

Mr. GATHINGS. On line 14, the proviso there, which would include the remainder of lines 14 and 15, what is the recommendation there?

Mr. CLAPP. What page is this, Mr. Gathings?

Mr. GATHINGS. Page 47. Starting on line 4, subsection (5), and concluding with "service" through line 9.

Mr. CLAPP. In the language we submitted, we had included in the term "telephone lines, facilities, or systems," facilities which could be used to provide service for community antenna television, in areas where this was in demand. Our intent in this was simply to protect the position of the telephone companies that are borrowing from REA so that they would be in a position to render the same kind of service to community antenna television organizations which non-borrower telephone systems can. The committee has preferred to delete this from the language, and as I have just assured the chairman, we have no objection to this if the committee prefers to approach it this way.

Mr. GATHINGS. That clarifies it. Thank you.

Mr. CLAPP. I might point out section 3(b), on page 49, lines 19 to 24, amends section 201 of the Rural Electrification Act to authorize REA telephone loans to public bodies now providing telephone service in rural areas. This was not included in the draft which we submitted. We understand it is intended primarily to make the Puerto Rico Communications Authority eligible for REA loans and for bank loans. Again we would have no objection to this language and this amendment.

One further change I would call to your attention is in section 605, beginning at page 35, relating to the composition of the board of directors. This has been substantially rewritten by the committee and it is different from the language which we submitted. But here again we feel that it is more a matter of detail of organization and is not a fundamental or basic consideration in the general thrust of the legislation. So we have no objection to whatever solution the committee sees fit to propose in this particular problem.

Mr. POAGE. You think what they have in here will work?

Mr. CLAPP. I am sure it will work, Mr. Chairman. I think there is some difference of opinion within the industry as to just how this should be handled in order to protect the position of the different types of organizations which are engaged in rural telephone service. But this is something that I think can be worked out in an amicable fashion and we have no particular point of view on this.

I would like with the indulgence of the committee, Mr. Chairman, to simply take note of certain amendments which appear in title IV of the Committee Print No. 3 dealing with the electric bank. I realize that the committee's primary concern this morning is with the telephone titles, but I would like to express our concern over the possible problems which may be inherent in some of these amendments affecting the electric bank.

I refer particularly to first, the additional restrictions on loans for generating plants; secondly, the additional restrictions on loans for acquisition of facilities; third, the prohibition of 2-percent loans to borrowers having net worth in excess of 35 percent; fourth, the requirement that cooperatives adopt bylaw provisions for certificates of ownership—

Mr. TEAGUE. Mr. Chairman, I have a parliamentary inquiry. I am not going to object, but I understood, and perhaps incorrectly, that we were just considering the telephone section of this whole business today. I wonder if we get started in the electric bank we are opening it up and having other witnesses come in and give their further views. I repeat, I am not going to object. I am asking a question.

Mr. POAGE. I think we would save a good deal of time by letting Mr. Clapp express his views here rather than calling him back another day. We called this primarily to go over the telephone part of the bill. I did ask that we not preclude any other discussion although I do not know that the notice actually carried that.

Mrs. GALLAGHER. The notice had already been put in the mail late Friday.

Mr. POAGE. Yes. Certainly we will not go over anything if anybody wants to object. I know you are just raising a question. All we achieve would be to call him Thursday to go over it and it would take 2 days instead of 1. I don't know what Mr. Clapp is going to

say here. I have not discussed it with him. It seems to me if we get through with these things we are just that much better off.

Mr. TEAGUE. I concur with that. A further parliamentary inquiry, if we do proceed here, and obviously we will because I am not going to object, at least, then the next inquiry is this: Can others who have different views on the electric bank section of the bill be given an opportunity to come in and testify?

Mr. POAGE. I think it has been proven ever since early this spring that anybody who wants to take time can take it. This subcommittee is not trying to cut anybody off or trying to be arbitrary on anything. I would say if the Chair came to the conclusion that we were just indulging in a filibuster, I would feel inclined not to go into it, but it seems to me that anybody who wants to make a relevant comment on what is before us—

Mr. TEAGUE. On the basis of equal time.

Mr. POAGE. I am not going to hold the clock on Mr. Clapp or anybody else. We have not done it and we will not do it.

Mr. TEAGUE. You have been most fair, Mr. Chairman.

Mr. POAGE. We will let anybody who wants to make a serious discussion of this thing do it. I do not want that to go in and out as an invitation for anybody who simply wants to delay this thing by talking to come up here and do it.

I do not feel Mr. Clapp has evidenced any indication of doing that. But if there is any feeling of that kind, if any member of this subcommittee feels that Mr. Clapp ought not to be allowed to say this, the Chair will hold it is out of order because it is out of order. Unless the point is raised there will not be any holding on it.

Mr. TEAGUE. I am not going to raise it. I am going to make this request. I do not know that there are, but in the event there are other persons obviously representing the investor-owned utilities who want to come in and take an equivalent amount of time to that taken by Mr. Clapp, whether it is 5 or 20 minutes or a half hour, I would hope the chairman would feel that is a fair thing to allow them to so testify. I do not know that there are any such persons.

Mr. POAGE. I will certainly try to give them a fair hearing. We have not denied anybody the right to be heard so far.

Mr. TEAGUE. You have been most fair.

Mr. POAGE. As far as I am concerned, I am going to hold if anybody who comes here with the obvious intention of filibustering is out of order. But I do not assume that will be the case on the part of Mr. Clapp, or the power companies or REA or anybody else. If they have anything to present to us, we ought to hear it.

Mr. TEAGUE. Fine.

Mr. POAGE. I think the committee is interested in Mr. Clapp's views if he has some views he would like to express now rather than call another meeting. I think we can move along much better that way.

Mr. GATHINGS. Mr. Chairman, I just want to say that the subcommittee had already acted upon the matter of the electric bank. As I understood that is not before us at all today and it would not be necessary for any investor people or other type of power people to come in and take the time. I am here today to learn something about the telephone bank title. He has given us information here and no ques-

tions have been asked. They had 286 applications from telephone borrowers totaling \$197 million and subsequently it turned out they have 309 applications totaling \$234,400,000. That is what we are here for, as I understood, to go into this thing and find out just what the need is for funds in connection with the telephone rural community section of the bill.

Mr. POAGE. Do you object to Mr. Clapp making comments? I do not know what his comments are going to be. Do you object to Mr. Clapp making the comment that he started to make here? That is the whole point. If there is any objection the Chair will hold it is out of order. But if there is no objection the Chair will not so hold.

Mr. GATHINGS. I still think we ought to delve into the telephone portion of the legislation.

Mr. POAGE. We certainly will.

Mr. GATHINGS. That is what we are here for.

Mr. POAGE. It is part of the same bill and I do not see hardly how you can say that you can discuss part of a bill and say you cannot mention another part of the same bill. They are part of the same bill.

Mr. GATHINGS. Mr. Chairman, we have come in here with original bills introduced by you and by Mr. Cooley, and we discussed those a while, and then we came in with No. 1 and No. 2 and now we have No. 3 of the committee prints. I do not know who developed No. 3. I do not know where it came from. I was not present when this revision was brought before us. I had nothing to do with it.

Mr. POAGE. I am trying to tell you. Our attorney, Mr. Heimbarger, asked that it be printed. That is where it came from.

Mr. GATHINGS. I do not object to his testifying on Committee Print No. 3, but I do not know where it came from.

Mr. POAGE. Just like all other committee prints, our attorney asked that we have a print made of what we had done at the last session, so that we might understand how far we had gone. It has no legal significance whatsoever. It is not a bill before the committee. It is a committee print merely for the convenience of the committee. The bill that is before the committee is No. 14837 and neither Committee Print No. 1, 2, or 3 has any binding effect on anybody. It is merely a convenience just like you set down the names of the witnesses so you can read it a little easier and see what the committee had done up to that time. That is all the committee print does. It shows you the point to which we have moved. If you do not want to consider the committee print, we will just consider the bill with the amendments, and that is the same thing. That is all there is to the committee print. But this is a great deal easier than trying to keep in mind all the amendments that have been passed upon.

If anybody has any objection to Mr. Clapp testifying let us have it said now, and I mean if you have any moral objection, if you are going to go out and complain about the Chair being unfair, I want you to do it right now and not later, because the Chair has tried to let everybody testify that wanted to. I am not going to start following a different policy now unless somebody wants it started. If they want it started, then we will live by the rule and everybody will live by the rule and we will use the clock and we will use all of these details. If you want to do that, we will do it; if there is anybody on the committee that wants to do it.

Mr. GATHINGS. It was not my purpose to filibuster. I do not think the request made by the gentleman from California had anything to do with filibustering.

Mr. POAGE. He very specifically said he was not going to object. He simply asked about the procedure.

Mr. DOLE. Mr. Chairman.

Mr. POAGE. Yes.

Mr. DOLE. I would like to hear Mr. Clapp and also raise a question. Is it possible to have yet another committee print without the consent of everybody on the committee.

Mr. POAGE. Yes, it is perfectly possible.

Mr. GATHINGS. How will it be achieved? Will you just ask the Clerk to incorporate any amendment that anybody wants to put in?

Mr. POAGE. I have not asked for any committee prints of this bill, but I think all that is necessary—there is no rule about committee prints that I know of—all that has ever been necessary if the staff felt we needed a committee print was for them to have it printed. Just like if they felt we needed a list of witnesses to be printed they printed it. It is the ordinary procedure of efficiently running your committee, to keep things up to date. Certainly if the chairman, or certainly if I as chairman of the subcommittee asked for a committee print, I am sure it would be made. If any of the members want a committee print and ask me to ask for it, I will ask for it.

Mr. GATHINGS. The gentleman has asked for it.

Mr. POAGE. He did not ask for it.

Mr. DOLE. I asked a question.

Mr. POAGE. If the gentleman wants another committee print we will get it for him.

Mr. DOLE. In other words, the approach would be to direct a letter to the chairman asking for a committee print.

Mr. POAGE. I think so. I think there would be no question about it being printed.

Mr. GATHINGS. And everybody would be advised on what happened.

Mr. POAGE. No, they would not. They would be allowed to read the print and advise themselves. Nobody plans to call a meeting and spoon-feed anybody—at least the present chairman does not. Members will have an opportunity to read it if they want to.

Mr. CLAPP. Mr. Chairman, I do not want to be the cause of any difficulty within the committee. I can assure you that what comments I had in mind are very brief. I realize that the committee has been attempting to harmonize conflicting points of view expressed before the committee. My purpose in bringing this up at this particular time is not to raise any arguments, but simply to give the committee the benefit, for whatever it may be worth, of our analysis of some of these amendments which are in Committee Print No. 3. I can do it very briefly if it is the wish of the committee.

Mr. POAGE. Nobody has objected and the time is now 25 minutes of 11. We will watch that time and we will be delighted to hear you proceed, Mr. Clapp.

Mr. CLAPP. The fifth amendment—

Mr. POAGE. Suppose you go over them again because we have a different audience from what you had when you started.

Mr. CLAPP. First are the additional restrictions on the loans for generating plants. Second, the additional restrictions on loans for acquisition of facilities. Third, the prohibition of 2-percent loans to borrowers having net worth in excess of 35 percent. Fourth, the requirement that cooperatives adopt bylaw provisions for "certificates of ownership." Fifth, the prohibition of partisan political activities that is referred to in one of the amendments to section 408(b)(6).

With respect to the additional restrictions on loans for generating plants, one of the restrictions incorporated in this committee print has the effect of eliminating all section 4 loans for generating plants. This refers to the 2-percent loans for generating plants. I simply want to call to the attention of the committee two things: One is that the approach which has been made in this supplemental financing legislation has all proceeded on the basis that this was to be supplementary financing, not financing to replace the present direct loan program of REA at 2 percent where it is shown that these 2-percent loans are necessary to accomplish the purposes of the rural electrification program.

On the basis of this approach, we have, I think, the overwhelming support of the borrowers themselves. This is the basis on which they have come in to support the supplemental financing legislation.

The second thing I would like to point out to the committee is that in translating the benefits of REA financing into the ultimate service and cost to the consumer in the electric program, wholesale power supply is about 40 percent of the distribution system's total cost. Therefore, if you foreclose the use of 2-percent financing for generating facilities you materially narrow the opportunity for translating the benefits of 2-percent financing into the ultimate cost vase as the power is sold to the consumer. So the effect of this amendment would be to materially restrict the opportunity for serving rural consumers at costs that are comparable with the costs of consumers in urban communities. This, of course, is a decision for the committee to make, whether they want to go in this direction or not, but in our judgment this is definitely the implication and will be the effect of eliminating 2-percent loans for generating purposes.

Next I would like to point out that the extension of the bid procedure which is in Committee Print No. 3 to all loans for generating plants rather than to initial loans, except for loans for the expansion or improvement of an existing generating facility planned and scheduled prior to enactment of this section, causes us some concern. We are not quite sure as to just what the exact implications of this would be if it were enacted in the form of this language, but we are fearful that this would place some difficult requirements upon existing G. & T. plants and organizations in developing their plants and facilities on an optimum basis. Then the amendments in Committee Print No. 3 also provide for court review of the Board action on a generating facility loan application, alleged to be fraudulent, arbitrary or capricious. This has reference to section 405(j)(2). We have had extensive experience with the proclivities of the utility industry for litigation. The courts have generally held throughout the history of the REA program that simply because a certain utility might like to have the business which the REA-financed cooperatives are supplying for themselves, it does not give the utility a litigable right on which to

challenge the legality of an REA loan. This has been the rule since the *Kansas City Power & Light* case back approximately 10 years ago. Yet even in the face of this holding of the courts it is not at all uncommon for REA loans to be delayed and obstructed in the courts through litigation which is ultimately found to be without basis. One loan on which the Supreme Court of the State of Mississippi ruled just recently was held up in the courts of that State for about 8 years. It went before the commission of the State of Mississippi, was appealed to the courts on strictly procedural matters, went all the way to the supreme court on procedural grounds, and then was started over again on its merits before the commission. The decision of the commission was then appealed through the courts up to the State Supreme Court of Mississippi. It was finally supported by the supreme court and given a clean bill of health, but this process took 8 years.

We have had similar experiences in the Federal courts. We made a loan in Alabama back in 1961. This was fought through the State courts and was finally supported by the State Supreme Court of the State of Alabama. Then the complaining utility started the process all over again in the Federal courts. The suit was thrown out of the district court but this is now on appeal to the circuit court of appeals.

I just call the committee's attention to the fact that litigation sometimes is used for obstruction and for delay, and in the handling of financing to meet needs for electric service time is frequently of the essence. We have grave misgivings about actually writing into this statute a right of court review even though it is tied up with language which relates the court review strictly to the elements of fraud and arbitrary and capricious conduct.

Mr. DOLE. Mr. Chairman, is it all right to ask questions or should I wait until he finishes?

Mr. POAGE. I would like to wait until he finishes. If we are going to watch the clock, we will run it by the clock.

Mr. DOLE. All right.

Mr. CLAPP. With respect to the restrictions on loans for acquisition of facilities, here the language has been changed from a limitation on 5,000 connections to a limitation of 5,000 population in nonrural areas service. We simply point out that this is a substantial curtailment of the right of acquisition and, of course, the whole theory of our approach to supplemental financing has been that we are trying not only to get the rural systems to pay the higher cost of capital, which is a fact of life these days, but also to make them better able to pay the higher interest. To the extent that the ability to make useful acquisitions—where these acquisitions are possible and can be consummated with the cooperation and willing participation of all parties concerned—to the extent that this is curtailed, we are curtailing, likewise, the ability of these rural systems to develop the financial base and the economic strength to pay the higher rates of financing toward which we are trying to move them.

With respect to the amendment which prohibits 2-percent loans to borrowers having net worth in excess of 35 percent, I would strongly suggest to the committee that this is an unwise direction in seeking criteria for the use of the various types of financing. Higher interest rates are not paid out of net worth. Net worth is not a measure of a borrower's ability to pay higher costs of operation or higher cost of

capital. Net worth gets into the consideration of security because it governs the relationship between the basic assets and the amount of the loan.

It also is an indication of the borrower's own stake in the proper management of his system. But it really is not related to the ability to pay higher rates of interest.

I think we have to come back to the general approach which I have outlined to the committee on previous occasions. That is that the ability of a given borrower to pay the higher rates of interest, whether it be the intermediate rate of 4 percent or the full market rate of 5 or 6 percent, whatever it might be—the test of that ability has to be determined in the case of each borrower on the basis of the feasibility study.

The feasibility study is a projection of anticipated revenues and anticipated expenses. Into these revenues and these expenses we can factor the expenses and revenues which are attendant upon the accomplishment of the specific program objectives to which REA financing is directed; namely, area coverage, parity of rates and service, and stable, sound systems, which involves a certain level of reserves.

We feel that this is a workable and sound approach to the measurement of ability to pay the interest rate involved, whether it be 2, 4, or 6 percent, whatever the current market rate is. To attempt to tie it to other criteria which really are not related to this ability to pay is a mistake which is going to complicate the administration of the program if this is the way it is finally set up.

Now, with respect to the requirement that cooperatives adopt bylaw provisions for certificates of ownership, I think our analysis of this—and we have studied this and similar amendments on past occasions—is that it raises a lot of questions without really changing anything so far as the current shape of the REA cooperative program stands at the present time.

About two-thirds of the cooperative borrowers in the electric program have a bylaw which requires them to allocate capital credits. This is a matter of figuring, each year, what the individual patron's share of the cooperative's margins is, and then notifying him of his share of those margins. These, then, are revolved as the financial condition of the co-op warrants it over a period of time. REA recommends that the capital credits be revolved or be repaid on a 10-year cycle. Many of the borrowers have not been able to reach this cycle. Some of them have.

But it seems to me that the general purpose of this amendment is substantially served already by the existing bylaw requirements of most of the cooperatives in the electric program.

To make it a requirement of the loan raises serious problems which can come from a conflict between this requirement in the Federal statute and the requirements of the enabling acts in the various States.

It also raises some question as to the contractual rights of the members and patrons under the present bylaw provisions where the cooperatives have capital credits set up on that basis.

Finally, there is raised a question of prohibiting partisan political activities with the proceeds of these loans. Certainly, I am not trying to defend the use of loan funds for partisan political activities. As the program now stands, the use of loan funds of the REA program is

definitely limited to specific construction purposes and facilities and, only in some emergency cases, usually initial loans of a cooperative just getting started, is there limited allocation of loan funds to operating expense. But we think that this amendment is unnecessary and adds some more terminology which may be troublesome in the future. Insofar as the general objective is concerned we, of course, are in full accord with it.

This concludes my comments, Mr. Chairman.

Mr. POAGE. Thank you. Now, the clock indicates, and the stenographer will be sure to take note, that you have consumed 19 minutes.

Now, those who want to cross-examine Mr. Clapp, I am going to take note of the time there, too.

Mr. TEAGUE. I have no questions, Mr. Poage. I am not trying to filibuster.

Mr. POAGE. I am not suggesting that anybody is trying to filibuster, but the Chair is in the unfortunate position of having his fairness questioned this morning. I have tried to run these hearings in a manner fair to everybody. I have tried to let every witness have a fair chance to be heard. Now, if we are going to put this on the basis of seeing that everybody gets exactly the same time, we can do that, and tomorrow morning we will give Mr. Teague the opportunity to call a witness here for 9½ minutes and Mr. Gathings can call a witness for 9½ minutes and we will see that each side has the same time.

I am not trying to give anybody an advantage. I had no intention of giving anybody an advantage when Mr. Clapp suggested he wanted to comment on certain aspects of the bill that were not immediately before us. I felt that it was the practical thing to do—and I thought that in view of the many days of power company testimony that it was in keeping with our practice.

We have had that happen almost every time we ever had a hearing, almost every time somebody says he would like to comment on something else. I don't recall when we refused to allow him to comment.

Mr. TEAGUE. Mr. Chairman?

Mr. POAGE. Yes.

Mr. TEAGUE. I said at least three times, I will say it the fourth time, you are always fair. What you have just done is eminently fair and I did not intend in any way to question your fairness. I just wanted to be sure that we did have an understanding just like you said.

Mr. POAGE. Well, you questioned whether I was going to give anybody else the same kind of opportunity and I am sure going to do it. And you are going to have 9½ minutes tomorrow morning for your witness to testify, and Mr. Gathings is going to have 9½ minutes for his witness to testify.

Mr. Clapp is obviously a hostile witness so far as both of you are concerned. Mr. Dole can have all the time he wants to cross-examine, but I am going to take the same amount of time to cross-examine your witnesses tomorrow.

Mr. TEAGUE. I don't know that I have a witness.

Mr. POAGE. That is up to you entirely; that is entirely up to you.

Mr. Dole, you have the floor.

Mr. DOLE. I am not going to cross-examine Mr. Clapp. I do want to find out if he has any suggested modifications of the amendments adopted, which he has discussed very briefly, and I think very well.

Have you, Mr. Clapp, come up with any modifications or what we might call a compromise of any of the differences that exist?

Mr. CLAPP. No, we have not as yet, Mr. Dole. But we would certainly be happy to work with the committee, or with you.

Mr. DOLE. I make specific reference to the judicial review amendment. The committee—it was adopted in executive session but I can state our intent was good though perhaps we didn't come up with the right language. It was made very clear at the time we were not trying to find a vehicle for the power companies or anyone else to delay or frustrate the program. I haven't checked every possibility to limit the time that might be consumed if someone went through all the appeals and all the courts unless, perchance, the review was limited to the record and not have what they called a trial de novo.

There certainly wasn't any intent by the subcommittee, as far as I am concerned, to frustrate the intent of the program. Maybe there is language which could be adopted to satisfy most objections to that particular section and still protect the rights of the investor-owned companies without frustrating the REA efforts.

Mr. CLAPP. I am not sure that there is such language. Certainly, I wouldn't say that we wouldn't always try to come up with something that would accomplish the type of objective you state, Mr. Dole. I have the feeling, myself, that the position of the opposition to supplemental financing is so fundamental in its nature that it is going to be extremely difficult, if not impossible, to come up with amendments which satisfy the opposition, short of destroying the purposes of the supplemental financing approach itself.

I realize that the committee has been trying diligently to find some common ground here on which both the proponents and the opponents of this legislation could unite and agree.

This opposition—and I would qualify this—this is not necessarily the opposition of all the investor-owned utilities at all, but the position of the opposition, as expressed before this committee, has been so basic and so sweeping that I wonder if it is going to be possible to come up with a middle ground on which all can unite and agree.

Mr. DOLE. The amendment with reference to certificates of ownership could be modified further to serve the purpose for which it was offered. It can be made clear that loans will be made to cooperatives only if such cooperatives have adopted bylaws, and by adding the designation "if they are consistent with State laws," so we wouldn't upset any pattern there and unduly restrict that provision. In other words, it would be made very clear that State laws would have preference where there might be a conflict.

Mr. CLAPP. I think this helps as far as it goes. On my right here is Mr. Gorrin from the General Counsel's office of the Department, and he raises the question of the protection of the existing vested interests of present members and patrons in the capital credits arrangements as they now stand. If you would like, I would like to refer this question to him for his comment—

Mr. DOLE. Yes.

Mr. CLAPP (continuing). Because this gets into a very nice point, I know.

Mr. GORRIN. We are not sure, in our office, exactly what that provision means, but one of the things that strikes us is that it applies only to members of cooperatives. And there are many cooperatives

that serve some nonmembers who have vested interests by reason of their capital credits in the equity of the cooperative. And while there is some doubt as to what this means, many people think it might impair those vested interests of nonmembers. Another thing that is not too clear but which concerns a number of people that have studied this is that since it is limited to members, these certificates of ownership, it might result in a profit operation with respect to the non-member consumers of cooperatives.

Many of these cooperatives are subject to State commission regulatory jurisdiction and it could raise some problems about unfair treatment as between member consumers and nonmember consumers. And these are some of the legal hazards that are involved in substituting this member's certificate of ownership concept for the capital credit concept.

The final thing that occurs to me just at this time is that amendments of bylaws and sometimes charters that may be required for the adoption of this provision, may not be able to be held readily. Sometimes co-ops try to get membership meetings and don't have a quorum, which could postpone the eligibility of these co-ops for much-needed loans.

Mr. DOLE. I appreciate that comment and I just want to ask a question about the criteria, 35 percent, plus the three other suggested criteria.

Would it improve that section any by changing the 35 to 40 percent of its assets and adding a fourth criteria which would require the Administrator to give recognition to the business practices and procedures of the borrower, the extent to which the borrower is offering area coverage service, and the borrower's capability of providing service comparable to that provided by other utility systems in adjacent areas?

The exact wording of the fourth criteria would be as follows: "The borrower is unable to provide adequate, dependable service to all persons desiring service in its territory at rates comparable to those charged by other utility systems in adjacent areas." In other words, this section would be added and the 35 would be changed to 40 percent. Would that ease the situation?

Mr. CLAPP. I think the general effect of this additional language helps, Mr. Dole. But again I come back to, first of all, the fact that we have approached this supplemental legislation from the standpoint of not using it to alter or change the availability of the 2 percent direct loan program of REA to the extent that this is necessary to accomplish the objectives of the program.

Second, it seems to me that net worth just doesn't have anything to do with the ability of the borrower to pay these higher rates of interest. There are other things that do but not net worth.

I think it is must out of place in this particular context.

Now, let me just cite a hypothetical example. I can conceive—and I have no particular borrower in mind—but I think it is perfectly possible that we might have a rural electric cooperative system which has a high net worth but is actually not doing the job that it was set up to do. By extremely restrictive policies, by refusing to build to people who weren't right close at hand, by refusing to undertake the expense of real area coverage, by having rates that are unreasonably high, it could, and possibly has in some instances, built up a net

worth which, if this amendment were adopted, might have the effect of foreclosing it from 2-percent financing. Yet it might be a system that would need 2-percent financing if it were to do the job the Congress really intended it should have done from the beginning.

Mr. DOLE. That is why we have the other four, which sort of takes the steam out of the one.

Mr. CLAPP. It works in that direction, I agree. But I would come back to the question: Why have it there at all?

It simply complicates matters. Now, I think the net worth factor is an item when you move to the conditions that are expected to prevail for more conventional-type, market-rate financing because it is true that in the utility industry the expected net worth of a utility is somewhere in the neighborhood of 30 or 40 percent. This is the net worth they try to maintain in order to protect their credit rating in the market.

I think that it certainly is in the best interests of the program and in the best interests of the borrowers for us to encourage a steady and consistent increase in net worth of these systems to the extent that they can, so that the time will come when they can and will have the attributes that are looked to by the market when the market looks for a good credit risk.

But I really believe that it is out of place as a criterion for judging the ability of a borrower to pay 4- or 6-percent interest on its loans.

Mr. DOLE. I don't want to take more time and am not an adversary but I do want to ask one further question. I understand there are strong objections to the language which would make it impossible to provide 2-percent money for generation purposes. It has been suggested the language be deleted. I do not know whether you have had any opportunity to make suggestions in this area that might offset some of the opposition to the bill and still preserve the status of the REA without deleting the language.

Mr. CLAPP. I feel, Mr. Dole, that the language ought to be deleted. And I say this recognizing full well the good faith efforts that you and other members of the committee have made and are making in trying to reach some common ground on which the opposition may join with the supporters of this bill. But I think it is a fundamental issue.

I think the integrity of the present REA program is at stake in this—and its usefulness, also. I think that generation and transmission have to be regarded and can only be regarded fairly as a part of the overall program of rural electrification.

It is not something apart that stands by itself. The only justification for REA financing or for bank financing for generation and transmission is the effect it will have in helping the distribution system deliver electric service to the ultimate consumer on the most economical terms.

It has no other justification than that. It is not a separate program. It is part and parcel of the job of getting good electric service out to the ultimate consumer at comparable rates and through systems that are stable and secure. And I think it would be a catastrophe to allow the G. & T. program to be separated out and governed by a different set of requirements than governs the rural electrification program as a whole.

Mr. DOLE. Thank you, Mr. Chairman.

Mr. POAGE. Thank you, Mr. Dole.

Now, is there further cross-examination of Mr. Clapp?

Mr. GATHINGS. With respect to the title having to do with power?

Mr. POAGE. Yes, sir. We will go back to the telephone sections, but I am keeping time on the power here and so far Mr. Dole has used 15 minutes.

Is there any further cross-examination?

(No response.)

Mr. POAGE. If not, does anybody want to ask any questions about the telephone bill, the telephone section of the bill?

Mr. GATHINGS. Mr. Chairman?

Mr. POAGE. Yes, sir.

Mr. GATHINGS. How many independent companies are there in the Nation? Would you prefer that I ask that question to one of the telephone people outright?

Mr. CLAPP. I can give you a very close approximation, Mr. Gathings. In the industry or in the REA program?

Mr. GATHINGS. In the industry. I just wondered how many there are and where they are located, as to their geography. Do you have more independents in the North Atlantic area, in the Far Pacific, the middle interior, or where are they located with respect to geography as against the larger companies, Mr. Clapp?

Mr. CLAPP. I think, Mr. Gathings, and I believe you will be hearing from a representative of the U.S. Independent Telephone Association who is probably best qualified to answer that question, but roughly my recollection is that there are about 2,500 independent companies in the industry. I couldn't give you any indication of just how they are located geographically but I suppose they follow general population patterns.

Mr. GATHINGS. But I understand that they have been making applications for loans through the Rural Electrification Administration.

Mr. CLAPP. Yes. We have about 625 commercial—independent commercial companies who are borrowers from REA for telephone facilities.

Mr. GATHINGS. How many applications do you have now of those 625 on file asking for loans at the present time?

Mr. CLAPP. As I indicated, the total loan applications on hand at the present time are 309. I am not sure just how many of those are from commercial companies and how many are from cooperatives.

Mr. Raymond tells me there are 202 from commercial companies as of July 31, 206 as of August 31.

Mr. GATHINGS. So, in reality there are more of the small companies who are investor-owned than co-ops?

Mr. CLAPP. Yes. The ratio is about 3 to 1. We have 855 borrowers in the telephone program and 230 of those are cooperatives; the balance, 625, are commercial companies.

Mr. GATHINGS. How much do you have in the budget, in dollars, for 1967 to take care of the needs of the telephone loans?

Mr. CLAPP. The Congress provided \$117 million for fiscal 1967, of which \$15 million would be held in the contingency fund to be called upon, if needed.

And, with carryover funds and rescissions of previous loans, this would make a total availability of about \$120 million for fiscal 1967.

Mr. GATHINGS. But you have applications now on file for some \$234,400,000?

Mr. CLAPP. That is correct.

Mr. GATHINGS. How long does it take to review these applications?

Mr. CLAPP. Well, it depends on the application.

There is a good deal of preparation that goes into the studies which are the basis of the application. From the very beginning of an effort to secure an REA loan to the final approval in some cases it will go up to more than a year's time, sometimes up to 2 years.

This is from the time that the initial study is started to the approval of the loan. The territory has to be canvassed, the number of potential customers, subscribers has to be estimated, the system has to be designed on the basis of this probable need, and this has to be cleared with our technical people and reviewed. Sometimes this gets into a rather extended period of time.

Mr. GATHINGS. Of those 309 applications, they are in various stages?

Mr. CLAPP. Yes.

Mr. GATHINGS. As to whether or not they are eligible, whether or not you had made surveys to determine whether or not they should get the loan, and so forth?

Mr. CLAPP. This is right, Mr. Gathings.

Mr. GATHINGS. When do you start making up your 1968 budget for your telephone fund?

Mr. CLAPP. We are in the process now of reviewing this within the Department. From the Department review we go to the Budget Bureau which will probably take place some time in late October or November.

Mr. GATHINGS. Now, the fund that you have on hand has been carefully screened by your Administration as well as the Appropriations Subcommittee on Agriculture for 1967; that is, the 1967 budget funds?

Mr. CLAPP. Yes, sir.

Mr. GATHINGS. You will have enough money to take care of these applications now pending within the foreseeable, say the next few months, would you not?

Mr. CLAPP. Mr. Gathings, we are going to make do somehow. But, as the figures indicate, this is bound to present some problems because, as I stated, even last year we had gone to the device of breaking these applications into two parts and approving the loan only for the most urgent part, deferring the balance of the application until another time.

There are 24 of these deferred applications in this total that I speak of. I think we can do this sort of thing for a while and keep everybody abreast of their most urgent needs. How long we can keep this up within the availability of direct loan authorizations, is hard to say.

Mr. GATHINGS. Since this legislation has been pending I have been trying to determine as much about these independent telephone companies as I could, and I find we didn't have much in this record at all on this title. I don't have the names of the individuals who represented these independent telephone companies, but a witness did come before us and was on the stand for a few moments.

Mr. Peterson had testified and Mr. Fullarton representing REA co-ops, but not a great deal of time was devoted to this particular title.

There is a great need in my State for funds to carry on these companies' operations because of the expanded needs of the small communities in rural parts of my district who do need and require funds to meet the needs of these people who desire their service.

That is all, Mr. Chairman.

Mr. POAGE. Thank you, Mr. Gathings.

Are there any further questions? If there are no further questions, we are very much obliged to you, Mr. Clapp, and we will call now Mr. Dave Fullarton of the National Telephone Cooperative Association, for any comments that he would care to make in connection with this legislation.

STATEMENT OF DAVID C. FULLARTON, EXECUTIVE MANAGER, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

Mr. FULLARTON. Mr. Chairman, I am David C. Fullarton, executive manager of the National Telephone Cooperative Association.

I do not have a prepared statement at this time. My prepared statement was filed in an earlier full committee hearing. I would, however, appreciate being allowed to comment briefly on some of the aspects of Committee Print No. 3.

Mr. POAGE. We will be glad to hear you.

Mr. FULLARTON. We appreciate the opportunity to again appear in support of supplemental financing for the REA telephone borrowers and despite some of the differences and disagreements that we have, I would say that in general we are supporters of supplemental financing.

I think you will find that there is general support in the telephone industry for supplemental financing for telephone borrowers.

We believe that this is a healthy situation. We have put forth a great deal of effort to keep the various segment within the independent telephone industry alined and behind important legislation of this nature.

We think that in general Committee Print No. 3 is a good bill. We think major improvements have been made in it over some of the bills that were introduced initially in the House.

We have some reservations. We think there are some things that must be included that are not, but in general we support Committee Print No. 3. There are actually five points which we believe bear some discussion.

The first one, probably the most controversial one, is CATV. CATV seems to have a very poor image with the Congress. I think this is unfortunate because it clouds the issue, as it relates to supplemental financing and the telephone industry.

We feel strongly that any legislation on supplemental financing for telephone systems must include loan funds for CATV system construction—not operation, but construction.

To clarify this point, I don't know of very many REA telephone borrowers who want to get into the CATV business, but the nature of a CATV transmission system is such that it is more adaptable to some of the new and special services like data transmission which are presently coming into use. The CATV-type system is more

adaptable to these new and special services than is the common telephone system.

This means that when subscribers in our service territories require things like data transmission, somebody is going to have to build the system to provide that communications service to them. If the REA borrowers are not allowed to borrow funds for this type of construction, and all the rest of the industry is allowed, then somebody else is going to build them because it is a need, a public need, and it will be met.

When this happens we are faced with competing communications systems in our service territories and our service territories, gentlemen, are already sparse.

We believe that we should, as do other segments of the industry, provide all communications services in our certified territories. There is no hint or indication or implication of duplication of facilities or anything else. It is a communications service in our territories that we think we should be providing. But in order to provide them we need supplemental financing legislation that would include loan funds for construction of CATV-type distribution systems.

Also, as a side effect, we would predict that a significant part of the funds that the borrowers could use over the next 15 or 20 years, at market rates of interest, would be used in this CATV category of communications service.

There are many borrowers who are very interested in supplemental financing, I might add, but for whom it is not even appropriate without this CATV provision, so we believe that the language that will do the same job and which was originally contained in H.R. 14837, and since stricken from Committee Print No. 3, should be reinserted.

One final comment on this issue. The REA telephone program was necessary in the first place because of the cream-skimming activities of the large companies who would go in to serve an area which was financially lucrative and leave the poor, sparsely populated areas alone. It was because of this that there was a decline in telephone service in rural areas. Somebody will be providing these new types of services. If we cannot, it just brings about the old cream skimming all over again.

Point No. 2 is with regard to the language including public bodies, and I heard Mr. Poage refer to the Puerto Rico authority in this regard. Public bodies now serving rural areas under the act could obtain money.

We are in wholehearted support of this provision and we believe it to be in the public interest.

The third item I would like to talk about briefly is the intermediate lending rate. We see and believe there is a need for a 3-percent intermediate program. We believe this is mandatory if any significant number of the telephone borrowers are to be able to participate in the supplemental type of finance. The 4-percent figure was first brought out in terms of the electric borrowers. It seems since that time to have been superimposed on the telephone sections of the act.

I would like to point out to you that there are significant differences in the financial maturity and development of the telephone borrowers as compared to the electricians, which happens to be the only comparison available to me.

The telephone borrowers, for instance, have a debt, percentage of total capitalization of 87.6 percent as compared to the electric 75.4 percent.

The electric were in the position we are in now 10 years ago.

Another indicative statistic, I believe, is the interest coverage. The interest coverage for telephone cooperatives is 1.67 times. This means that on the average a cooperative cannot take advantage even of a 4-percent intermediate rate. It would have to be a 3 percent.

The electric borrowers had this low-interest coverage a full 14 years ago.

We believe a 3-percent intermediate program is necessary to encourage borrowers to get into other types of financing. This 4 percent will take much, much longer, putting additional burdens on the present 2-percent program.

The big problem here seems to be with the total amount of dollars available. The Committee Print No. 3, as did the administration bill in the beginning, calls for a 4-percent intermediate program funded by \$300 million of Government capitalization. This would produce an intermediate program of approximately \$1¼ billion over a 15-year period.

If the intermediate lending rate were changed from 4 to 3 percent it would require additional capitalization. In fact, a 3-percent intermediate program funded with \$500 million of Government capitalization would produce approximately the same amount of loan dollars as the 4 percent funded at \$300 million.

This makes a very unhappy situation. It requires a lowering of the interest rate as well as an increase in the Government capitalization, but in terms of the borrowers' abilities and what we feel to be in their best interests we need a somewhat lower intermediate rate than 4 percent, perhaps for half of the period. I am suggesting perhaps a 3-percent intermediate program for the first 7 or 8 years, 4 percent thereafter, thus taking into account the different financial strength and development of the telephone as compared to the electric borrowers.

The fourth item is borrower representation on the telephone bank board. We believe that this committee has used great foresight and wisdom in specifying that the cooperative borrowers and the commercial borrowers shall have equal representation on the bank board. Three directors from each group protects everybody's interests, and assures that the two classifications of borrowers will work together toward the objectives of the act. At the same time it allows neither to dominate.

There are those who will say that the ratio of directors should be in accord with the arithmetic ratio of the classifications of the borrowers. We believe that the public interest would best be served, and the intent of Congress best carried out, by a board of directors exactly as it is now specified in Committee Print No. 3, and we support section 605 of that print as it is written.

My final comment deals with section 606, the language on page 40 of Committee Print No. 3, lines 3 through 9. If the committee will indulge me I would like to read this:

Class B and Class C stock shall be voting stock, but no holder of said stock shall be entitled to more than one vote, nor shall Class B and C stockholders, regardless of their number, which are owner controlled by the same person, group

of persons, firm, association or corporation, be entitled in any event to more than ten votes.

I have no argument with the first part but I must object to the latter.

This program as well as the electric program are programs designed for the people, the rural people of this country.

A borrower must purchase class B stock to borrow. Fine. He will also be encouraged to purchase class C stock to better the financial stability of the bank.

Despite the fact he has two types of stock he can have only one vote. I believe this also to be a good provision.

The last part of that, where it limits holding companies to 10 votes, I do not believe to be in accord with the original intent of Congress nor with the basis on which this program is developed.

These are holding companies, in themselves financial institutions. This is a program for people, so I believe that lines 7, 8, and 9 should be changed to read that one vote, for class B and C stockholders; nor shall class B and C stockholders regardless of their number, which are owned or controlled by the same person, group of persons, firm, association, or corporation be entitled in any event to more than one vote.

I frankly do not understand the reason for the 10.

After all is said and done, and after this committee in long deliberations determines what the form and the language of supplemental financing for the telephone program should be, if the committee were to report out a bill identical in its telephone sections to Committee Print No. 3, despite my previous comments and my preferences, if the Committee were to report out the telephone sections identical with Committee Print No. 3, this association, myself and its members, would support that legislation.

That concludes my statement, Mr. Chairman. Thank you.

Mr. POAGE. Thank you very much, Mr. Fullarton. I believe that you have given us exactly the kind of information we want.

Mr. GATHINGS. Mr. Fullarton, what is your background? Where were you born?

Mr. FULLARTON. I was born in a suburb of Chicago, sir.

Mr. GATHINGS. Where did you go to school?

Mr. FULLARTON. The University of Maryland. I have a degree in electrical engineering.

Mr. GATHINGS. When was this Association of Telephone Cooperatives founded?

Mr. FULLARTON. It was incorporated in 1954 here in the District of Columbia.

Mr. GATHINGS. Who was head of it at the time of its incorporation? How long have you been with it?

Mr. FULLARTON. For 4 years, sir, since 1962. The initial president was Mr. Riggs Sheppard from Hondo, Tex. The association from the beginning did not have a full-time staff.

Mr. GATHINGS. How many members do you have?

Mr. FULLARTON. 179 members.

Mr. GATHINGS. Where are they from?

Mr. FULLARTON. All over, sir; 31 States.

Mr. GATHINGS. How many are not members of the cooperative association?

Mr. FULLARTON. Fifty-nine at latest count.

Mr. GATHINGS. Fifty-nine are not members?

Mr. FULLARTON. That is correct, sir.

Mr. GATHINGS. What is your salary?

Mr. FULLARTON. My salary?

Mr. GATHINGS. Yes, sir.

Mr. FULLARTON. \$19,000 per year.

Mr. GATHINGS. How many people do you have working in your organization in Washington?

Mr. FULLARTON. I have seven employees in addition to myself.

Mr. GATHINGS. What do they do?

Mr. FULLARTON. We are a service organization. We provide such services to our members as group insurance programs, management training, and consulting, and the rest are secretaries and administrative personnel.

Mr. GATHINGS. That is all I have.

Mr. POAGE. These questions are perfectly permissible, but there were no such questions asked of the executives of the power companies, although I am sure it occurred to many of the members that they might ask the salaries of the power executives, some of which are among the highest paid in the United States, and there was no attempt to embarrass any witness who appeared here. Those representatives of the power companies may appear before us again.

Mr. GATHINGS. Was my questioning out of line?

Mr. POAGE. You must be the judge of the propriety of your questions. You have a perfect right to ask those questions if you want to, and by the same token other members have the same right to direct the same line of questions to power company witnesses.

Mr. GATHINGS. It is quite apropos to know just how many people he has in his organization and who runs it and when it was organized. He is testifying in behalf of the Cooperative Telephone Association whose members obtain funds from Federal appropriations. I think that is proper.

Mr. POAGE. I understand, and I just ruled that you had a right to ask questions. However, there were no similar questions asked when the heads of the power companies paraded themselves here for more than a month. There were no similar questions asked of them, though I think any member had the right and still has the right to ask them.

I am only suggesting that when representatives of the power companies come back, if they come back, it is perfectly in order to ask them—

Mr. GATHINGS. I cannot and do not speak for any segment of the industry.

Mr. POAGE (continuing). It is perfectly in order to ask them what salary they receive and what bonuses they receive and how much stock they hold, and the Chair will hold that similar questions are in order. If any representatives of the power companies again appear, a similar line of questions will be proper.

Further questions?

If not we are very much obligated to you.

Mr. FULLARTON. Thank you.

Mr. POAGE. There are three other witnesses listed for tomorrow. Do any of you care to testify this morning? We are not asking anybody to be forced into anything but if somebody wants to testify this morning and get away we would be glad to hear you.

If not, the committee in the morning will devote the first 19 minutes to statements by power officials selected by Mr. Teague and Mr. Gatherings, 9½ minutes each.

Mr. TEAGUE. I might have to get their names from you.

Mr. POAGE. There will be cross-examination, and then we will hear the three witnesses who are presently listed—Mr. Harmon, Mr. Peterson, and Mr. Wilborn.

The committee tried diligently to give everybody an opportunity to be heard. We have heard the power companies for over a month. Mr. Clapp took 19 minutes discussing the same subject. Possibly we should have given Mr. Clapp the same time that we gave to the representatives of the power companies.

Mr. TEAGUE. I have no objection.

Mr. POAGE. I am sure you would not.

Instead we will again hear power company witnesses tomorrow.

The committee will stand in recess until tomorrow, and tomorrow we will hear anything that comes before us. I want everybody here. We might even discuss the flight of the astronauts to the moon.

Mr. TEAGUE. Or open housing.

Mr. POAGE. That is right.

(Whereupon, at 11:45 a.m., the subcommittee recessed to reconvene at 10 a.m., Wednesday, September 14, 1966.)

RURAL TELEPHONE FINANCING

WEDNESDAY, SEPTEMBER 14, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1301, Longworth House Office Building, Hon. W. R. Poage (chairman) presiding.

Present: Representatives Poage, Gathings, Stubblefield, Greigg, Callan, Dague, Harvey of Indiana, Teague of California, and Dole.

Also present: Christine S. Gallagher, clerk; Betty Prezioso, staff; and Fowler C. West, staff.

Mr. POAGE. The subcommittee will please come to order.

The clock shows about 2 minutes after 10 o'clock. We have three witnesses listed here, and as was announced yesterday, those who objected to allowing Mr. Clapp to comment on matters yesterday, unless they had equal time this morning, we will hear anyone present who wants to exercise that privilege and use the time.

(No response.)

Mr. POAGE. Let the record show that nobody has asked to use the time.

Here comes Mr. Gathings now.

Mr. Gathings, we said yesterday that those who objected to Mr. Clapp's testimony would have an opportunity to present any statement in an equal amount of time this morning.

The Chair just asked if there was anyone who wanted to use the time, and no one responded.

Do you care to use the time?

We will be glad to have you do so.

Mr. GATHINGS. That is mighty generous, Mr. Chairman. I do not care to use the time allotted to me.

Mr. POAGE. Thank you, Mr. Gathings.

Is there anyone else?

(No response.)

Mr. POAGE. Let the record show that there is nobody else asking to use the time.

We will now call our first witness, Mr. Eugene J. Harmon, United States Independent Telephone Association.

(Discussion was had outside the record.)

Mr. POAGE. We will be glad to hear from you now, Mr. Harmon.

STATEMENT OF EUGENE J. HARMON, DIRECTOR, UNITED STATES INDEPENDENT TELEPHONE ASSOCIATION; ACCOMPANIED BY H. I. WILBORN, JR., PRESIDENT, ALLIED TELEPHONE CO., LITTLE ROCK, ARK., AND HAROLD PAYNE, TELEPHONE UTILITIES OF PENNSYLVANIA, EXPORT, PA.

Mr. HARMON. Thank you, Mr. Chairman and members of the committee.

My name is Eugene J. Harmon, and I am the director of the United States Independent Telephone Association, REA telephone program. As you know, most associations operate through committees, and I have with me today, on my right, Mr. Hugh I. Wilborn, from Arkansas, who is a member of our legislative committee and who is president of the Allied Telephone Co. in Arkansas, and on my left I have Mr. Harold Payne, who is chairman of our REA Borrowers Committee, and who is president of the Telephone Utilities of Pennsylvania.

I should like, if I may, Mr. Chairman, at the outset to tell the committee just about who we are and something about the independent telephone industry, and when I say "independent telephone company industry," I refer to telephone companies other than those in the Bell System.

The independent telephone industry operates in 49 of the 50 States, and it serves Hawaii, Alaska, Puerto Rico, and the Virgin Islands in their entirety.

The United States Independent Telephone Association has been in existence for over 59 years, representing the independent telephone industry in the United States. We have over 1,000 member companies, and those 1,000 or over member companies represent 92 percent of all of the independent telephones in the United States.

In addition, we have 250 associate members that range in size from automatic-electric down to little outfits that supply nuts and bolts.

The reason that we are here, Mr. Chairman, is because in our membership we have 450 companies, individual telephone companies, that are REA telephone borrowers. Of those 450, 67 do business as cooperatives.

We are well aware, as I am sure the committee is aware, that in order for any telephone company, whether it be a REA borrower or otherwise, to exist, three things are necessary: (1) the capital; (2) manufactured products, such as switchboards, cables, et cetera; (3) personnel in training.

The latter two, by and large can be taken care of by the independent manufacturers, and by the independent companies themselves. However, when it comes to capital we there touch the Achilles heel of development in the telephone industry.

There has been a tremendous need for capital in the telephone industry, and by the REA telephone borrowers. This has been the result of many, many factors, all of which I am sure that you are familiar with, but I should like to bring them to your attention to complete the picture.

First of all, we have had in this country a tremendous population growth. The Census Bureau indicates that the greatest percentage of this growth is in the 18- to 25-year-old age group. Those are your new homemakers, your new subscribers.

In addition to the increase in population, we have experienced a tremendous shift in population, from urban to suburban to rural, and then, in addition, there has been another phenomenon that has taken place in this country, and that is the decentralization of big industry, and we find that General Motors, for example, is dropping plants in pasturelands and that the United Carbon is going out into the rural areas with factories and building homes for the men who work in them who will require and demand telephone service, new subscriber service.

In addition to those two points, I should like to bring before the committee another thought, and that is the effect of the tremendous increase in usage habits of the American people. It has tripled in less than 5 years, so that what used to be an old 8-party line is now the equivalent of about a 24-party line.

This new subscriber demand and the tremendous demand for upgrading service has created a demand for capital in increasing amounts. This is a healthy growth, and with excellent return predictions if capital is available. If capital is not available stagnation will result. Systems will burst the seams with overloads and obsolescence, which is a very unhealthy situation.

I might cite just an example: If you will recall just recently we had an airline strike, and if any of the members of the staff or the Congress tried to call the airlines that were not on strike you would find that you got a busy signal almost around the clock. In fact, they went on the radio and on TV to tell you that they were still in business. That is simply a few overloaded circuits, but when you start overloading systems you get the same result. And may I just add, it runs to your emergency calls, to your fire departments and to your police departments and to the hospitals, and so on down the line.

I mention that we have a need for capital in the independent telephone industry. And in order to determine how much capital we need, rather than take figures from the REA, and so on, the Independent Telephone Association, the United States Telephone Association, got together with the NCPA and NCREA, and conducted a joint survey last March. We got a 75-percent return on the survey which, as you know, is a fine base for a survey. The survey showed that for fiscal 1967—the year has already started as of July 1 for fiscal 1967, the need for the REA telephone borrowers would be in excess of \$3 million to take care of back loads and new loans for fiscal 1967. As it turned out this figure was very close to the actual figure that the REA had on hand as of June 30.

The need for capital is evident—the need for capital is real. So, the question is: Where is this capital coming from?

Now, let us take at the REA as its source. The REA does not manufacture money. Congress appropriates the money for the REA and the Congress receives in January a budget request which is submitted by the administration, and we know that there are budget problems. We know that the budget is close to \$100 billion. We have a war going on in Vietnam, and we also know that in the budget the money appropriated for the REA loans looks like it is money that is going to be spent in salaries, for defense spending, or other purposes, and it does not show at all that it is a loan that will be paid back with interest.

I would like to take this present fiscal year as an example, fiscal 1967. As I said, it clearly shows that we needed over \$300 million, which is not the actual figure. The budget request for borrowers that came to the Congress this year was \$85 million. The House raised the \$85 million to \$97 million. The Senate raised the \$85 million to \$117 million, and the conference committee approved the \$117 million figure. That was just plain arithmetic. Contrast the \$117 million with \$300 million, and it shows the signs pointing down to capital starvation.

In addition to those figures, let me indicate some figures that have just recently been published by the REA. These figures show that from fiscal 1964 to fiscal 1966, the loans on the one hand in the REA have increased by 133 percent. On the other hand, the funds available during that period are a —8 percent. You say: "All right, it is obvious, it should appear obvious, that the REA is not going to supply sufficient funds to keep these companies going and to keep them healthy." You may ask: "All right, why do not the REA boys go out into the commercial money market and get money rather than go to the REA?"

The United States Independent Telephone Association, in order to get some independent financial expertise on this subject, retained the firm of Kuhn, Loeb to do a specific study for the REA borrowers, and this is the first time the study has ever been made. It has been complete and well done. And I asked this committee to make it a part of the record the last time that we were testifying here, and it is a part of your record.

But getting back to why they do not go to the commercial market. In order to get into the commercial market, one of the first things that is looked at is the comparison of the ratio of debt to total capitalization. The Kuhn-Loeb study made this comparison between the REA borrowers, all of the independents and A.T. & T., and for the REA borrowers the debt is 87.6 percent, and the equity is 12.4 percent. For all of the independents, the debt is 53 percent and the equity is 47 percent. For the A.T. & T., the debt is 31 percent and the equity is 69 percent.

So, you look at our REA borrowers and you will find—and I am speaking in terms of averages—that there will be some that will have less and some more—12 percent equity, and then superimposed upon this equity is a first mortgage by the Government of all of the properties they have or that they will acquire. So, with that amount of equity and with the first mortgage on the part of the Government, it is virtually impossible for our REA borrowers to go out into the commercial money market for this long-time-type utility loan that is so necessary in the field.

Now, you may ask: "Why do not these companies generate their own funds?" Well, in order to generate funds, we have to take internally a look—I mean, we have to take a look at a thing called "total cash flow," and we have to see what percentage of the total cash is net income, and, again, the comparison is made.

The REA borrowers' percentage of cash flow, that is, net income, is 28.3 percent; of all of the independents, 45.1 percent, and for A.T. & T., 53.8 percent.

What this is reflecting is the immature financial condition of the REA telephone borrowers. They have only been in existence 16 years—16 years.

Now, despite this immature financial status, we look to the other side of the picture, and we see that despite it, the REA borrowers have a factor growth rate in all categories. For example, in telephones the past 5 years, the annual growth rate for REA borrowers is 12.3 percent; for independents, 5.8 percent; for Bell, 4.4 percent.

Looking at the plant investment, the REA borrowers is 11.8 percent; all of the independents is 11.6 percent; Bell is 7.8 percent.

The need for capital is startlingly clear. The fact that Congress and the REA will be unable to provide sufficient amounts of this capital, also, appears rather obvious. Neither will the commercial REA telephone borrowers or the REA telephone borrowers get into the commercial money market, and are not able at this point in their advancement to generate their funds internally.

This formula spells capital starvation. Without adequate capital our companies die.

Is there a solution to the problem? There is. There is a solution to this problem that is more or less agreed upon by the financial experts, by the REA borrowers themselves, and by the Government, and that solution is, simply, in three parts:

No. 1, 2 percent money when necessary.

No. 2, then, set up a buffer in between the commercial money and the individual REA telephone borrower in the form of a telephone bank. It will be a pooling of Treasury backups and, eventually, ownership by the REA telephone borrower companies.

And, then, No. 3, an intermediate financing rate higher than 2 percent, lower than the bank rate or the commercial rate of interest to wean the people from the 2 percent out and up into the banks.

Now, that solution which I suggest is before this committee right now in the form of a third print of H.R. 14837, and it will provide a solution to the REA telephone borrowers' financial needs. For that reason, the United States Independent Telephone Association strongly endorses this concept of supplemental financing as it is written up in your proposed legislation.

From the telephone standpoint, this solution has been ideal. It satisfies the borrower, it satisfies the Government—we get away from 2-percent money; we get away from Federal money and go into commercial money.

Why is it stagnating?

As you gentlemen of the committee know, there has been no opposition to the telephone side of this bill. The opposition to this bill has been concentrated in three areas: (1) generation and transmission loans; (2) the theory that by pumping Federal money into the electrical cooperatives they will go out and take over the territory of the private power companies, and, (3) the fact that most of the electrical cooperatives are doing business as cooperatives and, hence, there might be a task loss.

I should like to emphasize, now, not one point in opposition is applicable to the telephone side. We have no generation and transmission problems. We do not generate electricity.

And, No. 2, we have what we consider one of the most important factors in independent telephony, and that is territorial integrity. No telephone company can go in and steal the territory of another company.

Then, third, as I pointed out earlier, we are overwhelmingly private investor-owned companies; 75 percent commercial and only 25 percent cooperative.

If I might use a colloquialism, it is a crying shame to have the 850 telephone borrowers spread throughout this country faced with capital starvation, faced with the threat of absorption or the necessity to sell out because of the lack of capital, and their consumers or their customers, or subscribers—as you will—faced with overloaded systems.

The solution is right here in this committee. There is no objection to that solution, on the telephone side.

It was my understanding that one of the reasons that we were invited here today was because of the various concessions, and so on, in this print No. 3, and that the telephone people have not had the opportunity to comment upon them.

At this time, I would like to comment upon one change in print No. 3 that was not part of the Poage bill originally and it was not part of the Cooley bill originally, and, as Mr. Clapp said yesterday, this particular section has been completely rewritten.

The section that I have reference to is section 605, and it is on page 37 of the third reprint. Now, the sections dealing with the Board of Directors are on that page, and they specifically require that three directors be elected from cooperative-type entities and three directors be elected from commercial-type entities.

Now, this statutory requirement of three cooperative- and three commercial-type board members seems wholly unrealistic when we find that of the 855 telephone companies which are REA borrowers, only 230 are cooperatives.

Also, the commercial, the investor-owned, telephone borrowers provide service to over 1.5 million subscribers as opposed to 600,000 by the cooperative-type borrowers. There just seems to be no justification for such an arbitrary statutory insistence that there be three cooperative-type and three commercial-type representatives on the Board of Directors.

We would recommend that the members of the Board of Directors of this telephone bank be elected without reference to whether they be commercial or cooperative type operations.

In the United States Independent Telephone Association, we have gigantic huge corporations on the big board. We have small husband-and-wife cooperatives. We have sole proprietorships; we have partnerships, and we have cooperatives, and we just feel that it is poor philosophy or poor psychology, if you will, to try and point out the way a company does business and categorize them in that group. It is our feeling that the important thing is telephone service.

What kind of a system does he have? Is it a modern system? Does he give good service? Irrespective of the philosophy between his method of conducting the business.

So, we simply ask that the committee give this some serious consideration, and by simple deletion here that can be worked out, to the point where the board members can be elected irrespective of what type of business operation they conduct. It is the telephone service that is important, not how that service is achieved.

There was just one other difference between the bills that came out, or were affected by the third reprint, and that is this: When the Government version or the Administration version was first submitted to

the committee, there was authority on the telephone side for CATV. Now, I think, Mr. Chairman and members of the subcommittee, that there has been some confusion because of the word "CATV," and I should make it clear that the telephone companies, the REA borrower companies, do not want to go into this CATV business. What they want is the authority to put up on their poles the coaxial cables that will transmit the signal from the antenna. The CATV companies have need for such a thing, if they are going to operate in the rural areas. They need transmission lines of some kind or another. And we simply say: Why should not the REA-borrower telephone companies be permitted to put up this coaxial cable on their poles, not to go into the CATV business but just to transmit the signals for the CATV companies?

Mr. Chairman, I, personally, wish to thank the committee for the opportunity of coming before it on behalf of our REA borrowers, and I would like to suggest, Mr. Chairman, that Mr. High Wilborn at this time might make some comments. Mine were rather general. His will be specific. They will be with regard to the REA telephone borrowers in the State of Arkansas, if that is permissible.

Mr. POAGE. We will be glad to hear from Mr. Wilborn.

But I think, probably, the members of the committee may want to ask you some questions. They should have that opportunity to do so, but we do not want to cut Mr. Wilborn off at all. We have Mr. Wilborn listed as a witness.

I do not know that anyone cares to ask any questions.

Yes, Mr. Callan?

Mr. CALLAN. You mentioned territorial integrity, is that at the State level in all cases?

Mr. HARMON. Mr. Callan, the telephone business, when it comes to rates and when it comes to this territorial integrity I mentioned, which is simply a territorial border that they work in, is controlled by the State commissions. In the instances, of Texas, for example, which is Mr. Poage's State, they do not have that type of regulation. However, so far as the REA borrowers are concerned, before a loan can be made the Administrator of the REA must, in writing, sign a certificate to the effect that this loan will not be for any duplicating service whatsoever. So, in effect, there is territorial integrity there.

Mr. CALLAN. Just one point there. This concept of the financing is no different in the telephone industry than it is in the electrical industry, is it?

Mr. HARMON. There is no difference. The difference lies not in the concept of the bank—the concept of the bank has not been questioned. I think Mr. Clapp testified it would be in the black the first year, and I think, also, that the people from Kuhn, Loeb, on the electric side, felt pretty much the same way, and, there, again, I say that there was no objection on the telephone side; there was no objection to the telephone bank. The objection that is on this legislation does not relate at all to the telephone side and, as I said, sometimes it makes a man feel like crying.

Mr. CALLAN. Thank you.

Thank you, that is all, Mr. Chairman.

Mr. POAGE. Mr. Harvey.

Mr. HARVEY of Indiana. I did not get the figures you gave. I wonder if I might ask you to repeat them—the total number of bor-

rowers through the REA and how many of them are private and how many are cooperative?

Mr. HARMON. The overall figure, the total figure, for the REA borrowers is 855. Of those 855, 625 are investor-owned, commercial-type companies, and 223 are cooperative-type companies.

Mr. HARVEY of Indiana. Thank you. That is all, Mr. Chairman.

Mr. POAGE. Mr. Gathings.

Mr. GATHINGS. Yesterday, we had testimony from Mr. Clapp and he expressed the need for this legislation by the telephone investor-owned companies and the cooperatives. He stated that there were 309 applications pending at this time, and that the total requirements of those 309 was \$234,400,000.

Mr. HARMON. Yes, Mr. Gathings.

Mr. GATHINGS. And you testified that you really needed \$300 million instead of \$234 million.

Mr. HARMON. I see what he is doing. He is saying that there were a certain number of loans on hand at the end of the fiscal year, and then from July 1 until now that figure has already jumped to \$240 million, but we still have only 2½ months in this fiscal year to go, and there will be other applications, and we figure it will be pretty close to \$140 million in addition to those on hand.

Mr. GATHINGS. And it would be \$300 million?

Mr. HARMON. It would be over \$300 million; yes, sir. We feel sure of that.

Mr. GATHINGS. Thank you.

That is all, Mr. Chairman.

Mr. POAGE. Mr. Dole.

Mr. DOLE. We have been having hearings on the problems in this bill, and I certainly am in sympathy with what you have said.

What do you suggest that we should do then?

We have this impasse, because of the electric bank provision in the Committee Print No. 3.

Are you suggesting to divorce the telephone section from the REA electric bank section and to proceed with that?

Mr. HARMON. Mr. Dole, my first step would be to go to the point where it is obvious that there cannot be any reconciliation on the electric side. If you ask my opinion, it would be then at that point necessary to sever the telephone section on which there is no objection where the bank is not questioned, and try to see how it works.

Mr. DOLE. To try it?

Mr. HARMON. On the telephone side.

Mr. DOLE. I do not know when we reach that point, but we may have already reached it with reference to certain portions of the bill. Are you now suggesting that we take separate action on the telephone portion of Committee Print No. 3?

Mr. HARMON. I am saying, Mr. Dole, that we have 850 different companies throughout this country that are faced with capital starvation. Mr. Clapp, sitting here yesterday, said that he saw it a year ago. There is no opposition to the telephone side; there is no opposition. We have a vehicle right here before the committee that will take care of those 855 companies, and I cannot see why that should, because of arguments that are not related in any way whatsoever, prevent these 850 companies, spread throughout the United States, from getting the opportunity of having capital available to them. In this, the

manufacturers have been cut back—programs have been cut back—subscribers have had to wait and wait for telephones. And there are those of them that are sometimes overloaded.

Mr. Clapp said yesterday that when these projects come up, what is he doing. They will have a portion of them, one-half of them, held back and spread it thin. And I tried to dramatize just a little while ago what would happen when our systems will become overloaded, and it is not too far in the future.

So, my answer to you is yes, sir; sever it if that is the only way that the telephone companies can get this financial capital which is agreeable to the Government, and it just seems frustrating to sit here and listen to arguments that are not related to the telephone side at all and have the telephone bill killed.

Mr. DOLE. I believe that you understand the practicalities of this. I am attempting to learn, if this is the time to strike out on your own and not continue to be involved in the side arguments not relating to the telephone section of the bill.

Mr. HARMON. Mr. Dole, we have no choice.

We are responsible we feel for the welfare of these 850 companies, and if that is the way, we would recommend it, and it is a very simple matter by certainly changing the title of it. These bills are separable.

Mr. DOLE. In other words, you are not opposing the electric bank section, but you have a primary interest in representing the interests of your own people?

Mr. HARMON. That is correct, Mr. Dole. We have had no opposition to the electric side. We have not been involved in any of their arguments whatsoever.

Mr. DOLE. I feel, too, the suggested amendment with reference to the Board of Directors has merit and I appreciate your comments on that.

Mr. HARMON. Thank you.

Mr. DOLE. That is all, Mr. Chairman. Thank you.

Mr. POAGE. Mr. Harmon, I would like to get it clear in the record now. If I understand your testimony, even though you have suggested certain amendments, you would support this legislation as written?

Mr. HARMON. With the exception of the comments that I had with regard to the Board of Directors, there is no question that that is full support. With regard to the Board of Directors, we will just have to leave that to the wisdom of Congress, Mr. Chairman, because we are so desperately in need of this capital to be available for our companies.

Mr. POAGE. What I am trying to find out is this, and I did not find out by the answer: You support this legislation as it is written, or do you oppose it?

Mr. HARMON. I think that there is an in between ground, Mr. Chairman.

Mr. POAGE. I know that there is something else that you would like to have. You made that plain. It is perfectly plain. You have also said to Mr. Dole, as I understood you, that there was no objection to the bill as written here in Committee Print No. 3, that there was no objection to it, because it could pass as it is written.

Are you going to be one of those that will support it?

Mr. HARMON. We will support it.

Mr. POAGE. As written?

Mr. HARMON. As written, provided that the comments that I made are taken into consideration by the committee, and whatever the committee's decision is, we will support it, Mr. Chairman, wholeheartedly.

Mr. POAGE. Mr. Harmon, the fact is that we certainly will take into consideration these comments.

Are you trying to tell us, though, that unless we accept your judgment on these details that we are not going to have your support?

That is what I want to know.

Mr. HARMON. No, Mr. Chairman; you will have our support on any bill that this committee comes out with that will supply this capital need for the telephone industry. My comments, sir, were on the differences between this reprint and the other two bills.

Mr. POAGE. We are glad to have those comments. That is what we do want, to know the effect of these things, but I was trying to find out, because of what you told Mr. Dole, whether we had your support or not.

Mr. HARMON. Mr. Chairman, you have our support.

Mr. POAGE. Now, then, I know that you cannot be as certain about what you did not say about the opposition to certain sections of the electric section of this bill. I think that you, automatically, stated that there was no objection to the principle.

Mr. HARMON. To the what?

Mr. POAGE. To the principle of bank financing for the electric section.

Mr. HARMON. Yes, sir, I did. I think that as far as the operations of the bank as set forth in the statute—I have not seen any real serious opposition. There has been none, at least, on the telephone side.

Mr. TEAGUE of California. If I may interrupt? I think that the record ought to show that Mr. Harmon can speak for himself; of course, about there being no opposition. He is speaking for himself and not for me.

There is a principle involved.

Mr. POAGE. I understood there was. I understood it had been expressed here. And I think that is a rather normal and logical thing, that you would expect. I think that there has been a great deal of opposition expressed to the principle, to the idea, to the basic approach. The record is full of opposition to the basic approach.

I think that your testimony will be helpful to the committee, to the extent that it represents your own views and the views of your people. I do not think it will be helpful as representing the viewpoint of the members of this committee or the viewpoint of the power companies, who have appeared before us, but I think that it is very clear that there is opposition to the basic idea, to the whole idea. I do not know whether you sat here and listened to all of the testimony as did the members of this subcommittee.

Mr. HARMON. Mr. Chairman, I sat in this committee room, and, as I said, in my testimony, it might be my impression, but the opposition, the big guns, if you will, have been trained in on generation and transmission—have been trained in on the possibility of stealing territory, if you will, and the idea that all or most of the electricians are doing business as cooperatives, and I merely point out, Mr. Chairman, that as far as those three arguments in opposition are concerned, they are in no way applicable to the telephone side.

Mr. POAGE. I do not know, but I think that they clearly are—if one is opposed to financing these operations because cooperatives are doing it, I believe their figures will show that about one-fourth of the total number of borrowers on the telephone side of the docket are cooperatives. Is that not about right?

Mr. HARMON. That is about right, Mr. Chairman, except the argument that goes from total cooperative participation to 75-25, or whatever the exact percentage might be.

Mr. POAGE. I am sorry that you tell us how much of the testimony you have heard, and now you come here and make the statement that in total the cooperative activities—the testimony has been very clear, in spite of the fact of what the gentleman from the Virginia Power Co. said, it has been made perfectly clear that the electric side is not confined to cooperatives.

Mr. HARMON. I understand that, sir.

Mr. POAGE. And that there are 25 privately owned power companies that have made loans from the REA.

Mr. HARMON. You are correct, Mr. Chairman. Perhaps, it was rhetorical exaggeration, percentagewise. I cannot help but agree.

Mr. POAGE. Is there anything further?

Mr. TEAGUE of California. I just want to say that those words, "rhetorical exaggeration," sound like they came from Senator Dirksen. [Laughter.]

Mr. POAGE. Mr. Callan?

Mr. CALLAN. Do you think that if we put this bill out, that the opposition would not show up on the floor to this section on principle? In other words, do you think that the power companies and the people who are fighting this bill would come along and say: "OK, it is all right"?

Mr. HARMON. It is possible for many of the people on the power side—in their comments to me, generally, whether they be at the national association level or at a lower level, when you tell them what the thrust of their argument is related to, their answer is: "We are not interested in the telephone side; we do not care about the telephone side."

You did not hear any of them—at least, I did not hear any of them—make any comments about the telephone side.

Mr. CALLAN. They left the impression?

Mr. HARMON. I think so; yes.

Mr. CALLAN. Thank you.

That is all.

Mr. POAGE. Are there any other questions of Mr. Harmon?

If not, we thank you very much, Mr. Harmon.

Now, according to the way that the staff has set up the witness list, Mr. Peterson will be the next witness.

Mr. HARMON. He was appearing with me, Mr. Chairman, as one of our committee members, and, in fact, he is a member of the legislative committee of the USITA.

Mr. POAGE. I take it Mr. Peterson would not have any objection?

Mr. PETERSON. No objection.

Mr. POAGE. All right, Mr. Peterson does not object.

We will be glad to hear from Mr. Wilborn.

STATEMENT OF H. I. WILBORN, JR., PRESIDENT, ALLIED TELEPHONE CO., LITTLE ROCK, ARK.

Mr. WILBORN. Mr. Chairman and gentlemen of the subcommittee. I am Hugh I. Wilborn, Jr., from Little Rock, Ark. I have been in the telephone business some 33 years; my first experience having been with the Bell Telephone Co. for about 10 years, and since that time I have been in the independent segment of the field.

I am president of the Allied Telephone Co. We operate in 24 counties and have some 33 exchanges in Arkansas. We are scattered from the Missouri line to the Louisiana line, in our territory, and we serve some six or seven county seats.

In 1955, our company went to the REA for its permanent capital, following the enactment of the REA Telephone Act, and, also, the allotment of territory in Arkansas by the Public Service Commission to the various independents. We were asked in 1955 to declare the territory we wished to serve, and the independents in our control and the cooperatives declared the territory, and since that time we have been serving them.

In these last 11 years, we have grown at a faster rate than the national average of the REA borrowers. We have added territory; we have added some towns, small towns, and have grown in general until we now have 20,000 telephones over the State of Arkansas. This represents, I guess, about 1 percent of the total telephones in the REA loan program.

During this period, we have used a method of financing that is not unusual in the utility business. We have gone to our local banks and borrowed 90-day, 120-day money, and have served our customers, bought equipment, bought cables and put it up, and then, over the time, we would secure our long-term financing from the REA. This has been a suitable and a good program for us in Arkansas. It has been for our company.

And I might add at this point that there are 22 borrowers in the State. All of them are suffering at the present time from the same problem, and that is the uncertainty of the capital.

During the last 30 days, I have canceled orders for equipment, I have canceled orders for cable, I have stopped all construction in our 25 counties, except in those areas where we have allocated funds from the REA on hand. The reason for this is that with the bill that is now before this committee, on the shortage of funds in the REA now this year, the REA has already cut us back this year to 50 percent of our needs, and has instructed us not to apply, because it would not be allowed, anyway, for some 18 months from now.

This left us in a rather precarious position, because we are now having to tell the people for the first time in 11 years that they cannot have telephone service, that we cannot improve their service, and that it would be some time before additional capital was available.

Some of you gentlemen, perhaps, have never had to tell an irate woman out in the country that she could not have a telephone. But I have. And I have had to do it personally.

Mr. POAGE. Congressmen have to do that, too, if I may break in there.

Mr. HARVEY of Indiana. I might interrupt to say that I, for several years, was the manager of a rural telephone company myself, and I am aware of what the irate women say. [Laughter.]

Mr. WILBORN. It is nice to have friends on the committee.

I would say here that it is an almost impossible task now for us, because we are a progressive company, and we serve the territory. We have given almost total coverage in our area, and the local people out in our small towns are the ones that have really made us successful. Our largest town in our program is Fordyce, Ark. I think that Dallas County perhaps has 10,000 people. I am guessing here, but that is fairly close, that it is the largest county that we have, and we are finding it very difficult to go before these people and explain to them that we do not know when they are going to get telephone service.

The last loan that we received from the REA was in 1964. We applied for one in 1965, in February. We have not received one dime from that loan.

Mr. POAGE. Mr. Harvey.

Mr. HARVEY of Indiana. Might I interrupt there to ask a question? What is the capital involvement to the REA at this juncture?

Mr. WILBORN. At the end of 1965, the REA loan was \$4,772,000, and our capital was about 12 to 15 percent—I mean our equity.

Mr. HARVEY of Indiana. The equity was about 12 to 13 percent?

Mr. WILBORN. When the gentleman was reading awhile ago from the national average, we happen to sit just about in the middle of the national average.

Mr. HARVEY of Indiana. Thank you. That is all.

Mr. WILBORN. I think that if this committee could see fit to understand the problems of the capital situation that we have had for 11 years, and all of a sudden find it cut off, that this, to me, would be the best thing that we could get over to you, because it is not a matter of being cut back—I can stand this, because we can tell them that we are not going to build them next year, but the uncertainty is what is hurting us, because of these 800 borrowers, many of them are already getting disturbed to the point that they are selling out and they are getting out of the business. And one of the finest segments of our independent industry in the Nation has been these 2,300, and there are that number of small companies in the industry, and, for one, I hate to see them severed from our industry and our enterprising Nation to be torn apart, because Congress does not supply the capital they have been supplying over the last few years.

The manufacturers are also in a bind. I am surprised that they have not been here. I think that if they realized the problems they would have been here talking. I think that they will be here before it is over.

When you cancel an order for a switchboard and you cancel cable orders to these people, this is going to be reflected in their operations all the way back down the line. This is another one of the problems that we are facing in our industry, and we only have in the independent manufacturers that make our equipment, our switchboard equipment, although we did have seven. I think one of those four left is about to join hands with one of the larger companies. So, we are in a bind in the manufacture of equipment.

So, again, if this capital is slowed down or disturbed or cut off or made to the point that it is not a known thing to the companies, the manufacturers are going to be in a bind, also.

Gentlemen, I thank you for the privilege of making these comments about Arkansas and about the Allied Telephone Co.

I will be glad to answer any questions.

Mr. POAGE. Are there any questions?

Mr. GATHINGS?

Mr. GATHINGS. Mr. Wilborn, I just wonder when did this money become hard to get, since 1955?

Mr. WILBORN. Last year was the first time that we noticed it. We had not had any problems up until then or to 1964. In the beginning of last year we began to feel the pinch, from our conversations with the Department of Agriculture.

Mr. GATHINGS. The Congress no doubt realized that you needed additional capitalization or else this increase in the 1967 budget would not have gone up to \$117 million, when it started out around \$85 million.

Mr. WILBORN. Yes, sir.

Mr. GATHINGS. I want to ask you, whether or not in the area that you serve; that is, the Allied Telephone Co., in the various exchanges in the State of Arkansas, how many people do you have on party lines?

Mr. Harmon stated that a few years you might have seven or eight on a party line, and now that has gone up considerably. Do you have that situation?

Mr. WILBORN. We have a standard eight-party line rural system through our entire company.

In 1964, we began what we thought was an orderly movement toward a four-party rural line system service, and we have converted, perhaps, 10 percent only of our customers to four-party lines. We have had to stop all of this because of the lack of available funds.

Mr. GATHINGS. Thank you.

That is all, Mr. Chairman.

Mr. POAGE. Mr. Teague.

Mr. TEAGUE of California. Mr. Wilborn, if you have no objection, I should like to have some information as to the financial condition of your company. If you would rather not tell us, that is all right.

Mr. WILBORN. I will be glad to put a financial statement of our company in the record.

Mr. TEAGUE of California. Will you summarize it briefly, as to the assets and the liabilities, something of that sort, so that I will have some notion as to what your condition is?

Mr. WILBORN. At the end of 1965, our capitalization equity was \$1,187,000, and our long-term debt was \$7,460,000.

Mr. TEAGUE of California. That is in the nature of bank loans plus the REA loans?

Mr. WILBORN. No, this is the long-term debt. This is the REA loans of \$4,772,000, and the long-term debt to a subsidiary of Allied of \$1,500,000. This is an exchange which is a part of this company which we own, but it does not have any REA money in it. It is a rather large exchange, and does not fit into the REA program itself.

Mr. TEAGUE of California. Is there any legal reason why you cannot issue debentures?

Mr. WILBORN. No, sir; no, sir. There is no legal reason that we cannot. Are you speaking of—

Mr. TEAGUE of California. Borrowings.

Mr. WILBORN. Convertibles, now, or just straight debentures?

Mr. TEAGUE of California. Any form for sales to banks or others, on to investors in the private sector.

Mr. WILBORN. We issued last year \$250,000 worth of 5.5 percent preferred stock. We sold additional "B" common stock to keep our equity. We do this almost every year, but if you sell your voting stock in a small company—and this is a problem with these 800 borrowers, including ourselves—there are a number of companies—I will not mention their names—sitting around waiting to acquire this voting stock.

Mr. TEAGUE of California. I was thinking primarily of bonds and debentures.

Mr. WILBORN. Sir, with an equity of 12 percent it is pretty hard to sell debentures. I find that it is. It might not be as hard as I think, but we have done pretty good in borrowing short-term money, in getting plenty of financing to carry us until we can get our long-term funds, but with a 12-percent equity, I do not think we could sell very many debentures.

Mr. TEAGUE of California. Thank you.

Mr. WILBORN. And you cannot, because again the Government has a first mortgage. We do not have that mortgageable property.

Mr. POAGE. Mr. Harvey.

Mr. HARVEY of Indiana. On your eight-party lines, what is your monthly toll charge?

Mr. WILBORN. We have three rates, sir. In the small exchanges—this is under 300 stations—we get \$4; we get \$5 in those exchanges that have over 1,000, and \$4.50 in between.

Mr. HARVEY of Indiana. And your total obligation at this point, reduced to a station basis, will run to nearly \$400 capital investment per station?

Mr. WILBORN. That is correct.

Mr. HARVEY of Indiana. I was doing some mental arithmetic.

Mr. WILBORN. It is \$400 to \$500.

Mr. HARVEY of Indiana. I would say that this is not within my observation an exorbitant capital investment. I am just complimenting you. I think you must have a pretty sound investment. Although your equity may not be high, I would conclude that if money were not just tight everywhere as it is under the present conditions, your borrowing capacity would not be too difficult.

Mr. WILBORN. This is true, sir. Our equity, when we started this program, was 50-50, and immediately it went down to about 10, and we are trying to get it back up now through good operation.

Mr. HARVEY of Indiana. Are all of your exchanges automatic?

Mr. WILBORN. Yes, sir, all are dial.

Mr. HARVEY of Indiana. Do you have any of your transmission system underground or is it all on the surface?

Mr. WILBORN. We have some of our exchanges that have buried cable, and we own a number of miles of toll. We operate three toll centers with direct distance dialing and ticketing, and DDT. We have financed all of this with local short-term bank loans, knowing that we would get the capital, eventually, from the REA.

Mr. HARVEY of Indiana. I think that is a logical method of financing.

That is all. Thank you.

Mr. POAGE. Are there any further questions?

I want to be sure that I understood you. I understood you to say that you had covered practically all of your territory?

Mr. WILBORN. Yes, sir. We have not refused service except in a very few instances where they were way out in the remote areas, where it was just not feasible to get to them.

Mr. POAGE. What you are actually doing then and why you need the money is for exactly the same reason that the lesser cooperatives in the telephone system and the electric power companies need the money for; is it not? They need it to modernize and improve the service?

Mr. WILBORN. I have not studied this particular need, because I am not in the electric business; but it is our need.

Mr. POAGE. That is your need.

Mr. WILBORN. And we serve the REA telephone borrowers in Arkansas; that is, they serve about 50 percent of the geographical area of our State.

Mr. POAGE. What you mean is not so much that you pick up a new subscriber now and then, which does not amount to much as to a great need for capital, but it is to keep improving the service, to keep it modern, cutting it down from eight parties on a line to four parties on the rural line which will cost you money?

Mr. WILBORN. I would say that today 60 to 70 percent of the money that we need is to get people off of these 8- and 10-party lines.

Mr. POAGE. Yes. Of course, there are a great many in the United States—and some of them have been before this committee—who believe that if there is an electric wire to a house, even though you cannot get much voltage or amperage out there and even though you may not have but two or three outlets in your house, that the REA has performed its original purpose and, therefore, should not loan any more money. You have heard that expressed, have you not?

Mr. WILBORN. Yes, sir.

And from the telephone side, I can say this: The independent, the private enterprise segment of the industry, as well as the cooperative side of the industry, they have a common goal, and this is to serve the Nation with telephone service, and capital just has to come from where we can get it, and this is where we have to come and get it for a certain number of these companies.

Mr. POAGE. You are not an expert on electricity, I take it, but do you know of any basic difference of your needs and those of the electric cooperatives for electric power?

Mr. WILBORN. I know of none, sir; no, sir.

Mr. POAGE. That is all I have.

Does anyone else have any questions? If not, we are very much obliged to you, Mr. Wilborn. We are very glad to have had your appearance here.

Mr. Harmon, we are very glad to have had you here, too.

Does the other gentleman care to make a statement?

Mr. PAYNE. I have nothing to say, sir.

Mr. POAGE. We will now call on Mr. Peterson as our next witness. We are glad to have you here, Mr. Peterson.

STATEMENT OF A. HAROLD PETERSON, EXECUTIVE DIRECTOR
AND COUNSEL, NATIONAL REA TELEPHONE ASSOCIATION,
CHICAGO CITY, MINN.

Mr. PETERSON. Mr. Chairman and members of the committee, my name is A. Harold Peterson. I reside at Chicago City, Minn. I appear here today in my capacity as executive director and counsel for the National REA Telephone Association.

I have had the opportunity of appearing previously before this committee to discuss this subject, and I am very grateful for the opportunity of being invited back again.

Much of what I would like to say would be redundant, having already been stated by the previous witnesses, Mr. Fullarton and Mr. Harmon.

I think that it was good that the committee had the opportunity of hearing from Mr. Wilborn today, from a grassroots operation point of view, to learn directly from him what problems are facing the REA borrowers. I am not going to take the committee's time to discuss what has already been discussed.

I would merely want to reiterate one or two items and point them up.

The financial ability picture of the REA telephone borrowers is quite different from that in the electric industry, and I think that it should be borne in mind that 99 percent of the REA telephone borrowers have a net worth, as a percentage of total assets, of less than 40 percent. As a matter of fact, 81 percent of them have a net worth, as a percentage of total assets, of less than 20 percent. And I think that all the gentlemen on this committee realize that when you have this kind of a net worth, you are not in a very logical position to go to any financial institution or to a banker to ask for money. As a matter of fact, gentlemen, this is exactly the reason why in 1949, in February, as the members of the committee who were then serving well remember, the telephone amendment to the REA Act came into focus.

These little companies which had been started at the turn of the century and have been furnishing service to rural areas in as good a manner as possible, finally came to the time in their lives, many of them 45 to 50 years old, when their systems were just worn out, and in trying to solve the problem, they found that they could not attract capital, and it was at that time that the REA telephone amendment was passed.

I would like to discuss briefly some of the background related to the service and what this means to the rural people.

Before this came about in 1949, the lines of rural America often had as many as 20 to 25 subscribers on the line.

Mr. Harvey, in his experience, well remembers that.

At the time of this program, REA program, the standard of the industry was set at eight subscribers per line, and this was quite a change and was a most welcome advancement in telephony for rural America, because a farmer who, in 1949, could not even call his neighbor, thanks to what was done through the REA program, now can call all of the telephones in the United States, and he can call 97 percent of the world's telephones.

This is something of which we can all be proud.

Mention was made of the tremendous upsurge in capital needs in the last 2 or 3 years. I would like to dwell on that just momentarily, because I think all of us would like to have the committee know the background and the reason for this.

Farmers and rural people began to use their telephones so much more after the advent of this program that the 8-party rural line became such that it was more difficult to get a party than when it had 20 to 25 subscribers years ago. And so, as Mr. Wilborn has indicated, his company started to upgrade its service. It will be of interest to you gentlemen to know that for the past 2 years more than 50 percent of the loan applications which have come in to the REA are for upgrading the service. This upgrading of the service meant going from an eight-party rural line to a four-party rural line and, where the economics of the situation make it feasible, to one-party lines. This is quite an advancement.

We must keep pace with the industry. And I think that while we are now in this second great transformation of rural telephony, you will see a third one come about in which you will have one-party service for everyone, and, hopefully, REA telephone companies expect to be able to render that kind of service when the public demands it and can use it. So, we can expect that the loan applications in these large amounts are going to be coming in, in the years ahead, in order to satisfy that demand.

I will not reiterate the figures that have already been given to you. I would like to mention one other item in connection with financial ability, and I think that this is of special significance and you will better understand why the REA telephone companies need capital.

The number of customers per mile in the REA segment of the industry is quite a bit different, not only from that in the Bell System, but from the independent industry itself.

I should just briefly tell you what that represents. Among the cooperative-type telephone borrowers, under the REA program, the number of customers per mile is 2.5; among the commercial borrowers, the density is about 4.5 to 5 per mile. If you take the independent industry as a whole, not including the Bell System, you get a density of about 15 per mile. And, then, if you go to the Bell System, you find that they have a density of over 40 per mile.

I mention this specifically to the committee so that you may be aware of what this financial-ability picture is in terms of what problems the REA telephone borrowers must meet. They have a rather thin territory.

In the previous testimony before this committee, we outlined objectives, which we thought were of major import, and the things that ought to be kept foremost in mind were mentioned. I should like to go over them once more.

First of all, if this plan is to succeed, it must provide adequate capital at usable interest rates.

Second, the legislation should provide built-in incentives within the bank plan, so that eventually the bank can be owned by the REA telephone companies themselves.

Third, there should be fair representation on the Board of Directors from among all of the telephone borrowers, and

Fourth, there should be sufficient latitude within this legislation to enable telephone borrowers to meet industry needs and responsibilities as they come into focus in the future.

I should like to close by indicating to the members of this committee that Committee Print No. 3, in my judgment, does the job. I think that in the give-and-take of the legislative process, no one can expect, nor should they expect, to get everything they want. As a former member of the Minnesota Legislature, I recognize this political fact of life.

So, I am happy to come before you gentlemen and support Committee Print No. 3. I recognize that there are some differences of opinion on one of the items I have mentioned; namely, fair representation on the Board. I think the wisdom of this Committee can solve that problem, whether it be on a 3-3, or any other basis.

I might say, parenthetically, that some of the people today who do not want a 3-3 division between co-op and commercial companies on the Board, in some years ahead, might be very happy to have a 3-3 Board. I say that, because of what has taken place in the industry to date. There is much merger and consolidation taking place. This is a most normal and expected progression in this type of industry.

There is great unanimity within the industry, in the Bell System right on down to the very smallest of the REA telephone borrowers. They all want to do a job. They cooperate well together, and they must have the opportunity, I feel, of continuing to be able to do this.

It is quite apparent that we cannot continue to rely on the appropriations process to furnish all of the capital needed. The Federal budget is of such a magnitude that this is asking too much. Somewhere, somehow, a plan must be found to get the REA borrowers into a situation where their financial ability becomes more sound, where they can have a better control of their own destiny.

I think, gentlemen, that I shall not take any more of the committee's time.

Again, I want to state my appreciation of having the opportunity of coming before you. I shall be happy to answer any questions that you may have.

MR. POAGE. Thank you, Mr. Peterson.

MR. GATHINGS?

MR. GATHINGS. I want to commend you for a very fine statement. You certainly have given us some facts. That is why we are sitting here, because we want to acquire information. You have given us some real good testimony this morning.

I just wondered, Mr. Peterson, whether you recommended that the telephone title be separated from the overall Committee Print No. 3 and be brought out and voted upon separately?

MR. PETERSON. I do not think that any of the REA telephone borrowers would object if such a decision were made by this committee. I am sure that they would not.

MR. GATHINGS. Thank you.

Thank is all, Mr. Chairman.

MR. POAGE. Are there any other questions?

MR. DOLE?

MR. DOLE. Mr. Peterson, with reference to section 604. Is there any difference of opinion between the cooperative-type entity and the commercial-type entity. In other words, would you support the legislation notwithstanding the difference with reference to the makeup of the Board of Directors.

The section is found on page 37 of the committee print.

Mr. PETERSON. Would you state your question, again, please?

Mr. DOLE. As I understand from your statement and the statement of Mr. Harmon, there is no real difference of opinion between the cooperative-type entities and the commercial-type entities, with reference to anything in the bill?

Mr. PETERSON. No, sir, I do not believe there is.

Mr. DOLE. Is there any serious difference with reference to section 604(d) which starts on page 36 and concludes on page 37?

As I understand your testimony, you favor the 3-3 ratio on the Board. Is that correct?

Mr. PETERSON. I cannot state that I favor the 3-3 especially. I, personally, feel, Mr. Dole, that this is not a substantive part of this bill. And to have the bill rise or fall, on this point is extremely dangerous.

Mr. DOLE. And you are willing on that section "to leave it to the wisdom of the committee"?

Mr. PETERSON. Yes, sir.

Mr. DOLE. And, as I understand you answer to Mr. Gathings' question, you are not objecting to severing the electric portion from the telephone portion of this bill?

Are you suggesting that that we do this?

Mr. PETERSON. I am not in a position to suggest that they be separated at this time. I have not had the opportunity to go into this in great detail in reference to the consequences involved in such a separation. In my own judgment, such a tremendous problem faces us today, there ought to be some kind of solution for both the electric and telephone segments. I am hopeful that because of the outstanding job the REA program has done in this country, that both problems can be solved. I can tell you, Mr. Dole, that in my years, I have had the opportunity to be personally acquainted with two programs engendered by the Congress of the United States, which have benefited rural people: (1) the REA telephone program and electric program, and (2), the Hill-Burton hospital program. I cannot think of any two programs of which the members of Congress should be more proud to say these programs were the product of creative thinking and imagination to meet and fulfill a vital need for rural America. I would like to add to that, Mr. Dole, that in my judgment we must strive today to develop rural America more thoroughly. In this striving we should not forget that no rural development can ever take place without there first being provided the two basis, electricity and telephone communication.

Mr. DOLE. As I understand it, you suggest not separating them at this time or, I infer that from what you have said. You do feel the committee should work out a total package and continue efforts along that line for a while before any decision to divorce the two is made?

Mr. PETERSON. I would like to see that done; yes, sir. I think that this would be in the public interest.

Mr. DOLE. Thank you.

That is all, Mr. Chairman.

Mr. POAGE. Mr. Peterson, this matter of Mr. Dole's which has been discussed is one that disturbs me considerably—and the viewpoint discussed by Mr. Harmon also. I just wonder, if you recall,

as I do—and I think that you do—how the telephone bill initially passed?

Mr. PETERSON. Yes, sir; I do.

Mr. POAGE. Do you think that it would have been possible to have passed any financing for rural telephones without the support of the electric borrowers from the REA?

Mr. PETERSON. I do not.

Mr. POAGE. Of course not. There was not a chance in the world. I know there was no chance of doing it. We had to have that authority; we had to have their support.

Mr. PETERSON. We certainly did.

Mr. POAGE. And you had the help for a good many years of the electric, in trying to develop these rural communities. In fact, we still have it; have we not?

Mr. PETERSON. Yes, sir.

Mr. POAGE. You are not going to have it very long if we separate this, nor do I think that you will have very much financing of any kind if you and the electric borrowers see fit to go off in different directions. It is pretty easy to kill one off at a time.

Mr. PETERSON. I suppose it would be, sir.

Mr. POAGE. There are some big electric companies, but there is no electric company quite as big as Ma Bell.

Mr. PETERSON. Ma Bell, I think, is about as big as you can get.

Mr. POAGE. I just think that you people had better keep in mind what can happen to you. I think that you are going to have to cooperate to serve rural America. Otherwise, you are going to die attempting it.

Thank you, sir.

Mr. PETERSON. Thank you.

I know this, Mr. Chairman, that rural America must have the benefit of both electric and telephone service before we even begin to discuss any possibility of developing it.

Mr. POAGE. That is right.

Do you know of any basic fundamental difference between the financing of telephone service and electric service?

Mr. PETERSON. No, sir; I do not.

Mr. POAGE. Neither does anybody else.

Thank you very much.

Mr. PETERSON. Thank you.

Mr. POAGE. That concludes the list of witnesses.

(The following statement was also submitted to the subcommittee:)

STATEMENT OF K. W. BENCKERT, PRESIDENT, PUERTO RICO TELEPHONE CO.

Mr. Chairman and members of the Committee, the Puerto Rico Telephone Company is opposed to the proposed amendments to the Rural Electrification Amendments of 1966 as offered by Commissioner Santiago Polanco-Abreu of Puerto Rico.

The Commissioner in his comments to the Committee talks about rural pay station services, then further states that monies would be used for general rural telephone expansion. Under the REA area coverage concept, which is a basic requirement for every REA loan, it is doubtful if funds can be loaned for a specific purpose, such as for coinbox expansion.

The Commissioner makes the statement that the Puerto Rico Communications Authority program is the only means "by which telephone service can be provided to rural areas of Puerto Rico." This is incorrect. These areas have been

assigned to the Puerto Rico Telephone Company and the Company is currently investigating with the REA the feasibility of using REA financing in providing telephone services in the less densely populated areas. The Puerto Rico Telephone Company currently is subsidizing the Puerto Rico Communications Authority with more than one million dollars of direct and indirect funds. This is on an annual basis and it is increasing yearly. If only a portion of these monies could be used to support additional capital—whether from REA or elsewhere—the Puerto Rico Telephone Company could bring about early and substantial expansion of telephone services to the rural areas.

Mr. POAGE. Do we have anyone else here who wants to be heard this morning?

Mr. Gathings and the chairman, both, have to go to a conference committee.

If there is no one else to be heard, the committee will stand in recess.

I want to announce that we will probably have an executive session early next week. I do not know exactly the date, but it will be announced.

Thank you all.

(Whereupon, at 11:30 a.m., the subcommittee stood in recess.)

