

Y4
.Ag 8/1
C17/2

1010
KANSAS STATE UNIVERSITY LIBRARIES

90Y4
Ag 8/1
C17/2

EXPEDITE RETIREMENT OF GOVERNMENT CAPITAL FROM THE FARM CREDIT AGENCIES

GOVERNMENT
Storage

HEARING BEFORE THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES NINETIETH CONGRESS SECOND SESSION ON H.R. 19418

SEPTEMBER 18, 1968

Serial EEE

Printed for the use of the Committee on Agriculture



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1968

20-482

KSU LIBRARIES
A11900 332942

COMMITTEE ON AGRICULTURE

W. R. POAGE, Texas, *Chairman*

E. C. GATHINGS, Arkansas,
Vice Chairman

JOHN L. McMILLAN, South Carolina
THOMAS G. ABERNETHY, Mississippi
WATKINS M. ABBITT, Virginia
PAUL C. JONES, Missouri
FRANK A. STUBBLEFIELD, Kentucky
GRAHAM PURCELL, Texas
MASTON O'NEAL, Georgia
THOMAS S. FOLEY, Washington
JOSEPH Y. RESNICK, New York
ELIGIO DE LA GARZA, Texas
JOSEPH P. VIGORITO, Pennsylvania
WALTER B. JONES, North Carolina
JOHN G. DOW, New York
BILL NICHOLS, Alabama
G. V. MONTGOMERY, Mississippi
FRANK J. BRASCO, New York
JOHN R. RARICK, Louisiana

PAGE BELCHER, Oklahoma,
Ranking Minority Member
CHARLES M. TEAGUE, California
CATHERINE MAY, Washington
ROBERT DOLE, Kansas
GEORGE V. HANSEN, Idaho
WILLIAM C. WAMPLER, Virginia
GEORGE A. GOODLING, Pennsylvania
CLARENCE E. MILLER, Ohio
J. HERBERT BURKE, Florida
ROBERT B. MATHIAS, California
WILEY MAYNE, Iowa
JOHN M. ZWACH, Minnesota
THOMAS S. KLEPPE, North Dakota
ROBERT PRICE, Texas
JOHN T. MYERS, Indiana

RESIDENT COMMISSIONER
SANTIAGO POLANCO-ABREU, Puerto Rico

CHRISTINE S. GALLAGHER, *Clerk*
WILLIAM C. BLACK, *General Counsel*
HYDE H. MURRAY, *Assistant Counsel*
L. T. EASLEY, *Staff Consultant*

(II)

CONTENTS

	Page
H.R. 19418, a bill to amend the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, to expedite retirement of Government capital from Federal intermediate credit banks, production credit associations, and banks for cooperatives, and for other purposes.....	1
Statement of:	
Bice, Lorin T., Chairman, Federal Farm Credit Board.....	15
Boddy, H. Macon, Chairman, National Advisory Committee of Production Credit Associations.....	18
FunderBurk, C. B., chairman, Farm Credit Board of Columbia.....	18
Gault, David G., member, Federal Farm Credit Board.....	17
Lynn, John C., legislative director, American Farm Bureau Federation.....	22
Norton, E. M., secretary, National Milk Producers Federation (letter of September 16, 1968).....	23
O'Connell, Richard T., secretary, National Council of Farmer Cooperatives.....	21
Tootell, R. B., Governor, Farm Credit Administration.....	2

EXPEDITE RETIREMENT OF GOVERNMENT CAPITAL FROM THE FARM CREDIT AGENCIES

WEDNESDAY, SEPTEMBER 18, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 1301, Longworth House Office Building, Washington, D.C., Hon. W. R. Poage (chairman) presiding.

Present: Representatives Poage, Abernethy, Jones of Missouri, Stubblefield, O'Neal, Foley, de la Garza, Vigorito, Jones of North Carolina, Dow, Nichols, Montgomery, Teague of California, Dole, Goodling, Miller, Mathias, Mayne, Zwach, Kleppe, Price, Myers, and Resident Commissioner Polanco.

Also present: Christine S. Gallagher, clerk; William C. Black, general counsel; and Hyde H. Murray, assistant counsel.

The CHAIRMAN. The committee will please come to order. The committee has met this morning for the purpose of hearing witnesses in connection with the proposed amendment to the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, to expedite retirement of Government capital from Federal intermediate credit banks, production credit associations, and banks for cooperatives.

We have Governor Tootell, together with a number of his staff and associates in the farm credit system. We are delighted to have all of you with us. We will call on Governor Tootell to make such statement as he cares to make, and to introduce such witnesses as he cares to introduce.

(H.R. 19418, introduced by Mr. Poage, follows:)

[H.R. 19418, 90th Cong., second sess.]

A BILL To amend the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, to expedite retirement of Government capital from Federal intermediate credit banks, production credit associations and banks for cooperatives, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 205(a) (1) of the Federal Farm Loan Act, as amended (12 U.S.C. 1061(a) (1)), is amended by adding the following two paragraphs at the end thereof:

"As to any class A stock held by the Governor of the Farm Credit Administration on behalf of the United States at enactment of this paragraph, the Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and he may accept in payment for such stock, such amount not in excess of par as in his judgment and with the concurrence of the Secretary of the Treasury represents a fair value of such stock, or such retirement may be effected upon delivery to the Governor of an amount of United States Government bonds the market value of which on the date of transaction represents the fair value of the class A

shares as determined by the Governor with the concurrence of the Secretary of the Treasury.

"After all class A stock held by the Governor of the Farm Credit Administration on behalf of the United States has been retired from all of the Federal intermediate credit banks, and full private ownership has thus been achieved, short-term Federal investments in such class A stock to help one or several of the banks to meet emergency credit needs shall not be deemed to change this ownership status: *Provided, however,* That this sentence shall not alter the application of the Government Corporation Control Act, as amended (31 U.S.C. 841-870), and section 206(a) (4) of the Federal Farm Loan Act, as amended (12 U.S.C. 1072(a) (4)) (relating to payment of a franchise tax to the United States if the bank has outstanding capital stock held by the United States)."

SEC. 2. (a) Section 6 of the Farm Credit Act of 1933, as amended (12 U.S.C. 1131c), is amended by adding the following sentence at the end thereof: "If an association is deemed not to have resources available to retire and cancel any class A stock held by the Governor in such association, but in the judgment of the Governor the Federal intermediate credit bank of the district has resources available to do so, the Governor may require such bank to invest in an equivalent amount of class A stock of said association and the association then shall pay the proceeds thereof into such revolving fund in retirement of the class A stock held by the Governor."

(b) Section 16(a) of the Farm Credit Act of 1933, as amended (12 U.S.C. 1131e-1 (a)), is amended by adding the following sentence at the end thereof: "If an association is deemed not to have resources available to retire and cancel any class C stock held by the Governor in such association, but in the judgment of the Governor the Federal intermediate credit bank of the district has resources available to do so, the Governor may require such bank to invest in an equivalent amount of class A or class C stock of said association and the association then shall pay the proceeds thereof into such revolving fund in retirement of the class C stock held by the Governor."

SEC. 3. Section 43 of the Farm Credit Act of 1933 (12 U.S.C. 1134e) is amended by adding the following two paragraphs at the end thereof:

"As to any class A stock of any such bank held by the Governor of the Farm Credit Administration on behalf of the United States at enactment of this paragraph, he may accept in payment for such stock, such amount not in excess of par as in his judgment and with the concurrence of the Secretary of the Treasury represents a fair value of such stock, or such retirement may be effected upon delivery to the Governor of an amount of United States Government bonds the market value of which on the date of transaction represents the fair value of the class A shares as determined by the Governor with the concurrence of the Secretary of the Treasury.

"After all class A stock held by the Governor of the Farm Credit Administration on behalf of the United States has been retired from all of the banks for cooperatives, and full private ownership has thus been achieved, short-term Federal investments in such class A stock to help one or several of the banks to meet emergency credit needs shall not be deemed to change this ownership status: *Provided, however,* That this sentence shall not alter the application of the Government Corporation Control Act, as amended (31 U.S.C. 841-870), and section 36(a) (3) of the Farm Credit Act of 1933, as amended (12 U.S.C. 11341(a) (3)) (relating to payment of a franchise tax to the United States if the bank has outstanding capital stock held by the United States)."

STATEMENT OF R. B. TOOTELL, GOVERNOR, FARM CREDIT ADMINISTRATION, ACCOMPANIED BY GLENN E. HEITZ, DEPUTY GOVERNOR AND DIRECTOR OF COOPERATIVE BANK SERVICE; F. VERNON WRIGHT, DEPUTY GOVERNOR AND DIRECTOR OF PRODUCTION CREDIT SERVICE; HAROLD T. MASON, DEPUTY GOVERNOR; AND PAUL O. RITTER, GENERAL COUNSEL

Governor TOOTELL. Mr. Chairman and gentlemen of the committee, this prompt hearing on H.R. 19418 is appreciated because it will be necessary to enact the bill during the present session of Congress if its objectives are to be fully accomplished.

The bill mostly concerns retirement of Government capital from and lending by:

The Federal intermediate credit banks, which finance the production credit associations and other financing institutions in making short- and intermediate-term loans—up to 7 years—to farmers, and the bank for cooperatives, which make loans to farmer cooperative associations that are engaged in marketing farm products, purchasing farm supplies, or furnishing farm business services.

The lending is with funds obtained by selling the debentures of the banks in the public securities market. This is without liability on the part of the United States.

The urgency for legislation exists because, if it is made feasible for the banks to retire all of their Government capital almost immediately, the banks will be in a better position to presently serve the credit needs of farmers and their cooperatives than if the Government capital were retired later.

Since the Farm Credit Act of 1953, the policy declared for us by Congress has been that the Government capital in the Federal intermediate credit banks and banks for cooperatives should be supplemented with capital provided by borrowers from the banks. Subsequent enactments put the operations of the banks on a cooperative basis and specifically provided for retirement of Government capital as borrowers acquired ownership interests in the banks. While the retirement of all Government capital and full ownership of the banks by their borrowers is thus an important objective, the primary function of the banks is to meet the credit needs of farmers and their cooperatives, which have been increasing at a rate of 15 percent to 19 percent annually.

It therefore has been considered that the retirement of Government capital should be at as rapid a pace as should not impede adequate lending by the banks. Because of a recent development, though, it now appears that the banks would be in a better position to provide adequate credit service for farmers and their cooperatives if it could be made feasible to retire all of their Government capital within the next several months.

By virtue of one of the recommendations of the President's Commission on Budget Concepts relating to Federal investments in Government-sponsored enterprises, the lending and outlay totals of the Federal intermediate credit banks for cooperatives are included in the Federal budget totals for the fiscal year ending June 30, 1969. That is the first time, I might add, that these bank systems have ever been included in the Federal budget total.

Inasmuch as the Revenue and Expenditure Control Act of 1968 established total Federal budget ceilings on expenditures and net lending and new obligational authority for fiscal 1969, it will be necessary to effect reductions in the various budget accounts making up the Federal budget totals in order to comply with these ceilings. Information from the Bureau of the Budget indicates that such reductions may be applied to curtail the lending by the Federal intermediate credit banks and banks for cooperatives.

On the other hand, a further recommendation of the President's Commission on Budget Concepts is that at such time as the Federal intermediate credit banks and banks for cooperatives no longer have

any Federal Government ownership and are completely privately owned, they should be excluded from budget receipts and expenditures. This policy makes it particularly timely to complete the retirement of Government capital and thus permit these banks to continue to meet satisfactorily the credit needs of farmers and their cooperatives.

At the present time, each of the 12 Federal intermediate credit banks has some Government capital, for a total of \$125.8 million. Of the 13 banks for cooperatives, eight have already retired all of their Government capital and the other five have a total of \$21.7 million. The planning has been that such Government capital would be retired in a timely fashion consistent with meeting essential credit requirements. For the banks to now effect such retirement almost immediately, would involve, among other things:

Borrowing money to do so;

Requiring borrowers from the banks—in effect farmers—to presently make contributions of capital in addition to the amounts otherwise contemplated;

Selling Government bonds owned by the banks in the present market; and

Maintaining the capital of the banks at a level so that their statutory debt-to-capital limitations—20 to 1 for Federal intermediate credit banks; 8 to 1 for banks for cooperatives—would continue to permit an adequate volume of lending to farmers and their cooperatives.

The first paragraph that section 1—as to Federal intermediate credit banks—and section 3—as to banks for cooperatives—would add to existing law is intended to make it feasible for the banks to immediately retire all of their Government capital and yet continue to perform their intended function.

The new paragraph includes two alternatives which might be used either separately or in combination to retire any class A stock in a bank owned by the United States at enactment of the paragraph. The first alternative is to accept in payment for such stock, such amount not in excess of par as in the judgment of the Governor of the Farm Credit Administration, with the concurrence of the Secretary of the Treasury, represents a fair value of such stock.

This would be an exception to existing law under which retirement of such stock in ordinary course would be at par (12 U.S.C. 1061(a) (1), Federal intermediate credit banks; 1134d(a) (1), banks for cooperatives).

The second alternative would provide that such retirement may be effected upon delivery to the Governor of an amount of U.S. Government bonds the market value of which on the date of transaction represents the fair value of the class A shares as determined by the Governor with the concurrence of the Secretary of the Treasury. The factors to be considered in judging the fair value of the stock would include those mentioned earlier as being involved because of retiring the stock earlier than in ordinary course.

Inasmuch as there is no market for such stock, which might indicate its fair value, a logical approach is to apply a standard formula to compute the present value of a series of future annual repayments over an assumed number of years and at an assumed rate of interest. The computations thus made—assuming a repayment period of $5\frac{1}{2}$

years for the Federal intermediate credit banks and 4 years for the banks for cooperatives, and a 5-percent-interest rate for both—indicate a present or fair value of the Government-owned stock of 85.6 percent of par—14.4 percent discount—as to the Federal intermediate credit banks, and 89 percent of par—11.06 percent discount—as to the banks for cooperatives.

In our view, there is justification for retiring the Government-owned capital stock of the banks at a fair value instead of par. It would make feasible immediately the accomplishment of a policy declared by Congress as early as 1953 that the banks should become privately owned by their borrowers.

What makes this especially urgent now is that the continuance of Government capital in the banks—because they thereby are included in the Federal budget totals and subject to the Revenue and Expenditure Control Act of 1968—will have the effect, we are advised by the Budget Bureau, of requiring that the lending by the banks be cut by \$650 million below our estimate of farmers' borrowing requirements for fiscal 1969. We feel that the public interest requires that any such cut be avoided, and that it should be made feasible for the banks to do so by retiring all of their Government capital immediately.

Retirement of Government-owned capital stock at fair value instead of par value would, in effect, be an offset for the disadvantages of retiring the Government capital now instead of later. To permit an adequate volume of lending, the banks would have the problem of maintaining their capital at a level so that their statutory debt-to-capital limitations, which limit the amount of loan funds obtainable, are not exceeded.

Among other things, this may involve requiring borrowers from the banks—in effect farmers—to presently make contributions of capital in addition to the amounts otherwise contemplated. Another disadvantage to the banks to be offset is that the money to retire the Government capital would have to be raised mostly by selling additional debentures in the public securities market, which at this time would cost them 5.75 percent, or by selling Government bonds now owned by the banks, the discount on which in the present market would be about 15 percent.

A fair value, as proposed in the bill, within the limit indicated earlier, and to be concurred in by the Secretary of the Treasury, is deemed indicated if the disadvantages to the banks of immediate retirement of the Government-owned capital stock are to be offset.

The second paragraph which would be added to existing law by section 1—as to Federal intermediate credit banks—and section 3—as to banks for cooperatives—is intended to preclude reintroduction of the accounts of these banks into the Federal budget totals during those times when emergency conditions require temporary Federal investments in a limited number of banks to permit meeting of urgent agricultural credit needs. The following new provision would provide assurance that temporary reinvestments of this type would not create again the dilemma currently faced by the banks:

After all class A stock held by the Governor of the Farm Credit Administration on behalf of the United States has been retired from all of the Federal intermediate credit banks—banks for cooperatives—and full private ownership has thus been achieved, short-term Federal investments in such class A

stock to help one or several of the banks to meet emergency credit needs shall not be deemed to change this ownership status: *Provided*,

The proviso would specify that the foregoing provision shall not alter the application of the Government Corporation Control Act. This means that a bank in which such investments are made would again be subject to the following requirements of that act: Audit by the General Accounting Office; consultation with the Secretary of the Treasury prior to issuing and offering debentures to the public; annual report to the Secretary of the Treasury of the names of depositaries in which the bank keeps a banking or checking account; and consultation with the Secretary of the Treasury prior to selling or purchasing U.S. obligations aggregating in excess of \$100,000 at any one time.

The proviso would also specify that the new provision quoted above shall not alter application of the provision in existing law that a bank shall pay a franchise tax to the United States at the end of any fiscal year during which it has outstanding capital stock held by the United States.

What I have said thus far is in explanation of sections 1 and 3 of the bill; but there is also a section 2.

At the present time the Governor of the Farm Credit Administration holds class A stock in three of the 455 production credit associations in the total amount of \$730,000. In the event an association is not able to retire such stock, but the Federal intermediate credit bank of the district can do so, section 2(a) would provide that the Governor may require the bank to invest in an equivalent amount of association stock so that the association may retire its Government-held stock.

Section 2(b) would make like provision as to class C stock of an association although no such stock is presently outstanding. Assuming all Government capital is retired from the Federal intermediate credit banks and banks for cooperatives, the further retirement of Government capital from the three associations, as made possible in section 2 of the bill, would mean that all of the banks and associations under supervision of the Farm Credit Administration have become privately owned.

Assuming Congress sees fit to enact H.R. 19418 at its present session, as the Farm Credit Administration urgently recommends, that should be the final legislation for completing retirement of the Government capital with which we have been actively concerned for the last 15 years.

This concludes my prepared statement, but Chairman Lorin T. Bice of the Federal Farm Credit Board also has a short statement which he would like to present.

The CHAIRMAN. GOVERNOR Tootell, we certainly want to hear Mr. Bice, but before doing so I would like to enter a comment on the very last paragraph of your statement, or rather the last two paragraphs, as to the option given to these PCA's, that some have Government money.

The bill as written specifically provides that you, the Governor, may require the intermediate credit banks in the districts to purchase that Government stock and retire it. It has been suggested by some of those in some of the areas involved that that authority should not be so absolute, but that it should be in the hands of the directors of the inter-

mediate credit banks, to make this investment in Government stocks of these PCA's.

It has seemed to me that if you gave that option it would be almost certain that somewhere in the United States you would find a board that would not want to make that investment. And as I understand it, if there is one PCA left in the whole United States that has not paid off all of its Government capital, that the whole system will remain in the budget for calculation and that it would result in the destruction of the lending power of about \$600 million during this coming year.

Is that not right?

Governor TOOTELL. No, Mr. Chairman, not quite right. Actually, the PCA's themselves are not included in these budget totals. It is only if the intermediate credit bank or the banks for cooperatives, either of those systems, has any Government capital left in, that that system would be included in the budget, but the PCA's are not included.

The reason for this last statement—I mean, this provision No. 3 here, section 2, with regard to the retirement of PCA stock, this would be impossible to have the whole system completely free of Government capital, an objective, which Congress established 15 years ago, in which the system concurs. The way that this proposed legislation is written, it is true that the Governor would have the power to require a credit bank to retire the Government capital in the PCA if, in his judgment, the PCA did not have the resources to do it, and the credit banks did, but like in many things that we are involved in, as the supervisor of these district banks and production credit associations, we do not just arbitrarily do these things. In practically all instances, it is a matter of concurrence.

And you understand that the way this is written, the bank is simply investing in the capital of a production credit association, in the amount equivalent to the amount that is owed the Government. The Government capital can be retired. And that objective achieved. But the intermediate credit banks would hold that investment and would recover on it from the PCA, as the PCA was able to repay it.

And while, perhaps, we should have written in the first place, that this be optional with the district intermediate credit banks, Mr. Chairman, I think there is no problem involved here. This is the form, also, that this legislation is being acted upon at this hour by the Senate Agriculture Committee.

The CHAIRMAN. Well, do I understand that you feel that it would make little difference whether we gave the credit banks the option of retiring their capital in the PCA's or not?

Governor TOOTELL. Mr. Chairman, I believe that would be the effect of it. It would make very little difference. That would be the practical effect. While it may have been preferable to have written the language the other way in the beginning, I would urge that the committee not change that requirement now.

The CHAIRMAN. Thank you, Governor Tootell.

Mr. Goodling.

Mr. GOODLING. I have a question, Mr. Chairman.

In your first statement, you say, "It will be necessary to enact the bill during the present session of Congress if its objectives are to be fully accomplished."

Why, I ask, if this is such important legislation, was it not introduced earlier in the session?

Governor TOOTELL. Because we were not notified until during the recess as to what the effect would be in terms of reduced lending authority that the two bank systems would have as the result of your Revenue and Expenditure Act of June, 1968.

Mr. GOODLING. I just made this statement in a subcommittee meeting. I do not particularly like bills coming in at this late hour of the session that appear to be "must" bills.

Governor TOOTELL. I can understand that. This, however, is the only way that we can effect this in time to give the relief in lending authority that these banks need. We have been notified by the Bureau of the Budget that the reduction in net lending authority of these two bank systems for fiscal year 1969 would be \$650 million, but each month that goes by and the lending authority is used up—up to the time that these banks might retire their Government capital—that would reduce the effect it would have on the Federal budget.

Mr. GOODLING. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Vigorito.

Mr. VIGORITO. Mr. Tootell, I have two questions that refer to the first sentence at the top of page 6. Could you tell me what the fair value would be in comparison with the par value?

Governor TOOTELL. Yes. The fair value is a discount value for cash on the barrelhead. That is the simple way to state it at the outset.

How to arrive at it? The way that we have arrived at it is an approximation to it. It is not precisely determinable, because the stock of these two banks is not marketable. It is not quoted in the market. And so the approach has been to use the present worth formula, a well-accepted present worth formula that simply evaluates the present worth of a series of payments that would be made over a given number of years. And assuming a given discount rate. This is common practice, to determine the present worth of a series of future payments compared with cash on the barrel head now.

Mr. KLEPPE. Will you yield on that point?

Mr. VIGORITO. Yes.

Mr. KLEPPE. Is there a likelihood that the fair market value will be less than the par value, or is it a fact that it will be?

Governor TOOTELL. It is a fact that it would be. And I would be glad to tell the committee what our belief is.

We have applied this formula and the opinion we gave on this to the Senate committee at its request is what would be justified for the Federal intermediate credit banks. Let me see here just a minute—to put it another way, that the fair value of the intermediate credit bank stock would be 85.6 percent of par, or a discount of 14.4 percent. This assumes that the credit banks would pay off in five equal annual installments, beginning next June. This has been the schedule that they set for themselves within the past year.

And for the banks for cooperatives, the schedule for complete payoff is in 4 years, but there are differences in the payoff years by individual banks for cooperatives. The result is 89 percent of par, or a discount of 11 percent.

Mr. KLEPPE. Thank you.

Mr. VIGORITO. The second question is "What are the disadvantages of retiring the Government capital now instead of later?"

Governor TOOTELL. OK. In the first place, in order to retire the Government capital—and the biggest problem on this is with the intermediate credit banks that owe, approximately, \$126 million—would be that they in any event would have to go into the market and sell some additional debentures in order to get the cash. The present market cost to them would be, approximately, 5.7 percent on such money.

I think, in addition to doing that—to getting the cash by going into the market—many of them would sell part of their Government bonds and their average portfolio value on those bonds is about 85 percent of par.

I mentioned another disadvantage, and that is, if each of these banks pays off its Government capital it does reduce their net worth. They would be faced—the credit banks would be faced with some restoration of net worth, which they would accomplish by assessing the production credit associations and requiring the PCA's to buy a certain amount of B stock in the intermediate credit banks.

Mr. VIGORITO. Thank you.

The CHAIRMAN. Mr. Price.

Mr. PRICE. Governor Tootell, I would like to ask a few questions. Would it not be true if this money were retired in the banks it would be an actual savings to the Federal Government—the money that is in there now, more or less, they have to pay whatever the going rate of interest is to keep that money in there.

Governor TOOTELL. We feel that it definitely would be an advantage financially to the Federal Government. This is not a comparable investment to the Federal Government in other things. Furthermore, it does not have a due date, particularly, as to the intermediate credit banks.

Mr. PRICE. First of all, it would be a savings to the Federal Government by paying it off—that would be one good thing.

Governor TOOTELL. This is one aspect of it.

Mr. PRICE. This is the first time in history that you have actually been told that you could only borrow so much in the private market; is that not true?

Governor TOOTELL. Essentially, it is, Mr. Price. As for the Budget Bureau telling us, why, it is definitely the first time. Actually, the first time that we were limited in our access to the market in selling our own securities to get loan funds was 2 years ago this month, when the credit crunch—the very earliest one—developed. At the President's request the Treasury limited our access to the market for new funds, but this is the first time it has been included in the Federal budget and that we have had this sort of limitation, as though we were a Federal lender.

Mr. PRICE. Could you shed some light on this for me as to why it was brought under the Federal jurisdiction?

Governor TOOTELL. I believe so.

About a year ago, as I recall, the President appointed a Blue Ribbon Committee on the Federal Budget Concept. And on that Committee, I believe, there were two Members of the House and two Mem-

bers of the Senate, and certain private citizens. I do not remember whether there were some high officials from the Treasury Department on it or not, but anyway, this Committee made a number of recommendations that were incorporated in this year's Federal budget. One of those recommendations was that any agency of Government, or Government-sponsored agency, that had any Government capital in it, be included in the Federal budget totals in essentially the same sense as if we were lending Government money. And that is how we come to be in there. This was a strong recommendation of this Committee on Budget Concept.

Mr. PRICE. If it was taken out of the budget, actually, the President would be able to use that much money for whatever agency he wanted to use it for?

Governor TOOTELL. Mr. Price, let me say that in part this is true but, on the other hand, I think that you need to consider how much the inclusion of these two bank systems in the Federal budget contributed to the Federal budget total of \$186 billion, \$100 million, that was the ceiling established by the Congress last year from which the President is required to cut down \$6 billion. I am not an authority on Federal budget matters. I do not know fully how much the inclusion of these two systems increased the Federal budget, but our information from the Bureau of the Budget is that it was \$709 million, and as an offset against that, we are asked to make a cut of \$650 million in the net lending authority of these two bank systems.

Mr. PRICE. My last question: How much do you estimate is going to be needed to meet the requirements of the farmers and the ranchers and whoever you can lend money to, in the way of borrowing money—how much do you forecast is going to be needed in the next fiscal year, and do you have any projections, say, for the next 5 years?

Governor TOOTELL. Well, as to the current fiscal year, Congressman Price, at the time that we gave our estimates to the Bureau of the Budget, which you see would have been almost a year ago or 10 months ago, anyway, we estimated that these two bank systems would need new net lending authority of \$767 million.

Mr. PRICE. For each?

Governor TOOTELL. No, that is for the two of them. It would be \$533 million as to the intermediate credit banks, and \$234 million as to the banks for cooperatives. A total of \$767 million.

And the Bureau of the Budget has proposed—well, this is what we expect it to be—\$650 million as the cut, which would mean that the total new lending authority of these two bank systems for the current fiscal year would be only \$117 million, which is a very small amount, considering the fact that, as stated in my testimony, the demand in recent years has been more like a 12- to 19-percent increase on the part of the present borrowers.

Certainly, with this kind of an allocation, there would be no opportunity for the banks and particularly the PCA's, to serve any new borrowers at all.

Mr. PRICE. I still have not heard, I do not believe, how much you project will be needed in this fiscal year, and how much will be needed in the next 5 years in total dollars. Is the Federal land banks included in these figures?

Governor TOOTELL. The Federal land bank system is not included in these figures. The reason is that it paid off the last of its Government capital in 1947.

Mr. PRICE. So it is not affected by this?

Governor TOOTELL. It is not affected by this. It has been affected for most of the time the last 2 years by the Treasury ceilings put on its access to the new money market, because of the money crunch—the tight money situation—but that is quite a different thing than this budget borrowing limitation.

The production credit associations in fiscal 1968 loaned \$5.8 billion last year. The intermediate credit banks supply all of their lending funds, except what they generate through net worth accumulation. The Federal intermediate credit banks, also, supply to other lending institutions, private credit corporations, that discount paper with them. The credit banks last year loaned a total of about \$7,500 million.

The banks for cooperatives loaned about \$1,800 million which was their lending level last year.

These demands have been going up, I would say, from 10 to 20 percent a year for the past 5 or 6 years, anyway. And so our frank estimate would be that the demand for each of the succeeding years by farmers and their cooperatives would be in that range, varying from 10 to 20 percent a year. We cannot estimate that exactly, but we know that it is an increasing demand and a rapidly increasing one.

Mr. PRICE. Why are these people borrowing all of these moneys, is that because of expanding operations, or depreciation in value of money, or it is that they more or less are slipping in their operations?

Governor TOOTELL. It is a combination of all of those, Mr. Price. I think that the most important single one is, probably, the advance of agricultural technology which requires that those who are going to remain competitive are going to have to expand in terms of, perhaps, the acreage they operate and, definitely, in terms of the equipment that they use in operating. In other words, their capital investment. And their operating costs also have been increasing as you, a rancher, know.

This enters into it. And, in part, inflation is involved in that. But there are other things involved in it, too.

Some of those who are borrowing are doing so because they have been losing money in their operations. I think this is always the case, that a certain percentage are in that category. A certain percentage of the 100,000 or more farm families a year that leave agriculture, do so because they are not succeeding.

Mr. PRICE. Mr. Chairman, this kind of relates to the point of our agricultural bill.

The CHAIRMAN. I think so.

Mr. PRICE. A very fine point about agriculture expanding into bigger firms and bigger ranches and bigger farming operations.

Governor TOOTELL. I think this very definitely is a part of the picture. There is no question but what that has been an important factor in the increase in the lending volume of these two bank systems, particularly in the intermediate credit banks.

Mr. PRICE. That is all. Thank you.

The CHAIRMAN. Mr. Mayne.

Mr. MAYNE. I have no questions.

The CHAIRMAN. Mr. Dow.

Mr. Dow. Thank you, Mr. Chairman.

Mr. Tootell, I have just two questions that relate to an item on page 5 of your testimony. Mainly, I guess I am asking for information, more than to question the judgment here.

In the middle of the page, you say that you speak of assuming a repayment period for the stock, of 5½ years, and so on, and then a 5-percent interest rate.

Is that 5-percent interest rate an assumption, or is it something specific, has it some specific foundation for setting that rate at 5 percent?

Governor TOOTELL. It is an assumption, sir—an assumption that is a very conservative figure of what the cost of the money to the Treasury would be.

This past year the average cost of money to the Treasury exceeded 5 percent, a little, as I recall it.

I think this is a base figure if one looks at it from the standpoint of the future cost of money to the Treasury during this 5½-year period.

Actually, in capitalization costs, to get a present worth of future income payments, something more than the pure interest cost, is usually involved. And that is risk. And your capitalization rate is increased usually by an amount that undertakes to reflect the risk. We have not injected that here, although I have stated there is no certainty that the banks will be able to meet this schedule. If we get a substantial decrease in agricultural income, which some are predicting next year, it is quite conceivable that the banks might not be able to go through with this 5-year retirement schedule beginning next July 1.

Mr. Dow. But at any rate, you believe that this discount of 14.4 percent, in one case, and 11.06 percent in another case, would be satisfactory to the Treasury?

Governor TOOTELL. I have no reason to believe that, sir. We have thought it not appropriate to get the concurrence of the Secretary of the Treasury on something that was not an accomplished fact.

What I would say is this, with certainty: That these figures that are quoted here, certainly, would represent our feelings so far as the discount for each of these bank systems is concerned. Whether the Secretary of the Treasury would be willing to go this far in the matter of discount, or with respect to one or more of the bank systems, or would feel that it ought to be something less than that, we do not know. That would be something for negotiation between ourselves and the Secretary of the Treasury.

Mr. Dow. My other question, Mr. Tootell, is still on page 5, down near the foot of the page, where you indicate that you are advised by the Bureau of the Budget of requiring that lending by the banks be cut by \$650 million below your estimate of borrowing requirements.

Governor TOOTELL. Yes, sir.

Mr. Dow. This is due to the fact that the Government has embarked on what you might call a spending budget of \$186 billion that encompasses all of the institutions, such as yours. I am just curious about the statutory leverage that the Government has here.

Supposing that you were to say to the Budget Bureau, "We do not agree with you and we are not going to comply," do they have the statutory power somewhere along the line to say, "You must comply with this"? In other words, just because someone decides to run the budget in this fashion, with these larger dimensions, does that mean that you must then crimp your style here to accommodate—and do you do this voluntarily, or is there a real statutory leverage to compel you to do so?

Governor TOOTELL. We are not just complying with that process. As a matter of fact, we wrote a rather extended letter to the Director of the Bureau of the Budget in which we protested this cut and asked that the full amount be restored. I say we have no hope of our request being complied with.

By the way, that letter was written at the instance of the Federal Farm Credit Board, which employs me as Governor of the Farm Credit Administration. It was not just one bureaucrat's decision.

Specifically, in answering your question, yes, the Bureau of the Budget, as the right arm of the President of the United States, does have the statutory authority, and he is doing this, exercising this as a matter of judgment in compliance with the Revenue Act of 1968 that requires him to make a \$6 billion cut.

Mr. Dow. This is a little vague to me. I am sure that your explanation is given in good faith, but is there a particular clause in some statute that gives the President the right to limit outlays by one of these institutions, such as yours?

Governor TOOTELL. I would turn to our General Counsel, Mr. Ritter, for a more authoritative answer to your question.

Mr. RITTER. Well, there is broad authority given the President in this Revenue and Expenditure Control Act of 1968, of which I might just read one sentence. After declaring that the total of \$186.1 billion estimated in the budget shall not exceed a level of \$180.1 billion, the act says that the President shall reserve from expenditures and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate such a reduction.

Now, because this year, for the first time, they included these banks in the Federal budget totals, the position of the Bureau of the Budget is that this reduction authority of the President extends to all accounts included in the Federal budget for the 1969 fiscal year and that therefore the figures of the banks are subject to reduction.

Mr. Dow. I grant you that, but apparently the decision to include these institutions—to add them into the budget—was a kind of an accounting decision, it seems to me.

Mr. RITTER. It was an administrative decision.

Mr. Dow. Yes. So that I would not suppose that it has the force of law in itself. I wonder if that is binding on you. It may be a nice thing to do. It may be a good thing to do. But does it impose, by just administrative decision, the right to include you in the gross concept of the budget? Is this really a binding thing? A statutory thing, in that sense?

Mr. RITTER. Well, maybe you are suggesting it might have been challenged, but because these figures from the accounts of the banks

were included in the Federal budget totals, and because when Congress said there shall be this reduction, it did so by reference to the Federal budget total, they say it follows that, therefore—

Mr. Dow. In other words, the Federal budget totals, standing at that time, were recognized by Congress to be the gross figures embracing all of these additional institutions?

Mr. RITTER. In effect, they referred to the Federal budget totals for fiscal year 1969, in which these bank figures are included.

Mr. Dow. Just one more question, and that is, as far as releasing the funds for these loans, are you dependent on the Treasury to make available funds, or can you issue checks instead of deposits and loans in such a way that you would not have to go to them, if you wanted to defy them and go ahead with your \$650 million of loans?

Governor TOOTELL. We get our loan funds not by going to the Treasury at any time. We get our loan funds by these banks selling their own securities in the public investment market. And these securities are not an obligation of the Federal Government either as to principal or interest.

And up to 2 years ago, when the credit crunch came, our banks have been perfectly free to go to the market and sell whatever amount of debentures were required to cover the credit needs as evidenced by approved loans from these banks and associations.

Mr. Dow. I think this is just a little bit of a shadow on the authority of the budget operation to control your policies here, but I think that the general sentiment among yourselves and probably in Congress, and so on, would be to view the situation the way that you see it here. So I am not going to pursue the matter, but I think that it is an interesting point to consider.

Thank you, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Mr. MYERS?

Mr. MYERS. I have a question. I came in a little late. As to the necessity for this particular legislation, is there anything in the Federal Farm Act or the Farmers Home Loan Act that would prohibit early payment of these obligations to the Federal Government, that is, early repayment?

Governor TOOTELL. No, there is not; but there is a provision in the act that requires that this Government stock would be retired at par. Section 1 of this bill would grant authority for the Farm Credit Administration, which holds this Government stock, on behalf of the Federal Government—

Mr. MYERS. I understand that now.

Governor TOOTELL. Except at a discounted figure—

Mr. MYERS. This is the only necessity. So you can sell it at the market price, rather than at par?

Governor TOOTELL. There is not a market price for it. We say the fair value, as stated in here, which is something that is a value judgment, but a value judgment which the law would require the Secretary of the Treasury, together with the Farm Credit Administration, to determine. And as I have indicated here, on page 5 of the statement, we feel that we believe a fair value of the Government's investment in the intermediate credit banks is 85.6 percent of par.

Mr. MYERS. For all of the 12 Federal intermediate banks—for each of the 12?

Governor TOOTELL. Yes. We have taken the total Government holdings in stocks in those 12 banks and have treated it in the aggregate, which I think is the only fair way to do it.

The banks for cooperatives are in a more favored position and would have a shorter repayment period, if they went through with their schedule. In their case, we have expressed the view here that a discount of 11 percent or retirement value of 89 percent for the banks for cooperatives capital would be a fair value.

Mr. MYERS. Would they all be treated exactly alike?

Governor TOOTELL. Each of the banks would be, as to the discount they would get—they would be treated exactly alike.

Mr. MYERS. The banks for cooperatives, I realize, loan to farm cooperative organizations. Are these direct loans, such as to a big feed lot, something like that? Do you make direct loans from your banks to cooperatives?

Governor TOOTELL. I will ask Mr. Heitz, who is Deputy Governor of Farm Credit Administration, and Director of the Cooperative Bank Service, to answer that question.

Mr. HEITZ. The banks for cooperatives, the 12 district banks for cooperatives, do make direct loans to the farmer cooperatives. I am not sure, Mr. Congressman, whether there are any cooperative feed lots that are now being financed by the banks for cooperatives. I am not sure of that. There may have been one or two at some point. They are a very minor portion, though, of the business of the banks for cooperatives.

These 12 banks do make direct loans. The central bank for cooperatives does not make direct loans. It rather participates in loans made by the district cooperative banks.

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

The CHAIRMAN. If there are no further questions, Governor Tootell, we are very much obliged to you. I think it might be expeditious if we let the Governor call the witnesses in the order that he would like to have them appear. And then we will ask the members to refrain from further questioning until we have heard this group of witnesses representing the Farm Credit Institutions, and then you can question them all en bloc, and that will save a good deal of time.

Mr. TEAGUE of California. May I say this?

Governor TOOTELL. I think that you can proceed according to this list, which will be very satisfactory to us.

Next is Mr. Bice.

Mr. TEAGUE of California. I would like to point this out: It seems to me that the bill is in no trouble in this committee. We have had two very lengthy sessions of the House the last 2 days, some late into the night, so, respectfully, I request that you make your testimony as brief as possible.

We all have lots of paperwork in our offices.

The CHAIRMAN. We might also limit the questioning, so that we can get through. We will be glad to hear from you now, Mr. Bice.

STATEMENT OF LORIN T. BICE, CHAIRMAN, FEDERAL FARM CREDIT BOARD

Mr. BICE. Mr. Chairman and gentlemen of the committee, my name is Lorin T. Bice and I am appearing here today as Chairman of the

Federal Farm Credit Board to endorse of record the position on H.R. 19418 stated by Governor Tootell.

If I may begin with some personal information, my own farming is producing and marketing citrus. My son is associated with me in operating family citrus groves in Florida. For many years I have been a member of the Florida Citrus Production Credit Association and the Federal Land Bank Association of Lakeland, and have had considerable experience on the boards of these local associations.

I was a member of the Farm Credit Board of Columbia in the Third Farm Credit District, which includes North and South Carolina, Georgia, and Florida, from 1956 until 1963 when I was appointed to the Federal Farm Credit Board for a 6-year term ending in 1969. For my last year on the Federal Board I am serving as Chairman.

The Federal Farm Credit Board was established under the same Farm Credit Act of 1953 which declared the policy that Government capital in the Federal intermediate credit banks and banks for cooperatives should be supplanted with capital provided by borrowers from the banks. The Board has 13 members, one appointed by the President with Senate consent from each of the 12 farm credit districts, and a 13th member appointed by the Secretary of Agriculture. The Board meets six or more times a year. In addition to determining major policy for the Farm Credit System, a continuing function and duty of the Federal Farm Credit Board is to make recommendations to Congress for amendments to the laws relative to agriculture credit administered by the Farm Credit Administration.

It was our Board which recommended enactment of the Farm Credit Acts of 1955 and 1956, as well as subsequent legislation, which provided for the borrowers to gradually acquire ownership of the banks and retirement of Government capital from the banks, so that eventually all of the Government capital may be retired and the banks then will be completely owned by the borrowers.

In the present circumstances, with the lending by the banks subject to curtailment because of their inclusion in the Federal budget totals for fiscal 1969, we think it should be made feasible for the banks to complete retirement of their Government capital at this time in order that the banks presently may continue to serve the increasing credit needs of farmers and their cooperatives.

In our view, it is in the public interest to make immediate retirement of the Government investment in the banks feasible by authorizing its retirement at fair value instead of par. This means that the Government capital would be retired now instead of continuing an unprofitable and unmarketable investment for the Government. Retirement now also has the practical effect of permitting the present lending of the banks to continue at a level to meet satisfactorily the credit needs of farmers and their cooperatives.

The boards of directors of the banks have been studying the problems involved in the forthwith retirement of Government capital and yet continuing to perform their lending function. While there also are some other problems to be resolved before actual retirement of all Government capital by each bank or system of banks, legislation such as H.R. 19418 would make it feasible to attain full private ownership very shortly.

Mr. Brock, Mr. Chairman and gentlemen of the committee, my name is John T. Brock and I am appearing here today as Chairman of the

We hope, therefore, that the committee will act to facilitate enactment of the bill during the present session.

The CHAIRMAN. Thank you, Mr. Bice. We appreciate your statement.

Our next witness will be Mr. David G. Gault, of Manor, Tex., a member of the Federal Farm Credit Board. We will be glad to hear from you now.

STATEMENT OF DAVID G. GAULT, MANOR, TEX., MEMBER, FEDERAL FARM CREDIT BOARD

MR. GAULT. Mr. Chairman and members of the committee, I do not have any prepared statement, but I would just like to make a few remarks.

As a dairy farmer, and with some beef operation, too, where I use the farm credit system rather extensively and have for a number of years, I should like to say that we are pretty proud of this system. We paid out the PCA in the early fifties. The land banks were paid out in 1947.

It was a wonderful thing for agriculture when we established the farm credit system. I think it has had a great deal to do with the farmers being able to supply an abundance of food and fiber to this Nation.

Credit has become a part of our operation.

When I grew up, we did not like to think of owing people, but we kind of slipped in the back door of the bank. We did not want people to know how much we owed. However, today, if we did not use that credit we could not operate as efficiently as we do.

My tractor today is selling in the market, a new one, for \$12,000 to \$13,000. In 1954 just 14 years ago, that same tractor—maybe not as fancy and with as many gadgets on it—would have cost about \$3,500.

So this is the reason we need this additional capital.

When you talk about restricting our lending and borrowing to what we had last year, I do not know how we could operate if it was restricted to this extent. So we need to get out of this bind that we are in.

We want to pay the Government capital off. We must do it to keep from having our work restricted, to supply the food for the Nation at a reasonable price.

Believe you me, agriculture has been subsidizing the public, in my estimation, because we have sold them cheap food and have produced it in abundance.

If you have any questions about the operation of a dairy farm and the need for credit, I would be glad to answer them for you.

The CHAIRMAN. We will do it after we have heard from the other witnesses.

Thank you.

MR. GAULT. Thank you.

The CHAIRMAN. We will next hear from Mr. H. Macon Boddy, of Henrietta, Tex., chairman of the National Advisory Committee of Production Credit Associations. We will be glad to hear from you now.

**STATEMENT OF H. MACON BODDY, HENRIETTA, TEX., CHAIRMAN,
NATIONAL ADVISORY COMMITTEE OF PRODUCTION CREDIT
ASSOCIATIONS**

Mr. BODDY. Mr. Chairman and members of the committee, I appear today as chairman of the National Advisory Committee of Production Credit Associations. As such, I represent, through the members of this committee, the 455 production credit associations and their 544,000 farmer-rancher owners.

We are vitally interested in the legislation now before you because the individual member-borrowers of the production credit associations will provide all of the 126 million dollars needed to retire the Government-owned capital in the Federal intermediate credit banks. If and when this retirement is made possible, the individual members of the production credit associations will be sole owners of this segment of the farm credit system.

I have here telegrams from every district wholeheartedly endorsing this proposed legislation and asking that I urge your committee and the Congress to act favorably upon it.

The production credit associations have always felt that all Government capital in the farm credit system should be retired as soon as possible. Plans for retirement of this Government-held stock have been considered at every annual meeting of our committee for the past 10 years. The committee has annually urged that all production credit associations and all banks move toward this goal as soon as practicable.

A plan for final retirement within 5 to 6 years was ultimately adopted by all Federal intermediate credit banks, and plans to implement retirement were put into effect.

However, the arbitrary action of the Commission on Budgetary Concepts in placing all outstanding loans of the credit banks into the Federal budget for 1969 was startling.

The subsequent limitation on the volume outstanding was more so. Mind you, that these funds come from the investing public and not the Treasury. A reduction in lending capabilities of the production credit associations would not reduce Federal expenditures by 1 cent. The production credit associations do not feel this limitation was the intent of the Federal Revenue Control Act of 1968.

This action is, however, history; but the bill before you provides a workable method of solving the dilemma. The mechanics have been explained in detail by Governor Tootell, and all I can add is that the production credit associations and their farmer-rancher owners are totally in accord.

The CHAIRMAN. Thank you, Mr. Boddy.

Our next witness is Mr. C. B. FunderBurk, of Atlanta, Ga., chairman of the Farm Credit Board of Columbia.

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

**STATEMENT OF C. B. FUNDERBURK, ATLANTA, GA., CHAIRMAN,
FARM CREDIT BOARD OF COLUMBIA**

Mr. FUNDERBURK. Mr. Chairman and members of the committee, I appreciate very much the opportunity of appearing before you. I should like to state that in addition to the information that the chair-

man gave you, for 32 years I was treasurer of the Cotton Producers Association in Atlanta, Ga. This is a large marketing and purchasing association for farmers.

We have served them for 33 years.

I, too, do not have a prepared statement. I intend to explain some of the reasons for this and to answer some of the questions you gentlemen have raised, why we need more money; that is, why the farmers need more money at this time. But in deference to your request that we expedite this as much as possible, I am going to leave that out, and merely mention that obsolescence and increased uses on the farm and this sort of thing is the thing that is creating a demand for these farmers.

I want to say this: these farmers have been told over 15 years or more, in which time they have acquired the bank capital in these banks, that these are their banks and ultimately that they would own them 100 percent, that then they will be their banks 100 percent and they will operate them themselves under the directions of the association.

I think this is an important point. In good faith, these farmers have contributed money to these banks.

I want to point out to you that all of the farmers together have \$526 million of their own money invested in the capital of these banks. This compares with \$148 million that the Government now has invested in these banks.

In other words, the farmers have $3\frac{1}{2}$ times the investment in these banks that the Government has.

Why have they been willing to pour their money into these banks? It was so they would have a good source of credit, a sound source of credit, one where they could always go and get money.

I want to raise one serious question with you gentlemen. These people are coming into our district offices and the local offices throughout this country this coming year and they will be doing that and they will want more money.

To answer your question, Mr. Price, the 12 percent that we have had for many, many years in increase. Specifically, we cannot say how it will be, whether new loans will be more, or what it will be for, but it will increase. We know that. The projections indicate that.

These people have been told that, "If you put capital in this," and they have done this, "you will then have a dependable source of credit." But if we say, "Well, gentlemen, we are sorry, this time we do not have any for you," this will be true for the PCA's, because under this proposition of placing the banks in the Budget, there will be no new money whatsoever for the PCA's. It is going to be a serious question for us to have to answer.

It seems illogical that these banks would have been put under the Budget for the simple reason, as has been pointed out already, that the Federal Government does not and has not contributed one cent to the money that these banks use in lending to the farmers.

As Governor Tootell told you, we borrow every cent of it from the private money market. The Government does not have a guarantee of any kind on it.

Furthermore, the Government has never contributed to the expenses of these organizations.

So I say, it is illogical that we have placed these banks in this position. Be that as it may, we are in it.

To answer another question that was raised, what impact this will have on this program: it will mean that the farmers have to kick in more money in order to do this job immediately, to get out from under the restraint so that they can borrow the money they require. It is a death and life proposition, we think.

I just want to make one more contribution, Mr. Chairman, to the question which was raised about the value of the Government stock. I think that the Governor has explained it, in that it is not quoted on any exchange—nobody can have the capital stock from the Government except the banks which we are talking about. So there is no market for it.

Just recently, there was a decision handed down in a tax court out in the Midwest, a ruling on a case in which the farmers cooperative in that case had written off the C stock which it had bought in its local cooperative bank. Let me say that the C stock is the stock which the cooperatives contribute to the district banks who, in turn, use that money to buy out the A stock from the Government.

So, in effect, the A stock rests entirely on the C stock. In this case, the cooperative was writing off the C stock as having no value whatsoever. The Internal Revenue Service disagreed with them, and took them into the Federal Tax Court.

The court said that the C stock had no value and therefore it was appropriate for them to write it off.

I raise the question to you in talking about this discount. If the C stock has no value and the A stock is based on the C stock, then what do you have on the A stock? I say, candidly, that I do not agree with the Court's decision in this case. But whether you believe in it or like it, the decision of the Tax Court stands.

Thank you very much.

The CHAIRMAN. Thank you.

I believe that now completes the witnesses for the Farm Credit Organizations.

Governor TOOTELL. Yes, it does.

The CHAIRMAN. Are there any members who want to ask questions of the last several witnesses?

After that, we can then take up the other witnesses.

Mr. Zwach.

Mr. ZWACH. I do not exactly have a question, Mr. Chairman, but I cannot help but say that I think it is a sad commentary on the bureaucrats of our Government when these people have to come in here and ask to get out from under the Government. I think this is really an indication of how far we have moved from the people themselves.

The Budget Bureau group that is treating the farm credit system just as if it was a spending agency, as if it costs the Government money. The farm credit system has not cost the Government any money. They have been completely financing their own, except that this money is loaned, and then returned.

I think this is an indication of what kind of bureaucracy we are getting into in Washington, D.C., when an agency that was set up to help the producers in time of need has to come and ask the Government to let them out of it, because the Government misunderstands. I feel very strongly about this.

The CHAIRMAN. Thank you, Mr. Zwach.

If there are no questions of the witnesses, we appreciate your statements.

We will now call on Mr. Richard T. O'Connell, secretary of the National Council of Farmer Cooperatives.

We will be glad to hear from you now.

STATEMENT OF RICHARD T. O'CONNELL, SECRETARY, NATIONAL COUNCIL OF FARMER COOPERATIVES, WASHINGTON, D.C.

Mr. O'CONNELL. Mr. Chairman and members of the committee, everything I have in my statement has been said previously.

I will ask that it be filed for the record.

The CHAIRMAN. Without objection, your statement will be made a part of the record at this point. We appreciate that on your part.

(The prepared statement of Mr. O'Connell, above referred to, follows:)

STATEMENT OF RICHARD T. O'CONNELL, SECRETARY, NATIONAL COUNCIL OF FARMER COOPERATIVES

I am Richard T. O'Connell, Secretary, National Council of Farmer Cooperatives.

The National Council is a nationwide federation of farmer business associations, which are engaged in the marketing of agricultural commodities or purchasing of farm production supplies or both, and of state cooperative councils. The membership includes many of the major federated and regional farmer cooperatives of the country. The organizations making up the Council are owned and controlled by farmers, as the off-farm departments of their farm business operations.

Most of the members of the National Council are borrowers and stockholders of the Banks for Cooperatives.

We support the passage of H.R. 19418.

The National Council has had a basic policy in effect for more than fifteen years, which favors the expeditious retirement of the government capital in the Farm Credit system.

There are two basic reasons for our support of the measure:

(1) It provides an opportunity for immediate retirement of government capital in the Banks for Cooperatives, the Federal Intermediate Credit Banks and the Production Credit Associations.

(2) We believe the retirement of the government capital will permit the farmer-borrower-stockholder a greater opportunity to exercise responsibility in meeting the credit needs of an expanding agriculture.

These are, in our judgment, reasonable and desirable goals for the Farm Credit System.

We urge the enactment of H.R. 19418.

We appreciate the opportunity to make this statement.

BANKS FOR COOPERATIVES

One of the major tasks of the National Council of Farmer Cooperatives has been the development of legislation whereby the farmer cooperatives of the United States will have opportunity to acquire full ownership of the Banks for Cooperatives. These proposals have become law, and they deserve the wholehearted support of the farmer cooperatives, because it is they who will enjoy the great benefits arising from the proposals.

We urge all cooperatives to patronize the Banks where possible, and urge the Banks to encourage cooperatives to patronize their Banks, in order to retire the Government capital as quickly as possible. Adopted 1956. Revised 1966.

The CHAIRMAN. Our next witness is Mr. John C. Lynn, legislative director of the American Farm Bureau Federation.

We will be glad to hear from you now.

STATEMENT OF JOHN C. LYNN, LEGISLATIVE DIRECTOR, ACCOMPANIED BY KIT H. HAYNES, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION

Mr. LYNN. Mr. Chairman and members of the committee, we have long supported the retirement of Government capital. We welcome the opportunity to support this legislation.

We would like to file our statement for the record.

The CHAIRMAN. Without objection, it will be included in the record at this point.

(The prepared statement of Mr. Lynn, above referred to, and a letter from the National Milk Producers Federation, follows:)

STATEMENT OF JOHN C. LYNN, LEGISLATIVE DIRECTOR AND KIT H. HAYNES, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION

We appreciate this opportunity to present views of the American Farm Bureau Federation in support of the bill, H.R. 19418, to expedite retirement of government capital by the Federal Intermediate Credit Banks, the Banks for Cooperatives, and the Production Credit Associations.

Farm Bureau long has recognized the swift-moving changes in credit needs of farmers and ranchers due to the tremendous expansion in the amount of capital required for efficient farming and ranching operations. There are no current indications that inputs of capital in agriculture will decrease materially in the foreseeable future.

Cooperative credit agencies which are included in the Farm Credit Administration have attained an enviable record of achievement in meeting credit needs of farmers and their marketing, purchasing, and service cooperatives.

Initially established with government capital, the Federal Intermediate Credit Banks, the Banks for Cooperatives, and the PCA's have taken significant steps toward complete farmer ownership. Following enactment of legislation in 1957 to provide for orderly retirement of government capital by these institutions, all but three of the 450 PCA's in the country are completely owned by the farmers and ranchers who use them. Of the 12 district Banks for Cooperatives, 8 have repaid all of their government capital, with only \$22 million of government capital remaining of a total of \$158 million. None of the Federal Intermediate Credit Banks is completely free of government capital, but \$103 million now is owned by the banks and \$126 million by the government. The Federal Land Banks have had no government capital since 1947.

That these institutions have been able to retire their original government capital through earnings while at the same time supplying credit to farmers is sound evidence of the effective use farmers and their business cooperatives have made of these agencies.

The legislation before you is aimed at facilitating further repayment of government capital by authorizing the Governor of the Farm Credit Administration to require banks and PCA's to retire additional government capital when, in his judgment, their resources are sufficient to permit such repayment without undue hardship. We are advised that this provision has the endorsement of agencies of the Farm Credit System.

Complete retirement of government capital will place in the hands of farmers and ranchers full responsibility for operation of their cooperative credit agencies. This will enable them to go into the nation's money markets to obtain the loan funds needed to meet agriculture's credit requirements, curtail dependence upon federal funds, and will assure continued sound operations.

We recommend approval of H.R. 19418 by this Committee and enactment of this legislation at this session of the Congress.

NATIONAL MILK PRODUCERS FEDERATION,
Washington, D.C., September 16, 1968.

Hon. W. R. POAGE,
*Chairman, Committee on Agriculture,
 House of Representatives,
 Washington, D.C.*

DEAR MR. CHAIRMAN: Presently under consideration by your Committee is a bill—H.R. 19418—the purpose of which is to expedite retirement of government capital from Federal intermediate credit banks, production credit associations, and banks for cooperatives.

The Farm Credit System has made an important contribution to the financing of farmers and their cooperative associations. The progress which the Farm Credit System has made toward complete replacement of government funds with farmers' capital and toward eventual ownership of the system by farmers and their cooperatives is, indeed, impressive.

In view of the ceilings which have been placed on Federal expenditures, it will be necessary to speed up the retirement of government capital from the Farm Credit System. The Federation, therefore, supports the objectives of H.R. 19418 and urges your Committee to favorably report it.

It would be appreciated if you would make this communication a part of the record of hearings on this subject matter.

Sincerely,

E. M. NORTON, *Secretary.*

The CHAIRMAN. Are there any questions of either Mr. O'Connell or Mr. Lynn?

(No response.)

The CHAIRMAN. If not, we appreciate your being with us.

Is there anyone else who cares to be heard? Is there anyone who has any objection to this bill?

(No response.)

The CHAIRMAN. Apparently, there is none.

If there is no one else, this will complete this hearing on this bill. And the committee will now go into executive session.

(Whereupon, at 11:20 a.m., the committee moved into executive session.)



John W. D. Jones
The Board of Directors
New York, N.Y.

Dear Sirs:
I have the honor to acknowledge the receipt of your letter of the 15th inst. in relation to the above matter. The same has been referred to the proper authorities for their consideration. I am sorry to hear that you are dissatisfied with the result of the same. It is to be regretted that the same cannot be done in the manner desired. I am, Sir, very respectfully,
Yours truly,
John W. D. Jones

Very truly,
John W. D. Jones
Secretary