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REA LOAN PROGRAM

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HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 2276, H.R. 5683, and S. 394

FEBRUARY 26, 27, 28; MARCH 13, 14, 15, AND 20, 1973

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REA LOAN PROGRAM

MONDAY, FEBRUARY 26, 1973

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

The committee met, pursuant to call, at 10 a.m., in room 1301, Longworth House Office Building, the Honorable W. R. Poage (chairman) presiding.

Present: Representatives Poage, Stubblefield, de la Garza, Vigorito, Alexander, Rarick, Jones of Tennessee, Bergland, Denholm, Brown, Rose, Litton, Gunter, Teague, Wampler, Goodling, Mathias, Mayne, Zwach, Sebelius, Mizell, Findley, Baker, Thone, Symms, and Johnson.

Also present: Christine S. Gallagher, chief clerk; John O'Neal, general counsel; Hyde H. Murray, associate counsel; Fowler C. West and L. T. Easley, staff consultants; and Martha Hannah, subcommittee clerk.

The CHAIRMAN. The committee will be in order.

We have met this morning to begin consideration of the legislation to restore the existing law relating to the Rural Electrification Administration and the loans they have formerly made. This morning, we are going to hear the witnesses in favor of the legislation which has been introduced by our colleague, Mr. Denholm, and some hundred other members.

Now, I understand a bill similar to this was passed in the Senate last week. Is that right?

Mr. DENHOLM. Yes.

The CHAIRMAN. I believe Mr. Denholm would like to start.

[The bills H.R. 2276 and S. 394 and the Department's report on H.R. 2276 follow:]

[H.R. 2276, 93d Cong., First Sess.]

A BILL To amend the Rural Electrification Act of 1936, as amended, to reaffirm that such funds made available for each fiscal year to carry out the programs provided for in such Act be fully obligated in said year, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the purpose of this Act is to reaffirm the original intent of Congress that funds made available under authority of the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.) are to be loaned for the purposes prescribed in such Act during the fiscal year and in the full amount for which such funds are made available.

SEC. 2. Section 2 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 902), is amended to read as follows:

"SEC. 2. The Administrator is authorized and directed to make loans each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress pursuant to section 3 of this Act in the several States and territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station

service and for the purpose of furnishing and improving telephone service in rural areas, as hereinafter provided; to make, or cause to be made studies, investigations, and reports concerning the condition and progress of the electrification of and the furnishing of adequate telephone service in rural areas in the several States and territories; and to publish and disseminate information with respect thereto."

SEC. 3. The first sentence of section 4 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 904), is amended by striking out at the beginning thereof "The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans" and inserting in lieu thereof the following: "The Administrator is authorized and directed to make loans each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress pursuant to section 3 of this Act".

SEC. 4. The first sentence of section 201 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 922) is amended to read as follows: "From such sums as are from time to time made available by the Congress to the Administrator for such purpose, pursuant to section 3 of this Act, the Administrator is authorized and directed to make loans each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress pursuant to section 3 of this Act to persons now providing or who may hereafter provide telephone service in rural areas, to public bodies now providing telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations."

SEC. 5. Section 306(a)(1) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926) is amended by inserting immediately after the first sentence thereof a new sentence as follows: "The authority contained herein to make and insure loans shall be in addition to and not in lieu of any authority contained in the Rural Electrification Act of 1936, as amended."

[S. 394, 93d Cong., First Sess.]

AN ACT To amend the Rural Electrification Act of 1936, as amended, to reaffirm that such funds made available for each fiscal year to carry out the programs provided for in such Act be fully obligated in said year, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the purpose of this Act is to reaffirm the original intent of Congress that funds made available under authority of the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.) are to be loaned for the purposes prescribed in such Act during the fiscal year and in the full amount for which such funds are made available.

SEC. 2. Section 2 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 902), is amended to read as follows:

"SEC. 2. The Administrator is authorized and directed to make loans each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress pursuant to section 3 of this Act in the several States and territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service and for the purpose of furnishing and improving telephone service in rural areas, as hereinafter provided; to make, or cause to be made, studies, investigations, and reports concerning the condition and progress of the electrification of and the furnishing of adequate telephone service in rural areas in the several States and territories; and to publish and disseminate information with respect thereto."

SEC. 3. The first sentence of section 4 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 904) is amended by striking out at the beginning thereof "The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans" and inserting in lieu thereof the following: "The Administrator is authorized and directed to make loans each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress pursuant to section 3 of this Act".

SEC. 4. The first sentence of section 201 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 922), is amended to read as follows: "From such sums as are from time to time made available by the Congress to the Administrator for such purpose, pursuant to section 3 of this Act, the Administrator is authorized and directed to make loans each fiscal year in the full amount deter-

mined to be necessary by the Congress or appropriated by the Congress pursuant to section 3 of this Act to persons now providing or who may hereafter provide telephone service in rural areas, to public bodies now providing telephone service in rural areas, and to cooperative, nonprofit, limited dividend, or mutual associations."

SEC. 5. Section 306(a)(1) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926) is amended by inserting immediately after the first sentence thereof a new sentence as follows: "The authority contained herein to make and insure loans shall be in addition to and not in lieu of any authority contained in the Rural Electrification Act of 1936, as amended."

Passed the Senate February 21, 1973.

Attest:

FRANCIS R. VALEO,
Secretary.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., February 26, 1973.

Hon. W. R. POAGE,
Chairman, Committee on Agriculture,
House of Representatives.

DEAR MR. CHAIRMAN: This is in response to your letter of January 31, 1973, requesting a report on H.R. 2276, a bill "To amend the Rural Electrification Act of 1936, as amended, to reaffirm that such funds made available for each fiscal year to carry out the programs provided for in such Act be fully obligated in said year, and for other purposes."

This Department does not favor enactment of the bill for the reasons hereinafter stated.

H.R. 2276 would amend sections 2, 4, and 201 of the Rural Electrification Act, under which the Administrator is now "authorized and empowered" to make loans for rural electrification and telephone purposes, in order to authorize and direct him to make loans each fiscal year for such purposes in the full amount appropriated by the Congress. It would also amend section 306(a)(1) of the Consolidated Farm and Rural Development Act by inserting therein a new sentence reading "The authority contained herein to make and insure loans shall be in addition to and not in lieu of any authority contained in the Rural Electrification Act of 1936, as amended."

The legislation is considered unnecessary and undesirable as enactment of the Rural Development Act of 1972 provided very broad authorities to make guaranteed and insured loans to finance all types of community development programs in rural areas. Continued use of the REA 2 percent direct loan authorities would make it difficult, if not impossible, to achieve the President's objective of holding fiscal year 1973 Federal budget outlays to $250 billion, and keep the outstanding public debt within the *statutory* limit of $465 billion through June 30, 1973. Underlying the spending and public debt limits, of course, is the President's basic objective of holding down Federal spending to avoid tax and price increases. Use of the Rural Development Act authorities permits attainment of these dual objectives through the establishment of interest rates more consistent with market rates, and by providing mechanisms whereby private lenders are given the opportunity to assist in the financing of rural electric and telephone facilities which heretofore have been financed by the Treasury as direct Federal loans.

The higher interest rates for loans under the Rural Development Act will affect only those borrowers requiring additional loans. The 2 percent rate on all outstanding REA loan contracts is not affected by the availability of funds from the new source even if the funds under the outstanding contracts have not been fully advanced. Because of the large amounts of outstanding loans at the 2 percent level, the average interest costs on their outstanding debt will go up gradually as REA borrowers get new loans. Generally, the fastest growing borrowers, those best able to pay higher interest rates, will have the fastest growth in the average cost of their indebtedness. Many borrowers will thus be able to absorb the higher interest costs with little, if any, change in their rates for consumers.

Loans under the Rural Development Act to electric and telephone cooperatives will generally be made with interest at the 5 percent rate. If the Govern-

ment must pay interest at a higher rate to the purchasers of these notes when they are resold with payments of principal and interest insured by the Government, the difference will come from congressional appropriations for that purpose. Loans to commercial power companies and commercial telephone companies will be made at a rate approximating that of other loans guaranteed by the Government.

As required by the Legislative Reorganization Act of 1970 (P.L. 91-510), an estimate of the increased costs that will be incurred in carrying out the rural electrification and telephone programs under the 2 percent interest rate established in the Rural Electrification Act instead of under the Rural Development Act at an estimated average interest rate of 5 percent is enclosed.

We recognize the problems some borrowers may have in meeting the requirements for loans under the new law and are hopeful of arriving at solutions to such problems. The prospect of utilizing insured and guaranteed loans, as indicated above, permits an expansion of the loan programs to meet the growing capital needs of rural electric and telephone systems. This also permits a reduction of the subsidy now borne by the taxpayer without appreciably increasing the costs for the rural recipients of these essential services.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

CLAYTON YEUTTER,
Assistant Secretary.

Enclosure.

RURAL ELECTRIFICATION ADMINISTRATION

Fiscal year	Estimated loan requirements		
	Electric loans	Telephone loans	Total loans
1973	$595,000,000	$145,000,000	$740,000,000
1974	438,000,000	120,000,000	558,000,000
1975	438,000,000	110,000,000	548,000,000
1976	438,000,000	100,000,000	538,000,000
1977	438,000,000	90,000,000	528,000,000
1978	438,000,000	90,000,000	528,000,000

Fiscal year	Total loans	Estimated total interest recovered in 35 years [1]		
		At 5 percent	At 2 percent	Difference
1973	$740,000,000	$747,104,000	$264,032,000	$483,072,000
1974	558,000,000	563,356,800	199,094,400	364,262,400
1975	548,000,000	553,260,800	155,526,400	357,734,400
1976	538,000,000	543,164,800	191,958,400	351,206,400
1977	528,000,000	533,068,800	188,390,400	344,678,400
1978	528,000,000	533,068,800	188,390,400	344,678,400
Total		3,473,024,000	1,227,392,000	2,245,632,000

[1] Excluding interest received before the first scheduled principal payment.

STATEMENT OF HON. FRANK E. DENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. DENHOLM. Mr. Chairman, thank you very much. I have examined all of the legislation that has been introduced and now before this committee. All is identical. It is also identical with the legislation that was approved on an affirmative vote of 69 to 20 last week in the Senate. I am referring to Senate bill 394. In the interest of time and the witnesses present, Mr. Chairman, I ask unanimous consent that my statement in support of this legislation be entered at this point in the record and I will defer further comment at this time.

The CHAIRMAN. Without objection, it will be in the record.
[The complete statement of Mr. Denholm follows:]

STATEMENT OF HON. FRANK E. DENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman and Members of the Committee: I am here to testify in support of the proposed legislation that I and more than one hundred other Members of the Congress have introduced to amend the language expressed in the existing statutes pertaining to the Rural Electrification Act of 1936, as amended. (7 U.S.C. 901 et seq.)

The purpose of the proposed legislation is to reaffirm the original intent of the Congress. It provides that funds made available under authority of law enacted by the Congress and signed by the President be administered for the purposes prescribed in such law and that appropriations as determined by the Congress in regular form be timely administered during the fiscal year in the full amount for which such funds are made available by the Congress. That was the intent of the original Act of the Congress and it is the spirit of existing law—and it has been faithfully executed by every Congress and every President since 1936.

In the last days of 1972 the present Administration by a policy decision and reported only by a News Release terminated 36 years of precedent by all of the previous sessions of the Congress and six Presidents and refused to execute or administered the Rural Electrification Act of 1936, as amended. (RE Act, as Amended. 7 U.S.C. 901 et seq.)

I first introduced legislation on the 18th day of January, 1973 to amend the RE Act of 1936, as amended, with language to compel and reaffirm the will of the Congress and the spirit of the law. (H.R. 2276)

Because of the importance and urgency for language to amend existing law more than 100 other Members of Congress have proposed or co-sponsored legislation to assure the continued administration of the RE Act of 1936, as amended. (H.R. 2555, H.R. 2812, H.R. 2829, H.R. 2832, H.R. 2855, H.R. 2964, H.R. 2972, H.R. 2986, H.R. 3058, H.R. 3121, H.R. 3594, H.R. 3614, H.R. 3615, H.R. 3642, H.R. 3653, H.R. 3724, H.R. 3793 and H.R. 4367.)

I have carefully examined the expressed language of each of the aforesaid proposals introduced to amend the RE Act of 1936, as amended. Each of them and all of them are identical to the proposed legislation that I introduced on January 18, 1973. (H.R. 2276) Further, the legislation introduced by the Honorable HUBERT H. HUMPHREY, the distinguished Senator from Minnesota, and approved by the United States Senate by a 69 to 20 affirmative vote on the 21st day of February, 1973, is identical to the proposed legislation now the subject of hearings before this Committee. (S. 394 and H.R. 2276, et al.)

I realize as a member of this distinguished Committee that this matter is another of a series of existing laws that have come before you, Mr. Chairman and Members of the Committee, for the same and similar reason. The REA and rural telephone 2% loan programs have been terminated by a policy decision of the Administration announced on the 29th day of December, 1972. In all instances this Committee has responded affirmatively in the essential leadership to reinstate proven programs of merit. It is in the public interest to do so.

The proposed legislation before you provides that Section 2 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 902) be amended to read as follows, to wit:

"Sec. 2. The Administrator is authorized and *directed* to make loans *each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress* pursuant to section 3 of this Act in several States and territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service and for the purpose of furnishing and improving telephone service in rural areas, as hereinafter provided; to make or cause to be made studies, investigations, and reports concerning the condition and progress of the electrification of and furnishing of adequate telephone service in rural areas in the several States and territories; and to publish and disseminate information with respect thereto."

The first sentence of section 4 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 904), will be amended by striking out at the beginning thereof

"The Administrator is authorized and (*empowered*, from the sums hereinbefore authorized,) to make loans" ( ) designates portion deleted.

and inserting in lieu thereof the following:

"The Administrator is authorized and *directed* to make loans *each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress* pursuant to section 3 of this Act." (*italicized* to identify that portion changed by amendment)

The proposed legislation will further amend the existing law pertaining to telephone service in rural areas, to public bodies now providing telephone service in rural areas and to cooperative nonprofit, limited dividend or mutual associations.

The first sentence of section 201 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 922) will be amended to read as follows, to wit:

"From such sums as are from time to time made available by the Congress to the Administrator for such purpose, pursuant to section 3 of this Act, the Administrator is authorized and *directed* to make loans *each fiscal year in the full amount determined to be necessary by the Congress or appropriated by the Congress* pursuant to section 3 of this Act to persons now providing or who may hereafter provide telephone service in rural areas, to public bodies now providing telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations."

Lastly, the legislation that I and others have proposed will substantially preclude an invasion of the Consolidated Farm and Rural Development Act. (7 U.S.C. 1926)

Section 306(a)1) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926) will be amended by inserting immediately after the first sentence thereof a new sentence as follows, to wit:

"*The authority contained herein to make and insure loans shall be in addition to and not in lieu of any authority contained in the Rural Electrification Act of 1936, as amended.*"

Mr. Chairman and Members of the Committee the years of precedent by more than three decades of legislative history clearly establish the intent and purpose of the Congress and six Presidents in the administration of the law—now the subject of hearings before you.

The merit of the proven utility industries for the people and operated by the people of rural America cannot be denied. The record of achievement of the Rural Electric Cooperatives across this country is unequaled in administration and in service in the public interest. The rural electric systems are consumer-owned cooperatives and managed by the people with a degree of skill superior to any agency of the federal government. Reasonable people agree the record of accomplishment by the rural electric cooperatives is commendable.

I have been informed that the federal government has loaned a total of approximately $8 billion to rural electric systems since 1935. Principal losses for the same period are practically NONE (about .007 of 1 per cent). More than one-third of the total principal loaned by the government has been repaid plus almost $5 billion in interest. Most payments on debt service costs are paid two years in advance. The program is financially sound and it is primarily administered by local people. It is an asset to the federal government and not an expense. It is a benefit to all of the people of America. Funds loaned are secured by assets valued far in excess of the unpaid mortgage notes of record.

I am convinced the merit of the programs for the rural electric and telephone systems is not at issue. I am certain the Administration, the Congress and the people are in agreement that the utility programs must and should be continued. The issue is the rate of interest on loans by the federal government to qualified borrowers under the RE Act of 1936, as amended. The issue of 2% loans for a term of 35 years has been a matter of controversy for years.

Actually, a consumer-owned utility system can pay any rate of interest because the debt service payments represent only part of the costs of construction, maintenance and operation and overhead. But to do so the systems must do and be prepared for several alternatives including—

1. Increased rates to consumers; or
2. Reduced net income to satisfy fixed obligations; or
3. Resort to bankruptcy, failure, conversion or sale and "Get out of business."

Not any of the alternatives are desirable but the first is the only choice the systems could endure.

The essential production of food and fiber of this nation can not be placed in jeopardy. It can not be produced in the quantity needed without a rural utility system. Any increase in the cost of money to the rural utility systems will cause one of two economic results—

1. Increase consumer costs of food and fiber; or
2. Decrease the income of producers.

The farmers and ranchers cannot readily pass production costs so some of both will occur. The people of this nation can NOT afford either.

A 3% increase in interest rates to 32 rural electric cooperatives in my state will increase consumer costs of electric service approximately $1.5 million annually. The multiplier effect across the nation will likely work conversely to the interest of consumers and producers alike and result in an increased return to the federal government that never intended to be in business and is now an unwilling business proprietor.

It is a "bum" and false sense of economy to pursue public policy that results in decreased income to producers or increased cost-of-living to consumers. An increase in the cost of essential money to rural utility systems can not reasonably result in any other conclusion.

The 92nd Congress appropriated $595 million for fiscal year 1973 to fund the programs under the RE Act of 1936, as amended. The amount administered on applications for loans was $228 million and $367 million of the total FY 1973 appropriations was not obligated at the time the program was terminated by the Administration as announced the 29th day of December, 1972.

As of December 31, 1972, there were 159 applications on file by borrowers of the utility systems in a sum total request of $467,633,000 for a total annual need of $695,633,000 or $100,633,000 over the total appropriations approved last year by the Congress. It is clear the 92nd Congress acted prudently in approving appropriations for FY 1973. It is reported that of the 159 applications on file as of December 31, 1972, that 88 of such prospective borrowers can not obtain essential funds elsewhere. Some or all of the remaining 71 prospective borrowers may obtain funds at interest rates and upon terms acceptable by negotiation from other sources. Nothing in the law precludes them from doing so if the Administration will subordinate first lien mortgages in cooperation with other lending institutions as proposed under the suggested policy of termination of the entire RE Act, as amended. The sources of financing are available to qualified borrowers and it is for the Congress to decide the need of all systems in the regular form of hearings and deliberation for approved appropriations annually. The Congress has never abused that discretion and certainly the will of the people as expressed by the Congress can NOT be superseded by a GS–14 employee of the Office of Management and Budget in determining public policy under the Constitution of this Republic.

Mr. Chairman and Members of the Committee—these may be alternatives—these may be more viable plans and programs for long term policies of financing but until this Committee and the Congress works its will and the statutes are amended, changed or modified by the Congress—the law and the original intent of the Congress must be executed, carried out and fully respected. That is what the legislation that I have proposed and now before this Committee purports to accomplish.

It is imperative that the proposed legislation be enacted without delay. (H.R. 2276) The integrity of this Committee and the constitutional powers of the Congress shall not be denied if this Republic is to endure the test of time. The circumstances do not constitute a "Crisis" unless the Congress should fail, falter or refuse the challenge. The challenge is ours—the challenge is to the Congress. Our alternatives are clear—either we shall lead—or we shall be led. The pending legislation before you should be approved accordingly.

Thank you very much.

The CHAIRMAN. The Chair would like to call attention to the fact that we are pleased to have with us this morning the former Administrator of the REA, who served with considerable distinction in that

position, and who has carried on his good work as a Member of the House. Our colleague, Mr. Ancher Nelsen is here.

We are glad to have you, Mr. Nelsen.

Mr. NELSEN. Thank you.

The CHAIRMAN. If you do not have at this time any statement, we will be glad to hear from you at a later time; but if you want to make any comment now, you may.

STATEMENT OF HON. ANCHER NELSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NELSEN. Only to say that knowing this REA program as I do and the importance of it, for many years I have been looking forward with the hope that some way, sometime, we could set up a program that would be enduring and could stand on its own feet. I have been working with Chairman Poage and I hope we have something pretty well formalized that will be presented to the House for consideration. I do personally feel it would be a disservice to the program not to seize at the opportunity of a permanent long-range plan, and I am sure that the author of this bill today would agree that, looking ahead, we all hope to have a final answer. I have been working closely with Mr. Poage, with the Office of Management and Budget, and all authorities that deal with this program to put together a good program. I think we can do it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Nelsen.

Now, our first scheduled witness is Richard A. Dell, director of the legislation communications department of the National Rural Electric Cooperative Association. Mr. Dell has been before us for a good many years.

We are delighted to have you, Mr. Dell. We will be glad to hear from you.

STATEMENT OF RICHARD A. DELL, DIRECTOR, LEGISLATION AND COMMUNICATIONS DEPARTMENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY JOHN B. DAVENPORT, JR., SENIOR LEGISLATIVE REPRESENTATIVE; AND DONALD COOPER, RESEARCH SPECIALIST

Mr. DELL. Mr. Chairman, members of the Committee on Agriculture, and the Honorable Mr. Nelsen.

Mr. NELSEN. Hi, Dick. How are you?

Mr. DELL. Good, thanks.

My name is Richard Dell. I have with me this morning our senior legislative representative, Mr. John Davenport, and our research specialist, Mr. Don Cooper. These men have been with us for a long time and are experienced in rural electrification programs.

I appear here on behalf of the rural electric systems that provide service in 2,578 counties and 46 States, and in Puerto Rico and the Virgin Islands. There are nearly 1,000 of these systems, most of them cooperatives, and they own and maintain about 46 percent of all the electric distribution line in the Nation.

The executive vice president and general manager of our association, Bob Partridge, asked me to express his great regret in being unable to meet with you today. As probably all of you know, our annual meeting opened today in Dallas. The membership must make some very important decisions at this meeting, and it is essential for the chief executive officer of the organization to be there. Let me mention in passing that ours is a straight-line organization, not a federation. Every member has one vote, and the work that we of the staff are to do is determined in specific terms every year by the membership. I'm sure this helps to explain why you, as Members of the Congress, can always know whether we have a position on an issue and, if we have, exactly what it is. We of the staff and other representatives of our organization know because our members tell us.

The action I am here to recommend today was voted on affirmatively by our Board of Directors in a special, emergency meeting on January 22. The need for this particular action could not have been anticipated by our members or anyone else at our meeting at this time last year. Even in the wildest flight of imagination, nobody would have guessed or believed if told that the administration would suddenly announce it would no longer administer the Rural Electrification Act. The worst we feared was a continued impoundment of funds and efforts to phase out the program.

Nevertheless, the membership has established and reiterated year after year a clear policy within which the Board could urge the Congress to adopt the legislation you are now considering.

Our members each year have reaffirmed their belief that the Rural Electrification program is essential to rural America, and they have decided each year how much new capital they needed to borrow from REA at 2 percent interest in order to meet their responsibilities to consumer-members and the public interest. In recent years the Congress in the appropriation process has been coming closer than ever before to providing the recommended amounts. We deeply appreciate this—not so much because we like for you to be accommodating but because your action says to us that you believe we are serving the public interest as we are trying very hard to do.

The bill you are considering is simple and straightforward. It makes mandatory the administration of the Rural Electrification Act, and it makes clear that the Rural Development Act is not intended to substitute for the Rural Electrification Act in whole or in part. It tells the President what the Congress and the citizens thought was already clear enough: That he does not have any legal option other than to administer the Rural Electrification Act. It reaffirms the principle that the Congress alone has the power to enact, amend, and terminate legislation. It enables the Congress to take a necessary step toward reestablishing the separation of powers among coequal branches of the Government.

We hope this committee will recommend and that the House will pass this bill. We hope you will act quickly. The basic issue regarding separation of powers needs to be met promptly. So too does the question of whether we are to have a legal, workable rural electrification program.

Let me review where the program stands:

As authorized by Congress, the REA program loan level for this fiscal year was $595 million. During the first half of the fiscal year, the administration was implementing a program of $438 million, as its budget had recommended. The loans actually totaled $228 million, a little over half of the expected total for the year. Since the administration terminated the REA direct loans program by press release December 29, we have had no program at all. The administration has said it would make loans to rural electric systems under the Rural Development Act, but our own reading of the statute and the opinion rendered by the Department of Agriculture's Assistant General Counsel for Rural Development and Conservation raise grave doubts as to whether we can have a legal and workable rural electric loans program under this act. The opinion was printed in the Congressional Record of February 20, beginning on page S2919.

I offer for the record a copy of our response to the notice in the Federal Register of February 9, in which the proposed amendments to REA procedures were published.

Let me call your attention to three major objections to the proposed program which I have not already covered:

1. A rural electric system will not be able to borrow any funds under this statute if it can obtain credit elsewhere at prevailing interest rates and terms. Nearly all systems are eligible to supplement their REA loans by borrowing from their own new cooperative financing institution, CFC, and no doubt many could borrow from private lenders at market rates and terms. They have "credit elsewhere."

2. A system that did obtain a loan under the proposed program could be compelled to refinance and pay off any time the Government determined that the system could obtain credit elsewhere and repay the loan without seriously impairing the particular operation for which the loan was made.

3. Loans proposed for rural electric systems would be subject to local veto by local planning agencies, county and municipal governments. Thus, the proposed program would not be a reliable source of credit for a going business enterprise.

These three objections are squarely based on the opinion of the USDA General Counsel's office and on the interpretations of law by our own Counsel.

The actions of the administration have thoroughly frightened most people who carry responsibility for the service and integrity of the rural electric systems. In our view, it has illegally killed the program which means life or death to many of our systems and which for all rural electric systems provides the essential foundation for supplemental financing from the private money markets. In our view, the administration has proposed a new program that is not really a program. We doubt that it is legally authorized; we doubt that it will work; we know it will not meet our needs. While competent legal counsel tells us we would have a good case in court against the administration—and we are keeping this option open—a suit would not solve our immediate financial crisis. While we trust that the Congress will pass the bill now before you, and while we trust you would override the President's veto, we are afraid the administration would drag its feet longer than we can afford.

Accordingly, we are trying to develop and agree among ourselves on amendments to the Rural Electrification Act which would meet our vital needs and yet provide for a program that Congress will authorize and the President will administer. Our Board decided to try this. We have had an advisory committee at work on the objective. That committee was appointed at the special Board meeting on January 22. Tomorrow night at our annual meeting in Dallas we are going to have a special session—an extra session that we had not planned—at which the members then thoroughly discuss the proposed changes and be ready to vote on them at the bsuiness session Thursday.

Obviously, I am not in a position today to forecast exactly what our organization will recommend.

It is at least as clear to you as it is to me that it will take some time to go through the legislative process and get a modified REA program into operation. It should not be done on a crash basis. On the other hand, we cannot afford to wait on a long process before the rural electric systems start getting new loans.

What we urge you to do is to direct the administration to restore the program provided for in the Rural Electrification Act and then begin the normal legislative process through which you may consider amendments and make such determinations as you see fit.

I know that some of you are already at work on some rather far-reaching amendments—things that Congressman Nelsen has—and that you will want to test them in hearings as well as along with the proposals of other people and organizations.

We appreciate the fact that approximately a fourth of the members of this body have introduced legislation that would accomplish the first part of the objective—the restoration of the REA program.

Mr. Chairman and members of the committee, we also deeply appreciate your holding this hearing and receiving our testimony. I would like to say in conclusion that our Board of Directors yesterday, meeting in Dallas, asked me to urge the committees to promptly act on this legislation. We are in the process now of trying to work out amendments to the Rural Electrification Act that would be acceptable to the administration, acceptable to our people, and would work. We are not opposed to change. We will negotiate with the Congress, with the administration on a fair basis and on a frank, open, and honest attempt to do whatever the Congress and the administration thinks that we can agree on a good program under the Rural Electrification Act.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Dell, we are very much obliged to you for what I think is a very fine statement and I appreciate very much the willingness of the association to try to work this thing out on a basis where we can remove any faults that exist and at the same time, protect the operation of a great program.

We are going to ask, in keeping with our practice, if you will stay here for sometime and after we have heard other witnesses, we will bring a group back and discuss the whole matter and question you all en bloc. We find we save a great deal of time that way.

Mr. DELL. Thank you very much.

94-225—73——2

The CHAIRMAN. Thank you, Mr. Dell, and without objection, your letter will be included in the record.

[The above-referred-to letter follows:]

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,
Washington, D.C., February 16, 1973.

Hon. DAVID A. HAMIL,
Administrator, Rural Electrification Administration,
U.S. Department of Agriculture, Washington, D.C.

DEAR MR. HAMIL: The following statement is submitted in response to notice in the *FEDERAL REGISTER* of February 9, 1973 soliciting comment on proposed amendments of REA procedures contained in Chapter XVII, Part 1700 of the Code of Federal Regulations. These changes are designed to initiate and implement the use of the Rural Development Act of 1972 for the financing of rural electrification.

Initially, we respectfully protest the very short period of time allowed for comment on this matter, and the consequent limited ability of REA borrowers to offer carefully considered judgments thereon. We suggest that a 30 day period in which to file such comment would be more reasonable, and that in view of the various time delays inherent in the proposed application of the Rural Development Act, it would, in any event, be impossible for a borrower to utilize financing under the new program prior to the expiration of any such 30 day period.

NRECA, representing as it does almost all REA electric borrowers, is deeply concerned about these proposed changes. Taken in conjunction with the Department of Agriculture's press release of December 29, 1972, they would terminate, by Executive action alone, loans under the Rural Electrification Act of 1936, as amended.

We wish to express to you our vigorous and serious obligation to these changes for the following reasons:

First, we are advised by competent and knowledgeable counsel that such termination of a statutory program is clearly beyond the constitutional and delegated powers of the Executive Branch. Second, notwithstanding the USDA Press Release of December 29, 1972 which states that:

> "beginning on January 1, 1973, *all REA loans* will be made as guaranteed and insured loans under the authority of Section 104 of the Rural Development Act." (emphasis supplied),

the February 2, 1973 opinion of your Department's Assistance General Counsel makes it abundantly clear that the new program of 5% guaranteed and insured loans will in all probability not be coextensive with the 2% statutory program which it proposes to replace. Third, the Rural Development Act of 1972 is not structured or adapted to be, and was not intended by the Congress to be, a substitute for or a replacement of the RE Act. It includes several cumbersome restrictions on loan procedures and a much lighter interest rate than the RE Act. Its use for rural electrification loans would therefore, immeasurably impair the ability of many rural electric systems to maintain and achieve RE Act objectives, and would unacceptably weaken their vital role in providing adequate, reliable, reasonably priced, area-coverage electric service to the rural portions of this nation.

In support of these objections to the proposed new loan program, we call to your attention the following facts.

Senator Talmadge, Chairman of the Senate Agriculture Committee, and Congressman Poage, Chairman of the House Agriculture Committee, both of whom are extremely knowledgeable as to the purposes and objectives of the Rural Development Act, indicated during floor debate that this act was not designed to replace existing programs such as rural electrification. Recently, Senator Talmadge and Congressman Poage have both reiterated this important point in the most vigorous and explicit terms.

On January 22, 1973, the law firm of Arnold and Porter submitted to NRECA a comprehensive and thoroughly researched memorandum on the Department's termination of the REA program under the RE Act. This opinion concludes that there is "no constitutional basis for the Department's action;" and that it "cannot be justified, either as an assertion of constitutional prerogaive or as an exercise of discretionary authority delegated by Congress."

The legal opinion, dated February 2, 1973 submitted to you by your Department's Assistant General Counsel for Rural Development and Conservation, recognizes that there are serious difficulties in making rural electrification loans under the Rural Development Act, and thereby confirms the substantial apprehension by many REA borrowers that the proposed Rural Development Act lending program is completely unworkable when applied to electric utility type enterprise.

Your counsel's opinion points out that before a loan under the Rural Development Act may be made, the Secretary must determine that an applicant is unable to obtain credit elsewhere "from private lenders at *prevailing* interest rates and terms . . . manifestly, also, the *prevailing* interest rate is not limited to five percent." (italics supplied) This appears largely to nullify the Department's December 29, 1972 announcement that "all REA" loans would thereafter be made at 5% under an increased loan ceiling. It now seems more likely that many rural electric systems could in fact be deprived of any Federal loan assistance by this "no credit elsewhere" restriction. Moreover, your counsel's reference to a borrowers "ability to pay" these prevailing interest rates from private lenders indicates that such "ability" may be evaluated without regard to any of the criteria which have historically been regarded as valid tests of the borrower's need for Federal financing. Indeed, this opinion of your counsel limits the term "ability to pay" to the question of whether the applicant can repay the alternative private loan without injuring the *project* (italic supplied) for which the federal loan is considered. Apparently, even the overall operations of the system and its future needs for additional capital are not to be taken into account.

A second major and serious problem is emphasized by your counsel. Even if a loan should, after satisfaction of the "credit elsewhere" test, be made, it would be subject to the contingency that *at any time* over the loan period the borrower could be compelled to refinance and repay the Government loan, if the Secretary should determine (1) that private credit is available to the borrower, at *then prevailing* rates and terms, and (2) "that the borrower is reasonably able to repay such loans without seriously impairing the *operation* for which the loans were initially made" (italic supplied). In other words, financing under this statute is not really permanent, long-term financing. Borrowers would be completely uncertain about (1) the duration of the financing, and (2) the extent of possible increases in cost which might be imposed at any time by compulsory refinancing. Your counsel states that it would be "legally impermissible" to set any maximum interest rate beyond which future refinancing would not be required. A burden of such proportions is totally incompatible with good utility planning and management.

Finally, your counsel points out that all loan applications must be submitted for review and comment to local multi-jurisdictional planning agencies and to the unit of local government having jurisdiction over the area in which the proposed project is to be located; and the Secretary must in each case make a determination "that the loan project is not inconsistent with area development planning." The potential for delays, irrelevant and frivolous controversy and added borrower burdens in these requirements is incalculable.

In the light of all of these problems and hurdles, one cannot help wondering whether the increased loan ceiling included in the December 29, 1972 press release is at all meaningful. It now apears more realistic to be apprehensive that any decision to substitute Rural Development Act loan authority for that available under the Rural Electrification Act would substantially reduce the flow of Government loans to rural electric systems rather than afford any increase.

Any desire in the part of the Administration to increase supplemental financing of the Rural Electrification Program could and can be more equitably accomplished by the mechanism already in operation under the Rural Electrification Act. The ratios of required private supplemental financing, now provided for by REA Bulletin, can be modified, and such modification can be made with due attention to the financial capabilities of borrowers as well as the accomplishment of the objectives of the Rural Electrification Act and the intent of the Congress. It is not at all necessary to revise the financing program for rural electrification and the bases for Federal government participation in it. There were and are available legitimate alternatives to the abruptly desperate situation into which many rural electric systems have been thrust by this proposal.

In summary, the changes proposed in rural electric loan programming will entangle REA and its borrowers in untested, uncharted, and cumbersome procedures under a statute not designed for this kind of application (The Rural Development Act). Moves have already been initiated, as you know, to consider possible changes in the Rural Electrification Act which would accommodate certain budgetary objectives without the drastic and sudden withdrawal of Government loan assistance still so widely needed. Such modifications should be developed in an atmosphere not characterized by the anxiety and even near-panic which these proposed changes have engendered.

To this end, the proposed changes should be withdrawn, and loan processing under the Rural Electrification Act promptly resumed. This would properly and effectively set the stage for reasonable solutions encompassing all of the interests and needs involved.

Sincerely,

ROBERT D. PARTRIDGE,
Executive Vice President and General Manager.

Mr. DELL. Thank you very much.

The CHAIRMAN. The next witness is Mr. David C. Fullarton, executive vice president of the National Telephone Cooperative Association.

We are glad to have you with us, Mr. Fullarton.

STATEMENT OF DAVID C. FULLARTON, EXECUTIVE VICE PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY JAMES L. BASS, GENERAL COUNSEL, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION; CARTHAGE, TENN.; AND ROSS HELLER, GOVERNMENT AFFAIRS DIRECTOR

Mr. FULLARTON. Mr. Chairman and members of the committee, my name is David C. Fullarton, executive vice president of the National Telephone Cooperative Association. With me this morning, on my right, is Mr. James L. Bass, general counsel of NTCA, in Carthage, Tenn.; on my left, Mr. Ross Heller, government affairs director here in Washington.

With your permission, Mr. Chairman, Mr. Bass would like to make a very brief introductory statement.

The CHAIRMAN. Without objection.

Mr. BASS. Thank you, Mr. Chairman, members of the committee.

I would like to briefly make one or two personal observations about the administration's proposed action in terminating the REA Telephone Lending program. I think we all recognize that among all the Government programs, the REA telephone lending program has been one of the most successful of all of the programs. It has enjoyed bipartisan support from the Congress through its years since 1949, and of course, suddenly, on December 29, last year, the program was terminated.

We had our annual meeting of the association here in Washington last week, and I think I can summarize very briefly the reaction of the REA borrowers who were here. That reaction was one of shock and confusion—shock over the short, terse announcement that the program was terminated, and confusion over where do we go from here? I think it is apparent that the action has created both legal and procedural problems and the procedural aspects of this are going to be tough to implement. Apparently, we do not know which phase

and which course of actions are going to be taken. Many borrowers were in the process of receiving loans. They have projects partially completed, for example. We just do not know where we are going to go to get the additional funding, how it is going to be made, under what terms and conditions. So a lot of confusion is existing in this program right now.

I want to touch on one more phase and then I will let Mr. Fullarton have the rest of our time.

There has been a lot of discussion about the effects of the administration's proposed action and how that effect will be on the rural telephone systems. I think we should be thinking in terms, Mr. Chairman, not of telephone companies, but the subscribers of these telephone companies, because, after all, they are the ones who are going to bear the cost. If the administration's action is unchallenged, many systems will find themselves paying two and a half times higher interest costs. Now, the only place that these telephone systems have to go for the money is back to their subscribers and local telephone ratepayers in rural areas will underwrite the cost of this action and no one else.

Mr. Chairman, the rural programs and not only the REA program, but other programs, do not appear to have a lot of chance for survival in the present-day structure. We know of your record and of the committee's record in support of the REA and of all rural programs. We commend you and we are thankful for your support and for your interest in all of these rural programs through the years. We want to assure you of the complete support and cooperation of our association and we want to commend you in your efforts to restore the constitutional authority of the Congress in these matters.

Mr. Chairman, Mr Fullarton will make the balance of our prepared presentation at this time.

The CHAIRMAN. All right, Mr. Fullarton. Go ahead.

Mr. FULLARTON. My name is David C. Fullarton. I am executive vice president of the National Telephone Cooperative Association. NTCA is the national service organization of the Nation's 238 rural telephone cooperatives and many of its small independent telephone companies. The cooperatives and independent companies comprising our membership provide service to more than three-quarters of a million subscribers in 31 States.

Our members have been most seriously affected by the recent administration action shutting off the flow of 2-percent loan funds under the Rural Electrification Act of 1936, as amended, and by the proposal to fund these loans under the Rural Development Act of 1972.

In this statement I will outline for the committee the basic facts of our members' operations and the reasons why our membership feels this administration action to be such a serious matter. I would also like to comment on H.R. 2276, which would have the effect of restoring the traditional REA programs and countering the assumed Presidential prerogative to unilaterally impound appropriated funds.

Until January 1, 1973 the member systems of NTCA obtained their entire long-term capital financing under the provisions of the Rural Electrification Act of 1936. This act provides for 35-year REA loans

at 2 percent interest and similar long-term financing, at interest rates between 4 percent and 8 percent from the recently created Rural Telephone Bank.

I think the success story of the REA telephone loan program is well known to the members of this committee. First-class rural telephone service has helped farm families improve their standard of living. It has saved countless lives. It has benefited the Nation's consumers by increasing the efficiency of food and fiber production. Finally, it has helped create a multibillion-dollar market for urban manufacturing industries in rural areas.

From the outset of the REA telephone loan program until the present day, the task facing borrowers has always been a difficult one. Initially the goal was to provide basic telephone service to all those who needed and wanted it. No one was, or ever has been, excluded from service because they lived too far out in the country. In the early days of the REA telephone program, adequate service meant upgrading 16 and 20 party lines to standard eight-party service. But as agriculture became more modern and technical, so the need for updated and more modern telephone service grew.

Today, eight-party service can no more be tolerated than the horse-drawn plow. Quick, efficient and modern service is no luxury to farmers. It is an essential tool.

Thus, despite the remarkable achievements and progress which REA borrowers have made over the past 23 years, much remains to be done.

Statistics relating to the rural telephone program are the best way to concretely illustrate our program's continuing needs. In 1949 only about 39 percent of American farms were receiving telephone service. Today more than 84 percent of rural establishments have phone service. But, as I noted, subscribers are continually demanding improved service. Eight-party rural lines, although obviously outmoded, are still a fact of life in too many rural areas. The following table, from REA's most recent yearbook, illustrates this fact:

Percent of REA residence subscribers with various types of service as of December 31, 1970

Type of service:	*Subscriber percentage*
1 and 2 Party	51.4%
4 and 5 Party	25.6%
8 Party	22.9%

As can be seen, more than 20 percent of REA borrower subscribers—1 out of 5—still have eight-party service and almost half—49 percent—have to tolerate no better than four-party service. And REA projections indicate that some eight-party service will still be with us well into the 1980's.

There are reasons for this, of course. As a group, REA telephone cooperatives are very high cost, low-return businesses. They have the lowest subscriber density in the industry; just 2.72 subscribers per mile as compared to 6.9 subscribers per mile for other independent companies financed by REA and in excess of 40 subscribers per mile for the Bell System nationwide. Because of this, telephone co-ops also have the lowest operating revenue per mile—$385 as opposed to $856 for other REA borrowers. The figures for the Bell System are very much greater.

All of this means that the cost of capital—interest—is a most signifi-

cant factor in the rural system's financial statement. We estimated that debt service accounts for fully one-third of the average telephone cooperatives operating budget.

Another important factor to bear in mind about these systems is their very low net worth. Many of them started their corporate life 100 percent debt financed. Equity amounted to almost nothing. Even today fully 85 percent have a net worth of less than 30 percent and almost half have a net worth less than 15 percent. The following table, also taken from the most recent REA yearbook clearly shows this:

Net worth of telephone borrowers, December 31, 1970

Percent of borrowers	*Net worth as a percent of assets*
100	Less than 95.
98	Less than 50.
95	Less than 40.
86	Less than 30.
74	Less than 25.
62	Less than 20.
46	Less than 15.
27	Less than 10.
12	Less than 5.
5	Negative Net Worth.

Telephone co-ops are able to provide modern telephone service despite all these adverse factors. This is partly because of good management and partly through the benefit of a subsidized interest rate. But it is also because in the cooperative way of doing business the users of the service not only control the business but have, and feel, responsibility for its successful operation. This is one reason telephone co-ops have the lowest amount of uncollectable accounts in the Nation. And this record of good credit extends past the individual subscribers to the borrowers as well. As of June 30, 1971 REA telephone borrowers had repaid over $500 million to the Treasury in principal and interest. And, in addition had made more than $25 million in advance payments on their indebtedness. A small fraction of 1 percent of all REA loans are in arrears. It was somewhat startling to read that, at a recent press conference, Secretary Butz described REA borrowers as "husky individuals," well able to bear increased interest costs. It may be he is looking at different statistics than those published by his own REA, but I would defy anyone to look at the figures I have just quoted and find evidence in them of financial "huskiness."

I would be the first to claim that our members are not "sickly," financially, but they are far from "husky." And this issue goes beyond mere semantics. A million dollar loan at 5 percent could easily eliminate the entire projected annual margin of a telephone cooperative that had previously counted on paying 2 percent. And a business whose balance sheet leaves no margin for the uncertainties of the future is a business which is running perilously close to financial disaster.

Understanding, from the above, the various financial and other factors which constantly bear upon the average REA telephone borrower, I believe this committee can readily understand the disastrous threat the administration's impoundment of all REA loan funds poses.

The administration's action is in fact a twofold threat. It is a threat not only to the congressional authority to legislate, but, also to the congressional authority to appropriate.

First off, this fund impoundment threatens the Congress' authority to legislate, for it is really more than just the cutoff of funds. Specifically, not only are funds being impounded, but the impoundment process is a tool with which the administration is making all manner of administrative changes—changes in no way contemplated or mandated by Congress.

In the case of REA, both the House and Senate architects of the Rural Development Act, have unequivocally stated that use of this act to fund REA programs was never intended by them.

Nowhere in the entire legislative history of the rural development bill, from hearings, to markup, to floor debate, to conference, was any such proposal ever discussed—even by the administration.

This joint impoundment and transfer of authority represents, in fact, legislation by decree and without any shred of due consideration. We have seen no evidence that the administration gave this change the same kind of detailed and in-depth consideration which congressional committees have traditionally given to pending legislative changes of this magnitude. And, as always happens when actions are taken precipitously, the result is chaos.

The effect of this decision on the Rural Telephone Bank is a perfect example. I would take strong issue with the remarks made by Secretary Butz recently that this change would positively affect the Rural Telephone Bank. In fact, the change will create grave problems for the bank.

The bank law was designed to precisely mesh with section 201. When Congress wrote the bank law, borrower financial needs and abilities were very carefully considered and the result was an amended REA Act where the basic criteria for telephone loans is "ability to pay." The borrower, who because of his financial condition or the low density of his system could only pay 2 percent, was assured of a continuity of this type of financing. But the borrower able to pay more—even a fraction of a percent more—must pay that higher rate. There are no ifs, ands, or buts!

Yet the arbitrary termination of 2-percent financing, means that co-op borrowers unable to pay even a small amount more than 2 percent must now pay 5 percent! Similarly, unless exceptions are made, the commercial borrower unable to borrow through the bank because of poor financial condition must now pay 7 percent or 8 percent for a guaranteed loan. Or, taking the other side of the coin, the borrower who could pay bank rates—say 8 percent—now may find he can get Government "insured" loans at 5 percent, a more inequitable situation could not be imagined. Such is the positive effect of this legislative change through impoundment on the Telephone Bank.

The second grave threat this impoundment of funds poses is to the congressional authority to appropriate.

As written, the REA Act of 1936, as amended, reserves to Congress the sole right to appropriate funds which will be loaned to borrowers. However, the new OMB method of financing REA loans, using the insured and guaranteed loan provisions of the Rural Development Act, bypasses entirely the congressional appropriations process. Because funds for insured and guaranteed loans need not be appropriated by Congress. Rather, they are obtained through a revolving fund ap-

proach that is independent of congressional control. Thus, if the administration wishes to allocate $140 million through this fund to be loaned to rural telephone borrowers they have the authority. And, just as important, if the administration wishes to allocate $100 million, or $50 million, or for that matter zero million, they assume that authority.

And that, our association feels, is a very clear and present danger.

We believe the authority to appropriate and designate funds for Government programs must remain with the Congress. Congress established the rural telephone loan program and Congress, through the years, has met its responsibilities to provide loan funds for borrowers. We have not always felt the budgeted amount of these loan funds sufficient, but we have always believed Congress to have acted ably and responsibly.

If Congress had wished to give the Executive the right to determine the exact amount of funding for Government programs, we believe that Congress would have specifically so acted. In our case, when Congress recently amended the REA Act it had that opportunity. But Congress did not give the Executive the appropriations authority as far as REA is concerned. In our opinion, the Executive has no "natural right" to abrogate to itself the entire funding process.

I would now like to address myself specifically to H.R. 2276.

Our association believes this bill to be a very direct approach to counter the action taken by the administration. Nothing can be clearer than its language "directing" the Administrator to expand funds duly authorized by the Congress.

Similarly, what could be clearer than its language categorically stating that the Consolidated Farm and Rural Development Act is not to be used "in lieu of" REA loans, but rather, "in addition to" REA loan funding.

There is a technical point which I would like to bring to the attention of the committee. The new language in the Humphrey-Aiken bill, in "directing" the Administrator to make loans could bring otherwise passive opposition into prominence in reference to the legislative mandate. In the unlikely event that there is more money available for 2-percent loans than there are feasible applications to approve, or if there are funds available but borrowers qualify for higher interest rate bank loans, the Administrator would not be able to follow the mandate. Perhaps language to clarify this matter should be included in the legislation.

REA legislation has always enjoyed a spirit of bipartisanship because the issue of bringing modern telephone and electric service to rural America is not a partisan question. And the success of the program has been a nonpartisan success story. Telephone co-ops have been successful because of the hard work of rural citizens, of all political parties.

I would hope this committee can act promptly on this bill so there will be no doubt in the President's mind as to just how Congress feels about the importance of this great program.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Fullerarton. I am sure you understand you are to stay with us for some questions for later on. We appreciate your prepared statement.

Now, our next witness is Mr. A. Harold Peterson, who is the executive director and counsel of the National REA Telephone Association.

Mr. Peterson, we are glad to have you with us; we are always glad to hear from you; we will be glad to hear from you now.

STATEMENT OF A. HAROLD PETERSON, EXECUTIVE DIRECTOR AND COUNSEL, NATIONAL REA TELEPHONE ASSOCIATION, WASHINGTON, D.C.

Mr. PETERSON. Thank you, Mr. Chairman.

For the record, my name is A. Harold Peterson, attorney at law, and I reside at Chisago City, Minn. I appear here today as executive director and counsel of the National REA Telephone Association whose membership is composed solely of REA telephone borrowers, mainly the commercial—privately owned—type. We have had the courtesy extended to us to appear before this committee over the past 7 years when this committee held hearings concerning the REA programs, both electric and telephone, and we deeply appreciate the courtesy you have extended us to appear here today.

First of all, Mr. Chairman, I would want to express the position that we support the bill which has been introduced by Mr. Denholm and many other Members of the House. No one appreciates any more than Mr. Denholm, as well as the three fellow Minnesotans—Mr. Bergland, Mr. Zwach, and the former Administrator, Ancher Nelsen—what this legislation means to the people of rural America. We support it, first of all, because it is the law of the land. We support it secondly because the President asked for it when he submitted his budget for fiscal year 1973. The Congress passed it, and the only difference, as far as the telephone segment is concerned, between what the President asked for and what the Congress passed was a matter of $20 million more for the direct loan program. You will recall that the President submitted a $125 million figure in the budget and the Congress passed a $145 million figure.

We were deeply upset by the action of the administration on December 29, as were countless thousands of other people all over America. While the debate was going on last week in the Senate, there was a statement made that it should not be very surprising that the administration acted in this manner, because it was not the first time that it has been done. Allusion was made to the Rural Electrification beginning. It was stated REA came into being under Executive order of the President in 1935, and therefore, people should not get excited about what the President did on December 29, 1972. The Executive order of the President which enunciated the Rural Electrification Administration as we know it today was truly by Executive order. That Executive order came about because of a congressionally passed Emergency Relief Appropriation Act, which I believe was passed about 2 months prior to the Executive order of the President in which he established the Rural Electrification Administration. There is quite a difference between the delegation of authority which the Congress gave to the President back in 1935 to do what he did by Executive order and the action of the President and the administration of December 29, 1972, without consent of Congress. Just in case that same argument comes up on the floor of the House should this bill

reach there, which I am sure that it will, I hope that this fact will be remembered.

Mr. Chairman, we share your concern and that of other members of this committee, over the action of the Secretary of Agriculture of December 29, 1972, which prompted the holding of these hearings. In speaking to the subject of how this action affects the REA telephone program, we would like to divide our observations into three separate parts, namely:

I. The concern for Federal fiscal responsibility.

II. Detrimental aspects and questions left unanswered by Secretary of Agriculture's action of December 29, 1972,

III. Suggestions for continued implementation of Rural Electrification Administration telephone program objectives.

We hope that in so doing we may help provide a clearer perspective in which this matter now before the committee may be properly examined and evaluated.

I. THE CONCERN FOR FISCAL RESPONSIBILITY

Let's talk about the first part, the concern for Federal fiscal responsibility. We can assure this committee that the President of the United States is not the only person who is concerned about the vast amount of moneys which are expended at the Federal level. You, Mr. Chairman, other members of this committee and Members of Congress have stated publicly that the Congress of the United States is concerned in this matter. We want to assure you that the REA telephone companies who render modern telephone service to rural America are just as concerned. We recognize that the No. 1 enemy of this country at the moment is runaway inflation. We recognize that if it is not curbed, that very serious economic consequences will follow. We stand firmly behind the President and the Congress in their endeavor to solve this very serious problem.

Let us now discuss Federal fiscal responsibility in another light. Thirty-seven years ago the Congress of the United States created the Rural Electrification Administration to fill a vacuum in our free enterprise economic system. By so doing, the necessary debt capital was provided to newly formed electric cooperatives and others so that electricity could be extended to rural America where only a small percentage of the farms were electrified and vast areas were entirely without any electricity. In 1949, the telephone amendment to the Rural Electrification Act was passed. Hundreds of existing small telephone companies, many of which were family owned, whose systems were broken down and outmoded, were in need of modernization. No bank or insurance company considered broken down systems as adequate equity for any kind of financing, long term or otherwise. In addition, 62 percent of America's farms had no telephone service whatsoever. The private sector of our economic system could not meet the financial needs of these companies.

From this background of events the Congress passed the telephone amendment to the Rural Electrification Act. The tremendous success of the electric program, which had been in operation since 1936, augered well for the expectation that the telephone program would also

be successful. Now, 23 years later, the Congress of the United States can look back with tremendous pride at what has been achieved in these programs. No one can deny that without the REA electric program our Nation would not have been able to produce the magnitude of food and fiber for our Nation and much of the world during World War II. This continues today as America is still the most efficient producer of food and fiber in the world.

Modern telephone service has been provided to those areas of rural America where 867 REA telephone companies are carrying out the mandate of the Congress to assure the availability of adequate telephone service to the widest practical number of rural users of such service.

The point we wish to make here is that the Congress exhibited fiscal responsibility in filling a void in our free enterprise economic system when it provided for the Rural Electrification Administration electric and telephone programs. The Rural Electrification Administration is a long established institution in our great free enterprise economic system. Any fair minded, objective person will admit today that what the Congress did in making it possible for electric and telephone companies to receive long-term debt capital at low interest rates was absolutely necessary to accomplish the results of these programs. The task still continues and the need for low-cost debt capital still exists for many companies. The average density, per route mile of line, for REA financed companies is 4.2 subscribers. The entire independent telephone industry, of which REA telephone companies are a part, have a density of approximately 16 per mile. The giant Bell System, which serves 84 percent of all subscribers in our country, has a density of over 40 per mile. Need we say more to prove why many REA telephone companies continue to need low-cost debt capital?

Let us now examine Federal fiscal responsibility in still another light. As long ago as 1966, we had a conference with the Director of the Bureau of the Budget. He told us at that time that the strain on commitment of Federal moneys was becoming so severe that we should look for supplemental means to meet our financial needs, which at that time were over twice what the Congress was appropriating under the direct loan program. We set about immediately to carry out the Director's suggestion. Some 5 years later, after much work and effort and after extensive hearings in the Congress, the Rural Telephone Bank bill was passed and signed by the President on May 7, 1971. You, Mr. Chairman, played a leadership role in accomplishing that legislative objective. We shall be eternally grateful to you and the other members of this committee who supported this fiscally responsible objective.

Let us tell you briefly what has been accomplished by the Rural Telephone Bank. In the fiscal year ending June 30, 1972—and please bear in mind that the bank did not make its first loan until January 21, 1972—the bank made 89 loans totaling $90,854,800 to REA telephone companies. The interest rate on these loans ranged from 4 to 8 percent. The commercial—private—companies represented 67 of those 89 loans, the other 22 loans being to cooperative companies. In the first 6 months of fiscal year 1973, the bank made loans to 52 commercial companies and 12 cooperative companies totaling $72,246,300. Ending

June 30, 1973, the bank contemplates 1973 fiscal year loans totaling $126 million. The Rural Telephone Bank Act specifies criteria which must be followed for receiving bank loans. In essence, those companies which are financially able, under criteria established by REA, are required to obtain their debt capital from the bank, at varying rates of interest, ranging from 4 to 8 percent. The 8-percent limit can be changed, but the minimum 4-percent rate is set by law. Those who could not meet the bank rate criteria, were able to receive low-interest moneys from REA. The low-interest loans were terminated on January 1, 1973, at which time a directive became effective, which said directive is the reason for these hearings.

Gentlemen, the establishment of the Rural Telephone Bank is the finest example of Federal fiscal responsibility. Its fundamental concept is based on ability to pay. It is our understanding that the administration recommends continuance of the Rural Telephone Bank. Our companies worked hard for its creation.

Again, Mr. Chairman, we thank you and your committee for the outstanding leadership and effort which made the Rural Telephone Bank possible.

Let us now proceed to part II.

II. DETRIMENTAL ASPECTS AND QUESTIONS LEFT UNANSWERED BY SECRETARY OF AGRICULTURE'S ACTION OF DECEMBER 29, 1972

The original directive which was received concerning the action of the Secretary of Agriculture consisted of a news release with a Washington dateline of December 29, 1972. It is entitled "Rural Electric and Rural Telephone Loan Program Change."

It states that:

> The REA electric and telephone 2 percent direct loan programs are being converted to insured and guaranteed loan programs at somewhat higher interest rates effective January 1, 1973. This action was made possible by the enactment of the Rural Development Act of 1972 in which Congress provided very broad authorities to make guaranteed and insured loans to finance all types of community development programs.

The news release goes on to say that loans to telephone cooperatives will be made on an insured basis at 5 percent interest and that loans to commercial—private—telephone companies will be guaranteed at market rates of interest. Herein lies a flagrant detrimental aspect. For the first time in the history of this program, commercial telephone companies are going to be discriminated against and be required to pay more interest than the cooperative type company. At today's market rates of interest, this discrimination amounts to 50 percent or more for commercial companies, compared to cooperatives. This incongruous result comes about when the Rural Development Act of 1972 is superimposed on the REA Act. Let us consider how severely detrimental this is. Of the 867 telephone companies who borrow from the Rural Electrification Administration, 74 percent are commercial companies. The number of companies with less than 1,000 subscribers number 262. Of the 262 companies, 201 are commercial companies. These are the companies who, for the most part, need low interest debt capital.

Under the new directive, low cost debt capital is eliminated completely for those, who for the most part, require it. This is financially

unbearable on the face of it, but the action compounds the unbearability when it requires 76 percent of these companies to pay market rates of interest simply because they are commercial companies. This is so patently unfair that one wonders if any thought was given to the actual needs of the telephone segment of the Rural Electrification Administration program before this directive was announced. This program is for people, not companies, and any action which requires higher interest rates will have to be borne by the people. The Administration, by its own criteria, knows that there are many commercial telephone companies who are not able to qualify to pay even 4 percent interest to the Rural Telephone Bank without increasing rates substantially to their subscribers. Is it fair to tell them that they must now pay market rates. Why should type of corporate organization determine whether a company should pay 5 percent or a market rate of interest?

Let us examine another problem area. There are some 57 loan applications pending from new applicants. Under the new directive, they have nowhere to go because they cannot go to the Rural Telephone Bank. One of the requirements under the Rural Telephone Bank law is that a company must first have been a borrower under the direct loan program before he is qualified to receive a bank loan. What is to happen to these applicants? Where will they get their loan needs satisfied? They cannot afford a market interest rate.

It is completely detrimental to eliminate low cost debt capital for those companies who require it. The Administration has the expertise and all the facts to support our position. It is our understanding that of all the telephone loans made in the first 6 months of fiscal year 1973, that about 30 percent of them could not qualify for Rural Telephone Bank loans at even 4 percent interest without increasing the rates to their subscribers. The elimination of low cost capital to those companies who require it should be preserved.

Another detrimental effect is that the upgrading of telephone service in rural areas will come to a virtual halt, should this directive continue. When this program was first instituted 23 years ago, over 50 percent of the subscribers had eight-party service, which means that there were eight subscribers on a rural line. Since 1965 there has been a determined effort to upgrade service to these people. The latest REA statistical report shows that at the end of 1971, only 46 percent of all REA telephone subscribers were receiving single-party service. Some State regulatory commissions have set deadline dates in which all subscribers should have one-party service. The imposition of market interest rates on commercial companies will bring the upgrading of service to a screeching halt for many companies.

III. SUGGESTIONS FOR CONTINUED IMPLEMENTATION OF RURAL ELECTRIFICATION ADMINISTRATION TELEPHONE PROGRAM OBJECTIVES

The telephone program under REA has been an established and necessary institution in our economic system for 23 years. It is proved and sound. There has never been a default in the history of the program. The Rural Electrification Act should continue to be the basic legislative authority for the REA telephone program.

Direct low cost moneys should continue to be available for those companies who require it.

The 5-percent insured loan concept which the Secretary of Agriculture is now enunciating under the Rural Development Act of 1972 could be better developed and implemented by incorporating it into the Rural Electrification Act by amendment. This approach would eliminate the grossly unfair discrimination of interest rates between cooperative and commercial companies. In addition, it would provide a steppingstone for those who can afford to pay more than 2-percent interest, but cannot qualify for bank rates of interest. The chairman will recall that this steppingstone feature was recommended in the early days of the development of the Rural Telephone Bank legislation. At that time the recommendation was an intermediate rate of interest at the 4-percent level.

However, we wish to point out that a company and its subscribers could conceivably be better off with a 5-percent insured loan, than having to qualify for a bank loan at 4 percent. This comes about because of the 150 percent interest margin requirement under the law as it pertains to the Rural Telephone Bank loans. If the 5-percent insured loan concept is deemed to be a proper steppingstone from the 2-percent level, then consideration probably ought to be given to revamping the Rural Telephone Bank's interest rates now in force.

If the Rural Development Act of 1972, is going to continue to be used as a basis for obtaining funds for this program, we suggest that it be amended to eliminate the discriminating interest rate for commercial—private—telephone companies.

The Rural Telephone Bank, though scarcely a year and a half old, has proved to be a sound instrument for supplemental financing for those companies who can afford to pay a higher rate of interest. The bank can be improved. Thought should be given to increase its lending authorization from eight times paid-in capital. The Farm Credit System has a lending authority of 20 times. Another help would be to increase the amount of seed money which Treasury puts into the bank. Also, if there is a present willingness to insure and guarantee via the Rural Development Act, then it would seem appropriate for Treasury to guarantee the bank debentures.

Talking about interest rates, we want the record to show that all State regulatory commissions give a lower rate of return to REA telephone companies who borrow at 2 percent. The advantage of low-interest debt capital inures to the benefit of the subscribers who, by reason of low-interest debt capital to the companies who serve them, are able to enjoy modern telephone service at rates comparable to the urban areas.

Over the years there has been talk about setting up a revolving fund for the REA program. It would consist of all collection proceeds, appropriation moneys, unexpended balances, et cetera, involving the program. Now could well be the time to consider this possibility. We suggest that the committee study the possibility of this new direction.

There are three other parts of the present Rural Telephone Bank Act in which we suggest amendments. First, section 412 of title IV should be stricken because it serves no useful purpose. Its purpose be-

comes virtually inoperative because of the adoption of the language in section 408(b)(4) by the conferees.

Second, we feel that in the matter of voting for the six industry directors of the bank board, cooperative stockholders should vote only for the three cooperative directors and commercial stockholders for the three commercial directors.

Third, we feel that associations should not be stockholders of the bank. These suggestions. Mr. Chairman and members of the committee, are by no manner of means exclusive or exhaustive. Many are interrelated and the adoption of one could affect another. Others, if adopted, could possibly give rise to other necessary changes.

CONCLUSION

Mr. Chairman, and members of the committee, we want you to know that our testimony here today is meant in no way to suggest that you are not cognizant of all that we have stated. The record of this committee over the years indicates clearly your interest and concern for this program. This committee knows that the Rural Electrification Administration, in both its electric and telephone programs, is not a temporary experiment, or a Government giveaway program that has been found wanting. It is a basic part of our free enterprise economic system. It has been tried and tested for over 37 years. It ought to be preserved for there is still much work ahead for the development of rural America. If all that the Rural Development Act of 1972 encompasses were to come to pass, the challenge facing electric and telephone companies under the REA program will be greater than ever. The basics of electricity and telephones must come first, otherwise there will be no rural development.

Speaking for the telephone segment, we wish to cooperate in any way we can to help stabilize our economy and prevent runaway inflation. We acknowledge that there are some companies who can pay a higher rate of interest and have already done something about it. We have the basic structure of the Rural Electrification Act, including the Rural Telephone Bank, to provide those moneys. We hope its capability will be expanded. We stand ready to help this committee in any way we can to improve the manner and means of accomplishing the objectives set forth in the policy statements of the Congress concerning this vital program. We have already faced the challenge and concern of our President for fiscal responsibility and have done something about it. We will continue to cooperate in this endeavor.

I talked to a gentleman last week from the State of Montana who has been asked to extend lines 67 miles out to the west into, I think it was, Utah to provide service out there. He cannot possibly do it for any interest rate above 2 percent.

I talked to one of those applicants last week, whose first-time application is now pending. As a matter of fact, he is located in Mr. Mayne's State of Iowa. He is sitting out there today in a little town of less than 1,000 people. He said, "Harold, what are we going to do?"

I said, "Well, I do not know at the moment, but I can't believe that this thing can't be worked out and I am sure that ultimately it will."

On December 31, 1972, the amount of unapproved telephone loan applications on hand, bearing in mind all of the money that had been

loaned from the Telephone Bank, even in spite of that, the amount of unapproved telephone loan applications on hand exceeded $559 million. One thing that we have experienced on the telephone side is that the volume of unapproved loan applications on hand has exceeded even the electric in later years. To us this is quite crucial.

We feel that the Rural Telephone Bank itself ought to be strengthened. There is no point in going into a long dissertation at this time on what that means, what could be done. I will merely say in passing that, for instance, one of the things that would help it would be to take off the 8 times paid-in capital restriction on lending, make it, say, 20 times like the other farm credit programs have been ever since their inception; perhaps put a little more seed money into the bank. If the administration is willing to insure and guarantee loans now, then I would hope that they would also guarantee the debentures of the bank. That provision is not in the bank legislation at this time.

Now, if this cannot be done, certainly one thing must be done. That is to amend the Rural Development Act of 1972 if we are going to continue to operate under that act, because that is a legal maze if I ever saw one. Reference has been made by Mr. Dell, the previous witness, about the legal opinion rendered to the Administrator in early February. It is truly a gymnastic legal explanation of the first water. I think that the length of it alone indicates the problems that are involved when you try to make the Rural Development Act work in rural electrification.

Mr. Chairman, our board of directors met here in Washington on January 31 and discussed all of these problems as we are discussing them here today. I want to indicate to the chairman and members of this committee that our association stands 100 percent behind any endeavor that will attempt to solve this problem. I think that it can be solved in a proper manner and that perhaps now is the time for a complete reexamination of the entire Rural Electrification Act, to bring it into the kind of focus that will continue to bring electric and telephone service to rural America at a cost that people can afford and, at the same time, not make it a drain on the Federal Treasury. We support that kind of a concept and we are willing to work in any way possible, Mr. Chairman, to accomplish that result.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Peterson. We appreciate very much your considered statement. It will be helpful to us.

Our next witness will be presented by our colleague, Mr. Goodling.

Mr. GOODLING. Thank you, Mr. Chairman. I did not have an advanced list of the witnesses this morning, so I have an unexpected pleasure. I am happy to present my secretary of agriculture, Hon. James A. McHale, the secretary of agriculture for the Commonwealth of Pennsylvania.

Jim, we are happy to have you here.

STATEMENT OF HON. JAMES A. McHALE, SECRETARY OF AGRICULTURE, COMMONWEALTH OF PENNSYLVANIA, ACCOMPANIED BY JAMES G. PATTON

Mr. MCHALE. Thank you, Mr. Chairman.

Chairman Poage, members of the committee, for the record my

name is James A. McHale. I am secretary of agriculture for the Commonwealth of Pennsylvania.

I appreciate the opportunity to appear before your committee to present my views which are diametrically opposed to those of President Nixon on matters of authority balance of power between the branches of government as well as on matters relating to farm and rural policy.

The central question in my mind as I appear before you today is whether or not our representative form of government can withstand the attacks waged upon its customs, laws and institutions by the President and his executive branch coworkers.

I am referring to the recent actions of President Nixon abolishing long-existent and well-established farm programs written into law by the representatives of the people, the Congress, and signed by President Nixon and his predecessors.

Presidents Johnson, Kennedy, Eisenhower, Truman, and Roosevelt have signed appropriate bills continuing such farm programs as rural electrification low-interest-rate authorization, ACP–REAP, commodity credit loans at low interest, and many others over a period of 30 years.

Unless there is a drastic change in the Federal balance of powers it seems almost futile to appear before you, the elected Representatives of the people, if you are going to permit the executive branch to override your policy decisions and to usurp your power.

I respectfully submit that unless both Houses of Congress are willing to organize themselves across the board in such an interrelated fashion as to exercise the power vested in them by the Constitution, then representative government will cease in America and one-man rule will become a reality because the Congress abdicates its power.

The attitude of the Nixon administration as demonstrated in the budget and the economic messages is one of defiance, of disregard for the Congress and the policies which it has established over many years.

The time has come when all of us who are interested in people must find means by which we can join hands to make an across-the-board effort for the people's programs which have been enacted into law from the days of Herbert Hoover's Farm Board of 1929 through the era of creative federalism of the Roosevelt, the Truman, the Eisenhower, the Kennedy, and the Johnson administrations. The activities over the period of the last 40 years have been aimed at the principle of the people acting through their government to cooperate with each other in various private activities. The basic principle was stated by Abraham Lincoln when he said that "the Government should do those things for the people which the people cannot do for themselves." Lincoln was not talking about subsidizing giant corporations, banks, and aerospace industries.

I am suggesting that it is high time that all of us who are interested in a decent income for all Americans and especially for farmers and rural Americans join hands.

I am suggesting that it is time for all who are interested in rural and urban housing, rural and urban health, rural and urban mass transportation, adequate credit structures for farmers and rural peo-

ple in a higher quality of life for all Americans to forget their differences and join hands to save our form of society.

It is high time that the Congress of the United States bestir from its lethargy and its outmoded staffing structure and organize for dynamic action. Congress should equip itself to treat as one whole package the economic and human welfare of the people of the United States. What sense does it make to cut the heart out of programs that give working people including farmers and older people hope and an opportunity, while at the same time increasing the expenditure for the Defense Department and continuing maritime and numerous other defense subsidies.

Two World Wars, the Korean war, and the very long Vietnam war have by legislative consent and need for emergency action, vested in the White House and the executive agencies of government, especially the Defense Department, vast and almost overwhelming power that the President of the United States has the audacity and the courage along with the Defense Department and the military industrial complex to establish defense-military foreign policy priorities above programs aimed at helping people at home.

The White House, the Secretary of Agriculture, and many of our citizens seem to have forgotten the vital role that farmers have played in providing food and fiber for ourselves and our allies to fight two World Wars and the Korean and Vietnam wars, to provide capital and food relief for millions of starving people around the world, to fight totalitarian communism, and to help people in the underdeveloped areas of the world to get on with their growth.

Too many people have forgotten that for years American farmers have earned several billion dollars of foreign exchange which has been a major factor in lessening the United States unfavorable balance of trade. I believe that is a fact that had we not been engaged in militarism around the world and particularly in the Vietnam tragedy that our farm products would have closed the deficit gap in our balance of payments.

Too many people forget that American farmers, while helping to feed starving people, earning foreign exchange and helping to fight the battle against communism, have done all of these things with less and less manpower but with a greater and greater capital investment.

As a matter of fact, farmers have greater production efficiency per man than industry. We have created a competition for capital which is very unfavorable to family farmers because they do not have access to large amounts of prime-interest capital. The working family farmers have not been able to use their farming losses as tax write-offs. The great push for technological efficiency has forced millions of farm families out of farming because they did not have adequate credit nor capital.

What I have said so far, gentlemen, is challenge to you to reassert the powers of Congress. If you do not pick up the glove that President Nixon has thrown at your feet then the pleas I am about to make to you to reinstate some basic farm programs, without which the average American family farmer is sure to go under, will amount to just another added measure of wasted breath. I want you to regain the power of the purse, and an essential part of that is addressing yourselves to the unprecedented impoundment of funds that has occurred during the current administration.

The impoundment of REA funds is merely one small sample of how the President has locked up millions upon millions of dollars effectively thwarting the will of Congress as to how it wants to spend money entrusted to it by its constituent public.

I appreciate very much the attention and effort which this committee gave to the reinstatement by the House of Representatives of the rural environmental assistance program. I am glad the Senate also saw fit to support this action.

To understand why farm programs cuts have been made by the Nixon administration I must contend that the President and Secretary of Agriculture Earl Butz, are bent on policies which will drive the family farmer off the land and throw agriculture into the hands of corporate big business. I have said repeatedly that this is wrong. The family farmer built the agricultural wonders of this country. Turning to absentee landownership will mean inefficiency, high prices, and disaster for the economic base of our rural communities. Just look at history to see what happens when large chunks of the land are put into the hands of the few—that's the stuff that revolutions are made of.

With this in mind, here is what happened in a few short weeks: The $225 million rural environmental assistance program and the $20 million water bank program was terminated December 22; the Farmers Home Administration emergency disaster loans were cut off January 15—a particular concern to farmers in my State who were flooded by Hurricane Agnes; low-cost loans from the Rural Electrification Administration were cut off as of January 1; the rural housing loan program for low-income residents, administered by the Farmers Home Administration, was wiped out last month; the interest rate on Commodity Credit Corporations loans was raised—all this done without congressional approval. These programs worked well for farmers and rural residents, but apparently people no longer count in the political scheme of things.

Although my testimony today is on behalf of restoring the REA direct loan program, I urge the committee to do everything possible to coalesce all of rural and farm people who support the programs which have been cut by the Nixon administration so that a united front can provide the greatest force to reestablish the authority of Congress and at the same time develop an adequate farm program for 1973.

Time is of the essence because there is no rural electrification loan program in operation now. It is also important because it would be much better to get the program authorized by Congress starting up again than to let the new and suddenly concocted program get started and then stop and replace it.

I do not believe the statement that 80 percent of the REA direct loans have gone for nonfarm purposes. Even with the connection of additional suburban expansion in rural areas the average density is less than four customers per mile.

I feel very strongly that the Rural Electrification Administration program never was just for farmers. It is a program for rural business, industry, farmers, retired people, hospitals, schools, for all the people in rural areas who need central station electric service.

REA's most important function in the past and at the present time is to help develop rural areas to relieve the pressure on overburdened cities and to start new rural developments which will reduce the migration to urban areas and start repopulation of rural areas.

The policy declaration of the Agriculture Act of 1970, and the Rural Development Act of 1972, definitely call for actions and implementations of policy, which will bring about a better balance between rural areas and urban areas.

In view of the fact that President Nixon signed into law the Agriculture Act of 1970, and the Rural Development Act of 1972, it seems to me that he is violating the intent of the very policy laws that he himself made into law by signing them.

Rural electric consumers face the likelihood of drastically higher electric rates that possibly could curtail service for many as a result of the precipitous action taken by the Nixon administration. The action by the administration to eliminate the REA loan programs at 2 percent interest, which were instituted by Congress in the Pace Act of 1944, and which have been in effect ever since, are in direct contradiction to the repeatedly stated intent of the Congress and even of the Nixon administration to continue the 2-percent loan program. These loans are not only a means of assuring electric service in low-density population rural areas. They are also a vital tool in revitalizing rural areas. Under the terms of the Pace Act which provides 2-percent long-term loans, REA cooperatives agreed to provide and have provided electric service for all users in their service areas. Furthermore, unilateral repudiation of this covenant by the U.S. Government will seriously jeopardize many and destroy the operations of some rural electric systems.

Chairman Poage, you yourself have denounced the OMB action on REA loans as one of the series of actions which will adversely affect the quality of rural living. You said, "Congress passed the Rural Development Act for the purpose of supplementing, not reducing, the programs available to rural people."

One of the very serious aspects in raising the 2-percent interest rate is that it will force many rural electric systems which are barely getting by at the present time, to sell their system to old-line utilities which will, of course, raise the rates in order to make a larger profit. This will cause further inflation for farmers at a very critical time. If we expect to lower food prices by keeping farm prices down then the raising of interest rates flies in the very face of the President's attempt to control inflation.

President Nixon saves no money for taxpayers by juggling rural electrification loans. The proposed 5-percent insured loans will be subsidized out of the U.S. Treasury, but for the benefit of private investors, not for the REA borrowers. Under the Rural Electrification Act, repayment of principal and payment of interest at 2 percent went into the U.S. Treasury. Under the Rural Development Act, loan funds come from private investors and are repaid to them, with interest at 5 percent from the borrowers, and remaining interest up to the market level from the Treasury. The juggling simply opens up more lucrative business for the commercial moneylenders. The co-ops will pay them 5 percent and the taxpayers will foot the subsidy cost for the remaining interest.

I am attaching as appendix 1, a copy of an excellent article on what the President's action on raising interest rates will mean to certain rural electric cooperatives in the United States.

Pennsylvania has the largest rural population of any State in the United States. We have total rural population of approximately 3½ million people. Less than 300,000 of these individuals are engaged in farming, yet the rural electric cooperatives of Pennsylvania play a vital role in the life of a very substantial number of rural people.

Appendix 2 gives the statistics of Pennsylvania Rural Electric Cooperative Associations. You will note that all rural electric cooperatives in Pennsylvania serve 120,000 families and industry users. These cooperatives paid more than $8 million for wholesale power. They have plant investments of $86 million. They have borrowed from REA $76 million. They have repaid $29 million to REA. They have paid $12 million interest on these loans. Not one of the loans is overdue.

One of the significant facts that is commonly overlooked in relation to REA is that REA cooperatives are located in rural areas where employment is an important factor. In Pennsylvania, for example, the Tri-County Rural Electric Cooperative has a payroll of $450,000 with 50 employees. United Electric Cooperative of DuBois, Pa., has an annual payroll of $434,000 with 51 employees. Valley Rural Electric of Huntingdon has 57 employees with an annual payroll of $493,000. Warren Electric Cooperative of Youngsville has 27 employees with $246,000 annual payroll. Allegheny Electric Cooperative is a generation and transmission cooperative which through its contract with the authority of the State of New York, has saved more than $1,000 per day with the system.

My point in this matter is that a total of 572 employees with an annual payroll of $5,076,870.51 is in its very insignificant aspect in rural counties in which REA serve. If one uses the factor of $11 of turnover to each dollar cash input then the annual payroll allowance would mean additional cash flow in Pennsylvania of $55,845,575.61.

REORGANIZING THE U.S. DEPARTMENT OF AGRICULTURE

The cutbacks of all these essential farm programs can only lend credence to the talk these days that the administration wants to abolish USDA, or at least knock it below cabinet level status. Perhaps the idea is to make farming so unfruitful economically that the rate of losing 1 million farms per year over the past decade will increase. When only conglomerates remain in agriculture then the thinking will be that farming is just another big business enterprise and can be thrown into commerce or some other department. But farming must always be more than that. It is a way of life and the family farm, especially, is the backbone of any attempt to revitalize rural America.

PROPOSALS FOR AMERICA

The TNEC Committee for America

Before World War II, the Senate established the Temporary National Economic Committee to investigate the nature of the American economy and the effects different business and economic powers and structures were having on American life. The work of that committee was never completed because World War II came and it was felt necessary to drop the work. The TNEC committee chairman was the late Joseph Mahoney, Senator from Wyoming. I suggest that the proper committee of the House of Representatives or the Joint Com-

mittee on the Economic Report undertake a new "TNEC" investigation. This is badly needed to give us a "compass sighting" as to where our "Ship America" is in relation to its own people. We have been so concerned with people 10,000 miles away from our shores that many of us seem to have forgotten about our own people and their problems here at home.

PROPOSAL FOR A RURAL "TNEC" INVESTIGATION

I respectfully suggest, Mr. Chairman, that your full committee conduct a well staffed, full fledged investigation into the nature of the economic and social forces, which are shaping the destiny of rural Americans and affecting the life of the millions who live in urban areas.

Among the questions to be asked and answers found should be the following:

1. Who owns the land in rural America? Not just the farm lands, but the rough land and the recreation land?

2. What policies, if any, are being followed to achieve a balance between urban and rural areas as described in the Agricultural Act of 1970 and the Rural Development Act of 1972?

3. What are the hard facts as to how many poor people live in rural America?

4. What are the actual conditions as to housing, health, transportation, welfare, employment, and other aspects of living in rural America?

5. How do these conditions compare with conditions in urban and suburban areas? Who are the people in rural America who are hungry, sick, and without adequate houses, water, and sewage.

6. How much money will it take to recapitalize and revitalize rural America? $100 billion? $200 billion? Can we afford to do it? Can we afford not to do it?

7. What are the facts as to real income of farmers and all rural Americans?

8. Why do people, especially young people, leave rural America and go to the city?

9. What economic effects on family farmers and rural people has vertical integration had in the meat industry—especially poultry, beef, and hogs?

10. Why is the difference between what the farmer receives for his product and what the household consumer pays so great?

11. Where in the processing, manufacturing, transportation and retail distribution chain are the prices established by monopoly, oligopoly or by overwhelming capital competition?

12. Are prices administered by food chains, food processors, feed manufacturers or others? If so by whom?

13. What steps need to be taken to establish a land use policy, which will bring about a renaissance in rural America so that it will be a desirable place for many more people to live and have employment?

14. What are the forces at work which operate against the policies established by the Congress and made into law by the signature of several Presidents, including President Nixon?

15. What role are farmers, rural people and industries related to farming to play in the future of the foreign policy of America?

16. Are farmers going to be asked to produce food and fiber at ruinously low prices in order to close the balance-of-payment gap in our foreign exchange?

17. Why should farmers be asked to produce at world market prices when no other segment of the economy does?

18. Is America to follow the cheap food policies, which England followed for so long in order to keep a vast military establishment overseas and to enable and encourage our multinational oil and industrial corporations to make huge investments in joint venture corporations overseas?

19. What role is farming to play in the energy crisis?

20. Can America afford the long-time cost of forcing farmers into higher and higher capital investments to produce more and more units per man-hour and thus drive the family farmer with his management skill and labor out of farming?

21. Can America afford the Btu's of energy required to use huge machines and fuel to achieve higher production per man?

22. Is it desirable to put more emphasis on human energy and jobs and less on production technology?

23. Should we change the emphasis on our physical science research in our land grant institutions?

24. Should we put less emphasis on production efficiency per man-hour in commodity production and more emphasis on researching what policies are desirable to create a rural/urban balance to make rural America a more desirable and worthwhile place for people to have a family, educate and train them for useful citizenship?

The above are merely samples. I am suggesting, Mr. Chairman, that a full investigation be made of the effects of past policies and programs and the possibilities of different policies which will help preserve the finite resources of rural America—the soil, water and air—for future generations while providing worthwhile and purposeful opportunity for millions of Americans, young and old.

It is my conviction, Mr. Chairman, that your committee should substantially increase its staff for this "TNEC" investigation. I suggest that full open hearings be held all over America with all of the communication media coverage it is possible to get. I hope that the Committee of Agriculture of the House of Representatives will join you in this effort.

I believe that this session of Congress is the last hope for millions of families engaged in farming. The concept that Federal intervention in the capital, labor, commodity and distributive markets is necessary in order to equalize farmers and rural Americans income and opportunity for an adequate standard of living with urban Americans is being tossed out the window by President Nixon. He is trying to run the American independent family farmer through the economic wind tunnel to rip off the bedraggled and tattered pieces of pants he has left. This will expose the family farmer to the competition of giantism, large aggregations of capital and to the competition of world market prices.

While there have been mistakes and abuses in the present agricultural programs, no one can successfully deny the production efficiency of American farmers, nor can any citizen find a single place in the world where fewer hours of his work are required to buy his food

than in America. The records of this committee, the House Agriculture Committee, and other committees are filled with proof that farmers and rural people have done a good job of producing abundant, low-cost food. They have more than paid their way. Farmers and rural people have sent almost $300 billion worth of their finest and brightest young people to the cities of America to become leaders and workers in our industries, businesses, and professions. We rural people have provided the largest single market for the products of America's industrial factories and shop complexes.

I suggest that the Congress write a Magna Carta for American agriculture in the Agricultural Act of 1973. Every legislative precaution should be taken to eliminate the possibilities for the President by Executive order to refuse to cooperate in carrying out the policies adopted by Congress.

REPRESENTATIVE GOVERNMENT MUST CONTINUE

It is up to the Congress to equip itself in such a way as to be fully competent on a completely independent basis to look at our total economy and each of its major components on a constant basis and to determine what priorities should be established by congressional authorizations and appropriations to give balanced attention to all facets of American life.

We must not allow ourselves to be divided—a farmer who produced feed grains has common cause with the farmer who produces cotton. He has common cause with those who seek a healthy environment—he has common cause with the small-town businessman and the small businessman wherever he is. The family farmer and rural people have common cause with those who seek better housing, better health, better education, more jobs for the young and a better opportunity for all of our citizens. The farmers and rural people have a common interest with organized labor and its friends. In short—we must unite as Americans to see that rank-and-file people come first. People must have priority over a complex corporate government within our Government—which operates effectively under one-man rule regardless of what type of govenrment is in power—an autocracy, a monarchy, a dictatorship, or a government executive branch which thinks of itself as a representative form of government when in fact it is dominated by its Executive and his subordinates.

Appendix 1

Rural Electrics Face Loan Crisis

The consumer-members of the Pennsylvania Rural Electric Cooperatives had something. Their rates for electric energy have been lower than average rates. They have now lost what they had. With the termintation of the REA direct loan program, the cost of capital borrowed by the Cooperatives will increase 150%. The National Rural Electric Cooperative Association has illustrated for us what is at stake by examining several of the loans REA made during the last week before the lid was clamped on the program. Because of their significance, this editorial consists of those illustrations.

The Shenandoah Valley Cooperative loan was made jointly by REA and the Cooperative Finance Corporation under a supplemental loan program then in effect. Under this program Shenandoah Valley was judged as one of those systems able to afford higher-cost capital. Thus, 70% of its loan needs were met by REA under the 2% program; the other 30% was met by Cooperative Finance

Corporation at an interest rate of 7½%. The blended interest rate to the system was 3.65%. If REA's portion had been made at 5% as is now proposed, the blended interest rate would have been 5.75%. This higher interest rate means that the consumers of the system would have to pay an additional $21,000 a year for each million dollars borrowed.

Even harder hit are those systems which have been judged by REA and the Cooperative Finance Corporation as unable to play the higher interest rates and thus entitled to borrow all of their money from REA at 2% under the former program. Under the new program, their interest rates immediately escalate to 5%. This means an additional $30,000 a year interest cost per million dollars borrowed.

Columbus Electric Cooperative, Inc., a tiny co-op in New Mexico with only one consumer for each mile of line, received a 100% loan from REA that final week. It was for $100,000, relatively small by REA standards. Yet had the loan been delayed until after January 1, the added interest costs would have put a considerable burden on the co-op's efforts to keep its head above water.

Only two weeks after the USDA announcement, National Rural Electric Cooperative Association was being flooded with letters from rural electric systems documenting the severe problem the precipitious action has brought on.

Alaska Village Electric, which serves 48 small Eskimo villages as many as 1,300 miles apart, estimates each consumer may have to pay as much as $50 a year more for electricity because 2% loans are no longer available. And consumers already pay 20¢ or more per kilowatt-hour!

Another crisis comes because the Administration cut off the 2% program so abruptly. Indications are that even USDA and REA were caught by surprise. As a consequence. REA is not prepared to launch the new program under the Rural Development Act and it could be months before it has the necessary operating procedures worked out. As a result, some co-ops are without funds to proceed with construction projects and several have already had to lay off crews.

Also, REA has insisted for years that it is not necessary for borrowers to maintain reserve funds to meet emergencies such as storm damage because such funds were available from REA on a moment's notice. Now, however, the 2% loan program has been terminated and the replacement program is not yet operating. Meanwhile, hundreds of co-ops have suffered severe damage as a result of January ice storms throughout the South and Midwest. They are having to get emergency loans wherever they can.

These examples only scratch the surface of the full impact on rural electrics, whose total capital needs are approaching a billion dollars a year. The higher cost of money under the new program will add thousands upon thousands of dollars to operating costs. And most systems are already straining to operate in the black in the face of rising power costs and additional effects of inflation.

Beyond that, many rural electric leaders feel that the Federal government is going back on its word. Back in 1944 when Congress passed the Pace Act setting interest rates on REA loans at 2%, it made it clear to the rural electric systems that this money was available to them only if they operated their systems on an "area coverage" basis. That is, if they received low-interest loans then they had to serve those who lived in out-of-the-way places. The rural electric systems feel they have lived up to this "covenant."

And, until December 29, they thought the Federal government would too.

Appendix 2

Statistics of Pennsylvania Rural Electric Association's Member Cooperatives

Co-ops in brief (June 31, 1972):	
Miles of Line	20,787
Member-Consumers	120,067
Total KWH Purchased in 1971	998,444,039
Paid for Wholesale Power in 1971	$8,390,634.01
Total Revenue in 1971	$19,370,402.00
Plant Investment	$86,503,439.00
Loans from REA (June 30, 1972):	
Amount Advanced	$76,068,388.00
Amount Repaid	$28,757,363.38
Interest Paid on Loans	$12,386,383.65
Delinquent or Overdue	None

Counties served (all or part) members in each (Dec. 31, 1972)

Adams	3,612	Juniata	691
Allegheny	28	Lackawanna	1
Armstrong	1,545	Luzerne	49
Bedford	6,435	Lycoming	2,229
Blair	2,902	McKean	51
Bradford	5,516	Mercer	44
Butler	4,621	Mifflin	440
Cambria	3,439	Potter	4,681
Cameron	230	Somerset	6,266
Centre	145	Sullivan	1,909
Clarion	3,992	Susquehanna	3,915
Clearfield	4,550	Tioga	3,923
Clinton	531	Venango	5,353
Crawford	8,294	Warren	4,881
Cumberland	2,085	Westmoreland	208
Elk	354	Wyoming	1,656
Erie	7,728	York	3,030
Fayette	482	Garrett, Maryland	377
Forest	3,915	Allegany, N.Y.	13
Franklin	1,627	Chemung, N.Y.	11
Fulton	1,336	Orange, N.Y.	26
Huntingdon	5,312	Sussex, N.J.	4,664
Indiana	8,235		
Jefferson	4,272	Total	120,067

Mr. McHale. That pretty well concludes my remarks. I will be happy to answer any questions.

The Chairman. We thank you very much, Mr. McHale. We appreciate the statements you have made and we ask if you will stay around.

Mr. McHale. Mr. Chairman, I forgot to introduce my good friend, Jim Patton.

The Chairman. All the old members of the committee are happy to have him. Most of the new members of the committee will remember him as long the head of the Farmers Union.

I think Judge Rarick wishes to introduce the next witness.

Mr. Rarick. Thank you, Mr. Chairman. I am indeed proud to introduce Mark Bonner, Jr., general manager of the Association of Louisiana Electric Cooperatives, Baton Rouge, in my district. He is also president of the National REA Statewide Managers Association. Mr. Bonner is a hard-hitting voice of rural America in my State. His column appears in Statewide newspapers and, from time to time, I have even used it and quoted from it in the Congressional Record. He is a fiscally responsible gentleman and a great American.

I am proud, Mr. Chairman, to introduce Mr. Mark H. Bonner.

The Chairman. Mr. Bonner, we are happy to have you with us. We will be glad to hear from you.

STATEMENT OF MARK BONNER, PRESIDENT AND GENERAL MANAGER, ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, AND PRESIDENT, REA STATEWIDE MANAGERS ASSOCIATION

Mr. Bonner. Thank you, Mr. Chairman.

Congressman Rarick, like most ex-newspapermen, when I get up from a typewriter, what little ability I have sits down, so I will proceed to read my statement. It does take a little time.

Mr. Chairman, my name is Mark H. Bonner, Jr. I represent the 13 consumer-owned rural electric cooperatives serving over 700,000 rural

citizens in our State and which comprise the Association of Louisiana Electric Cooperatives, Inc., Baton Rouge, La., of which I am general manager. I think that is pretty significant in the economics of rural electrification and what we are faced with. Also, as Mr. McNeal points out, we are still losing our rural people in droves from Louisiana. In fact, last fall, I ran a survey and at that time, we had 26,000 receiving services on our lines and this is a real problem.

I am also president of the National Rural Electric Statewide Managers Association. I believe I reflect the majority opinion of that group in my concurrence with the testimony of Mr. Richard Dell, representing the National Rural Electric Cooperative Association here today. I obviously appear by invitation of Congressman John Rarick, my home district Representative and a member of this committee.

We urge this committee's quick approval and recommendations for House passage of H.R. 2276 which we understand is identical to the Humphrey-Aiken measure, approved by a 69–20 vote in the Senate last week. The lending authority of REA under congressional direction must be quickly restored to head off possible financial disaster for some rural systems and the curtailment of services throughout rural America, inasmuch as we firmly believe that the proposed usage of Rural Development Act funds under the Executive order abolishing REA funds to be unworkable and perhaps illegal.

After Congress has restored its authority and that of the REA Administrator, as Mr. Dell noted, we will work in good faith with this committee and the Congress for modification of the REA Act of 1936, to meet the needs of the program and the Nation in accord with today's circumstances. That will require time. Meanwhile we must have relief, not only moneywise, but from confusion and indecision resulting from the Presidential order and the constitutional issues involved over which we have no control, but which do affect our ability to provide service to more than 25 million rural Americans in 46 States. These rural Americans produce the food and fiber necessary for the health, general welfare, and survival of all citizens of this Nation—a fact that some in high positions of leadership do not appear to appreciate.

We do not need to stress to the Committee on Agriculture that food is our No. 1 line of defense and offense in the worldwide struggle to preserve individual freedom and the private enterprise system. Certainly none should be more understanding of that basic fact than the executive department, inasmuch as food and fiber were the only bargaining power available in the recent historic developments in the realm of foreign relations. Gentlemen, I understand that we have given away over $725 to 30 billion since World War II, not a penny repaid, and it would seem to me that we ought to have equal priority with the foreign people. They are not going to feed us if we get into trouble. I think it is that simple. Adequate food and fiber production are dependent today upon modern and efficient rural electric service at reasonable rates.

Mr. Chairman, our member-elected directors responsible for the operations of the rural electric cooperatives are realistic and responsible citizens. They are proud, conservative citizens. They prefer valid loans to doles and grants. They are good risks, proved by the fact that

repayment of REA loans is without parallel in the history of either government or private financing. I personally have heard every President from the late Harry Truman to the late Lyndon Johnson say just that.

We recognize that the administration is faced with grave budgetary problems. We are respectful of the President's apparent desire to remove REA funds from Treasury cash flow. However, it should not be done by substituting rural development funds insured through Farmers Home Administration in violation of congressional intent.

Our Louisiana directors and managers are unanimous in belief that amendment of the REA Act offers a far more practical solution to the problem. We believe that the President's stated objectives can be accomplished within the framework of the existing REA Act without doing violence to the program or to congressional authority. This can be accomplished by permitting REA to insure and guarantee loans as contemplated in the administration's proposal relative to usage of the Rural Development Act funds through FHA.

With that in mind, we in Louisiana hoped to initiate a compromise. In my capacity as president of RESMA, following a special meeting in Washington, I recommended to the NRECA Board on January 22, 1973, that a study committee be appointed to consider, among other things, modifications of the REA Act. The suggestion was adopted unanimously. Recommendations of that committee are being considered today by the membership of NRECA at the annual meeting now in progress in Dallas, Tex.

On January 23, our Louisiana managers and directors met with our delegation during the NRECA rally in Washington. We pointed out to the delegation that at the time the Executive order was issued only 88 cooperatives in the Nation were eligible to receive 2 percent REA loans. The rest were receiving, or scheduled to receive, combination REA–CFC loans with a blended interest rate. Recognizing that most rural electrics in the Nation can afford more than 2 percent interest in varying degrees, we expressed hope that the REA Act could be amended to provide for insured and guaranteed loans with variable interest rates, dependent upon density, margins, ability to pay, et cetera. We also urged retention of 2 percent financing for those unable to afford higher costs. In other words, gentlemen, we in Louisiana, as elsewhere in the Nation, and we are no exception, desire to pay our own way when we can possibly do so.

Our Louisiana delegation felt we made common sense. Congressman Joe Waggonner offered to meet with NRECA officials to fashion a broad philosophy along these lines and to present it to the White House. Every member of our congressional delegation, except one who was ill, endorsed Congressman Waggonner's proposal, hoping for eventual Presidential approval or endorsement. They also agreed that, meanwhile, we should press for passage of the Humphrey-Aiken bill to restore REA's lending authority.

Subsequent to meeting with members of the NRECA Study Committee, Congressman Waggonner arranged a meeting at the White House to discuss the broad philosophy of amending the REA Act along wthe lines previously mentioned. Among those at the meeting were Secretary Butz, OMB Director Ash, REA Administrator Hamil and representatives of NRECA. I understand there were also legisla-

tive aides of the President there. Our people came away with varying degrees of optimism that a compromise may be possible. I was certainly glad to hear Mr. Nelsen, the chairman, say as much this morning. They felt that Secretary Butz understands the problems of providing utility service in rural America with a density of but 4 per mile of line, compared, to 35 in cities, but that Mr. Ash probably does not.

Now the point is, gentlemen, that we took the initiative to try to help ourselves and to offer constructive solutions to the President's budget problems, and to the constitutional issues at stake. We have every faith that the NRECA Board and membership will continue the initiative to effect solutions and modification of the REA Act in partnership with this committee and congressional leaders. Meanwhile, we again urge immediate approval and recommend to the House the passage of H.R. 2276 to put REA back in business as quickly as possible under authority of the Congress until long-range legislation can be enacted by the Congress.

Speaking of initiative and the effort of our rural people to help themselves and to eventually become free of Government financing, the most incredible aspect of the Presidential order was that no consideration was given to its consequences to our rural electric bank, known as CFC. Our rural electric systems have invested more than $130 million of their hard-earned general funds in this self-help effort. Although in business but 2 years, CFC was already matching REA loans on a 30–70 percent basis. That is 30 percent CFC and 70 percent REA. As noted, only 88 rural electrics were eligible to receive direct 2 percent loans at the time the Executive order was issued. Our capable REA Administrator, David Hamil—and I just wish somebody would listen to Dave before this is done—will affirm that the CFC–REA partnership was a highly successful arrangement with the ultimate goal of phasing-out Federal appropriations. It is hoped that any modification of the REA Act by Congress will recognize and strengthen this proved partnership approach to rural electric financing.

Inasmuch as the administration had endorsed concurrent REA–CFC loans with subordination of Federal mortgages, we repeat that it seems incredible that no apparent thought was given to the consequences of the Executive order to CFC and to the more than $130 million investments of the rural electrics participating in the bank. The last thing we expected was the scuttling of this self-help effort. Personally speaking, I simply cannot believe President Nixon was aware of this successful arrangement or that he had received proper and unbiased information when he recently spoke of "80 percent of REA loans going to country clubs and dilettantes," whatever that is. I am not really sure.

Alas, it appears that rural policies are being formulated by people whose knowledge of rural America and its problems ends at the 18th hole of the country club. Maybe that is the reason why we have heard so much about country clubs lately. For instance, consider the February 26 issue of U.S. News and World Report. It has the President's top White House aide speaking of REA loans as "grants." Somehow, we must get the facts across.

Apparently, it would surprise that White House aide to know that not one penny of grants or doles has ever been spent for rural electri-

fication. Does the following sound like grants: Since 1968 our 13 Louisiana cooperatives have borrowed $31,826,104 from REA. This includes some concurrent CFC loans. During those 4 years, they paid back in principle, interest, and advance payments $21,093,476. Now here is another seldom mentioned fact. During that same period, our Louisiana systems invested $25,033,284 of their own general funds in plant and service facilities. Does this sound like we are unwilling to help ourselves?

While our rural leaders worry about the future of loans and our self-help bank efforts, it appears doles and grants are the order of the day, particularly for city and urban areas.

The very same week the President's order was announced, just one newspaper in Louisiana—that was the Baton Rouge newspaper—announced over $60 million in grants and doles in its circulation area. Included were giveaways for such things as a rifle range, beautification of a river front, dancing, music, art, antipoverty, pollution, sewerage, water, a public garage, and on and on—all nonrepayable.

During that same week, the Times Picayune of New Orleans lauded the Presidential orders cutting out REAP, REA loans, et cetera. It condemned these rural programs as costly and unnecessary and went on to talk about the affluence of the farmer today. I do not know where they are getting all that. In that same week, the city of New Orleans received a $21 million grant for sewerage improvement—that was among several other cities that got it also—a gift that rural people will help pay for.

If our information is correct—and it came from a Member of Congress—so I assume it is infallible—the Federal Government gave out in free grants, exclusive of welfare, over $10 billion to towns and cities last year—more than all the repayable REA loans since 1936.

Gentlemen, in all sincerity when doles and grants are praised while repayable loans are condemned, it seems we Americans have lost our sense of values.

We realize that our troubled cities must have help. So must our diminishing rural people who feed and clothe the Nation. It may come as a shock to some that food does not grow upon grocery shelves. Let's hope they never find out the hard way, as many of us did in the Great Depression—from hunger. I can remember it well. Food comes from the investments, toil, sweat, and tears of our solid rural people. They cannot become islands apart within the mainstream of American society, if this Nation is to progress and survive.

We stress again and again that we are not seeking doles or grants. However, Mr. Chairman, unless adequate loan funds are provided upon a dependable basis, we can be sure of one thing: There will be doles and grants to provide rural service—or federally-owned, socialized power, if there is any service at all. That would be a sad day, indeed, Mr. Chairman for our proud rural people and all the Nation.

I thank you, sir.

The CHAIRMAN. I thank you, Mr. Bonner; for what I consider to be a very fine statement. It is very well considered and very helpful to us. We appreciate your appearance and hope you can stay the next few minutes. We know you have to get back in the afternoon.

Mr. BONNER. Yes, sir.

The CHAIRMAN. The next witness is Mr. Charles L. Frazier, who has been with us a number of times in the past. Mr. Frazier is director of the Washington staff of the National Farmers Organization.

We are happy to have you, sir.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON STAFF, NATIONAL FARMERS ORGANIZATION, WASHINGTON, D.C.

Mr. FRAZIER. Mr. Chairman, the legislation before you would make it mandatory for the Rural Electrification Administration to use minimum interest rate loans as directed and funded by the Congress. These funds have long been intended for use in combination with other funds available at higher rates to make possible the needed rural electrification, furnishing of electric energy and improved telephone service for rural people who otherwise could not have such services at reasonable costs.

The National Farmers Organization supports this legislation and urges immediate action to report the bill.

Before proceeding with this brief statement, I wish to compliment you, Mr. Chairman, and the members of this committee, on the expeditious action on the REAP program, the FHA emergency loans and the Rural Water and Sewer program. It is not only a matter of grave importance to continue all of these programs in the interest of rural people, it is equally important to reassert the responsibility of the Congress in our tripartite form of Government.

Quite frankly, our members and many other residents in rural communities are at a complete loss to understand the source of power exercised recently by the Executive in virtually repealing existing legislation. Having become accustomed to USDA administration of programs in keeping with the spirit and intent of legislation and appropriations passed by the Congress, many of our people are now watching to learn whether Congress will give detailed instructions in the legislative process to insure that programs will be faithfully administered in the field.

Approximately 7 million farmers, rural residents, schools and other rural establishments are serviced by the rural electric systems. These systems are committed to serve all users within their areas. The simple fact that they are owned by the rural users and deserving of continued assistance through low interest loans is entirely in keeping with the traditional attitude of supporting cooperatives in the rural areas of this country. Their survival in many instances may now be seriously jeopardized by the December 29th announcement that abruptly terminated the availability of direct loans at the 2 percent interest rate.

The virtual termination of the program is clearly in violation of the intent of the Congress as expressed in the Rural Electrification Act of 1936, the Pace Act of 1944, and the 1949 amendment creating the rural telephone loan program.

The recent repetitive references to country clubs, dilettantes, and nonfarm users by highly placed persons in the Executive branch is deceptive and misleading to the public. An objective review of these statements and the action increasing the minimum interest rate by 150

percent leads to some speculation about the motives of those who advocated such a course of action. Of course, there are some rural users who could afford higher rates for electric energy. And there are rare instances of rural residences occupied by affluent people who are using REA power because the line goes by the property. Citing these unusual cases, however, is not an acceptable excuse for terminating the program and offering funds through a different agency at higher interest rates. This course of action, if permitted to proceed unchecked by the Congress, may very well force some of the REA cooperatives into such financial difficulty that they will be vulnerable to a cut-price takeover by private power outfits who refused to make the original investment to provide rural service. The natural consequence would then be much higher rates for the users of these necessary services.

There also has been recent references to the REA loans made in fiscal year 1972 and the fact that the borrowing cooperatives were servicing areas that averaged 14 meters per mile of line. As a precaution, I have checked with the REA cooperative servicing my home community in northern Missouri. I think the service provided there and the problems encountered in financing the operation are typical for a large part of this country. This rural electric cooperative covers parts of nine counties. It now maintains 6,492 meters on 2,633 miles of line, or an average of 2.47 meters per mile. The service furnished may be broken down into these categories:

Farm Meters	4765
(Farm homesteads).	
Non-Occupancy Users	1126
(Dairies, water pumps, livestock feeding set-ups, and so forth. 90% of these are located on farms).	
Nonfarm Residences	224
(These are residences in very small towns of about 20 to 40 homes).	
Small Commercial	209
(These are generally three-phase service set-ups for grain driers and similar activity—some of these, too, could be located on farms).	
Large Commercial	5
(This includes small country elevators and a consolidated school).	
Public Buildings, Community Halls, etc	85
Seasonal/Recreational	78
(For the most part these are weekend cabins concentrated along the streams or around one or two small recreational lake developments).	

The annual work plan developed by professional engineers for this rural electric cooperative shows a need for $490,000 in calendar 1973, over and above the projected meter income. The comparable figure for 1974 is $413,000.

These funds are needed for some larger transformers, repairing some of the present lines, and other unavoidable maintenance expenses. The wholesale cost of power has increased by 2½ mils per kilowatt hour over the last 2 years. This was approximately a 25-percent increase. It is plainly evident that the users in this system face an increase in rates to cope with mounting costs of power, labor, and materials. A higher interest rate on the $1 million that they may have to borrow over the next 2 years clearly amounts to an additional burden for this cooperative.

I am sure that members of this committee understand the significance of healthy rural electric cooperatives in this country. There is still much to be done in many rural areas to stop the serious problem of

outmigration to the more heavily populated cities. The quality of life in these rural areas must be improved to a level more nearly comparable to that of the urban centers in order to attract young growing families that are so necessary for the development of balanced communities. Ready availability of power and telephone service at reasonable cost is a vital factor in both the social and economic aspects of this effort.

You are urged to reinstate the availability of funds at the minimum rate in order that the program may proceed without further interruption.

Thank you.

The CHAIRMAN. Thank you, Mr. Frazier. We are very much obliged to you and we appreciate that good statement.

Now, that completes our list of witnesses for this morning. Is there anybody else here who wanted to be heard this morning?

[No response.]

The CHAIRMAN. If not, we are going to ask all those who have been heard to return to the witness table so that we may question you together. I think we will start at the bottom of the table.

Mr. Gunter?

Mr. GUNTER. Thank you, Mr. Chairman. I would just like to ask Mr. Frazier if his investigation of the 1.6-percent hookups to meters serving other than agricultural outlets, if he would give me some indication of what type of hookup that is, some examples of service there? I realize that is an infinitesimal percentage, but I would be interested in what hookups are involved for that small percentage?

Mr. FRAZIER. Yes, sir, in these nine counties in Missouri, it is rolling livestock and grain country. We have had two small lake developments within the area. The manager tells me that these 78 meters are on what you would normally think of as summer cabins or hunting cabins or something of this sort on the streams or around those small lake developments that come within the area covered by the system. That is the sum total of anything that might be labeled nonagricultural, nonrural.

Mr. GUNTER. Thank you, Mr. Frazier.

The CHAIRMAN. Thank you, Mr. Gunter.

Mr. Johnson?

Mr. JOHNSON. I would like to ask Mr. Peterson a question.

As a lawyer, Mr. Peterson, do you think this bill does what all of the testimony is addressing itself to? Have you read the act?

Mr. PETERSON. Well, it does in terms of reinstituting the law of the land and carrying out the REA program as Congress intended. It does exactly that. In one additional sense, it says that if there are any moneys going to be appropriated via the Rural Development Act route, then that is going to be supplemental to and not in lieu of the REA Act.

Mr. JOHNSON. Do you think as a lawyer—what it says is we intend to reaffirm the original intent of Congress. Do you think that is any more important than the original intent of Congress in the first place?

Just thinking as a lawyer, I have a real question. We pass a law and then we have to pass another law saying this time we really mean it. Does the second law mean any more than the first law, in your opinion?

Mr. PETERSON. If you are asking me whether or not if we pass this law the President will veto it——

Mr. JOHNSON. I am not asking you that. I am asking you if it will have any more effect than the first law in your opinion as an attorney?

Mr. PETERSON. I guess that is a good question.

Mr. DENHOLM. Will the gentleman yield?

Mr. JOHNSON. Yes.

Mr. PETERSON. It may not; it may not.

Mr. DENHOLM. I thank the gentleman for yielding. May I explain that, it does because of the proposed change in words of the statute. The law as it now exists provides that the Administrator is authorized and empowered to make loans.

Mr. JOHNSON. I understand that.

Mr. DENHOLM. The proposed change provides that the Administrator is authorized and directed to execute the will of Congress. That is the major difference.

Mr. JOHNSON. I understand that. I just wondered if Mr. Peterson thought that.

Mr. PETERSON. I thought you were alluding to the meaning of the words.

Mr. JOHNSON. I understand his thinking on it. I wondered what yours was.

Thank you. I have no further questions.

The CHAIRMAN. Thank you, Mr. Johnson.

Mr. Rose?

Mr. ROSE. Thank you, Mr. Chairman.

Mr. Peterson, one more question, please, sir. Are you familiar with the explanation of the Secretary of Agriculture as to how the rural electric cooperatives in this country, as he sees it, would operate in the future? Are you familiar with what the Secretary of Agriculture is proposing in regard to the 5-percent guaranteed loans?

Mr. PETERSON. Now, are you talking about electric loans or telephone loans?

Mr. ROSE. Well, both, basically. Electric, excuse me.

Mr. PETERSON. Well, I can't speak for the electric, but I think that what he proposes is that all loans be on an insured basis.

Mr. ROSE. Right. Would this type of arrangement be satisfactory for telephone cooperatives?

Mr. PETERSON. I think it would be satisfactory for telephone cooperatives who are able to pay that much interest, and the best example that I can tell you is that even under the rural telephone bank as we have it today, there are cooperatives, rural telephone cooperatives, who borrow from that bank who are paying as much as 8 percent interest. But there again, it is based on ability to pay.

Mr. ROSE. That is all. Thank you.

The CHAIRMAN. Mr. Symms?

Mr. SYMMS. Thank you, Mr. Chairman.

I would like to thank you gentlemen who testified here. I have one question.

How much are the rates going to go up—have any of you any figures on that—if there is no more 2-percent money, for instance? How much are the rates going to go up for REA users? Do any of you have a figure on that?

Mr. Peterson or Mr. Bonner, maybe you have something on that.

Mr. BONNER. I would say that it would vary all over the place. It would depend on your local conditions.

It would depend on your local conditions of your cooperative, since each one is an individual enterprise, and it also would depend upon such factors as your energy crisis and your fuel cost and a host of other things. I do not know how you could just tie it to an interest rate, sir, is what I am saying.

Is that right, Mr. Dell, do you think?

Mr. DELL. Yes; they will have to go up. Interest is not the biggest item to affect rates, but the biggest item to affect rates, the biggest component, is cost of power. But interest charges will raise rates some and it will probably take a period of time to do it, because these Rural Electric systems are borrowing, their loads are doubling about every 7 or 8 years and they are having to borrow money for system improvements and heavying up the lines and so on. As the 2-percent money disappears and is replaced by higher interest charges, 5 percent and up, it is going to affect rates.

Mr. SYMMS. Well, in the overall picture here, if a compromise is worked out and some 2-percent money is made available, as some of you have indicated—Mr. Bonner in his testimony—is there anybody here who feels this is unsatisfactory? I notice you are all pushing for immediate enactment of the bill, but if we could come up with a bill as Congressman Nelson has talked of, would this be satisfactory? Is there anybody here who disagrees with this?

Mr. PETERSON. As long as the moneys are available at 2 percent for those companies who require it, either because of low density, serving in remote areas—criteria such as that—and those who are able to pay more would be required to pay more, there would be no problem at all.

Mr. FULLARTON. I would have to add, sir, that the criterion of ability to pay and also the amounts of money at the various interest rates be approved by the Congress, not by the Office of Management and Budget.

Mr. SYMMS. Are the balance sheets of the companies that are in dire need available for us to see? Are they—you know—the ones that are not making the money, that need the 2-percent money?

Mr. FULLARTON. Yes, sir; and in the past, a great deal of data has been submitted to the committee on this and it is available for REA.

Mr. SYMMS. The situation you are talking about concerns the ones that would need the 2-percent money. What are you defining as the ones that need the 2-percent money?

Mr. FULLARTON. The present law provides that a system paying an interest rate where you could have 150-percent interest coverage and if he cannot make a 150-percent interest coverage, he stays at 2 percent. If he can pay 3 percent under that criterion, he pays that, or 4 percent. Although this has not been 100-percent equitable, it has been about 99 percent. It has worked well under the present Act and that type of criteria we think would be a reasonable one.

Mr. SYMMS. Mr. Peterson, you said there was a difference. I was interested in your comment about President Roosevelt's Executive order. I have seen some testimony presented on the Senate side concerning President Roosevelt's Executive Order 70–37, May 11, 1935. I was not quite sure what you meant, what the difference was. He put

it in with an Executive order and now it is taken out with an Executive order.

Mr. PETERSON. The difference is that in 1935, the Congress passed the Emergency Relief Appropriations Act and at that time, the Congress delegated the authority to the President to do what he did in setting up the Rural Electrification Administration. On December 29, 1972, it was not even President promulgating an Executive order, it was merely the Secretary of Agriculture putting out a press release on a mimeographed piece of paper terminating the program, not by authority of the Congress.

Mr. SYMMS. I am out of time.

Thank you, sir.

The CHAIRMAN. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

I appreciate the appearance of the witnesses this morning and the excellent testimony that each has made for the record. I particularly commend you, Mr. Bonner, on the logic and the reason and the sense that you expressed in your statement. I want to ask you just a few questions.

Now, it is true, that all of you are involved in a utility system, either telephone or electric. A utility system can absorb any level of interest rate and equally important is the availability of money. The cost of it is just added to the cost of consumer services. The interest rate as a cost factor must be paid by the consumers. All of you know that the consumers on rural utility services as producer can't pass the additional cost of services to others. The farmers and ranchers, as producers of food and fiber can not pass additional costs of production as easily as a retail business—particularly the utility business. So if a compromise is to result and the rate of interest is to be increased the net income of producers will likely be reduced.

The alternative is that an increased cost of production will result in an increased cost of food and fiber to the consumers. The policy of the administration is to seek a higher net income to producers at the same time that we want to reduce the cost of living to consumers. Now, it is impossible to have it both ways if the interest rate is increased.

I urge the affirmative action of this committee in reporting H.R. 2276 for enactment to continue proven programs of industry for the people of rural America.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Denholm.

Mr. Thone?

Mr. THONE. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Bergland?

Mr. BERGLAND. I have no questions, thank you, Mr. Chairman.

The CHAIRMAN. Mr. Sebelius?

Mr. SEBELIUS. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Jones?

Mr. JONES of Tennessee. Thank you, Mr. Chairman. I have no questions. I do want to commend all of these gentlemen for the fine testimony that they have made here today. I might say I am in complete agreement with both the Electric and Telephone on what they are asking for and what they have said here this day. I especially ap-

preciate very much my good friend—not my constituent, but a good friend of mine, James Bass from Tennessee, being here also to testify.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Jones.

Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

May I say first that I would like to have had the first chance to welcome our good friend from Minnesota, A. Harold Peterson who has been here many times and who knows REA and RTA very, very well.

I was also very much impressed with the testimony of Mr. Bonner, I believe from Louisiana. I think a number of you could give some real good input into trying to find a long term answer to REA credit.

I served on a REA board for 32 years, helped initiate it. One of the real problems we had is constant, long-time assurance of money. While this bill does something important, it does not answer the long-term credit problem.

Then I would like also to state that I regret that the gentleman from Pennsylvania chose to enter into a very, very poisonous political attack in conjunction with his testimony. To say that the President is trying to drive every farmer off the land is the type of statement that is not going to be conducive to healing or trying to settle anything.

In fact, I would like to say for his information that parity today in January is at 80 percent. It was 72 percent in January of 1969. February, I am sure, will show more than 80 percent. And everybody—the labor unions, the whole group—are damning farm prices as being too high. So I do not think that we ought at this stage to try to inject this type of poison into this type of discussion.

I regret very much, sir, that you came here and made the venomous attacks politically with regard to this nonpolitical, I hope, situation. Good farm prices do not drive people off the land.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Zwach.

Judge Rarick?

Mr. RARICK. Thank you very much, Mr. Chairman.

I appreciate you gentlemen appearing before us this morning and bringing us your testimony on one of several controversial decisions facing us in Congress. As I understand the situation, there are now 1,000, more or less, cooperatives nationwide and your interest is in continuing low-interest financing to some 88 cooperatives which are now in extended or poor financial condition. I think that if we in Congress live up to our obligations, we will try to maintain some kind of financing to protect the taxpayers' investment that we already have going alive. I did have a chance to preview Mr. Bonner's statement a few minutes before this session. I was quite impressed with his testimony reminding us of the difference between a loan and a grant and his illustrations that the cities get grants which don't have to be repaid while the country people can't even get loans—which they have always repaid.

I am wondering, Mark, if you are aware that while the President in December saw fit to terminate the disaster loan program for rural America, in the continuing resolutions on Health, Education, and

Welfare and Labor and Foreign Aid last week. Congress saw fit to give, a grant or a loan, of $35 million to the disaster victims of Nicaragua.

The same Executive order terminated the water and disposal grants under the Farmers Home Administration program, yet this same foreign aid bill saw fit to appropriate $20 million for a water plant in Israel. The grants and the gifts for our foreign friends continue. The Peace Corps appropriation got $61 million, assistance to refugees from the Soviet Union amounted to $50 million, while assistance to refugees in the United States from Cuba got $145 million. So, it appears that these are not loans. Apparently, you have to be out of the United States to get a grant, unless you are in some very large city. And, of course, many people are suspicious of big cities today. They have a lot of political muscle. I was very impressed with your statements, Mark.

One of the great negotiating factors at the peace conference was the ability to give food to many of these Communist countries whose systems are so defunct that they cannot even feed their own people. I think we ought to remember also that the whole theory of devaluation was that we are now going to allow our foreign friends to buy our food and fibre and goods at a discount; that is, to buy at a discount if we have anything to sell them.

Probably the most astounding thing to me is that at the same time you gentlemen are here urging us to take action to continue some loan support to the 88 cooperatives, we are also reading where there is a program planned to make grants of $2.5 to $2.9 billion in aid to North Vietnam. I do not know whether we are going to build any water plants, whether this is going to be a disaster grant, or whether, perhaps, it will be for rural electrification of North Vietnam. I am very sympathetic with your testimony and probably will support the bill introduced by my colleague, Mr. Denholm, and others. I look forward to the time that we can work out something along the line of the compromise that Mr. Bonner has brought before us.

I thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Judge Rarick.

Mr. Mayne?

Mr. MAYNE. Thank you, Mr. Chairman.

Mr. Dell, my understanding of H.R. 2276, which your organization supports, is that it would make mandatory the granting of loans at 2 percent interest across-the-board, regardless of the financial standing of the individual co-ops. Is that correct?

Mr. DELL. That is correct.

Mr. MAYNE. Furthermore, this 2 percent money which would be derived would be in addition to whatever assistance would be available to co-ops under the Rural Development Act. Is this correct?

Mr. DELL. Yes, sir.

Mr. MAYNE. Well, now, don't you honestly feel that after almost 40 years of operation with the REA, there are a good many REC's that are now well enough established and is in a sound enough position that they can well afford to pay more than 2 percent?

Mr. DELL. I certainly do. I agree with you, Congressman, they are. The Rural Electrification Act of 1936 as amended provides a flat 2-percent interest rate. Now, if the administration had really wanted

to do this, to help these systems, they could have done it under the existing act, just what they are trying to accomplish. I will tell you exactly how they could do it.

There were four classes of loans up until December 28, that were made by REA. There was the 100-percent loan at 2-percent interest that was lent to some 88 rural systems that could, under criteria established by the Administrator, could not pay more than 2 percent. Then there was the second group of loans that was made, 90 percent REA loans, 10 percent from CFC, which came into a blended rate. This was under criteria established by the Administrator.

There was a third group of loans at 80 percent from REA and 20 percent from CFC.

There was a fourth group then that got money from REA, 70 percent of the loan funds from REA and 30 percent from CFC. The Administrator said publicly in December, before December 29, that early this year, these ratios were going to go farther. That is the reason that I say the administration could have done, accomplished the purpose of raising the interest rate by changing these ratios.

Now, the ratios, let me say, in the case of generation and transmission co-ops, is the big GP borrowers, the ratios were 30 percent from REA and 70 percent from CFC or outside financing.

Mr. MAYNE. I am glad to hear that you are not insisting on a complete revival of the 2-percent rate, because I find from talking with the general public out in my State, including many farmers, that they feel the continued insistence upon a 2-percent rate in some quarters is really harming the REC image. I do think we should be concentrating our efforts on a solution along the lines that Congressman Nelsen has talked about this morning, something that would assure adequate long-term financing for our Rural Electric Cooperatives with Government guarantees but in those instances where co-ops can afford a higher rate, perhaps the 5 percent that has been proposed by the administration would be more realistic. I think that this would be particularly attractive to your organization and I would urge your strong consideration of it. I feel we should include in the compromise some provision for the continuation of 2-percent money to those co-ops in sparsely populated areas that really need it, that have comparatively few subscribers per mile, I hope that that can be the thrust of legislation. As long as this bill requires mandatory 2-percent money across the board, I can't support it.

The CHAIRMAN. Your 5 minutes is up, Mr. Mayne.

Mr. Vigorito?

Mr. VIGORITO. I am happy to be here today to state my support for H.R. 2276 and I think I have to come to the defense of my Secretary of Agriculture, Jim McHale, from Pennsylvania, about whether he made it political or not this morning. I do not think that the Secretary made it political, the President has made it political. He could have done this before the election just as well as after the election. Before the election, I am not sure the President got out of bed in the morning unless he thought it was the political thing to do for that day. After the election, he starts to dismantle the Federal Government.

I am sure that come the next election next year, why, the voters will know which way to vote. They probably admit now they made a mistake last November, but they can rectify that next November.

That is all I have to say.

The CHAIRMAN. Thank you, Mr. Vigorito.

Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman.

Before I ask a question or two, I would like the record to show that I am not now or never have been opposed to REA. I have been singing its praises ever since I have been in Congress. I am violently opposed to 2-percent money across-the-board and I shall continue to be opposed to that. I have opposed it so vigorously that at least one of my co-ops has been doing everything in its power to unseat me. But I am still here. This co-op attempted to retire me to my farm but my voters decided otherwise.

Mr. Dell, I would like to read one statement you made and then ask you one question: "Even in the wildest flight of imagination, nobody would have guessed or believed if told that the administration would suddenly announce it would no longer administer the Rural Electrification Act."

By whom and when was that statement made?

Mr. DELL. It was made in a press release by the U.S. Department of Agriculture on December 29th.

Mr. GOODLING. December 29th?

Mr. DELL. Yes, sir.

Mr. GOODLING. And it was one of the ordinary press releases put out by the USDA?

Mr. DELL. Yes, sir.

Mr. GOODLING. That is all on that. I shall check that release.

Mr. Bonner, I did a little quick arithmetic. It has been a few years since I had a course in arithmetic, but I believe my figures are correct. You say that since 1968, your co-ops borrowed approximately $32 million. If my figures are correct, at 2 percent, that means that that cost your co-op $640,000 in interest. This, we must remember, was at a time of some of the highest interest rates in the history of our country. Public utilities during that same period were paying from 8 to 9 percent, and I think they are still paying approximately that amount today. At the lowest rate that it cost the Government during that period, I figure 5 percent. That cost the taxpayers of the United States $1,600,000.

I have been a businessman all my life and I do not think the Federal Government can afford to do this sort of thing any more than I could as a farmer. I would go broke if I continued to do that kind of financing—no, I would not go broke; I would be ahead of the game if I could borrow money that costs you people $640,000 which in turn cost the Government $1,600,000. Can you justify that?

Mr. BONNER. Well, that is some of the reason why, as president of the National Statewide Managers Association and my Louisiana group, I thought I would take some initiative to try to suggest modification to bring it more in line with the cost of interest. But then, too, when I think of the $10 billion, if my Congressman was correct, that we have given to the cities, I worry some about the economics of that, too, Mr. Goodling, if we can afford that, also.

Mr. GOODLING. I want to associate myself with some of the remarks of my neighbor, Mr. Mayne.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Goodling.

Mr. de la Garza?

Mr. DE LA GARZA. No, thank you.

The CHAIRMAN. Mr. Teague?

Mr. TEAGUE. Yes.

Mr. Peterson, you indicated that your organization consists mainly, or the majority, at least, of your members are commercial telephone companies.

Mr. PETERSON. That is right.

Mr. TEAGUE. Do you have any figures on the average net earnings of those companies?

Mr. PETERSON. I do not have any figures on average net earnings right here. The lastest figures that the REA put out are contained in the 1971 annual statistical report. This is a REA document, put out yearly. The 1971 report has been recently promulgated, in the last 6 weeks, I believe.

Mr. TEAGUE. And that indicates the net earnings of the commercially owned telephone companies?

Mr. PETERSON. Yes, sir; it indicates the financial position of all of them, both the balance sheet and operating statement.

Mr. TEAGUE. Some of them may be doing poorly, but I personally know of some of them that are doing very well and that I wish I owned, that are borrowing money at 2 percent.

Mr. PETERSON. These are the people, Mr. Teague, who pay 8 percent at the bank.

Mr. TEAGUE. I hope there are and I hope they are not complaining about it and wanting to go back to 2 percent.

Mr. PETERSON. We have never taken that position.

The CHAIRMAN. Thank you, Mr. Teague.

Mr. Stubblefield?

Mr. STUBBLEFIELD. Thank you, Mr. Chairman.

I want to ask all of you gentlemen—I guess Mr. Dell particularly—and since I do not want to get into this political argument at the moment, I just would like to say to you that, according to Mr. Bonner's statement, it seems to me that the Office of Management and Budget is composed of a lot of self-anointed scientific farmers who do not know the difference between loans and grants, whereas Mr. Weinberger, I believe, was chairman at the time all this was taking place. Now, according to your statement, Mr. Ash is following in the footsteps in his statement on REA's getting grants.

I would like to ask all of you this question: The procedure you want to follow is to pass out H.R. 2276 and work from there following your meeting in Dallas, Tex., is that right?

Mr. DELL. That is absolutely correct, Congressman. We just do not believe that the Rural Development Act, that you can get any money on it. There are so many handicaps, some of which I pointed out in here. We are willing, and our board of directors took this position on January 22 at a meeting here in Washington, a special meeting, that you promptly pass H.R. 2276 and we will negotiate in good faith. Now, our board of directors is made up of one director from each State elected by the members of that State, for each State in

which we have a member. We have 46 directors. These are honorable men and they have given the staff direction that they will negotiate.

Mr. STUBBLEFIELD. Do you think that the Dallas meeting will come up with recommendations that will accommodate working from the bill?

Mr. DELL. Yes, siree, I do.

Mr. STUBBLEFIELD. Mr. Chairman?

Mr. RARICK. Will the gentleman yield?

Mr. STUBBLEFIELD. I will be happy to do so.

Mr. RARICK. I thank the gentleman for yielding.

I just want to make one statement in response to my colleague from Pennsylvania. I, too, am concerned about the taxpayers and the use of low-interest money, but I just notice from my arithmetic, when very recently, we settled the Soviet war debt of $11 billion for $722 million, it ended up amounting to 6 cents on the dollar, with no interest charge whatsoever, and we had a forgiveness of 28 years of interest. That was much, much less than 2 percent. The interesting thing is on that 28-year Russian war debt of $11 billion, we taxpayers are still paying interest because we did not have the money and had to borrow it at the time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Judge Rarick. This is the first chance I have had to interrogate the witnesses, which I will not do, but simply will say that I appreciate the attitude that was taken by all of our witnesses in trying to work out something that will be helpful to everybody concerned. It is not going to do us any good to simply pass legislation here which does not become law. That never achieves anything—I should not say it never achieves anything, but it is not going to achieve what we are seeking in this instance. On the other hand, if we can agree upon legislation which will take care of the fiscal situation as the President wants, and take care of the needs of the cooperative and the commercial corporations which are involved, and take care especially of the subscribers on those lines, and come up with something that both the groups that are opposing the present action and the President can all approve, we will have achieved something that will be worth while for us, I think. And I think there is a good chance of doing that. We are working at it right now.

If I may, I yield the remaining minute or two to Mr. Nelsen, who is not a member of our committee. I think we would all like to hear from him. I think he had a question to ask.

Mr. NELSEN. Thank you, Mr. Chairman. Mainly some observations.

To Mr. Peterson, you suggested supporting the Denholm bill but you also would endorse a bill that would shape up a new procedure that would meet your opposition to the plan that has now been proposed by the President, would you not?

Mr. PETERSON. Without question, and I reiterate that what the telephone segment has done since 1966 is just exactly that in trying to get the telephone bank.

Mr. NELSEN. Thank you.

To Mr. Bonner, I want to say this to you because on page 3, you make reference to the grave budgetary problem. I congratulate you for recognizing it. It is often overlooked.

I notice Mr. Fullarton's statement also—everyone of you is proposing that we look at a plan, a permanent plan. That seems to be the general consensus of all of the witnesses, I believe.

Now, to Dick Dell, who used to work with me. Dick, I notice, in your statement, you also refer to the CFC as an acceptable implement.

Mr. DELL. Right.

Mr. NELSEN. Hoping that it can become the future financing plan.

Mr. DELL. Right.

Mr. NELSEN. Then you further stated in your testimony that "Accordingly, we are trying to develop and agree among ourselves on amendments to the REA Act which will meet the vital needs."

Mr. DELL. Right.

Mr. NELSEN. I am working, Bob and I have been working together to try to keep this program in the REA Act as it presently is with low-interest loans, some intermediate, and some guaranteed loans that would be moving toward the objective that we seek. I am sure that this seems to be the tenor of things all the way through. You will recall that years ago, I tried to work out a revolving fund type of approach, but at that time, it did not seem to be possible to do anything. Now we are coming into that sort of thinking at this time.

I have called around the country. I called Andy Freeman in North Dakota, and John Madgett in Wisconsin, both personal friends of mine. They said, for goodness sake, give us a program that makes money available. The interest is not exactly the big hangup, but available funds.

It seems to me that with the budgetary problem we face the prospect of a storm brewing over 2-percent financing, we do need to take constructive action. I stood in back of the chamber the other day when we voted on a bill, and a big-city Congressman came by and in a loud Voice said: "I am getting sick and tired of subsidizing these damn farmers." Those were the words he used. Well, maybe there is some reason for such a conclusion on his part, but I think we must recognize that a long-range program ought to be fixed up.

Thank you, Dick, for your testimony, I thought it was very good.

Mr. Bonner, I was very pleased with yours.

I agree with John Zwach when he says: "It does not do us any good to get in a row right here." What we want is an answer. I think we can find it. The chairman and I are hitched up together—how do you like that, Texas and Minnesota, an old cow milker and a steer feeder from Texas. That ought to do some good.

The CHAIRMAN. Thank you very much. We are glad to have you with us.

That will complete the hearings for today. The committee will meet tomorrow morning to hear Under Secretary Campbell as the witness. The committee will stand in recess until 10 o'clock tomorrow morning.

[Whereupon, at 12:10 p.m., the committee recessed to reconvene at 10 a.m., Tuesday, February 27, 1973.]

REA LOAN PROGRAM

TUESDAY, FEBRUARY 27, 1973

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

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

Present: Representatives Poage, Stubblefield, de la Garza, Vigorito, Jones of North Carolina, Sisk, Rarick, Jones of Tennessee, Melcher, Bergland, Denholm, Bowen, Rose, Litton, Gunter, Teague, Wampler, Goodling, Mathias, Mayne, Zwach, Sebelius, Mizell, Thone, Young, Johnson, and Madigan.

Also present: Representative Ancher Nelsen; John O'Neal, general counsel; Hyde H. Murray, associate counsel; John Rainbolt, assistant counsel; Fowler C. West and L. T. Easley, staff consultants; and Martha Hannah, subcommittee clerk.

The CHAIRMAN. The committee will be in order.

We have a number of visitors this morning. We are glad to have you. I understand that our visitors are flying farmers who have come in to discuss some of the problems before us. We are mighty glad to have you be present this morning. You are especially fortunate in that our witness this morning is the Under Secretary of Agriculture, Mr. Campbell.

We are delighted to have you, Mr. Campbell, and Mr. Knebel, General Counsel for the Department of Agriculture.

Mr. Campbell, we will turn the meeting over to you.

STATEMENT OF HON. J. PHIL CAMPBELL, UNDER SECRETARY OF AGRICULTURE; ACCOMPANIED BY JOHN A. KNEBEL, GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE

Mr. CAMPBELL. Thank you, Mr. Chairman. I want to thank the committee for its patience and hospitality in letting me come before it time and again. Once again this morning, and particularly on down the road, we look forward to working with the committee on the development of the 1973 Farm Act in that the current act does expire this year and it is certainly extremely important that we do have a 1973 Farm Act.

I am pleased to appear before the committee to present the views of the Department of Agriculture on H.R. 2276. This bill would amend the Rural Electrification Act of 1936 to affirm that funds made available to REA would be fully obligated each year. In its report on the bill, the Department opposed the proposed legislation.

The Department opposes H.R. 2276 because the continued use of the REA 2-percent direct loan authorities, as provided in H.R. 2276, would make it difficult, if not impossible, for the President to hold fiscal year 1973 Federal budget outlays to $250 billion and to keep the outstanding public debt within the statutory limit of $465 billion through June 30, 1973.

Enactment of H.R. 2276 would be inappropriate at this time. We must work together to take every reasonable measure to hold Federal spending in line. The reasons are obvious, of course. If spending is not curbed, it will be necessary to increase taxes. If spending is not curbed, and taxes are not increased, this will add wood to the fires of inflation. The public is tired of paying more and more taxes; and people are tired of seeing their money decrease in value. We must take a new look at our spending priorities and make hard decisions.

Meantime, the Rural Development Act of 1972 gives the Department of Agriculture very broad authorities to make guaranteed and insured loans to finance all types of community development programs in rural areas. It will also help enable the administration to operate within the spending and public debt limits and avoid the need for tax and price increases.

The Rural Development Act of 1972 established a rural development insurance fund, initially capitalized by the transfer of funds from the agricultural credit insurance fund. For fiscal year 1973, REA's program levels were increased for electric loans to $618 million and for telephone loans to $145 million, including loans made earlier this year under the Rural Electrification Act. The larger programs are possible because the resale by the Government of insured notes received from borrowers limits the increase in public debt. Borrowers, however, continue to deal with REA even after their notes have been resold.

The higher interest rates for loans under the Rural Development Act affects only those borrowers requiring additional loans. The 2-percent rate on outstanding REA loan contracts is not affected by these changes—even if the funds under such contracts have not been fully advanced. Because of the large amounts of outstanding loans at the 2-percent level, the average interest costs on outstanding debt will go up gradually as REA borrowers get new loans. Generally, the fastest growing borrowers, those best able to pay higher interest rates, will have the fastest growth in the average cost of their indebtedness. Many borrowers will thus be able to absorb the higher interest costs with little, if any, change in their rates for consumers.

Loans under the Rural Development Act will be made to electric and telephone cooperatives at 5 percent interest. If the notes when resold to purchasers must carry a higher rate, the difference will come from congressional appropriations. Loans to commercial power companies and commercial telephone companies will be made at a rate approximating that of other loans guaranteed by the Government.

We recognize some borrowers may have problems in meeting the requirements for loans under the new law. We will work out solutions to such problems. Insured and guaranteed loans permit us to expand the loan programs to meet the growing capital needs of rural electric and telephone systems. This also permits us to reduce or eliminate the

subsidy now borne by taxpayers without appreciably increasing the costs for the rural recipients of these essential services.

We recommend that H.R. 2276 not be enacted.

The CHAIRMAN. Thank you, Mr. Campbell. I appreciate your thinking here and I understand it is in keeping with the policy of eliminating activities which are considered too costly for government. I just wonder if you would explain in a little more detail how you are going to make these loans under the Farmers Home Administration. There is a suggestion, I believe, that you would do that and if you would do that, those would be 5-percent loans?

Mr. CAMPBELL. Yes, sir; 5 percent.

The CHAIRMAN. The borrower must prove that he can't get credit elsewhere at reasonable rates and terms?

Mr. CAMPBELL. Yes.

The CHAIRMAN. That is, the regular farmers home program would apply?

Mr. CAMPBELL. Yes.

The CHAIRMAN. Those loans that you are proposing here, have you made any of them?

Mr. CAMPBELL. Yes, sir, we have. I would like for our general counsel to detail these. He have been working in this area with the Farmers Home Administration and also on the Rural Electrification Administration.

The CHAIRMAN. I would call attention to the fact that we only have 5 minutes of questioning. You understand?

Mr. CAMPBELL. Yes, sir.

The CHAIRMAN. If the general counsel would tell us now whether he has actually made any loans.

Mr. KNEBEL. Mr. Chairman, early last week, the Administrator of the REA did effectuate three loans on the 21st. One was in the amount of $1,198,000, the second $440,000, and the third $107,000. On February 22d, we were able to complete work on half a dozen more. The amounts were $2.6 million, $1.4 million, $1.6 million, $1.019 million, and $171,000. All of these loans were made under the provisions of the Rural Development Act at 5 percent.

The CHAIRMAN. Did you pay out any money?

Mr. KNEBEL. Sir, whenever you make one of these loans, the time factor involved before there is any money drawn down is always from 4 to 6 weeks, regardless of whether it is in the Rural Development Act.

The CHAIRMAN. Then there have not been any loans made, have there?

Mr. KNEBEL. Well, the loan contract document has been signed. The interest does not run, of course, until the funds are drawn down and the firms which are drawing the money are not going to draw the money down until they can put it to use.

The CHAIRMAN. Do they have a firm contract?

Mr. KNEBEL. They do, sir.

The CHAIRMAN. Which they can enforce in court?

Mr. KNEBEL. Yes sir; in addition to that, as you know, there is an appreciable amount of 2-percent money that is still in the pipeline.

The CHAIRMAN. No; I am just trying to find out about these loans that you are making through Farmers Home. You said that you

made loans and I think it is clear that you have not made the loans, but that you have simply made some commitments. I want to find out about the commitments that you made, how binding they are.

Mr. KNEBEL. Well, sir, they are binding and they are contractual relationships that have been entered into by the Administrator that has the authority to commit the Department.

The CHAIRMAN. They each have a long list of conditions that could invalidate the loans, also?

Mr. KNEBEL. Well, sir, any loan document is going to have some prerequisites which the borrower applicant must meet. If you are going to take a loan on a home, you have to get a title search and have to have a clear title.

The CHAIRMAN. That is right; you have to do all that before you get a commitment.

Mr. KNEBEL. Well, you can still get a pretty firm indication from your mortgagor that you are going to get a commitment if you do this. We do not feel that there is anything that is fiscally impossible to be performed.

The CHAIRMAN. Well, I want to get something specific. There is a provision in this contract, is there not, that the applicant has been informed of the reqquirements of the submission of this loan application for review and comment within a designated period of time not to exceed 30 days to clearinghouses of planning and local government agencies having jurisdiction over the area in which the proposed facility is located.

That is a part of the requirement, is it not?

Mr. KNEBEL. Yes, sir; that is a provision of the Rural Development Act.

The CHAIRMAN. That means that these COG's, Councils of Government, must approve these applications at some future date and if they do not approve them, that you do not have anything, do you?

Mr. KNEBEL. Well, in theory, that is correct; sir. However, we do not anticipate any problem.

The CHAIRMAN. It is correct as a matter of law, is it not?

Mr. KNEBEL. It is correct that the Secretary must find the loan consistent with areawide plans.

The CHAIRMAN. Then you do not have anything until that is done, do you?

Mr. KNEBEL. Well, clearly, we would not have proceeded this far, sir, if we did not feel that their plan was such that it would automatically or in due course be consistent with regional boards planning.

The CHAIRMAN. The Regional Board is somebody over whom you have no control?

Mr. KNEBEL. I think we have a relationship with them, sir, that while it is not direct control, it is certainly——

The CHAIRMAN. What kind of relationship?

Mr. KNEBEL. It is going to vary in each instance. However, the REA can work with them, sir, and certainly, we will do everything we can to get these applications reviewed by these boards.

The CHAIRMAN. If you can do that, then there is no necessity of sending them out for review. If in fact you are going to make the decisions.

Mr. KNEBEL. I did not say we are going to make the decisions, sir. It is the statutory requirement merely that they give notice to these boards.

The CHAIRMAN. You have already made the decision.

Mr. KNEBEL. No, I said what we are going to do is attempt to assist them in getting the comments of the boards.

The CHAIRMAN. Well, you have about five or six other pages here of other things that you have to do.

Have you loaned any money to any corporations, private corporations? Oh, I know you have not. I am not going to ask you that.

Mr. KNEBEL. No, sir.

The CHAIRMAN. Of course not. Now, do you have any authority to do so?

Mr. KNEBEL. Yes.

The CHAIRMAN. I ask unanimous consent to extend my 5 minutes for further questioning of the witness.

Do you have any authority to do so?

Mr. KNEBEL. Yes, sir.

The CHAIRMAN. What is it?

Mr. KNEBEL. It is under section 310, sir.

The CHAIRMAN. Will you read it?

While you are looking it up, your press release of December 29, 1972, said that you can make them under 306(a)(1) and 306 does not give you any authority to do it.

Here is your press release, which says that all REA loans will be made as guaranteed and insured loans under the authority of section 104 of the Rural Development Act of 1972, sections 306(a)(1) of the Consolidated Farmers Home Development Act. It says all of them will be made under that.

Mr. KNEBEL. Sir, very frankly, that press release was in error and I think the better part of the opinion that we have gone back and re-done on some of this is that the authority is under section 306 or 310. I will be pleased to provide for the record a copy of our opinion on that, sir.

[The opinion referred to above follows:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE GENERAL COUNSEL,
Washington, D.C., February 5, 1973.

Subject: Recent termination of certain programs of the Department.
To: The Secretary.

This is with reference to the request of the Chairman of the House Agriculture Committee for a statement of the legal authority for this Department's action in terminating certain of its programs. The programs referred to were the Farmers Home Administration's emergency loan program; subsidized loan and grant programs for rural housing; water and waste disposal grants; REA electric and telephone 2% loan program; and the export payment programs on chicken and lard.

In our view the action taken by the Department is authorized by the provisions of the legislation under which such programs were conducted, since that legislation authorizes but does not require that the programs be carried out by the Secretary.

The Department of Justice has issued opinions on the question of the Presidential authority to impound funds appropriated by the Congress to carry out a program. Memoranda from the Department of Justice dealing with the question insofar as it relates to funds appropriated for assistance to Federally impacted

schools and other education programs appear in the Congressional Record at 116 Cong. Rec. pp. 343-351. The Department of Justice stated that in considering the authority of the President to impound funds for various items covered by the appropriation bill for the Department of Health, Education and Welfare it is necessary to consider—

". . . whether the pertinent legislation compels the obligation and expenditure of the full appropriation or leaves sufficient discretion to the Executive Branch to justify a Presidential directive to impound.

"A few general comments are in order. As we stated in our previous memorandum an appropriation is not in itself ordinarily interpreted as a direction to spend. To determine whether or not there is a duty to spend, one must examine the substantive legislation." page 345.

The test is whether under the authorizing legislation and the appropriation Act the particular program is mandatory or discretionary.

FHA EMERGENCY LOAN PROGRAM

The authorizing legislation for the emergency loan program administered by the Farmers Home Administration does not contain mandatory loan or grant requirements. Emergency loans are made pursuant to section 328(a)(2) of the Consolidated Farm and Rural Development Act which provides that in case of loss or damage or injury as a result of a natural disaster as determined by the Secretary of Agriculture, the Secretary

"to the extent such loss or damage or injury is not compensated for by insurance or otherwise, *may* grant any loan for repair, rehabilitation or replacement of property damaged or destroyed. . . ."

Provision is made under section 328(a)(1) for cancellation of 50 per centum of the loan but not more than $5,000, but this provision is not applicable, of course, unless a loan is made.

The 1973 Appropriation for loans provides as follows:

FARMERS HOME ADMINISTRATION

DIRECT LOAN ACCOUNT

Direct loans and advances under subtitle B and advances under section 335(a), for which funds are not otherwise available, of the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1921), as amended, may be made from funds available in the Farmers Home Administration direct loan account for operating loans in the amount of $350,000,000, to remain available until expended, pursuant to section 338(c) of the above Act, and, for advances under section 335(a), in such amounts as are found necessary thereunder.

It is clear, therefore, that neither the authorizing legislation nor the appropriation act compels the obligation and expenditure of the full amount authorized. They merely authorize a program to be carried out.

Subsidized loan and grant programs for rural housing

The authorizing legislation for the subsidized loan and grant programs for rural housing also does not contain mandatory loan or grant requirements.

Section 502 of the Housing Act of 1949 under which subsidized single family housing loans are made states that a loan "may" be made by the Secretary to an applicant for such purpose.

Section 514(a) which authorizes labor housing loans states that the Secretary is "authorized" to insure and make commitments to insure loans for such purposes.

Section 515 (a) which authorizes rural rental housing loans states that the Secretary is "authorized" to make loans for such purpose.

Section 516 which authorizes labor housing grants states that the Secretary is "authorized" to provide financial assistance for such purpose.

The current appropriation for rural housing reads as follows:

RURAL HOUSING INSURANCE FUND

For direct loans and related advances pursuant to section 517(m) of the Housing Act of 1949, as amended, $10,000,000 shall be available from funds in the rural housing insurance fund, and for insured loans as authorized by title V of the Housing Act of 1949, as amended, $2,144,000,000. Hereafter, farmer

applicants for direct or insured rural housing loans shall be required to provide only such collateral security as is required of owners of nonfarm tracts.

For an additional amount to reimburse the rural housing insurance fund for losses sustained in prior years, but not previously reimbursed, in carrying out the provisions of title V of the Housing Act of 1949, as amended (42 U.S.C. 1483, 1487e, and 1490a(c)), including $39,752,000 as authorized by section 521(c) of the Act, $51,461,000.

RURAL HOUSING FOR DOMESTIC FARM LABOR

For financial assistance to public nonprofit organizations for housing for domestic farm labor, pursuant to section 516 of the Housing Act of 1949, as amended (42 U.S.C. 1486), $3,750,000, to remain available until expended.

As in the case of the emergency loans, it is clear that neither the substantive legislation nor the appropriation act compels the obligation and expenditure of the full amount authorized for subsidized loan and grant programs for rural housing. They merely authorize such programs to be carried out.

FHA water and waste disposal grants

The authorizing legislation for water and waste disposal grants administered by the Farmers Home Administration is similarly not mandatory.

Section 306(a)(2) of the Consolidated Farm and Rural Development Act under which such water and waste disposal grants are made states that the Secretary is "authorized" to make grants for such purpose.

The 1973 Appropriation Act with respect to rural water and waste disposal grants states as follows:

RURAL WATER AND WASTE DISPOSAL GRANTS

For grants pursuant to sections 306(a)(2) and 306(a)(6) of the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1926) $150,000,000, to remain available until expended, pursuant to section 306(d) of the above Act, of which $58,000,000 shall be derived from the unexpended balance of amounts appropriated under this head in the fiscal year 1972, largely to meet the expanding need for areas not now covered:

"*Provided*, That this appropriation shall be available only within the limits of amounts authorized by law for fiscal year 1973."

Here again, it is clear that neither the substantive legislation nor the appropriation act compels the obligation and expenditure of the full amount authorized for water and waste disposal grants.

The failure to obligate all funds appropriated by Congress for the water and waste disposal program is not new. For example, in the House Report on the Agriculture Appropriation bill specific mention was made of the failure to spend $58 million of appropriated funds for water and waste disposal systems. The report stated:

"For 1973, the Committee again recommends a program level of $100,000,000 for this program, including the reappropriation of $58,000,000 which was withheld by the Office of Management and Budget in 1972 although the need was there. As of December, 1971, FHA had 1,891 grant applications for an estimated cost of $151,000,000. A similar situation exists with regard to towns and cities above 5,500, where the Department of Housing and Urban Development has principal responsibility, where $500,000,000 of the $700,000,000 made available by Congress has been frozen." H. Rep. No. 92–1175, 92d Cong., 2d Sess., 53 (1972).

Similarly, the Senate in its report also referred to the $58 million unobligated funds and stated:

"The Committee strongly urges the Administration to release all of these funds for use during the fiscal year. The need for this program has been well documented." S. Rep. No. 92–983, 92d Cong., 2d Sess., 33 (1972).

REA Electric and Telephone 2% loan program

The substantive legislation with respect to rural electrification and telephone loans is discretionary and not mandatory. Section 2 of the Rural Electrification Act of 1936 (7 U.S.C. 902) reads as follows:

"SEC. 2. The Administrator is *authorized and empowered* to make loans in the several States and Territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving

central station service, and for the purpose of furnishing and improving telephone service in rural areas as hereinafter provided: . . ."

Section 4 of the Act (7 U.S.C. 904) reads as follows:

"SEC. 4. The Administrator is *authorized and empowered* from the sums hereinbefore authorized, to make loans for rural electrification to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, people's utility districts and cooperative, nonprofit, or limit-dividend associations organized under the laws of any State or Territory of the United States, for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service, . . ."

Section 5 of the Act (7 U.S.C. 905) reads as follows:

"SEC. 5. The Administrator is *authorized and empowered* from the sums hereinbefore authorized, to make loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment . . . ."

Section 201 of the Act (7 U.S.C. 922) reads as follows:

"SEC. 201. From such sums as are from time to time made available by the Congress to the Administrator for such purpose, pursuant to section 3 of this Act, the Administrator is *authorized and empowered* to make loans to persons now providing or who may hereafter provide telephone service in rural areas, to public bodies now providing telephone service in rural areas and to cooperative nonprofit, limited dividend, or mutual associations. Except as otherwise provided by this title, such loans shall be made under the same terms and conditions as are provided in section 4 of this Act, for the purpose of financing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities or systems to furnish and improve telephone service in rural areas . . ."

The 1973 Appropriation with respect to the Rural Electrification Administration, reads as follows:

RURAL ELECTRIFICATION ADMINISTRATION

To carry into effect the provisions of the Rural Electrification Act of 1936, as amended (7 U.S.C. 901–924; Public Law 92–12), as follows:

LOAN AUTHORIZATIONS

For loans in accordance with said Act, and for carrying out the provisions of section 7 thereof, to be borrowed from the Secretary of the Treasury in accordance with the provisions of section 3(a) of said Act, and to remain available without fiscal year limitation in accordance with section 3(e) of said Act, as follows: rural electrification program, $595,000,000, which shall include $107,000,000 available but unused in 1972, and rural telephone program, $145,000,000.

CAPITALIZATION OF RURAL TELEPHONE BANK

For the purchase of Class A stock of the Rural Telephone Bank, $30,000,000, to remain available until expended, to be derived from the net collection proceeds in the rural telephone account created under title III of the Rural Electrification Act, as amended (7 U.S.C. 901–924, Public Law 92–12).

RURAL TELEPHONE BANK

The Rural Telephone Bank is hereby authorized to make such expenditures, within the limits of funds and borrowing authority available to such corporation in accord with law, and to make such contracts and commitments without regard to fiscal year liimtations as provided by section 104 of the Government Corporation Control Act, as amended, as may be necessary in carrying out its authorized programs for the current fiscal year.

SALARIES AND EXPENSES

For administrative expenses, including not to exceed $500 for financial and credit reports, funds for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), and not to exceed $150,000 for employment under 5 U.S.C. 3109, $16,720,000.

The legislative history of the 1973 appropriation provides no basis for regarding the authorization as mandatory. The House Committee on Appropriations (Report No. 92–1175, p. 48) shows a recognition of the fact that a part of the funds in the 1972 appropriation was never released and merely adds that amount, $107,000,000, to the 1973 loan authorization, without directing expenditure of the entire appropriation. The relevant portion of the Report reads as follows:

"The Committee has been unable to determine why $107 million of the $216 million, added to the budget in 1972, was never released. Certainly project applications were on hand and widespread interest has been expressed in Congress in getting these funds released. The Committee is confident that the Secretary will make the Office of Management and Budget aware of the impact of its failure to release the funds made available by Congress. The Committee appreciates the effort by the Secretary in getting about half the funds added by Congress released in 1972."

The Senate Committee (Rep. No. 92–983, page 27) expressed concern at the prior year's retention, but takes no other action than to add additional amounts to the 1973 loan authorization. The relevant portion of the Report reads as follows:

"The Committee is concerned that all of the funds made available for use in fiscal year 1972 were not released for obligation. As of June 30, 1972, there was a reported backlog of loan applications in the amount of $336,016,000. On that same date, REA had no loan funds available. Even under these circumstances, $107,000,000 of the money appropriated for fiscal year 1972 continued to be withheld."

The Conference merely accepted the larger Senate loan authorization with a statement which appears in the Conference Report on H.R. 15690 (H.R. 92–1283) "The House recedes on this amendment with the expectation that these funds will be used." The use of the word "expectation" is inconsistent with a mandatory directive.

The discretionary nature of the REA loan authorization would appear to be strongly supported by the numerous instances in past years in which the full amount made available by Congress has not been obligated. With respect to the program of wiring, plumbing and appliance loans authorized by Section 5 of the Rural Electrification Act, despite the availability of funds therefor in the Appropriation Act, loans have not been made in recent years for such purposes. There has been no congressional criticism of this instance of the exercise of the Administrator's discretion.

Chicken and lard export payment programs

The chicken and lard export payment programs were conducted under authority of section 32 of the Act of August 24, 1935, as amended (7 U.S.C. 612c). That section appropriates annually 30 percent of the gross receipts from customs duties to the Secretary of Agriculture and provides that:

"Such sums shall be maintained in a separate fund and shall be used by the Secretary of Agriculture only to (1) encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof . . .; (2) encourage the domestic consumption of such commodities or products . . . : and (3) reestablish farmers' purchasing power. . . ."

The legislation further provides:

"The sums appropriated under this section shall be expended for such one or more of the above-specified purposes, and at such times, in such manner, and in such amounts as the Secretary of Agriculture finds will effectuate substantial accomplishment of any one or more of the purposes of this section."

Thus, the funds are available to the Secretary to accomplish the statutory purpose of removing surplus agricultural commodities by any of the means stated in the three clauses without preference between them. There is no legislative direction requiring use of the funds in connection with any specific agricultural commodity or commodities. Whether he will undertake a program with respect to a particular commodity and which of the authorized means he will use rest in the discretion of the Secretary. It follows that the Secretary has legal authority to terminate a program when in his judgment it has served its purpose.

CONCLUSION

For the foregoing reasons, we are of the view that the Department's action in terminating each of the programs in question was legally authorized.

JOHN A. KNEBEL,
General Counsel.

The CHAIRMAN. All right. Do you have 310 there?

Mr. KNEBEL. Yes, sir.

The CHAIRMAN. The one you quote will give you the authority?

Mr. KNEBEL. Section 310(b)(8) provides in part that the Secretary may also make and insure loans to public, private, or cooperative organizations organized for profit or nonprofit, to Indian tribes on Federal-State reservations, et cetera.

The CHAIRMAN. For what purposes?

Mr. KNEBEL. That is your rural industrialization assistance, sir.

The CHAIRMAN. Industrialization?

Mr. KNEBEL. Yes, sir.

The CHAIRMAN. Yes, sir. And what interest rate?

Mr. KNEBEL. The rate of interest under 310(b) is the cost of money formula for insured loans and with respect to guaranteed loans, it is going to be the rate which is agreed upon between the lender and the borrower.

The CHAIRMAN. The rate agreed upon by the lender and the borrower is the cost of money, isn't it?

Mr. KNEBEL. Yes, sir.

The CHAIRMAN. The same thing. In other words, you do not have any right to make 5 percent loans under that section.

Mr. KNEBEL. That is correct, sir, to the private entities, to the private corporations.

The CHAIRMAN. Then you do not have the authority here to make the kind of loans that you are talking about to private corporations, do you?

Mr. KNEBEL. Sir, if I gave you the impression that we could make 5 percent loans to private corporations, it was unintentional. I did not intend to give you that impression, Mr. Chairman.

The CHAIRMAN. Well, I thought what you were saying is that you could make those loans to private corporations. You cannot make those 5 percent loans to private corporations, and two-thirds of all your telephone loans are to private corporations, are they not?

Mr. KNEBEL. Yes; that is correct, sir.

The CHAIRMAN. So what you are doing here is that you are not going to be able to make loans to the telephone systems, the rural telephone systems.

Mr. KNEBEL. Well, sir, we will make the loans using private sector money, but we will not be making them at 5 percent.

The CHAIRMAN. Will you be making them to the co-ops at 5 percent and to the private corporations at 7 or 7½ or——

Mr. KNEBEL That is correct, sir.

The CHAIRMAN. You will draw distinction between the two?

Mr. KNEBEL. Yes, sir.

The CHAIRMAN. And there will be a difference of rates between the two?

Mr. KNEBEL. Sir, the fallacy of that press release which you have, which was issued at the time of the termination, which refers to section 306, what we see in the further refinement of our opinion is that the cooperative loans should be made under section 306 at rates up to 5 percent and that the loans to profit-oriented corporations be made under section 310 under a guaranteed or insured basis at the market rate.

The CHAIRMAN. Now, it is your legal opinion to the Department of Agriculture that a rural electric system is an industrial development, is that right?

Mr. KNEBEL. Yes sir. The legislative history includes such things as ambulance service and what have you and I feel that electrical systems are in that same pale.

The CHAIRMAN. Well, the argument on the ambulance service before the Congress was that it was not an industrial service. It was therefore referred to by a specific name in the conference report we specifically spelled that out and did it for a purpose. We did not spell out electric service.

Mr. KNEBEL. We felt, sir, that there were certain parallels that we could draw, as I say, in the opinion that I will be pleased to provide.

The CHAIRMAN. I wonder if you could explain just what that similarity is between an ambulance service and a rural electric service?

Mr. KNEBEL. Sir, I feel it is a necessary community service.

The CHAIRMAN. We did not say, though, that you could make loans for any necessary community service. We named certain services for which you could make loans. Is that not right?

Mr. KNEBEL. Sir, I do not feel that the opinion which we have rendered transgresses upon the legislative history and beyond the intent.

The CHAIRMAN. Well, my time is again up.

Mr. DE LA GARZA. I will yield my time if you want further time.

The CHAIRMAN. Thank you, no, I will yield.

Mr. Teague?

Mr. TEAGUE. Mr. Chairman, I have no questions. I would like to compliment the Under Secretary on his statement and assure him that I am in agreement with him in being opposed to H.R. 2276.

The CHAIRMAN. Thank you, Mr. Teague.

Mr. de la Garza?

Mr. DE LA GARZA. I have no questions, Mr. Chairman. I will be happy to yield to the chairman.

The CHAIRMAN. Mr. Wampler?

Mr. WAMPLER. No questions.

The CHAIRMAN. Mr. Sisk?

Mr. SISK. Mr. Chairman.

Very briefly, Mr. Secretary, on page 3 of your statement, you recognize that some borrowers may have problems meeting the requirements for loans under the new law. Now, you say, we will work out solutions to such problems. Would you elaborate on exactly what you are talking about? As I understand it, the Department is taking a position in complete opposition to the present proposed piece of legislation. I am interested in whether or not there might not be some inbetween position on which we can go forward and still meet the needs of some

of these people we are talking about in this last paragraph who simply cannot meet the requirements which you are now specifying. Now, what do you propose to do in the way of legally meeting those needs?

Mr. CAMPBELL. Congressman, we put this in with the realization that possibly, there are a handful of the cooperatives that have less than a customer per mile and in a very sparse situation, but we think they are very limited and very few, and it is withn the province of the language of the law and the rural development situation for the Farmers Home or the REA or the Secretary to actually take a look at these cases and go below the 5 percent. We have not had any such applications, but the pressure is one to require that they absolutely bear the burden. Five percent is the subsidy in today's market. But the language in the law says up to 5 percent.

Mr. SISK. That is correct. But the point I am trying to get at is are you then saying that in spite of the termination in areas where there are cooperatives, either telephone or electric, that the only way they can progress or grow or add anything to their system would be to use existing law. Would you consider doing that?

Mr. CAMPBELL. Yes. We would intend that we work closely with them and if that is the last resort, that it would be a consideration that we would take it below 5 percent.

Mr. SISK. Then, we do not have a termination of the present program?

Mr. CAMPBELL. Well, to all effects and purposes, except in most extenuating circumstances, where someone absolutely can't make it. We think those cases would be very, very rare. We actually think that the cooperatives can make it.

Mr. SISK. I appreciate, Mr. Secretary, what you are saying. I think there are many cases where they can because of growth and development. But I think that the concern, certainly the concern that I have and I am sure many members of this committee have, is there are still areas in which they are going to need terms somewhat similar to what exists today. It seems to me you are saying that in that event you propose to go ahead and try to meet those needs, and therefore, that in a sense, this is not in fact a termination.

Mr. CAMPBELL. Under the Rural Development Act, yes, not under the REA lending authority. This would still be a guaranteed loan—an insured loan, rather than a direct loan.

Mr. SISK. In other words, you are saying that in no event would it be below 5 percent, then?

Mr. CAMPBELL. No, I did not say that, because under the Rural Development Act, it says up to 5 percent. Five percent is an upper limit.

In other words, under the Rural Development Act, it is possible to go below 5 percent.

Mr. SISK. That is right, under existing law.

Mr. CAMPBELL. Under the Rural Development law, not under REA.

Mr. SISK. Where are you going to get the money? In other words, where does the money come from to subsidize this?

Mr. CAMPBELL. The same place we would be subsidizing those made at 5 percent, because under the current interest rates, it is above 5 percent. There is a subsidy in the 5 percent figure. It would be a line item in the budget, just like the 2 percent is.

Mr. SISK. Well, as I understand it, there are no funds at present appropriated under that act for that purpose, is there? In other words, you could not now legally do that, could you?

Mr. CAMPBELL. Well, we will have to work with the budget authorities to figure out a method of doing this. But I am certain that this can be done.

Mr. SISK. Mr. Secretary, unfortunately, I am going to have to go to another committee, but I do appreciate your comments. As I said, I have sympathy with some of the concerns which we all have in connection with budgetary conditions. What I am seeking here is whether or not, in fact, you and the agency and the Department have considered some possible compromises in these areas to meet what many of us feel are going to be some continuing needs. I do not understand at the present time that you would have any authority or even any money to do what you are saying that you might like to do. That was the point that I want to bring out.

Mr. Chairman, unfortunately, to meet your other request, I am going to have to leave.

I thank the Secretary.

The CHAIRMAN. Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman. I have no questions but I would like to correct, with your permission, Mr. Chairman, what I consider a misstatement by one of the witnesses yesterday. This statement was made by Mr. Dell. "Even in the wildest flight of imagination, nobody would have guessed or believed if told that the administration would suddenly announce it would no longer administer the Rural Electrification Act."

You may recall that I asked Mr. Dell when and by whom that statement was made. He said it was made in a news release by the Department on December 29. I have that news release in my hand and by the wildest flight of my imagination, I cannot read anything in this statement saying that the administration would no longer administer the REA Act.

Mr. Chairman, you just referred to this release, also, and I think it is important that this release be made a part of the record. I ask unanimous consent that it be made a part of the record at this time.

The CHAIRMAN. Without objection, it will be made a part of the record.

[The above referred to press release follows:]

[From News, U.S. Department of Agriculture]

RURAL ELECTRIC AND RURAL TELEPHONE LOAN PROGRAMS CHANGE

Washington, Dec. 29.—The U.S. Department of Agriculture announced today that the REA electric and telephone 2 percent direct loan programs are being converted to insured and guaranteed loan programs at somewhat higher interest rates effective Jan. 1, 1973. This action was made possible by the enactment of the Rural Development Act of 1972 in which the Congress provided very broad authorities to make guaranteed and insured loans to finance all types of community development programs.

This change is a part of the effort to hold 1973 Federal budget outlays to $250 billion and keep the outstanding public debt within the statutory limit of $465 billion through June 30, 1973. It will eliminate direct Federal loans and substitute credit from private sources at interest rates that are more in line with the cost of money on today's market. Insured and guaranteed loans will reduce the impact

on the Federal budget and the public debt and are designed to facilitate more rapid growth in the credit programs being provided by the National Rural Utilities Cooperative Finance Corporation, the Rural Telephone Bank and other private lenders.

Beginning on Jan. 1, 1973, all REA loans will be made as guaranteed and insured loans under the authority of Section 104 of the Rural Development Act of 1972 (Section 306(a)(1) of the Consolidated Farm and Home Development Act). In order to meet more fully the needs of REA borrowers, an additional $200 million in loan authority will be made available over and above current allocations. This will provide a total loan authority of $618 million for rural electric loans and $145 million for rural telephone loans in fiscal year 1973. These funds are in addition to those loans available to REA borrowers from private sources, including CFC.

Loans to electric and telephone cooperatives will be made on an insured basis at 5 percent interest (guaranteed loans will also be available to electric cooperatives where private capital is available on advantageous terms). Loans to commercial power companies and commercial telephone companies will be guaranteed at market rates of interest.

Many details of this transition from the authorities of the Rural Electrification Act of 1936, as amended, to the authorities of the Rural Development Act will require time to work out. Borrowers and other interested parties will be advised of the necessary changes in loan requirements and loan processing as rapidly as possible. Every effort will be made to expedite these new programs in order to meet the expanding needs of REA borrowers.

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

The CHAIRMAN. Judge Rarick?

Mr. RARICK. Thank you, Mr. Chairman.

Good morning, Mr. Secretary.

Mr. CAMPBELL. Good morning.

Mr. RARICK. I notice on your statement that you feel that enactment of H.R. 2276 would be inappropriate at this time. Do you have some other time in mind that it would be appropriate?

Mr. CAMPBELL. Well, I will just strike that last phrase out, Congressman, and say it would be inappropriate.

No, I do not have any time in the future when I think it would be appropriate, because I think the REA's have reached the time when they can pay 5 percent rather than 2 percent and there is still a subsidy in the 5 percent.

Mr. RARICK. Yesterday we heard the testimony of various representatives of the REA. They indicated a great willingness to break with the Government. They would like to get their own economic freedom, and they were apparently pleading for the continuation of easy funding for some 88 of their 1,000 co-ops, which, of course, they indicate do represent a considerable investment by the taxpayers of our country.

You and I seem to make the same statements—I mean the rhetoric sounds the same. I certainly agree with your comment here that we must work together to take every reasonable measure to hold Federal spending in line. I am sure your taxpayers down in Georgia have the same feeling about taxes that mine do in Louisiana. But when it comes to working together, Mr. Secretary, I am wondering if these people in OMB have the same feeling that we in Congress do when only last week, in the foreign aid bill, there was included $50 million to return Soviet refugees—I assume they meant to Israel—$145 million for an education program for Cuban refugees; $35 million for the Nicaragua disaster victims all while our rural American people, who have suffered disasters have no money; and $20 million for a waterplant in

Israel. In addition to that, we are told that we are supposed to be expecting a little grant in the nature of about $2.5 billion to rehabilitate North Vietnam. Somewhere along the line, it appears that we will have to get together on where we are going to cut the spending to save the taxpayers' money.

As far as the forgiveness feature, the 2 percent which the representatives of the REA indicate they do not want to have tagged on them—I remember here last fall when we canceled our Soviet war debt at $11.1 billion for a little over $600 million. Six hundred million dollars from $11.1 billion, according to my arithmetic, does not even mean 7 percent interest. And in doing so, we forgave the Soviets over 28 years of interest on the loan and wiped the entire loan off. Then we gave them 20 years—I believe 30 years—something around the year 2001, to pay for it. That is considerably less than 2 percent, and it certainly is a great forgiveness feature of international relations.

I only make this comment because I feel that in working together to hold down our taxes, if we are going to give any priorities to anybody, I feel that we should consider the rural American, the man who is producing the food and fibre which proved the tool by which Mr. Kissinger at Peking, Moscow, Paris, and Hanoi was able to induce any peace feature. Apparently he has now promised that American agriculture is going to feed the world. Under the recent devaluation, we have even given the foreigners now a 10-percent discount on buying our farm products and our goods and our fibers.

But I do appreciate your statement, Mr. Secretary. As I say, I guess it is the region of the country that we are from. I believe I will follow your leadership in holding down this spending, especially when it comes to these foreign programs, because I still think Americans should come first in all priorities.

Thank you very much, Mr. Secretary.

Mr. CAMPBELL. Thank you.

The CHAIRMAN. Thank you, Judge Rarick.

Mr. Mayne?

Mr. MAYNE. Thank you, Mr. Chairman.

Mr. Under Secretary, I am one of those members of the committee who are very anxious to see adequate long-term financing arrangements worked out for our rural electric cooperatives, some provision that will assure them adequate capital on reasonable terms. Now, I hope that this can be done amicably in a cooperative spirit with the administration. I do not support H.R. 2276 because that would insist on across-the-board loans at 2 percent to all co-ops regardless of what their financial ability to pay might be. But it was evident during the testimony of Mr. Dell of the NRECA yesterday that his organization is not stubbornly insisting on 2-percent money. He readily conceded that many RECs can well afford to pay a higher rate of interest than 2 percent, so that is not going to be the stumbling block here if there is a real effort by the administration to meet these people somewhere in between.

Now; the announcement that was made on December 29, Mr. Secretary, and I have studied it carefully, does not give the Rural Electrification co-ops of this country a reasonable assurance of adequate financing and it has not worked that way. Now, you talk about three loans having been made last week, but I have co-ops in my district—I will

name just two, the Corn Belt Power co-op and the DEK Rural Electric co-op—which were all set to go under the old setup and had met all requirements but had not quite received final approval. The Corn Belt loan was to be $10,084,000; the DEK, I think, $470,000; but the action of December 29 has put them both into a state of limbo. They have made commitments to go ahead with very necessary, worthy projects and they are stymied. They do not have the money, they do not have the loan commitment they had reason to expect from REA, they have made commitments for construction to their suppliers and they are in a very serious predicament.

Now, I appeal to you, Mr. Secretary, to try to work with this committee and with OMB to achieve a workable system of Government guarantees of loans on reasonable terms. The RECs in Northwest Iowa are not insisting on 2 percent loans, and I do not want that to be considered a stumbling block to an accommodation being reached. But they do ask, and I think their record of service to this country and to rural electrification vouches for the reasonableness of their request, they do ask for Government guarantees of loans at reasonable rates that they can afford to pay. And that certainly includes the 5 percent figure announced on December 29. But we cannot have both sides stubbornly say "We must have all or nothing, we are going to adhere to our position as first announced," and not do a real disservice to rural electrification in this country.

I implore you, Mr. Under Secretary, to use your good offices to try to get together on a reasonable settlement here that will give our co-ops money with which to operate now rather than 2, 3, or 4 years down the line because of a long dispute and a deadlock.

I would appreciate your comments on this.

Mr. CAMPBELL. Mr. Congressman, we will be very happy to take a look at anything that this committee has to offer that is of substance other than just this bill that is before us today. We would never say that we will not take a look at something else other than that which we are opposing at the moment. So I am very happy that the Congressman has made these remarks, in order for me to respond as I am responding, that we will be glad to take a look at anything that the committee might wish to develop and see whether or not we cannot come to some agreement.

Mr. MAYNE. Thank you.

The CHAIRMAN. Thank you very much, Mr. Mayne.

Mr. Jones?

Mr. JONES of Tennessee. Thank you, Mr. Chairman.

Mr. Secretary, I am concerned about the statement that has been made. I cannot help but feel that I would have to disagree with you on some of the things that have been mentioned here in the statement: "Many borrowers will thus be able to absorb the higher interest costs with little, if any, change in their rates for consumers." It so happens that I am a part of a telephone cooperative that certainly could not absorb any higher interest rates should they be inflicted or should it become necessary for us to borrow additional money, without passing these changes in rates on to the consumer. I am not familiar with the electrics enough to know whether or not this will affect them, especially in my territory. I doubt that they would have to do this, but I am sure that the telephone companies would be in this kind of condi-

tion. I hope that something can be worked out whereby this will not have to take place. I am in support of the legislation that we have introduced here.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Jones.

Mr. Sebelius?

Mr. SEBELIUS. I was not here when he made his statement, Mr. Chairman. If I could, with unanimous consent, I would yield my time to Mr. Nelsen here if he would like to ask something.

Mr. NELSEN. I will wait my turn until the members of the committee are finished, Mr. Chairman.

Mr. SEBELIUS. Thank you, Mr. Chairman. I have no questions at this time.

The CHAIRMAN. Mr. Melcher?

Mr. MELCHER. Thank you, Mr. Chairman.

Mr. Secretary, under REA law, you have authority to borrow money at a 2-percent rate from the Treasury and loan it at 2 percent, and the law is still in effect; is it not?

Mr. CAMPBELL. Yes.

Mr. MELCHER. When you used that law last year, during 1972, what was the blend rate? It seems to me that Secretary Butz told us that combining the 2-percent money and loans that were made at other higher interest rates to REA's and RTA's last year, the blend rate was about 3.8 percent. Is that correct?

Mr. CAMPBELL. I do not have that figure before me, but I will accept that figure.

[Counsel nodded his head.]

Mr. MELCHER. Mr. Knebel, were you saying yes?

Mr. KNEBEL. I do not have the papers with me, but as I recall, that is the figure that was used previously.

Mr. MELCHER. Then you agree that it was about 3.8 percent?

Mr. CAMPBELL. Yes, I would accept that figure.

Mr. MELCHER. Then what was the cost, or putting it the other way, what do you project the savings to be by changing this program to 5 percent while also advancing the idea here today that if there are needs for 2 percent money, or something below 5 percent, you are going to make that type of loan too? What is your saving? How many millions of dollars are we talking about here?

Mr. CAMPBELL. According to the figures we have here, the difference over a 5-year period on a 35-year loan would be $2,235 million. So that would break out at the rate of about $450 million a year savings.

Mr. MELCHER. Between what and what?

Mr. CAMPBELL. That is going to the 5-percent rate.

Mr. MELCHER. It is a saving at 5 percent as compared to what?

Mr. CAMPBELL. Two percent.

Mr. MELCHER. But yet the blend rate——

Mr. CAMPBELL. So there would be a difference if you compare the 2.8 and the 5 separately from the 2 and the 5; that would be the difference between the 2 and the 5.

Mr. MELCHER. Well, you are projecting savings on the basis of the difference between 5 and 2 percent, yet the blend rate was 3.8 percent——

Mr. CAMPBELL. The savings would not be as great.

Mr. MELCHER. Well, why would you present figures here to this committee on something that did not exist?

Mr. CAMPBELL. I do not have the figure for 3.8 to 5 percent.

Mr. MELCHER. Well, is that not the——

Mr. CAMPBELL. But I can furnish that to you for the record.

Mr. MELCHER. Is that not the critical point of what you are talking about, saving money?

Mr. CAMPBELL. You asked me a question and I am trying to answer your question. I can supply it for the record if I may. I have given you the figures that I have at hand. I do not have the difference between 3.8 and 5 percent.

Mr. MELCHER. The difference between 3.8 and 5 is 1.2 percent. What are the projected loans that you think you might make at 5 percent during 1973?

Mr. CAMPBELL. I will be very happy to furnish that figure between 3.8 and 5 as I have furnished it to you between 2 and 5; I do not have it on this piece of paper.

Mr. MELCHER. How many millions of dollars in loans do you anticipate making during 1973?

Mr. CAMPBELL. We have total loans of $740 million on this table that I am looking at here. But our total loans are $740 million.

Mr. MELCHER. Then 1.2 percent times $740 million, in my arithmetic, is going to come to something like $80 million.

Mr. CAMPBELL. That is about correct.

Mr. MELCHER. So that is the savings that you are projecting—$80 million?

Mr. CAMPBELL. Yes.

The CHAIRMAN. How many?

Mr. MELCHER. Eighty million dollars.

The CHAIRMAN. It is not that much.

Mr. MELCHER. You are correct, Mr. Chairman; it is only $8 million if they make $740 million in loans, which is perhaps optimistic, especially at the 5-percent interest rate, Mr. Secretary.

Now, when Secretary Butz was here, he told us that he recognized that in some areas such as my State of Montana, there was a real need for 2 percent money because there were instances where RTA's and REA's, with about one customer per mile, simply could not get by on a 5-percent loan rate. When I asked him specifically at that time whether or not he was prepared to tell this committee that there would be some 2 percent money available, he said no, he was not prepared, he would have to stick with the statements that had been made previously at the request of the President. Are you telling us today, Mr. Secretary, that you feel that some loans less than 5 percent, perhaps down to 2 percent, could be made to those RTA's and REA's that need it?

Mr. CAMPBELL. I did not state that we would do so. I stated that that was within the rural development law in that less than 5 percent could be made under that law. But I did not commit the Department any further than Secretary Butz made in answer to your question at that time.

Mr. MELCHER. You are still saying no?

Mr. CAMPBELL. That is correct.

Mr. MELCHER. Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Thone?

Mr. THONE. I have no questions at this time, Mr. Chairman.

The CHAIRMAN. Mr. Bergland?

Mr. BERGLAND. Thank you very much, Mr. Chairman.

Mr. Secretary, it has been established that we have about 876 telephone companies serving the rural areas of the United States. These are small companies, 641 of which are commercial, doing business in sparsely settled areas. Most of the phone companies in my district are of that type. They are rendering good service at modest rates. Two hundred and one of these companies serve fewer than 1,000 subscribers. Now, my question is, under the terms of your pronouncements and policy decisions, the commercial companies would be qualified for money under section 310 of the Rural Development Act and the co-ops would be qualified at 5 percent under section 306. How can you justify this discrimination where the commercial companies who are operating for profit—and a very small, modest profit, may I add—providing good service, are forced to pay a higher rate of interest than a cooperative?

Mr. CAMPBELL. Really, this is a distinction in everyone's mind between a business that is being operated for profit and one that is strictly cooperative in service, and I would not pass judgment on the management in many instances between these, because that is something that was a sore point. But still, if someone goes out to operate a business for profit, they must expect to be competitive in all fields. That is the only answer I can give you in this respect.

The law that was passed in the Rural Development Act actually recognized this difference in the passage of that law. They recognized that same difference.

Mr. BERGLAND. But if a commercial company receives an REA loan, it is obliged to provide blanket service, is that not correct?

Mr. CAMPBELL. Yes, they are franchised, I am certain, under the public service commission authority.

Mr. BERGLAND. So they are by law required to provide service to everybody within their jurisdiction.

Mr. CAMPBELL. As all utilities are, whether it be telephone or something else.

Mr. BERGLAND. I submit that it is really not fair, that my concern is with the subscribers, whether the service is being provided by a small independent or a small cooperative. I think from the subscriber's point of view, at least, this is really discrimination.

Mr. CAMPBELL. We have made the same judgment, I think, that the Congress itself made in the writing of the rural development law in which they made the distinction between these two types of operation.

Mr. BERGLAND. Another question has to do with the rural development and the rural Telephone Bank. As I recall, when we passed that proposition, in order to qualify for a loan under the rural development bank, a borrower must first borrow from the REA. With the termination of the 2 percent program, does this not in fact severely impair the effectiveness of the rural telephone bank?

Mr. CAMPBELL. I will let Mr. Knebel answer that.

Mr. KNEBEL. Your recollection is quite correct. In order to get into the telephone bank, you must first have gone over the threshold and have in point of history a 2 percent loan on the books. This is a problem which we are working on and it seems that there is certainly a host of unresolved problems, but this is certainly of a high priority. We can, as the Under Secretary has indicated earlier this morning, in cases of extreme hardship, under the Rural Development Act, we can still make loans at less than 5 percent. So we would not necessarily find that the telephone bank was the only avenue of approach, particularly for your cooperatives. Now, with your private telephones, this is a problem which we still must resolve. There are several different possibilities which we are pursuing and are not ready to discuss publicly at this time.

Mr. BERGLAND. One last question, Mr. Secretary. The generation and transmission cooperatives in my county are slightly concerned about receiving adequate amounts of credit in order to be able to service the energy demands that they see down the road and some forecast a demand for credit of upwards of a billion dollars a year. Under the terms of your new policy, do you anticipate any problems in these generation and transmission people receiving that kind of credit assistance?

Mr. CAMPBELL. No, really. If you look at the record for the 10-year period up until 1969, the average amount of loans that were available were $350 million, the average level. We have increased that up to over $600 million. We have not doubled the amount, but the tremendous increase in amounts available have come only in the last four years. We do not anticipate difficulty in this area, as demonstrated by the record. We have almost doubled the amount of money available. We do not anticipate difficulty.

Mr. BERGLAND. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. MELCHER. Mr. Chairman, I ask unanimous consent to correct the record on that arithmetic we were talking about, the Under Secretary and I, concerning the difference between 3.8 percent——

Mr. MAYNE. Reserving the right to object, is the gentleman's statement going to be limited to a correction of the record?

The CHAIRMAN. Yes.

Mr. MAYNE. I have no objection.

Mr. MELCHER. The difference that we were talking about between 3.8 percent and the 5 percent—that is, 1.2 percent—when figured against the possible loans of $740 million, would make a total savings of not $80 million, but $8.88 million.

The CHAIRMAN. Without objection, the record will be corrected.

Mr. Young?

Mr. YOUNG. Thank you, Mr. Chairman. I appreciate your recognizing me.

Mr. Secretary, I ask this question as a matter of information. Is there any way that a rural electric cooperative can borrow, go into the private sector and borrow money?

Mr. CAMPBELL. Yes; he has that privilege today.

Mr. YOUNG. Then this is not appropriated funds from the Congress, this comes from the money markets of the country?

Mr. CAMPBELL. Yes.

Mr. YOUNG. Mr. Secretary, is it true that the farm credit system is beginning to loan the electric cooperatives money?

Mr. CAMPBELL. Yes; this has been the case for, oh, just the last 12 months, I think. They have just gotten into this now.

Mr. YOUNG. Do you think oftentimes the rural electric cooperatives have been limited in the service they can give because they have waited on the Congress for appropriations rather than going into the money markets to get their money?

Mr. CAMPBELL. Well, I do not have any personal experience with that, Congressman. I do not know whether I could make a judgment in that respect. That is a possibility, but I would not say that has occurred, but I really do not know.

Mr. YOUNG. Many of the weaker cooperatives, I understand, are the telephone cooperatives. These are the people that need financing at a cheaper rate than the electric cooperatives.

Mr. CAMPBELL. I really believe most of the REA's, the electric co-ops, are very strong.

Mr. YOUNG. When you say less than 5 percent, is there any guideline as to how much less than 5 percent you would be going under?

Mr. CAMPBELL. We have not made a commitment to go at less than 5 percent. We do say we have that authority, but we have made no commitment to go less than 5 percent.

Mr. YOUNG. Then, Mr. Secretary, do you have such a thing as a guaranteed loan to some of these cooperatives that could be handled in the private money markets?

Mr. CAMPBELL. Yes; that is so.

Mr. YOUNG. And they would not take appropriations of the Congress to supply this money?

Mr. CAMPBELL. That is the manner in which we are currently operating so that there will be guaranteed and insured loans and will not be direct Treasury loans; yes.

Mr. YOUNG. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. Secretary, it is customary that members of the committee commend people of your office for your testimony and for your statement of record. I reserve that judgment this morning.

First, your statement is two and a half pages of nothing on a national policy issue. May I ask you at the outset what you mean when you say, "This bill would amend the Rural Electrification Act of 1936, to affirm that funds made available to REA would be fully obligated each year?"

You oppose it first of all for that reason. Now, what do you suppose, in 36 or 37 years of precedent, the Congress had in mind when they did make appropriations for this law?

Mr. CAMPBELL. Well, there is no doubt that they had in mind making electricity available to all of our rural people, which is certainly the most commendable thing that could have been done at that time under those circumstances. We feel certain that 98 or 99 percent of our rural people currently have electricity and the current extension of the lines could take on new customers who primarily are not farmers.

Mr. DENHOLM. I have 5 minutes and I do not want a lot of filibuster on this if I can avoid it. Now, H.R. 2276 is not really anything con-

trary to existing law. That performance is expected of you, isn't it? You can answer that yes or no.

Mr. MAYNE. Mr. Chairman, I object to that statement by my friend from South Dakota. I do not believe that is within proper procedure to order any witness to have to answer yes or no if he does not, in his own judgment, feel that the question can be so answered.

The CHAIRMAN. Well, I think the gentleman can say that it can't be answered yes or no; and if it can't be answered yes or no, the gentleman has a right to explain his yes or no answer. I do not want to say the gentleman can't ask him to answer a question yes or no. He has a right to ask him that. If the gentleman does not want to answer it yes or no, he can say why.

Mr. DENHOLM. May I proceed?

Mr. CAMPBELL. I think the court reporter would have to repeat the question for the Congressman who asked the question and for me as the witness to answer the question to determine whether it could be answered yes or no.

The CHAIRMAN. Let's read the question.

[Question read.]

Mr. CAMPBELL. Well, I do not understand the question. I heard the question; but I do not understand it.

Mr. DENHOLM. Mr. Chairman, point of inquiry. Does this delay count against my time?

Counsel has advised me that you cannot take the fifth amendment.

Mr. CAMPBELL. I have no objection to answering the question if I understand it. We are not taking the fifth amendment. We are not on trial here.

Mr. DENHOLM. I do not intend that you be on trial. I simply made the observation that the law has been in effect for 36 or 37 years. Obviously, the will of Congress is that you are expected to execute the law. It has not been changed. Do you understand that the Congress has not changed the existing law?

Mr. CAMPBELL. Congress gave the Department of Agriculture new authority which we chose to use.

Mr. DENHOLM. In paragraph 2 of your statement, you stated:

> The Department opposes H.R. 2276 because the continued use of the REA 2 percent direct loan authorities, as provided in H.R. 2276, would make it difficult, if not impossible, for the President to hold fiscal year 1973 Federal budget outlays to $250 billion and to keep the outstanding public debt within the statutory limit of $465 billion through June 30, 1973.

Now, you have said in your testimony in response to prior questions that you are proceeding to make the loans anyway. Now, of what value is that statement in your record? You are going to make loans under a different law that you recognize as the Rural Development Act, at 5 percent. Now, how is that going to help you keep the level of spending down?

Mr. CAMPBELL. The loans under the Rural Development Act are not charged against the budget because they are guaranteed and insured loans, as I answered the Congressman over here a moment ago,

whereas those under REA are direct Treasury loans that go against the budget in the amount of several hundred million dollars.

Mr. DENHOLM. So it is a matter of accounting procedures and the money will be loaned anyway?

Mr. CAMPBELL. Yes; that is correct. In fact, we intend to put out more money, much more money. We have raised the level to over $600 million, whereas before we came in office, it was an average of $350 million.

Mr. DENHOLM. Will you explain then how that will keep taxes down?

Mr. CAMPBELL. Well, it is a matter of keeping the red ink off the books.

Mr. DENHOLM. Is it just a little "tricky" bookkeeping?

Mr. CAMPBELL. No, it is not tricky bookkeeping. It is inflationary when you run red ink in the Federal budget.

Mr. DENHOLM. How much money has been loaned in 36 years under the REA program?

Mr. CAMPBELL. I will have to supply that for the record.

Mr. DENHOLM. How much has been repaid?

Mr. CAMPBELL. I would have to supply that for the record.

Mr. DENHOLM. How much interest has been paid on those loans?

Mr. CAMPBELL. I will be glad to supply that for the record, also.

Mr. DENHOLM. How much interest is due on those loans to the date of maturity of all existing loans?

Mr. CAMPBELL. I will be glad to supply all that for the record.

Mr. DENHOLM. If the Government happens to be ahead on a proven and sound investment through the financing of the REA program, will you supply that answer, too?

Mr. CAMPBELL. Yes; I would be happy to.

[The information referred to above follows:]

REA LOAN PROGRAMS FROM INCEPTION OF PROGRAM TO DEC. 31, 1972

	Electric	Telephone	Rural telephone bank
1. Loans obligated	$8,356,398,057	$2,058,493,323	$177,654,140
2. Loans advanced	7,522,176,684	1,820,970,382	17,491,799
3. Repayments	2,354,913,762	322,439,278	----------
4. Interest collections	1,353,583,842	256,656,986	171,820
. Delinquent interest	[1] 2,590,058	18,075	----------
. Repayments in advance of due dates	280,206,287	25,281,726	----------

[1] Includes $2,471,471 which accrued from Dec. 28, 1968, when REA took title to the generation and transmission system of Indiana Statewide Rural Electric Cooperative, to June 29, 1971, when the system was returned to borrower control.

Mr. MIZELL. Would the gentleman yield at that point?

Mr. DENHOLM. Yes, I will yield to the gentleman.

Mr. MIZELL. I think that in connection with the line of questioning the gentleman has put to the Secretary, he also should be permitted to supply for the record the amount of subsidy that it has cost the Government in order to provide these 2 percent loans that he is being questioned about.

Mr. CAMPBELL. I will be glad to supply that for the record.

[The information referred to above follows:]

SUBSIDY ON REA 2-PERCENT LOANS

[The extent of subsidy for REA 2-percent loans depends on the cost of money to the Government. The figures below apply to fiscal year 1972, which was the last full year of operation of the loan programs under the Rural Electrification Act, using an interest rate of 6 percent as the cost of money to the Government]

[Dollars in thousands]

Activity	1972	Subsidy [1]
Rural electrification loans	$438,253	$175,000
Rural telephone loans	133,665	53,000
Total	571,918	228,000

[1] Discounted subsidy, using interest cost and discount rates of 6 percent, covering entire life of loans.

Mr. DENHOLM. Since you are willing to supply that, will you supply the benefits on the production of income for the record.

Let me ask you one last question in reference to your statement—you conclude with nothing in your statement. You say "We recognize some borrowers may have problems in meeting the requirements for loans under the new law. We will work out solutions to such problems."

The distinguished gentleman from California, a member of the committee has asked you for solutions? How do you expect us to reach a consensus with the Administration if you do not make any suggestions? Do you anticipate new policy in the future and why will you not permit this act to become law—why not execute the present law while we are working on a future long-term finance program? Will you do that in "good faith"?

Mr. CAMPBELL. We think we have the means under the authorities which Congress has passed to adequately look after the REAs and the telephones.

Mr. DENHOLM. Will you permit us to proceed with existing law until a better solution is achieved?

Mr. CAMPBELL. We do not have any—we do not vote up here. You are asking us if we will permit you. We are not going to put ourselves in a position of telling Congress what they can and can't do. All we do is state our position.

Mr. DENHOLM. Thank you very much.

The CHAIRMAN. Thank you, Mr. Denholm.

Mr. Johnson?

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Secretary, the people that are in my district, the association managers, acknowledge that they can get by with the 5 percent money. They acknowledge also that, similar to the testimony that has been presented here, that there are approximately 10 percent of the associations across the country that still need to have probably the 2 percent financing. But they do not understand, and I cannot give them the answer, what the rationale is behind the shift from the REA to the Rural Development Act. Because, as you say, we are providing more money under the Rural Development Act. They do not understand why it can't be administered through the REA rather than the Rural Development Act.

Mr. CAMPBELL. If we use the Rural Development Act, that is 2 percent more than I—I beg your pardon.

No, I am sorry, I used the wrong language, If we use the REA, that is 2 percent money.

Mr. JOHNSON. Yes. Is that the only difference?

Mr. CAMPBELL. Well, if we had it within the law of the REA to make 5 percent loans—that is your question, I take it.

Mr. JOHNSON. Yes, but what would then be——

Mr. CAMPBELL. If we also had the authority to guarantee and insure those loans rather than make them directly out of the treasury, we doubtless would use the REA Act for that purpose rather than the Rural Development Act.

Mr. JOHNSON. So if those provisions are written into the REA Act, then we are essentially accomplishing the same thing?

Mr. CAMPBELL. I would think that is correct; yes.

Mr. JOHNSON. No further questions, thank you, Mr. Chairman.

The CHAIRMAN. Mr. Litton?

Mr. LITTON. Mr. Secretary, in spite of my being a freshman member of this committee, I can recall with great clarity days on our farm when we had no electricity and no telephone, so I have great appreciation for the REA Act.

Secretary Butz, when he appeared before this group, indicated or inferred that much of the REAs work has been done. Would you say this would have been a true statement 25 years ago?

Mr. CAMPBELL. Twenty-five years ago, I am certain there were still some areas—the REA began in the 1930's and over a period of years, they gradually got the lines expanded. I do not think Secretary Butz meant to imply that there are not a lot of increased users on the current lines. I thought what he was saying was that every farmer, just about, has gotten electricity today, maybe 98 or 99 percent. But he was not inferring that you do not add new users on the line, but they are substantially nonfarmers.

Of course, farmers there need increased electricity for different things they put on their farms.

Mr. LITTON. But this statement really would not have been true 25 years ago, would it?

Mr. CAMPBELL. Probably, I think that is right. In fact, today we still have new users, but they are not farmers necessarily.

Mr. LITTON. What we are really doing now is trying to balance the budget. The program was good then; was it not?

Mr. CAMPBELL. The program is still good, but not at 2 percent. We have no criticism of REA. We think it is excellent. We are trying to balance the budget; yes.

Mr. LITTON. Are you aware of President Nixon's voting record relative to the REA 25 years ago?

Mr. CAMPBELL. No, I have no knowledge of that.

Mr. LITTON. Do you know he was opposed to the REA 25 years ago?

Mr. CAMPBELL. No, I know nothing of his voting record then.

Mr. LITTON. So perhaps it is not a move to balance the budget but an extension of his feelings.

Mr. CAMPBELL. I do not believe that for one moment; no.

Mr. LITTON. I have the record.

Mr. CAMPBELL. The record and what we are trying to do now may be two entirely different things. We are still trying to balance the budget and that has nothing to do with the President's voting record.

Mr. LITTON. I am just trying to get an intent.

Mr. CAMPBELL. The intent is to balance the budget and at the same time have these cooperatives that can afford the 5 percent money rather than 2 percent money pay it, and they have come in and testified to you according to that effect, according to what some of your colleagues have said. So I do not know exactly what your intent line of questioning, I must say, to insert the President the way you did and make the remarks that you did.

Mr. LITTON. I am just trying to find the intent of the new directive——

Mr. CAMPBELL. The Farm Credit Administration and the REA's began together back in the early thirties. I have not said this previously but I personally could not have gotten along without either one of them. But the Farm Credit Administration has been able to move completely away from the Government and the REA's have not moved away as fast as they could. It will be a joyous day for them when they can get the Government out of this operation.

Mr. LITTON. We were fortunate yesterday to have before us in testimony David Fullarton, who is executive vice president of the National Telephone Cooperative Association. In his statement yesterday, he said more than 20 percent of REA borrowers and subscribers—1 out of 5—still have eight-party service and 49 percent have no better than four-party lines.

Would you find this to be an acceptable situation?

Mr. CAMPBELL. Everybody would like a one-party line, but it depends on whether or not they want to pay for it. Some people do and some do not, even in the large cities. Of course, those people, I am sure, would all like a single-party line, but in the scheme of things, they are not able to have it because of the cost unless they are willing to pay the cost.

Mr. LITTON. Would the fact that 49 percent of REA borrower-subscribers have no more than four-party service makes it possible to try to make an effort to halt the rural-urban migration of the farm population?

Mr. CAMPBELL. I could not get the last part of the question.

Mr. LITTON. When 49 percent of the REA borrower-subscribers have no better than four-party service, does this situation make it possible for us to try to attempt to halt the rural-urban migration of the population that the administration has spoken about?

Mr. CAMPBELL. I do not understand your question.

Mr. LITTON. If you had been on a four-party line, you would.

Mr. CAMPBELL. I have been on two- or four-party lines so you cannot personally say if you ever were on one. I have been.

Mr. LITTON. Not now?

Mr. CAMPBELL. No; I am paying for a one-party line. I happened to get run over by a city in the process that made it easier, I will tell you that, so you are not left hanging out on a limb on my personal situation.

Mr. LITTON. The point I am trying to make is that the situation that currently exists, relative to the telephone service in the rural areas,

does not make it possible to make the effort that we should make to halt the rural to urban migration we have been talking about. That is my point.

Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Litton.

Mr. Mathias?

Mr. MATHIAS. I have no questions.

The CHAIRMAN. Mr. Stubblefield?

Mr. STUBBLEFIELD. Mr. Chairman, I would like to ask the Secretary a question.

In your mention of a parallel with the Farm Credit Administration would you favor a similar bank to the Farm Credit Administration system for financing of the Rural Electric systems?

Mr. CAMPBELL. We have not given that any consideration. We have strictly moved over to the Rural Development Act. I am not in a position to answer you favorably or unfavorably on that because we have not considered it.

Mr. STUBBLEFIELD. Thank you, Mr. Secretary.

I yield the balance of my time to my chairman. I think he has some questions.

The CHAIRMAN. I will wait.

Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Secretary, it seems to me that if we are going to come out of this with long-term benefits to REA borrowers, we have to find a compromise that will have a Federal guarantee of loans and allow for long-term loans that are not going to be callable by the Government as FHA loans are, and that we need to do some real pioneer groundwork here to carry that out. Is the Department willing to cooperate in this area?

Mr. CAMPBELL. Congressman, prior to your coming in, I did make a statement in answer to a similar dissertation between me and one of your colleagues that we will be very happy to look at any time at anything that this committee or Congress has under consideration different from what we may be objecting to at the moment. We are appearing in objection to this bill as is, but we will be happy to look at anything that the committee might have different from this bill and pass judgment on it at that time. I cannot pass judgment ahead of time.

Mr. ZWACH. I was very active, Mr. Secretary, in working for the rural development legislation, and I cannot recall a word of testimony or even understanding that this was going to be a substitute for REA. I think we could have written the things into there that would do these things, but I think we are going to find real serious problems. I think the chairman and Congressman Nelsen here, who knows this from A to Z, I think that we maybe, rather than fight a battle here that is not going to help anybody a great deal, can find a real long-time answer to adequate credit and the necessary 2 percent funds where it is needed—because there are areas where this is needed. I would hope we can find very quickly the answers in this area.

Mr. CAMPBELL. I appreciate the Congressman's deep feeling on this. As I have said, we will be happy to work with the committee and look at anything it might develop.

Mr. ZWACH. That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Zwach.

Mr. Jones?

Mr. JONES of North Carolina. Thank you, Mr. Chairman.

Mr. Secretary, I understand this might perhaps have been answered. The Department of Agriculture at the present time has a right to proceed either under the original REA Act or the Rural Development Act, is that correct, sir?

Mr. CAMPBELL. Yes.

Mr. JONES of North Carolina. Somewhat along the line of my colleague, Mr. Zwach, I am interested in asking the question, is the Department attempting to form any formula based on need as to which course the Department might take?

Mr. CAMPBELL. No, we have already moved over to the Rural Development Act because under it, we can guarantee and insure loans rather than make them directly out of the Federal Treasury. So we are all the way over on that side.

Mr. JONES of North Carolina. In other words, the Department at this time is not considering making any 2 percent loans?

Mr. CAMPBELL. That is correct.

Mr. JONES of North Carolina. Regardless of need or the status, the financial status of the co-op in question?

Mr. CAMPBELL. Yes, that is correct at this time.

Mr. JONES of North Carolina. I guess, Mr. Chairman, that is all for the moment.

The CHAIRMAN. Thank you, Mr. Jones.

Mr. Mizell?

Mr. MIZELL. Thank you, Mr. Chairman.

Mr. Secretary, I have received some correspondence from some of my REA's and rural telephone companies and certainly, there is still some interest in 2 percent money if it can be determined as to need, but basically, right now, my people are interested in how soon this 5 percent money is going to be available for them.

Mr. CAMPBELL. We are taking applications whenever they want to make them. We are in business every day. We have already made some loans in the last few days. We have made six or eight already and we are open for business and take applications whenever they want to bring them forward.

Mr. MIZELL. Well, I am glad to know that you have moved forward on this because our companies were beginning to run into the problem of having to take some short-term money in order to try to meet some obligations that they already have. So I am glad to know that at least you are in business.

Mr. CAMPBELL. Yes.

Mr. MIZELL. And I am sure that you have informed all those people.

Mr. CAMPBELL. Yes, we sent word out to everyone that we are open for business for applications.

Mr. MIZELL. Thank you.

The CHAIRMAN. Thank you, Mr. Mizell.

I want to ask Mr. Nelsen if he has any questions to discuss with the witness, but I must comment on Mr. Mizell's statement first because I think it was clear from questions that were asked earlier that the Department has not made any loans. Nobody has gotten any money.

That is right, is it not?

Mr. CAMPBELL. That is correct.

The CHAIRMAN. The gentleman is trying to talk about immediate help for these people. The Department has written some statement that they would make loans under certain circumstances and they do not have the money to make them with—they do not have the money to subsidize them down to 5 percent.

That was agreed, was it not?

Mr. CAMPBELL. Yes. We have to find that source, Mr. Chairman, yes.

The CHAIRMAN. You have to what?

Mr. CAMPBELL. We have to work that out. That was my testimony, yes.

The CHAIRMAN. In other words, I want Mr. Mizell to understand that nobody has gotten any money, the Department does not have any money to make any 5 percent loans with, whether it be under the Rural Development Act or any other act. To make the statement that they have made some loans to bail these people out who are in immediate need is misleading. They do not get any cash and they do not cure their problems and they may or may not ever get a 5 percent loan. What the Secretary is telling you here is that if and when the Congress appropriates the money to subsidize those loans down to 5 percent, they will have an opportunity to do what he says they have done. Now they have not done it.

I am not suggesting that you do not intend to do it, Mr. Campbell, but I am suggesting that it is inaccurate to say that you have made any loans. You have not made a single loan. You have not put out a dollar and you cannot subsidize a one down to 5 percent under the present financial situation and the Congress has to act before you can do that.

I just think that we ought to have it right clear what the facts are about this thing. I would hope that we would not base this whole thing upon some slender reed like the rural development bill, which was never intended to take care of the rural electrics. I would hope we would base future loans on a square, fair, clear-cut enactment by the Congress of rural electrification legislation.

I, for one, thoroughly agree that there can be changes made. I am not one of these who says we have to have direct loans at 2 percent for everybody. I do not think we should have. We have not had in the last years. The actual average rate of interest to the electric borrowers for the last year was 3.8 percent and not 2 percent. So I think it is clear that these borrowers, many of them, can operate at a higher rate and are doing it right now.

I realize that we can change this law and probably should. Certainly with the cooperation of many others here, especially Mr. Nelsen and many others, I have been trying to work out legislation that would enable you to make the paper savings that you seek to make. You are not proposing to make any actual savings, but only paper savings. We propose to try to help you do that, try to help you make the budget look better. But to do it, we are going to have to have some cooperation, we are going to have to have it before we pass something else.

I want to say that this committee is going to pass legislation. We can pass legislation and I think you all know it. Now, if you wait

until it is done before you are willing to talk, it is going to be the Denholm bill. I think we might as well get these things out in the open.

On the other hand, if you want to talk about this thing and try to work something out, we are ready to work it out. We think that we can give you a program where all of the money will be through insured and guaranteed loans, where you will not have to go into the Treasury for any of it. That is not saying it is going to cost less, but it is saying that it meets your criteria where you said that you did not consider a guaranteed loan a part of the budget. We can make them all guaranteed loans, and I think this committee is ready to do it if we can have the assurance that you are ready to cooperate with us.

And we will still give those cooperatives that need it 2-percent loans. I am afraid you were wrong, Mr. Secretary, when you said that all electric cooperatives are doing real well—there are 88 of them that have an income/interest ratio that is so low that the Department itself decided that they could not exist without a lower interest rate, 2 percent. So I think that it is hardly fair to say all electric cooperatives are doing well. Some of them are—no question about it. But there is no question about the fact that there is such a need. It seems to me it would be so much better if we would just try to work out legislation that would meet that need of the cooperatives, meet that need of their subscribers, and also meet the legitimate needs of the administration and the American people by trying to keep a balanced budget.

We want to try to keep a balanced budget and we believe we can help you do it. But we cannot do it if you just say that it is this or nothing, fellows, we have already acted and you can take it or leave it. Well, we are going to leave it, my friend, if that is the basis on which it is put, because we are not going to take it. But I think that we ought not to take that attitude. I do not want to take that attitude; I want to try to work something out. ButI have to confess that we have not had much indication that the Department wanted to try to work these things out. We have had it from a great many other sources. We have had it from the cooperatives, we have had it from other people in Government. But we just have not had much indication that the Department wanted to try to work anything out.

Mr. MIZELL. Would the chairman yield to me just briefly so that I might be certain on exactly where we stand on these 5-percent loans?

The CHAIRMAN. Sure.

Mr. MIZELL. As I understood the Secretary, he said he is open for business, he is taking applications, and it is my understanding that you were in a position to make these loans or to insure these loans so that these people can get the money. Is that correct?

Mr. CAMPBELL. Yes; the point that the chairman makes about the subsidy that would be in them will have to come from appropriations. Under the Rural Development Act and under the bill, well, of course, this is not an appropriation item. This will not be the first time that somebody had to wait because of an appropriation bill, because very often in the scheme of things, as busy as Congress is, they are not passed automatically within a very brief period of time. But we feel as though this is a problem in the transition that is not one that will not

be worked out. But we are signing contracts to make loans under this authority.

Mr. MIZELL. You are able to sign the contract, but how long do you think it would be before the loans would actually be available, that they would have the money in order to meet their obligations?

Mr. CAMPBELL. I cannot give you an exact time, Congressman, I am sorry. There is a normal lag of time of about 6 weeks even under REA procedures before we transferred over to Rural Development procedures. This is now March. The new fiscal year starts July 1. But I cannot give you an exact time.

Mr. MIZELL. Well, if the Chairman will yield just a little further.

The CHAIRMAN. Certainly.

Mr. MIZELL. Well, now, many of our cooperatives are borrowing a large percentage of their money from the private sector. Of course, if they go there for short-term money, they are paying 7½ and 8 percent or even higher. And this, of course, is creating a problem for them.

Mr. KNEBEL. Mr. Mizell, the pipeline and the leadtime that we are talking about there is quite substantial and perhaps some of these figures may be of interest to you.

As of January 1, our electric borrowers had $834.3 million in unadvanced funds. This represented something in the nature of 80 percent of the distribution borrowers, and there were 47—as I said, there were 47 power supply borrowers and 40 of those had unadvanced funds. Sir, we put these figures out just to show the leadtime required between the time an application is in and the time the funds are actually drawn down.

We have actually got an amount in the telephone area of some $238 million in unadvanced funds and this will all go out at 2 percent. It is an amount that represents just about what the REA did in the last 2 years put together. So there is still an awful lot of money back up in that pipeline that is going to be coming out.

The CHAIRMAN. What does that have to do with Mr. Mizell's question? How does that provide any money for you to subsidize the interest under the Rural Development Act down to 5 percent?

Mr. KNEBEL. Sir, the point is that by the time we get these loans that we have talked about that you have somewhat captioned as paper contracts at this point, by the time we get those down to the point of disbursement, there is substantial time and we feel we will have the appropriations necessary to take up the deficiency on the interest and the subsidy of the interest. I point out the leadtime of the pipeline just to show how much back-off time there is before the funds are actually drawn down.

The CHAIRMAN. But that still does not have anything to do with whether the Congress is going to give you that money or not, does it? And you cannot close a one of these 5-percent loans under the Rural Development Act until Congress appropriates the money, can you?

Mr. KNEBEL. That is correct, sir.

The CHAIRMAN. Let's get that well cleared, now, that they cannot put out one dime of money on a 5-percent loan under the Rural Development Act until Congress appropriates the money.

Mr. DENHOLM. Will the Chairman yield on that point, please?

The CHAIRMAN. Yes; sure, I yield.

Mr. DENHOLM. Mr. Secretary, how much have you asked for in the budget to fund the program that you are proposing?

Mr. CAMPBELL. We would have to supply that figure for the record, which I will be very happy to do. I do not have the budget here with me.

Mr. DENHOLM. Do you know approximately how much money may be required?

Mr. CAMPBELL. No; I could not give you the figure on that.

Mr. DENHOLM. Is it $200 million?

Mr. CAMPBELL. As I said, I could not tell you.

[The information referred to above follows:]

BUDGET FOR REA LOANS

[Dollars in thousands]

Activity	1973 estimated	1974 estimated
1. Rural electrification loans:		
Rural Electrification Act	$228,000	
Rural Development Act	390,000	$618,000
Total	618,000	618,000
2. Rural telephone loans:		
Rural Electrification Act	55,972	
Rural Development Act	89,000	140,000
Total	144,972	140,000
Total, loans	762,972	758,000

The CHAIRMAN. Somebody in the Department wrote legal opinions, did they not, counsel, to the effect that the Department could not legally spend a dime of the rural development money to process these REA loans—appropriated moneys for the administration of the REA Act. You cannot spend that to process loans for Farmers Home, can you? Either you or somebody else wrote that opinion, did you not?

Mr. KNEBEL. Yes, sir.

The CHAIRMAN. Do you think that opinion is wrong?

Mr. KNEBEL. No, sir; I am not backing off from that opinion.

The CHAIRMAN. Now, is anybody getting paid for handling these loans today? You approved some and somebody must have reviewed them, somebody must have spent some time on them. Did he get paid?

Mr. KNEBEL. This goes back to the question of the salaries and expenses for the REA personnel.

The CHAIRMAN. Yes. I just want to know whether you are following the law.

Mr. KNEBEL. I believe you have our opinion dated February 2 on that, sir.

The CHAIRMAN. Yes, that is what we have.

While you are looking it up, let me read into the record out of this opinion:

> However, the making of loans for electrification and telephone systems pursuant to the Rural Development Act cannot be regarded as necessary or identical to the carrying into effect the provisions of the Rural Electrification Act of 1936—

Mr. KNEBEL. That is correct, Mr. Chairman.

The CHAIRMAN. "Hence there is no basis for concluding an implied authority exists for such purposes in the Appropriation Act."

Mr. KNEBEL. Yes, sir, Mr. Chairman. And I would call your attention to the concluding paragraph on page 14 of that opinion, where we refer to the utilization of the RDI fund.

The CHAIRMAN. Well, now, just what moneys have been appropriated for the administration of that purpose?

Mr. KNEBEL. There is money in the fiscal 1974 budget for it.

The CHAIRMAN. I know, but what moneys have been appropriated? You cannot spend moneys that are in the fiscal 1974 budget until they are appropriated by Congress, and you are doing it right now. You are spending the moneys today, are you not?

Mr. KNEBEL. Sir, the employees are still getting paid, that is correct.

The CHAIRMAN. That is right, so you are violating the law as interpreted by this opinion, whether the opinion is right or not—you thought it was; I do not know. I do not pass judgment on it. But you do have such an opinion and you thought it was correct. That opinion is binding on the department, is it not, Mr. Secretary.

Mr. CAMPBELL. We also have Farmers Home Administration employees——

The CHAIRMAN. You are bound by the opinion——

Mr. CAMPBELL. We are bound by any opinion of our lawyers. We certainly follow the directive of our lawyers, yes, sir.

The CHAIRMAN. All right, then. Are these people getting paid or are they not? I say they were, I think.

Mr. CAMPBELL. Oh, sure, certainly they are all getting paid.

The CHAIRMAN. How do you reconcile it with this opinion?

Mr. CAMPBELL. Well, we have Farmers Home Administration people that work in this area as well.

The CHAIRMAN. That still does not solve the problem. That is not the point at all. The point is that you cannot shift those funds from one to the other.

Mr. CAMPBELL. No, we are not shifting any REA funds over to the Farmers Home Administration. We are not doing that.

The CHAIRMAN. You are not shifting funds, but you are paying the REA people to administer the Rural Development bill.

Mr. CAMPBELL. That is correct. Yes sir.

The CHAIRMAN. And that is exactly what the opinion says you cannot do.

Now, does it not come down to the proposition that what you folks are doing right now is a subterfuge and it is not authorized by the law and your own lawyer said that it was not.

Mr. KNEBEL. Mr. Chairman, I do not think that that is a conclusion which is without fallacy and I beg to disagree with your conclusion. As you know, I respect your opinion on every point. However, I would like to think that the Secretary has enough discretion to administer the law, namely the Rural Development Act, which the Congress enacted last year and certainly the implementation of that Act in the fashion that he sees fit. It may be true that at this point in time, we do not have a direct S and E fund for those employees who are working on that. But if I were to tell you that I was spending all my time doing just legal work in the Department, maybe I should be cut part

of my salary, too. All too often, those of us who have one job find that there are several other things that we are called upon to do.

The CHAIRMAN. I want to know what you are going to do now if the Congress does not appropriate any money for rural development next year. Are you going to continue to make these loans?

Mr. CAMPBELL. We will have to face that problem when we come to it, Mr. Chairman.

The CHAIRMAN. In other words, you say you have not any money now, you do not have any idea when you may get some, you know you may never get it.

Mr. CAMPBELL. We certainly hope the Congress would let us have a little bit of money, Mr. Chairman.

The CHAIRMAN. Your present attitude is not calculated to make Congress more friendly about doing that sort of thing, is it?

Mr. CAMPBELL. I would hope that is not so, Mr. Chairman.

The CHAIRMAN. You would not think—you are a man of some experience in the world—you would not expect that you would make friends and influence people by taking the attitude that the Department has taken on this, do you?

Mr. CAMPBELL. No, I do not agree on that. If we have a difference of opinion, I do not think that makes you unfriendly to us. I certainly hope not. I opened up when I came in and said I appreciate the patience of this committee. I happen to be the regular witness before it. I have not been given the opportunity to vote yet. You did offer me an office yesterday, which I appreciate very much.

The CHAIRMAN. We certainly do not want to lose the friendship of the people down in the Department. We do not want to do that. But I do not believe you can rely on the Congress helping you out in this part of the problem when you are not showing any disposition to try to work it out with the Congress. If you were showing a disposition to try to work it out with the Congress, I think the Congress would respond.

But I think I have discussed it too much. I did want to say we have a visitor here and I want him to have an opportunity to inquire if he wishes. I recognize Congressman Ancher Nelsen.

Mr. NELSEN. Thank you, Mr. Chairman. I just hope I can play the role of peacemaker.

I want to say, Mr. Campbell, I was in the hot seat myself before the Chudoff committee, they called it. The gentleman who was chairman was named Chudoff from Pennsylvania. I rechristened the committee to name it the chewed-out committee.

Years ago, I was trying to put together a bill and a program that would supply the kind of financing for the program that would get it away from the 2 percent as it matured on to something solid, enduring, that would give the borrowers an assured availability on money to run the program. I got bombed out at that time and now I think it shows that maybe my feeling was not a bad idea years ago. But, now, if a vote were to be taken in this committee, judging from what I have heard, it would be my opinion that you would find that in this committee, there is an attitude of willingness to accept a program that moves toward the same goal that you want.

I have talked with OMB and I think maybe some opinions that Bob and I have even trickled into the White House. We have tried to

accommodate in our bill the very things that OMB has asked for. The very goal that they seek, the very goal that we seek is identical. Now, as to how you approach that goal should be immaterial.

What we are doing in our bill is recognizing that there are some 2-percent needs in the program with those that are in trouble. We recognize your declared 5-percent level, we recognize a loan guarantee that will go to the big borrowers, the ones that borrow the big money. It will be going to cost them a lot and the only advantage they get is a loan guarantee which gives them a little better salability of their paper on the market; therefore, there is a little advantage with a loan guarantee. But I would feel the power companies or the utility industry should not object to that because they are on a competitive basis if this happens and I think this is only fair.

Now, we have discussed this, Mr. Poage and myself, with OMB, have discussed it with others in the administration. Bob and I have had several conferences trying to do exactly what you say you are trying to do under the Rural Development Act. It seems to me that as we proceed with the hearing, you are trying to put the left shoe on the right foot. We have an REA agency that has the expertise. It is one of the finest agencies in Government and is ready to step right in and do the job. I think we can pass a bill in this Congress in a very short time to get toward that goal that you want and I hope that you do not feel that such action would be impinging on you or the Department in any way. Maybe we needed a little shock treatment to finally move toward what we should have been doing years ago.

I want to say to Mr. Campbell, I do not envy you in the chair you are in today. But anyway, I hope we can work it out and I thank you for appearing.

Mr. CAMPBELL. Thank you Congressman.

May I respond, Mr. Chairman?

I must say that if you were as persuasive sitting here where I am as you are sitting up there as a Congressman, I am sure you got the Committee to agree with you.

Mr. NELSEN. I did.

Mr. CAMPBELL. But I also must say that it has been a great pleasure for me to appear before the committee. I have not felt as though they have abused me badly. I have enjoyed it very much. We would be very happy, as I have said, to take a look at anything, the bill that is currently before the committee. If the committee decides that they wish to present something other than this bill that is being considered today, the Department is willing and ready to do that.

Mr. NELSEN. I do not know how soon the specifics——

The CHAIRMAN. That is a matter I wanted to make an explanation on. Mr. O'Neal, the counsel, has been working to try to put into language what we have discussed, working the last 2 nights—days and nights. He does have it almost finalized now. I would want it understood that this is not a bill—nobody has introduced a bill along the lines Mr. Nelsen and I have discussed. We believe that we do have it in language now to achieve what we hope to achieve. We do know that other people can point out needed changes. I think it should be changed or added to or subtracted from. We know that necessarily in a matter of this complexity there would be changes that everybody would agree should be made in the language.

I want it understood further that while I am in full accord with Mr. Nelsen as to what we should attempt to do—well, let me say this. He and I both think that the best think we could do would be to have a bank like the Telephone Bank and like the Farm Credit banks that you praised, but the Department has in the past opposed a bank and so has the association of the rural electric cooperatives opposed this bank. So have the utility companies. They have all generally opposed the bank. We think that the bank is the best way to proceed, that you would get the Government clear out of this business in the course of time, just as it is out of the Land Bank right now. But faced with the opposition that we are faced with, we think we have come up with a proposal of guaranteed and insured loans just as you are talking about that would give us just the objective that you are seeking. And we believe we can pass that right off the reel if we have the support of the administration. If not, if we are going to continue to have opposition, if we are going to have to fight a fight here, we might as well pass the bill that the Senate has already passed. If we are going to have to have a fight about it, we might as well fight on something of that kind.

Now, I think it is just real clear, if the Department wants to try to work out a bill, we are ready to try to work with you this afternoon, but we are not ready to work with you next June. This thing has been dragging along 2 months. Everybody has been aware of the fact that we have been trying to bring about some kind of compromise. I have not heard one word from the Department about it except where I initiated things as I did yesterday. These hearings are going to be closed very shortly. We are going to hear Congressmen tomorrow. This is something that, if we do anything, has to be done very promptly. We invite you to get at it right now, before lunch.

Mr. DENHOLM. Mr. Chairman.

Mr. CAMPBELL. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Denholm?

Mr. DENHOLM. May I comment as the author and joined by more than a hundred cosponsors on the legislation before the committee that the legislation which is the subject of the hearing should prevail at this time because there is a consensus of the members of the committee that a long-term evaluation of alternatives is necessary for acceptable legislation in the public interest. The problem that exists, as you have testified, Mr. Secretary, is that there are emergency situations that cannot be delayed and ignored. There is an existing law in the statutes now and you have money that the Congress has appropriated and there is nothing in this legislation that suggests that you should not do what you have always done. If we can obtain some indication from you to do what the law has always intended, to keep within the spirit of the law while we are working on alternatives, then I do not think anybody who has cosponsored my bill would object to such procedure. But certainly you cannot arbitrarily terminate existing public law that has been and that is now relied upon by millions of people and expect them to be happy.

I want a response from you indicating your good faith and cooperation in proceeding at the present time while we are seeking long-term and acceptable programs such as the chairman has outlined here in the way of enduring solutions.

Will you do that?

Mr. CAMPBELL. I could not make a commitment to reverse the course that we have taken other than by legislation.

Mr. DENHOLM. Your testimony shows that the present law has not been rescinded by a press release.

Mr. CAMPBELL. Oh, no, the present law has not been rescinded. I never indicated that, I hope.

Mr. DENHOLM. It is true that you have funds to proceed and that under existing law the administration can approve applications on file?

Mr. CAMPBELL. That is correct.

Mr. DENHOLM. All we seek from you is reasonable cooperation in executing existing law while we develop a better solution. And your position is that you will not do that?

Mr. CAMPBELL. No, I will not make that commitment.

Mr. DENHOLM. Let me ask counsel—and may I have just one or two more questions, Mr. Chairman.

There is such a concept in the law as good faith, is there not?

Mr. KNEBEL. That is correct, yes, sir.

Mr. DENHOLM. What would your advice be to the Department if the people decided not to pay on the loans of record? Would that be a breach of "good faith" on their part?

Mr. KNEBEL. Sir, we have to look at each case as it would come up.

Mr. DENHOLM. Well, let's just suggest that every one of them or all of them said, well, forget it, we are not going to pay any attention to this, this is just a law.

Mr. KNEBEL. I would counsel with the Secretary on that point, sir, and I am not ready to render an advisory opinion as to what we would do in a given situation which has not occurred.

Mr. DENHOLM. In your best judgment, do you think the administration, the Government, at the present time is keeping good faith with the people?

Mr. KNEBEL. Sir, I think the Under Secretary has testified fairly clearly that we feel that there are two vehicles through which the rural electrical and telephone needs can be met and that the decision has been made to implement one in preference to the other.

Mr. DENHOLM. It has been clearly demonstrated here this morning by your own testimony that such an idea is impossible. What do you suggest you will do now?

Mr. KNEBEL. I do not feel that it is impossible, sir. It is only impossible if there is no subsequent appropriation for the salaries and expenses of the Rural Electrification Administration employees. Even there, sir, I believe there are ways to do it.

Mr. DENHOLM. You have appropriations and you have the authority to proceed under existing law what difference does it make whether an amount of $200 million or $400 million is obtained elsewhere—it will have the same effect on the Treasury as it will if you administered the existing law, would it not?

Mr. KNEBEL. No, sir; because if you make the loans as direct loans, those are all dollars outlays from the Treasury. If, on the other hand, you make guaranteed or insured loans, the only outlay is the subsidization of interest between what we sell those loans for and the interest rate, be it 5 percent or some other rate on downward, which we have to pick up.

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Mr. DENHOLM. I do not want to be argumentative, but if you take $200 million out of the U.S. Treasury under the Rural Development Act, what is the difference between that and $200 million under the REA Act?

Mr. KNEBEL. We are going to take that and turn it over, sir, in the form of guaranteed and insured loans. Just as a good example, next week we are going to take $500 million worth of paper to New York City and sell it on the commercial market.

Mr. DENHOLM. Of course, that is not money out of the Treasury, is it?

Mr. KNEBEL. That is exactly right.

Mr. DENHOLM. But an appropriation is money out of the Treasury?

Mr. KNEBEL. Yes, sir.

Mr. DENHOLM. What is the difference between the two?

Mr. CAMPBELL. The amount.

Mr. DENHOLM. You have not loaned more than $200 million this year?

Mr. CAMPBELL. The amount. We have a funding level of over $400 million. It is the amount we are talking about.

Mr. DENHOLM. The only thing I would seek from you people is a demonstration of good faith, either in cooperation in drafting the new legislation or executing existing law. All that the legislation before the committee now purports to do is to have you execute the existing law. That is all. If you are against that, you must be against the law as enacted by the Congress and signed by the President.

Mr. KNEBEL. We just think there is a preferable course of action, Mr. Denholm.

Mr. DENHOLM. That may well be and that is for us to decide in the course of legislation such as the chairman has suggested. We seek your cooperation until that is accomplished.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Denholm.

We are obliged to you, Mr. Campbell. We, too, have enjoyed the opportunity we have had to question you.

Mr. CAMPBELL. Thank you. I hope I may come back.

The CHAIRMAN. I have an appointment to try to work with counsel to work out a compromise on this problem in just a few moments. I will ask Mr. Stubblefield to hear this witness and any other witness who wants to be heard.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE GENERAL COUNSEL,
Washington, D.C., March 2, 1973.

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

DEAR MR. CHAIRMAN: In reviewing the transcript of the Hearing on the REA legislation, H.R. 2276, before the Committee on February 27, 1973, I find that the Department's ability to immediately implement the Rural Development Act may have been considerably understated. Rather than editing pages 138–156[1] of the record, I would hope that you will allow the insertion of the following statement at an appropriate point in the record:

"The Rural Development Insurance Fund is now available and adequate in amount to enable REA to make advances of funds under Rural Development Act loans in accordance with loan contract terms and to pay salaries and expenses in connection therewith. Appropriations may become necessary from time to time in the future to replenish the Fund for costs of administration and for the difference between interest collections and the interest paid purchasers of

[1] Pages 83 through 91 of this printing.

insured notes; such appropriations, however, are not prerequisite to the use of the Fund for REA loans under the Rural Development Act or for the cost of REA salaries and expenses in connection with such loans."

Accordingly, I am able to assure you that the Rural Development Act is operable at the present time with respect to rural electrification and telephone loans.

Thanking you for your patience and past courtesies, and looking forward to our continued good relationship, I am

Sincerely,

JOHN A. KNEBEL, *General Counsel.*

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C., May 8, 1973.

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

DEAR MR. CHAIRMAN: Pursuant to your request, I am herewith submitting for the Committee record my views regarding the legality of the Department of Agriculture's proposed action to utilize the Rural Development Insurance Fund under the authority of the Rural Development Act for rural electrification and telephone loans during this fiscal year (1973).

I have carefully reviewed the testimony of the Department and its General Counsel, Mr. Knebel, before our Committee along with Mr. Knebel's letter of March 2, 1973, which is to be included as an exhibit to the record.

By way of background, the Department sought to "terminate" the rural electrification and telephone direct loan program by press release of December 29, 1972. They are now seeking to make insured and guaranteed loans under the authorities of the Rural Development Act passed last year by the Congress. The General Counsel's letter seeks to reinforce and in some respects override certain aspects of his testimony given before the Committee on this question.

It is my opinion that the authorities of the Rural Development Act (P.L. 92–419) are being greatly exaggerated and considerably strained when sought to be utilized for this purpose. A thorough search of the legislative history of that Act fails to reveal any expressed intention or even suggestion of Congress that the Rural Development Insurance Fund could or should be used for loans for these purposes. As a matter of fact, it could be successfully argued that such utilization might well be in direct contravention of the Congressional intent since the heavy demand required for loans for these purposes could deplete the fund to such an extent that it would not be viable to meet the legitimate purposes of the fund as expressed in the legislation. The loan level of the REA loan program for FY 1973 was almost ¾ of a billion dollars. It is inconceivable that the Congress intended for the program to be funded under an Act which failed to even mention "rural electrification or telephony" particularly in view of the fact that the same Congress provided direct appropriations in this amount for funding under the Rural Electrification Act of 1936.

Nor can we agree with the General Counsel's view of administration of the program as indicated in his letter. The Appropriations Committee provided funds for fiscal 1973 for administration of the "Rural Electrification Act of 1936." For these funds to be utilized to administer another Act is clearly outside the authority of that appropriation. Since the effective date of the Department's action, employees of the Rural Electrification Administration have been utilized primarily for the processing of loan applications under the Rural Development Act without any additional appropriation authority for administration.

My opinion in this regard seems to be consistent with the opinion of February 2, 1973, rendered to the REA Administrator by the Office of the General Counsel of the Department. On page 12, it concludes: "However, the making of loans for electrification and telephone systems pursuant to the Rural Development Act cannot be regarded as necessary or incidental to the 'carrying into effect the provisions of the Rural Electrification Act of 1936.' Hence, there is no basis for concluding that an implied authority exists for such purposes in the Appropriation Act."

In conclusion, it is the considered opinion of our office that the letter of Department Counsel of March 2, seeking to modify his previous testimony before

the Committee, greatly oversimplifies the complex legal problems presented by the Department's proposed action and overstates the authority of the Department regarding this program and the proper implementation of both laws as passed by the Congress.

Sincerely,

JOHN F. O'NEAL, *General Counsel.*

Mr. STUBBLEFIELD [presiding]. The next witness is Mr. Weldon V. Barton, executive director of legislative services, National Farmers Union.

STATEMENT OF WELDON V. BARTON, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, WASHINGTON, D.C., ACCOMPANIED BY ROBERT BUBBERS

Mr. BARTON. Thank you very much, Congressman Stubblefield. We are very pleased to appear before the committee this morning. I have with me Mr. Robert Bubbers, who is a corn and wheat farmer, runs a cow and calf operation in Morristown, S. Dak. Mr. Bubbers is also director of the Moreau Grand Electric Co-op in South Dakota.

I should explain the apparent mix-up in our appearing before the committee this morning. We are appearing in support of H.R. 2276, but we did ask the chairman for an opportunity to appear this morning because we have a group of some 150 of our members, in town Monday, Tuesday, and Wednesday of this week: 30 to 40 from South Dakota, about 80 from Minnesota, and some 30 to 35 from Texas. We wanted to appear this morning because we have a simultaneous hearing in the Senate on the general farm legislation. Although we are supporting H.R. 2276, in order to be able to spread our members between the House and the Senate this morning and not, in effect, overload either of the hearing rooms, we asked to testify simultaneously at both of the committees.

Let me say that a great number of our people are in the hearing room this morning. They will be spending time on the Hill tomorrow visiting primarily with urban Congressmen. They will be supporting not only this legislation that is before the committee this morning, H.R. 2276, on REA loans; they will also be talking with Congressmen for support for the Water and Waste Disposal program, H.R. 3298, that is before the Rules Committee this morning and hopefully will be going on the floor later this week.

Congressman Stubblefield, I am now going to turn it over to Mr. Bubbers. We have a short statement; he will present that statement to the committee at this point.

Mr. STUBBLEFIELD. We will be happy to hear your testimony.

Mr. BUBBERS. Mr. Chairman, members of the committee, Farmers Union is pleased to have the opportunity to appear before this committee today, in support of H.R. 2276 and identical bills to reinstate the REA electric and telephone loan programs as they operated prior to the administration's termination decision December 29, 1972.

Continuation of 2 percent REA loan is essential if rural electric cooperatives, and rural telephone cooperatives and companies, are to continue to supply rural people with electricity and telephone service at reasonable costs.

Rural electric systems serve over 7 million farms, homes, schools, and other rural establishments in 46 States. Rural electrics are pledged

to serve all within their areas of jurisdiction; a total of more than 25 million people are currently served. Rural electrics average 3.7 consumers and $696 annual revenue per mile of line, while most commercial utilities average 10 times as many consumers and $10,499 annual revenue per mile of line.

In view of this low revenue and other handicaps in providing rural service, the REA interest rate was set by Congress at 2 percent. Commercial power companies, as well as cooperatives, are eligible to borrow money from REA at the same rate if they will meet the same requirements—that is, use the money to electrify rural areas and agree to serve all persons living in the service territory.

A recent survey shows that the unmet capital requirements of rural electrics for the fiscal year ending June 30, 1973, is $922,235,000. On December 29th when 2 percent loans were ended, the REA held a backlog of 159 applications for loans totaling $467,633,000.

While the REA telephone and electric loan programs as they operated prior to December 29th of last year obviously are successful programs that must be continued if this system is to survive, the merit of this program is not the basic issue before this committee and Congress. The basic question is: Will the Executive be permitted to kill this program by Executive Fiat, after Congress has found it desirable and authorized it in statutory law?

Termination of whole programs such as involved here by Executive Fiat should not be confused with impoundment of part of the funds for particular programs. Impoundment without congressional direction is an Executive infringement upon legitimate powers of Congress, and it may be unconstitutional. But the blatant axing of entire programs authorized by Congress is a much more serious usurpation of legislative powers by the Executive.

The Washington law firm of Arnold and Porter has advised the National Rural Electric Cooperative Association that the administration's December 29 decision is probably unconstitutional:

> It is our view that a strong case can be made for the proposition that the Department has exceeded its legal authority in taking that action. We find no Constitutional basis for the Department's action and we are of the view that Congress has not delegated to the Department the discretion to take such action.

The courts should settle this issue in favor of Congress and continuation of REA programs. Nevertheless, enactment of H.R. 2276 is necessary without delay; for at least two reasons:

1. The Administration is already engaged in dismantling the REA 2-percent loan programs, and obviously hopes to confront the Congress and other supporters of the program with a fait accompli before constructive action can be taken in Congress and the courts.

2. Legislation is necessary to prevent abuse of the impoundment procedure by the Executive, even if outright termination by Executive Fiat is forestalled. H.R. 2276 would, in our view, correctly remove all discretion from the President to spend below the levels authorized and appropriated by Congress for 2-percent telephone and electric loans.

In conclusion, Farmers Union urges this Committee to report H.R. 2276 as soon as feasible, so that it can move to House and congressional enactment.

Now, I want to say a little about my own rural electric cooperative in South Dakota. We are faced with a generating plant being built at Stanton, N. Dak., called Basin Electric. It started out to be a $98 million project and $18 million of this was to be provided by the members it serves, for transmission facilities. Because of environmental protection and inflation, the costs of the generating plant increased by $5 million. Now, if a 5-percent interest rate was imposed for that loan, the cost of electricity at generation level would have to be increased by approximately 10 percent. A generation or transmission cooperative would have to borrow money to build lines, and the increase in cost of money would increase the rate to the transmission system by another 10-percent increase. There would be a 10-percent increase for generation, 10 percent for transmission, and another 10 percent to pay the cost of money to the distribution co-op. By the time the power gets to the individual consumer, he is going to have a 30-percent increase in the cost of electricity. So I feel a 5-percent increase in the rate of interest on the REA loans is unjustifiable.

Mr. STUBBLEFIELD. Thank you, Mr. Bubbers.

Questions, Mr. Wampler?

Mr. WAMPLER. I have no questions.

Mr. STUBBLEFIELD. Mr. Bergland?

Mr. BERGLAND. Thank you very much, Mr. Chairman.

I have no questions, but I was raised in a Farmers Union home in Minnesota and I have maintained lifelong membership in Farmers Union because I have been impressed by this organization's commitment to the problems of the family farmer. My Dad tells me if it had not been for the efforts of the Farmers Union back in the 1930's there may not be an REA program today. It was denounced by the critics of that year as a cruel hoax and this organization stood and fought the battle. As a consequence of that, we today have a program nearly completed. We still have problems, however, in the field of electric and telephone distribution and I commend you for your interest in this program, Mr. Barton and those members here today, for appearing in support of this legislation.

Mr. BARTON. Thank you very much, Congressman Bergland. We appreciate those comments.

Mr. STUBBLEFIELD. Mr. Zwach?

Mr. ZWACH. No questions.

Mr. STUBBLEFIELD. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

I would like again to commend Dr. Barton and I am particularly pleased to see a fellow South Dakotan here. It is good to have you with us, Mr. Bubbers.

You are a director of a distribution cooperative, are you not?

Mr. BUBBERS. Of Moreau Grand Electric at Timber Lake, Yes.

Mr. DENHOLM. How many customers per mile do you have on the lines of your cooperative?

Mr. BUBBERS. Approximately 1.05—one and five one-hundredths consumers per mile of line. It is just a hair more than one.

Mr. DENHOLM. Do you obtain your supply from the Bureau of Reclamation?

Mr. BUBBERS. Approximately one-half of our supply of energy comes from the Bureau of Reclamation and the other half comes from the steam generating plant at Basin, N. Dak.

Mr. DENHOLM. Now, if I understand your testimony correctly, you stated that if the interest rate is increased, there is a pyramiding effect on the consumer. In other words, it goes to the supplier which is passed on to the distribution cooperative, which is passed on to the consumer. Is that the essence of your testimony?

Mr. BUBBERS. Yes. When you raise the cost of operation, you have to raise the cost of generation of the power, from the generation to the transmission to the distribution, and each time—well, as long as our transmission co-op does not have to borrow any money at 5 percent, maybe there is no increase in the cost of transmission to the transmission co-op.

Mr. DENHOLM. You were not present yesterday when I asked the witnesses present the alternatives to a consumer on the line. He cannot pass it to anybody, can he, or is it possible that if he did the consumers of food and fiber and the products that are produced on the farms and ranches of this country would be at a higher cost to the consumers?

Mr. BUBBERS. Right.

Mr. DENHOLM. The other alternative is that the consumer on the line has to absorb the increased cost and his net income has to be less.

Mr. BUBBERS. Right.

Mr. DENHOLM. The other alternative is that the distribution cooperative system or the supplier has to absorb the increased costs or they can terminate operations. Their alternative would be to sell out and quit business, then, is that correct?

Mr. BUBBERS. We might even be faced with the fact that the consumer might look for other power companies to supply service.

Mr. DENHOLM. Is there anybody else in your area supplying farmers with electricity?

Mr. BUBBERS. If they are on the main line up there where the private power companies are, yes. A short distance from there, they probably will be served. But otherwise, there is no other supplier.

Mr. DENHOLM. I understand that under the REA Act of 1936, as amended, you can only serve those areas where there is not a central service supplier.

Mr. BUBBERS. Well, the Montana and Dakota utility is a private power company in the area.

Mr. DENHOLM. Would they serve your area if you terminated business?

Mr. BUBBERS. I assume they would buy us out, but they would not build any amount of distribution line; no.

Mr. DENHOLM. What effect do you think the effect of a sale would do to consumers on your lines?

Mr. BUBBERS. Well, it would erase the competition for rates.

Mr. DENHOLM. The reasonable alternatives available to you, that is, the co-op either has to accept the increased cost of doing business at higher interest rates or they pass it to the consumer on the line, which gives him a lesser net income, the farmer and the ranchers, or if he can pass it, the increase is paid by the consumer.

Now, the administration is interested in increasing net income to the farmers and in keeping the cost of living down to consumers. Now, if you increase the cost of interest, one or the other of two things must occur. The alternatives are not acceptable or favorable under either condition, are they?

Mr. BUBBERS. No, they are not favorable.

Mr. DENHOLM. Thank you very much.

Thank you, Mr. Chairman.

Mr. STUBBLEFIELD. Mr. Johnson?

Mr. JOHNSON. No questions, Mr. Chairman.

Mr. STUBBLEFIELD. Mr. Gunter?

Mr. GUNTER. Mr. Chairman, only to say that I certainly appreciate the testimony of these two gentlemen and perhaps even more so the presence of so many members of the Farmers Union. I think it is well to emphasize your mission and the importance of it. We have a lot of downtown Congressmen who are Members of the U.S. House of Representatives and I think that your personal testimony and the story that you can effectively tell is a tremendous responsibility, and it is one that can be told well. So I hope that you will do that while you are here, because this committee needs your help.

Thank you.

Mr. BARTON. We thank you, Congressman Gunter.

Mr. BUBBERS. This is one of the things that we are intending to try to do this afternoon and tomorrow.

Mr. GUNTER. Good.

Mr. STUBBLEFIELD. We thank you, gentlemen, for your testimony. We are glad to have the visitors with us.

The committee will be adjourned until tomorrow morning.

[Whereupon at 12:10 p.m., the committee recessed to reconvene at 10 a.m., Wednesday, February 28, 1973.]

REA LOAN PROGRAM

WEDNESDAY, FEBRUARY 28, 1973

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

The committee met, pursuant to call, at 10:05 a.m., in room 1301, Longworth House Office Building, Hon. W. R. Poage (chairman) presiding.

Present: Representatives Poage, Stubblefield, de la Garza, Jones of North Carolina, Sisk, Alexander, Rarick, Jones of Tennessee, Melcher, Mathis, Denholm, Rose, Litton, Gunter, Teague, Wampler, Goodling, Mayne, Zwach, Sebelius, Mizell, Symms, Young, and Madigan.

Also present: Christine S. Gallagher, chief clerk; John O'Neal, general counsel; and Hyde H. Murray, associate counsel.

The CHAIRMAN. The committee will please be in order. We have set this day aside for Members of Congress who would care to make comments on pending REA legislation. We have listed Mr. Denholm, our colleague, as the first witness this morning, as the author of the bill that has the largest number of cosponsors before us.

We will be glad to hear from you, Mr. Denholm.

STATEMENT OF HON. FRANK E. DENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. DENHOLM. Thank you, Mr. Chairman. I have a prepared statement that has been circulated to all the members of the committee. I previously requested unanimous consent that my statement be entered of record at the beginning of the hearings on this matter.

The CHAIRMAN. It is already in the record.

Mr. DENHOLM. I shall comment on that prepared statement this morning rather than to read it in the entirety.

At the outset, it refers to the proposed legislation before the committee. All of the bills are cited that I know about at page 2 of my prepared statement. I do not know of any others that have been introduced, Mr. Chairman. I have set forth the language of existing law for the convenient reference of the members of the committee and the proposed changes of H.R. 2276 thereto. Basically, there is nothing in proposed legislation before the committee that does anything that the law was not originally intended to do and as the law has been executed since it was enacted in 1936.

Now, I am greatly disturbed that the administration insists upon invading the Rural Development Act which this committee spent much time on in the drafting and enactment of during the 92d Con-

gress. I have included a provision at page 5 of my statement, which is the last amendment with my comment. I say to you that lastly the legislation that others and I have proposed will substantially preclude an invasion of the Consolidated Farm and Rural Development Act. I am very sensitive about any administration invading the Rural Development Act, because we enacted that law for other purposes.

Section 306(a)(1) of the Rural Development Act will be amended by inserting immediately after the first sentence thereof a new sentence as follows:

> The authority contained herein to make and insure loans shall be in addition to and not in lieu of any authority contained in the Rural Electrification Act of 1936, as amended.

That was the intent of this committee and it was the intent of the Congress when we enacted the Rural Development Act. We had people from the administration and from the Department testify against the Rural Development Act. Certainly, if opposed to the Rural Development Act, the officials of the administration did not consider it then as a proper method or procedure for financing the REA programs. Secretary Butz said in January, when he appeared before a joint session of the Appropriations and Agriculture Committees of this House, that he did not think of using the Rural Development Act as a vehicle of financing the REA and RTA programs when he and others of the administration opposed the enactment thereof. I respectfully submit that his judgment to do so now is of no greater value than it was when he testified against the Rural Development Act.

Now, Mr. Chairman and members of the committee, the years of precedent by more than three decades of legislative history clearly establish the intent and purpose of the Congress plus six Presidents in the administration of the Rural Electrification Act of 1936 as amended—now the subject of hearings before you.

The merit of the proven utility industries for the people—and operated by the people of rural America cannot be denied. The record of achievement of the rural electric cooperatives across this country is unequaled in administration and in service in the public interest. The rural electric systems are consumer-owned cooperatives and managed by the people with a degree of skill superior to any agency of the Federal Government. Reasonable people agree the record of accomplishments by the rural electric cooperatives is commendable.

I have been informed that the Federal Government has loaned a total of approximately $8 billion to rural electric systems since 1935. Principal losses for the same period are practically none, about 0.007 of 1 percent. More than one-third of the total principal loaned by the Government has been repaid plus almost $5 billion in interest. Most payments on debt service costs are paid 2 years in advance. The program is financially sound and it is primarily administered by local people. It is an asset to the Federal Government and not an expense. It is a benefit to all of the people of America. Funds loaned are secured by assets valued far in excess of the unpaid mortgage notes of record.

I am convinced the merit of the programs for the rural electric and telephone systems is not at issue. I am certain the administration, the Congress and the people are in agreement that the utility programs must and should be continued. The issue is the rate of

interest on loans by the Federal Government to qualified borrowers under the Rural Electrification Act of 1966, as amended.

Actually, a consumer-owned utility system can pay any rate of interest because the debt service payments represent only part of the costs of construction, maintenance and operation and overhead. But to do so the system must do and be prepared for several alternatives including—

1. Increased rates to consumers;
2. Reduced net income to satisfy fixed obligations; or
3. Resort to bankruptcy, failure, conversion or sale and "Get out of business."

None of the alternatives are desirable but the first is the only choice the systems could endure; that is, to increase the rates to consumers.

The essential production of food and fiber of this Nation cannot be placed in jeopardy. It cannot be produced in the quantity needed without a rural electric utility system. Any increase in the cost of money to the rural electric systems will cause one of two economic results—

1. Increase consumer costs of food and fiber; or
2. Decrease the income of producers.

The farmers and ranchers cannot readily pass production costs so some of both will occur. The people of this Nation cannot afford either.

A 3-percent increase in interest rates to 32 rural electric cooperatives in my State will increase consumer costs of electric service approximately $1.5 million annually. The multiplier effects across the Nation will likely work conversely to the interest of consumers and producers alike and result in an increased return to the Federal Government that never intended to be in business and is now an unwilling business proprietor.

It is a "bum" and false sense of economy to pursue public policy that results in decreased income to producers or increased cost-of-living to consumers. An increase in the cost of essential money to rural utility systems cannot reasonably result in any other conclusion.

The 92d Congress appropriated $595 million for fiscal year 1973 to fund the programs under the Rural Electrification Act of 1936, as amended. The amount administered on applications for loans was $228 million and $367 million of the total fiscal year 1973 appropriations was not obligated at the time the program was terminated by the administration as announced December 29, 1972.

As of December 31, 1972, there were 150 applications on file by borrowers of the utility systems in a sum total request of $467,633,000 for a total annual need of $695,633,000 or $100,633,000 over the total appropriations approved last year by the Congress. It is clear the 92d Congress acted prudently in approving appropriations for fiscal year 1973. It is reported that of the 159 applications on file as of December 31, 1972, that 88 of such prospective borrowers cannot obtain essential funds elsewhere. Some or all of the remaining 71 prospective borrowers may obtain funds at interest rates and upon terms acceptable by negotiation from other sources. Nothing in the law precludes them from doing so if the administration will subordinate first lien mortgages in cooperation with other lending institutions as proposed under the suggested policy of termination of the entire RE Act, as amended.

The sources of financing are available to qualified borrowers and it is for the Congress to decide the need of all systems in the regular form of hearings and deliberation for approved appropriations annually. The Congress has never abused that discretion and certainly the will of the people as expressed by the Congress cannot be superseded by a GS–14 employee of the Office of Management and Budget in determining public policy under the Constitution of this Republic.

Mr. Chairman and members of the committee—there may be alternatives—there may be more viable plans and programs for long-term policies of financing but until this committee and until the Congress works its will and the statutes are amended, changed or modified by the Congress—the law and the original intent of the Congress must be executed and fully respected. That is what the legislation that I have proposed and now before this committee purports to accomplish.

It is imperative that the proposed legislation be enacted without delay. (H.R. 2276.) The integrity of this committee and the constitutional powers of the Congress shall not be denied if this Republic is to endure the test of time. The circumstances do not constitute a "crisis" unless the Congress should fail, falter or refuse the challenge. The challenge is ours—the challenge is to the Congress. Our alternatives are clear—either we shall lead—or we shall be led. The pending legislation before you should be approved.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Denholm.

Now, may I explain our procedures to our other visitors. Of course, Mr. Denholm is familiar with the rules. This committee has found it will save a great deal of time if the witnesses can be with us a little later on and be questioned en bloc rather than individually. Mr. Denholm is familiar with this; we do not want to apply this rule to those Members who have other engagements. We will forego questioning unless other Members demand it. But we will suggest to our other congressional witnesses that they stay with us if possible until they conclude their presentations and then there will be questioning.

Mr. DENHOLM. Mr. Chairman, I have a prepared statement of the General Manager of the East River Electric Power Cooperative Association, Inc., of Madison, S. Dak., and I request unanimous consent that it be entered at this point in the record.

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

[The above referred to statement follows:]

STATEMENT OF LOREN A. ZINGMARK, GENERAL MANAGER, EAST RIVER ELECTRIC POWER COOPERATIVE, MADISON, SOUTH DAKOTA

My name is Loren Zingmark, I am the General Manager of East River Electric Power Cooperative headquartered at Madison, South Dakota. I am indeed pleased to have the opportunity to present this testimony in favor of H.R. 2276 being sponsored by Congressman Frank Denholm, et al.

East River is a transmission cooperative serving wholesale power to 23 member distribution systems in the rural areas of eastern South Dakota and western Minnesota. These same systems, in turn, serve approximately 50,000 rural and urban consumers.

East River Electric Power Cooperative purchases approximately sixty per cent of its wholesale power from the U.S. Bureau of Reclamation. The other forty per cent comes from Basin Electric Power Cooperative at Stanton, North Dakota.

I only mention the above to you so that you will have a better idea of the problems that we face by the action of this Administration to abolish the Rural Electrification Act of 1936 as amended.

East River has more than $25-million invested in substations, high voltage transmission lines and related facilities to serve our member systems. Since its beginning in 1949, East River has paid more than $5-million in principal and $3.5-million in interest back to the Federal government on its loans.

During 1973, we estimate that East River will pay more than $380,000 interest and more than $550,000 in principal back to the Federal government on its long term debt. In other words, more than $940,000 in debt service payments will be paid out of an expected $6.5-million in revenues.

Up to this time, East River has been able to secure all of its financing with 2% REA loan funds. You can readily see the drastic effect of 5% interest on money on East River's operation.

In East River's 1973 budget, for example, approved by my board of directors, the interest expense figure alone is $369,883. Again, this is at 2% interest. If the interest rate was 5%, our interest expense figure for this year, 1973, would be nearly $925,000, or an increased cost of service of over $554,000. This same budget provides operating margins of only $207,000. So, the end result of the above would be that with the increased cost of interest being more than $554,000 and operating margins of only $207,000, we would be faced with an operating deficit of approximately $347,000.

In preparing budgets and forecasts, we are required by REA to provide margins of not less than 1% of our investment in plant. Under this set of circumstances, we would have no alternative but to raise rates to our members in amounts sufficient to cover the entire amount of nearly $555,000. We expect to deliver just under 800-million kilowatt hours of energy to our members in 1973, and this increase would amount to a minimum of seven-tenths of a mill. Since our average cost to our members in 1973 amounts to 8.2 mills, this increase would mean that our rate would have to be increased nearly 10 percent to our member systems.

Earlier in my report, I mentioned that 40 percent of our power during this year will be purchased from Basin Electric Power Cooperative at Stanton, North Dakota, of which East River is a member.

I would like, at this time, to briefly report on what has happened to them because of the Administration's abolishment of the Rural Electrification Act adopted by the Congress of the United States.

Basin Electric has one 200 megawatt steam generating plant in operation at the present time. Its efficiency has been noted in prominent magizines as being one of the most efficient coal fired plants in the Nation. In 1968 it was necessary for Basin Electric to begin construction of an additional unit—this time double the size of the first unit. Engineering estimates at that time concluded that the total cost of this plant with related transmission lines would be approximately $118-million. Eighteen million dollars of this was pledged by members of Basin Electric, such as East River, with the balance being loaned by REA at the traditional 2 percent lending program.

Since that time, and I don't have to mention this to you gentlemen, inflation has taken its toll on the construction of this second unit. It now appears that Basin Electric will be nearly $50-million short of funds to complete this second generating unit and related transmission. Administrator Hamil said publicly many times that he intended to make this shortage available through REA 2% financing and that he would make the loan the first of January, 1973. Now, with the elimination of this great program, Basin Electric is faced with a tremendous increase in their interest rates just to cover this shortage for the completion of the second unit. For example, going from 2% to 5% will increase their interest cost nearly $27-million; 40% of that for example, would have to be paid by East River. Now you can see the cascading effect that this high interest rate has on the ultimate consumer at the "end of the line." He not only is faced with high interest cost of his distribution system, he must also pay the additional cost for East River on our transmission system and in turn the additional cost having to be borne by Basin Electric. This, then, becomes an intolerable situation.

In recent weeks we have heard President Nixon make the statement that 80% of the REA loans was going to golf clubs and dilettantes. I want it to be made perfectly clear before this committee today that of the loans that have been made and are needed by East River and Basin Electric, not one cent will go to serve

country clubs. It is possible, of course, that some of the distribution rural electric cooperatives are furnishing electric power to golf clubs. However, the Administration must have been extremely misinformed. Had the President received all the information, he would have been told that in the Pace Act, under which we operate, rural electric cooperatives must serve every customer asking for service who is not now receiving central station service. In other words, to deny electric power to these consumers would be in violation of the law under which we operate.

Under the Administration's new scheme of higher interest, insured and guaranteed loans to rural electric cooperatives, the bulk of the Federal interest subsidies will go to Wall Street bankers where the rich will get richer and the poor will get poorer.

I would like to remind this committee and the Congress that out of the total 1973 Fiscal Budget, this Administration estimated that 10% of the total amount of its budget would be borrowed funds. Therefore, if the Federal government were to pay as much as 6% interest on these borrowed monies, that would only amount to six-tenths of 1% on the total Federal Budget. By receiving 2% from the rural electric cooperatives, it is plain arthmetic that the Federal government is not losing money on rural electric or telephone cooperatives.

The REA 2% loan program has been one of the most successful Federal programs ever to be devised to assist rural people. The electric and telephone cooperatives' repayment record is one to be envied by any banker, public or private. To end it now is a severe blow to rural development and the hope of the people to rebuild rural America.

This Administration, in my opinion, has put Robin Hood on his head. Where he believed in stealing from the rich and giving to the poor, I am convinced this Administration would rather steal from the poor, the needy, the sick, the unemployed and give it to the rich.

I sincerely hope this committee and the Congress will support this legislation. For, in my opinion, there is a very serious constitutional question before the Congress of the United States. Are we as Americans going to have one man rule, or will the American people be governed by the people and for the people through their duly elected representatives? The decision rests with the members of this great body.

Thank you.

The CHAIRMAN. We will now hear from another of our colleagues, the ranking minority member of our committee, Mr. Teague.

STATEMENT OF HON. CHARLES M. TEAGUE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. TEAGUE. Thank you, Mr. Chairman. I should like to say at the outset that I am one member of this committee who is opposed to H.R. 2276. Therefore, I am going to read my statement rather than placing it in the record.

First, I would like to make it clear that I am by no means anti-co-ops. My father was president of the Sunkist organization for 25 years, which is one of the largest farm cooperative organizations, if not the largest. He was a founder of the California Orange Growers Association. My brother was also president of the Sunkist organization for about 10 years. So I have grown up in the co-op movement. That does not mean that I am in favor of subsidized interest rates for co-ops.

Mr. Chairman, as you and my other colleagues on this committee know, I have sought for a long time to require that a logical basis be established for the loan program for electric cooperatives established by the Rural Electrification Act. Many other Members of Congress also believe it is time for a change in the loan program, most particularly in the interest rate paid by the cooperatives. I am persuaded that we have an obligation to end what is in effect a subsidy for one group of Americans—a subsidy that once served a purpose but now is

costly and unjustified. In the past, I have introduced legislation which would largely correct this situation.

It is well known, although I will repeat it for emphasis, that I do not advocate disbanding the Rural Electrification Administration or abolishing the REA cooperatives. What I wish to do is to make it understood that now the big majority of the users of REA electricity as a group are not in economic distress and that the users who are nonfarmers outnumber the farmers, 4 to 1. The REA cooperatives of which they are patrons and owners no longer need special, low-cost Government loans to sustain them. Parenthetically, when this program started it cost the Government less to borrow money than REA charged for its loans to cooperatives. When the cooperatives now are permitted to receive Treasury loans at rates considerable below those the Treasury pays for its funds, the majority of American taxpayers are forced to make up the difference in cost, to the advantage of REA cooperatives' power users.

When I speak of loans to the REA cooperatives, I am referring to sums that all of us would describe as substantial. REA has reported that the cash it advanced in loans to borrowers during fiscal year 1972 amounted to $414.8 million, bringing to $7.3 billion the cumulative total of cash advanced in the rural electric program during its first 35 years.

As of June 30, 1972, electric borrowers had made cumulative repayments of principal of nearly $2.6 billion to REA. There remained outstanding a total of more than $4.7 billion in electric loans.

I am well aware that funds provided through REA channels are not the only moneys available to the rural electric systems. The past fiscal year, 1972, was the first full year in which the REA electric program received supplemental financing from the Cooperative Finance Corp. (CFC) and other lenders. Contributions by these sources of capital amounted to $353.2 million in loans approved, rather than cash advanced. I commend the REA cooperatives for taking these steps toward self-support.

In the past, the special low-interest rate on REA loans to electric cooperatives has been considered sacrosanct, but great changes have transpired since the cooperatives were established 37 years ago. The rural areas are no longer inhabited principally by farmers, but by citizens whose livelihood is derived from urban areas. Rural areas, including towns of less than 1,500 population which were permitted by the Rural Electrification Act to receive power from the REA cooperatives, now include great housing developments, rural homes, vacation homes, as well as large and small industrial plants and other business establishments. The number of farms has dropped from 6.8 million to 2.8 million in 37 years.

All these developments have seen the number of people in rural areas receiving central station electric service increase from 11 percent of the total in 1935 to nearly 99 percent in 1972. Today, I estimate that the member/owners of REA electric cooperatives own approximately 30 percent of the resources employed by their cooperatives, on which they receive no interest and usually may not convert to cash until the association dissolves.

I want to stress that REA cooperatives have reached maturity. The conditions that gave rise to their need for a favored rate of interest have

long since passed, and since four-fifths of their customers represent nonfarmers, it is time that this subsidy be removed.

Granting of low-cost power to the customers of government-financed utilities, while customers of investor-owned utilities have the full cost of capital reflected in their power bills, is manifestly unfair and can no longer be justified. The farmers, who constitute a small minority of REA customers, can certainly afford to pay the full cost of his electric power at a time when he can pay $500 to $1,000 an acre for land to expand his operations.

The fact that REA cooperatives have reached maturity is exemplified by their moves to provide a portion of their own financing. Their recent success in obtaining capital funds outside of the REA structure, such as through the CFC, strongly suggests that they could make a more strenuous effort to find additional sources of capital. I believe the time has come to require the electric cooperatives either to obtain all their funds from private sources at prevailing interest rates or to pay at least as high a rate for Government funds as the Treasury must pay when it borrows, as we do on our other farm loan programs.

Another choice which may appeal to some electric cooperatives and their customers is to make their systems available for sale to an investor-owned utility. There have been instances of this in my State and elsewhere, and quite recently the Public Service Commission in Mississippi granted authority to the Mississippi Power & Light Co., an investor-owned concern, to provide service to the customers of a cooperative, Capital Electric Power Association (CEPA). Such service is to begin upon consumation of the sale of the cooperative to Mississippi Power & Light on March 31, that sale having been approved on a vote of almost 3 to 1 by the CEPA members.

Members of the cooperative association reportedly are to receive $10.5 million for the system, plus an additional $1.5 million for cash, securities, and other assets of the CEPA. This latter amount undoubtedly will be divided among the 16,000 owner/users. As of February 1966, the cooperative had repaid in full its loans from REA, amounting to $1,502,593. Interest during the loan period totaled $476,364.

Since April 1941, 109 electric cooperatives have retired all their REA loans, amounting to $55,410,191. This responsible action underscores the point that the cooperatives, having matured, are able to compete for capital funds instead of relying upon the government and the taxpayers for adequate financing.

The administration recently acted to reduce the electric cooperatives' dependence on Government benevolence. It announced that the 2-percent direct loan programs for REA electric and telephone cooperatives were being converted to insured and guaranteed loan programs at somewhat higher interest rates.

This move, which I might say is laudable, did not by any means remove the government as a source of future financing. The REA is still authorized to provide loans on an insured basis at 5 percent interest to the cooperatives. Loan authority for REA borrowers has been increased by $200 million, thus providing a total loan authority of $618 million for rural electric loans and $145 million for rural telephone loans in fiscal year 1973. These funds, of course, are in addition to loans available from private sources, including the CFC.

If we in the Congress were to insist that the 2-percent loan concept be retained indefinitely, we would be doing a disservice to the cooperatives as well as to our citizens generally. In my judgment, we would be denying that the cooperatives have moved through a growth period to the point where they can face the trials of the marketplace without being shielded by the Government.

The electric cooperatives, like the investor-owned utilities, need to have access to sources of capital if they are to remain in business. Let us be sure that the cooperatives can obtain the financing they require, but on terms that will not give their customers or their organization an unfair advantage over investor-owned electric companies and their customers. By establishing the premise that competing businesses must be governed by the same principles in acquiring capital, we will have placed a stronger foundation under the electric cooperatives.

In summary, Mr. Chairman, I repeat that I oppose H.R. 2276 and S. 394 which call for mandatory return to a 2-percent program.

I would also like to state for the record that since there is a compromise bill in the air—as both you and our colleague from Minnesota have made it clear there is—I have neither been a party to that effort nor privy to its development.

Thus, I strongly urge that before the committee begins its closed markup sessions on REA legislation, the opportunity for adequate public hearings be afforded to all those who have an interest in what may be far-reaching and significant changes in the rural electric and rural telephone programs.

Included in those public hearings, of course, Mr. Chairman, should be an appearance by the appropriate administration spokesman to inform the committee of how this new program is supposed to work.

Thank you very much.

Mr. SISK [presiding]. We thank our colleague very much for those very fine satements. We will now hear from our colleague, Congressman John Melcher of Montana.

STATEMENT OF HON. JOHN MELCHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. MELCHER. Thank you, Mr. Chairman, members of the committee, I have a statement that I will submit for the record and summarize from it.

Mr. SISK. Without objection, the entire statement will be made a part of the record.

Mr. MELCHER. Perhaps it is fortunate that I am following our good friend from California because I think we have a real contrast from his point of view and his constituency's point of view in what our State is faced with in regard to REA loan rates and RTA loan rates. The Range Telephone Cooperative, which is housed in my hometown of Forsyth, serves 1,420 customers—that is in Montana and Wyoming—and the number of miles of lines for this telephone cooperative for those 1,400 customers is 4,393 miles. It covers nine counties in Montana and Wyoming and it averages out about a customer for every 3 miles of line.

I think it is very unfortunate that the publicity that was advanced with the announcement of the administration's decision to end the

low-interest rate program for REA's and RTA's inferred that the rural electric and telephone associations were serving country clubs, dilettantes, and people that really were well heeled and had no need for low-interest loans in order to make their cooperative feasible. The only dilettantes we have in eastern Montana are the coyotes who are now feasting on the lambs and have little or nothing to fear since the administration ban on toxic baits and failure to provide alternate methods for predator control. Of course, these coyotes are not electric power or telephone subscribers, so we don't have dilettantes on our lines.

You can well imagine, the Range Telephone Cooperative, with a customer every 3 miles, depends on low-interest loans not only for its initial construction to serve the 1,420 customers it has, but it also depends on low-interest rates for any major improvement or repair. And that comes about frequently.

The other telephone cooperatives in Montana—I have them listed here—have customers per mile which vary from the range telephone co-op with one customer every 3 miles and Northern, which has a little bit better than one customer every 2 miles and Valley and Mid Rivers, which have one customer for every mile and a half up to Blackfoot, which has 1.7 customers per mile. Looking at REA's, we find that they are in a little bit better shape, but also many of our REA's in Montana have less than one customer per mile. Hill County, for instance, has a customer for every mile and a half of line. Big Flat has one customer for about every mile and a fourth. And it goes on from there up to Flathead Co-op, which has almost four customers per mile. That is the closest one in Montana to fit the description put out with the publicity about cutting off this loan program.

Secretary Butz admitted to this committee just a few short weeks ago that there were areas in such States as Montana and Wyoming where the need for providing rural telephone and electric service still warranted the low-interest rate loan. The Under Secretary, Secretary Campbell, yesterday made it clear that there is not really a significant saving involved in the switch from the present lending credit system based on ability to pay and the straight 5-percent loan proposed to be made from rural development authorities. The blended rate, Secretary Butz told us, for last year was 3.8 percent. It is real clear now that there is not very much of a real saving involved in the administration's proposal. An honest appraisal of it, in fact, shows that the publicity that has been given out was grossly unfair.

It is also now clear that justified adjustments in interest payments are already being made, as evidenced by last year's blended rate of 3.8 percent.

I hope this committee will report a bill mandating a continuation of the program along this line for a number of reasons, including the real continuing need for the low-interest program in the States in the upper Great Plains such as Montana, Wyoming, North and South Dakota, Idaho, and other Great Plains States.

Thank you very much, Mr. Chairman.

[The complete statement of Mr. Melcher follows:]

STATEMENT OF HON. JOHN MELCHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

In my district in Montana, we have thousands of families who live considerably more than a mile apart, and many rural electric and rural telephone cooperatives with an average of less than 1 customer per mile.

The Range Telephone Co-operative headquartered in my home town, Forsyth, Montana, serves 1420 customers with 4393 miles of line for an average of less than one customer per three miles. It provides areawide service for 9 counties in Montana and Wyoming and, so far as I know, it hasn't got a diletante connected to the whole system.

The only diletantes we have in Eastern Montana are the coyotes that feast on lamb and have little or nothing to fear since the Administration banned toxic baits and has failed to provide alternate methods of predator control. Of course, they aren't electric power or telephone subscribers.

As you can well imagine, interest on the investment in this cooperative is a sizeable part of its total expense, and if it is increased by 150% from 2% to 5%, the first time a major reconstruction job comes along, the Range Telephone Co-operative, Inc. will be in real trouble.

One of our Montana telephone co-ops is now confronted with instituting a rate increase of $4.95 per month for 8-party service, from $10.50 per month to $15.45, if its $1.8 million loan to reconstruct a 20-year old system goes from 2% to 5%.

I have a letter in my office from 8 farm families asking for my help in getting them service. The private company has asked them for $2100 each connection charge. If that were an REA investment, it would take $42.00 per year to carry the interest on this connection cost alone, at 2%, or $105 at 5%—a difference of $63 or $5.25 per month.

Customers per mile on eight of our ten rural telephone systems—for which I have obtained data are—

Blackfoot	1.7
Interbel	1.8
Mid Rivers	.71
Nemont	.89
Northern	.58
Range	.31
Three Rivers	1.24
Valley	.92

The other two, Project and Triangle, are in similarly sparsely populated areas.

We have 25 REA cooperatives, and some of them have had the good fortune to get new consumers as a result of townsfolk moving into their area, but they are still far short of the sort of country club-diletante service institutions that there has been an attempt to picture. Their customers per mile, in the State, range from .75 on the Hill County REA lines and .89 on the Big Flat System, both in my district with headquarters at Harve and Malta, to a high of 3.9 customers per mile on the Lincoln REA and 3.79 on the Flathead co-op lines, both in Congressman Shoup's district.

It may be that some of the Western District co-ops can afford more than 2% interest. I doubt it, but I am sure that the REA's in Eastern Montana, a semi-arid area which produces a lot of those feeder cattle that the country so badly needs right now, must have 2% money to survive, once costs go up, some services will be discontinued and the financial burden of those remaining will get progressively heavier.

Secretary Butz has admitted there are areas in states such as Montana and Wyoming where necessary rural service warrant the low interest rates.

There is already a system of blended lending to the REA and RTA co-operatives which Secretary Butz said was 3.8% last year. Under Secretary Campbell made it clear that there is not really a significant saving involved in the switch from the present blended credit system, based on ability to pay, and the straight 5% loans proposed to be made from Rural Development authorities.

It is difficult for me to believe that if the President knew the whole story, and the real savings involved in this defiant proposal to ignore Congress, disregard enacted law and terminate the REA program regardless of Congress, that he would order it reinstituted. Certainly he would direct the Administrator of REA to keep the commitments he has made to make 2% loans which are

now dishonored. One of those commitments is to the big generating and transmission cooperative—Basin Electric at Bismark, N.D.—which provides steam power to supplement Bureau of Reclamation hydro power in my Eastern Montana district. A loan commitment to Basin which involved $25 million on January 1 and another installment of about the same size in June, to complete a 100,000 kilowatt generating unit which is under construction, has been dishonored and not only threatens orderly completion of the plant but substantially higher wholesale power rates and in my country where distances are a problem which constantly complicates provision of services of every kind.

We need the 2% REA loan program in my congressional district and my state. The effort to picture the program as a service for country clubs and dilettantes was grossly unfair. An honest presentation required consideration for the sort of struggling systems in my country.

It is now clear that there is little real savings involved in the termination of this loan program, that it has been grossly misinterpreted to the public, and that justified adjustments in interest payments are already being made.

I hope this Committee will report a bill mandating a continuation of the program in the law of this land for a number of reasons, including the real continuing need for it in the upper Great Plains.

Mr. SISK. Thank you very much, Mr. Melcher. We appreciate your statement.

The committee now will be glad to hear from our good colleague from North Dakota, Congressman Andrews.

We are glad to welcome you before the committee.

STATEMENT OF HON. MARK ANDREWS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. ANDREWS. Thank you, Mr. Chairman. It is good to be with you. I would like to summarize my views rather than use a prepared statement. You know I am a cosponsor of the legislation before you. I do support the 2-percent loan program that is now under attack.

We ought to deal with this issue far more factually than has been the case, however. There have been any number of Members of Congress who have said, why do not these rural electric cooperatives go to the private money markets? They have come of age; why do they not borrow money like private electric utilities do?

You know, on the face of it, it sounds good, until you stop to realize that these rural electric cooperatives have been facing a situation where the Government holds the mortgage on their plants. They cannot go to private money markets and borrow money, because they cannot give a pledge of their plant and assets to the lender in New York or Chicago or wherever it might be. So there is a unique characteristic here that nobody is taking a look at.

Statements are also being made that these lines have now been built, so there is no reason to have a loan program now. Well, these lines were built 25 years ago. You stand out in the rural weather as these poles have, and problems arise. They were constructed light in the first place. They have gotten to the point where they have to be replaced, and the only place you can get capital to replace these lines so that they can stand for another 25 years is where you got it in the first place.

We hear too often that people have been moving out of the rural areas and that, therefore, the rural electric cooperatives now serve mainly fat cats who have moved into the country. Well, let me speak

for a part of the country that my colleague, Mr. Melcher, also represents, and Mr. Denholm, who was here earlier, represents. We have not had fat cats moving into our rural part of the country. We have had people moving out. The rural areas of mid-America have been depopulated over the last two decades. They have been depopulated under Republican Secretaries of Agriculture and Democratic Secretaries of Agriculture, too. It seems to be a bipartisan problem of Secretaries of Agriculture in their inability to cope with the problems facing farm families. So more and more farm families have been leaving the land. This has caused a crunch on our truly rural rural electric cooperatives. Maybe not for the ones that deal with suburban areas and the city, but certainly for the cooperatives that serve these vast Plains States, they have seen meters disconnected, they have lost many of their consumers in the last decade, and their financial condition is not strengthened by this type of population shift.

I think we have to take a look at the fact that 2 percent money is needed for comparibility, not for subsidy of rates. It might be a subsidy in interest charge but the subsidy is necessary in low-density areas in order to get comparability in cost of electric power. This Government of ours is spending all kinds of money on a lot of programs to take care of the problems of the inner city. One of the best ways of taking care of the problems of the inner city would be to avoid the impact of more and more thousands of people leaving the rural areas and moving into the city. The only way you are going to avoid that is to keep such things as central stations electric power and telephone service at rates that are somewhat near comparable to what the people pay in the cities. Our rural electric cooperatives charge generally a higher rate than the private utilities in the cities which they surround. Why? Because they have so few consumers per mile of line that they have to, even with 2 percent money, charge a higher rate. And if you go to 5 percent or 6 percent or 7 percent, they have to increase their rates even that much more. If you get your rates on the farm to where the electricity costs you half again as much as it does in the city, that is going to be one more incentive to move that family off the farm into the cities where it is going to cost us a whale of a lot more in Federal funds to take care of them.

I think we have to take a look at the fact that there has been a lot of poor research done in investigating this problem. The President was quoted as saying that 80 percent of these rural electric cooperative subscribers were either country clubs or dilettantes. I am sure he regrets that statement. The Secretary of Agriculture apologized for that. I suppose as a Republican I should not be quoting the mistakes of the President, but there have been a whale of a lot of them down at the White House in the past month or two. One of them that shows a terrifically bad research capability is an article by Henry Houthakker in the Wall Street Journal a month ago. Dr. Houthakker, who was on the President's Council of Economic Advisers and is perhaps one of those who has been giving the President the bum information on which he has been basing all his ridiculous statements, says that we can phase out the farm price support programs because farmers in the Great Plains States are grossing now $200 per acre.

I happen to sit on another committee that is directly dealing with the Department of Agriculture, and they can get me information quite rapidly. I said, look, make a study of three Plains States—Kansas, Nebraska, and North Dakota—and give me the three principal crops they raise and give me the price they got during the last quarter of 1972, when the prices peaked out—when they were at their peak because of the Russian wheat sale. Let me see what the gross income actually is. The gross income, including Federal farm payments, came back at $40 an acre, ranging from $30 in Dakota to around $43 up in Nebraska. If Mr. Houthakker, one of the President's key advisers, can be 400 percent wrong on a matter as basic as what is the gross income of the Plains States per acre, I hesitate to think what some of the other inputs have been at the White House. They strictly are not factual. If the decisions that have been made have been based on that kind of information, it is no wonder that we have a problem here now.

It has been stated that there were 14 consumers per mile of line for which rural electric funds were advanced at 2 percent last year. Maybe that is too high. Perhaps this committee should take a look at this if you feel it is necesary because if this money is flowing somewhat to cooperatives who are dealing with country clubs and dilettantes, let's write some language into the legislation to make sure it will not be used for these purposes.

I would have no objection to limiting the 2-percent funds to truly rural distribution cooperatives where they have less than 2 or 3 consumers per mile of line, for instance, or less than $600 of revenue per mile of line so if you get into an Appalachian type of situation where they can only afford a little bulb and a washing machine and a TV, probably, they can also be served with 2-percent money.

This decision, of course, is yours. My point in being here today is to say that some of the things that have been said by this administration, some of the things that have been reported in the press have been far from factual. The 2-percent loan program is needed not to give a subsidy to farmers, but to provide central station electric power and telephone service at comparable rates and to provide one less reason for the farm family to leave the land. This is in the best interest of the public, of the entire country.

I appreciate your giving me the opportunity to testify before you and I will appreciate your serious study of the bill before you with the hope that it can be reported to the House floor as expeditiously as possible.

Mr. Sisk. I want to thank our colleague from North Dakota for what I think is a very excellent statement.

Mark, since you do serve on another committee which is very much concerned with this problem, the Appropriations Committee, we particularly appreciate your comments. I would hope if you can that you will remain for a few moments and we will have some group questioning.

Mr. Andrews. I will be glad to stay for a few minutes because as I said, some of the facts that have been used in this argument have been far from factual. If we can defuse the issue and clear away some of the fog and talk on the basis of the facts as they are, I think we will be able to come up with what is needed, Mr. Chairman.

Mr. SISK. Thank you, Mr. Andrews.

Our next witness is our colleague, Hon. Richard Shoup of Montana. He is not here. Then we will hear from our colleague, Hon. Teno Roncalio.

STATEMENT OF HON. TENO RONCALIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING

Mr. RONCALIO. Thank you, Mr. Chairman. I have a statement. I would like to read it. It is very short.

The 2-percent direct loan program under the Rural Electrification Act of 1936 has made possible the extension of electric and telephone service to much of rural America. Without this program many of our rural citizens would even today be deprived of these valuable conveniences which we so often take for granted.

Today most REA loans go toward the maintenance and improvement of existing rural systems. However, in sparsely populated rural areas such as my State and I represent it all, even these costs would not be feasible for the rural cooperatives or for their consumers. Even with the 2 percent loan program much of the money used by rural electric cooperatives comes from other sources. Mr. Don Cooper, researcher for the National Rural Electric Cooperative Association, states that only 88 cooperatives receive 100 percent loans from REA out of about 1,000 cooperatives. Most cooperatives only borrow a portion of their funds from REA to offset the high interest rates which they must pay to commercial lenders. I submit again that they are unable to use the collateral, as my colleague from North Dakota pointed out. They cannot use the comparable collateral as an IOU an investor-owned utility can use in getting loans and sometimes they are compelled to go to government sources for their loans. The average interest rate paid by cooperatives is then not 2 percent but rather 3.8 percent.

The loss of the REA 2 percent loan program could be disastrous to some rural cooperatives and mean high increases in the costs of these services. Portions of Wyoming may be affected by the loss of this program to the extent of an actual power shortage in the very near future. In a letter to President Nixon, Arthur Jones, president of the Basin Electric Power Cooperative wrote:

> The termination of the REA direct loan program occurred on the same day that Basin Electric had been promised an REA supplemental loan of $25 million at 2 percent interest to help finance completion of our 460,000 kW power generating station and 528 miles of 345 kV transmission now under construction in North and South Dakota. To avoid costly delays to this $168 million construction program and a power shortage in the Missouri basin in mid-1975, we respectfully request you to release REA loan funds needed to complete this project.

Mr. Fred Simonton, executive director of Mid-West Electric Consumers Association, has told me that delays in the construction of this power facility will indeed mean brownouts and blackouts in portions of Wyoming by 1975—only 2 years from today. We aren't talking about brownouts in a highly industrialized, metropolitan area; this is a sparsely populated rural area in Wyoming.

As if the cancellation of the REA 2 percent loan program would not impose enough hardship on rural cooperatives and their customers, the Bureau of Reclamation has announced an expected rate increase of

its hydroelectric power to be effective January 1, 1974. According to REA Bulleting 111–2, latest published figures for fiscal 1970 show that the Bureau of Reclamation sold to REA systems about 7½ billion kWh at a cost of $36,261,684 in that year. In Wyoming about 80 percent of the power used by rural electric cooperatives is purchased from the Bureau of Reclamation. Mr. Harold Kelly of REA's power plannnig branch and Mr. Jack Mack, Assistant Chief of Power with the Department of Interior have told me that present rate increase figures are only an estimate at this time and that more definite figures will be available in July but they have provided me with these estimates. The Missouri River Basin West delivers power to most of Wyoming's ruarl cooperatives. Today, at a 55 percent load factor, the rate is 6½ mills. This cost will increase by three-tenths of a mill, about 5 percent.

The southwestern portion of Wyoming purchases its Bureau of Reclamation power from the Colorado River storage project. The present rate on power from this source is 6 mills. The rate increase planned on the Colorado River storage project is a whopping 12½ percent, three-fourths of a mill. I understand that the Bureau of Reclamation has not had a rate increase since 1955 and can appreciate that their costs are probably up, but I would like to see the justification for this proposed rate increase. But I point out to the committee, the dire circumstances these small REA's are in.

The Bridger Valley Electric Association of southwestern Wyoming buys 100 percent of its power from the Bureau of Reclamation. In 1970 it purchased 33,633,320 kWh at a cost of $174,722. A 12½ percent rate increase would mean an additional cost to the good people served by Bridger Valley of $21,839.25. There are no country clubs in that area of Bridger Valley, there are no dilletants in that area. There are no people who moved to get away from the black ghettos of the big cities into lilly white suburbs. This is nonsense and I agree with my colleagues from North Dakota. It is not the President who said this, it is some misguided assistant in the White House who writes this sort of thing and it gets into print attributed to the President. I just do not believe those criticisms are justified.

Now coupled with the cancellation of the REA 2 percent loan program, rural cooperatives such as this one are looking at an incredible jump in costs. Don Cooper of the National Rural Electric Cooperative Association says that for the first time in history of REA there will be rate increases, and I would imagine that in some instances these are going to have to be large. I am going to forgo the reading of the balance of my statement only to point out again.

I have seen other criticisms by spokesmen for the investor-owned utilities that the 2 percent program must not be restored because many of these co-ops are now in a 35- to 50-percent equity position; that is, the owners and consumers have a healthy equity position. If you wish to scale the loans to the utilities, there will be no objection to that. But I do feel that in States like Wyoming, the restoration of his program is necessary and I submit that it is fair and that we must use economy across-the-board.

I agree with the President and with the spokesman for the administration that the time has come to look over all of our programs. I would be willing to cut one man off my staff tomorrow. I think every

Member of the House would if the President would look at every program in the Pentagon and make appropriate cuts and savings; not just say to the farmers, you must cut 100 percent of your 2-percent construction program, get none of it anymore, but we will allow $78 million to be lent to the Grumman Co.; we will allow a man to sit in the Office of Management and Budget and tell me and you, Mr. Zwach, what we are going to spend in our State and what we will not spend in our State. Meanwhile, Mr. Ash negotiates a $560 million cost overrun for the Litton Industries, which was his company up until a year ago. We cannot have this sort of thing in Government.

I think the time has come for us to put back those things that share the burden and make these economies fair and square and do not impose them on the Congress.

Thank you, Mr. Chairman.

Mr. SISK. Thank you, Mr. Rancalio, for your very fine statement.

Our next witness is Mr. Nelsen. Not only is he a respected colleague of ours in the House but a man who always is familiar with the program under discussion, having been former Administrator of the REA program.

We are very happy to welcome you, Ancher.

STATEMENT OF HON. ANCHER NELSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NELSEN. Thank you, Mr. Chairman. I appreciate the opportunity of appearing today to plead for a program that gets mangled politically at almost every opportunity.

I want to first give you a little background for the record. Back in my own State, I was vice president of a cooperative that serves my farm where I live today. I am a dues-paying member of the national organization, NRECA, and I served as administrator of the program in 1953–55. At the time I came in, we had many, many controversial situations facing the REA. The east Kentucky situation was in court. $15 million of transformers, poles, wire were lying on the ground because of court action. The Georgia Power contract had been in the courts way back to Truman's days, Sandy Cooper in South Carolina, was in trouble. I could go on and name many major projects. I settled every one of them in a manner that was satisfactory to the user and to the program. I have friends in all of those States because of it, because in no instance did we do anything unreasonable, but we found an accommodation to a problem.

We now have a situation involving this program that prompts us to talk boldly and proudly and loudly about wanting to make the decision here in the Congress. But we have had the opportunity for years to make a decision in the Congress and have failed to do it. We have had a national organization that has failed to produce a program to solve the problem. So when the word came to me that the REA program was being shifted over to the Rural Development Act, I made some investigations. I tried to find out from OMB what they wanted to do, what their objections were, what their goal was. I also contacted Bob Poage.

He and I have long been in this program. We searched for an accommodation to what OMB wanted and what the systems needed.

I think that we have put together an acceptable compromise. It would be a tragedy, if we did not enact it into law.

I made a note here on the side that I want to mention before I forget it. Some comment has been made of country clubs and dilletants and what have you. The REA Act does not prevent service to a country club. The REA Act does provide for service to a rural area. And believe me, a little sweetening up in a project now and then was a very welcome thing because of the need for a little more dollar income. So I would not favor forbidding service to somebody who happened to be in rural areas, as has been suggested. I think we need them.

Now, then, getting to where we are today, almost everybody that I have talked to in the field, including my own cooperative, the manager of which has written to me, have said a little interest change would be almost infinitesimal on their monthly billings. Certainly, all of us should have in mind the budget situation we are in. We need to look seriously at that and at the same time, be fair to our country and also be fair to the program.

So Bob Poage and I got together. I realize I am not on the Committee on Agriculture and maybe I have been sticking my nose into the responsibility of other members of this committee, but at the same time, feeling that my service to this program over a period of many, many years might contribute to a solution of our problems, Bob and I have had conference after conference. We have tried to meet some of the requirements of the administration and also be fair to the program. Now, what we have tried to do in our proposed legislation—some of the detail may not have been perfectly worked out yet—is to recognize that there is a need for a 2-percent loan in some cases because where a cooperative may be in trouble financially. If we do not help them one way, we may have to help them by taking them over. By foreclosing, they may not be able to make their payments, and then we will have gained nothing by being too difficult with an interest charge. We have made provision in our proposed legislation to take into account cooperatives that have low density and have a low-dollar income per mile. The only way they could survive is with an interest subsidy that would bring them down to the 2 percent out of a revolving fund. The next step would be the 5-percent level which the administration has proposed in the Rural Development Act. So we are not in disagreement there. We are taking exactly the same figure.

The next would be to make guaranteed loans available, and we assume these would go to the large G. & T.'s and transmission cooperatives use big money.

I received a telephone call from North Dakota, from Andy Freeman, who operates one of the largest generating systems in the country and is one of the most fair-minded, free enterprise-oriented persons. He said, "we are not worried about the interest rate." He said, "what we are worried about is the availability of money when we need it. We think the guaranteed loan would move in that direction."

Then there is the CFC, the bank that has been set up by the cooperatives themselves. If we could help this bank a little bit, finally the REA co-ops would move out of Government into their own operation as we have done in other farm credit agencies, and they would be off the back of the taxpayers. They would be running their own system. In the guaranteed loan program the cost of money would be involved. The only advantage would be that with the loan guarantee, a

little more favorable rate of interest could be obtained. Outside of that, it would be cost of money.

The power companies should not complain about a generating loan or transmission loan if it is on a competitive dollarwise basis. Up to this point, one of our real big problems in the generation loans has been the competition utilities fear of a 2-percent rate because they cannot borrow at that rate; therefore, they have opposed our expansion program in this field to a great degree.

This is briefly what we are trying to do, Mr. Poage and myself. We contacted the NRECA convention. We did not get a favorable response from them and I am very disappointed. I live on a farm; I operate a farm. I helped organize the system that serves my farm. I was the author of the REA tax bill in Minnesota, one of the most favorable tax bills dealing with the Rural Electrification program in the United States. When I was in REA, running the agency, I was the author of policy changes that accommodated partnerships and got the cooperatives and utilities working together, helping one another, instead of each going on their own, driving their costs out of sight. This saved many of the cooperatives.

I well remember one cooperative generating loan that we made. Four of their distribution co-ops wanted to unhook from their own generating plant because their costs were too high. We then got an interconnection so they could sell the production of their total system, creating income which put them in a surplus position within a year.

Bob Poage and I have worked in this program. I approved the loan for the north Texas plants. Bob Poage was the author of the idea years ago. I dealt with Sam Rayburn and with Lyndon Johnson in our negotiations leading to the finality of that one down there. I have been all over the United States. I know this program well. I hope that we can find a solution, and I am doing my best to try to sell the OMB on our proposal. I think with maybe some slight changes, we provide everything that they have sought after in their own approach in the rural development bill.

I thank the Chairman and I am honored that the Chairman and I could work together, because I feel I have his confidence; I know he has mine. So I think we need to move carefully now because we can make a gigantic mistake.

I hope we can hold up on the Denholm bill—not that I am opposed to extending the act, but I am afraid if we do not move in the other direction, we will have to admit we did not meet our responsibility here. We will have passed by an opportunity to do a constructive thing that would insure the continuation of this program and help it continue doing the greatest job that any program I know of as far as rural America is concerned; it has been one of the best.

The telephone program has its bank and it is working well. We think that this revolving type of thing contained in our bill will do exactly the same thing for the electric program.

I should mention my colleague, John Zwach, from Minnesota. He was also co-author of the Minnesota tax bill and has been active in this program back in our own State of Minnesota.

I thank the Chairman for giving me this time and I thank the committee for listening to my unprepared statement.

Thank you very much.

Mr. SISK. Thank you very much, Congressman Nelsen. We certainly do appreciate that very outstanding statement, particularly coming from a man with the great knowledge which you have.

That concludes the witnesses this morning. We have a series of statements from other colleagues and individuals that without objection will be made a part of the record.

By unanimous consent we will insert in the record statements submitted by Members of Congress.

[The statements referred to above follow:]

STATEMENT OF HON. JAMES ABDNOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman and distinguished Members of the House Agriculture Committee, I am pleased to be with you today to testify in behalf of legislation which would require the continuation of the 2% direct REA loan program which has been the heart of successful rural electrification for more than 35 years.

To those of us who represent farm and rural districts with a great need for this program, this move by the Administration to shift REA loan financing to the Rural Development Act at 5% instead of 2% shows an apparent disregard for the future needs of a healthy farm economy. Electrification of millions of farms at rates farmers could afford has meant the difference between farming as performed in some less developed countries, and American agriculture as a major industry in an expanding economy. American farm goods were exported at the rate of some $9 billion in 1973, and the projections for 1973 are $11 billion. This greatly aids our balance of payments deficit.

Without electrification of our farms, farm output could not grow fast enough to feed our booming population, nor the hungry of other nations who buy our food. Food prices would be much higher than they now are, and millions of Americans in rural America would not have entered into the Twentieth Century without the help of 2% REA loans. But the job is not done. To discontinue all 2% REA loans would thwart the future growth and well being of vast areas in rural America which still need this low interest rate to grow, develop, and expand. We must not ignore rural America, which is one of the nation's major consumers, exporters, taxpayers, suppliers and employers.

Mr. Chairman, in my own State of South Dakota, from 1935 to January of last year, nearly 92,000 consumers have benefited from electrification loans. Over 55,000 miles of lines have been provided for by the loans the Administration now proposes be raised to 5%. Nearly $162 million has been loaned to our State's 34 cooperatives to provide these services. Much of it could not have been, and will not be provided without the 2% interest rate.

In South Dakota we still have areas without electricity, and phone service. For example, a couple weeks ago I got a call from a constituent in Manderson, South Dakota who has been pleading for phone service. He lives in an isolated area and Bison State can't serve him because of the high cost involved in running the line 8 miles for 1 subscriber. In rural areas with low population bases, the continuance of the 2% loan is essential to the hope of any service at all.

In my state, 97.9 percent of our farms are receiving central station service. Thousands more are being served at the same time by initial and improved telephone service provided by the RTA. Therefore the continued healthy existence of rural telephone cooperatives is imperative in South Dakota.

When Mr. Weitzell, the Deputy Administrator of REA says that the impact of the proposed Administration change will be "limited", he is certainly not referring to the impact of higher rates in South Dakota. Our electric cooperatives, as others in other states, are geared to the 2% money. Many coops are borrowing their supplementary funds from the CFC's. The role and position of the CFC's has been growing. Eventually they will be able to provide major portions of REA loans, but for this to happen, REA must stay alive and healthy. At the very minimum future compromises should provide for a transition period, or prorated 2% REA loans on the coop's ability to pay back interest loaned.

The initial Agriculture announcement referred to the "broad new authority" for loans for community development under the new Rural Development Act

of 1972. I was not here when this legislation was considered, but I have been over the law and conferred with those who worked for its passage. They assured me that there was never in anyone's mind the idea that REA would be financially supported under the Rural Development Act. Rather, in this instance the Administration seems to have read into the law what it wanted to see.

The other body has already reported out a bill to amend the Rural Development Act so that this misunderstanding will not continue. I support this action.

Further, Mr. Chairman, the Administration has gone so far as to say REA loans at 2% are not longer needed. This is simply not true in much of South Dakota. There are at least eight cooperatives in my state which would not be able to expand without 2% direct loan money. These are: Butte, Nothern, Bon Homme, Ree, Kingsbury, Cam-Wahl, F.E.M., and the Grand Electric Cooperatives. Therefore, I hope that the Committee will respond, as the Senate Agriculture Committee has, to the needs of farmers throughout the United States by maintaining these 2% REA loans for the present. At the very least we should provide some special assurance that hardship cases in low population areas will receive service at the 2% loan rate.

Although I have co-sponsored the bill to completely restore 2% REA financing, Mr. Chairman, I have done so more on the principle that the Congress, and not the Administration, should be setting fiscal priorities for government spending. I am not adverse to compromise in the future, nor to a true evaluation of the situation at hand. For those cooperatives in South Dakota, and other states, which truly can't make it or grow on anything other than 2% loan money, then I firmly believe we should be providing it if for no other reason than to keep the farm economy growing. For the others, perhaps we should be looking at fair alternatives based on need and ability to pay.

Thank you, Mr. Chairman and Members of the Committee for you careful attention to these remarks.

STATEMENT OF HON. BROCK ADAMS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. Chairman, I am pleased to have the opportunity to express my position on the important rural electrification legislation now under consideration by the House Committee on Agriculture.

I strongly support the Rural Electrification Program and have, in fact, joined my distinguished colleague from South Dakota, Congressman Frank Denholm, in sponsoring legislation to reinstate the REA 2% direct loans, the backbone of the REA program. This bill would also direct the REA Administrator to spend yearly the amounts appropriated by the Congress for rural electrification.

The REA program has long performed vitally needed electrical and telephone services in thousands of rural areas across the United States. With the termination of the REA 2% direct loans, the Nixon Administration has seriously crippled the operations of countless rural electrification cooperatives, virtually slapping them in the face for establishing and performing these vital electrical and telephone services in areas which were too remote to be of economic interest to large commercial electrical companies.

Thus, the Administration has again demonstrated its disregard for the needs of the people of this country. Not only has the Administration thwarted the rural electrification cooperatives' efforts to meet the electrical needs of rural areas during the present energy shortage, but it has also taken a "Robin Hood in Reverse" attitude by robbing the poor of important financial assistance and giving to the rich. The REA serves those who use relatively small amounts of electrical power and for the necessities of life. Without REA, this power will go to those who use large amounts of power and often for the luxuries of life such as air-conditioning.

The REA loan termination is one of the many examples of the Executive's flouting of the will of the Congress and the people of the United States. We cannot allow such edicts to be sustained, or else we expose every vital agricultural and social program to possible extinction.

We also expose ourselves, the Members of the United States Congress, to Presidential usurpation of our Constitutional responsibilities to make laws and to control federal expenditures. Our founding fathers refused to concentrate too many powers in one office, and we, as the elected representatives in this American

democracy, must check the executive's attempts to legislate, or in the REA case, to repeal a law by ordering zero funding.

The passage of legislation to reinstate REA direct loans and to require the annual expenditure of the funds appropriated by the Congress for REA is essential to the preservation of the effective performance of our country's rural electrification cooperatives. This legislation is also very important as a test of the ability of Congress to reassert its will and to exert its authority, under the separation of powers doctrine, to legislate and then appropriate, so as to establish priorities. This is vital as a check on the powers of the executive branch of the federal government which will otherwise both legislate and appropriate by simply refusing to spend any funds for programs it does not like.

I urge the Agriculture Committee to give immediate approval to REA legislation and to expedite the bill's passage through the House of Representatives. Let us demonstrate that the Congress can act, and will act to serve the needs and to protect the rights of all the people of the United States.

STATEMENT OF HON. BILL ALEXANDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

That the Committee on Agriculture must consider legislation to make the operation of the Rural Electrification Administration programs mandatory, is further evidence of the contortions through which the Executive Branch is attempting to usurp the legislative powers of the Congress.

In announcing its intention to convert the REA electric and telephone two-percent direct loan program to an insured and guaranteed loan program at higher costs to citizens of the Nation's countryside, USDA claimed it had authority to do so under the Rural Development Act of 1972. The Executive Branch is using a shell game to deal with the real and critical problems of our small communities.

The REA program has helped hundreds of small communities in 46 states develop the energy resources that are essential to revitalized economies. Rural telephone systems, through REA programs, were becoming more readily available to the countryside. Power resources and communications systems are essential to progress in small communities.

It was the intent of the Congress that the Rural Development Act should provide additional development resources for rural areas—not be the basis cancelling small communities' chances for survival and growth. At no time during their appearances before this committee did USDA representatives propose that this act be used to smash the hopes of the countryside.

The USDA has clearly distorted the authority which Congress provided it in the passage of the REA legislation.

In its news release and in its adverse report to the committee on H.R. 2276, USDA claimed that its program change authority is derived from the Rural Development Act of 1972. But, it makes no such claim in the February 5, 1973, memorandum from the USDA Office of the General Counsel to Secretary Earl L. Butz titled "Recent Termination of Certain Programs of the Department."

A copy of the memorandum was provided to me on February 23, in response to my letters of January 10 and 23, 1973, asking for specific statutory authority for the changes which USDA is attempting to make in the REA program. Pages five (5) through nine (9) of that memo discuss the "REA Electric and Telephone 2% Loan Program." At no place in this discussion is there reference made to the Rural Development Act of 1972.

The General Counsel's opinion on the actions against REA begins with the flat statement that, "The substantive legislation with respect to rural electrification and telephone loans is discretionary and not mandatory."

As I read this memorandum, I got the feeling that the Secretary said to the General Counsel, "We've decided we are not going to operate this program that Congress had told us to carry-out. Now, you tell me how to justify failing to abide by the laws of the United States and thumbing our noses at Congress."

The memorandum quotes from four (4) sections of the Rural Electrification Act of 1936 as amended. In each case the phrase, ". . . authorized and empowered . . ." is underscored as if to prove that Congress did not really intend for the program to be operated.

It is unreasonable to contend that the Congress, an institution with many and varied problems to deal with, would have fritted away its time passing laws

which it did not intend to be administered for the benefit of the Nation. The Executive Branch argument that the Congress did not want the REA programs carried out as specified by law is a weak and unsound one. By acting in this monarchial and undemocratic manner, the USDA has left the Congress no choice but to enact legislation explicitly and unequivocally mandating the rural electrification and telephone programs to be operated as provided by law.

STATEMENT OF HON. TOM BEVILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman and distinguished Members of the Committee, I appreciate this opportunity you have given me to express my support for legislation which would direct the Administrator of REA to reinstate the low-cost loan program.

In an era when so much emphasis has been placed on the need to reverse the trend which sees so many people migrating to the large metropolitan areas of our nation, it is inconceivable to me that such a worthwhile program as the REA loan program could be discontinued.

On December 29, 1972 the Department of Agriculture announced that REA electric and telephone 2 percent direct loan programs were being converted to insured and guaranteed loan programs at a 5 percent interest rate, effective January 1, 1973.

I am strongly opposed to this move.

Aside from the constitutional questions involved, I believe it represents a giant step backwards in our efforts to develop the rural areas of our nation.

The discontinuation of this low-cost loan program to cooperatives will restrict present services and hold back the development of future services.

I have consistently supported and worked for programs to develop the rural areas of our great nation.

Since the end of World War II, the United States has seen the greatest population migration within one nation that mankind has ever known.

This migration has resulted in the concentration of more and more people on less and less land. Today, 70 percent of the American people live on 2 percent of our land.

This increasing concentration of people has produced many of our current problems, including traffic jams, polution, housing shortages and crime.

In my judgment, Mr. Chairman, this change in the REA loan program is a retreat from our objectives to achieve a sound rural-urban balance.

We have just come to realize that pouring millions of dollars into our unlivable cities is not the answer to the problem. We know now that to get people back into the rural areas we must provide them with jobs and economic opportunities.

The REA program is one of the best things that has happened to rural America and is desperately needed. Its discontinuation is a severe blow to the progress we have made.

I am all in favor of cutting government spending. But I do not believe this is wise economy.

Mr. Chairman, the REA loan program is needed. I favor immediate passage of legislation requiring reinstatement of this vital program.

Thank you.

STATEMENT OF HON. BILL CHAPPELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, like so many programs in this country, it looks as if we sometimes absolutely try to condemn the successful and reward the failures.

We have launched one give-away program on top of another—most of them complete drains on the economy with never a chance to get a nickel back. One of the few really successful and helpful programs has been the Rural Electrification Act. It has brought countless citizens needed services and has helped immeasureably in the development of our rural areas of America.

The R.E.A. Program has been one of our most successful economically. These groups were not asking—or demanding, as the phrase so often goes now—that we give them handouts. They are self-sustaining businesses who are repaying the

loans and the interest while expanding to bring these badly needed services to more areas. Of course, the interest at 2% is very low, but is not a loan better than a handout . . . and is not a low interest rate at least some gain to our shaky economy?

The rural coops in my area have been most successful and they are highly respected. Sumter Coop reaches into the southern part of my District and they have done an outstanding job. Clay Coop, in the northern section of my District, was begun in 1938 and had financing of $163,000 which was borrowed, not given as a handout. They started with 143 miles of electric line strung along the country trails, serving some 651 subscribers. Since those days, they have turned to the government for help, borrowing some $22 million. They have paid it back, are still paying it back, and indeed, at one time managed to pay back $2 million ahead of time.

This is the kind of free enterprise we should be encouraging. Clay Electric Coop now serves more than 47,525 subscribers. They have contributed to the growth of the area and to the State. Because of the automation brought about by electric power, a farmer can feed himself and 42 others. People work because of Clay Coop; they pay taxes because of it; and they live in comfort because of it.

This program was born through recognition of the fact that rural America would not have access to electrical power. The Congress, therefore, authorized the Rural Electric Coops and they have done an outstanding job in providing what we acknowledge now as an indispensable service. The public utility companies at that time were unable to meet these needs due to the extremely high cost of constructing power lines to remote areas, serving very few people per mile (I also draw your attention to the fact that these coops must pay ad valorem taxes in the various states for right-of-way for their power lines and substations).

In the case of Clay Electric Coop, there is an average of 7½ customers per mile, whereas public utility companies serve from 50–100 customers per mile, yet the cooperatives have kept the charge to the individuals comparable to that of the public utility company.

Mr. Chairman, it is obvious that to do anything other than continue this program would only increase the costs to the individual consumer and would fan the flames of inflation to one segment of our nation which can least afford it—rural AMERICA.

The Administration and the Congress have avowed they will combat inflationary trends. Continuing to make funds available for the Rural Electric Corps is one sure way of checking inflation to a great segment of our nation.

Congress has witnessed the success of coops all over the country and it has recognized the need for appropriating more funds for loan programs. It is inconceivable to me that we could possibly allow a program like this to be scuttled by the Administration. The Congress must assert its constitutional powers by adopting H.R. 2276 or a similar bill. This legislation would reaffirm that the funds the Congress has authorized will be available to the rural cooperatives.

Mr. Chairman, I thank you for this opportunity to be heard by your Committee and I will appreciate any deliberation you might give to the favorable consideration of this bill.

STATEMENT OF HON. JOHN C. CULVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Chairman, I welcome the opportunity to express my views on the REA electric and telephone cooperatives two percent direct loan program. I am a cosponsor of H.R. 4615 which has been referred to this committee. Like the other bills before you, H.R. 4615 seeks to reinstate the REA direct loan program terminated by the Administration at the beginning of this year. This action is critical to the future financing of the entire rural electric development program.

Rural electric cooperatives have had an outstanding record of service since the passage of the Rural Electrification Act in 1936. The REA has financed the construction of over 1.7 million miles of electric lines, thousands of substations, and almost 200 generating plants in forty-six states. More than 7 million consumers receive power from REA lines. In 1936 about ten per cent of farms were being served by electric companies. Today over ninety-five per cent of rural Americans have electricity in their homes, in large measure due to the REA program.

With this record of success, the REA program has widespread public support. The public is alarmed at the termination of this and other farm programs. A

recent poll in my state shows that about seven out of ten Iowa farmers are opposed to farm product cutbacks, with forty-four per cent of the general public specifically against elimination of the low interest REA loans. In one instance, 900 Iowan farmers, acting independently of any official organization, signed a petition urging reinstatement of the REA and other farm related programs. The same thing is happening in farm communities in other states.

In addition, much of the public is concerned, as are we in Congress, over the manner in which this program has been terminated by the Administration. The President's impoundment of funds appropriated by Congress for this program raises substantial Constitutional questions. When Congress judges a program to be in the public interest, it is beyond the President's constitutional authority to negate this Congressional policy. Reinstating the REA program will reaffirm the principle that only Congress has the authority to terminate a program created by it.

Beyond the constitutional implications, the Administration's decision to terminate this program demonstrates an unfortunate lack of concern for the continuing need to improve living conditions in our rural areas. Rural areas contain one-quarter to one-half of our poor people and nearly sixty per cent of our substandard housing. Demands for rural electricity are doubling every seven years. Elimination of the REA loan program will aggravate these conditions by causing higher bills for rural electric users and reduced service.

In terminating this program, the Administration asserts that REA cooperatives no longer need the benefit of special low interest rates. This may be true in some cases. However, abrupt termination of this loan program is not a sensible means of achieving a new REA financing policy. There are two reasons for this.

First, many REA cooperatives are already moving towards alternative types of financing, including their own self-help credit institutions. But this new method of financing loans will take time to implement. An abrupt conversion to financing under the Rural Development Act, as proposed by the Administration, is not a reasonable policy. There are many uncertainties regarding the level of loan fund availability and the future cost of money which only a reasonable period of transition can resolve.

Second, there are still rural electric cooperatives in thinly populated areas, with little industrial base or growth, which cannot survive without this program. Private utility companies will not assume the high cost of service to these areas. REA cooperatives in these areas must have access to low interest rates. The Administration's actions show little apparent concern for the hardships which loss of service will cause in some areas.

The REA cooperatives have played an essential role in rural development in the past, and should continue to have an important role in the future. The Administration's decision to terminate the REA two per cent direct loan program will significantly affect the development of many rural areas. Neither the decision to terminate the program, nor the use of impoundment to do so, are in the public interest.

I urge this committee to take action to reinstate the REA loan program without delay.

STATEMENT OF HON. WILLIAM L. DICKINSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, I appreciate the opportunity to participate in these hearings on the REA two percent loan program. The people of the 2d District of Alabama have reaped many benefits from this program, and I am happy to speak in its favor.

I have always felt that the government should not be in competition with free enterprise, but this is a theory and a philosophy. The fact is that the government is and has been in competition for many, many years. In the case of REA loans, the government went into business to provide electrical services in places where no private firm could feasibly do so while still making a profit. As long as the need for REA exists, such as in Alaska, the Far West and other sparsely settled areas, I will continue to support it.

The leaders of many REA cooperatives were in my office recently and admitted there was no reason why many of the co-ops should not "rent" money the same as any other business, but some co-ops in sparsely populated areas cannot. These gentlemen assured me they are working toward independence

from two-percent money, but they need time to work out of their present dependence.

In view of the oustanding success of the REA program, I believe it is only fair to extend the program for a limited time to give the co-ops time to adjust to a change in operation.

Thank you, Mr. Chairman.

STATEMENT OF HON. DAN DANIEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman, and members of the Committee.

I am most grateful for the opportunity to testify in support of the REA Direct Loan Program.

Few activities of the Federal government, over the past 35 years, have made a more significant contribution to the well-being of American farmers. Indeed, its contribution extends much further than the farm areas, because REA has made it possible for thousands of urban businesses to sell far more washing machines, refrigerators, deep freezers, electric fans, air conditioners, vacuum cleaners, stoves and other conveniences. In addition, millions of telephones are in use today which could not have been connected prior to the advent of REA.

The Rural Electrification Administration, working in cooperation with more than 1,000 cooperatives, has done a fantastic job of transforming rural America—and that job is still continuing. Each year more areas are covered with new service and millions of Americans are continuing to receive electric service that could not have been made possible without this program.

Thus, the question arises, as to the wisdom and propriety of the announcement by the Administration, on December 29, 1972, that the direct loan program would cease. This decision was made without warning and its impact on rural areas was immediate and shocking. The cooperatives were not only caught off guard; they suddenly began to wonder why so important a step was taken without some opportunity for them to be heard. During the intervening weeks—between the December 29th announcement and the commencement of these hearings—many people have been active. Much has been done—and I commend this committee for the forthright manner in which this issue has been handled.

I have had an opportunity to talk with some of the leaders of several electric cooperatives and I am convinced that they seek both an immediate solution to the dilemma with which they are confronted and a long-term approach to the future financing of this program. These are reasonable men, who are profoundly concerned about the government's budgetary situation, but who are also deeply troubled by the precipitious way in which the termination was announced. They believe, as I do, that the government has an obligation with respect to the continuation of the program during this current fiscal year and for the commitments that already have been made.

At the time the cut-off was announced, many co-ops had loan applications pending with REA. A large number of these groups had made commitments of their own in the expectation that the government would approve their applications. Millions of dollars had been so commited—and now these co-ops are in the position of having expressed faith in an institution which no longer exists. This is not fair—and I feel the situation should be rectified.

In my opinon, some way should be found to provide a guaranteed loan program through the mechanism of the REA, with a graduated interest rate, based on the needs of the individual co-operatives. I trust that this committe will continue to consider this carefully and applaud your efforts in that direction.

STATEMENT OF HON. DON FUQUA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, members of the Committee, I welcome this opportunity to testify in behalf of the many bills which have been introduced to reaffirm the intent of Congress that the rural electrification and rural telephone loan authority made available by the Rural Electrification Act of 1936 is mandatory

in the amount appropriated each year. As a co-sponsor of this legislation and one who represents a predominately rural farm and non-farm district, I want the committee to know of my unwavering support for and interest in the activities of our rural electric cooperatives.

The difficult thing for me to comprehend is that while I am standing here the people at the Department of Agriculture and the Office of Management and Budget are dismantling the REA loan program. It is incomprehensible to me that we are in a position of having to pass each bill twice. I was just here asking this committee to reaffirm the congressional intent in the Rural Environmental Assistance Program and now we are having to do the same thing for the Rural Electrification Act. We are talking about federal law—federal law which was passed not too many years after I was born and which has been, and still is, good law. I have expressed concern about the questionable constitutionality of executive impoundments of funds authorized and appropriated by the Congress. I still feel that the President is usurping congressional prerogatives by wholesale impoundments and I will continue to oppose him in these actions. But we are not confronted with mere impoundment when we talk about the REA loan authorization. We are dealing with an executive branch which refuses to faithfully execute the laws of the land and which has blatantly ignored the very clear directive of the Congress. The President has, unless we take affirmative action, vetoed a federal law which has been on the books for 36 years and which has been one of the most beneficial programs for the rural areas which has ever passed the Congress.

The President has proposed that the needs of our rural electric cooperatives can be met by utilizing authority given in the Consolidated Farm and Rural Development Act. Then we learn that the legal counsel of the U.S. Department of Agriculture is of the opinion that there are serious legal and practical reasons why this authority can not be used. Not only can it not serve the very real needs of the cooperatives because of a lack of money, but because the law specifically precludes such use in certain circumstances. And then comes the cruelest cut of all. The President, in a press conference and safely past the November elections, indicated that the reason he was gutting the REA was that 80 percent of the two percent loan monies is going to country clubs and dilettantes. In a letter to the junior Senator from South Dakota, our former colleague and a member of this committee, the Acting Admnistrator of the REA indicated that the only way such information could be secured would be to canvass all REA borrowers. I think that the Acting Administrator might well remind his boss of this fact so that the President might not repeat this calculated attempt to deceive the American people while trying to secure their support for an indefensible position.

There was good reason for the Congress to pass a program making available two percent loan funds. There are good, sound reasons for maintaining these loans for certain borrowers and I support the maintenance of such a program. But if the President disagrees with me, and it appears that he does, he can stay within the parameters of the Constitution and within the boundaries of our system of checks and balances which have been developed over a period of nearly two hundred years and come to the Congress with his proposal. My ten-year-old son has had enongh instruction about our system of government to know that the President proposes and the Congress disposes.

Can the President seriously say that the Congress has been unwilling to study and restudy the two percent loan program? Have not the electric cooperatives demonstrated a good faith effort in securing additional capital by establishing their own National Rural Utilities Cooperative Finance Corporation? And I might say that many of our cooperatives in Florida have borrowed from the CFC at the going rate of 7 or 7½ percent. The point is, is that the Rural Electrification Act is not subject to change by the President. The Congress is responsible for such changes if a demonstrated need has been shown. I will not stand by and allow an essential program of this nature to be eliminated by executive fiat.

The President has not been so adverse to lending billions of tax dollars to foreign governments at two percent interest rates. His most recent proposal, of course, would be to give, not lend, over $7.5 billion to the government of North and South Vietnam for the reconstruction of that land. And yet, here we have hard working Americans who are providing a service to rural citizens which no one else is willing to undertake. The most unpalatable part of the whole thing is that the President is hiding all of these facts under the cloak of fiscal responsibility. The same President who has sent budget requests to the Congress con-

taining greater deficits in the last four years than the combined deficits of Presidents Eisenhower, Kennedy and Johnson. The same President who has signed into law budgets adding over $100 billion to the federal debt.

My constituents are willing to take their fair share of cutbacks in federal spending. But they are not prepared to carry an inordinate and unjust share of this burden, and this is exactly what the President is asking of our rural areas. I was sent here to represent the best interests of my constituents and I will work every day to insure that their viewpoints are made known.

This committee has acted responsibly and with dispatch in response to the President's recent actions against rural America and I wholeheartedly commend their efforts. I respectfully urge this committee to report this measure before the President goes on the media and tells the American people that he has eliminated our jobs as well. Thank you for providing me this opportunity to express my support for our rural electric cooperatives and the valuable service they perform.

STATEMENT OF HON. HAROLD T. (BIZZ) JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, on December 29, 1972, the Administration announced that three days later, January 1, 1973, the provisions of the Rural Electrification Act would no longer be carried out. After 36 years of successful operation, the program of direct loans to rural electic systems was to be ended, while no replacement program was to be put into operation.

The Norris-Rayburn Act of 1936 established the terms and conditions of the rural electrification program, and the Pace Act of 1944 made even more explicit the provisions of the original act. The appropriations committees of both houses of Congress have annually reviewed and evaluated the objectives of the rural electric program. From time to time, they have recommended changes in program funding, and Congress has gone on to vote on these proposed changes. Yet, Congress has refused repeatedly to change the basic terms of the 1936 Act as amended. Indeed, Congress has repeatedly urged the Administration to cooperate to a much greater extent than it has in the past.

What does the termination of this program mean? Naturally, it suspends all Federal funding for nearly 1,000 rural electric systems for an indefinite period. It suspends for weeks and months ahead any type of rural electric loan program for our Nation's rural areas. It means that should any other program be substituted in the future for the rural electrification progam, such as the establishment of the necessay machinery to make rural electric loans under the insured loan program provided in the Rural Development Act of 1972, as the Administration has proposed a substitute for the REA direct loan program, interest rates will increase from two percent to five percent on the Federal portion of rural electric loans. Finally, it means higher electric bills for 25 million rural electric consumers.

In my own State of California, the number of consumers per mile of line averages 2.3 for REA borrowers and 38.6 for power companies. At the same time, the amount of revenue to be received per mile of line was estimated at $540 for REA borrowers and $3,567 for power companies. Rural telephone loans totaling $31.2 million in California have built some 19,000 miles of line and brought telephone service to over 135,000 rural subscribers. This basic service would have been unavailable to people in areas like those in my Congressional District if it were not for the direct loan program. Total state-wide loan needs for the State during fiscal year 1973 were estimated to equal $404,050. With the $595 million appropriated by Congress for fiscal year 1973, California would have had no problem in meeting these loan needs.

What are the reasons for the termination of this program? The Administration has stated that the Consolidated Farm and Rural Development Act of 1972 provides very broad authorities to make guaranteed and insured loans to finance all types of community development programs. I do not agree. Had Congress intended to alter the rural electric program by the passage of this act, it would have expressly done so.

The Rural Electrification Act established a direct loan program to finance any qualified entity that would provide electrical service to consumers in rural America. In return for access to these long-term, low-cost loans, rural electric systems had to undertake to serve all located within their assigned service areas—

no matter how few and far between they were. Nationwide, rural electric systems average only 3.9 consumers and $849 gross annual revenue per mile of line.

As business and industrial companies move to or start up in rural America, and as suburbs spread out, rural electric systems naturally connect up more new meters per mile than ever before, but still the national average density remains small. Contrary to what the Administration states, country clubs get no REA funds—only electric utility systems do. To qualify for REA loans, systems must promise to extend their lines to the isolated locations within their territories without special charge. The rural electrification program is a necessity for rural development and this means for all people in rural areas that require central station electrical service.

There is no doubt that meaningful Federal participation must be continued in the rural electric program if we are to meet the needs of a growing nation. This requires the immediate restoration of the rural electric direct loan program, which the Administration has eliminated without prior consultation with the Congress or the 1,000 rural electric systems throughout the country and the unfreezing of the supporting program funds already appropriated by Congess. Both the Humphrey-Aiken Bill before the Senate, S. 394, and the Denholm Bill before the House, H.R. 2276, seek to do so.

I urge Congress to vote favorably on these bills and to require the Administration during this fiscal year to execute those programs which have been terminated, suspended, or greatly reduced by administrative fiat. Time is of the essence; until such action is undertaken, we will continue to hamper the successful development of rural America.

Thank you.

STATEMENT OF HON. BOB JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, I am most grateful to you for this opportunity to express my total support for H.R. 2276 and related bills such as H.R. 3653 to restore the Direct Loan Program for rural electric cooperatives.

You have my most earnest endorsement in your work to reverse the Administration's efforts to end this program which has been so helpful in bringing rural America into the mainstream of activity.

The arbitrary and unwarranted action by the Administration requires denunciation in the strongest terms. We should be remiss in our responsibilities if we did not attempt to alter this action by the Administration.

The Rural Electric Administration has been an important factor in the rural development of the counties which have elected me to the Congress.

This is an area of rapid growth yet the growth has been distributed between rural and urban areas. Industries are seeking location in the northern part of Alabama because of the pleasant climate, plentiful water supply, good transportation system, the skilled and willing people, and the prospects of adequate electric power much of which is dependent upon rural cooperatives.

Because community leaders have sought proper facilities in rural areas, agriculture and farming are still significant factors in the economy of the area.

Through the constant efforts of the rural electric cooperatives, people are able to live in peaceful rural areas to farm or to commute to nearby industry.

The latest census reports indicate out-migration has been reversed throughout the counties. In all of this development, the availability of electric power has been an important factor yet the growth has also placed on the cooperatives a heavy burden to extend lines and improve service. The Direct Loan Program is of great importance to this effort if consumers are to continue to be served at the lowest possible cost.

In view of the frequently stated national objectives for population dispersal, the termination by the Administration of the Direct Loan Program for rural electric cooperatives is an absurdity.

In view of the long-standing requirement that rural electric cooperatives provide service to rural and sparsely populated areas, the termination by the Administration represents a unilateral breach of faith by the government.

It is my hope that you may be able to give timely consideration to these proposals and report legislation to reverse this unwarranted termination of the Direct Loan Program. You have my complete support in your endeavors.

STATEMENT OF HON. ABRAHAM KAZEN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman I am pleased to join the bipartisan support for H.R. 3614, a bill familiar to the distinguished chairman and members of this committee. It is a simple reaffirmation of Congressional intent that funds made available for REA loans each year shall be fully obligated each year.

The Rural Electrification Program of our government has been one of the pillars of our national life. Congress through the years has declared its desire that this program be continued, providing low interest loans to extend light and power to homes and communities insufficiently attractive to the private utilities. All across this land, men have banded together in co-operative efforts that aimed to make rural and small-town life better by making light, power, and telephone service more widely available.

These men are honest citizens. They have displayed this quality most recently when they petitioned, through their national organization, for continuance of the 2 percent loans. I call attention to their resolution which recognized that some electric co-operatives may be able to pay more than 2 percent, while others could not afford higher interest payments. Their resolution went on to say that once the loan procedures of the REA Act of 1936 are reinstated, they will negotiate in good faith on changes needed to improve the Act's budgetary impact.

The REA co-ops, under this legislation, would continue their services, and in turn would negotiate interest rates based on the ability of borrowers to pay.

Let me stress here what I believe to be the service they offer. I believe it is service important to all consumers, all citizens. I do not have to explain to this committee that farm work is hard, that hours are long and rewards often very modest. Even with modern advances in technology, we are seeing people leave the farms at a rate of half a million a year over the past ten years. Our nation faces a genuine energy crisis in the loss of labor that produces food and fiber, and every citizen has a stake in that energy shortage.

If farm life cannot be maintained attractive and rewarding, the out-migration from the rural areas will increase. Not only will we have less production for our consumer needs, but we shall have multiplication of urban problems of crime, congestion and pollution.

One final point: all of us are aware of the huge national debt and the need for sound investment of every tax dollar. It is important to remember that the REA program is not a hand-out plan, but rather a system of government loans. Certainly the national government needs the strength that rural electrification provides on our farms, and all we ask is that a tested and successful program of obvious merit be maintained.

I am pleased to be a co-sponsor of H.R. 3614 and urged a favorable report from this committee.

STATEMENT OF HON. GUNN MCKAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF UTAH

Mr. Chairman, I appreciate the opportunity to present my views in support of the Rural Electrification Act loan programs. Since the President announced on December 29 that minimum loan rates for rural electricity and rural telephone loans would be withdrawn, he has drawn severe criticism from many quarters—and with good reason.

The cancellation of preferential loan rates to rural electric cooperatives is alarming both as an expression of the administration attitude toward rural people of this nation, and as an illegal encroachment on the powers of Congress. Rural Electric cooperatives have performed a valuable and essential service to this nation—and continue to do so today. Their efficiency and success have been made possible by the availability of low cost capital. To raise the cost of money at this time is a disservice to those in rural areas who will pay more for their electricity—or do without altogether—and to the nation as a whole. For these reasons, I believe it is incumbent upon us to reinstate the 2 percent loan program.

The Congress chose to add to the existing programs of federal assistance to rural people by passing the Rural Development Act of 1972. It was the clear intent of Congress to supplement the support for rural areas. That the President would respond to Congressional mandate by signing that bill into law and shutting down the REA program is almost beyond my comprehension. To claim

that the Rural Development Act is a legal basis by which the demise of the REA can be accomplished is either foolishness or a calculated effort to mislead the American public. The Congress did not intend the Rural Electrification Act and the Rural Development Act to overlap in their jurisdiction, and the Administration is running into some critical legal questions in attempting to use one program to fulfill the requirements of another.

The availability of REA 2 percent loans is essential to the well-being of thousands of people living in sparsely inhabited areas of my own state of Utah. There are six REA borrowers in Utah. These are non-profit, locally-owned cooperatives that provide 3,572 miles of line to 9,678 users. As of July 1, 1972, the REA program in Utah, since its inception, had used only $28,609,599. Of this money, $13,729,064 had been repaid.

The cooperatives have a proud record of repayment of their debts and have demonstrated an ability to use federal assistance to good advantage. Many electric cooperatives have paid off their indebtedness in full. Others have found non-federal sources of funding—particularly the National Rural Utilities Cooperative Finance Corporation. As a matter of fact, last year more than half the funding that went into REA was non-federal.

This year Utah needs $1,135,000 for the operation of the REA program. Part of this money must come from the federal government, as it has in the past, or prices of electricity will go up as increased costs are passed on to the consumer. Plans to extend service to areas that do not have electricity and telephones will, in many instances, be abandoned. Elsewhere, small electric companies, unable to compete, will go out of business.

Mr. Chairman, I have received letters of appeal from electric cooperatives and concerned citizens in my state who were taken by surprise by recent Administration action. They now face serious financial difficulties in providing electric power.

The problems that confront the Raft River Cooperative in Malta, Utah are typical. That company has recently completed a $20,000 plan of service study which concludes that new substations and tie lines are needed immediately in order to continue to provide even adequate service to customers. This will require new capital outlay. All of the feasibility studies have counted on the availability of funds both from REA and CFC. Now, with no prior notice, REA funds dry up, and a $20,000 study is rendered useless. The cooperative has made commitments to farmers who have already put down their wells, prepared the land and purchased expensive sprinkler systems in anticipation of increased service.

Leon Bowler, manager of The Dixie Rural Electric Association in Beryl, Utah, informed me that operating revenues for his cooperative in 1971 amounted to $16,973. If the interest rate on their loans had been 5 percent their interest costs would have been increased by $21,738. Even though that cooperative has the highest retail rate for electricity in Utah, with that kind of interest, they would have lost money.

Dixie Rural was organized to meet the needs of an area so sparsely populated that no utility was interested in serving it. Members of the association have paid the highest cost for power of any other group of consumers in the state. Because of the availability of electricity, the area has been able to grow and the tax base has expanded significantly. Now Dixie Rural is experiencing tremendous growth and will continue to need new capital. At the same time, they are making plans to move from REA financing to private CFC financing.

These cooperatives, along with 1,000 other electric cooperatives aruond the country, have depended on REA for over 35 years. The 2 percent loan program for REA and for the rural telephone bank are not hand-outs to special interest groups. They are a means of bringing electricity and telephone service to people of rural areas who could not afford these services without some initial low-interest capital. It is wrong to raise the interest rates on loans to the cooperatives that brought electric power to the farms when no private corporation would do it. We can not allow these companies to be gobbled up by larger utilities just when many are getting on their feet and achieving independence from government assistance. And we can not impose higher rates for telephone and electricity on rural people who already pay 20 percent more for these services than their urban brothers and whose average incomes are significantly lower.

Mr. Chairman, REA loans are not a loss to the federal government. They are loans repayable—and repaid. I urge the Congress to take action to restore the 2 percent loan program of the Rural Electrification Act.

STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I had fully planned to personally appear before your Committee to re-affirm my support for the 2% loan program of the Rural Electrification Administration and to urge the passage of legislation which would require the REA Administrator and the Office of Management and Budget to carry out the full intent of Congress. However, the doctors last week ordered me to enter Bethesda Naval Hospital for treatment of a throat ailment which has caused continued hoarseness and I, therefore, must submit this statement for the record.

It is essential that the Congress speak out unequivocably on the issue of REA 2% loan money. The President has challenged the Congress—and the American public—on a wide variety of fronts, but few cases are more clear-cut than this blatant move to wipe out the REA Act by administrative fiat.

The dictatorial manner in which the President and his aides have moved to destroy the REA program is startling. But even more amazing—and infinitely more frightening—is the realization that we have a President in the White House who apparently understands nothing about rural areas, small towns, and the great farming areas of the nation. That is what happens when the nation selects its leadership from some fast-moving Wall Street law firm which doesn't know one end of a cow from the other.

If the Congress had any doubts about the need to take up this issue and act forthrightly to protect the REA program, they were wiped out by the President's news conference on January 31. At that time, the President of the United States—without one shred of evidence—charged that 80% of the REA loans were going to "country clubs" and "dilettantes."

This was a false statement designed to delude the American public about the true nature of this rural program and to inflame and encourage opposition to the continuation of 2% loans. This is a shocking misuse of a Presidential press conference and it was so far out of line that the President's own Secretary of Agriculture—who isn't given to disagreements with the White House—had to come back the next day with the statement that the President had been wrong in his claims about "country clubs" and "dilettantes."

This is an apology that should have been made to the entire nation and to every citizen who lives in small towns and rural areas by the President himself. My District is covered by the lines of rural electric cooperatives and my constituents are hard-working, tax-paying Americans and they deeply resent being called "dilettantes" by the President of the United States in a national press conference. I challenge the President—or his illustrious Secretary of Agriculture—or his REA Administrator—to come down to the First District of Texas and point out these "dilettantes" who he charges have been receiving 2% loan money. I will be glad to take them on a tour myself. In fact, I think it would do the President and his so-called agricultural advisors a great deal of good to see one real rural area and maybe then they wouldn't depend so much on the slick public relations statements they are handed.

The pure economics of the situation are that rural electric cooperatives and telephone cooperatives require 2% money to exist . . . and to carry out the broad functions which they have been assigned in their rural communities. These cooperatives took up a job that the private power companies did not accept because of the cost and difficulties involved and the Congress recognized that this would require low interest, 2% money if it was to work.

Today, the supporters of the President's "Eliminate R.E.A." program say that 2% money is no longer needed because the lines have been stretched out across the country and 98% of our farms are electrified. These statements are made by persons who either are abysmally ignorant about the process of rural electrification or who desire to mislead. Today, as these cooperatives strengthen their systems to meet the growing needs of rural areas, the requirements for low interest loans are greater than ever.

The abandonment of a 2% loan program would mean the end of many small rural electric cooperatives. Many would be made vulnerable to raids and takeovers. Many, if not most, would be forced to raise power rates and this could have a highly destructive impact on the economies of rural areas all over the nation.

Many of these cooperatives simply cannot survive on the 5% money which the Administration talks about now. But even the 5% figure could be fleeting. The President, himself, mentioned 7% in his press conference statement of January 31 and there has been loose talk about "the cost of money" as the criteria. So we

really don't know what the Administration ultimately plans to do on this interest rate question. It says the first stop is 5%, but the next stop may be 7, 8 or 9%. It is anyone's guess, if we allow them to wipe out the REA 2% programs.

In reality, the 2% loan program administered by REA since 1936 has been one of the best bargains that the Federal Government ever got under any circumstances. First of all, these loans are being repaid by the rural citizens themselves. The delinquent loans and the defaults have been infinitesmial by any standards applied to either governmental or private projects anywhere in the world at any time.

I was in the Congress when the REA Act was passed and I have been here to support and vote for the amendments to strengthen this Act. The Congress, in effect, entered into a contract with these rural people who were willing to organize their own cooperatives to supply themselves with electricity. In return for this 2% money, the Congress said that the rural cooperatives would have to take on the job of stretching their lines to the remotest areas and to provide service at cost.

The rural people carried out their end of the bargain. They are still carrying out their side of the contract. Now the President says that the Government unilaterally intends to tear up the contract and to wipe out the hard work that these rural people performed to keep their end of a very tough bargain.

We would be infinitely better off as a nation if we had received similar returns for all of the massive subsidies and tax favors which have gone to big businesses and banks over the years. These business subsidies and tax write-offs have been outright gifts to the business sectors and there have been no repayments of loans in this area, even at 2%. Strangely, President Nixon has very little to say about these items.

In addition to the requirements to provide area coverage in return for 2% money, the rural electric cooperatives through the years have taken on new tasks in the form of rural development projects. In many areas of the nation, rural electric systems serve as the catalyst for pulling together community interests to revitalize rural areas, to develop industry, to provide new jobs and to make their areas a liveable place. Without the rural electric cooperatives, many of these rural development programs would have fallen flat on their faces and we would have been faced with worsening conditions in rural areas in many states. They have taken up Federal and state development programs and have provided the local leadership and spark so necessary for such projects.

The result has been a stimulation of the rural economy—a stimulation which has created new tax-paying businesses and which has brought new personal income on which the Federal Government has reaped its taxes. So in addition to repaying their REA loans in a very timely fashion, the electric cooperatives have taken up the burden of rural development and have stimulated new tax sources which far exceed any of the interest payments which the President now talks about.

Mr. Chairman, I sincerely hope that the legislation to restore the integrity of the REA 2% loan program will have the support of the Members of Congress from the urban areas. This, too, is their concern. Many of the problems existing in our urban communities today are the results of the migration of large numbers of rural citizens who come to the cities in vain hopes of finding jobs. This has created new problems for urban areas already lacking adequate housing and job opportunities.

The development efforts of rural electric cooperatives has helped reverse and reduce this out-migration and has allowed millions of rural citizens to remain on the land and in small communities. I hope that our urban Colleagues will realize that the fight against poverty and the fight to provide adequate housing, and public facilities, must be attacked nationwide and that it cannot be segmentized. If the rural areas are allowed to slip back economically, as the President suggests through this new REA program, then the cities too will suffer. And on the other side of the coin, if the urban areas cannot solve their problems, the rural communities will feel the impact. The fight against the President's effort to turn back the clock on this nation's economic and social progress must be waged by urban and rural Congressman together. And nothing would hurt our mutual causes more than to allow ourselves to be split into regional factions.

All of us, whether we come from small towns, or big cities, are deeply concerned about food costs. The President professes to share this concern but he must know that higher power costs in farming areas and in areas which process

agricultural products can only result in higher prices in the marketplace. If the President doubles the cost of delivering electricity to the farm and the processing centers, you can rest assured that this will be reflected in every product on the grocery shelves.

In addition, the development efforts of electric cooperatives have provided many jobs in rural areas which have allowed farmers to supplement their incomes. Thus, many farmers are able to continue to produce food on their family farm because they are able to make a liveable wage in some development activities which have been promoted by their local electric cooperative. This means more food produced and it means that local farming units can survive. This is beneficial to all of us who are interested in seeing a plentiful food supply at reasonable costs.

The President is masking his attack on the REA program and other economic and social programs behind a false call for "fiscal responsibility." It is, of course, fiscal irresponsibility—not responsibility—for the Federal Government and the nation to postpone needed projects. It is absurd to think that we can abandon our rural areas without paying a very heavy price for years to come. This will not save money; it will cost more money.

The same thing is true in other areas. We know that we ran up huge and unnecessary costs because we too long neglected the obvious need to clean up our streams and to end pollution. Now we are faced with spending billions of dollars that could have been saved had we acted sooner. Yet we have a President who says postpone and leave these hard problems for some future generation. It is equally absurd for anyone to claim that they are acting in a responsible manner when they suggest that we can postpone the education of our youth or that we can put off providing low and moderate income housing for good, hard-working American families.

Procrastination and postponements can be very costly in the long run and it is very, very wrong for this Administration and this Congress to dodge the hard issues and leave all the solutions for future generations. We have a responsibility to take a hard look at the needs for the nation and find the means of meeting them. We cannot do this through immature talk about arbitrary budget ceilings that are devised by some narrow-minded accountant under a green eye-shade at the Office of Management and Budget. We cannot reduce the greatness of this nation to a cash register mentality.

And every time I hear the President talk about "fiscal responsibility" and saving the taxpayers' money, I think back to the early summer of 1970 when virtually the entire Cabinet was racing through the corridors of the Capitol and the boardrooms of the big eastern banks seeking aid for their favorite welfare case—the Penn Central Railroad.

Back then, we didn't hear a word about "fiscal responsibility." Penn Central just wanted the money and the Congress was supposed to play dead and provide it. As you know, we didn't go along with this and the railroad was finally forced to face its own responsibilities and go into trusteeship.

Later, we investigated this case and we found out that the Federal Government would have taken a severe loss had it engaged in what the President and his Cabinet wanted us to do. In fact, I am convinced that we would have lost anywhere from $750 million to one billion dollars if we had undertaken the Nixon plan to bail out the railroad and its highly questionable management.

Someday, perhaps, the President will explain how his desire to bail out these big corporations with tax money squares with all of this propaganda about the Administration's desire to save money.

Mr. Chairman, I have joined with my Colleagues in the sponsorship of H.R. 3615 which would require that the funds appropriated by the Congress for the REA program be fully obligated each year. I know that there have been a number of similar bills introduced and I urge this Committee to act favorably on this legislation and to take whatever other steps are necessary to require the President to live up to the intent of the REA Act and to assure the continuation of a badly-needed 2% loan program.

STATEMENT OF HON. J. J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, members of the Agriculture Committee, again I come before you with admiration for the speed and seriousness with which you have acted in getting various agricultural programs re-instated.

Also, I again come stating my support for a program which has been summarily negated by the President because of the urging of the Office of Management and Budget.

Specifically, I ask that the Committee support the reinstatement of the Rural Electrification Act of 1936 loan program as set out in H.R. 2276.

H.R. 2276 is a bill introduced by Congressman Frank Denholm of South Dakota and several other House members, including myself.

I think that I have made clear my position on the impoundment of funds appropriated by Congress by the Executive Branch. Basically, on a massive scale, I believe impoundment is unconstitutional. Many of you, who are members of this Committee, have joined me in introducing legislation that would establish a procedure whereby the Congress could participate in the impoundment procedure.

Instead of repeating myself on the overall impoundment question, I want to emphasize what I consider an unwarranted attack on the REA's of America.

This unwarranted attack is the Administration's campaign to justify eliminating the REA loan program.

The Administration has told the public that REA's are getting rich on government subsidies because of the 2 percent loan program. The Administration line continues that REA's no longer serve the rural family, but the suburban developer, and that the REA's are so strong financially that they need no assistance.

These statements about the state of REA's are just not correct.

For example, on the claim that REA's are getting fat on 2 percent loans, the fact is that only 88 of the 930 distributing co-operatives in this country are getting 2 percent money. This means that less than 10 percent of the co-ops are getting 2 percent loans. Furthermore, it is my understanding that about half of the co-ops are getting 30 percent of their financing from the open market through the CFC.

So instead of the co-ops greedily holding on to their 2 percent loans, they are moving more and more to pulling their own weight.

The other line that REA's are just a front for suburban development is also not correct. The nation's co-ops average 3.7 consumers per mile, and average $696 in revenue per mile. The more non-rural investor-owned utilities average 35.5 consumers per mile and average $10,500 in revenue per mile.

So it seems clear to me that rural co-ops and private urban utilities still exist in different worlds.

To say that the co-ops are so strong to weather any financial crisis is incorrect also. The reason such a statement is incorrect is because the co-ops' rising costs have to be passed onto the consumer. In the case of the co-op consumers, most are farmers and ranchers who can ill afford large increases in their utilities bills.

The rising costs are coming. One of the reasons is the growing energy crisis. I would think that overall the fuel shortage will raise the power costs to co-ops 25 to 30 percent over the next few years. In my District, the 10th District of Texas, for instance, some co-operatives are facing a 60 percent increase in wholesale power costs effective in 10 months.

The rural co-op, primarily serving the rural dweller, cannot I feel, continue to serve isolated areas if the REA loan program is discontinued in view of rising costs.

Thus, in conclusion, I ask this Committee to vote affirmatively on H.R. 2276. Not to do so would jeopardize the power supply to the rural inhabitants of America.

STATEMENT OF HON. DICK SHOUP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. Chairman and members of the committee: I am from a rural area. Montana has a lot of area that is sparsely populated. This is reflected in our representation. I represent a district the size of the State of Washington and mine is the small district.

What I'm driving at is that the days of the "farm bloc" are long gone and we need the assistance and understanding of our urban colleagues if we are to survive as a viable agricultural-economic entity.

I am speaking specifically of REA and the question of priorities. I certainly approve of trimming the excess fat from the budget and eliminating those activ-

ities that have served their purpose. There remain, however, many rural areas where the needs that spawned the REA still exist. In Montana, we still have areas where we talk in terms of the number of miles of power and telephone line per user rather than the number of users per mile.

There are many areas which now have adequate utility services and where the supplier of the service is on solid economic ground. In these areas sub-low interest loans can no longer be justified. Some remain dependent on low interest loans for their very survival. To cut off funding for these suppliers would really yank the rug from under them. Because the program has satisfied the needs of the majority does not mean we can say to heck with the minority.

Mr. Chairman and members of the Agriculture Committee, I favor continuation of the REA program with the recommendation that the Administrator use discretion in matters concerning loans. Funding must be confined to areas of real need.

This legislation is at best a stopgap measure. I am working with colleagues on legislation which concerns itself with the future of REA. In the meantime, the legislation we are considering today is needed and it has my full support.

Mr. Chairman, thank you for allowing me time to come here to testify. It is appreciated.

STATEMENT OF HON. TOM RAILSBACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, Members of the Committee, many times I have spoken about the plight of our rural residents. I have been concerned over their problems, and have worked for legislation to combat rural economic decline and to provide for rural growth. Because a viable rural America is essential to the economic health of the Nation, Congress has showed a willingness to help alleviate rural poverty and despair. Let us now reflect a moment upon one of our more successful programs—R.E.A.

By the 1920s, when city-dwellers took electric lights, iceboxes, radios, and indoor running water for granted, farmers were still a long way from knowing these conveniences. Farm women pumped and carried their own wash water and then built a fire in the cook stove to heat the five or six flat irons needed to press her family's clothes.

Rural electric loans actually helped bring the 20th century to millions of America's farmsteads. In 1935, only about one farm in 10 was electrified. By 1971, rural utilities were serving 6.4 million meters and reaching nearly 20 million farm and rural people in 2,700 countries in 46 States.

The Administration's decision in December to terminate the very heart of the R.E.A. program—the 2% loans—was upsetting to many Members of Congress, as well as to the rural residents themselves. I am fully recognizant of the Administration's reason for this action. I would be the first to admit the Congress needs to thoroughly reevaluate and reform its system of appropriations if our Government is to ever realize a balanced budget. It is for this reason I have sponsored legislation to ensure fiscal responsibility by the House of Representatives. We must reaffirm our power of the purse. The Administration seems to be challenging the authority of the Congress by curtailing a valuable program the Congress had already legitimately funded.

The Department of Agriculture has explained the impact of a higher interest rate will be limited to those requiring additional loans to connect new consumers and to expand their system. Further, at this stage of development many borrowers will be able to absorb the additional interest cost in their margins without a rate increase. When it is possible for a cooperative to pay a higher interest rate, I agree this should be done. In fact, when I was back in Illinois, I met with numerous people—who represent various cooperatives—in Warren County. These individuals informed me that some cooperatives could very well afford a higher interest rate. If the Committee can develop language which would establish rates on a scale according to ability to pay, I would support it.

However, I am also concerned about the systems at the low end of the economic scale. Some electric co-ops are just not growing. Some are even losing members. Many are serving areas where populations are declining. To them, the 2% program is the only source of capital for their survival. Therefore, I have joined in sponsoring legislation similar to the bill you are today considering which reaffirms that those funds already appropriated shall be obligated. If it can be

amended with an ability-to-pay provision, this would make the R.E.A. program even better.

Mr. Chairman, I thank you and the Committee for providing me with this opportunity to express my thoughts.

Mr. SISK. At this time, then, if those Members who have testified this morning would line up at the witness table, we will be very happy to have an opportunity to question them.

Mr. Roncalio, Mr. Melcher, Mr. Andrews, Mr. Teague, Mr. Denholm.

Mr. NELSEN. Mr. Chairman, I do have another committee that is presently sitting. If I could leave soon, I would appreciate it.

Mr. SISK. Certainly. If the gentleman does have obligations otherwise, we do not wish to detain him.

Does the gentleman have a moment? Our colleague from Virginia would like to ask you one particular question. I know many of us are interested in the things you have brought up and we would hope to question you at a later time.

Mr. NELSEN. Bob knows the bill as well as I do or better. I am sure he can answer.

Mr. WAMPLER. I want to take this opportunity briefly to compliment you on this statement. I find myself in general agreement with the objectives you are trying to reach and your spirit of compromise in trying to find a workable answer to the problem which is acute. I wonder if the gentleman can give us any idea as to what period of time he thinks might be required and do you think the proposal is in any form or shape to present to us in the form of a bill?

Mr. NELSEN. It is practically ready to go. We have a bill drafted and we think we can move on this bill. We think there are some minor changes that needs to be made.

The CHAIRMAN. If the gentleman will yield, I am sure it is in his office right now.

Mr. WAMPLER. I have not seen it.

The CHAIRMAN. Just since 10 o'clock, it is in there.

Mr. WAMPLER. I appreciate that. That was the thrust of my question. I do want to compliment you on your testimony this morning.

Mr. SISK. The Chair will be glad to yield to the chairman of the committee for any questions he may have.

The CHAIRMAN. I just wanted to question the panel en bloc as to whether any of you see any way in which it is possible under existing law to make 5-percent loans by the Farmers Home Administration at this time?

Mr. TEAGUE. I do not know, Mr. Chairman. I will respond that I cannot give you a specific answer, but I believe the bank for cooperatives has made loans and can make loans in this area.

Is that not correct?

The CHAIRMAN. The bank for cooperatives has made some loans to rural electric associations over the past several years, as I understand it. But it is obvious that they cannot make the volume of loans that are necessary. They do not make guaranteed loans; they have to sell their debentures in order to get the money to make loans.

Now, of course, one of the purposes of the administration was to move this program into the guaranteed field and I agreed with that. Mr. Nelsen and I have suggested doing exactly that. But they propose

to do it through the rural development insurance fund and I think that it is clear that it just can't be legally done.

Mr. ANDREWS. Mr. Chairman, we had the Secretary of Agriculture before our subcommittee for 2 days last week and we brought up this specific question. The Secretary feels that his legal counsel has told him that it could be done. We have had our committee staff check it, of course, and we have found that there are some serious legal questions about whether it can or can't be done.

We understand that there are provisions that they are trying to put in wherein the 5 percent interest will change if the financial condition of the co-op changes during the life of the loan, that it will be a mixed blend interest and any number of other things that give us the judgment that this is a maybe can, maybe can't type of thing that would end up by finally being resolved with an appeal to the Supreme Court some months or years down the line, and this is a heck of a way to run an REA program.

The CHAIRMAN. I think the gentleman has well expressed it that it is clear, that under anybody's interpretation, there cannot be any actual money advanced for a long time to come under that kind of program, and there will be many months during which these associations, that are in desperate need right now, will not get any help.

Yes, Mr. Denholm?

Mr. DENHOLM. Mr. Chairman, in response to your comments in financing of the REA programs through the Rural Development Act—I conclude the answer is "No." I certainly concur therein. Mr. Chairman, there is a possibility of 5-percent loans through CFC or through other sources, but not through the Rural Development Act under the existing statutes.

I am very sensitive about invading the Rural Development Act. It was never the intent of this committee and nowhere in the legislative history can any reasonable person presuppose that it was the intent of the Congress that REA loans should be made under the Rural Development Act.

The CHAIRMAN. As one of those who had a part in the development of the Rural Development Act, I certainly never intended that I was doing anything more than adding to the opportunities to serve rural people rather than destroying the opportunity that we already had. It seems to me that the recent action wipes out a program that has 30-odd years of proven service to rural people and attempts to substitute something that cannot give them even one dime.

You will recall that yesterday, Mr. Campbell testified that he did not know any way whereby he could put one dime into the loans for Rural Electric Associations until after the Congress made an appropriation for that purpose. And the Congress right now is dubious as to whether we have any authority to make such an appropriation even if your committee wanted to make it, Mr. Andrews.

Mr. ANDREWS. My committee, of course, is going to take a while because we have not gotten anywhere near the completion of our hearings and the Senate chairman, Mr. McGee, has said he is going to hold it up over there until they release these funds.

Incidentally, for the benefit of your committee, I might add that the Secretary told us in response to a direct question that he still had

under study the release of the impounded funds from fiscal 1973 and that they were trying to work out criteria—density- or revenue-per-mile-of-line-type criteria—where they could release part of these funds. I would suspect if they do release the prior-year appropriated funds under density- and/or revenue-per-mile criteria, the administration would support a 2-percent bill that is based on density and/or revenue per mile of line. That is the reason I mentioned those as possible amendments to the Denholm bill, which I cosponsored, because of the fact that we need to get a lot of votes to get it through the House over a Presidential veto and a density provision makes it a much more attractive package.

The CHAIRMAN. May I ask Mr. Teague a question right now?

You introduced a bill here—I have forgotten exactly when—that these moneys for rural electrification purposes should be procured through insured and guaranteed loans rather than out of the Treasury.

Mr. TEAGUE. Yes; and at the cost of money to the Government.

The CHAIRMAN. That is right, at cost of money to the Government. Your bill was, as I recall, almost identical with the proposal that Mr. Nelsen has just described, except that Mr. Nelsen would subsidize loans for these 88 cooperatives down to 2 percent and subsidize the money down to 5 percent for the others. Is that the only difference between your proposal and his?

Mr. TEAGUE. It appears to be. But I am not ready; let me state for the record, at this moment I am not prepared to either indicate support for or opposition to the Poage-Nelsen compromise.

The CHAIRMAN. I know that. I hope that you can support it.

Mr. TEAGUE. I hope I can, too.

The CHAIRMAN. We are hoping that you will enlist support for it. But I believe that with that difference, it is the same thing that you proposed.

Mr. TEAGUE. It seems to be in the same ball park anyway.

The CHAIRMAN. Yes; thank you.

Mr. SISK. The gentleman from Pennsylvania.

Mr. GOODLING. Thank you, Mr. Chairman.

I would first of all like to address a few remarks to the sponsor of the bill, Mr. Denholm.

I think I would first of all like to congratulate you on carefully examining the express language of each of 18 bills. I know now why I see your light burning late in the night in your apartment.

I want to present an example to you that is happening in my district right now. I would like a direct answer from you on this procedure. And let me repeat that I have been singing the praises of REA for 10 years. But by the same token, I have vigorously opposed across-the-board—and I stress across-the-board—2-percent money.

Now, to get back to my district. Right now, at this very moment, plans are being made to have a new development which will contain 35 houses on 1-acre plots. REA is at one corner of this development, a public utility is at the other corner. I happen to know that REA is doing everything possible to get that business. Now, can you justify a 2-percent loan to that co-op?

Mr. DENHOLM. Permit me to say to my distinguished friend and colleague from Pennsylvania that I think that has been referred to by our colleague, Mr. Nelsen, from Minnesota as being one of those opportunities in a rural area that sort of levels out what is really needed to make the program work. Now, that goes for country clubs and other things. Now, this law was never limited to only farmers. It was enacted for rural areas.

The last time I made a study in depth on this matter, I found that the REA program in general had 53 percent of the mileage in lines in the United States but only 3 percent of the market. If you are to assume that obligation under the statute, where you have the obligation to serve every consumer that asks for service, however remote they might be in a rural area, certainly you cannot expect the cooperatives to compete on the same basis that an independently owned utility can in a higher density area.

Now, you cite a specific example. I am not prepared to directly respond to the circumstances in your neighborhood, but in general, an organization that is to serve every consumer in Montana, Wyoming, and the Dakota plains as a matter of national policy—and that is what we are talking about—on a competitive basis must have benefits that offset hardship to continue.

My colleague, Mr. Andrews, from North Dakota said this morning that we have tried to provide a way for them to serve all consumers on a comparable basis, with rates equal to or approximately equal to what they would be if obtained from a privately owned utility system.

Mr. GOODLING. I am not at all certain if you have given me a direct answer as to whether or not you could justify a 2-percent loan in that case.

Mr. DENHOLM. I said that an REA system that has the obligation of 53 percent of the lines in America and only 3 percent of the market, you cannot logically argue that they are to pay the same rate of interest that all other utilities do that have a high density service and also forego the opportunities of load building service factors in rural areas.

Mr. GOODLING. We all know that in this particular instance, a private utility is paying 7.8, or 9 percent for its money.

Mr. DENHOLM. They probably have 14 or more people per mile.

Mr. GOODLING. So does REA.

Mr. DENHOLM. The REA systems do not have 97 percent of the total market and only 47 percent of the lines. We are confronted with national policy and not isolated or specific instances.

Mr. GOODLING. I do not think we can legislate a thing like this on a national policy basis. We have to have a guideline.

Mr. DENHOLM. Well, we have for 36 years and with a record of unequaled success.

The CHAIRMAN. Would the gentleman yield?

Mr. GOODLING. Yes.

The CHAIRMAN. I feel that in this instance. I am speaking of national policy. I do not know much about Pennsylvania, but I think it is not much different, the State of Pennsylvania assigns areas to every public utility and the electric cooperative cannot go into the area of the private power company, nor can the private power company come into the area of the REA-financed cooperatives. Under the amendments that Mr. Nelsen and I have suggested to the committee,

there is an express provision that if that electric cooperative gets enough customers there, then it does not need the 2-percent money. It cannot get 2-percent money. And the very thing that you are suggesting would take it out of the 2-percent class and put it in the 5-percent class if, in fact—and if in fact, it went far enough, it would put it in the 8-percent class or the cost of money class. If it got enough of these housing projects that you describe, then they would have to pay the cost of money. But if it did not get enough of them, the fact that it got maybe a half dozen houses would not necessarily move it up there. But if it got enough of them to bring its income up, it would lose the 2-percent money under the very proposal we make.

Mr. GOODLING. Mr. Chairman, I could be in error, but I do not believe REA co-ops in Pennsylvania are under our public utility commission.

The CHAIRMAN. They may not be. I do not want to say I know the Pennsylvania law, but I believe in many States they are.

Mr. GOODLING. I do not believe they are.

Mr. DENHOLM. Will the gentleman yield?

Mr. GOODLING. Yes.

Mr. DENHOLM. In either case, Mr. Goodling, the proposal the chairman is suggesting would be applicable, whether it is under a statutory provision or otherwise. I am hopeful that we may carefully evaluate prepared language as suggested by the chairman as an alternative solution and we must consider the average number of consumers on the line of a particular cooperative and the revenue factor of borrowers in deliberation on possible solutions to constructive alternatives.

The CHAIRMAN. That is correct.

Mr. DENHOLM. The situation that the gentleman from Pennsylvania suggests could occur under your proposal, Mr. Chairman, if the average number of consumers on the line of that cooperative were less than the number of accepted or determined by criteria cited in the proposal.

The CHAIRMAN. If the gentleman will yield—

Mr. GOODLING. Yes.

The CHAIRMAN. If the average number of connections presently on is less than three per mile—that is according to regulations—is less than three per mile, that co-op would, under the Nelsen-Poage proposal, be entitled to 2-percent money. But if in fact they get a big housing project here which brings that average up to 4 percent, they lose that 2-percent money. So if they can serve some of these, you will get them off the 2-percent money.

Mr. GOODLING. I would like to say from what you and Mr. Nelsen have said, I think I can support your bill.

The CHAIRMAN. Thank you.

Mr. GOODLING. But I am violently opposed to the bill we are considering here today.

Mr. DENHOLM. Will the gentleman yield for a question from me?

Mr. GOODLING. Yes.

Mr. DENHOLM. All I seek is a continuation of existing law in "good faith" until a constructive alternative is determined. In the meantime, if it takes 1 month or 6 months to enact other acceptable legislation—what do you propose we should do in the meantime? That is why I have sought enactment of H.R. 2276.

Mr. GOODLING. Well, under this proposal, if we are pretty well agreed in this committee, why cannot we rush it through?

Mr. DENHOLM. Because the Senate has enacted S. 394 which is identical to H.R. 2276 and a change may result in a month, 2 months', or 3 months' delay.

Mr. ANDREWS. If you will yield, this is the reason I suggested, as a cosponsor of the Denholm bill, that this committee might want to add as an amendment the criteria that the 2-percent money will be made available to those cooperatives who have less than three or two or whatever your figure is—I believe it is three consumers per mile of line or less than—what is your figure, $600 revenue per mile of line?

The CHAIRMAN. I do not know right now.

Mr. ANDREWS. Whatever these two figures are on consumer density and revenue per mile of line, if this type of amendment could be attached to the Denholm bill, the committee could report it out immediately. It would go through the House and I think it would—George, it has your support and possibly some others who want a national policy but want it spelled out so that it is truly the rural co-op. It could then shoot back over to the Senate and we would have the thing done in a week and that would be specifically applicable to appropriations already made.

If we start with a whole new act, which is what Ancher Nelsen and the chairman have been developing, then we have a timelag for hearings in the Senate as well as the House.

If we have that type of situation, then with this timelag the rural electric co-ops out in the field and the rural telephone co-ops out in the field are in all kinds of jeopardy because they have had their loan program arbitrarily interrupted as of January 1 and they have no recourse.

Mr. GOODLING. Let me ask either of you this question: Am I safe in assuming, then, that if this suggested amendment that you have made were to go into the Denholm bill, the specific instance I cited in my own district, that co-op could get 2-percent money?

Mr. ANDREWS. That is right. If that co-op has more than three consumers per mile of line under Mr. Poage's and Mr. Nelsen's bill, that co-op would no longer get 2-percent money.

Mr. GOODLING. I am thinking of the bill we are considering today with the amendment you are suggesting.

Mr. ANDREWS. That is right, with that amendment. That is why we are trying to tailor the Denholm bill along the long-range planning of the chairman of this great committee as an emergency measure to kind of hold the fort until you are able to hold the basic hearings on the new legislation in both the Senate and the House and get them passed and get appropriations going.

Mr. GOODLING. I have taken more than my time, I assume, Mr. Chairman.

Mr. DENHOLM. But, Mr. Chairman, may I respond to that? I do not find that objectionable, but I do think we need another day or two of hearings that all can be heard thereon. More than 100 of our colleagues have joined this effort and many more are sympathetic and certainly support it.

I do not favor the proposed amendment but I will not resist it. It is a reasonable suggestion but not a solution.

Mr. SISK. Our colleague from Kentucky?

Mr. TEAGUE. Mr. Chairman, I just want to make one comment. I predict that this approach suggested by Mr. Andrews would not receive the enthusiastic support of the National Association of Rural Electric Cooperatives. I may be wrong.

Mr. DENHOLM. I think you will find the people of the rural electric systems to be cooperative in seeking solutions for immediate relief and for a long term and acceptable alternative.

Mr. ANDREWS. The point is if you are going to get a bill restructured so that it can serve the people out in the several States and the rural areas that desperately need this money, chances are that what you come up with is not going to have the total approval of everyone concerned. I would suspect that there are people who cosponsored our bill with us, Frank, who are doing it solely to embarrass the administration. I would suspect there would be some people who would vote against the amendment we are talking about, not because they did not think it improved things but because they did think it improved things, but they would rather not have the amendment on so more would vote against the total bill.

A lot of things go into this product, but this would move the case directly to rural electrification and for rural telephone service and would do it in a manner that everybody could understand, that the 2-percent money is necessary and can be justified in low-density areas. As the rural cooperative grows and gets to be bigger in density and bigger in revenue per mile of line, then and only then will they move on to higher interest.

Mr. SISK. Our colleague from Kentucky?

Mr. STUBBLEFIELD. Mr. Chairman, I apologize for being late. I had an urgent appointment.

I just want to remark that is my feeling about it, and I am one of your cosigners, Mr. Denholm, is that your bill is a stopgap until we come up with something more permanent.

Mr. DENHOLM. Yes.

Mr. STUBBLEFIELD. It seems to make sense to me, what Mr. Andrews suggested and Mr. Poage and Mr. Nelsen, that we get their accommodation in this bill as that would be an expeditious way to proceed in order to come up with something. We are going to fool around here and this summer is going to be gone, and these people are not going to be able to do any work or make any plans. Therefore, I would hope we will move in that direction.

The CHAIRMAN. The gentleman from Minnesota.

Mr. ZWACH. Thank you, Mr. Chairman.

I think, Mr. Chairman, that the testimony this morning has pointed up what those of us close to countryside America know, and that is that there is need for 2-percent money. In our representation from Montana, Wyoming, North Dakota, even in my own State, there is no question that there is need for some 2-percent money. I do not think there is any question, also, that we ought to move in the direction of the Federal land bank, PCA's, that were nurtured and sponsored by the Federal agency and gradually became self-reliant. I think there is no question that we need something in that direction.

Third, there is no question that the telephone systems very definitely in these sparse areas need some 2-percent money. I think it is quite evident, too, that the Rural Development bill was not tooled to handle our REA matters. None of us even dreamed as we drew up that legislation that REA was going to go into the rural development. We would have to redo those sections.

So the problem is how do we quickly see to it that we do not destroy needed REA funds. I think if it will take a month to do what we are talking about under the Poage-Nelsen plan. I think that would be worth some delay. If it would take all year, that would be too long. But I hate to see this opportunity to really find some long-time answers slip by. If we could find the long-time answer, it would really be the ideal thing. If it is going to take more than a month or so to resolve this, then we perhaps have to pass H.R. 2276, of which I am an author.

Mr. GOODLING. Will the gentleman yield for a very short question?

Mr. ZWACH. Yes.

Mr. GOODLING. Do you agree with me that we should have the assurance of the chairman that the Poage-Nelsen bill will be given hearings very shortly?

Mr. ZWACH. Yes. The NRECA is meeting at Dallas. I have been on an REA board, Mr. Chairman, for 32 years and have taken in a number of the conventions. But I was hoping that something constructive would be coming out of their convention. If it does not, then we are really, as you know, in quite a hassle and it is not going to be resolved very rapidly, I think in the next few days.

Mr. ANDREWS. I would like to agree with what you said and I also would like to point out that we are in a political hassle over this. Let's not kid ourselves about it. If there is one thing farmers are fed up and sick and tired of it is having one bunch of politicians tell them how good it is and another bunch of politicians telling them how bad it is and nothing getting done. We can sit and try for the whole deal—I am in favor of it and I am sure my colleague from South Dakota is. But then all we have is a political issue. But if we want to help our cooperatives and get this thing done expeditiously, then we ought to go along with a simple amendment and tie it into what Bob Poage is trying to do down the line, then get it out quick, because it is the only chance we have of getting past a Presidential veto. If we run this thing through as it came out of the Senate and as Frank and I cosponsored it, fine, but then we have a political issue. And farmers are damned sick and tired of being made political issue. They want solutions and quickly. If we can get our Denholm bill with the amendment, hopefully we can get it by the White House. I cannot speak for the White House but certainly—if we have men like George Goodling and our good friend from California looking at it with favor, they can carry the ball down there and then our farmers would have something besides just a bunch of headlines telling them how good they are doing or how bad they are doing and I think they would much prefer performance over more rhetoric.

Mr. ZWACH. If we did that, we could at the same time probably also put in the 5-percent money and fix this bill up. That would be a pretty good answer.

Mr. SISK. Mr. Sebelius?

Mr. SEBELIUS. I would only comment that I would hope we could make some progress on the Nelsen-Poage bill. I am ready to do what work I can on it and proceed from there. I yield back the balance of my time.

Mr. SISK. My colleague from North Carolina has a question.

Mr. MIZELL. Thank you. I just want to say that while I have not had a chance to look at the Poage-Nelsen bill, it certainly sounds like a step in the right direction and I hope we can take a look at it before we can try to take some action in this committee.

Just one question about the suggestion of adding on an amendment of three units per mile. This, of course, would change none of the mandatory requirements within the Denholm bill which would require the Administration to spend all of the money that has been appropriated by Congress, would it?

Mr. ANDREWS. Well, it would limit the 2 percent to those cooperatives that have fewer than three consumers per mile of line or less revenue than $600 or so per mile of line.

Mr. MIZELL. But it would not remove the mandatory requirements?

Mr. ANDREWS. No, we need the mandatory requirements in order to get back into action right quick. But I think there is a possibility that the President might sign a bill like that because of the change that has been made. If it gains the support of people like Mr. Goodling and Mr. Teague, the mandatory part is in a sense an emergency clause on the legislation and that is what we need.

Mr. MIZELL. Well, I think that, of course, we will have to wait and see the position that the Administration would take. And we will probably learn fairly quickly when some of these bills start reaching the President's desk. But all indications are that he is not going to buy this mandatory spending requirement unless he just has to. I assume this would run the risk of maybe even court action to see if the Administration could impound the funds. So for this reason, I think it would be wise to get a compromise if it would be acceptable. That is all I was asking.

Mr. DENHOLM. Permit me to ask you—I have not seen the proposed bill that we seem to be considering although it is not before the committee—if there is no mandatory language in that proposal there will be nothing more then than now and you have nothing now.

Mr. MIZELL. I think the idea here is to find something that is acceptable, not only with the co-ops but also with the Administration as well as with the Congress. Then I think you have a good, workable program that will be in the best interest of everybody.

Mr. DENHOLM. Of course, legislation is the art of compromise and I am not opposed to that at all. What we have not experienced is the cooperation of the Administration. If you were here yesterday when the Administration people were here testifying, the chairman of our committee sought their cooperation and asked for it and pleaded with them for some input and constructive alternatives. You know the answers received and the response of the witnesses for the Administration. I will not offer an amendment to my bill. The Senate has passed the bill. If we come up with a completely different bill, I can see it being delayed for hearings here, for hearings there, and possibly being defeated in the Senate. In the meantime, what are you

suggesting that cooperatives in rural America do with an Administration that is unwilling to execute in good faith the existing law of this land.

Now, I do not have any objection to the Nelsen-Poage proposal, as I understand it. As a matter of fact, I have thought for years that such a solution should be the objective to an enduring and workable program.

I have confidence in our Committee on Appropriations to establish the Federal level of spending in the 2-percent loan program.

Mr. ANDREWS. I like everybody expressing all this confidence in the Committee on Appropriations, but if we start legislating on Appropriation bills, then our colleagues come up and raise a point of order on the floor of the House. We cannot specify in the Appropriation bill that the administration should apply a density formula or a gross revenue formula. We have brought that out in our hearings in the subcommittee for the last 5 years and it has fallen on deaf ears in the administratio n. So I salute Mr. Poage for what he is trying to do. We had it as an amendment on the REA Bank bill and that bill got lost in the Rules Committee, if you remember.

We had it as an amendment in the Rural Telephone Bank bill and that is the law. There is a criterion for density and it makes it much more sensible. This is the basis on which we are making our point here today, that if the committee feels it is necessary in its wisdom to put this type of amendment to the Denholm bill, an amendment that brings it somewhat into line with what Mr. Poage and Mr. Nelsen are working out, I think it would expedite the whole situation and serve the cooperatives extremely well out in the field in the interim between now and the time we can finally get the new basic legislation brought along to complete passage.

Mr. MIZELL. Well, I certainly appreciate and share many of the concerns of our colleagues. I only want to express once again my concern against moving with something that will not be acceptable and will only create the possibility of more problems and chaos. I think we run the risk of that. That is my concern.

The CHAIRMAN. My colleague from Idaho.

Mr. SYMMS. Thank you, Mr. Chairman. I would just like to comment that I would really like to urge the committee to follow through on the Poage-Nelsen proposal here in the next few days. Before we kick this out, let's see what we can come up with, because I find the 2-percent money objectionable in many areas. Then again in some of our northern counties in Idaho, we have some of the problems that our colleague from Montana brought out. They have to clear trees and they have to blast all the holes to put the poles in. They do have some areas where it is very difficult.

I share my colleague from Montana's concern about the coyotes eating up the lambs in the northwestern part of the country and I think about it every day. If we just had a few coyotes back here to eat up some of the bureaucrats, we might be in pretty good shape out here, Mr. Melcher.

I would really like to urge the committee to dig into this thing a little further and I think I could support the Poage-Nelsen bill. But, I find it hard to support the bill that our colleague from North Dakota,

Mr. Denholm, has. I would like to see us work on this thing a little bit more.

I certainly agree with your comments, Mr. Andrews, about politicizing the farmers and making this a political issue. This is what I would like to see us avoid in the Agriculture Committee. I would like to see us come out with something that is workable for the farmer and not have a political issue. We should not have to have a showdown between the Congress and the White House at the expense of the American farmer.

I do appreciate all of your testimony this morning.

Mr. SISK. If the gentleman is finished, I have one thing I would like to inquire about. Then I will yield to you to make a comment. I would like to direct this question to you, Mr. Andrews.

As I understand the plea you and Frank are making is that in order to meet immediate needs within, let's say, the next few months, you feel that by proceeding with this particular bill which we have before us, Mr. Denholm's bill, with an amendment limiting the use of 2-percent money under criteria which has been discussed, and then proceed as a separate matter with the so-called Poage-Nelsen approach; is that basically what you gentlemen are saying?

Mr. ANDREWS. This is basically the suggestion I have to make today, knowing of the time needs for the rural electric cooperatives and the time needs to put through the Poage-Nelsen bill, which is new basic legislation and is going to take time.

Now, I recognize that the NRECA is not going to be too happy with any dilution of the Denholm bill and I am sure Frank recognizes this. I also recognize that the White House is not going to be happy with probably any 2-percent money at all if they keep as stubborn in their stance as they have been in the past. But I am tired of having farmers be the goats while people are looking for cheap political headlines. I think 90 percent of the farmers feel the same way and I would like to get some results. I think we have a possibility of getting results.

If we could not get a better vote than we got for the REAP bill, we are going to have a real tough time in the House getting a big enough vote to override a Presidential veto on a straight REA bill. But if we can modify this REA bill along the lines that we have talked about just now, we have a possibility of not only getting enough votes to override a veto if a veto comes, but probably precluding a veto. Then we have avoided a continuation of political confrontation and we have gone ahead and accomplished something for the rural cooperatives that desperately needs this type of funding.

Mr. SISK. Well, if I can, just one further question along this same line, Charlie. As I understand the proposal you are talking about and the one which the chairman and Mr. Nelsen are talking about using as the vehicle, the Rural Development Act—or is it not? Now, I want to get it clear in my mind as to whether or not we are going to maintain an REA Act separate and apart from rural development. Because the use, as I understood the testimony of the Department, is to move over and use the Rural Development Act now to finance in preference to REA. Is that not in fact their position?

Mr. TEAGUE. I am not sure from day to day what their position is, frankly. But I stated in my prepared statement that I did not advo-

cate the abolition of the REA. I am concerned about co-ops or, in the case of commercial telephone companies, getting 2-percent money when they do not need it, when they can afford to pay the going rate of interest.

I am not opposed per se to 2-percent money to co-ops or possibly commercial telephone companies, although I have reservations about that, getting the 2-percent money in areas which have been described here this morning, which cannot afford to pay more than 2 percent. But now I am thoroughly convinced that many, many of the borrowers, most of the borrowers, can afford to and should pay considerably more than 2 percent.

Mr. SISK. To a very large extent I agree with many of the things that my colleague from California has said, and certainly he knows the great respect I have for him. He and I came here together and have somewhat adjoining districts, and I do appreciate the things he is saying. I am simply trying to get clear in my mind if we are talking about a twofold approach; in other words, that we go ahead basically on an emergency type of legislation you and the administration would go along with, with the kind of amendment that Mr. Andrews has proposed. Then follow it up with the broader bill, which apparently is going to have to have additional hearings in both the House and the Senate. Is this basically what we are talking about?

Mr. TEAGUE. That is what Mr. Andrews has proposed. I am not willing to make a commitment at this time to follow that suggestion. I like the principle involved, but I think we are still going to have this problem of directing the President to spend money that in his judgment he should not. Now, I do not care what agency it comes from. I repeat, really, my sole interest is cutting out what I consider the subsidy to co-ops or commercial companies that do not need that low rate of interest.

Mr. SISK. Well, I think basically everyone seems to agree on that as a basic national principle. So I am not sure that the REA or the organizations themselves agree. But there seems to be, beginning to be, a meeting of the minds that there is an area in which there should be a limitation. I was simply trying to get as clear as I could the type of approach that you gentlemen felt would work.

The CHAIRMAN. Would the gentleman yield?

Mr. SISK. Yes.

The CHAIRMAN. The gentleman suggested he was not sure what the Nelsen-Poage proposal might provide in connection with who would administer the program. The Nelsen-Poage proposals are definite in requiring the REA, the Rural Electrification Administration, to carry on the program. They do not involve bringing any of the program into the rural development program. We do not do that both because we think the REA has the expertise and the history of ability to carry on the program unbroken. But we also fear that if you put this kind of program in either the rural development or in the banks for cooperatives, the tail will begin to wag the dog, because this program is bigger than, by far bigger than the rural development program, and it would simply swallow it up. We fear a complete loss of the rural development program if you did this sort of thing.

Mr. ANDREWS. That is an extremely important observation, Mr. Chairman, and makes a lot of sense.

Mr. SISK. I appreciate that comment and reading the press release. It seems to me from their press release and from at least some of the things that I heard the Department say, that they have a desire to move in the direction of using rural development as the instrument for the future, Mr. Chairman, and that is what I do not agree with. I do agree with what I think you have just said.

But I want to make clear exactly what was in the minds of these gentlemen as they were making proposals here.

The CHAIRMAN. Unquestionably, that press release and unquestionably from what they have stated here in testimony, the Department has sought to use the rural development program as a vehicle to carry on this electric program. I think it is fair to say from the testimony of Mr. Campbell and his general counsel yesterday that they admitted they did not have any legal authority to make 5-percent loans from the funds of the Rural Development Administration until the Congress gave it to them. The Congress has not given it to them and that is another long, drawn out fight. They will get no relief from transferring a program to an agency that does not have any more authority than I do to make these loans.

Mr. STUBBLEFIELD. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. STUBBLEFIELD. Mr. Chairman, is the reason for moving REA into rural development bills simply to get away from 2 percent?

The CHAIRMAN. That is correct, as far as I am concerned.

Mr. STUBBLEFIELD. So is not what we are talking about what we are going to do with the 2 percent?

The CHAIRMAN. I think that is exactly correct.

Mr. TEAGUE. Mr. Chairman, unless somebody has another question for me, may I be excused?

Mr. SISK. Mr. Chairman, unless there are other questions or comments from our colleagues, the committee will adjourn.

The CHAIRMAN. Let me just state that the committee will meet in executive session tomorrow morning at 10 o'clock to discuss the very issues that we are discussing but that the hearings have not been closed. I want that on the record that the hearings have not been closed and that the hearings are open for any further witnesses that the committee may see fit to call.

Mr. SISK. Thank you. With that, the committee stands adjourned.

[Whereupon at 12 noon the committee recessed to reconvene at the call of the Chair.]

REA LOAN PROGRAM

TUESDAY, MARCH 13, 1973

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

The committee met, pursuant to call, at 10 a.m., in room 1301, Longworth House Office Building, the Honorable W. R. Poage (chairman) presiding.

Present: Representatives Poage, Stubblefield, de la Garza, Vigorito, Jones of North Carolina, Sisk, Alexander, Jones of Tennessee, Melcher, Mathis, Denholm, Matsunaga, Brown, Bowen, Rose, Litton, Gunter, Teague, Wampler, Goodling, Mathias, Mayne, Zwach, Sebelius, Mizell, Findley, Baker, Thone, Symms, Young, Johnson, and Madigan.

Also present: Christine S. Gallagher, chief clerk; John O'Neal, general counsel; John Rainbolt, assistant counsel; and Hyde H. Murray, associate counsel.

The CHAIRMAN. The committee will be in order.

Before we start this session, the Chair would like to announce for the information of the members that our colleague, Mr. Bergland, had an emergency operation at Bethesda Naval Hospital yesterday afternoon. He is now in intensive care. Mrs. Bergland will call us later and let us know how he is doing. This committee has sent flowers. I just wanted the members to know that.

We are met for consideration of the so-called Poage-Nelsen proposed substitute to H.R. 2276.

[The Poage-Nelsen substitute proposal to H.R. 2276 follows:]

POAGE-NELSEN SUBSTITUTE PROPOSAL TO H.R. 2276—TENTATIVE DRAFT

(NOTE.—Revised from earlier draft for public comment. This draft encompasses both technical and substantive changes.)

A BILL To amend the Rural Electrification Act of 1936, as amended, to establish a Rural Electrification and Telephone Revolving Fund to provide adequate funds for rural electric and telephone systems through insured and guaranteed loans at interest rates which will allow them to achieve the objectives of the Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of American in Congress assembled, That it is hereby declared to be the policy of the Congress that adequate funds should be made available to rural electric and telephone systems through direct, insured and guaranteed loans at interest rates which will allow them to achieve the objectives of the Rural Electrification Act of 1936, as amended, and that such rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives. The Rural Electrification Act of 1936, as amended (7 U.S.C. 901–950(b)), is therefore further amended as hereinafter provided.

SEC. 2. Title III of the Rural Electrification Act of 1936, as amended, is amended by striking out all of sections 301 and 302 and inserting in lieu thereof the following new sections:

"SEC. 301. RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND. (a) There is hereby established in the Treasury of the United States a fund, to be known as the Rural Electrification and Telephone Revolving Fund (hereinafter referred to as the "fund"), consisting of:

"(1) all notes, bonds, obligations, and property delivered or assigned to the Administrator pursuant to loans heretofore or hereafter made under sections 4, 5, and 201 of this Act and under this title, as of the effective date of this title, and all proceeds from the sales hereunder of such notes, bonds, obligations and property, which shall be transferred to and be assets of the fund;

"(2) undisbursed balances of electric and telephone loans made under sections 4, 5, and 201, which as of the effective date of this title, as revised herein, shall be transferred to and be assets of the fund;

"(3) notwithstanding section 3(a) and (f) of title I, all collections of principal and interest received on and after July 1, 1972, on notes, bonds, judgments, or other obligations made or held under titles I and II of this Act and under this title, except for net collection proceeds previously appropriated for the purchase of Class A stock in the Rural Telephone Bank, which shall be paid into and be assets of the fund;

"(4) all appropriations for electric and telephone loans previously made under the authority of section 3 of this Act and funds obtained in accordance therewith and the unobligated balances of any funds available on the effective date of this title for electric and telephone loans under sections 4, 5, and 201 of this Act, including any funds made available for electrification and telephone loans under the item "Rural Electrification Administration" in the Department of Agriculture and Agriculture-Environmental and Consumer Protection Appropriations Acts, and said appropriations, balances, and funds shall be assets of the fund and shall remain available until expended;

"(5) all appropriations for interest subsidies and losses required under this title which may hereafter be made by the Congress;

"(6) moneys borrowed from the Secretary of the Treasury pursuant to section 304(a); and

"(7) shares of the capital stock of the Rural Telephone Bank purchased by the United States pursuant to section 406(a) of this Act and moneys received from said bank upon retirement of said shares of stock in accordance with the provisions of title IV of this Act, which said shares and moneys shall be assets of the fund.

"SEC. 302. LIABILITIES AND USES OF FUND. (a) The notes of the Administrator to the Secretary of the Treasury to obtain funds for loans under sections 4, 5, and 201 of this Act, and all other liabilities against the appropriations or assets in the fund in connection with electrification and telephone loan operations shall be liabilities of the fund, and all other obligations against such appropriations or assets in the fund arising out of electrification and telephone loan operations shall be obligations of the fund.

"(b) The assets of the fund shall be available only for the following purposes:

"(1) loans which could be insured under this title, and for advances in connection with such loans and loans previously made, as of the effective date of this title, under sections 4, 5, and 201 of this Act;

"(2) payment of principal when due on outstanding loans to the Administrator from the Secretary of the Treasury for electrification and telephone purposes pursuant to section 3(a) of this Act and payment of principal and interest when due on loans to the Administrator from the Secretary of the Treasury pursuant to section 304(a) of this title;

"(3) payment of amounts to which the holder of notes is entitled on insured loans: *Provided*, That payments other than final payments need not be remitted to the holder until due or until the next agreed annual, semi-annual, or quarterly remittance date;

"(4) payment to the holder of insured notes any defaulted installment or, upon assignment of the note to the Administrator at his request, the entire balance due on the loan;

"(5) purchase of notes in accordance with contracts of insurance entered into by the Administrator;

"(6) payment in compliance with contracts of guarantee;

"(7) payment of taxes, insurance, prior liens, expenses necessary to make fiscal adjustments in connection with the application and transmittal of collections or necessary to obtain credit reports on applicants or borrowers, expenses for necessary services, including construction inspections, commercial appraisals, loan servicing, consulting business advisory or other commercial and technical services, and other program services, and other expenses and advances authorized in section 7 of this Act in connection with insured loans. Such items may be paid in connection with guaranteed loans after or in connection with the acquisition of such loans or security thereof after default, to the extent determined to be necessary to protect the interest of the government, or in connection with any other activity authorized in this Act;

"(8) payment of the purchase price and any costs and expenses incurred in connection with the purchase, acquisition, or operation of property pursuant to section 7 of this Act.

"SEC. 303. DEPOSIT OF FUND MONEYS. Moneys in the fund shall remain on deposit in the Treasury of the United States until disbursed.

"SEC. 304. FINANCIAL TRANSACTIONS OF THE FUND. (a) The Administrator is authorized to make and issue interim notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for discharging obligations of the fund and for making loans, advances, and authorized expenditures out of the fund. Such notes shall be in such form and denominations and have such maturities and be subject to such terms and conditions as may be agreed upon by the Administrator and the Secretary of the Treasury. Such notes shall bear interest at a rate fixed by the Secretary of the Treasury, taking into consideration the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the notes issued by the Administrator under this section. The Secretary of the Treasury is authorized and directed to purchase any notes of the Administrator issued hereunder, and, for that purpose, the Secretary of the Treasury is authorized to 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 extended to include the purchase of notes issued by the Administrator. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States; *Provided however*, That such interim notes to the Secretary of the Treasury shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

"(b) The Secretary of the Treasury is authorized and directed to purchase for resale obligations insured through the fund when offered by the Administrator. Such resales shall be upon such terms and conditions as the Secretary of the Treasury shall determine. Purchases and resales by the Secretary of the Treasury hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

"(c) The Administrator may, on an insured basis or otherwise, sell and assign any notes in the fund or sell certificates of beneficial ownership therein to the Secretary of the Treasury or in the private market. Any sale by the Administrator of notes individually or in blocks shall be treated as a sale of assets for the purposes of the Budget and Accounting Act, 1921, notwithstanding the fact that the Administrator, under an agreement with the purchaser or purchasers, holds the debt instruments evidencing the loans and holds or reinvests payments thereon as trustee and custodian for the purchaser or purchasers of the individual note or of the certificate of beneficial ownership in a number of such notes. Security instruments taken by the Administrator in connection with any insured notes in the fund may constitute liens running to the United States notwithstanding the fact that such notes may be thereafter held by purchasers thereof.

"SEC. 305. INSURED LOANS; INTEREST RATES AND LENDING LEVELS. (a) The Administrator is authorized and directed to make loans under this title and at the interest rates hereinafter provided to the full extent of the assets available in the fund, subject only to limitations as to amounts authorized for loans and advances as may be from time to time imposed by the Congress of the United States for loans to be made in any one year which amounts shall remain available until expended: *Provided*, That any such loans and advances shall not be included in the totals of the budget of the United States Government and shall

be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States;

"(b) Insured loans made under this title shall bear interest at either 2 percentum per annum (hereinafter called the "special rate"), or 5 percentum per annum (hereinafter called the "standard rate"). Loans bearing the special rate shall be reserved for and made by the Administrator to the full extent of the authorities contained herein for any electric or telephone borrower which meets one or more of the following conditions:

"(i) has an average consumer or subscriber density of three of fewer per mile, or

"(ii) has an average gross revenue per mile which is at least $300 below the average gross revenue per mile of REA-financed electric systems, in the case of electric borrowers, or at least $200 below the average gross revenue per mile of REA-financed telephone systems, in the case of telephone borrowers, or

"(iii) cannot, with prudent operations, produce net income or margins before interest of at least equal to 150 percent of their total interest requirements on all outstanding and proposed loans with an interest rate greater than 2 percentum per annum on the entire current loan, and still meet the objectives of the Act, or

"(iv) cannot, with prudent operations and without an excessive increase in the rates charged by such borrowers to their consumers or subscribers, provide service consistent with the objectives of the Act.

"(c) Loans made under this section shall be insured by the Administrator when purchased by a lender. As used in this Act, an insured loan is one which is made, held and serviced by the Administrator, and ultimately sold and insured by the Administrator hereunder: such loans shall be sold and insured by the Administrator without undue delay.

"SEC. 306. GUARANTEED LOANS; ACCOMMODATION AND SUBORDINATION OF LIENS. The Administrator may provide financial assistance to borrowers for purposes provided in the Rural Electrification Act of 1936, as amended, by guaranteeing loans, in the full amount thereof, made by the Rural Telephone Bank, National Rural Utilities Cooperative Finance Corporation, and any other legally organized lending agency, or by accommodating or subordinatinng liens or mortgages in the fund held by the Administrator as owner or as trustee or custodian for purchases of notes from the fund, or by any combination of such guarantee, accommodation, or subordination. No fees or charges shall be assessed for any such guarantee, accommodation or subordination. Guaranteed loans shall bear interest at the rate agreed upon by the borrower and the lender. Guaranteed loans may be made concurrently with a loan insured at the standard rate. The amount of guaranteed loans shall be subject only to such limitations as to amounts as may be authorized from time to time by the Congress of the United States: *Provided*, That any amounts guaranteed hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States. As used in this title a guaranteed loan is one which is made, held and serviced by a legally organized lending agency and which is guaranteed by the Administrator hereunder.

"SEC. 307. OTHER FINANCING. When it appears to the Administrator that the loan applicant is able to obtain a loan for part of his credit needs from a responsible cooperative or other credit source at reasonable rates and terms consistent with the loan applicant's ability to pay and the achievement of the Act's objectives, he may request the loan applicant to apply for and accept such a loan concurrently with a loan insured at the standard rate, subject, however, to full use being made by the Administrator of the funds made available hereunder for loans under this title.

"SEC. 308. FULL FAITH AND CREDIT OF THE UNITED STATES. Any contract of insurance or guarantee executed by the Administrator under this title shall be an obligation supported by the full faith and credit of the United States and incontestable except for fraud or misrepresentation of which the holder has actual knowledge.

"SEC. 309. LOAN TERMS AND CONDITIONS. Loans made from or insured through the fund shall be for the same purposes and on the same terms and conditions as are provided for loans in titles I and II of this Act except as otherwise provided in sections 303 to 309 inclusive.

"SEC. 310. REFINANCING OF RURAL DEVELOPMENT ACT AND TELEPHONE BANK LOANS. The Administrator is authorized and directed to

refinance with loans which may be insured under this Act, all loans made for rural electric and telephone facilities under any provision of the Consolidated Farms and Rural Development Act."

SEC. 3. Section 3(f) of the Act, as amended, is amended by striking "Except as otherwise provided in Section 301 and 406(a) of this Act," and by inserting ", provided, however, that nothwithstanding subsection (a) of this section, payments of such loans heretofore or hereafter made to the Administrator for use in making loans to borrowers under titles I and II shall not include any interest" immediately before the semicolon.

SEC. 4. Section 405 of the Act, as amended, is further amended by striking subsection (e) in its entirety and by inserting in lieu thereof a new subsection (e), as follows:

"(e) Thereafter, the cooperative-type entities and organizations holding Class B and Class C stock, voting as a separate class, shall elect three directors to represent their class by a majority vote of the stockholders voting in such class; and the commercial-type entities and organizations holding Class B and Class C stock, voting as a separate class, shall elect three directors to represent their class by a majority vote of the stockholders voting in such class. Limited proxy voting may be permitted, as authorized by the bylaws of the telephone bank. Cumulative voting shall not be permitted."

SEC. 5. The second sentence of section 406(a) of the Act, as amended, is further amended by striking "from net collection proceeds in the rural telephone account created under title III of this Act" immediately after the word "appropriated".

SEC. 6. Subsection (a) of section 407 of the Rural Electrification Act of 1936, as amended, is amended by striking out "eight" in the second sentence and inserting in lieu thereof "twenty," and by striking out all of the third sentence.

SEC. 7. Section 407 of the Rural Electrification Act of 1936, as amended, is amended by adding a new subsection (c) as follows:

"(c) Purchases and resales by the Secretary of the Treasury as authorized in subsection (b) of this section shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States."

SEC. 8. Subsection (a) of section 408 of the Rural Electrification Act of 1936, as amended, is amended (a) by inserting the words "or which have been certified by the Administrator to be eligible for such a loan or loan commitment," immediately following the term "this Act," where it first appears; and (b) by adding at the end thereof the following sentence: "Loans and advances made under this section shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States."

SEC. 9. Subsection (b) of section 408 of the Rural Electrification Act of 1936, as amended, is amended by striking out all of paragraph (3) and inserting in lieu thereof a new paragraph (3) reading "Loans under this section shall bear interest at the 'cost of money rate.' The cost of money rate is defined as the average cost of moneys to the telephone bank as determined by the Governor, but not less than 5 percentum per annum."

SEC. 10. Title IV of the Rural Electrification Act of 1936, as amended, is amended by striking out all of section 412.

SEC. 11. The right to repeal, alter, or amend this Act is expressly reserved.

SEC. 12. This Act shall take effect upon enactment.

The CHAIRMAN. Our first witness this morning, I believe, will be Mr. Nelsen, a colleague in the House and former Administrator of the Rural Electrification Administration.

We are always delighted to have you, Mr. Nelsen, and we will be glad to hear from you now.

STATEMENT OF HON. ANCHER NELSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NELSEN. Thank you, Mr. Chairman; I have no prepared statement. Things have been moving rather rapidly to the degree that it

is hard to find time to prepare anything. But may I first say that I feel a deep appreciation to the chairman, who has long been associated with the program, as I have, and the fact that he has shown the concern relative to a very, very well-established need in the REA program, I think, is commendable.

I must also thank counsel, Hyde Murray, Mr. O'Neal, and Mr. Knebel with the Department. Particularly must I express my appreciation to Dave Hamil, the REA Administrator, and Everett Weitzell, who served with me in that program when I was there. They have given every assistance that we have asked for and I appreciate it.

I am an REA user. I live on a farm and I am a dues-paying member of a national association. Years ago, when I served the REA as Administrator, this agency was perhaps one of the best Federal agencies that I have ever had to deal with and most of the engineers that came into that program were all young people who showed the utility world that you could build a mile of line for about a third of what had been a customary cost. They were dedicated to a program, had been with it all these many years, and I take my hat off to them. Many of those men are here in the audience today.

I served under the Eisenhower administration as the REA Administrator and I well remember my rattly knees when I came before the Senate for confirmation. One of the Members asked me, do you have any stock? I said "Yes." He said what have you got? I said "32 Holstein heifers."

I had no problem on confirmation.

But, when I was the Administrator, we saw the need of a long-range financing plan, a revolving fund type of thing where there would be a spinoff. Private money would be borrowed into the fund and finally the Government would be phased out so the REA program would know where it is at and could look to the future with confidence. One of the finest rural programs that has ever been put together by the Congress of the United States could be on its own.

But I was bombed out. I guess we were supposed to be a dependent program, not an independent one. I found I got little help at that time, almost none at all. Apparently, there were those now who try to given the impression that we are trying to do damage to the program by doing exactly what I was trying to do at that time, which was in the best interest of the program, not against it.

So I was quite pleased when I heard some rumors that maybe a new plan might now be developed with administration support. I did not know what it would be. I had no knowledge of it and had never been consulted, I sent a memorandum to the right people, assuming that we might have a bank in the electric program similar to the telephone program which we passed in the Congress. I suggested at that time that we would get perhaps an insured, or guaranteed loan type of program administered by the REA.

But then I learned that the new administration plan was to place the program under the rural development plan. I have no quarrel with that, except that I want to know where we are going and how the program will be handled. I discovered that under the Rural Development Act, for example, you could go into municipalities of 10,000 in population, which is contrary to the Rural Electrification Act. I be-

lieve it stands at 1,500, something like that, today. To go to 10,000, in my judgment, would be a mistake.

I then found in the telephone program, for example, that you have to be a borrower under the program to qualify for those funds. I found, for example, that a cooperative could borrow more cheaply than an independent, and many other little restrictions in the language of the Rural Development Act that in my judgment, it is pretty clear that the architects of the idea had not carefully studied all of the implications of the Rural Development Act as it would apply to the telephone program and the electric program. But be that as it may, I have no quarrel with that except to point out that they did not have all the answers either.

So then we begin to review what our objective is, and what the Administration's objective is. The objective certainly is to get this program on the basis of providing its own financing, looking to the future. I think we get to crossing "t's" and dotting "i's" to the extent that sometimes, the objective is forgotten.

No. 2, I would like to also point out to the REA borrowers and to taxpayers generally, if you please, that in the last session of the Congress we heard speeches on the floor dealing with the ceiling on spending. Wilbur Mills pointed out in his speech that he would characterize a ceiling bill as being perhaps the most important bill that Congress would consider in the entire session or perhaps one of the most important bills that the Congress has considered in many years.

William Colmer, chairman of the Rules Committee, said we stood at the crossroads. George Mahon said we had to adopt a system to take care of the situation, enabling us to get a better control of actions of the Congress and the Executive with respect to spending.

I mention this because it is incumbent upon REA borrowers and citizens of our great country to take a look at what we are doing and as to whether we are meeting our responsibilities. Are we showing appreciation for the fact that we have had 2-percent money all these years to do a great program? Are we now going to fail to meet our responsibility toward some of the problems of our great country?

Bob Poage and I sat down together in his office to discuss some of our ideas about financing the REA program. I want to say to the chairman that I appreciate the confidence he has shown in me and I have great respect for his judgment and his interest in the program. We decided that we should develop a plan. We started drafting ideas and putting them on paper. It is true, no one could put on paper exactly the right answer, but we tried.

We then listened to others and made adjustments in our plans. We were at the White House one night and we both talked to the President about the needs of this program, and I think it helped. At least we have had a little bit of time to come up with something that is acceptable. We agreed on certain principles and drafted a bill.

Prior to that, we also visited with the Secretary of Agriculture, Mr. Butz, early one morning and agreed to certain things that we would go along with or would certainly consider. We didn't necessarily agree to go along in detail, but we did feel that there were certainly some areas that we might agree on. I think there has been a bit of misunderstanding as to what we agreed on, because in our draft bill were things that we thought had been resolved and are not. It

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may have been due to a lack of communication, because when I left last Thursday to fly back to Minnesota I had not put on paper any of the things that we agreed on, but had recited it orally to some members. I feel that the objectives we agreed on were missed a bit in the way the present Poage-Nelsen bill is drawn. The administration for instance was willing to have interest and mortgage payments paid into the fund. They were adament about holding impounded funds. Bob and I felt that the interest and loan payments were more than adequate and much more lucrative to the fund than the impounded funds would be.

We are concerned that if interest and principal payments are pooled into the rural development fund, how do we as farm people know that those moneys will not be used to build a sewer somewhere? We agreed, therefore, that there should be a separate REA account in the rural development fund for telephone and electric borrowers. It should be inviolate so that everything would be protected. I would prefer a revolving fund in REA itself, but I would accept a separate account in the rural development fund.

Now as to a criterion for 2-percent loans. I think those of us who have lived with this program know that the act itself is based on area coverage. We provide that every citizen is to have electric power available. So in effect, an REA cooperative is required to bring service to a person even if he is not a feasible customer.

There are those who have areas that are sparse in population and low in dollar income, so a 2-percent loan certainly would be more desirable than a foreclosure on the system. There is some need of a 2-percent provision under certain circumstances with the criteria that we tried to draft.

One of the big problems in the REA program has always been financing of generation and transmission, and one of the reasons why the distribution cooperatives have been unable to get a bank of their own, I think, has been the fear that maybe a program might run out of hand. It has been my experience as Administrator that oftentimes, a desire for an empire was more desirable than low-cost power. Establishing criteria that would make it possible for a more sensible approach in the generation field is not an easy thing to do. But I remember a little generating plant up at Homer, Alaska, a little diesel plant. I was there. That little plant would never be a big payoff, but it was the only source of power in that community. I can understand why we need to look with a little financial favor on some of those that may be in some difficulty.

But I failed to come up with any criteria that would be superior to a determination on the part of the Administrator under certain circumstances would have the right to make a decision based on the economics of the situation.

I would like to point out under the REA Act that generation loans are supposed to be made only where there is no available power or where power costs are too high. That is a criterion. The Administrator then does a feasibility study. If he has to use a wide variation of interest rates from a 2-percent rate to a 5-percent rate, or a 7-percent rate, it presents a problem in establishing criteria for a 2-percent loan for generation.

I have here letters from the Cooperative Power, from the Dairyland Cooperative, from Plains Electric in New Mexico, a telegram here from Andy Freeman in North Dakota, one from Cass County Electric in North Dakota, and all of them state that what they are concerned about is not the interest rates but the availability of funds. I would have been willing to go along with a guaranteed loan, as they have all indicated, for the generation program, with the Administrator having the authority to make a decision where an existing generation system shows a need. He would have the authority by law to make a loan to this cooperative.

I point these things out because it is a matter of semantics, it is a matter of interpretation, it is a matter of language as to how you reach those goals.

Now, concerning the telephone program, the Administration does not include in their suggestions any provision for change in the telephone program. But our good chairman is interested in that program. I am. I spoke in support of their bank. The provisions in our earlier draft provided that we would increase the Federal contribution on a 10-year basis from $30 to $50 million, increasing the ratio of borrowing from a ratio of 1 to 8 to a ratio of 1 to 20. I suggested to our good chairman that this not increase the dollar contribution, so let's go to the one to 20, which gives them a chance to go to the money market and borrow into the fund to make the program stronger. I see very little damage to the Federal Treasury on that account.

So I would say this, that on the telephone side as far as cash is concerned, which the budget people would be concerned about, we are not adding to it on that basis. On the electric side, I would say we do not need the impounded funds; we will take the interest payment. So those objectives are being met.

The administration has prepared a bill with certain provisions in it which indicates what they would support, and of course, by not including other things, I suppose they would have their doubts about others. But I will introduce their bill by request and if the chairman wishes to join me, we will put it before you for consideration. This does not mean that I endorse every item in it, but it only means that I am willing to play this thing fairly, to give their point of view a chance to be heard, and they in turn, I hope, will give us a fair opportunity to preserve our bill with certain amendments which I am willing to support.

Now, friends, I want to say that I can understand the concern of the Administration for the total budget. I think we all ought to be, and I think we all ought to also have in mind what is the objective and how do we get there? I think that Bob Poage and I have demonstrated by our performance in the past our interest in this program, our concern for it, and I hope that the national organization and the Administration and the committee will recognize that Bob and I are not married to every line in our proposal. We are struggling with something to bring before the committee, and as I have indicated on three counts, I think we missed a little bit on some of the things that we tentatively agreed upon and I hope by amendment, the committee will straighten it out.

Mr. Chairman, I submit for the record the letter from Roy Zook, the general manager of the Co-op Power Association in Minnesota in

which he said they had more concern about availability of dollars than the interest rate.

Here is one from Dairyland Co-op, one of the biggest in the United States, in which he says practically the same thing.

Another here from the Plains Electric Cooperative in New Mexico; the same thing.

A telegram from Andy Freeman, the same thing; another one from Cass County Electric in North Dakota. They say the same thing. Their main concern is the availability of money.

I would say this, that in the REA programs in our own State of Minnesota, years ago, we passed—and John Zwach was one of the authors—one of the finest tax bills that we have in the United States as far as rural electric power is concerned. We introduced a bill that was so good that we felt there was no chance to pass it. But at the same time, we introduced a bill that would give the power companies some tax advantage on rural distribution, feeling that what we were interested in was bringing power to the farmer. In our State of Minnesota, ever since that time, we have had the finest working relationship with utilities, and we started our interconnection system years ago. The power business cannot work without interconnection between private, public, and municipal companies, we started years ago on a partnership operation interconnection and it has reduced costs; it has created an attitude that is right. In the generation field most of these cooperatives are saying, "We are willing to pay the cost of money," and I would say competitive enterprises would have no right to complain under those circumstances, because that is what they pay.

I also want to say that if we are forced to go way down to 2 percent, generally speaking, on generation, we are on much too thin ice as far as feasibility is concerned and I am sure that the chairman is as aware of that as I am.

So I think the whole problem hinges on these considerations, that No. 1, we do not need the impounded funds if interest payments are included, and No. 2, if the rural development fund is used and if it is properly earmarked, we know we have available funds, I think the committee should support such a change in our bill.

As to criteria, I would lean toward giving the Administrator the authority based on economic factors so that he has a little elbow room and would not be panned by a committee for whatever decision he might make.

Mr. Chairman, I rambled around a little bit, but I did not have time to write a speech. If there are any questions, I would be glad to answer them.

The CHAIRMAN. The Chair is going to ask for unanimous consent to question out of order.

There is no objection. The Chair wants to make a few comments, I think, that will help in consideration of this matter.

The so-called Poage-Nelsen substitute has, as Mr. Nelsen pointed out, never been absolutely firm nor something that was handed down from Mount Sinai which could not be changed in any way. Nor has there been any complete agreement on the part of all parties involved. As Mr. Nelsen pointed out, he and I have worked a long time, and I want to thank him for the work he has put into this, and frankly, there have not been many people working hard on it. Frankly, some of the

people talking about compromising with us, as Mr. Nelsen has pointed out, obviously had not studied their lessons very well.

There are two or three matters of Mr. Nelsen's viewpoint that I cannot accept. I do not want to be in the position of condemning or criticizing, but I do not want this committee to feel that he is speaking for me, and I know he did not try to speak the mind of anyone other than himself. But I have tried to make it clear from the very beginning on two or three points.

The first point is that I am not going to be a party to saying that generation and transmission cooperatives cannot under any circumstances have the lower rates mentioned in the proposal. I know Mr. Nelsen feels the same way, but I do know that one of the proposals that I think he is referring to does say it in those words and I am not going to be a party to that. I have said that from the very beginning.

I am not going to be a party to taking our rural electric moneys and putting them in somebody else's fund, such as the Rural Development Insurance Fund, commingling them there to an extent that nobody knows whether it is rural development or whether it is rural electrification. I am not going to have the tail wagging the dog. I would prevent it.

Now, in the course of our discussion, this was discussed with representatives of the Administration, whom we thought were empowered to speak, who suggested that you do not need the appropriated funds—that is, the money that Congress has herefore appropriated for fiscal 1973—you do not need to put that into any fund, because we are going to give you not only the principal repayments which Poage-Nelsen asks for, but also, we are going to give you the interest that comes in and that runs, over a period of years, into $6 billion. That is lots of money. But as one has said, why, the Bureau of Budget is willing to trade $1 today for $10 in the future. And of course, we are willing to accept it. But we raised the question at that time, how do you get this money available to take care of immediate needs? And for my part, I suggested that I am perfectly willing to go along with this if you provide the money that we need now, but we have got to keep the funds separated and we have got to have money available now.

Now, I do not think that the proposal to put all of our moneys into a rural development fund is sound—we will lose the identity of the rural electric and telephone moneys if we do that.

If you keep the electric and telephone moneys separate as was just suggested and do not have any provision for transferring from one fund to the other, you do not have any cash. And we suggested, frankly, that the Secretary of Agriculture write the wording. We think if you can write that wording so that you can keep both the cash and the identity of the funds, fine. But that kind of language hasn't been forthcoming. It is not done in this draft that some of you have seen. I cannot, therefore, go along with the idea that I would be willing to have a commingling of these funds, nor can I go along with the idea that I will set up two funds and not give rural electrification immediate needed moneys. I think, however, that maybe it can be done.

But, it has not been done and nobody has yet brought up a draft that does it. And I cannot accept a proposal that does not meet those requirements.

Now, as to the criteria, I think there is some unclear thinking there. We took the criteria that were in the Teague bill. We took the criteria that our ranking minority member suggested, which were those borrowers that had less than three subscribers per mile and those that had less than $600 per mile revenues. But we find that nobody had apparently ever taken the trouble to find out what that does. When we finally found out, when we finally got the figures on that—I do not believe I have them here—but it appears that some 47 percent of the cooperatives would be getting 2-percent money. That is what it does.

Now, the Administration has suggested that they wanted to keep this figure very low. That is far more than we asked for. Mr. Nelsen and I started our suggesting that such a fund might have a hundred million dollars for this purpose. It was pointed out that if you take any figure of that kind and freeze it, the Administrator has no legal way he can operate efficiently and we find out that is true. We suggested a corridor that would have given the Administrator the authority to provide not less than $80 million for this purpose or not more than $120 million, which gave the Administrator $40 million worth of discretion. We felt that he should have some discretion, but on the other hand, and I think one of the differences that we detect right now, it has been my feeling and it still is my feeling, and I want every member of this committee to understand it, that I do not propose to be a party to giving the Administrator, Secretary, or the Bureau of the Budget—because the Administrator and the Secretary have to be subject to the Bureau of the Budget—I do not propose to give anybody the discretion to say that just in my judgment, this group will have and this group will not have 2-percent money. I have felt that we must use a criterion, something written out, something that definitely requires that those who meet this criterion of need are going to get money on those terms. Because we have seem within the last few weeks, we have seen where the Congress said, Mr. Secretary, you have the right to make these loans and he says, yes, I have the right, but I do not have to and I am not going to. And they are not doing it. And simply to repeat that kind of language would, in my judgment, be to defeat everything that we are attempting to do. I do not know any reason why the Secretary should make loans in the future if we simply say that he may, any more than he should have in the past.

So, it seems to me, I cannot go along with those items. I certainly find no fault with my colleague from Minnesota in feeling that he could accept these things. I just want the members to know that there is no understanding that I am going to accept and ask you to accept proposals that, in my judgment, would not achieve anything. I certainly am ready to follow the idea, along with my colleague from Minnesota and many others, of suggesting that we will give the Administration the opportunity to make the budgetary saving that they would like to make; it can be done. It does not save the American taxpayer anything, but the budgetary saving can be made by substituting insured loans for direct Treasury loans. We have pretty well done that throughout the Farmers Home Administration. We have not found that it hurts anybody to do it. And as long as it hurts no one and as long as it gives a better appearance to the budget, I can see no reason for not giving that better appearance. I think our whole program will be better off if we can present a better appearance to the

public. I think that the REA borrowers will be better off if they can present a better appearance to the public. I think that we can do this and I think that is the great crux of what we have been told that the Administration wanted to do. And I am willing to help do it. And I think many others are willing to help do it. I think that is the base, that is the fundamental thing that we have been trying to do.

Mr. NELSON. Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. NELSON. Mr. Chairman, I just want to comment that as far as the rural development fund is concerned, you and I are in total agreement. If the REA program is to funnel money into this pool, the REA funds must be identified. I think one of our problems that we have had all the way through this negotiation is that we have our counsel writing a bill, they have theirs, and then we have a wide difference of opinion as to whether or not the words mean what we are trying to say. I think that maybe we ought to say, in farmer language, now, here is what we want to do, period, and draft the language accordingly.

Now, I think the identification of the fund can be arranged and can be drafted, and I think certainly the use of impounded funds is no problem.

The criteria for loans at 2 percent are very difficult to write and I would say that I do not disagree with the chairman at all that some 2-percent money has to be made available in the generation field under certain circumstances, and he agrees with that. Again, we get into what we mean and the words that we use toward attaining an objective, I would say that the Administrator should have authority to do exactly that. But as a matter of policy, I think we all agree that wherever possible, he should move toward a higher rate. That will be done under the rural development act, and it would be done under the bill that Bob and I have drafted.

I want to be sure that the chairman and I are not interpreting our words to mean something that they do not mean, because I think we are in total agreement, Mr. Chairman, really basically, all the way across-the-board.

I want to say this, that I will use every influence I have with the administration if I have any at all—sometimes I wonder—but if I have any, I will use it to try to get those three things ironed out. I hope this committee will use the vehicle of the Poage-Nelsen amendment, not that I have the pride of authorship at all, but it is something that we have been talking about and I would like to do my best to get this thing really going.

I think it is tragic if we miss our opportunity. It is tragic when we find there are those who wish for an issue rather than an answer and that is in evidence. It always has been in this program. I resent having my REA program—I was part of the organization group that built the system that serves my farm, I was vice president of my own association and have been in the program a long time and I know all about it—politically exploited and it has been. I would like to see this thing get on the road toward a solid base in the future.

I sometimes think, Bob, you and I had better write the language, because the attorneys cannot agree about what the other one means in his words and God bless both of them, they have done a good job. Mr. O'Neal, here, has worked hard and so have Hyde Murray and

Mr. Knebel in the Department of Agriculture. But to get it down so that it is acceptable language is not easy to do. I admit that, and it keeps us all stumped a little bit as we go down the road.

Are there any other questions, Mr. Chairman?

The CHAIRMAN. Thank you, Mr. Nelsen. To complete the thought, and the Chair feels it will expedite better understanding of the situation, I am going to yield to Mr. Teague.

Mr. TEAGUE. Thank you, Mr. Chairman.

Inasmuch as you mentioned my name, I made that criteria suggestion rather hastily and I confess without sufficient research. It kind of came off the top of my pointed head, I am afraid. In retrospect, I think it was overly generous, but I do remind the chairman of, at the time, his comment that I was trying to gut the bill. Anything but.

The CHAIRMAN. You did not say that on the formula, you said it on the bill. The formula was generous.

Thank you so much, Mr. Nelsen. You are familiar with our practice. We hope you can be with us. We know it is possible you must be elsewhere, but we hope you can be with us to hear our next witness.

Mr. NELSEN. I will, thank you.

The CHAIRMAN. Our next witness is Mr. Robert D. Partridge, executive vice president, National Rural Electric Cooperative Association.

We are glad to have you with us, glad to hear from you. Mr. Partridge will have his associates with him. We will be glad to hear from them.

STATEMENT OF ROBERT D. PARTRIDGE, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY CHARLES E. WYCKOFF, PRESIDENT OF NRECA, PIKETON, OHIO; JOHN DOLINGER, VICE PRESIDENT OF NRECA, CLARKSVILLE, TENN.; RICHARD A. DELL, DIRECTOR, LEGISLATION AND COMMUNICATIONS DEPARTMENT, NRECA; AND CHARLES A. ROBINSON, STAFF COUNSEL, NRECA

Mr. PARTRIDGE. Thank you, Mr. Chairman, members of the committee. My name, for the record, is Robert D. Partridge. I am executive vice president and general manager of the National Rural Electric Cooperative Association. NRECA, as you know, is the national service association of nearly 1,000 rural electric systems which serve some 25 million consumers in 46 States.

I have with me on my left the president of the National Association, Mr. Charles Wyckoff of Ohio; to my immediate right is the staff counsel of NRECA, Mr. Charles Robinson; the next gentleman to the right is Mr. John Dolinger, the vice president of the association, from the State of Tennessee; and the gentleman at the extreme end of the table, a man well-known, I am sure, to most members of this committee, Mr. Richard Dell, the director of the legislation and communications department of the NRECA.

Here with me today in the back of the room are rural electric leaders from throughout the Nation—officers and other members of the NRECA board of directors, managers of various statewide associations, managers of rural electric systems and others, who have traveled to Washington for these hearings.

In the room is a gentleman who has appeared before this committee, Mr. Mark Bonner, the general manager of the Louisiana Statewide Association, who in addition is president of the Statewide Managers Association and who, though he is not a witness at the table, has told me that he is a witness and has come to lend his support in this cause.

I do have a prepared statement. I think in the interest of time, since it is a brief statement, I will stick to my prepared statement in major part.

Mr. Chairman, our presence here today demonstrates the importance that we attach to the matter before you these next 2 or 3 days.

May I add Mr. Chairman, that the many thousands of rural people who spoke through the 9,000 delegates that attended our recent annual meeting in Dallas, Tex., are equally interested in the outcome of the committee's deliberations and related actions of the Congress.

We want to express our appreciation to the chairman of this committee and many of its members who were among the first to speak out in defense of the rural electrification program when it was canceled by the Department of Agriculture's press release back on December 29.

We do appreciate the strong support you have given us, and we thank you for the opportunity to appear before you today.

We are here—not because we have a grievance with the Congress; not because we seek a political issue; not to oppose for the sake of opposition—we are here to urge this committee and the U.S. House of Representatives to reestablish its constitutional right to set policy through the legislative process.

We are here to ask that Congress act as expeditiously as possible to meet the growing financial pinch on rural electric systems that has been created as a result of the termination of the direct loans program with nothing ready to go into the REA.

My statement points out that recent Harris and Gallup polls indicate, we believe, that the American people did not mandate termination of the rural electrification program. Nor did rural electric people ask that it be ended. The strength of this program among rural people was never greater. I am sure that the rural people did not ask this program be ended.

Like the Congress, we are not even consulted on the decision before it was made! nor were we ever asked for alternative suggestions. We were simply notified by press release that the program was ended.

Our members are reasonable, hard-working people who pride themselves as good citizens and in their accomplishments in building rural America. And we have been moving, as you know, in this committee to develop our own supplemental source of capital as rapidly as possible, through the Cooperative Finance Corp. If I may say at this point, in this past year, almost half the money that went into the Rural Electric Association came not from REA but through private sources, through the Cooperative Finance Corp., and that money, at interest rates of 7½ percent, more recently at 7 percent with much money for the generation and transmission program coming partly through CPC and through insurance companies, was sometimes as high as 7½ percent. So we are not nor have we been for sometime depending on

the REA program for 2-percent money. We think we have been doing a great deal to help ourselves.

You will understand if all this has left many of our people somewhat resentful of the summary manner in which the rural electrification loan program was ended. And you will also understand that this experience has left us less than confident that the executive branch is interested in carrying out any meaningful rural electrification program.

We have communicated this and other views to you in recent weeks, our most recent letter being that of March 5, 1973.

In each of these communications, including the last, we have indicated our firm support for H.R. 2276 introduced by Congressman Frank Denholm, by many others on the committee, and by others in the House of Representatives. We have feared, Mr. Chairman, that it would be an exercise in futility for the Congress to enact a new program for the Administration to simply ignore the REA Act of 1936—unless Congress made it clear that it would not yield its constitutional authorities to the executive branch.

On February 28, a compromise proposal was announced by Chairman Poage and Congressman Ancher Nelsen, which they indicated would be moved ahead if all interested parties could agree.

When we analyzed its provisions and compared them to the set of principles our membership was just then working on at our Dallas meeting, we did find that draft seriously deficient in a number of ways. Over this past weekend we were provided with a new draft of the Poage-Nelsen bill, marked as revision 1, and it is a vast improvement over the first draft. In fact, the March 9 draft, if enacted into law, would create a viable, ongoing REA electric loan program. As we understand the language, and we have studied it in depth so that we could before appearing here, we believe that this is good, acceptable legislation.

The resultant loan program would be, in major part, and with relatively minor exceptions, consistent with the principles our members agreed upon in our annual meeting at Dallas. I would of course point out that we cannot speak for our friends in the telephone program. They are here to speak for themselves. I do not really know whether it meets all their needs. I can and do address myself to what the association does as far as rural electrification is concerned.

If the committee wishes to report this legislation without amendment, we will support that action and we pledge our unqualified support toward its passage in the House. I think that is important, because it is not by coincidence that this language meets the needs. A great deal of work, a great deal of thought has gone into it, and it has taken time, I know, for Mr. Poage, Mr. Nelsen, and others of you who have been involved in it to work out. We would submit, since we know that this will work and since we cannot be sure what changes in it, particularly major changes, would do, we would strongly urge that if you are to report it, if you report it without amendments as far as the electric part is concerned, we would also respectfully urge that you seek a closed rule when it moves to the Floor. It is a complex proposal and I am sure it will be open to sharpshooting when it reaches the Floor, notwithstanding the, I hope, strong support of this committee.

If, on the other hand, the committee does not wish at this time to report this legislation, exactly as spelled out in the March 9 draft, we strongly urge you to report H.R. 2276 at once. If that should be your decision, we will support that bill with all of our resources, and in that event we will continue to work with the Agriculture Committee and the administration toward longer range amendment of the Rural Electrification Act, but we do want to make very clear that this draft is acceptable to us as it now is.

Since the precipitous action of December 29, we have talked to a number of administration officials including the director of the Office of Management and Budget, the Secretary of Agriculture, and others, and quite frankly those discussions were most inconclusive on issues of substances. We have indicated from the outset of this whole debacle that we would deal with anybody concerned in good faith and we will continue to do that until we can get this situation worked out and satisfactorily resolved. We are interested in a loan program, a permanent program that we can depend on today, tomorrow, and next year, a program that will meet our needs and rural America's needs, and that means both volume of capital and interest rates consistent with the basic needs for the people that are using it.

No other kind of program makes any sense, because the leadtime required between study, construction, and operation in the power business is such that management must know that the funds are there and can't be jerked away on some whim and without notice.

As we meet here today there has been better than a 2-month drought on REA loans—longest since the inception of the program, since any REA loans have been made under any statutory authority available to the REA since its amendment. That is the longest drought in the history of this program.

We know that REA has recently announced 8 or 10 loans to rural electric and rural telephone systems under the so-called new program. We are also aware that they are principally paper gestures, since they are all under stop order, and no money will be advanced unless and until all of the conditions under the Rural Development Act are met.

This committee has been apprised of the financial state of affairs in the new program, since the Under Secretary of Agriculture addressed himself to your questions on this matter just a few days ago, I think, since I understand the Secretary of Agriculture addressed himself to your questions on this matter only a few days ago.

We would add to this that we have asked officials of the Rural Electrification Administration if there was any assurance that the new program would be continued beyond fiscal year 1973, and the answer was no—there is none. I do not know whether that situation has changed since our last discussions with them.

In concluding my statement, I want to reiterate our position that policy control and review of any rural electrification program must reside with the Congress, and this draft language that you are considering would bring that about. It certainly would leave with the Congress the prerogatives, and we think that is where they belong.

Finally, I would add that if America is going to meet the energy crisis, which is no longer a threat but a grim reality, it cannot do so by allowing the Government to close down the Rural Electrification

Administration on which our many rural electric power systems are largely dependent. We need action now.

We need a loan program now.

Mr. Chairman, members of the committee, I do appreciate your kind attention. I will be glad to respond to questions.

The CHAIRMAN. We thank you so much, Mr. Partridge. Your associates did not intend to add to this?

Mr. PARTRIDGE. No sir. They will participate in the questioning.

The CHAIRMAN. They give approval to your statement, I gather.

We are trying to follow a procedure that gives us a little more time for consideration of these matters and that is to ask our friends who are here testifying to stand aside until after others have testified and then we will call you back in a group. That way we find we can proceed more rapidly and we will ask you to come back later.

The next witness is Mr. William Matson, general manager of the Pennsylvania Rural Electric Association, Harrisburg, Pa.

Mr. Matson, we will be glad to hear from you.

STATEMENT OF WILLIAM MATSON, GENERAL MANAGER, PENNSYLVANIA RURAL ELECTRIC ASSOCIATION, HARRISBURG, PA.

Mr. MATSON. Mr. Chairman, I have a statement which has been circulated to the committee which, unfortunately, over 24 hours has changed significantly from what I thought it was on Friday when it was being prepared. I will read part of it, part of it I will leave out.

The CHAIRMAN. It will all appear in the record.

Mr. MATSON. Mr. Chairman, my name is William F. Matson. I am general manager of the Pennsylvania Rural Electric Association, 127 Locust Street, Harrisburg, Pa. PREA is the statewide service organization of the 13 rural electric cooperatives which serve some 115,000 consumer-member in our State. I appear here today on behalf of these systems and their consumer-members.

I would like to make a few brief comments and then I would be happy to try to respond to any questions the members of the committee may have.

Mr. Chairman, as soon as possible after the Administration's abrupt announcement December 29 that it was terminating the direct-loan program of the Rural Electrification Administration, we in Pennsylvania began assembling information on this action and its impact on rural electric systems and their members.

Much of this information was disseminated in the February issue of Penn Lines, our statewide monthly consumer publication which is sent to the homes of some 80,000 electric co-op members.

On page 23 of that magazine, we included a coupon and asked our members for their views. We asked them simply to check one of the two boxes in that coupon. The choices were these:

Yes, I want my rural electric cooperatives leaders to fight vigorously to have the rural electric loan program restored, in accord with the rural electrification law.

No, I do not care. I consider that a clear choice.

What happened far surpassed anything we had imagined. Those of you who have had any experience with direct mail know that those who get 1 percent feel that they have done a great thing. I did not bring along the literally thousands and thousands of those we got

back. The two members of the committee from our State, we have given each one of them a package. We have tabulated them, sorted them, some of the most poignant letters and comments you can imagine.

The CHAIRMAN. We have got some we will swap with you.

Mr. MATSON. I must admit, Mr. Chairman, that I was delighted to know that several of them did write to the chairman and communicate as best they can.

More than 5,000 of our readers took the time to clip that coupon, stick it in an envelope, address it, stamp it, and mail it. We were literally inundated with mail. We still are, even yet, 2 months after this issue, we are still getting about 50 coupons every day from people.

And all but a dozen or so of these 5,000 readers told us: Yes, let's fight to restore the rural electrification law. In all honesty, I should say I brought every one of those antis. I guess they must be the little stack on the top down there. And I got, Mr. Chairman, some of the nastiest letters I have in some time, too, from that dirty dozen.

I cite this experience so that the members of this committee will know that the rural people of Pennsylvania—and I believe, the Nation—support your efforts to restore constitutional government.

Mr. Chairman, our State association and its member systems fully support the position taken by the NRECA board of directors and the NRECA membership at its recent annual meeting in Dallas. I was a voting delegate at that meeting and I can report that the resolution dealing with the restoration of the REA loan program was adopted without a dissenting vote.

We, along with practically all other rural electric systems, urge this committee to adopt, without amendment, the Denholm bill, H.R. 2276, which is pending before you.

We believe that the passage of this legislation is vital if we are to reestablish the Congress as the policy-determining branch of the Federal Government. Unless and until that issue is settled, it would be an exercise in futility for the Congress to revise or revamp the Rural Electrification Act—a law which the administration is now failing to faithfully execute and which it will continue to ignore unless the Congress makes its will known.

I understand that the purpose of these hearings today is to solicit views on proposed legislation submitted to the committee by the chairman and Congressman Ancher Nelsen of Minnesota.

Unfortunately, I have not had a chance to examine in detail the latest version of this legislation which I understand only became available on Saturday. As a parenthetical aside, I might say this was written about the last bill as opposed to the present one we are talking about today.

However, it is our position that major revisions of the Rural Electrification Act must be carefully studied and reviewed before they are enacted. I would remind the committee of the countless hours of hearings and testimony that went into developing the Rural Electrification Act of 1936 and the subsequent Pace Act of 1944. These were carefully thought out and fully debated pieces of legislation. The Rural Electrification Act turned out to be one of the most successful pieces of social legislation in our Nation's history, thus underscoring the wisdom of Congress in carefully considering all the ramifications of the program it was creating.

Therefore, I urge that as the first order of business you favorably report the Denholm bill. Once you have mandated restoration of the lawful program for funding our rural electrification program, then we can begin the long and difficult task of examining the Rural Electrification Act in order to make those changes which may be necessary.

We stand ready to work with this committee and its members in developing a program which improve the budgetary impact or the interest rate structure of our present program.

We ask, however, that once that task is begun that you not be unmindful of the fact that there are still rural electric systems in this Nation—and in Pennsylvania—which must have the equalizer of low-interest loans if they are to successfully meet the challenge of providing area-coverage electric service at reasonable rates.

I would also ask that you remember that low-interest loans under the Rural Electrification Act have not come without many strings attached. You are aware of the many requirements of the act. However, I will mention one or two as illustrations. Borrowers under the Rural Electrification Act are prevented from providing service in towns of more than 1,500 people. They are prevented from serving people who are already receiving central-station service. There are a long list of rules and regulations that Rural Electrification Administration borrowers must heed. The effect of these laws, rules, and regulations has been to restrict Rural Electrification Administration borrowers to service areas that are not as lucrative as most places. This, perhaps, is as it should be. However, when and if modifications to the Rural Electrification Act come, with an attendant increasing rate of interest, I hope the Congress will remember that the very fact that rural electric systems have followed the dictates of the Rural Electrification Act makes them that much less able to bear the burden of higher interest rates or additional restrictive provisions.

In Pennsylvania, we right now are having in our farm show complex a series of high school basketball tournaments. It is tournament time in Pennsylvania. I had forgotten, I guess, back in the old high school days, in playing basketball, the high school basketball players who were Catholics, quite often when they stepped up to the foul line, would cross themselves, obviously asking for a little help. I am not a Catholic, but I never felt more the need for a little bit of help than I do today in communicating to this committee. I have steped up to the foul line a number of times and taken my chance. Today, the life, the virtual lifeblood of rural America hangs, I think, on what this committee decides not only on the Rural Electrification Act but a number of others.

I have from my Congressman's district, George, the Daily Record out of York. It is interesting to note in this paper—this is primarily a farm paper in a rural community that Mr. Goodling and I share as our home—page after page after page, Mr. Chairman, column after column, inch after inch and line after line that say, public sale of valuable farm machinery, public sale, farm machinery and equipment, public sale. Farmers are being forced off the land. The family farmer is being forced from his home. The family farmer is being forced from a heritage of one of the most valuable things, I think, a consideration that has made America the kind of country that it is.

I believe there are several things that are of significance here. It would seem to many of us who have as our life's work trying to repre-

sent people in rural areas that there must be a concerted effort, a concerted effort to increase fram prices, to put the farmer in a bad light. The press that our President talks about is not doing rural people much of a favor these days, either. Every headline talks about increased farm prices, food at an all time high. City people are getting to the point where they believe the farmer must be getting rich out there. Yet rural papers throughout rural America substantially have for sale, farm auction ads in them because rural people just are not making it. And we believe that one of the ways that you can help keep rural people, family farmers, on the farm and producing the food and fibre that this action needs at a low cost is through the rural electrification program. I think there is abundant and good justification for this program. Farmers are a proud bunch of people, with a proud heritage. They come to this committee asking for the ability and the right to borrow money and to pay that money with interest. I do not care to debate what that interest rate is, but the farmer is not one who comes for the grants that the city boys get. The farmer does not want a grant, the farmer is not asking for a grant now. He is asking for the Federal Government to make available to him amounts of money that will enable him to accomplish an objective, an objective that I think is a sound social objective, that this committee probably shares. I think this objective is one that is vital to our Nation, to be sure that we do not drive the family farmer off the farm. When potatoes cost $10 apiece, the boys in the city will little remember that a committee saved a couple of bucks on the rate of interest out of the Federal Treasury. I believe it is a vital piece of legislation.

I think many of you members who sat on this committee for years—and Mr. Poage, I feel I know you as I know my own father, as an observer and I know the kinds of things you stood for and fought for over the years. I tell you today that we look to you, Mr. Poage, for the real gut leadership that we have to have to save this rural electrification program, which I think is not only a selfish thing for the RE program, but to make it a broader aspect from the standpoint of asking for people to survive. That is a social objective that is of great interest and ought to be of great interest to this Congress and to this committee.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. We do appreciate that good statement, and hope you will make yourself available here in a few minutes.

Mr. MATSON. I will be delighted to.

The CHAIRMAN. The next witness will be Mr. David C. Fullarton, executive vice president, National Telephone Cooperative Association.

I understand Mr. Fullarton brought a couple of people from his staff.

We are delighted to have Mr. Fullarton with us.

STATEMENT OF DAVID C. FULLARTON, EXECUTIVE VICE PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY JAMES L. BASS, GENERAL COUNSEL; AND ROSS E. HELLER, LEGISLATIVE DIRECTOR

Mr. FULLARTON. Thank you, Mr. Chairman.

I will begin by introducing those with me. On my right Mr. James L. Bass of Carthage, Tenn. Mr. Bass is general counsel.

Mr. Ross E. Heller, Washington, D.C., legislative director.

Mr. Chairman, we have no prepared statement this morning. Many of our views were presented to the committee less than 2 weeks ago. With your permission, I will make just a brief oral statement.

The CHAIRMAN. Glad to have you do so.

Mr. FULLARTON. We appreciate the opportunity to appear once again before this committee, whose interests are in rural America and for rural citizens. We feel you have done a tremendous job in the past to meet the objectives of a strong rural America. I would like to say at the outset that I have not heard anything here this morning that I cannot agree with 100 percent, Mr. Matson's and the chairman's statements, as well as Congressman Nelsen.

We have two primary concerns. We have expressed them to the committee on many occasions. I will repeat them here for the record. We are very much concerned that there be available an adequate supply of 2 percent money for those systems who need it and that this supply be a permanent one and a dependable one.

Second, we are very much concerned that there be a strong, stable, and growing rural telephone bank. This committee in its wisdom passed legislation creating a telephone bank in 1971. We think it is the best thing that ever happened. It was a vital step forward for rural telephone systems in both gaining dependence from total dependence on Government subsidized money and created a situation where borrowers could obtain funds at the rates they could afford, but not at the low 2 percent. We believe the revised compromise which is available to us is a step in the right direction and we think all the changes that were made from the first version are positive changes and we support them. While we understand, Mr. Chairman, that there are some differences—you discussed them this morning before the committee—we hope you will work those out to the best possible advantage, and we support your efforts and everybody's efforts to do so.

We do support this compromise legislation, particularly the criteria contained in it. Some of it, as you know, came from the rural telephone bank language.

We support the increased lending limits for banks; we think it is needed, the increase from eight times paid-in capital to 20 times.

We support the revolving fund concept. We are hopeful that a joint revolving fund from which both telephone and electric moneys would come would be a workable solution. As you know, these programs have always been separate.

We do suggest to the committee that they consider very carefully the present operation of rural telephone bank lending programs. As you gentlemen are aware, under the present bank law, funds are loaned at interest rates starting at 4 percent and going up to 8 percent. As we understand the revised compromise, this would be changed and the lending limits of the rural telephone bank would begin at a minimum of 5 percent and stop at the cost of money to the bank, which is 6½ or 7 percent, I am not sure which. The net effect of this, of course, would be to squeeze the range of interest rates coming from the bank. In a certain sense, squeezing those limits helps the financially strong borrowers at the expense of the weak. Where a strong borrower might be paying 8 percent, where they are now paying 6½ to 7. Where

he borrowed previously at 4 percent money, he would borrow at a minimum of 5 percent.

We ask the committee to consider the impact of those changes on the rural telephone bank lending program and we do feel that if in your consideration, you consider that the limits perhaps ought not to be as broad as they have been, to consider not changing that aspect of the bank operations. That change, for the record, is specified under section 90 on page 14 of the proposal.

We look forward to seeing the final language that the chairman is working out with the Administration and we have faith and confidence in his ability to well present the views and protect the interests of the people in rural America. We are sure the best possible solution will be worked out and we feel we will be able to support it.

In conclusion, H.R. 2276 also meets the concerns that we have expressed and should the committee in its wisdom decide not to report out a compromise version, then we would find ourselves in a position of fully supporting H.R. 2276, should that legislation be reported out.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Thank you very much. We are delighted to have you with us and if you will be with us for the next few minutes, we will ask you to come back.

Mr. FULLARTON. Fine, sir.

The CHAIRMAN. Now, our next witness is Mr. Lloyd Ernst, who is the assistant manager of the Basin Electric Cooperative, which is headquartered in Bismarck, N. Dak.

Mr. Ernst, we are glad to have your comments.

STATEMENT OF LLOYD ERNST, ASSISTANT MANAGER, BASIN ELECTRIC COOPERATIVE, BISMARCK, N. DAK.

Mr. ERNST. Mr. Chairman, members of the committee. My name is Lloyd A. Ernst, I am assistant to the manager of Basin Electric Power Cooperative which is headquartered in Bismarck, N. Dak. Basin Electric is a wholesale power supply cooperative which provides bulk power to more than 100 rural electric cooperatives and public power systems in eight States of the Upper Missouri Basin.

Mr. Chairman, speaking on behalf of Basin Electric, its board of directors and its members, I wish to register our complete and unequivocal support of H.R. 2276 and related bills.

Basin Electric is in the midst of a $168 million construction program. This program includes a 460,000 kW lignite-fired power generating unit under construction near Stanton, N. Dak. and 528 miles of 345,000 volt transmission lines and numerous other transmission facilities.

To avoid a power shortage in the Missouri Basin these facilities must be in production by mid-1975. To meet that schedule there can be no delays in construction between now and 1975. Unfortunately, termination of the REA loan program threatens such delay. There will be no alternative sources of power supply available to avoid such a shortage in the region. The power is required primarily to meet the needs of farmers, ranchers, other rural residents and businesses.

In addition to creating a power shortage, such a delay would also be extremely costly. This project is the largest single power supply construction program underway in the two Dakotas. It is also the largest ever financed by the Rural Electrification Administration.

This particular program was launched in 1968 to supply needed power to rural electrics serving more than 1 million people in eight States. It was financed with $97 million of REA loan funds and $18.4 million which our member cooperatives themselves will provide out of their limited reserves.

In 1968 when plans for this project were finalized, it was estimated that the total cost would be approximately $117 million. By 1970 it was clear that inflation was going to substantially increase this cost and REA asked Basin Electric to prepare revised cost estimates. At the same time large sums of money had to be budgeted to cover costs associated with purchase and installation of equipment to meet environmental protection standards. Finally, an additional transmission line became necessary because of the failure of power companies in South Dakota and Wyoming to agree to a joint transmission program with Basin Electric and the U.S. Bureau of Reclamation.

These developments resulted in the need for approximately $51 million of additional financing. REA firmly on several occasions promised Basin Electric publicly and privately in 1971 and 1972, that it would provide this additional needed financing out of REA 2 percent loan funds. The actual making of the additional loan was postponed several times but finally firmly promised to be made on or about January 1, 1973. Unfortunately, as you know, on December 29 the Administration announced that it was canceling the entire REA loan program with no warning and without regard to outstanding commitments.

We are convinced that REA Administrator David Hamil made this commitment to Basin Electric in all good faith and that he had no way of anticipating that the program would be terminated.

As a result, Basin Electric will very soon have committed all of its financing and will need more financing in order to award the rest of our construction contracts without costly delay. We have urgently appealed to various officials in the executive branch, urging that the Administration release 2 percent loan funds to meet our needs, and that the commitment to Basin Electric be kept. Thus far, our appeals have been unsuccessful.

There is no alternative, therefore, than for the Congress to enact this legislation. It is our urgent hope that this action will be taken as promptly as possible. We were encouraged when the United States Senate passed similar legislation with a huge majority.

We request that the committee not consider amendments, which would undoubtedly delay this proposal from becoming law.

We recognize that the threat of a presidential veto looms in the minds of many. I assume, however, that Congress will not consider such possibility as a controlling basis for its decisions on legislation.

We respectfully and urgently plead again, Mr. Chairman and members of the committee, that this bill be given a "do pass" by your committee, and that it will quickly be enacted into law.

On behalf of the members and Basin Electric, we thank the committee for this opportunity to present our statement.

With respect to the amendment presented here this morning, as previous speakers have indicated, their statements were prepared prior to having had an opportunity to see that amendment to study it. Our board of directors still has not had that opportunity. We are therefore guided by the position taken by our national association here this morning. We adhere to and we support that position.

[A map submitted to the committee by Mr. Ernst may be found in the files of the committee.]

The CHAIRMAN. We thank you very much, Mr. Ernst. We appreciate your appearance here.

That completes the list of witnesses we have scheduled.

If you will just keep your seat right there, Mr. Ernst, we will ask our other witnesses who have appeared this morning if they will come back to the table and let us propound such questions as we might have.

Mr. TEAGUE. The first one is not a question, Mr. Chairman.

Mr. Matson, you stated on page 3 of your statement, "It is our position that major revisions of the Rural Electrification Act must be carefully studied and reviewed before they are enacted."

I could not agree more, but I must tell you that the Committee took action the other day without my vote to have only 2 hours, 9 to 11 on Thursday of this week, to markup some bill dealing with this very complex subject.

Now a question to anyone of you. I have heard it stated that there are REA borrowers who borrow money at 2 percent and then lend it out to savings and loan associations or other borrowers at 5, 6, 7, or 8 percent. Is this a fallacy or do any of you know of instances where that does occur?

Mr. MATSON. Congressman, in direct response, at one time, the REA Act provided a formula that you used for your reserves and it said that you should have a certain amount of money. I would guess the average around the Nation is maybe $300,000 that you were supposed to set aside and keep for disasters, for storm damage. It further provided that of course, there were certain ways that you had to husband that money to take care of it. I think our rural people, in their feeling that they ought to do the best they could with the reserve that they were saving for emergencies, they did invest it in their local savings and loans or their banks or something. Later on, the Congress made possible a special Treasury note at 2-percent interest, then most all of the cooperatives put their money into that. There is no cooperative in the United States of America that ever, to my knowledge, and I do not think there is any question, ever got 8 percent return on anything. I would guess there are very few of them that got 6 percent. Now, they were getting 4 or 4½ percent at one time.

Then is when the criticism came, and some of the members of this Committee remember when we set up the Rural Electric Treasury notes so that they could put their reserves in those short-term bills. And they have done that.

Mr. TEAGUE. I would have no objection to this reserve situation, but do any of you know of other instances or cases or situations where borrowers have made loans at higher interest rates than the 2-percent except to get a little return on reserve?

Mr. MATSON. Higher than 2 percent?

Mr. TEAGUE. Yes.

Mr. MATSON. At one time, yes; some of them did, 3 or 4 percent.

Mr. TEAGUE. Do you think that practice still exists?

Mr. MATSON. I do not know for sure that it does not exist, except that most Rural Electric cooperatives do not have any reserves anymore. So whatever that point was—15 years ago—when that was happening, that has long gone by.

Mr. PARTRIDGE. Mr. Matson has hit the point right on the head. With the drought in loan funds, the inadequacy of capital to meet their needs, most of these systems have had to use the reserves that they should have kept for renewal and replacement and which, until they were used for that purpose, should have been prudently invested until needed for the purpose for which they were reserved. They have had to pump that money into electric plant.

You have appearing before you, I assume tomorrow—he is not scheduled today—a witness from Georgia who will tell you what happens to you when you run a rural electric system and it goes down with an ice storm, as his did, and when you have to use your reserves that were being held for that purpose for other things, Mr. Teague. There are very few funds, unfortunately, left in the reserves for renewal and replacement, for storm damage and for working capital which should be, as a matter of prudent business practice, kept for that purpose.

Mr. TEAGUE. In conclusion, let me make it clear, I do not object to investing any reserve funds. I strongly object to borrowing money from the U.S. taxpayers at 2 percent and loaning it out at even 3 or 4 percent.

Mr. PARTRIDGE. Mr. Teague, I understand you and I think we did not exactly get your point. I can say unequivocally that I know of no instance in which a rural electric system borrowed mony from REA at 2 percent and then invested that 2-percent money at higher interest rate. Moneys which have been reserved are out of the margins that are members own money and not REA loan fund. The REA loan funds are advanced against completed construction and for that purpose only.

Mr. TEAGUE. Thank you very much. I am sure my time has expired.

The CHAIRMAN. Thank you, Mr. Teague.

Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman. I woke up this morning feeling real chipper. I looked out and saw the bright sunshine and said, this is going to be a good day. I came in here and Mr. Matson spoiled my whole day. He reads from my local paper that I have been reading for 50 years. I have never seen an issue at this time of year that did not have a lot of farms for sale advertisements in it. It happens every year at this time of year.

Now, he said column after column after column and I lost count of the columns. But I am concerned; I am afraid I am going to wake up some morning and find that I no longer have any farmers in my district. That would be a sorry day for me, because I happen to have been one for more than 50 years myself.

I happen to be a director in a rural bank and we do a lot of business with farmers, a lot of business with farmers. I can assure you people that our deposits are growing just like the weeds in my garden grow in August. Now, those deposits must be coming from somewhere.

I sort of resent the fact that the gentleman has the nerve or whatever it takes to come in here and tell you the farmers in my area are not doing too well. I believe I am more closely associated with those farmers than he is.

I want to assure you people that in spite of what he said, the farmers, the good farmers, in my district are not in the desperate and horrible condition that he pictures. This is certainly not a correct observation and I would like the record to show that it is not.

Mr. MATSON. Thank you, Congressman. You and I, George, are in the same old ball park here. I appreciate the way me and my constituents are being represented down here.

For the record, I think you can submit those columns and for the record, I think I also ought to submit a column which we do not have which shows the number—this it not from your paper, this is from the Review.

The CHAIRMAN. The Chair is going to hold that this is not going into the printed record. It will be filed with the record of the hearings. But we are not going to pay $2,000 a page to print these advertisements that did not cost that much in the first place.

Mr. MATSON. Mr. Chairman, on behalf of the Pennsylvania farmers who have to sell their farms, they sure would appreciate that exposure, though, I will tell you that.

The CHAIRMAN. Yes, sir.

Mr. Jones?

Mr. JONES of North Carolina. Mr. Chairman, outside of the last colloquy we had, this has been a most harmonious meeting and I do not intend to upset it by asking any questions.

Thank you.

The CHAIRMAN. Thank you.

Mr. Mayne?

Mr. MAYNE. Thank you, Mr. Chairman. I would like to address my comments and questions to Congressman Nelsen.

Congressman Nelsen, I certainly want to commend you for the great contribution that you have made here. It is obvious that you and the chairman have worked very hard in trying to arrive at an agreed solution which would move us toward a consensus that will not only pass the Congress on a bipartisan basis, but will also have the support of the Executive. I think it is obvious that there has been considerable movement since this committee last met, when, as I recall, Mr. Chairman, you pointed out that the administration had not contacted you. Now, it appears that through your and Congressman Nelsen's efforts, there have been a number of contacts and that there has been real progress made toward arriving at something that we can all support.

Now, I would ask you, Mr. Nelsen, you have told about these meetings that you and the chairman have had with Secretary Butz and with Dave Hamil, the REA Administrator and with Dave Barton of the department. Do you feel that through these meetings and the progress that has been made that the administration has been negotiating with you and the chairman in good faith in trying to arrive at a solution?

Mr. NELSEN. I am sure that they have, Mr. Mayne, and I think that the present draft could have followed the, not firm agreement but at

least understanding that we had with the Secretary. As it is it threw everybody into assuming that we ran away from language that we had agreed upon or not agreed upon. That is hardly the term; but language that we were in tentative agreement on, if you can put it that way. I think there was probably an attitude on the part of some that we did not operate in good faith. Well, really, I think Bob Poage's letter to the Secretary following that meeting cited these facts.

But I want to say that I think that it is a matter of putting words together that does the job and I think we can do it. I hope that this committee will carefully review this draft language because I noted Bob Partridge's statement (Bob used to work for me, one of the best employees that I had in REA) that this bill has to pass without amendment under a closed rule. Now, I do not think any of us is asking for both interest payment and impounded funds, the whole works. Any sensible person knows we do not need both of them. So, how can we say that it has to be just the way that this is drafted.

Now, I do not think that is what we want. Of course, if we want an issue, we could go that route. But I think we should approach this with the idea of getting a bill passed.

The administration proposal may not meet what we have agreed upon. I have not studied it so I do not know.

Mr. MAYNE. Do you have a copy of it there?

Mr. NELSEN. I do not have a copy.

Mr. MAYNE. I wonder if Mr. O'Neal or Mr. Murray could provide Congressman Nelsen with a copy.

Mr. NELSEN. There is a copy in front of me.

Mr. MAYNE. Do you have it in your hand now?

Mr. NELSEN. I have it here, yes.

Mr. MAYNE. I ask unanimous consent that the document which Congressman Nelsen now has produced as the administration bill be made a part of the record in connection with his testimony.

The CHAIRMAN. I am going to have to hold just as I did a few minutes ago, that it can be made a part of the record in the files but not that it be printed.

Mr. MAYNE. That is agreeable to me, Mr. Chairman. I just wanted to be sure that it is identified so it will be available, readily available.

The CHAIRMAN. It will be.

[The above referred to Administration bill was made part of the record and may be found in the files of the committee.]

Mr. NELSEN. I have indicated as I did in the testimony that I would be willing to introduce the administration bill by request. I cannot say I am familiar with every detail of it, but I believe the Administration's point of view should be brought to the attention of the committee so that when we do come to a final conclusion, it is in the committee's hands.

Mr. DENHOLM. Mr. Chairman?

The CHAIRMAN. Mr. Nelsen, that raises a question that I wanted to comment on a while ago and did not see any proper parliamentary way to do it.

Under the rules, sir, under which this committee operates, it is not necessary. You have a perfect right to introduce it as a bill if you care to, but this proposal is subject to amendment and I told Mr. Teague the other day that it would be subject to a substitute and that

would be in order if anybody cares to offer this as a substitute for or amendment to, it would be in order.

Mr. NELSEN. Fair enough.

The CHAIRMAN. While it is all right to introduce it, it is not necessary under that rule of parliamentary procedure.

Mr. NELSEN. Mr. Chairman, what I want to do in every respect is to have the door open to anybody who wants to feed anything into this discussion. I do not want to give the appearance of denying anybody a chance to be heard, because we may need some help down there, too, to get a compromise worked out. It is OK by me.

Mr. DENHOLM. Mr. Chairman, point of inquiry, please.

The CHAIRMAN. Well, the gentleman's time has expired.

Mr. DENHOLM. Very well, thank you.

Mr. MAYNE. Mr. Nelsen, the chairman has said that he would not want to be a party to the G and T's being completely ineligible to get 2-percent money. Now, there is a provision in the Administration draft, is there not, at page 4, section 305, which does give the Secretary power to authorize 2-percent loans to G. & T.'s?

Mr. NELSEN. Yes, there is. There is such a provision as I mentioned in my testimony. I do not know how you would write criteria on G. & T. There are some that are already in operation, there are new ones that may be coming in, and there are old ones that are in trouble. Just how to write criteria that fit the total package, I would be nonplussed about the language myself, but I do think that the Secretary or the Administrator must have the authority to make a determination to give the 2 percent loan to a generation co-op because it may be the only power supplier of an area and may be in financial trouble.

The CHAIRMAN. The gentleman's time has expired.

Mr. MAYNE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Alexander?

Mr. ALEXANDER. Thank you, Mr. Chairman.

I would simply say that I appreciate the contribution that each of you gentlemen have made here today and would add that because of your leadership, I believe that REA and Rural Telephone will continue to flourish and provide the needed assistance that is so richly deserved by rural America.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Alexander.

Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Partridge, you say in one of your paragraphs that if the committee wishes to report the legislation without amendment, it would have the full support of your association. I would like to have a statement of yes or no from the other participants.

You are Mr. Ernst?

Mr. BASS. No, I am Mr. Bass.

Mr. ZWACH. Does that agree with you, that you would support the Poage-Nelsen bill as it is?

Mr. BASS. We speak mainly from the telephone program and as Mr. Fullarton pointed out, there are some amendments, some things from the telephone program that we would seriously expect that the committee would consider primarily dealing with the program that maintains that as a viable program for many of these small coopera-

tives that cannot afford higher interest rates and also as far as the bank funds are concerned. We would have to take a good look at the final version, sir, before we could make a final statement on that.

Mr. ZWACH. Mr. Matson?

Mr. MATSON. As Mr. Partridge said, and we subscribe to that, too, we believe that the amendment in the bill that you are looking at this morning meets many of the things that we feel are absolutely vital. It does not have all the goodies in it that we would certainly like to have, but we understood that the committee wished us to come up or to participate in a realistic compromise and we believe that this is. We would support this bill in its present form.

Mr. ZWACH. My time is very limited.

You are from North Dakota?

Mr. ERNST. I am Lloyd Ernst, that is correct.

Well, quickly to repeat, prior to coming here yesterday afternoon at about 4 o'clock, we had not had an opportunity to see this new amendment. The members of Basin Electric have for many years by resolution supported the creation of a revolving fund. My understanding is that this amendment would create such a fund.

We understand and we assume that under this amendment, Basin Electric would receive the $51 million loan which the Administrator, in writing and verbally, pledged on numerous occasions would be made to Basin Electric. We assume that in this new amendment, that would be possible out of 2 percent loan funds.

Mr. ZWACH. Thank you.

Mr. Fullarton?

Mr. FULLARTON. Yes, Mr. Zwach. I think Mr. Bass stated the position of the National Telephone Cooperative Association. He was the first gentleman to speak.

Mr. ZWACH. This does protect, as I understand it, the telephone bank?

Mr. FULLARTON. As my testimony stated, we would prefer that the lending program of the telephone bank remain as is. This proposal would change it.

Mr. ZWACH. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Zwach.

Mr. Jones?

Mr. JONES of Tennessee. Thank you, Mr. Chairman. I want personally to thank you and Mr. Nelsen and the others who have spent many working hours working on this important legislation. I feel as though we may be approaching the point that there will be some area of agreement. I did have one question for Dave Fullarton and I am not sure if it has been completely answered or not.

I think for the benefit of the committee, we need to ask Mr. Fullarton to go into detail a little bit more on section 9 on page 14 of the new revision and let us know exactly what he does want there or what he opposes.

Mr. FULLARTON. Gentlemen, section 9 essentially amends section 408 on the Rural Electrification Act. Section 408 deals with telephone bank lending. It does not have reference to the electric program at all. That third paragraph that has been stricken basically says that money will be loaned by the bank at varible rates of interest based on criteria

of a lending level of $150 million coverage, et cetera, with a minimum lending rate of 4 percent. The way that has been interpreted in use since the rural telephone bank became law has been that loans have been made at 4 percent and all percentages up to about 8 percent. This would strike that provision and provide, as you can see, that loans in this section would bear interest at the cost of money rates. The cost of money rate is defined as the average cost of money by the bank as determined by the Governor, but not less than 5 percent. There will be a single bank rate.

The rural telephone bank has made $160 million or something in loans since it started operation at an average rate of about 6½ percent. This can be considered the average cost of money to a rural telephone bank. What this would do is make all loans at a single rate. Our position is that this would penalize those who can fully pay for it by insisting that they pay 6½ or whatever if they have to go to the telephone bank and would help those who can actually pay 8 and have been paying it by dropping their interest rate down to 6½. We think it would be appreciated to leave the bank lending program as at present. That is our position.

The CHAIRMAN. Would the gentleman yield?

Mr. JONES of Tennessee. Yes.

The CHAIRMAN. The figures that we have on that, and of course, I do not want to be absolutely certain about this figure, but the figure we have from the Rural Electrification Administration is that this would result in an interest rate that would be 6.17 percent at a lending level of $180 million. You have to take the lending level into account and the rate will differ depending on the lending level that you have. So that frankly, it does raise the rate. These calculations from downtown would indicate that it would not raise the rate that it might appear—and without going into those figures, to just better than 6 percent.

Mr. JONES of Tennessee. Thank you, Mr. Chairman. That is all.

The CHAIRMAN. Mr. Sebelius?

Mr. SEBELIUS. Mr. Chairman, I want to thank you and Mr. Nelsen for the hard and long hours you have put in on this. My only feeling is that I want a bill and my people want a bill and I want to do what I can to help get one. I would like to yield the balance of my time to Mr. Mayne.

Mr. MAYNE. Thank you, Mr. Sebelius.

Thank you, Mr. Chairman.

Mr. Nelsen, referring again to the very illuminating comments which have been made by the chairman this morning, he expressed concern that the Rural Electrification Administration funds should under no circumstances be commingled with other funds and emphasized the need for clear segregation of those funds and preserving their integrity. Now, it is true that in the administration bill that you have introduced, in section 306, there is some provision that these funds are to be paid for rural electrification purposes. It says they may be used for all purposes relating to rural electrification and telephone loans, but it does seem to me that that may not be tight enough, that that language should be tightened up to make absolutely sure that the money is not used for other purposes. And I am wondering if you would favor adding some language there in that paragraph at the top

of page 5 that would make this segregation of rural electric and rural telephone funds more complete?

Mr. NELSEN. I certainly would. It is my understanding from the Secretary of Agriculture that language would be written in for a separate account to prevent the possibility of Rural Electrification Administration loan funds and interest payments building sewers somewhere. This could easily happen. It is money that has been loaned to the farmers. They are paying the interest, they are paying the principal, and no situation should arise where they would lose track of the money because it was not properly earmarked. I am in total agreement with the chairman that this language should be written in a manner that makes that very clear and nails it down. Bob and I may have to sit down and write some language ourselves.

I agree with you.

Mr. MAYNE. So there could be separate checking accounts which would clearly segregate the rural electrification and telephone funds?

Mr. NELSEN. I would say so. I think somewhere down the line, some comment was made that funds coming into this from all sources would commingle, but a separate account would have to be set up so that every dollar that comes in from REA payments would be accounted for. Now, I suppose it is pretty hard to take a dollar and route it all the way around, but if the account is doing the job, this is what I want and I think we should have.

Mr. MAYNE. Now, referring to this same section, 306, which provides that all collections representing payment of principal and interest on loans and proceeds from the sale of securities from such loans heretofore or hereafter made pursuant to title I and title II or insured pursuant to this title shall become part of the fund and may be used for all purposes relating to rural electrification and telephone loans—is that the language in the Administration bill which has been described as providing $6.7 billion for rural electrification and rural telephones over a period of some 35 years?

Mr. NELSEN. It is my understanding that it is; yes.

Mr. MAYNE. Now, as far as amounts made available for this purpose are concerned, how does that compare with what has been done in the past, $6.5 billion for this purpose under this section?

Mr. NELSEN. I do not know that I have those figures, but I do know this, that the chairman and I were amazed that interest payments would flow to this fund, because we felt that this was pretty generous and much more generous than had the impounded funds gone into this fund. So we thought we had made a pretty good horse trade in getting the interest payment instead of the impounded funds.

Mr. MAYNE. So it would represent, in your judgment, a very substantial or, as you say, generous approach to this problem?

Mr. NELSEN. Very much so. Very much.

Mr. MAYNE. And would it not be a rather substantial increase over what has been available in the past?

Mr. NELSEN. It is my understanding that it would be. I have never figured it out, but it is my understanding that it would.

Mr. MAYNE. Thank you, Mr. Nelsen.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Mayne.

Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman. I thank the witnesses that have appeared for excellent statements of record. I commend each of you for the logic with which you have approached a very difficult problem.

I have said before that if the yardstick is a measure of value, my bill stands at point 36 on that yardstick and the position of the Administration is zero. Mr. Poage, our distingished Chairman, and our colleage, Mr. Nelsen, have submitted a proposal that is near 18 on that yardstick. The witnesses today should be commended for conceding to that compromise. The chairman and Congressman Nelsen have worked in good faith in an effort to produce compromise. I was discouraged by the testimony of the officials of the Administration and the witnesses that appeared last week. They received at point zero on the yardstick of value and offered nothing in the way of compromise. Some things have been accomplished since then and the days that followed have resulted in concessions by the proponents toward compromise.

Now, I am at some loss this morning as to procedure. I ask my colleague, Mr. Nelsen, if you have introduced another bill or if you are offering different language as a substitute that should be before this committee, do witnesses have copies of your proposal to evaluate and what is your objective today?

Mr. NELSEN. I think that you are certainly aware of the fact that Mr. Poage and I have been trying to draft something that we think we can go all the way with. If you want a bill, we will introduce one and do it in a hurry.

But may I also say to you, Mr. Denholm, that I can well understand your concern for the program and I can well understand the purpose of introducing a bill until a substitute has been developed. I think you deserve our compliment for being willing to do exactly that.

But I think you can also imagine all the agonies that Mr. Poage and I have gone through in trying to get some language that we think can be sustained. I think we are approaching that goal judging from testimony that we hear, and I think it is a matter very much of language that does what we want to do. And I think we can do it. And I thank you for your interest.

Mr. DENHOLM. Are you offering it is a substitute?

Mr. NELSEN. I will offer it as a substitute, yes; and then we can work from there, yes.

Mr. DENHOLM. May I ask you, Mr. Chairman, based on your remarks in response to Mr. Nelsen's testimony earlier, if you will explain for the record paragraph 2 on page 3 of the draft of March 9?

The CHAIRMAN. Paragraph 3 on page 2?

Mr. DENHOLM. Paragraph 2 on page 3, Mr. Chairman. It starts with—it is subparagraph 4. It is the second paragraph on the page. It reads "All appropriations for electric and telephone loans previously made under the authority of section 3 of this act and funds obtained in accordance therewith," and so on.

The CHAIRMAN. What that does, as I understand it, is to place the unobligated balances of the fiscal 1973 appropriations in this revolving fund. Now, I want it real clear that I am not contending that any party representing the Administration agreed to that. But they did

agree in writing that we would make moneys available to carry on the program.

In trying to draft that, and no effort was made to try to draft that by those who suggested this compromise, we came to the conclusion that you cannot get there from here, that you simply cannot put the repayments into this fund and put no cash in there now, none of the unappropriated funds, and have anything to operate on for the next several months. And it was to achieve the operating funds that we have simply written it this way, knowing that it does put more funds in there than the Secretary of Agriculture agreed to. And certainly, I would not for 1 minute want to see anybody believing that the Secretary suggested he would do it. But he did suggest that he would make it available immediately, the money. And this is the only way we found of making the moneys immediately available.

Mr. DENHOLM. Very well, thank you.

The CHAIRMAN. Now, we have suggested and my letter to the Secretary did suggest that he come up with language that would make possible what was discussed, but he has not come up with that language. Consequently, we came up with language that makes possible a part of what was discussed.

There were two phases to the discussion and we take care of one of them; one of them we do not.

Mr. DENHOLM. Thank you very much for your explanation.

Do I have time remaining for further questions?

The CHAIRMAN. No; the time of the gentleman is up.

Mr. Mizell?

Mr. MIZELL. Thank you, Mr. Chairman.

I think that we are confronted here with at least one problem that came up in the last Congress and that is the proposed community development bill which would have jurisdiction over REA and which was not considered by Congress.

Now, from my own standpoint, I would much rather see REA being administered under Rural Development rather than under an agency that might be oriented toward metropolitan areas as might be possible under such legislation. So as far as transferring to rural development, I have no difficulty with that. I think we would rather be there than we would somewhere else.

Now, as long as the REA is administered according to REA criteria and that the program be administered according to the REA laws and guidelines rather than under rural development at the present time; is this the real concern with you?

Mr. PARTRIDGE. Well, speaking for the rural electric system. Congressman Mizell, yes, it is. There are requirements under the Rural Development Act, there for good reasons, for the purpose for which that law was intended by the Congress, which really do not fit the rural utility systems, such as electric and telephone. I know that the Congress had in mind specific purposes with that act. We were quite active in the support for that legislation and we appeared before this committee in support of it. I know what the Congress had in mind with respect to the Rural Development Act. I know that Congress did not intend that that money be siphoned off and that authority be used to the detriment of the other purposes, that the act was really

best for it. I cannot speak for the telephone people. I will yield to Mr. Fullarton.

Mr. MIZELL. Just one more question before you yield. Then your real concern about being under Rural Development, about being placed under Rural Development, is that your greatest fear is that you might be administered according to Rural Development language rather than according to REA?

Mr. PARTRIDGE. That is one of our basic concerns. There is also concern about the interest rate. The authorities under that act are broad enough to permit interest rates at lower than 5 percent and Heaven knows, as has been brought out by members of the committee and other witnesses here this morning, there is a need for interest rates as low as 2 percent, without which many of these systems cannot get the job done. That is not the way they are proceeding at the moment. The REA Administrator at this moment has no authority to make any loans except at an interest rate of 5 percent.

Mr. MIZELL. Would you prefer having the criteria spelled out as to how 2-percent loans would be made, or would you object to the Administrator having the authority to make the 2-percent loans in accordance with needs?

Mr. PARTRIDGE. The criteria as spelled out in the revision No. 1, entitled "Poage-Nelsen Substitute to Proposal H.R. 2276," are in every major part acceptable and entirely satisfactory to us. We would probably write them a little differently, but as I said earlier, this bill will do the job and we do not want to clutter it up with trying to perfect it to our own needs and all others doing likewise when the thing is as near perfect as it could hope to be.

Mr. MIZELL. This gets to a real concern of mine and I am not sure that I understand completely the criteria that have been set forth here. But according to my knowledge, none of the co-ops, telephone, or rural electric co-ops, would be available for any 2 percent money in my district if we are tied to a criterion that is spelled out in the proposal. I intend to investigate this some more, but it appears that if the Administrator would have some jurisdiction in this matter, it is very possible that some of my co-ops in some of the areas that they are having to provide service would be available for 2 percent money. But under this criteria, I am almost positive that they are completely frozen out of even 2 percent money.

Mr. PARTRIDGE. I cannot confirm or deny what you say, because I really do not know the particular cooperatives in your district. You may be quite correct.

Of course, this points up the very problem that has been occasioned. The Administration was proceeding until December 29 with a program that put components of 2 percent money in various percentages into every loan. That was all wiped out on December 29 and now there are no 2 percent moneys available. We were beginning to feed in the outside capital in increasing proportion, again according to ability to pay.

Mr. MIZELL. It is not within the realm of possibility that there would be some co-ops, both electric and telephone, that because of unusual hardships, might be eligible for 2 percent money if the Administrator has the authority to make those loans that would not be available under the criteria that we have here.

I want to thank you for your comments. If I have just a moment?

The CHAIRMAN. You do not have any.

There is not time enough for even one more 5-minute question between now and 12 o'clock. I wonder how many of the members have a question; who really want to propound a question. Hold up your hands. Do not try to talk to me.

We will take another half hour. Mr. Stubblefield will stay with you. I have a meeting at 12 o'clock that I must attend.

Mr. STUBBLEFIELD [presiding]. Mr. Brown?

Mr. BROWN. I have no questions.

Mr. STUBBLEFIELD. Mr. Young?

Mr. YOUNG. Mr. Stubblefield, I would just like to recognize a fine delegation here from South Carolina. I would like to have them stand up, please, sir. I know they are tired of sitting down.

Mr. STUBBLEFIELD. We are glad to have you, gentlemen.

Mr. Bowen?

Mr. BOWEN. Mr. Nelsen, I wonder if you could just clarify one thing that I am not quite clear on.

As I understand it, you are appearing before us asking for support for what has been described as the Poage-Nelsen revision. But at this point, there is another document before you which I do not think the rest of the committee has seen which is described as the Administration bill.

Mr. NELSEN. Yes.

Mr. BOWEN. Which one of the two are you asking support for from the committee and to what extent do you feel this Administration bill is a radical departure from the Poage-Nelsen substitute?

Mr. NELSEN. I hope the committee takes the Poage-Nelsen bill. I am frank to say that a couple of the suggestions that I think we agreed on with the Secretary—at least I did—on two or three points there ought to be some review with the idea that we take a look at the Administration proposal, and see if there can be some changes made that would accommodate the objections of the Administration. I think that in most cases we could make those adjustments and we can pass a bill. That is why I do hope we can stay with the Poage-Nelsen bill, because I think we have a much better chance with it to go all the way.

Mr. BOWEN. So the actual support which you are placing behind legislation is behind the Poage-Nelsen revision and you simply regard this Administration draft as something to be considered in the process of deliberation?

Mr. NELSEN. With the idea that there are some changes that should be made in our bill, for example, the including of impounded funds. If we get the interest payment, there is no point in getting too greedy about it. We can forget about impounded funds if we get the interest and principal payments coming in on mortgage payments from the REA systems.

Mr. BOWEN. Thank you.

Mr. Chairman, let me just say that I am very pleased that we have a very fine delegation from Mississippi in the back of the room as well today. They are already standing. I do not think they have gotten chairs back there.

Mr. STUBBLEFIELD. Mr. Johnson?

Mr. JOHNSON. I would just like to ask these gentlemen to provide me with some information. As is so often the case around here, I have attended all the hearings, but I do not really know all the facts and figures that I think we should have if we are going to deal competently with the legislation.

For example, last week we heard about the 88 associations that need to have 2-percent money. Do not misunderstand my question. I am all in favor of the REA program, and I understand your problem. But at the same time, we have heard about these 88 associations that need the 2-percent money. We have never seen any figures to show what the increased interest costs would mean per farm in these areas—for example, if you are increased to 5 percent, it will be a $30,000 increase on $1 million of loan, for example? What I am really driving at is the criterion in section 305(b) (I), (II), and (III). That language has been suggested here by I do not know whom.

Mr. MATSON. While Bob is looking for that figure, we ran one through. We think it would cost, the difference between 2 and 5 percent would cost $700,000 additional on every million dollars borrowed for the term of the loan.

Mr. JOHNSON. Over a 35-year period?

Mr. MATSON. Yes.

Mr. JOHNSON. What does it mean per year? Per subscriber per year? In other words, if I were a city Congressman and this bill comes up sometime in the next week or so, I would start asking these questions and I do not think there is one of us on this committee that can answer them.

Mr. PARTRIDGE. Congressman Johnson, it is a hard question to answer in my simple form, because the whole system differs so much from one system to another in terms of the investment per consumer or subscriber.

Mr. JOHNSON. I understand. I am just asking for some general information on this. If you can just put it together and give it to me, I will submit it to the committee.

Mr. PARTRIDGE. We will be glad to. We do have some figures on this. It ranges, depending on investment and density and so on.

Mr. JOHNSON. I understand.

Mr. PARTRIDGE. It is a rather substantial amount and rather detailed and it comes on top of rates that are higher than those in urban areas and going up rapidly.

Mr. JOHNSON. That is the sort of thing we ought to have so we can come up with something.

Thank you.

Mr. PARTRIDGE. We will provide them for you.

Mr. JOHNSON. Thank you.

Mr. STUBBLEFIELD. Are there other questions?

Mr. DENHOLM. Yes, please.

Mr. Partridge, you testified that you will accept the Poage-Nelsen substitute without amendment. Is that correct?

Mr. PARTRIDGE. Yes sir, Mr. Denholm, that is correct.

Mr. DENHOLM. May I direct your attention to section 304 on page 6 and ask you if you would have objection—I know you have not had the proper time to study this and think about it, but I would like your

response in the record—now if the committee in its wisdom should insert the words "and directed" after the word "authorized" in line 2 of section 304.

Mr. PARTRIDGE. Congressman Denholm, we would have no objection to that change. As a matter of fact, we would hope that this bill would leave no doubt about the mandatory requirement that the act and the law be carried out and that would improve the bill from our point of view.

Mr. DENHOLM. Very well.

May I ask you also, that if the committee in its judgment should decide to leave the language as it now is for the telephone loan authority as shown on page 14 rather than the suggested language of the Poage-Nelsen proposal, would that be acceptable to you?

Mr. PARTRIDGE. Yes, sir, it would. We certainly respect the views of our telephone colleagues.

Mr. DENHOLM. Now, may I refer you to section 301 on page 2? I ask you if the language in subsection (1) section (a) of 301, where it reads "all notes, bonds, obligations and property delivered or assigned to the Administrator pursuant to loans heretofore or hereafter made under sections 4, 5, and 201 of this act and under this title," et cetera, if that language is totally acceptable to you?

Mr. PARTRIDGE. Yes, sir, it is.

Mr. DENHOLM. Mr. Chairman, sometime in the future, I will be concerned about whether or not the people that own the systems when the loans are paid have right of representation in the management decisions of their own affairs. It seems to me that the present language pledges all equities to the revolving fund and I perceive that in the future some cooperatives will fuly satisfy all mortgages and may not desire all of their equities to be under the control of the Administrator if they can operate free and clear of all encumbrances. But I am not pressing that as an issue at this time, but sometime in the future the right of representation in management decisions of the cooperatives should be reserved to the people involved therein.

Thank you, Mr. Partridge.

Thank you, Mr. Chairman.

Mr. STUBBLEFIELD. Any other questions?

Mr. MIZELL. Mr. Chairman, I thought if I might have just one brief question I had in mind when my time ran out, I would like to direct this to my colleague, Mr. Nelsen, because of the concern that was raised here in the committee about the establishment of the revolving fund, that there would not be loans available at this time or any money available at this time for the co-ops to meet their immediate needs. Is it the proopsal of the Administration in the draft that you were referring to a few minutes ago that there would be the guaranteed and insured loans which would be available while this revolving fund is building up its resources?

Mr. NELSEN. It is my understanding that it would and if the language in their proposed legislation does not give that assurance, I can assure you that it will be drafted so that it will, because this is a very firm understanding that there would be immediate money available to do exactly what you are stating.

May I also, while I have the chance, say to the telephone borrowers that are here, the provisions that they speak about as to a variable

rate, it may well be that the United States of America would be better off with a variable rate, because there would be some paying more than 5 percent, some less, but the average would be over and above what we would get under the terms of this bill. This is not an idea of mine, but I think Mr. Poage expressed some concern about the ratio which would be an advantage. The formula is not something that I was involved in, but I want to say I think there is merit to the gentleman's statement.

Mr. MIZELL. Well, I think you have certainly answered one of my great concerns as well as the concerns of the co-ops in my area. That is that there would be adequate funds available for loans at this time.

Mr. NELSEN. Yes; now, the Administration says that the rural development fund is already in existence, but I think there is some question as to whether or not, under the terms of the act, they have the right to use this fund for this purpose. So I think that must be clarified in this legislation so that it is definitely understood that this money can be made available immediately to do the job.

Mr. MIZELL. I appreciate my colleague, not only for his coming here, but also for the tremendous amount of time and effort he has put in, in trying to see that our rural telephone and rural co-ops are provided the resources they need to continue to meet the needs in rural America. I certainly congratulate him as well as the members of the co-ops who are here.

You are doing a great job, you have provided a great need in rural America, and I do not think you are going to be prohibited from continuing. I thank you.

Thank you, Mr. Chairman.

Mr. STUBBLEFIELD. Gentlemen, we appreciate your appearance here this morning. The committee will stand adjourned until 10 o'clock tomorrow morning.

[Whereupon at 12:10 p.m. the committee recessed to reconvene at 10 a.m., Wednesday, March 14, 1973.]

94-225—73——13

REA LOAN PROGRAM

WEDNESDAY, MARCH 14, 1973

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

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

Present: Representatives Poage, Foley, de la Garza, Vigorito, Jones of North Carolina, Sisk, Alexander, Jones of Tennessee, Melcher, Denholm, Brown, Bowen, Rose, Litton, Gunter, Teague, Goodling, Mathias, Mayne, Zwach, Sebelius, Mizell, Findley, Thone, and Madigan.

Also present: Representative Nelsen; Christine S. Gallagher, chief clerk; John O'Neal, general counsel; Hyde H. Murray, associate counsel; and John Rainbolt, assistant counsel.

The CHAIRMAN. The committee will please be in order.

We are met today to further consider the so-called Poage-Nelsen substitute to H.R. 2276. We have some three witnesses, I believe, who I presume might be said to be affirmative witnesses that we would like to finish up with and then hear from the Department. So without any unnecessary delay, we will just call Mr. Harold Peterson who is executive director and counsel of the National REA Telephone Association, with headquarters here in Washington.

Mr. Peterson, we will be glad to hear from you.

STATEMENT OF A. HAROLD PETERSON, EXECUTIVE DIRECTOR AND COUNSEL, NATIONAL REA TELEPHONE ASSOCIATION, WASHINGTON, D.C.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, I do not have a prepared statement. I merely want to reiterate in a few brief words our position concerning the Poage-Nelsen compromise which has been submitted to the committee.

First of all, we want to state unequivocally that we support the Poage-Nelsen compromise. We do this for two basic reasons. First of all, it contains what we believe is a viable means of meeting the needs of REA telephone borrowers who have been involved for some 23 years in this program.

Second, we support it because we feel that it goes a long way, if not almost the full distance, in accommodating to the concern of the administration which was enunciated on December 29, 1972, when the press release from the Department of Agriculture was promulgated.

The people who make up the REA telephone companies who borrow under this program are very responsible people, Mr. Chairman and members of the committee, and they share the same concern that not only the administration, but the Congress and members of this committee share in solving the fiscal situation in our country to the point where it can be coped with in a responsible manner. We fully agree that unless this is done, we have greater things to worry about than just the REA telephone program. We want to say at the outset that we deeply appreciate the time and the effort that the chairman of this committee and his colleague, Ancher Nelsen, from the Second Congressional District of my State of Minnesota, for the time that they have devoted to bring about this proposal. It obviously shows a tremendous amount of work and effort and we are very deeply grateful to them for that.

I would like to comment briefly about the Rural Telephone Bank. I do not know what the telephone people would be doing today were it not for the Telephone Bank which has been in existence since the President signed it into law on May 7, 1971. For the record, we would want the committee to know that since Governor Hamil signed those first 5 loans on January 21, 1972, until yesterday, a total of 179 loans have been made to REA telephone borrowers, totaling $204,360,890. That is a tremendous record for having been accomplished in such a short period of time. And again for the record, I would want it to indicate that our association deeply appreciates the work and effort of Governor Hamil and his staff for this tremendous job. You can imagine the concern that these borrowers would have today after the announcement of December 29 had they not had the Rural Telephone Bank as a stabilizing force to help meet the need, because on February 28, just a few days ago, there were still $560 million of unapproved telephone loan applications on hand. This is higher than on the electric side and has been for some time. Telephone borrowers are vitally concerned about that backlog.

As far as any particular parts of the proposal are concerned, I would agree with the chairman that there are a couple of areas in which perhaps there is not a complete meeting of the minds. For the record again, we want to state that we agree with the chairman that as long as whatever accommodation is worked out with the administration which assures enough money to get the job done, and protect the integrity of the program, it really should not make too much difference where the money comes from.

If an accommodation can be worked out so that the Administration does not have to use the unobligated funds for fiscal year 1973 but is willing to assure the borrowers under the REA program that adequate moneys will be available from another source, then I think we would agree that this approach would be acceptable.

I think there is one other troublesome area, and that is the matter of the criteria. Quite a few of our people were upset after that December 29 announcement, because it appeared that the 2 percent program was completely out the window. And it was and is under that announcement. However, in the last 2 or 3 weeks, it appears that there is a willingness on the part of the Administration to assure those companies that need 2 percent money that they will be able to get it.

The problem, of course, arises in setting up the criteria. We would agree with the statement that the chairman made yesterday that we would want to be assured that the money was going to be available and used so that never again would we be faced with the kind of predicament that we were faced with on December 29, when suddenly, the rug got jerked out from under us.

I recognize what the Office of Management and Budget is up against in trying to bring this picture into a proper financial focus. In the discussions that I have had with some of the people over there, I get the feeling that if the criteria as to who gets 2 percent moneys can be worked out in a satisfactory manner so that all parties understand clearly what each is trying to do, this problem can be solved. I know it is a very difficult one, because it is not easy to write criteria into law and it may be that there has to be some adjustment here yet; I do not know. But we do support the criteria that is in the proposal we are talking about here today. If someone can come up with a better one, which gets the job done and protects the borrowers that need that 2 percent money, we would support it.

I want to thank this committee, especially those members who were here in the Congress during those days in which we were trying to get the Telephone Bank. A tremendous contribution was made not only to rural America but to the Nation as a whole by the establishment of that bank. Providing modern telephone service to rural America is good not only for people who live in rural America but for the good of the entire country. Were it not for this type of program, we would not have the modern communications system that we have today, joining the network of the giant Bell system and providing the finest telephone service in the world. The bank is doing a wonderful job and will continue to do so. We are grateful for the work and the effort which this committee expended to achieve that fine result.

In examining any kind of governmental program as to whether or not it has met its needs or is found wanting in any way, we would once again state that the REA telephone program is not a program as such in the accepted sense of the word. The REA telephone program is an institution in this country and was brought about by dire necessity, on the electric side 37 years ago and on the telephone side, 23 years ago.

The kind of objectives that the Congress set out on both the electric and the telephone side are being accomplished and this is to the credit of the program.

As far as the American taxpayer is concerned, there has never been a default in the entire history of the telephone side. I think as far as the electric side is concerned, I do not know of any over there, either, but possibly there may have been one.

So in dealing with the priorities as to how we spend the Federal dollar and how shall it be used, we would hope that the committee—and I know that the committee will—will recognize the part that REA has played in accomplishing the furnishing of electricity and telephones to our country.

In closing, Mr. Chairman, I want to make a personal comment. This will be the last time that I will be appearing before this committee during the tenure of Mrs. Christine Gallagher, chief clerk.

For the record, I want to express to Mrs. Gallagher the sincere appreciation of the members of our association for the kindness and the courtesy which have been extended to us over the years in making our request to appear before the committee and we wish her on her retirement happiness and contentment, which I am sure she will, get away from the tumult and storm that is a part of the Committee on Agriculture. We wish her well.

Mrs. GALLAGHER. Thank you.

[Applause.]

The CHAIRMAN. We thank you for your statement, Mr. Peterson, but I wish you would not bring up unpleasant subjects. We have been bothered about this. We regret Mrs. Gallagher's retirement as much as you do.

The next witness is Adm. William C. Mott.

Admiral, we will be delighted to hear from you.

STATEMENT OF ADM. WILLIAM C. MOTT, EXECUTIVE VICE PRESIDENT, U.S. INDEPENDENT TELEPHONE ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY EUGENE J. HARMON, STAFF DIRECTOR, USITA REA PROGRAM; AND LYDIA BITTER, LEGISLATIVE ASSISTANT

Admiral MOTT. Thank you, Mr. Chairman.

My name is William C. Mott. I am the executive vice president of the U.S. Independent Telephone Association, a trade association which represents 95 percent or over 21 million of the independent non-Bell telephones in the country. With me in Eugene Harmon, staff director of our association's REA borrowers committee, and Miss Lydia Bitter, who is our legislative assistant.

Mr. Chairman, many of our member companies operate in rural areas and small towns. Of the 1,100 operating company members in our association, 515 are financed in one way or another by the Rural Electrification Association. Some 434 of these 515 members borrowers operate as commercial companies and 81 are cooperatives.

It has been my hope, ever since the President's impoundment action, that this committee would be doing exactly what it is doing today—trying to work out a compromise which would be acceptable to the REA borrowers, the Congress and the President. In testimony I presented to the U.S. Senate Committee on Agriculture and Forestry on February 5, 1973, and in a statement submitted to this committee on February 26, I expressed my hope for a compromise in these words:

> I am hopeful that in the spirit of compromise a way will be found to take care of the financial needs of these REA borrowers who do not fit the mold of the Rural Development Act and whose sources of capital from both the direct loan program and the REA Bank have been cut off.

It became apparent relatively early in this exercise, Mr. Chairman, that the compromising parties in any amendments to the REA Act are like a three-legged stool: the borrowers, the Congress, and the executive department. I represent one leg of that stool, the borrower members of my asociation.

The borrowers quickly realized that the Rural Development Act which was offered by the executive department without any consulta-

tion with anybody—Mr. Butz admitted to me that he was not consulted; certainly the borrowers were not consulted, and as far as I know, nobody in the Congress was consulted—but it was offered as a substitute for existing programs was not an appropriate or satisfactory vehicle to solve their financial needs. I will not burden the committee with the reasons why the Rural Development Act is unsatisfactory because it has had adequate testimony on that score. But if I might use a simile, it is like trying to put a square peg into a round hole; or my assistant here, who wears a size 10 dress, to squeeze her into a size 4. When that happens, something is going to be left out in the cold. And that is exactly the way we looked upon the Rural Development Act.

Now, I have had the opportunity to read Mr. Campbell's statement since I came into the hearing room and while it might not be proper for me to comment on it, it does seem to me that it goes some distance toward effecting a compromise so that people will not be left out in the cold, which the present act does.

Now, our members in the telephone industry are in sympathy with the desire of the Chief Executive to hold down spending and we agree that any compromise should have the accord of the executive department because the problems of the borrowers are not solved by long drawn out conflict between the other two legs of our stool, the Congress, and the Chief Executive.

It has long been the desire of Presidents of the United States and I put that in the plural form—to get the REA direct loan appropriations out of their budgets. Many of us thought that the passage of the Rural Telephone Bank bill would eventually accomplish this purpose. However, the bookkeeping rules adopted by the Federal Government have thwarted this hope. It appears that the compromise proposal worked out by Chairman Poage and Congressman Nelsen, a former REA administrator, who I see is with us today, accomplishes the purpose of President Nixon. There seems to be some disagreement on that score from the other leg of the three-legged stool, but we have not seen any legislation that they propose, so it is a little difficult to tell.

The amendments set forth in the compromise are highly technical but what comes through loud and clear is the proposal to set up a revolving fund to provide insured and guaranteed rather than direct loans and that the granting and administration of these loans would be within the discretion and under the supervision of the REA. That is at it should be. The REA has the expertise to perform the job and should be allowed to continue to exercise that expertise and not put it in some other agency that does not have any experience with this type of operation.

I know there has been great concern in many quarters about eliminating 2-percent loans except where it can be demonstrated that they are needed to bring service into rural areas. The compromise agreement appears to set up criteria which would control the granting of 2-percent loans and keep them to a minimum. The U.S. Independent Telephone Association applauds the effort and hopes that if the criteria are adopted into law they will be strictly construed and applied. As Mr. Peterson testified a few minutes ago, if anybody can come up with any different criteria which suit the situation better, we would be glad to take a look at it.

As this committee knows, our association worked very hard to assure the passage of the REA bank law. In fact, it might be said we worked on both of the other legs of the three-legged stool in getting the bank bill through. We had a lot of difficulty. We took the case for the bank bill to the Secretary of the Treasury personally, to the Office of Budget and Management, to the Council of Economic Advisers, and finally to the Office of the President.

We even wrote Lyndon Johnson a letter one time that in order to get away from this 2-percent problem, he ought to give the REA Administrator authority to charge REA borrowers what they could afford all the way up the line. His reaction to that was sulfurous. He could be sulfurous, you know, at times. He said, that does not get the damn thing out of my budget. The interest is not the problem, as you know, it is the money in the budget. And that is how he came to back the bank bill. We also testified before the two cognizant committees of Congress and managed to persuade our whole industry, including the Bell System, to endorse the bank bill.

We are delighted to learn that the Poage-Nelsen compromise seeks to increase the capacity of the bank by enlarging the authorized borrowing ratio. And I hope the Administration witnesses will have something to say about that. I note that their statement does not mention it. We are pleased that the terms of the Poage-Nelsen proposal would permit new borrowers into the bank upon certification of the REA Administrator that they are otherwise eligible for a loan under the basic act. We think that is very important, because we had some 57 borrowers that were left out in the cold when the 2 percent money was cut off. They were to get a token loan from REA in order to qualify them to go into the bank. At the moment, they are still out in the cold.

We approve also the provisions for a single rate of interest in the bank. We feel that the provisions in the compromise proposal for insured 2 percent loans under criteria established by the Congress and 5 percent insured loans, both out of the revolving fund, and finally for cost of money to the bank loans, establish enough steps in the financial ladder for companies at varying levels of financial maturity. A sliding rate of interest in the bank would simply make the stronger companies subsidize the weaker, which is not a good idea in our free enterprise system. Moreover, and this is very important, it discriminates against subscribers whose interests we all have at heart.

Mr. Chairman, I believe we are making real progress toward making our three-legged stool a piece of furniture we can all sit on without rocking. I know that Mr. Ancher Nelsen is a great furniture restorer. I just hope that when the rest of the committee tries out the stool he and Mr. Poage are attempting to restore, they will find that it is stable and sittable.

Thank you very much, Mr. Chairman. I will be glad to answer any question.

The CHAIRMAN. Thank you very much. We appreciate your appearance. You understand that we are now following the practice of waiting for questioning until we have heard all witnesses and then calling them back en bloc.

Now, we have one more witness, Mr. T. C. Long, manager of the Walter County Electric Membership Cooperative in Monroe, Ga.

We will be glad to hear from you, Mr. Long.

STATEMENT OF T. C. LONG, JR., MANAGER, WALTER COUNTY ELECTRIC MEMBERSHIP COOPERATIVE, MONROE, GA.

Mr. LONG. Mr. Chairman, distinguished members of the committee, I want it understood from the outset that I do not sit before you as a legislative expert. I am here to give you a little background information as to the difficulties that our particular co-op and other co-ops are having in the State of Georgia.

We have heard many words here in hearings in the last 2 days about co-ops that are unable to pay because of higher interest rates and because of low density. I would like to tell you a little bit about the plight of a fast-growing co-op, with a density of about 9 percent mile and still growing.

We certainy appreciate the time to appear before this committee. As you know, I am general manager of the Walton Electric Management Cooperative headquarted in Monroe, Ga. We operate two district offices at Snellville and at Watkinsville, Ga., which is the home county of the distinguished Under Secretary, Mr. Phil Campbell. In fact, he is one of our favorite members.

You know, the Rural Electric program—I have been in the Rural Electric program for 28 years and 24 of these years as a general manager, both in the G. & T. and distribution areas in Kentucky and Georgia. I have been in Georgia now for 10 years. Our co-op serves parts of 10 counties, from Stone Mountain to Adams. This is often referred to as one of the fastest-growing areas in the United States.

Lately, we have been in great trouble as to source of capital to connect all of the new residences, small businesses, and so forth, that are moving into our rural area. To top it all off, our funds were cut off on December 29. We suffered a devastating ice storm which cost our cooperative approximately a quarter of a million dollars. In fact, our January operating report—I am afraid to send this in to the Administrator, but as far as general funds are concerned, it shows an overdraft of $396,000.

Previously, we have been able to get temporary funds for disaster purposes from REA, but I was told that no funds were available, so I turned to our second course, our Rural Utilities Financing Cooperative, which we refer to as CFC, and they have bailed me out on a temporary basis.

To show you some degree of the acceleration that is going on in this area, in 1968, we added 1,000 meters to our system. In 1972, we added 4,000, and in 1973, we expect this to go to somewhere between 5,000 and 6,000 new meters that will be added. We have more than doubled our membership in the last 10 years and we will more than triple it in the next 10 years. These are conservative forecasts that are contained here in our 10-year financial forecast that we have prepared along with the good folks at REA.

This sounds like good business, and it was before rapid growth set in. When I first went to Walton, through my expertise as an general manager, I have been able to lower the equity of the Walton Electric Membership Cooperative from 27 percent to 18 percent. This is because our capital investment far exceed our repayment schedule at the present time. But gentlemen, when a developer walks into your office with

a 6,000 block subdivision, he wants service now. He does not want me to tell him, well, we are going to have to wait until we see whether or not we are going to have the money for it. He has the money to develop his sewerage and his streets and other things that it takes to put a development together and he is looking for electric service. A lot of this now is being put in underground. You cannot put in underground service one service at a time. You have to put in underground service in an area and then wait for the business to come to you. In our case, it has not been taking very long, but still capital outlay has to be there.

I was a member of the long-range planning committee which helped set up the National Rural Utilities Finance Corp. a few years ago, now known as CFC, and I think this was a step in the right direction. But, of course, as you know, it has only started to fly. We still need the help of the Congress to carry out the intent and purposes of the Rural Electrification Act. We cannot depend on 100 percent outside financing at this time when our capital needs are as great as they are.

Our last four loans have been combination contract loans with REA and CFC, which started out with 90 percent REA and 10 percent CFC, then 80 percent REA and 20 CFC, and our last loan is to be 70 percent REA and 30 percent CFC, or was to have been.

We contracted for this loan last September and we filed an application at that time with REA for almost $4 million. Due to budgetary restrictions, this amount was reduced to $1,800,000. Well, I was not too concerned about that, because at least we were keeping afloat and we could file another application after this one was approved. But to date, we have not been approved, the application has not been approved, and of course, since the action on December 29, I am sure you gentlemen know the reason why.

We have borrowed in the meantime from CFC, in January, $1 million on a short-term loan which is to be repaid to CFC within a 12-month period. We are having a board meeting tomorrow at which we plan to file another application with CFC for $1 million to carry us through June 30. We were told by REA after the ice storm that it would be advisable for us to look to outside sources of financing through June 30. That is the reason for this action. And at a minimum, we will need somewhere between $600,000 and a million dollars from June 30 on to the end of the year to finish out the year 1973.

The first 2 months of this year, building permits are 25 percent ahead and of the same 2 months—that is, January and February—and you gentlemen know they are not good building months, not even in Georgia—and they are 25 percent of the same 2 months of last year. This is what is happening in our territory.

Two years ago, Georgia Power Co. increased our wholesale power cost by 50 percent and probably, we hear, another 15 percent this year. That 50 percent caused us to have to pass on to our customers about a 20 percent increase in retail rates and, of course, any increase in interest costs or any other costs—this is only one phase. When we get through paying higher interest rates, higher power costs, and inflationary trends of labor and material and also pay off our debt at the same time to the Federal Government and the CFC, there is only one place we have to get our revenue and that is from the consumer. These costs must be passed on to the consumer.

As you know, REA is a lending agency. They do not make grants and all of this money must be paid back, paid back with interest.

To compound the injury, we have approximately $400,000 in advance payments at the present time with REA on our outstanding loans and these figures I quoted to you that we will need in addition to capital takes into account that we will use approximately 300,000 of that advance payment over the next three quarters which will, for all practical purposes, wipe out our cushion of credit. But this is another source of capital funds for us and it looks like we are being forced to use it.

Our headquarter's building was built in 1949. That is a good many years ago and with the growth we have had, you know we are sort of like the gentleman referred to the lady inside the dress here a while ago. Well, some of our people are getting out in the cold. We have people almost sitting in each others lap. Maybe that will keep them warm.

Gentlemen, the board of directors and the managers of the Rural Electric Consumers of Georgia urge you to give favorable consideration to this compromise bill and I am sure that you gentlemen in your wisdom will come up with something that we can live with. I think it is just a matter of where we are going to put it. With the situation that prevails especially in a fast-growing area, I am hoping that you will find the correct place to put it as soon as possible.

Most good legislation, as I understand from our legislators back home, comes out a compromise and I think that is what this story is all about here this morning and I hope that the borrowers and the lenders and the Congress can all get together and come up with something that will really be a benefit to both the telephone and the rural electric consumers of the State of Georgia and the rest of the United States.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Long. If you will just remain at the table, I am going to ask the other witnesses, Admiral Mott and Mr. Peterson, to come back here. We will give members who feel that they have questions to ask an opportunity to do so. I am going to ask you all to be as brief as you can on these questions. We do have the Under Secretary waiting to be heard. It is not that we want to cut you off on questioning these gentlemen.

[Off the record discussion.]

The CHAIRMAN. Are there any questions of this panel?

Mr. MAYNE. Mr. Chairman, thank you. It is not really a question, but I did want to say something to Admiral Mott. Admiral, in your testimony, you said you were not aware of or had not seen any bill that would incorporate some of the things that the administration has been talking about here. I would just like to call to your attention that Congressman Ancher Nelsen did introduce such a bill yesterday, H.R. 5536, and a copy of it was made part of the record during our hearing yesterday morning.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Does anybody over here want to ask a question?

Yes, Mr. Thone.

Mr. THONE. Mr. Poage.

Mr. Long, did I take it from your testimony that one of your concerns is the fact that you have a 6,000-lot subdivision that needs power

right away and was it your argument that it should have this power at a so-called 2-percent-interest-loan-rate factor?

Mr. LONG. No sir, I did not mean a 2-percent loan interest rate. What I was talking about is we must have a source of capital. I think there is a compromise that can be worked out in this area.

Mr. THONE. OK, I wanted to clear this up.

Mr. MOTT. Mr. Chairman, when will copies of Mr. Nelsen's bill be available so it can be examined by us?

The CHAIRMAN. I do not know. The Chair was not advised of anything about Mr. Nelsen's bill and I do not understand that it is Mr. Nelsen's bill, I understand that it is Mr. Nelsen's bill only by request.

Is that right?

Mr. NELSEN. Right.

The CHAIRMAN. It is not the so-called Nelsen-Poage compromise. That I want to make real clear, that that is not involved in the bill that has been introduced. This is something that I know no more about than you do.

Mr. MOTT. Well, that is exactly my point. We really had not had a chance to examine it.

The CHAIRMAN. Well, it is not the matter before the committee. The committee here is considering and your testimony was supposed to be on, and was, on the question of the Nelsen-Poage compromise. That was the purpose of the meeting today. It is not to consider some new bill that has been introduced.

Frankly, I have not seen the bill, either. I understood yesterday that Mr. Nelsen had a bill. I thought he was going to offer it or someone would offer it in the committee, probably. But that is not the proposal before us.

Mr. MOTT. We support the Nelsen-Poage compromise.

Mr. NELSEN. Do you prefer the blended rate in the telephone loan or the fixed 5 percent?

Mr. MOTT. Well, in talking about the bank——

Mr. NELSEN. Yes.

Mr. MOTT. We prefer the fixed rate, which as we understand it, would come out about 6.2 percent, which is the cost of money. The reason is that we feel that the blended rate would have a tendency to discriminate so that the stronger companies would support the weaker and also, we think it discriminates against the subscribers. We think that in the Poage-Nelsen compromise, there are enough steps in the ladder so that these companies, according to their ability to pay, can either go to the 2 percent, the 5 percent, or jump to the 6.2 percent. It is not much of a jump.

Mr. NELSEN. Thank you.

The CHAIRMAN. Thank you.

Are there any other questions?

If not, we are obliged to you gentlemen for your appearance. We are glad to have your views and we appreciate your coming.

Now, Under Secretary Campbell and General Counsel Knebel and the Administrator of the REA, Mr. Hamil, are here. We are delighted to have all three of you and we will be glad to have any statement any or all of you care to make.

STATEMENT OF HON. PHIL CAMPBELL, UNDER SECRETARY OF AGRICULTURE, ACCOMPANIED BY JOHN KNEBEL, GENERAL COUNSEL; AND DAVID A. HAMIL, ADMINISTRATOR, REA, U.S. DEPARTMENT OF AGRICULTURE

Mr. CAMPBELL. Thank you, Mr. Chairman. I must take note of the fact that the manager of the REA of which I am a member, the Waton Electric Membership Corp., has testified here. I do want to state for the record that we could have no finer service than is from this particular cooperative. I had a milking machine for 8 years with my cows. I had a neighbor in an adjoining county who asked me where I got my power. I said REA. He said, that is too bad. I said why?

Then he had to think why, he paused, and he said, well, poor service.

I said, well, how many times a year do you have to milk by hand? He was not an REA man. He did not have power from REA. I knew I was going to booby trap him.

He said, well, not more than two times a year.

And I said, well, Clif, I want you to know that I have been on REA for 8 years and I have milked by hand only half of one milking in 8 years.

I do want you to know that Mr. Long has probably the best-managed REA in the United States and I am one of his customers. And he is in probably the fastest growing area of the United States from the standpoint of economic progress.

I do want to make one more point before I read a brief prepared statement. The administration's position is that we very much want adequate funding for capital structure of REA as evidenced by the fact that approval was given to increase from slightly over $400 million to more than $600 million the money available for REA under the current operation.

Although I have previously appeared, Mr. Chairman, before this committee to present the views of the Department of Agriculture on a measure to amend the Rural Electrification Act of 1936, it is my understanding that the reopened hearings are to consider a different version, namely, the "Poage-Nelsen" compromise. It is for this reason then that I have asked for additional time to again appear before the committee, to further clarify the position of the Department with respect to the Rural Electrification Act program.

In some respects, our position on this very important program remains unchanged. Indeed, from the overall standpoint, the administration is vitally concerned with maintaining budget outlays at a rate which will not require a tax increase.

The administration is unalterably opposed to any program which has been so purged of discretionary powers as to preclude its effective management. Similarly, the administration is unalterably opposed to the undue proliferation of loans subsidized to such a degree as to impugn the integrity of rural America. That is not to say, however, that the administration is unwilling to authorize 2-percent loans to REA electric and telephone participants which are true hardship cases.

During our earlier appearance, several members of the committee were troubled over the administration's decision to make rural electrification loans via the Rural Development Act rather than the Rural

Electrification Act. As you know, the Rural Development Act utilizes guaranteed and insured loans, or, stated a different way, the cash outlays come from the private sector with the backing of the Federal Government to achieve the same purposes. The Rural Development Insurance Fund is in being, and is funded sufficiently so that there is little likelihood that supplemental appropriations will be required for the next several years.

Questioning by members of the committee indicated some reservation in utilizing the Rural Development Act for REA loans. This was precipitated, we believe, because the act requires a finding of no credit elsewhere; mandatory refinancing; comment by various planning agencies and local public bodies; and review by the Secretary of Labor.

Because the administration is most anxious to minimize direct outlays, it turned to the Rural Development Act. The administration acknowledges the concern expressed by members of the committee as noted above. Therefore, during our last appearance, we indicated that we would look at any measure proposed by the committee. During the past 2 weeks, a dialog has developed and several areas of agreement have been reached. However, from the standpoint of the administration, the Poage-Nelsen compromise under consideration this morning does not reflect that accord. The Poage-Nelsen compromise is deficient inasmuch as it is a mandatory loan program which by virtue of the creation of yet another backdoor spending fund requires substantial outlays. The Poage-Nelsen compromise is also deficient owing to its loan criteria—no borrower would be asked to pay the market rate and, indeed, upward of $200 million per annum of 2-percent loans would be required.

From the standpoint of the administration, legislation which achieves the following would be acceptable:

Retention of REA's traditional and time-proven role as a loanmaker and servicer of loans.

Amendment of the Rural Electrification Act of 1936 so as to authorize the making of insured and guaranteed loans under the act.

The repayment of principal and interest from outstanding REA loans will be paid into the rural development insurance fund. Consequently, lending authority for the program would continue unimpaired. In essence, an account guaranteeing the integrity of the REA program would be established within the rural development insurance fund.

The rate of interest for guaranteed loans to be established between the parties to the contract.

Generally, the rate of interest on insured loans for electric distribution would be 5 percent.

Generally, the rate of interest on telephone distribution loans would be set at rates varying from 5 percent to market, based on the applicant's ability to repay.

Generally, except for a few hardship cases, the rate of interest for electric generation and transmission would be at the market rate.

Providing 2-percent money in specified cases establishing criteria of: a density of three per mile and a time interest earned ratio, TIER, of 1.5 or debt service coverage, DCS, of 1.25 would be acceptable.

Finally, the Secretary to be granted the authority to make a hardship loan in extenuating circumstances.

Mr. Chairman, that is my statement.

The CHAIRMAN. Thank you very much.

Are there any questions.

Mr. Gunter?

Mr. GUNTER. No questions, thank you.

The CHAIRMAN. Mr. Madigan?

Mr. MADIGAN. Mr. Campbell, I am interested in trying to establish for my own education exactly how the Department of Agriculture established the priorities that it does in terms of the budget that it will have or will hope to have. Do I understand correctly that the Office of Management and Budget at the outset says to the Department of Agriculture, so much money will be acceptable to the administration as a budget for your Department; you in turn put together things within your Department to arrive at that figure. Is that the way this thing works?

Mr. CAMPBELL. Well, in a manner very similar to that but not exactly in that respect, because in the initial go-around, we are not given an absolute ceiling. It is a ball park figure. Then we make our presentation based on what our agencies have said to us and our consideration of their request, putting together a package at the Secretary level and sending it over to OMB. OMB has given us a ball park figure but not an absolute figure.

That is on the first go-around. You asked me do they give us originally in the very beginning a flat ceiling figure. They do not at that stage. Later they do give us an absolute, flat figure, but not in the initial state.

Mr. MADIGAN. Are we in the initial stage?

Mr. CAMPBELL. No, this year's budget has already been presented by the President to Congress. We do not begin another round for, another few months.

Mr. MADIGAN. Well, when you say that what is being proposed here as a compromise is not acceptable but other things would be acceptable, and then you detail those things that would be acceptable, are you making that judgment, or who is making that judgment if you are not?

Mr. CAMPBELL. No, we are making this together. The package that we have discussed here is outside the budget. This is the argument that we are having currently on this bill. Previously, the REA loans had a budget impact whereas guaranteed and insured loans do not have a budget impact because they do not reflect in the budget.

I heard the previous testimony from the telephone cooperators where they had this same discussion with the preceding administration, where they were also wanting to get these figures outside the budget. So we are not talking about budget impact here now unless we are talking about returning to loans from the Treasury. We are really talking about how we would do this.

Mr. MADIGAN. Thank you.

The CHAIRMAN. Mr. Litton?

Mr. LITTON. Mr. Secretary, what in your opinion is the difference in cost and outlay between the Poage-Nelsen compromise and the existing bill on an annual basis?

Mr. CAMPBELL. Our estimate, of what I have outlined would be about $30 million and the Poage-Nelsen would be in the neighborhood of $200 million so far as going against the budget is concerned.

That is the 2-percent money.

Mr. LITTON. That is all, thank you.

The CHAIRMAN. Mr. Thone?

Mr. THONE. Mr. Chairman, with your consent and with the consent of the committee, I would like to yield my 5 minutes to Mr. Nelsen, the coauthor of the compromise legislation before us.

The CHAIRMAN. Certainly. We will recognize that when we reach Mr. Nelsen. We are delighted to have your comments and we will let him use your time. We will give it to him.

Next is Mr. Rose?

Mr. ROSE. No questions at this time, Mr. Chairman.

The CHAIRMAN. Mr. Findley?

Mr. FINDLEY. Mr. Campbell, your responses to the question by Mr. Litton indicated that the budget impact——

Mr. CAMPBELL. I removed that budget impact. I said the difference in the 2-percent money would be $30 million under the outline that I had and $200 million under the Poage-Nelsen compromise.

Mr. FINDLEY. Could you estimate what the difference in budget impact would be?

Mr. CAMPBELL. Let me have the general counsel answer this, because he has dealt in detail in this area, if you will.

Mr. FINDLEY. Surely.

Mr. KNEBEL. Mr. Findley, the budget impact under the Poage-Nelsen compromise would be an amount equal to that which was appropriated for the 1973 fiscal year budget for the REA. Under the version which would be acceptable to the administration, there would be zero budget impact, because the funds which would be used for the initial sales of the loans would be the Rural Development Insurance Fund. So the difference would be the amount within the 1973 budget that would become unimpounded, or disimpounded, as it were, that would go into the fund which would be created by the Poage-Nelsen bill, whereas, on the other hand, the version acceptable to the administration would use no budget outlay.

Mr. FINDLEY. What difference would this really make to the vitality of the Rural Electric Cooperative depending upon government loans? Would it really make any difference whether the seed money is paid in or not?

Mr. CAMPBELL. No, this would make no difference to the cooperatives. That is your question?

Mr. FINDLEY. Yes; in other words, could they count on ample loan money being available?

Mr. CAMPBELL. Yes, and as I stated in my statement, we think this is funded adequately for several years.

Mr. FINDLEY. So the seed money should not be regarded as item of great consequence from the standpoint of the cooperatives?

Mr. CAMPBELL. That is correct.

Mr. FINDLEY. Would you explain why there is the $130 million difference in outlay required by the 2-percent provisions in differing versions? Why is it so much greater under Poage-Nelsen? What causes that more substantial figure?

Mr. KNEBEL. Sir, it is caused by the language of their draft. They approach the problem by creating a fund which would be comprised of, among other things, the amount of money which was appropriated by

the Congress but as yet has not been disbursed by the President or on which there has not been a release by the Office of Management and Budget. So if you take that money out of the budget and put it into their fund, this then shows up as a budget outlay.

Mr. FINDLEY. Yes, but that is not necessarily 2-percent money, is it?

Mr. KNEBEL. No sir.

Mr. FINDLEY. What I was trying to get at is why the outlay expected for 2-percent loans would be so much greater under Poage-Nelsen as contrasted with the administration version?

Mr. KNEBEL. Well, sir, the criteria under the Poage-Nelsen bill, I suppose we could characterize them as somewhat more lenient than those which would be acceptable to the administration. As you have the more lenient criteria, you have more applicants qualifying for 2-percent loans and the Administrator would, in turn, put money out at 2 percent. The Government would have to subsidize the difference between 2 and the market; on the other hand, the criteria would yield only a potential exposure of about $30 million at 2 percent under the program which is anticipated this year.

Mr. FINDLEY. Well, Mr. Chairman, it seems to me that there is a substantial spread here on the question of 2-percent loans. I can see that as a very substantial item of difference. But beyond that, I do not see any irreconcilable problems in trying to reach a compromise between Poage-Nelsen and the administration's position. For one, I would like to express a hope that a compromise can be achieved, and I see the red light is on.

The CHAIRMAN. What you have seen indicates that your time is up.

Mr. FINDLEY. I congratulate the chairman on establishing the machine. I think it is a great idea.

The CHAIRMAN. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

I thank the witnesses for appearing before the committee, particularly Mr. Hamil, the Administrator of the REA program. He was not with you gentlemen last week when you testified. It is clear from your testimony of record that you are opposed to H.R. 2276, are you not, Mr. Hamil?

Mr. HAMIL. Yes sir, that is correct.

Mr. DENHOLM. It is also clear that you prefer the Poage-Nelsen language as a substitute to the language of H.R. 2276? Is that correct?

Mr. CAMPBELL. The Poage-Nelsen substitute also has language which is not acceptable to the administration.

Mr. DENHOLM. For the moment and within the limit of my time, may I examine the criteria of your proposal? Do you agree that the language still reserves the traditional and time-proven role of the Administrator of the REA program under the Poage-Nelsen language?

Mr. CAMPBELL. In the Poage-Nelsen language?

Mr. DENHOLM. Yes.

Mr. CAMPBELL. Yes, the Poage-Nelsen language, I am certain, does do that.

Mr. DENHOLM. So that is not objectionable?

The CHAIRMAN. Let me just suggest that that is not the bell for the House, but it is this air raid whistle that you hear and it has nothing to do with the proceedings of the House.

Mr. DENHOLM. Do you agree that your criterion in No. 1 of your proposal is the same as language of the Poage-Nelsen bill?

Mr. CAMPBELL. It answers that particular item, yes.

Mr. DENHOLM. What about the criterion in No. 2?

Mr. KNEBEL. An earlier version, I believe, of the Poage-Nelsen compromise—Mr. O'Neal could help me on this—repealed the authority to make a direct loan. I think your current version leaves that in. We feel that it is just as well to amend rather than to delete the direct loan provision, so if the current state of the Poage-Nelsen compromise as such is concluded, the answer would be, yes, sir.

Mr. DENHOLM. Well, what of the criterion in No. 3? I note no great discrepancies. What are you objecting to in that respect?

Mr. CAMPBELL. No, they do not meet this criterion, because the Poage-Nelsen would be budget outlay, whereas we are opposed to that.

Mr. DENHOLM. All right, starting with fiscal year 1974 and thereafter, what difference is there, if any?

Mr. CAMPBELL. You would still have to put money in to start the fund.

Mr. DENHOLM. At what time would money be required? I am asking about 1974 and thereafter.

Mr. KNEBEL. Mr. Denholm, if you are going to make any loans under a guaranteed or insured basis, at the point in time you go to the market, you are going to have to have some cash from somewhere. If you want to go the guaranteed and insured route, which we certainly feel is a preferable way rather than direct budget outlays, if you choose to go that route, admittedly, you only need 10 cents on the dollar, roughly, in order to do it. But you are going to need cash at the first point in time that you go to sell that paper.

Mr. DENHOLM. Just a moment, Counsel. I am talking about 1974 and thereafter. I am asking you that what the difference is between your position and the Poage-Nelsen language?

Mr. KNEBEL. Our position remains the same, sir. We want to minimize budget outlay and we want to take this out of the budget outlay situation. In order to do this, as I say, you have to have a fund backing you which is going to take some cash at some point in time, so regardless of whether you do it in 1973, 1974, or 1975, when you get ready to go to the marketplace, you are going to need some cash to get that paper moving. We say we have acceptable source, namely the Rural Development Insurance Fund, which is already in being, which has adequate cash in it, and we can go to the marketplace next week if we have this legislation that Congressman Nelsen has introduced by request.

Mr. DENHOLM. Is that not true also of Poage-Nelsen?

Mr. KNEBEL. No sir, because you at some point have to take the 1973 budget money and release the impoundment or come up with cash from other source.

Mr. DENHOLM. I am asking about 1974 and thereafter. You have not impounded the 1974 money?

Mr. KNEBEL. I understand that, sir, but I believe that it would be totally inconsistent to suggest that we are going to come up here and favor a massive infusion of funds into a new vehicle in subsequent years if we are not willing to do it this year.

Mr. DENHOLM. Well, may I say to you that we are not asking you to do that in 1974 or any year thereafter. All you are expected to do now and under existing law is to administer the funds the Congress has appropriated, which has nothing to do with the answer to my question and no direct relevancy to the administration of the program for fiscal year 1974 and the years thereafter. I disagree with your interpretation of the Poage-Nelsen language. It does provide adequate funds for future need. What of the criterion in No. 4. You indicate the interest rate should be determined by the parties. The Poage-Nelsen proposal does not preclude that, does it?

Mr. KNEBEL. Not as to guaranteed loans, sir, I do not think we have any major problem on that.

Mr. DENHOLM. It is your testimony then that no differences exist as to criteria in item No. 4.

I guess my time is up.

[Off the record discussion.]

The CHAIRMAN. Mr. Mizell?

Mr. MIZELL. Thank you, Mr. Chairman.

I would like to direct a question to the fifth proposal in your statement, Mr. Secretary. Is this the same criterion that is in the Poage-Nelsen bill on who will be eligible for 2-percent loans?

Mr. CAMPBELL. No, this is not the same criterion.

Mr. MIZELL. Could you briefly tell me the difference?

Mr. CAMPBELL. I will allow our lawyer, if I may, because he studied these bills in detail and I think he can better explain them than I can when you get into the details.

Mr. MIZELL. What I am really asking is under your criteria, would more or fewer co-ops be available for 2-percent money?

Mr. CAMPBELL. Under our criteria, fewer would be eligible for 2 percent.

Mr. MIZELL. And under your suggestion, would the Administrator have the authority to determine whether it was a hardship case even if it met these criteria, or would they automatically be under the 2 percent money?

Mr. CAMPBELL. If they met the criteria, they automatically would be eligible.

Mr. MIZELL. Then in the next proposal that you have in your statement, does this mean that the Administrator would have the authority to consider the possibility of other co-ops having a hardship case and becoming eligible for 2 percent money?

Mr. CAMPBELL. With regard to generation, electric generation and transmission—you have gone to the sixth item?

Mr. MIZELL. Yes.

Mr. CAMPBELL. Yes, the Administrator would make a determination with regard to hardship cases, that is correct.

Mr. MIZELL. But would it relate only to generating facilities, or——

Mr. CAMPBELL. No, also transmission.

Mr. MIZELL. Then under——

Mr. CAMPBELL. And distribution, yes sir.

Mr. MIZELL. And under the Poage-Nelsen bill, only those that would meet that criteria for 2-percent loans would be eligible for them, is that correct, and any that did not meet that criterion would be completely frozen out of even consideration for 2-percent money?

Mr. KNEBEL. Mr. Mizell, as we read the Poage-Nelsen compromise, and I defer to Mr. O'Neal who drafted it, the final two criteria of that compromise are so broad that the Administrator could virtually put in or keep out whoever he wanted to as far as G. & T.'s or others would be concerned.

Mr. MIZELL. A problem that I foresee is that there may be some co-ops who would be ineligible because of the criteria to obtain 2-percent loans but because of certain situations need the lower percentage loans. What I am interested in is under your proposal would the Administrator be able to take into consideration these needs and give them consideration for the possibility of receiving 2-percent money?

Mr. CAMPBELL. The last item that I had in the recommendation, if you jump down to it, "Finally, the Secretary to be granted the authority to make a hardship loan in extenuating circumstances", which would cover what you are describing.

Mr. MIZELL. Thank you, Mr. Chairman.

Mr. FINDLEY. Would you yield?

Mr. MIZELL. I yield to my colleague from Illinois.

The CHAIRMAN. Wait just a second. We do not do business that way.

Mr. MIZELL. Mr. Chairman, I did not know I had run out of time and he asked me to yield and I did yield.

The CHAIRMAN. Time and again, this chairman has stated that that proposition of letting one member pass the time around to another is not within the rules of this committee. Mr. Thone did exactly what is proper under the committee's rules when he asked consent that he be allowed to yield his time to somebody else. That is certainly in order. But it is not in order for any individual member, without clearing through the Chair or without getting consent of the committee, to yield time to somebody else, because the effect of that is to completely take away control of the order of debate. Now, certainly, the Chair has no objection to Mr. Findley asking unanimous consent to question you or anything of that kind. That is parliamentary procedure. But for the members, and I have had to express it time and again, and I hope you will not assume that I am just talking to the gentleman from North Carolina, because it has happened here time and again, this Chair is not going to adopt that kind of rule.

Mr. MIZELL. Mr. Chairman, I completely abide by the decision of the Chair.

The CHAIRMAN. Thank you.

Mr. Sisk?

Mr. SISK. Thank you, Mr. Chairman.

Mr. Secretary, as I have attempted to interpret your statement and listen to the reaction of some of the questions—but has the Department within the past 2 weeks changed its position one iota from the position that you took when you came down here originally on the REA bill? I am referring now, of course, to Mr. Denholm's bill of 2276?

The reason I ask this, Mr. Secretary, with all due respect to you and the Department, is because there has been a desperate effort here to try to compromise. I had understood that there apparently was some desire on the part of the Department to compromise in order to carry on a decent REA program. What is the position of the Department today as against what it was 2 weeks ago or 3 weeks ago?

Mr. CAMPBELL. Congressman, maybe you answered your own question when you said it is understandable, but I will attempt to give you an answer. The Administration and the Department have not changed their position at all with regard to outlays but with regard to the mechanics of attempting to work to take care of the total capital outlay needs of the co-ops. We are willing to look at certain points and methods and means of being able to do this and still come up with no more outlay to the Federal Treasury.

Mr. SISK. If we are going to in fact retain the REA program, it is going to require some input of Federal money. There just is not any way around that. Now, if the administration is going to take the position that it is not going to spend one dime and that it is going to hold the line, then we might just as well go back here, and as far as I am concerned, I am prepared to support Mr. Denholm's original bill if we are just fighting over an issue. That, to me, is what it sounds like we are getting down to.

As I say, I have great respect for the Secretary, as he knows. But it just seems to me that there has been no indication, at least as expressed here this morning, of any willingness to compromise with the Congress and with the needs of this program. I think we are faced with a situation as far as the number of the REA's that are in good financial shape, that we might just as well say, this is the end of the line for you. That is why I asked the question about what change and what modification the Secretary agrees to in regard to input of Federal money into this program?

Mr. CAMPBELL. Well, when I testified here 2 weeks ago, Congressman, there was a Federal input above the 5 percent that we talked about at that time. But we want to reduce to the absolute minimum the amount of impact on the Federal Treasury of red ink. There is nothing that hurts the people that live on these lines more than inflation. We had at that time a Federal input, 2 weeks ago, because everything above 5 percent, as we were discussing it then, would have been a Federal input, a subsidy. We are saying that those that were able to should be paying the going market rate and those instances where you have a hardship, and I think it should be approved, the Secretary should have the discretion to make 2-percent loans in these areas.

Mr. SISK. Does not the Secretary agree with me that in fact the Poage-Nelsen proposal that we now have pending before us does provide that, based on some fairly reasonable criteria? We may disagree in part on some of the criteria. I would not object if we could get from the Department some criteria that possibly varies from this. I think the Poage-Nelsen substitute provides for all those people who are prepared, and who can pay, to pay, pay the market price of 5 percent. Therefore, as I have said, with all due respect, Mr. Secretary, it just does not seem to me that we have had illustrated here today very much desire on the part of the Department to reach any kind of compromise. That, to me, is what it looks like we are facing.

Thank you, Mr. Secretary.

The CHAIRMAN. Thank you, Mr. Sisk.

Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman. I was not going to risk the red light, but I will ask this question.

In this last item where it provides a hardship loan in extenuating circumstances, am I to assume that the Secretary then would be the sole judge of what a hardship circumstance would be?

Mr. CAMPBELL. Of course, the Secretary along with the Administrator. When you say "the Secretary," you mean the Department of Agriculture.

Mr. SEBELIUS. And extenuating circumstances likewise would be up to the Secretary to administer?

Mr. CAMPBELL. Yes, sir; I do not believe it is possible to put in print in a law passed by Congress what those extenuating circumstances would be.

Mr. SEBELIUS. Well, actually, he then would have as broad authority as is spelled out in the Poage-Nelsen bill actually?

Mr. CAMPBELL. Yes, that is correct.

Mr. SEBELIUS. Thank you, Mr. Chairman. I yield back the balance of my time.

The CHAIRMAN. Mr. Jones?

Mr. JONES of North Carolina. Thank you, Mr. Chairman.

I want to direct my first question to Mr. Hamil.

A few days ago I was downtown at some meeting and I heard Senator Scoop Jackson make a very serious, fine talk on the power shortages of this country. We face March 15, almost one-fourth of the calendar year. Since January, how much REA money have you released for generating or the extension of lines?

Mr. HAMIL. Congressman, since January 1, we have not released any money from loans that have been made since that time, but we have released millions of dollars every week of loans that were made prior to that time and we are preparing to be in position to make money available on loans that have been made since January 1, about April 1, this year.

Mr. JONES of North Carolina. Thank you, sir.

Now, to the Secretary, I would like to direct a question.

Mr. HAMIL. I would call to the attention of the Congressman that there happens to be available in the Treasury, or was on the 29th day of December 1972, $834.2 million that could be drawn by 787, I believe it is, of the borrowers from REA.

Mr. JONES of North Carolina. But has not been released?

Mr. HAMIL. Approximately $9 million is being released every week.

Mr. CAMPBELL. Those are approved contracts.

Mr. JONES of North Carolina. Those are old applications?

Mr. HAMIL. Yes.

Mr. JONES of North Carolina. But no new applications that may have been approved——

Mr. HAMIL. I repeat, Congressman, that since January 1, we have made some new loans under the Rural Development Act, but up to this moment, no new money has been advanced on those loans. But money will be advanced under present plans, on or before the first day of April 1973. This is about the normal time lapse between the granting of a loan and making cash available.

Mr. JONES of North Carolina. Thank you, Mr. Hamil, very much.

Now, to the Secretary. Mr. Hamil alluded to the fact that these loans are being made under the Rural Development Act, according to the administration's interpretation. Mr. Secretary, if I remember cor-

rectly, we had weeks and weeks of hearing on the Rural Development Act; the Senate did likewise. After that, it went to conference and nowhere in the record, nowhere from any memory that I have, was it anywhere indicated in the record or otherwise that the REA Act of 1936 would be absorbed into the Rural Development Act. I for one will fight to the last ditch to see that the REA maintains its individuality and its integrity, because it is too important, Mr. Secretary, in my opinion, to have it jostled over to a new Department or a new act of which it will become a minor part.

Could you give me some rationale, some reason why this administration is attempting, in normal words, to minimize the REA program as a small part of the overall Rural Development Act?

Mr. CAMPBELL. We are making no effort to minimize the program at all, Congressman. As I stated in the beginning, we said that we would make over $600 million available to the REA's instead of $400 million and the average for the last 10 years has been only $350 million. That is not minimizing. That is almost doubling.

Mr. JONES of North Carolina. Let me come back to one question that has been concerning me a great deal. What authority did the Department, the administration have, in view of the 1936 act and in view of the language of the Rural Development Act, to take this arbitrary action?

Mr. CAMPBELL. Well, our lawyers said that it was within the act of Congress that we were able to do this.

Mr. JONES of North Carolina. That was your lawyers, of course?

Mr. CAMPBELL. The lawyers that we use, yes.

Mr. JONES of North Carolina. Mr. Chairman, I guess that is all the questions that I have.

The CHAIRMAN. Mr. Nelsen?

Mr. NELSEN. Should I not wait for the members to complete?

The CHAIRMAN. No, go ahead.

Mr. NELSEN. Thank you, Mr. Campbell, and you, Mr. Knebel. Mr. Administrator, I want to welcome you to the committee.

May I say to you, Mr. Campbell, that I, too, found myself without electric power during a bad storm here about a year ago. We had 48 cows and two of us to milk, and we started on one end and we got through and went back and started all over. The only bucket I had was a plastic one and if you have ever tried to hold a plastic bucket between your knees and milk a heifer with your hands you know it was not easy.

Mr. Hamil, I recognize that the seat you occupy right now, particularly, is not the coolest one. I have been there, too, and I know it is not always comfortable. But I want to say this to start with: The REA program, with its tremendous success in the country and its contribution to rural America certainly is deserving of a long-range financial plan, which is the objective of your proposition, is the objective of Bob and myself and the members of this committee. Sometimes we get to crossing t's and dotting i's and forget really what our real goal is.

Now, one question dealing with the telephone program. Your proposed legislation does not mention the telephone program, and I want to make this observation: the original Poage-Nelsen bill went from $30 to $50 million a year for a 10-year period and increased the loan ratio from 1 to 8 to 1 to 20. I think we have all agreed that the step-up in

Federal contribution should not occur, but that the 1 to 20 ratio would be a desirable change to stimulate and expend the operation of the bank. Is there serious objection to doing that one thing?

Mr. KNEBEL. Congressman Nelsen, there have been so many other points that we have been trying to resolve that, very candidly, we have not really focused on that point. I think if we find that that is the only remaining element in this whole equation, it is certainly not going to keep us from getting some legislation.

Mr. NELSEN. Going back to the history of this legislation, I hope we all understand that sometime back, Mr. Poage and I started exploring as to what we could do to put together a plan that would give the REA program the assurance of availability of funds and not be forever in the position of coming to Congress, hat in hand, trying to negotiate for some kind of needed financial backing . So that has been our purpose all the way. We started drafting legislation and as you know, the first draft has already been changed. None of us have closed the door on review of some of the details of the present draft of the Poage-Nelsen bill.

Actually, in our visit with the Secretary of Agriculture, there were certain things he suggested that I believe could be worked out. No. 1, the impounded funds. I see no reason why we would even need the impounded funds if the interest money and the principal payments would flow to this fund which would then be available for the program. Actually, I think we made a good deal on that, a good trade.

Then we get to the rural development bill that we operate under. The thing that bothered me was the fact that if we pooled the income into the rural development fund, I was concerned whether the dollars that the farmers are paying in to pay back their loan would be used for a sewer system. I understand that you are willing to fix that up so that we have some guarantee as to where these funds will go—so that they will be put into a separate account without question.

Mr. CAMPBELL. This was in my statement, in essence an account guaranteeing the integrity of the REA program would be established within the rural development insurance fund.

Mr. NELSEN. Right.

Mr. CAMPBELL. I included that in my statement.

Mr. NELSEN. Then there is some question in the minds of some here whether or not there is immediately available money. Do you have the authority under the Rural Development Act to have that available? I understand that you do have.

Mr. CAMPBELL. Yes.

Mr. NELSEN. And if you need legislation to clarify it, I would like to have language submitted to go into this bill.

Mr. CAMPBELL. We think we do have the authority and we do have the money in the fund, so we think we are clear on this point.

Mr. NELSEN. Mr. Chairman, the red light. Maybe we can ask some questions later.

The CHAIRMAN. Mr. de la Garza?

Mr. DE LA GARZA. Mr. Chairman, I have no questions. I would like to ask unanimous consent to yield my time to the chairman.

The CHAIRMAN. Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Secretary, we have just tried to digest the Poage-Nelsen bill; now there is some new version. I want to refer to page 3 of your statement:

"From the standpoint of the administration, legislation which achieves the following would be acceptable." I would like to go to "Retention of REA's traditional and time-proven role as a loanmaker and services of loans."

As I understand that, this means that the present REA structure will supervise this program?

Mr. CAMPBELL. Yes.

Mr. ZWACH. Then the next statement:

Amendment of the Rural Electrification Act of 1936 so as to authorize the making of insured and guaranteed loans under that Act.

Mr. CAMPBELL. Yes.

Mr. ZWACH. We will amend the 1936 act to set up this so-called rural development insurance fund?

Mr. CAMPBELL. Yes, that is correct.

Mr. ZWACH. Then the principal and interest go into this fund. Is there enough there without the impoundments to have an adequate fund now?

Mr. CAMPBELL. Yes.

Mr. ZWACH. How much money is in there now in principal funds?

Mr. CAMPBELL. There is around $600 million in the fund now and with this money returning in, we do not anticipate any shortage in this fund for the next several years.

Mr. ZWACH. Roughly what is the return per year on principal and interest?

Mr. CAMPBELL. Roughly $25 million per month.

Mr. ZWACH. $25 million——

Mr. CAMPBELL. Per month, currently.

Mr. ZWACH. Then coming quickly to the new qualifications. I understand that under the Poage-Nelsen bill, about 300 to 400 co-ops qualify under the 3-per-mile program; the addition of the 1.5 on debt service—how many co-ops would qualify under that criteria?

In other words, how many co-ops are put out of the 2-percent qualifications?

Mr. CAMPBELL. I will ask Mr. Knebel to answer that.

Mr. KNEBEL. Mr. Zwach, sir, don't you mean to state a DSC of 1.25 rather than 1.5. All of the conferences we have had with the committee——

Mr. ZWACH. Let's put it this way: Under the new proposal, how many cooperatives would qualify for 2-percent money? Let's state it that way.

Mr. HAMIL. Mr. Askegaard from REA is right there and he has made a number of these computations for us. We will ask him to repeat that for you.

Mr. ASKEGAARD. For the telephone borrowers, there would be about 53 borrowers that would qualify, whereas for the electric borrowers, there would be about 81 borrowers qualify.

Mr. ZWACH. That gets it down from the 300 or 400 some to 80 some?

Mr. ASKEGAARD. Yes sir.

Mr. ZWACH. Would that be roughly it?

Mr. ASKEGAARD. It is 80 on the electric, yes, and 53 from the telephone. That is the combination of the density and then either the time interest earned ratio below one and a half or the debt service coverage below one and a quarter.

Mr. KNEBEL. Mr. Zwach, I think we should point out at this point that the criteria in the Poage-Nelsen bill are all stated in the disjunctive. In other words, it is three per mile or a TIER or a DSC, or these others.

In the Nelsen bill, 5536, and I just use that for identification purposes, it is three per mile and either 1.5 or 1.25.

Mr. ZWACH. Do I read correctly in stating that there would be no generation money at 2 percent under this proposal?

Mr. CAMPBELL. Except under an extreme hardship case as determined by the Secretary.

Mr. ZWACH. As determined by the Secretary?

Mr. CAMPBELL. Yes.

Mr. ZWACH. That is all, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Zwach.

Mr. Mayne?

Mr. GOODLING. Mr. Chairman, a parliamentary inquiry: Am I within my rights in asking unanimous consent that my time be allocated to Mr. Mayne or must I wait for my time?

The CHAIRMAN. You are within your rights.

Mr. GOODLING. I make that request.

Mr. TEAGUE. I make the same request.

The CHAIRMAN. Mr. Mayne, you have 15 minutes.

Mr. MAYNE. Thank you, Mr. Chairman, Mr. Goodling and the ranking minority member, Mr. Teague. I hope I will not use the full 15 minutes.

Mr. Under Secretary, as I recall your testimony on, I believe it was February 26, you stated that you were willing to look at and consider any measure that would be proposed by the committee and I think it is obvious from your testimony today and from that of Congressman Nelsen yesterday and from statements made by the chairman yesterday and today that you have indeed done that, that there have been a number of meetings attended by you or the Secretary, with Mr. Nelsen and the chairman, and that a real good-faith effort has been made by all concerned to try to arrive at a viable solution that will have the support of the Congress as well as the Executive. I want to commend you and the chairman and Mr. Nelsen and all who have been engaged in this very worthy effort.

There has been, it seems to me, a great deal of movement in the administration's position since you testified here February 26. As I recall the thrust of your testimony at that time, it was pretty substantially in opposition to H.R. 2276, without proposing any alternate solution. But in the testimony that you have just given, and particularly referring to that last paragraph, there are a number of very substantial changes in the position previously taken by the administration. You say that they are as to the mechanics of achieving this, but they are, nevertheless, very basic changes, are they not?

Mr. CAMPBELL. Yes, they are, except in the arena of budget outlays. We have looked at what has been suggested very carefully and, as you have said, discussions have gone on for 2 weeks and we have shifted

position in some of the arenas on the mechanics, but they are substantial changes.

Mr. MAYNE. Is it not a fair statement that there have been a number of points on which you and the Secretary have conceded to the position taken by members of the committee?

Mr. CAMPBELL. Yes.

Mr. MAYNE. Now, there is one area, however, in which it does not seem to me that it is sufficiently clear the extent to which you are willing to assure the chairman and other members of the committee about the danger of commingling of the REA funds and the distinguished gentleman from Minnesota, Mr. Nelsen, referred to this in his colloquy a few minutes ago. I think you should know that yesterday, this was one of the points on which the chairman expressed great concern—the danger of any commingling.

Now, as you have said to Mr. Nelsen, you pointed to your testimony this morning in which you said that you were agreeable to having an account guaranteeing the integrity of the REA program to be established within the Rural Development Insurance Fund. But I think we are going to ask for more specific assurance that that be actually written into the bill agreed upon. And if I may refer to the bill which Mr. Nelsen introduced yesterday, I do not think that that goes far enough in giving that assurance, because it does not talk about a separate account. But I gather from what you have said this morning, and I would like you, if you can, to state specifically to us that you would be willing to tighten up that language so it will be clear that there is a separate account which would preserve the integrity of the fund.

Mr. CAMPBELL. I think my statement does that if you will read the opening. When these points were listed, I say, "From the standpoint of the administration, legislation which achieves the following would be acceptable," and one of those achievements would be what you said. So I did state legislation which achieves that.

Mr. MAYNE. So even though H.R. 5536 does not presently have specific language to that effect, you would have no objection to tightening it up to make that very clear.

Mr. KNEBEL. Mr. Mayne, as you know, this testimony which we have given here this morning was not specifically directed to H.R. 5536. However, that measure reads in part, "repayment of principal and interest shall go into the fund and shall become part of the fund and may be used for all purposes relating to rural electrification and telephone loans." I believe that that is a segregation which is going to accomplish the purpose which you seek to achieve.

Mr. MAYNE. Well, as I recall the testimony of Mr. Nelsen yesterday, and I would like to add that it is my opinion also today, I do not feel that that language is sufficiently explicit, and it does not refer to a separate fund, a separate account, and I would respectfully urge that the administration give further consideration to tightening that up and making it very clear that there will be a separate account which will be designated as the rural electrification and the rural telephone account.

Now, another point which figured quite prominently in yesterday's hearing was the availability of at least some 2-percent money to the G. & T.'s, and there was a strong feeling by some members of the com-

mittee that they would not be a party to a bill which would completely exclude the G. & T.'s from that. Now, from your testimony this morning, I think that you have made it clear that there will be such funds in true hardship cases or cases where the Secretary and the Administrator find there are extenuating circumstances.

Mr. CAMPBELL. That is our intent, yes. That is what we meant this to be.

Mr. MAYNE. Yes; and you would be willing to have language in the bill that would specifically make that very clear, would you?

Mr. CAMPBELL. Yes, we are willing to have language that makes it clear. I do not know what type of language you are proposing, but language is acceptable that makes that abundantly clear.

Mr. MAYNE. Now, you stated in your testimony, Mr. Under Secretary, that the rural development insurance fund is in being and is funded sufficiently so that there is little likelihood that supplemental appropriations will be required for the next several years. I wonder if you could expand on that a bit; explain to us how that is true.

Mr. KNEBEL. Mr. Mayne, the operation of the fund, when you look at the vehicle which we propose; namely, the guaranteed or insured loans, is such that you have a leverage factor of approximately 10 to 1, or stated from a cash outlay standpoint, that fund is only going to need about 10 cents for every dollar of money that is loaned to an REA borrower. There is presently, as the Administrator and the Under Secretary have previously indicated, in excess of $600 million in that fund, with repayments at the rate of about $25 million a month. Now, if you take a year, you are going to have roughly a quarter of a billion dollars in there which would be available to a multiplier effect, if you will, of 10 to 1, or you could put out in theory, at least, $10 billion of REA loans a year. And even the most ambitious program which the REA Administrator has does not come anywhere near that point. This is why the Secretary has stated repeatedly that we foresee no need for a supplemental appropriation to replenish that fund in the foreseeable future.

Mr. MAYNE. Thank you, Mr. Knebel. I want to thank all of the three principal witnesses and to say that it is the opinion of this member, at least, that as a result of this testimony this morning, the outlook for getting legislation which can pass the House and be signed by the President looks a good deal brighter than it did before you came here. And I know how much of a contribution the distinguished chairman and Mr. Nelsen have made along with the Executive in bringing us to this much more favorable-looking point.

Thank you.

The CHAIRMAN. Thank you, Mr. Mayne. The Chair wants to question just briefly, because I know our time is short. But I did not understand the statement that the Administration provides $30 million of 2-percent money. I think I understand how your formula would possibly work out. I have seen none of the data that would support that. I am not questioning it, but it depends upon how well the co-ops are managed, does it not, or how well the borrowers are managed? Because if a borrower borrows too much money, he then becomes eligible for 2-percent money when he would not become eligible if he had prudently handled his affairs. Is that not right?

Mr. CAMPBELL. Management plus geography.

The CHAIRMAN. Yes, management plus geography and the only geography involved is the less than 3 per mile, is not that right?

Mr. CAMPBELL. Yes.

Mr. CHAIRMAN. Now, your own cooperative, Mr. Campbell, where we have heard the discussion about how fast it was growing, this would offer it no help, would it?

Mr. CAMPBELL. That is correct.

The CHAIRMAN. That is all I wanted to make sure.

Now, there is also the statement that Poage-Nelsen substitute would involve some $200 million greater expenditure per year than—that is, budgeted expenditures—than——

Mr. CAMPBELL. Not budget, but 2-percent money. I corrected that statement, Mr. Chairman. It would be $200 million of 2-percent money——

The CHAIRMAN. Well, it would provide loans of $200 million?

Mr. CAMPBELL. The 2-percent money.

The CHAIRMAN. And I think the formula as now standing there would do something of that kind and I think we have made it plain at every meeting that we recognize that this formula was not doing what people are talking about, but that it was merely an effort to get an approach to a formula. And I thought we had made it real plain each time. But I do want to point out, because I think the record should show, that there is not $30 million involved on that, that there is a subsidy on 2-percent money and if you loan the full $200 million, that the subsidy is not but $10 million a year.

That is right, is it not?

Mr. CAMPBELL. Yes, I corrected my statement on the $200 million.

The CHAIRMAN. But the whole implication that came to me—I mean my understanding of it—was that there was an effort to show that the Poage-Nelsen proposal would have a $200 million impact on the budget as against a $30 million impact of the administration's proposal.

Mr. CAMPBELL. Well, Mr. Chairman, I want to do as your colleagues have done and thank the chairman and Mr. Nelsen both for making a great effort here and we fully realize in the executive branch that you can pull these figures together without being any more specific than maybe we are in what we set out. But somewhere along the line, we wanted to get a cutoff position on the 2 percent.

The CHAIRMAN. Well, the unfortunate thing is, I have to agree with you. That is what we have all been trying to do. But when we are talking about somewhere along the line, the line ends tomorrow morning at 11 o'clock. That is the end of the line. And the point I am trying to make is that it is absolutely worthless to talk about what we can do the week after next, because we are not going to be here the week after next hearing this bill. We are going to complete the consideration of this bill and we are going to be on something else. The Secretary himself felt that it was desirable that we be on something else and we are going to be on something else.

All I am trying to make clear is that if there is an effort made on the part of anybody to try to compromise, it has to be done now. It should have been done last week. There is not any next week to consider.

That is all I want to make real plain there, that we do not have time for a long-drawn-out consideration.

I do not think that I want to take up the time of the committee here to go into all of these questions, but some of these things it seems to me have to be discussed considerably. This criterion that places a premium on poor management. It seems to me that we are getting in awfully deep water when you accept a criterion of that kind, but I understand that is the criterion that the Department wants and wants to include, that the poorer management would get more 2 percent loans than a well-managed co-op.

Mr. CAMPBELL. I do not know that I would agree with that, Mr. Chairman, at all. I think geography would have more to do with it.

The CHAIRMAN. Well, that is what happens, is not it?

Mr. CAMPBELL. I do not think so.

The CHAIRMAN. If a poor management were to need more money than a good management, it would become eligible, would it not?

Mr. CAMPBELL. I think geography has to do more with 2 percent.

The CHAIRMAN. I know what geography has to do with it; 3 per mile we all understand. But the geography is only one part of it, and to become eligible, the poorly managed co-op will become eligible much quicker than the well-managed co-op, would it not?

Mr. CAMPBELL. I think the Secretary and the Administrator would take a look at the management as well.

The CHAIRMAN. I did not ask you what the Secretary would do, because you do not give that discretion to the Secretary. You do not give discretion to the Secretary here. There is no discretion in that time interest earned ratio and there is no discretion in that debt service coverage. That is not a discretionary position. Discretion is only with the management of the co-op and the poorer the co-op is managed, the quicker it would become eligible for 2-percent money, would it not?

Mr. KNEBEL. Mr. Chairman, there seemed to be some possibility, at least in our minds when we wrote this as an acceptable criterion, for the extenuating circumstances, the result of which would be that even if you had a TIER or DSC, which coupled with 3 per mile would not allow you to be a hardship case, there could still be a situation where this would be a hardship.

The CHAIRMAN. I am not arguing about that. I would like for you to stay on the subject. I think you recognize that Mr. Campbell's co-op, well managed as it is, as was pointed out, is not going to be eligible, no matter if it did not have but 1 per mile; it would not be eligible. But a co-op that borrows more money than it should is going to become eligible faster than one that handles its affairs more prudently, is it not?

Now, that is just a question of fact and you would not deny that, would you? You do not want to answer it, but you would not deny it, would you?

Mr. CAMPBELL. I have a lot of faith in the board of directors and the management of these co-ops not to let a situation last that long, Mr. Chairman. I have more faith in these farmers than that.

The CHAIRMAN. All right, but you do not deny my statement at all?

Mr. CAMPBELL. No, but I do not foresee that that is going to happen.

The CHAIRMAN. You do not think it will happen.

There are several items like this that we will have to work out.

Basically, I think there are many things that we are in full agreement on. I think if we can get together and have the three groups—the Administration, the Congress, and the lawyers—find themselves in agreement, we can get a bill here which we can all pass and all support. That is the crux of our problem here right now. I have no hesitancy in saying that this committee would unquestionably pass out the Denholm bill and that the Congress will pass it. But the question is do we get anything when we pass it out? We recognize full well the possibility of veto; we know the power of the President's veto. And we recognize that if we do not get something enacted into law, we have not helped anybody.

That is why we are trying to get together on this thing, why we are willing to make some concessions. We would like to have an opportunity to just continue our discussions after the meeting and see if we can get together, because unless we are togther by tomorrow morning, I do not think we are going to get together. And I think we are going to come out with a bill that is going to result in a veto and every one of us will have lost if we are not together within the next few hours.

Thank you very much. Are there other questions?

Mr. SEBELIUS. Mr. Chairman, could Mr. Nelsen have the 5 minutes of Mr. Thone if he has any questions? He never got to use Mr. Thone's 5 minutes.

The CHAIRMAN. Certainly, we will recognize Mr. Nelsen just as long as he wants to inquire.

There is not but about 1 or 2 minutes, though, Mr. Nelsen.

Mr. NELSEN. Yes, I know.

Thank you, Mr. Chairman. I only want to say that it seems to me that a lot of our discussion revolves around words, how do we put it on paper to do what we, in farmer language, seemed to agree on. I think we are in agreement on impounded funds, on the rural development funds, as long as we have the language that we in farmer language say ought to be in there. The only thing that disturbs me is the criterion and obviously, the criterion that the administration comes up with perhaps is more liberal than one I would support or even the chairman indicated. It goes farther.

The G. & T. question is one that really bothers me. Having been with the program, I must ask how does the Administrator determine feasibility? Does he do it on a 2-percent basis, an insured loan rate, or a cost of money rate? There has to be some discretion in the hands of the Administrator where the economics of the situation are involved. In some cases, there may be a generating plant that is the total single source of power in a high-cost area. I do not know if Homer, Alaska, has changed since I was there last, but they had a little old diesel plant chugging away as the only source of power, and their costs were high. How do you write a criterion that fits all of them?

I am suggesting that it seems to me we are so close together that it would be a tragedy if we overlooked the fact that the final goal is a means of financing that gives this program the assurance of continued operation in the years ahead. I think we all have to bend a little bit. I want to say to the Department, it is quite a change from what it was when we started this negotiation under the Rural Development Act with the REA fading out of the picture, as it appeared to me at least. Now we are back in the ball game, and I think we can work it out.

I hope everybody will work hard this afternoon getting ready for tomorrow when I hope we can have a bill put together. I will do my best.

Thank you very much.

The CHAIRMAN. Thank you very much.

Mr. Sisk?

Mr. SISK. Mr. Chairman, I will only take a moment because of the statement by my good friend from Iowa. I do not want to be partisan. Maybe the administration does need some defending here.

It was my understanding that in answer to my question, Mr. Secretary, you stated that there had been no change between now and 2 weeks ago in connection with that item.

Mr. CAMPBELL. With the budgetary impact.

Mr. SISK. That is right.

Mr. CAMPBELL. Yes. Well, we did not change our position on it.

Mr. SISK. It sounded to me as though he said there had been great change.

Mr. CAMPBELL. No, he and I did not say we changed on that point. I did not and I hope I did not infer it to the Congressman.

Mr. SISK. The reason I raised it is this to me is the gut issue. I am as concerned about inflation as the administration of your Department. But in the final analysis there is going to have to be some concession in this area or, in my opinion, we are not going to get together. That is the point I tried to make. That is pure and simple and unless you are willing to do a little compromising in this area, I think we are wasting our time.

The CHAIRMAN. Thank you, Mr. Sisk.

If there are no further questions and no further witnesses who desire to be heard, we will stand adjourned and the hearings will be closed.

(Whereupon at 12 noon, the committee hearing was adjourned.)

[The following statement, letters, and telegram were also submitted to the committee:]

STATEMENT OF L. C. "CLELL" CARPENTER, VICE PRESIDENT, MIDCONTINENT FARMERS ASSOCIATION, COLUMBIA, MISSOURI

Mr. Chairman and Members of the Committee:

It is with much regret that previous commitments make it impossible to be present at your Committee hearing on the restoration of the two per cent funds for use in making rural electric loans.

We support the principle of H.R. 2276 as a necessary step to assure the continuation of an effective rural electric program as we know it today.

We could go into great detail and consume many pages of constructive testimony on the merits of the Rural Electrification Act and the tremendous job it has enabled rural electric cooperatives to do. The beneficial role it has played in the development of rural America is well-documented.

The Rural Electrification Act is not on trial, however. Congress has continued to give strong support to the objectives of the Act and to provide funds to permit it to function.

The problem at hand is how to pry loose from the strangle-hold of the Office of Management and Budget the two per cent funds already authorized by the Congress.

This impoundment of funds is not an isolated case, as you well know. We have testified recently in support of other bills as they seek to release funds, without which several vital farm programs will be forced to their knees.

This action by the Administration has brought to a halt REAP activities, FHA emergency loans and now threatens to raise costs and restrict progress for rural electric cooperatives. It 's irresponsible. It is an affront to Congress.

And, it certainly is a low blow to farmers.

Mr. Chairman, this action affects a high percentage of the rural population. It involves nearly 1,000 rural electric systems and almost 50 per cent of the electric distribution lines in the nation. For upward of 30 years farmer owned and operated cooperatives under the REA banner have been successfully striving to bring electric energy to even the most remote regions in the nation. And, it is a fact that there are numerous sparsely populated areas where two per cent loans are critical to the sound operations of these farmer-owned systems.

If, as has been implied by the Administration, loans to rural electric cooperatives may be available as a result of the provision for insured and guaranteed loans for rural development under the Rural Development Act of 1972, that is fine. We do, however, vigorously oppose the recommendation that this source for funding replace the two per cent monies authorized for REA by Congress. I have talked to the principal sponsor of the RDA in the Senate. He advises me that he had no intention of its provisions being a substitute for a source of funds for REA.

We agree that it has become necessary for the Congress to insist that those funds appropriated for programs deemed desirable and needed be indeed used to implement these programs. We, therefore, endorse without reservation H.R. 2276 as a simple and effective means to make available this two per cent money authorized by the Congress for rural electric loans.

Mr. Chairman, we would appreciate your filing our statement in the record. We urge your Committee to act favorably on this amendment and to work to enact it into law. A similar act passed the Senate last week by a vote of 69 to 20.

We hope R.H. 2276 will receive the approval of the House of Representatives by the same safe margin.

WATER CONDITIONING ASSOCIATION INTERNATIONAL,
Des Moines, Iowa, February 28, 1973.

Hon. W. R. POAGE,
Chairman, Agriculture Committee,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The Water Conditioning Association International with headquarters in Wheaton, Illinois, has asked me to speak for them and for their more than 1,000 United States members on the subject of Rural Electrification Administration financed Rural Electrification Cooperatives competing with them in a way that is unfair, unjust, and a perversion of the reasons for which Rural Electric Cooperatives were founded and funded.

Where this competition occurs, it is a serious problem for the people involved and, potentially, for the consumers in the area affected.

We want to make it clear we have sincere appreciation for the job the Rural Electrification Administration, through the Rural Electrification Cooperatives has done and is doing by bringing electrical power and, in some cases, telephone communication to rural America. It is only the unfair competition in other areas to which we object.

Largely because they got their start with low-interest REA loans, loans many of them still have, the REC cooperatives have grown and prospered until now, compared to other businesses in the area where they operate, they have become the giants. Perhaps this is the nature of the business. However, in too many areas they have chosen to sell a non-electric convenience, water softeners or conditioners.

Let me give you an illustration. The consuming public is offered three choices of service in an area properly served on water conditioning. They can choose to have the dealer install a tank containing water conditioning mineral, then replace it periodically as needed; they can rent a water conditioner that regenerates itself automatically with the dealer supplying salt and service if needed; or they can buy a water conditioner.

There is a Rural Electric Cooperative at Wilton Junction in Southeastern Iowa. There is a strong water conditioning man, Mr. Keith Vetter, the "Culligan Man," at nearby Washington, Iowa.

At present, this Wilton Junction Rural *Electric* Cooperative has taken more than 50 of Vetter's customers. Of course, Vetter's trucks must still service the area. They just drive by those customers he has lost to the REC. But, sooner or later, as this continues he can no longer afford to serve the area because of the time and distance involved in relation to the number of remaining customers.

This leaves these remaining customers with no alternatives at all except to buy a water conditioner. The REC offers them financing terms no private business can match.

If some competing power company decided to start supplying a customer here and a customer there in the franchised territory of this REC, the REC would protest strongly. Yet, this same REC does this with impunity to Vetter.

Of course, Mr. Vetter has other good competition, independents as well as Montgomery Ward and Sears Roebuck. He does not complain about them because they do not have the cost advantages of special borrowing rates . . . 2% or 5% is a lower rate than any independent businessman can get . . . so they can offer special financing. They do not have the advantages of an increasingly profitable utility franchise to carry the overhead, advertising, etc. The customers must buy electricity from them or not buy at all.

These competitors do not have the various tax advantages of RECs with which you are familiar. Instead, they must pay their full share of the tax load.

This situation is true in too many places. And, water conditioners are not an electric using appliance. They work chiefly on water pressure. Many of them have electrical controls but it would be as logical to sell a gas stove because it had an electric timer clock or a gas furnace because the controls were electrical. Even automobiles need electrical service if their battery needs charging.

Some water conditioning men and women have complained in the past. They have been told "the local dealers just were not giving good enough service." In some cases, this may have been true. However, there are cases where local REC service has left something to be desired. The solution has not been for some other larger firm, with government financing, to come in and push them out of the territory.

If those involved in the competing REC want to form a water conditioning business with funds of their own and operate with no more advantages and no less advantages than those who are in the business now, they can give any degree of service they can offord and there will be no complaints.

It is hard to believe consumers in any area will be best served by being left with only one place to turn for the type of merchandise a local REC chooses to handle and to settle for the service they choose to give.

Some of you have heard of these problems in the past. Others have not because these people out across the country did not realize anyone was interested in correcting this inequity in the REA-REC program. You are hearing about it now because you are holding a hearing.

We admire the job the Rural Electrification Administration and the Rural Electrification Cooperatives have done in bringing rural America out of the dark. However, we ask you to use your sense of fair play and your power to restrict RECs, who get special advantages, to the business for which they were formed and funded.

Respectfully,

JAMES O. BOYT.

PEABODY, RIVLIN, GORE, CLADOUHOS & LAMBERT,
Washington, D.C., March 1, 1973.

Hon. W. R. POAGE,
Chairman, Agriculture Committee, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is on behalf of the National Appliance, Radio-TV Dealers Association, our client, which is a national trade association representing thousands of small businesses in the United States engaged in the retail sales and service of home appliances and electronic equipment.

The current consideration by your Committee of H.R. 2276, which would ensure the availability of funds for low-interest loans under the Rural Electrification Act of 1936, has come to our attention and we would like to submit for your consideration a problem affecting our businesses that is relevant to the use of these funds by the rural electrification cooperatives. We are not presently aware of the full dimensions of the problem, but we do know that in many areas cooperatives have become substantial competitors of our members in the sale of home appliances. We do not oppose vigorous and free competition, but we feel strongly that all competitors must operate on equal terms. A cooperative obviously should not receive 2% government financing intended to bring electricity to the rural family and turn around and use part of these funds to get into competition

in some other activity with unsubsidized firms. This is contrary to the purposes of the Act and is within the power and surely the responsibility of Congress to regulate.

We would like to ask that your Committee consider this matter in your executive sessions on the pending legislation. We would ask that you request the Rural Electrification Administration to make a thorough investigation of the extent and nature of these activities by the cooperatives and the use of government loans to undertake them. We would further strongly recommend and request that your Committee amend the pending legislation, or if you deem it more appropriate, obtain assurances from the REA as to future loan applications, to the effect that loan proceeds cannot be used with respect to the purchase, sale or distribution or servicing of home appliances.

We appreciate your consideration of this matter and we will furnish to your Committee as soon as possible any further information and statistics we are able to obtain on this problem.

Very truly yours,

WILLIAM C. BRASHARES, *Counsel.*

GRAND FORKS, N. DAK., *March 1, 1973.*

Hon. ANCHER NELSEN,
Capitol Hill,
Washington, D.C.

We greatly appreciate the effort that you and Congressman Poage are extending to development of a finance plan for the rural electric cooperative.

We believe that your plan to provide for the financing of the generation and transmission power cooperative at the cost of money on a guarantee loan basis will prove to be very acceptable to the great majority of the generating and transmission cooperatives. The cost of money is of course important to us. However more important is the availability of money without it we cannot build the facility we need to meet our growing loads and the committments we have to the power pools in which we operate.

We think your plan to supply generating and transmission type power cooperatives at the cost of money on a guarantee loan basis through the rural electrification administration is to be commended and we urge you to continue your efforts. We are sending 20 G and T managers a copy of this telegram and urging them to wire you and Congressman Poage indicating that they, too, support your efforts.

ANDREW L. FREEMAN,
Manager, Minnkota Power Cooperative, Inc.

CASS COUNTY ELECTRIC COOPERATIVE, INC.,
Kindred, N. Dak., March 5, 1973.

Hon. ANCHER NELSEN,
U.S. House of Representatives,
Washington, D.C.

DEAR ANCHER: A lot of time has passed and many miles of cable have been plowed in the ground since you and I last visited about Rural Electric matters.

I am still very pleased that you have continued your interest in this great program and have introduced legislation to reenact the rural electric loan program.

My Cooperative's concern is the availability of money; not necessarily two percent, but sufficient money to meet the needs of the various cooperatives at a realistic interest rate. Many of us are confident that a five percent money cost would not be too unrealistic for most systems, whereas no money at all would be a disaster to the program.

I would appreciate receiving information on your proposal and will review it carefully and, hopefully, will muster support for it.

Your experience with Rural America, particularly your experience as Administrator, gives you a background of knowledge of the program which very few other persons have experienced.

The directors, staff and myself remember well your visits to our Cooperative. Best wishes from all of us.

Sincerely yours,

WILLARD GRAGER,
General Manager.

PLAINS ELECTRIC GENERATION AND
TRANSMISSION COOPERATIVE, INC.,
Albuquerque, N. Mex., March 2, 1973.

HON. ANCHER NELSEN,
House of Representatives,
Washington, D.C.

DEAR MR. NELSEN: We appreciate your efforts and Congressman Poage's efforts in the development of a financing plan for the G & T cooperatives. It appears that a guaranteed loan plan, even at higher costs, with sufficient available money to meet the needs would be beneficial to the power cooperatives in their efforts to build facilities necessary to keep pace with the growing loads.

We think that the plan you have set forth has a great deal of merit, and we urge you, as always, to continue your efforts for the G & T cooperatives.

Sincerely yours,

R. T. ARMSTRONG, *Manager.*

DAIRYLAND POWER COOPERATIVE.
La Crosse, Wis., March 2, 1973.

HON. ANCHER NELSEN,
House Office Building,
Washington, D.C.

DEAR ANCHER: It was good to talk to you on the phone concerning the legislation that you and Congressman Poage are proposing. I want you to know that I greatly appreciate the effort that you are putting forth to develop a financing plan for rural electric cooperatives.

We believe that your plan to provide financing for generation and transmission power cooperatives at the cost of money on a guaranteed loan basis will prove very acceptable to all power cooperatives. I am sure, if part of this can be done on an insured basis and a guaranteed basis, this would be helpful.

I know I have told you that, while the cost of money is important, availability of money to cover our needs to allow us to plan is of utmost importance. We are committed to serve the expanding needs of our people and must keep our Pool commitments bringing generation and transmission in on time. This we cannot do without adequate funds.

We think your plans are to be commended and I, personally, urge you to continue your efforts.

Sincerely,

JOHN P. MADGETT,
General Manager.

COOPERATIVE POWER ASSOCIATION,
Minneapolis, Minn., March 9, 1973.

HON. ANCHER NELSEN, MC,
House Office Building,
Washington, D.C.

DEAR ANCHER: This is to commend you and encourage your further efforts to provide a basis of adequate financing for the rural electrification program. Especially, does this apply to the requirements for financing bulk power supply facilities. As you know, we of the G&T's have not only the responsibility to provide adequate amounts of power at reasonable cost to our members and their consumers, but must do so with due regard to environmental considerations and in concert with the Pools in which we operate. Obviously, with a choice before us, availability of funds outweighs the financing costs.

I hope your efforts and those of Congressman Poage meet with success.

Sincerely,

R. G. ZOOK,
General Manager.

REA LOAN PROGRAM

(Business Meeting)

THURSDAY, MARCH 15, 1973

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

The committee met, pursuant to recess, at 9 a.m., in room 1301, Longworth House Office Building, the Honorable W. R. Poage (chairman) presiding.

Present: Representatives Poage, Foley, de la Garza, Vigorito, Jones of North Carolina, Sisk, Alexander, Jones of Tennessee, Melcher, Mathis, Denholm, Matsunaga, Brown, Bowen, Rose, Litton, Gunter, Teague, Wampler, Goodling, Mathias, Mayne, Zwach, Sebelius, Mizell, Findley, Baker, Thone, Symms, Young, Johnson, and Madigan.

Also present: Christine S. Gallagher, chief clerk; John O'Neal, general counsel; Hyde H. Murray, associate counsel; and John Rainbolt, assistant counsel.

The CHAIRMAN. The meeting will come to order. The purpose of the meeting for further consideration of the legislation relating to the REA loan program and the first action must be to dispose of Mr. Mayne's motion on March 1st to substitute the language of the Poage-Nelsen proposal for the language in H.R. 2276.

Mr. JONES of North Carolina. Mr. Chairman, I would like to offer a motion that the committee go into closed business session.

The CHAIRMAN. There has been a motion offered to go into closed business session and under a recent resolution adopted by the House, such a motion must be considered in open session by record vote and in the presence of a quorum. Is there a quorum?

Mrs. GALLAGHER. A quorum is present, Mr. Chairman.

The CHAIRMAN .The clerk will then call the roll.

[The clerk called the roll and the following members voted "no": Foley, de la Garza, Jones of Tennessee, Melcher, Mathis, Bergland, Denholm, Litton, Gunter, Teague, Wampler, Zwach, Sebelius, Thone, Symms, Young, and Johnson. The following members voted "aye": Jones of North Carolina, Sisk, Brown, Bowen, Rose, Mayne, Mizell, and Poage.]

Mrs. GALLAGHER. The motion failed by a vote of 8 to 17.

Mr. DENHOLM. Mr. Chairman, may proxies be voted?

Mr. FOLEY. I would suggest, that proxies are in order on this question and those holding valid proxies may exercise them on this vote.

The CHAIRMAN. The Chair is going to hold that you can vote by proxy on this vote.

Mr. FINDLEY. Am I too late to vote?

The CHAIRMAN. No, you can vote.

Mr. FINDLEY. A no vote is to keep the meeting open?

The CHAIRMAN. Yes.

Mr. FINDLEY. I vote no.

The CHAIRMAN. Does anybody else have a proxy he wishes to vote?

[No response.]

The CHAIRMAN. If not, the clerk will announce the vote.

Mrs. GALLAGHER. Mr. Chairman, the vote is 8 ayes, 18 noes.

The CHAIRMAN. There being 8 ayes, 18 noes, the meeting will be open.

Does anyone want to speak on the Mayne motion?

Mr. MAYNE. Mr. Chairman?

The CHAIRMAN. I recognize Mr. Mayne.

Mr. MAYNE. In view of the fact that my motion referred to the original version of the Poage-Nelsen amendment and that has now gone through several revisions so that my amendment refers to a historic document which no longer has much meaning, I would ask unanimous consent that my motion be withdrawn.

The CHAIRMAN. Is there objection to what the gentleman from Iowa asks?

[No response.]

The CHAIRMAN. The Chair hears no objection. It will be withdrawn.

If nobody wants to make any comments, the Chair will.

After considerable discussion in meetings and efforts to try to arrive at something that could be generally supported—and I want to thank all those who participated in the work on this, because there have been serious efforts to try to work out, a serious effort on everybody's part, I think, to try to work out legislation that could be accepted—it seems that we have not, as yet at least, reached such a position and frankly, it is my own opinion that no such position will be reached except that we go ahead and vote and act on it the best we can, because I think that any delay will simply result in still further haggling and will not be productive.

After we spent all yesterday afternoon and into the night discussing this matter, I proposed to submit a tentative draft, not of the Poage-Nelsen proposal but a Poage substitute. You have it before you with the changes. There are four changes made in this from the proposal that Mr. Mayne made. There are about four changes here.

[The above referred to document follows:]

EXPLANATION OF AMENDMENTS TO POAGE-NELSEN COMPROMISE

REVISION NO. 2—MARCH 15, 1973

1. Page 3. Strike out all of "old" subsection (4).

The previously appropriated REA funds for FY '73, currently impounded by the Administration and totaling 456 million dollars, which were originally placed in the fund for initial cash have been *deleted* under this revision. Immediate cash requirements of the fund for advances on new loans will come from repayments on outstanding direct loans. Loan repayments are estimated by the Administration at $25 million each month.

2. Page 9. Section 305(b) has been rewritten.

This is the 2 percent loan criteria section. The two mandatory criteria (subsections (1) and (2)) are made more restrictive than the previous draft in two respects: (a) a borrower must have *two* or fewer subscribers per mile (rather

than *three*) to qualify for a 2 percent loan *or* (b) an electric borrower must have gross revenues of *$450* (rather than $300) below the average; a telephone borrower must have gross revenues of $300 (rather than $200) below the average. Average gross revenues for electric systems: $867.26 per mile; telephone systems; $717.56 per mile (Source: REA statistics).

Note: Under the March 9th Poage-Nelsen draft, the 2 percent loan criteria would have allowed in 390 electric borrowers (42 percent) and 295 telephone borrowers (36.2 percent). *Current* language would allow 178 electric borrowers (19.2 percent) and 186 telephone borrowers (22.9 percent) to obtain 2 percent financing. Under the 3/12 Administration draft (H.R. 3556), 2 percent loans would be available to 81 electric borrowers (8.7 percent) and 53 telephone borrowers (6.5 percent). Under this revision we know of no G & T's who would qualify for 2 percent loans under subsections (1) and (2). (Source: REA)

In addition, a proviso has been added to Sec. 305(b) permitting the Administrator, *in his sole discretion*, to make a 2 percent loan to a borrower (under new subsection (A)) who finds himself in extenuating or extreme hardship circumstances. The (iii) and (iv) criteria of the 3/9 draft have been included as additional discretionary criteria (B) and (C) but refined by the substitution of "in accordance with generally accepted management and accounting principles" in lieu of "with prudent operations."

3. Page 12. Language has been added to Sec. 310 limiting the refinancing of loans made under the Rural Development Act to those which are requested to be refinanced by the borrower.

The Constitution prohibits the passage of any law which impairs the rights or obligations of an existing contract; therefore, refinancing of existing loans should be made contingent on the request of the borrower.

4. Page 14. Sec. 10 of the 3/9 draft has been deleted.

The original section 10 would have repealed section 412 of the existing law. This repealer has been deleted leaving the existing law intact. Sec. 412 deals with the telephone loans and provides that if a borrower has more than a 20 percent net worth a loan could not be made to him under section 201 (the direct 2 percent loan authority of existing law) unless the Administrator found that the borrower could not obtain a loan from the Rural Telephone Bank or other credit source at reasonable rates.

Mr. TEAGUE. Mr. Chairman, may I interrupt?

The CHAIRMAN. Yes.

Mr. TEAGUE. I do not want to pass over my chances to speak on this. I now make a point of order against this latest Poage amendment.

The CHAIRMAN. A point of order on what? I have not offered it.

Mr. TEAGUE. You started to——

The CHAIRMAN. I am not going to cut you out of a point of order. This Chair never has tried to do that sort of thing and I am not going to put you out of a point of order.

First, on page 3, we eliminate the frozen appropriations from the REA funds. You remember that there developed $456 million of appropriated funds, that are now appropriated, and that under the law are now available for direct loans and the Administration has felt that they should not use these appropriated funds. That has been one of the big things they wanted to avoid, using these appropriated funds. We wanted to use these appropriated funds to make sure that there were adequate moneys to operate on for the next several months. We have in the meantime received explanations and assurances from both the Secretary and the Administrator of REA that the funds that are coming in monthly—and that runs about $25 million a month—will not be immediately diverted for prepayments to the Treasury as they have the right to do, but they have said that they would not do that if we passed legislation of this kind and those funds would become immediately available and that will finance—oh, that

would finance a quarter of a billion dollars worth of insured loans, so that it would give us adequate money to operate on and for that reason, we felt, in an effort to try to meet any reasonable request, I have—and I am not saying we, because I am charging nobody with responsibility except myself—eliminated those frozen funds from the REA fund. There will still be plenty of money in it.

Next on page 9 we have rewritten the criteria. Here is where there is a great deal of difference of opinion both ways.

We are faced with the administration feeling that the criteria should be even more strict than we have written it here, with many of the users feeling that it should not be as strict as we have written. We have tightened on it. Simply to give the chronology of this matter, back in the beginning, the Department felt that a formula of three, or less customers per mile or a revenue of $600 or less per mile should entitle a cooperative or corporation to borrow money at 2 percent and talked in glib terms about that magic number of "88 cooperatives." Actually, when we ran it out on the computers, it develops that that would involve 47 percent of the total number of the borrowers, an obviously much larger figure than anyone had in mind. Yet most of the borrowers cannot object to that. They are not going to be in the position of objecting to having additional loans at 2 percent that they did not really expect.

Mr. ZWACH. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Zwach.

Mr. ZWACH. It also apparently showed that most of our REA's are not so lush, that many of them are working with a very limited number of people per mile.

The CHAIRMAN. It does show that.

Mr. ZWACH. I think this is significant.

The CHAIRMAN. That is correct, Mr. Zwach.

But we also recognize that there is no way in the world that we can sell this to the public without showing them that we are making a serious effort to require substantial payment from those who can afford to make it and making concessions only where concessions are needed. And we know that conditions are not the same for all of these borrowers across the board.

So the original Poage-Nelsen proposal, cut well below what the original suggestion was, we cut well below that. But we find that criteria, too, brings in such a large number that it would seem to me indefensible. So we have now written, I have now written on this, basing it on any cooperative that meets either—that is in the disjunctive—meets either of the following conditions: Has an average consumer or subscriber density of two or fewer per mile—two instead of three. That cuts down considerably. Or it will be eligible regardless of how many it has per mile if it has an average gross revenue per mile which is at least $450 below the average gross revenue per mile for all of the REA-financed conductor systems in the case of electric borrowers, or in the case of telephone borrowers, then it is $300 below the average gross per mile.

Now, that produces this result—it makes eligible 178 electric borrowers, 19$^{3}/_{10}$ percent, approximately one-fifth of all electric borrowers who will be eligible for 2-percent money. It makes eligible 186 tele-

phone borrowers—I do not mean cooperatives. Most of them are corporate. It makes eligible 186 telephone borrowers or 22%10 percent of the telephone borrowers, making a total of 364, which seems to me to be extremely liberal in terms of the total number. That is getting up to over 20 percent of all REA borrowers; more than one out of every five would be eligible for 2-percent money.

Now, I think it should be pointed out that in this particular case, we are able to give you some figures as to the amount of money that is involved and in most cases of this kind, you cannot get these figures. It happens that the National Electric Association ran a survey here about the first of the year and they actually included 177 of the 178 systems that we make eligible here. They asked them about their needs for financing and while it is true that only 113 of them reported any immediate needs, they came up with a figure of $59,665,000 as their need, which, as you will see and as we should suppose, is well below the average for associations over the country. In other words, the larger borrowers are the very ones who do not need the 2-percent money.

It is basically the smaller ones, and these figures clearly indicate that same thing. Whereas these people account for approximately 20 percent of the total number of borrowers, this accounts for only about 7 or 8 percent of the total amount of money. So you can see that the formula does touch the smaller and the more needy associations, very definitely.

Now, unfortunately, we do not have those kinds of figures for each one of these criteria that we have been talking about in the past, but we do happen to have them for this, and I though it would be of interest.

Then we went on and provided a further outlet. We provided that, however, the Administrator may in his sole discretion make a loan at the special rate—that is 2 percent—if he finds that the borrower has (a) experienced extenuating circumstances or extreme hardship—and frankly, that covers anything that the Secretary feels that he should let an association have the money at the low rate for. Then, (b), he can let them have the low-rate money if he cannot, in accordance with generally accepted management and accounting principles, produce net income or margins before interest at least equal to 150 percent of his total interest requirements on all outstanding and proposed loans, et cetera; and then if he cannot in accordance with generally accepted management and accounting principles and without an excessive increase in the rates charged by such borrowers to their consumers or subscribers provide the service consistent with the objectives of the act.

That opens the door, then, to protect those who do not come within the criteria but who have some special reason for the lower rate and the Secretary can make it. But it does say that they must handle their operations in accordance with generally accepted management and accounting principles to protect against rewarding the inefficient operation. I felt that the language used in some of these bills and some of these proposals does reward inefficient operations and this would not reward them.

Now, the next change is over on page 12 and relates to refinancing of rural development loans and really all that is done there is we add the words "at the request of the borrower" simply to avoid the con-

stitutional question that Congress cannot abrogate existing contracts without the consent of both parties and these loans that have already been made and that we have proposed to have the REA finance, we are not trying to force the refinancing on any one, but simply to say that at the request of the borrower, they can be refinanced. We trust that they all want to be refinanced, but the way the bill was written, they forced it on them and this simply does force it on them.

Now, the next change is on page 14. There was provision there that repeals section 412. Frankly, we had supposed that the Administrator wanted it repealed. He had been told that he could not administer it—was not able to administer it—just wanted to have it in the existing law and we did that. He seems to be satisfied to leave it there and we just left it there. That provision is generally known as the Dole amendment to the telephone bank and it relates to these second level telephone companies like Continental, General, United, that level of telephone corporation. The way this is written now, we just leave the law as it is.

Those are the only changes that are made that are of the Mayne subtitute.

It is not my desire and not my intention to offer this as a substitute for the Denholm bill. I think that a more logical course is if the committee decides we will not follow what Mr. Denholm wants to do in his original bill, then ask him to introduce a clean bill inserting this language. I think that will avoid any of the sticky parliamentary questions and as I have said many times, I think what the committee should try to do is try to determine what we want to do and then decide how it should be done. The Chair is not going to indulge in any parliamentary tactics, either making it available or denying it. We know if the committee wants to use this as a basis, it can be introduced as a clean bill to take the place of the Denholm bill; if they do not want to do it, then nothing happens to it. I see it in that way without putting forth any parliamentary rulings.

Mr. DENHOLM. Mr. Chairman, may I respond?

The CHAIRMAN. Certainly.

Mr. DENHOLM. I have agreed to the proposed language and for the information of all members of the committee we have worked with the chairman on it, and it is acceptable to our people and we would be willing to do what is necessary to expedite the procedure in reporting a bill with the substitute language.

Mr. SISK. Mr. Chairman, would the gentleman yield then?

Mr. DENHOLM. Yes, I will yield to my colleague from California.

Mr. SISK. I have some questions.

Do I understand that the gentleman is saying that the Poage-Nelsen substitute on which we recently held a couple of days hearings, if amended as the chairman has discussed, it would be acceptable?

Mr. DENHOLM. Yes.

Mr. SISK. What is the position of the administration on this at the present time? I might address this to Mr. Teague if he wishes to comment, or the chairman. Frankly, this is one of the reasons why I voted for a closed session on this. I think we have a gut issue here, and I do not necessarily want to play partisan politics on this, but I am not going to vote for anything to go back to the original Denholm bill

unless we have some assurance that the administration is going to cooperate and support this bill. Now, what is the position?

Mr. TEAGUE. Well, the administration still has some objections to it.

Mr. SISK.In other words, they still do not want to give an inch.

Mr. TEAGUE. They have given several inches.

Mr. SISK. Where did they give an inch?

Mr. TEAGUE. Putting the interest, for instance, into the new fund. I am not quite sure how many billions of dollars that amounts to, but it came as a delightful surprise to the chairman, I am sure. That is a major giving point on the part of the administration.

Mr. SISK. But actually, with the limitation which I understand this places on any 2-percent money, is the Department still, on that basis, going to oppose this bill?

Mr. TEAGUE. Well, they have some serious reservations about the G. & T. provisions in the proposed version, latest proposed version. We met yesterday afternoon and some of us discussed that and I related that information to Mr. Poage, that the administration does have some rather serious reservations about the G. & T. provisions.

The CHAIRMAN. May I interject right in there, there are no special G. & T. provisions in this bill. There is no reference whatsoever to generation and transmission in this bill and the language is exactly the same as remained from the original, the first time that we heard it, the same as was in the Mayne substitute. The G. & T.'s are simply treated like everybody else under the terms of this proposal. The term "generation and transmission" is not mentioned and the result is that they are treated by the formula like everybody else is. It is perfectly true that under the terms of this Poage proposal, and it was identical in the Poage-Nelsen proposal and it was identical in the Mayne substitute—in all of those, we simply left the same rules that the formula applied to everybody that was involved without naming anybody or point anybody out.

Now, the effect of it is that of course, as far as I know, no G. & T. could get any 2-percent money under the terms of the bill. I frankly do not know how they would qualify to do it. Some of them could get 5-percent money and I think some of them should get it. But it makes no distinction between G. & T.'s and anybody else, it is just a——

Mr. TEAGUE. If you will allow me to interject, I did not mean to imply that your legislation does have G. & T. But that is a point of difference between yourself and the Administration.

The CHAIRMAN. That is right, that is one of the points.

Mr. SISK. Let me just state that I am perfectly willing to support this compromise, as I said, and do whatever I can to try to get it passed if we are doing something. But if even after all of this effort and with this compromise, we are still just going against an issue on which we are probably going to be faced with a veto, then I think to heck with the whole deal. Maybe I am being a little contrary this morning; I do not mean to be.

I appreciate the great effort the chairman has gone to and many others, and my friend Charlie Teague. I know Charlie is sincere in this matter. But I think we get down to the point that if in fact, we are

still faced with the same kind of opposition, to heck with the whole deal.

The CHAIRMAN. Will the gentleman yield?

Mr. SISK. Yes; I yield.

The CHAIRMAN. I think we must bear in mind that this proposal offers the Administration almost everything that they have told me they wanted. Now, it is true, they would like to name in here and write specific language and say that we do not want any generation and transmission, we will make no special treatment for generation and transmission loans. They want to write into the language that every generation and transmission operation in the United States must borrow money at the prevailing private market rate of interest.

Now, in all frankness and I know the public is here and I know the reporters are here and I know it is on the record. I am saying this is nothing but an effort to appease some power companies. That is all there is to it. It is not a matter of changing any substantial right or privilege, because we are not giving any appreciable amount of subsidized money to generation and transmission companies, because most all of them are cut out by the formula. But we are not writing into this bill a statement that we just want to side with the power companies and Bob Poage is not about to do that.

Mr. SISK. If the gentleman will yield, I appreciate the gentleman laying it out cold turkey, because that is exactly the issue I felt we were faced with here, that somebody is throwing a sop to the private power companies.

The CHAIRMAN. Exactly. As far as money is concerned, it makes practically no difference at all.

Mr. SISK. My district is all private power and I am not going to permit private power to dictate what we do in this area. That is as far as my people are concerned.

Mr. TEAGUE. A parliamentary inquiry. I understood the chairman to say he was not offering this latest Poage language as an amendment.

The CHAIRMAN. That is right.

Mr. TEAGUE. What are we doing here?

The CHAIRMAN. I just want to see if the committee wants to instruct Mr. Denholm to introduce a new bill.

Mr. TEAGUE. Then under those circumstances, we have nothing to vote on in the way of proposed legislation at this time.

The CHAIRMAN. No, we are simply discussing whether we want to ask Mr. Denholm to introduce——

Mr. DENHOLM. May I respond to that?

The CHAIRMAN. Yes sir.

Mr. DENHOLM. I agree with my colleague, Mr. Sisk, from California. But I want to say to the gentleman from California that I know Mr. Teague, the chairman, Mr. Mayne from Iowa, and myself were in a meeting all day yesterday with the Secretary of Agriculture and the Administrator of the program from 3 o'clock on and there was a real serious effort to negotiate. The chairman and our people, the officials of the NRECA, who represent some 25 million consumers across the land have gone as far as we can go in concession. We accept it as it is.

I agree with the chairman, that it is a matter of "spelled-out" language, the Secretary and the administration desire to exempt G. & T. cooperatives—I think Mr. Teague will agree—that they wanted it

spelled out and we could not agree to that. The result is the same. It is what I said before, the administration is at zero, my bill is at 36 on the yardstick of value. Mr. Poage is somewhere in the middle. We conceded from 17 to 16 to 15 yesterday afternoon in an effort to compromise, I want to be perfectly fair but I could not see the Secretary, Mr. Butz, as a man of freedom to move toward compromise at all.

So I do not think we have an agreement. To be frank, I do not think we have the administration's official consent on this bill, but I think it is the best possible language we can proceed with at this time. I think if we go with 2276, Mr. Sisk, we are indeed confronted with a veto.

Mr. SISK. Sure it is.

Mr. DENHOLM. The veto, I remind you, can relate only to H.R. 2276 and not the REA Act of 1936, as amended. We are now confronted with a stalemate as we stand on the threshold of a national energy crisis. This proposal before the committee is a compromise and I say to the chairman that I will be willing to do whatever is necessary to expedite the procedure provided that we do not deviate from what we have agreed upon here.

The CHAIRMAN. May I proceed just a little bit further with this explanation? Of course, the question has been raised as to what did we give up and what did we get?

Of course, nobody has given up anything and nobody has gotten anything, because there has not been any agreement worked out. But this language accepts what I have seen as the two real points the administration has said they wanted to make. They have said they wanted to take from the budget the expenditures for REA, which is the appropriated funds and the appropriated funds this fiscal year amounted to three-quarters of a billion dollars. It is understandable, and frankly, I join the administration in wanting to remove that from the budget. This proposal does remove it from the budget. It takes it away from the Treasury loans and makes them all insured or guaranteed loans, with money from the private market. That means that your budget looks three-quarters of a billion dollars better than it would otherwise. That is a big objective on the part of the administration, and we have met it. We have said we will go along with you and try to do it, provided you do not destroy REA in the process.

Then they said, well, it is of great importance to us as a symbol to say that we are not using the appropriated funds for fiscal 1973. We held out for a long time that we wanted to use those appropriated funds for initial cash in the fund because we had no assurance that there were going to be any moneys available, at least for some months. But yesterday, we did receive a commitment from the Secretary of Agriculture and the Administrator that they would not channel the moneys immediately to the Treasury currently coming in as repayments but would let them go into the fund, which would give us cash to enable us to make loans from the date the bill is to become law. Now, that was a concession we made. We did not get anything for it. But we felt that it was a reasonable situation, that we were not trying to make the administration abandon a position that they had publicly taken just in order to embarrass them, that unless there was some reason for us holding out against it, we should not hold out. And we did not, as quick as they gave us the assurance that there would be money available.

Now, to me, those are two very substantial concessions. I do not know what the administration will do. Certainly the President does not consult me when he vetos legislation. I do not know whether he will veto it or not. He might or might not when we pass this. But he is getting 95 percent of what he says he wants.

On the other hand, as I see it, the borrowers are going to get something that they have needed a long time and this legislation certainly will bail them out of a terrible position that the adminisration is putting them in right now. Right now, they cannot get this money. Right now, Congress has appropriated this $460 million which is just lying there, but they cannot use it because the President has impounded it. It is important that they do get money to operate on, whether they get it out of another fund or this one. It is important that they get it and this bill gives it to them. And they get it not only for this year, but it establishes a program for the future that will give REA an opportunity to keep this financing going without having to have a big fight each year about what they are going to get, because these guarantees will be sufficient to take care of all of the foreseeable needs of our borrowers, cooperative and corporate, so that as we see it, there is a great advantage, too, from the standpoint of the borrowers. And I think that their interests must be considered.

Now, it is perfectly true that, sure, if I were in an association or a cooperative that was just above this criteria, I would like to have the criteria raised. But you cannot raise it too much and expect to have public support for it. So what we have here is a reasonable compromise.

Mr. MAYNE. Mr. Chairman?

Mr. DENHOLM. We have endeavored to meet the policy decisions of the administration and I think we have substantially done so.

The CHAIRMAN. I think that we have essentially done it. It is true that we have not met what they have asked in the way of categorical language to suggest that we do not like G. & T.'s. I like them. I think they have served a useful purpose and I am not going to write something that says the Government does not like them.

Yes, Mr. Mayne.

Mr. MAYNE. Mr. Chairman, it is certainly true that a great effort has been made by both sides here to try to arrive at some legislation which could be supported by both sides, both by the committee and by the White House. I would like just to review that a little inasmuch as we are in this discussion phase, and partly in response to what my good friend, the gentleman from California, Mr. Sisk, has inquired about.

Now, the administration did, in fact, come a long way when it approved the provisions of H.R. 5536, a bill which Congressman Nelsen introduced a couple of days ago and which was made a part of the record. The provisions of H.R. 5536 have been a part of these negotiations for some time and it does provide that all collections of payments of principal and interest on REA loans are to be made available for loan purposes, and are to be immediately available. We have assurances that this produces $25 million a month and that within 30 days after the enactment of such a provision if it were in a bill which in general was acceptable to the administration, loans could immediately be made within 30 days after enactment, and on

the 10 to 1 ratio, this would mean that $250 million in loans would be available each month.

Now, this is a very large assurance to our co-ops who desperately need funds and need them now. This was a very major breakthrough to get this mechanism of immediately making as much funds available as were needed, because I think it is conceded that $250 million a month is a very hefty loaning authority.

There was, however, and there has been throughout in these negotiations an insistence on the administration's part that there not be a separate fund, another fund, set up but that there be a separate account in the rural development insurance fund. Now, the assurance about having a separate account is something on which the administration yielded relatively recently. But all along, they have not wanted to have a separate fund and there was apparently some—there may have been some misunderstanding, but they thought that that was implicit in all of their approaches to this.

Now it is true that making any reference at all to G. & T.'s has met opposition, but in at least one section, it was agreed to strike out some of that language which was deemed objectionable. At page 4 of H.R. 5536 in section 305, the reference to have that criteria applied only to distribution and telephone co-ops was removed. There was agreement on that as recently as yesterday.

The criteria which the administration agreed to, it seems to us, are adequate and generous as far as 2-percent money is concerned. The criteria in that proposal would give $9.1 million to telephone and $22 million to electric distribution and grant it to G. & T.'s on a case-by-case basis.

Now, I do not think it can be said accurately, Mr. Chairman, that the administration did not budge here. They have come forward with a proposal that will produce $25 million a month, with a loaning capacity of $250 million per month. They have provided adequate criteria for 2 percent, but they do not, as I understand it, agree to your proposal.

Now, I have not been able to study it in detail, but I think with the explanation the chairman has given this morning, I have a pretty good idea. But I would like to just say to the chairman so he will know what my intention is that at the appropriate time, I intend to offer an amendment to the proposal the chairman is talking about now which I am satisfied would meet with Executive approval. It is one which changes sections 2 and 3 only of your proposal and substitutes therefor some of the provisions of H.R. 5536, although those provisions have been modified to make clear that there will be a separate account, as was agreed to by Under Secretary Campbell here before the committee the other day, that specifies there will be a separate REA account in the rural development fund. As I have said, any reference to G. & T.'s is removed in the one section, although I must admit that there is still a section in here to which I know that you, Mr. Chairman, are very sincerely opposed. That would be the section which say that for electric generation and transmission facility loans—this is in section 305 in the amendment I will offer—"For electric generation and transmission facilities loans, the rate of interest shall be the rate prescribed by the Secretary comparable to the rates

prevailing in the private market for similar loans taking into consideration the Secretary's insurance of the loan, (hereinafter called the market rate)."

I realize that that is the language to which the chairman has voiced objection. I would like to call to the members attention, however, that the amendment that I will offer does contain language giving the Secretary authority nevertheless to grant 2-percent loans to G. & T.'s in the following words at the end of subparagraph b to section 305 "provided however, the Secretary may, in his sole discretion, on a case-by-case basis, establish a 2 per centum per annum rate of interest for any loan pursuant to title I or title II, including electric generation and transmission loans, on a finding of extreme hardship or extenuating circumstances in connection with a particular loan."

So this version does clearly make it possible for G. & T.'s to get 2-percent money in a proper case.

Now, briefly, the differences between the amendment which I will offer and the chairman's version, while they are set out in the explanation of the amendment at the front of the page; I would like to summarize them as follows. My amendment, unlike what the chairman has described, does employ the existing rural development insurance fund rather than setting up a new revolving fund, which is, it seems to me, almost the equivalent of the highway trust fund. There is, however, very clear language in my amendment stating that notwithstanding any other provision of law, the Secretary of Agriculture shall segregate and keep in two separate accounts all moneys in the fund devoted to, first, rural electric and telephone programs, and second, rural development.

Now, second, the chairman's proposal insulates this fund completely from conventional budgetary processes, whereas my amendment does not. The language at page 4 of the chairman's proposal states "the assets shall be available only for the following purposes," listing them, which puts it entirely outside ordinary budgetary processes.

Another difference is that the chairman's proposal at section 305 on page 8 provides for mandatory spending of all of these funds when it states that the Secretary or the Administrator is directed to make loans to the full extent of the assets in the fund.

As I have said, the criteria differ. It is the administration's view that the criteria in the amendment I am offering is acceptable. Then there is the matter of the language, that the chairman feels is objectionable, in making any mention of G. & T.'s

But I want to assure the members of the committee and all present here today that I have worked long and hard to try to move the administration toward a position that would be of substantial assistance to the rural cooperatives of America. I feel that while the amendment I will offer is not perfect, the administration has come a long way to approve it and it would be better to get it passed and to have the President sign it and have it immediately available than to run the risk of rejecting this and passing the proposal the chairman has just described, which would not be agreed to by the administration. At the proper time I will offer that amendment. I thank you for your patience, Mr. Chairman.

[The above referred to Mayne substitute follows:]

EXPLANATION OF AMENDMENT

This amendment would strike all the language in Sections 2 and 3 of the substitute and replace it with the text of Section 2 of the draft language acceptable to the Administration.

In comparison to the substitute, this amendment would (1) use the existing Rural Development Insurance Fund (with separate accounts for rural development and REA activities), (2) use different criteria for 2 percent loans, (3) provide for a different type of guaranteed loans, (4) authorize, but not mandate loans, and (5) provide generation and transmission loans at either 2 percent or at "market rates."

The amendment includes the language of the substitute dealing with "Other Financing," "Refinancing of Loans," and "Full Faith and Credit of the U.S."

The amendment does not change any of the provisions of the substitute dealing with the Telephone Bank.

AMENDMENT TO THE AMENDMENT—OFFERED BY MR. MAYNE

In lieu of the language proposed in Sections 2 and 3 insert the following:

SEC. 2. Title III of the Rural Electrification Act of 1936 is amended by adding at the end thereof the following new sections:

"SEC. 303. INSURED LOANS.—All loans made pursuant to Title I and Title II of this Act (hereinafter referred to as 'insured loans') shall be made from and insured through the Rural Development Insurance Fund (hereinafter referred to as the 'fund') established by Section 309A of the Consolidated Farm and Rural Development Act (hereinafter referred to as the 'Development Act') and shall be deemed rural development loans for purposes of Section 309A of the Development Act. An insured loan is one which is originated, held and serviced by the Secretary, and ultimately sold and insured in the same manner as provided for rural development loans under the Development Act.

"SEC. 304. GUARANTEED LOANS.—The Secretary may guarantee loans, in the full amount thereof, and use the fund therefor, made by the National Rural Utilities Cooperative Finance Corporation, Banks for Cooperatives, or any legally organized lending institution or agency for purposes for which loans may be made under Title I and Title II of this Act. The Borrower shall pay to the fund as a fee for such guaranteed loan an amount equal to one quarter of one per centum of the loan for the costs of administration and for losses. A guaranteed loan is one which is originated, held and serviced by a private financial agency or other lender approved by the Secretary.

"SEC. 305. INTEREST RATES ON LOANS.—(a) Except as provided in subsection (b) of this Section, insured loans shall bear interest as follows:

(i) For electric distribution facilities loans, the rate of interest shall be five percentum per annum.

(ii) For electric generation and transmission facilities loans, the rate of interest shall be the rate prescribed by the Secretary comparable to the rates prevailing in the private market for similar loans taking into consideration the Secretary's insurance of the loan (hereinafter called the 'market rate').

(iii) For telephone facilities loans, the rate of interest shall be the rate prescribed by the Secretary equal to the highest rate compatible with the borrower's ability to achieve the objectives of this Act and produce net income or margins before interest equal to 150 percentum of the interest requirements on all of its outstanding and proposed loans but shall not be less than five percentum or exceed the market rate.

(b) If an applicant for a loan referred to in Section 305 demonstrates that it has a consumer or subscriber density of three or less per mile and (i) its earnings or margin coverage of interest is less than 1.50 or (ii) such coverage of debt service is less than 1.25, each determined on the basis of the average of the two highest of the preceding three calendar years, the interest rate shall be 2 percent: *Provided, however,* That the Secretary may, in his sole discretion, on a case by case basis, establish a 2 percentum per annum rate of interest for any loan pursuant to Title I or Title II, including electric generation and transmission loans, on a finding of extreme hardship or extenuating circumstances in connection with a particular loan.

(c) Guaranteed loans shall bear interest at such rate as may be agreed upon by the borrower and the lender.

"SEC. 306. COLLECTIONS.—Notwithstanding Section 3(f) of Title I and subject to the provisions of Section 301 of this Title, all collections representing payments of principal and interest on loans, and proceeds from the sale of security for such loans, heretofore or hereafter made pursuant to Title I and Title II or insured pursuant to this Title, shall become part of the fund and may be used for all purposes relating to rural electrification and telephone loans and for the payment to the Secretary of the Treasury of loans made to the Secretary or the Administrator pursuant to Section 3(a) of Title I of this Act. Notwithstanding any other provision of law, the Secretary of Agriculture shall segregate and keep in two separate accounts all monies in the fund devoted to (i) rural electric and telephone programs and (ii) rural development.

"SEC. 307. OTHER FINANCING.—When it appears to the Administrator that the loan applicant is able to obtain a loan for part of his credit needs from a responsible cooperative or other credit source at reasonable rates and terms consistent with the loan applicant's ability to pay and the achievement of the Act's objectives, he may request the loan applicant to apply for and accept such a loan concurrently with a loan insured at the standard rate, subject, however, to full use being made by the Administrator of the funds made available hereunder for loans under this title.

"SEC. 308. REFINANCING OF DEVELOPMENT ACT AND ELECTRIFICATION AND TELEPHONE LOANS.—On request of the borrower, the Secretary is authorized and directed to refinance with loans which may be insured under this Act, any loans made for rural electric and telephone facilities under any provision of the Consolidated Farm and Rural Development Act.

"SEC. 309. FULL FAITH AND CREDIT OF UNITED STATES.—Any contract of insurance or guarantee of a loan executed by the Secretary under this Title shall be an obligation supported by the full faith and credit of the United States and incontestable except for fraud or misrepresentation of which the holder has actual knowledge. The Secretary is authorized to make agreements with respect to the servicing of loans insured or guaranteed under this Title and to purchase such loans on such terms and conditions as he may prescribe."

And renumber subsequent sections accordingly.

The CHAIRMAN. Thank you.

Any further comments?

Mr. YOUNG. Mr. Chairman, a question of clarification.

As I understand it, these moneys that are being paid in from the loans that have been made to the REA will go into the rural development fund which is set aside, is that right?

The CHAIRMAN. Which proposal are you talking about? Mine or Mr. Mayne's?

Mr. YOUNG. I am talking about your proposal.

The CHAIRMAN. No, it will not go into the rural development fund. It will simply go into a new REA revolving fund under the terms of my proposal here. It is very true that the administration would prefer to have it go into the rural development fund, which it is insisting upon and I understand the argument for it and I do not think there is anything fundamentally wrong, but we had reached the point where we had to bring something before this committee and you simply cannot write these things out as hastily as we might under the pressure we are under.

As I understand Mr. Mayne's proposal, it does set up an account within the rural development fund, but to the extent that it sets up an account within the fund, to the extent that that is firm, you have all the effects of a separate fund and you cannot transfer moneys out of the rural development fund into the electric. I do not think we should, but for a long time, we were negotiating on the proposition of how you got money to finance the rural electric needs, particularly when we did not have the money under the situation which existed a few weeks ago. We did not have the money. We were searching, and

the Administration was searching, I think, for a way under which you could finance it.

It was for that purpose that the Secretary suggested that he had clearance from the Office of Management and Budget to put interest money into the fund, with the idea that that would give you enough money. It gives you enough money down the road, plenty of it. We were still concerned that if they continued to follow the practice that has been followed in the past of making payments to the Treasury in advance, there would not be any money for a number of months, because these advance payments are normally made for a 6-month period and you might well have no money for a 6-month period. But yesterday, we did receive the the assurance, and I accept it, we received the commitment from the Secretary and the Administrator of REA that they would not do that. And while we have not anything in the law on it, I am willing to take their statement that they would not do that if this legislation passed, but they would make it available immediately. That does put approximately $25 million a month into the fund.

Now, I think that this has not been explained to the committee and maybe we ought to bear it in mind a while, that even without that interest money, there would be about $12 million a month come in for repayments, which would actually put you into business. Actually, that great transfer of interest—and I have never understood why they suggested putting it in there, it was not our request, but it was suggested that that interest money go in there. I think that they were simply casing around to find a way to solve this immediate shortage of funds. They suggested this and everybody accepted it. It is not necessary to put that interest money in there if you proceed the way we are now talking about proceeding, but they have suggested that that is a great concession that has been made.

Mr. YOUNG. Under either proposal, the money would be reloaned back into the REA system, is that right?

The CHAIRMAN. No, that money will not be loaned back. All that money will be used for will be to pay the difference in interest between the going rate of interest and the two established interest rates under this bill. One is the 2 percent, which would run under our bill to some $60 million for electric and possibly the same amount for telephone associations. That money would come at 2 percent. You understand that that means there is about a 5-percent subsidy there.

Mr. YOUNG. Yes, sir.

The CHAIRMAN. And if you have $100 million, that is $5 million that you have to put out out of the Treasury. You do not put out the amount of the loans, you only put out the difference in interest. To the extent that these are 5-percent loans, and that is where most of this money would go. there would be about a 2-percent subsidy there and that would mean on each $100 million that you loan, you would have about $2 million cost to the Government. And that is all you have to have, because we are talking about insured loans and not loans made directly out of the Treasury.

Mr. YOUNG. What about the previous loans that have been made to the REA's——

The CHAIRMAN. They remain just as they are. None of these bills make a change in the previous loans.

Mr. DENHOLM. Mr. Chairman.

Mr. ZWACH. Mr. Chairman?

The CHAIRMAN. I believe I must recognize Mr. Denholm.

Mr. DENHOLM. Thank you. An additional difference between the two funds, the rural development insurance fund—I think my colleague from Iowa will agree that the officials of the Administration wanted to use that as a passthrough fund and the proposal of the chairman designates a separate account within the Treasury Department instead of an account within the Rural Development Act and it can not pass through the special account created by the substitute language proposed by the chairman as opposed to the proposal of the Administration. In full respect to unknown personnel of the OMB or whoever might be there in the future and whoever the personnel is that is putting the pressure on the Secretary of Agriculture in forming present policy—I think our duty is to continue the program as a workable program for a much longer term of time than any temporary decision by whomever in the Office of Management and Budget. That is why I agree with the chairman's concept of a separate, special account within the Treasury instead of permitting the funds to be comingled with what we did under the Rural Development Act for other purposes. I adamantly oppose the concept of pass through; otherwise, we have not solved the problem at all. I think that is a very material difference and if OMB is to control the funds in the future, our effort is indeed in vain. I think that is one area that is divided and remains as an obstacle to full agreement. Is that correct?

Mr. MAYNE. Mr. Chairman, may I be recognized to respond to that?

The CHAIRMAN. Certainly.

Mr. MAYNE. To say we have not accomplished anything by the Administrator's provision for interest and principal to be paid in and made available for all eligible applicants, it seems to me is very inaccurate. If the money is not used, if there are not loan applications pending and a need for the money, then the money will pass through the fund. But there will be $25 million available every month if it is needed, and all projections are that that will very, very adequately take care of the need. So I think it accomplishes a great deal. It accomplishes the principal thing that is worrying the co-ops of this country, that they need money with which to operate now in adequate amounts. They will get it under this proposal.

Mr. O'NEAL. May I respond to that for just a moment?

The CHAIRMAN. Certainly.

Mr. O'NEAL. I think there is a legal question here, Mr. Mayne, to this extent. Your proposal, as I read it, requires a passthrough through your fund, the rural development fund, of principal and interest payments, repayments. The point, I believe, is that the Administrator already has existing obligations to the Secretary of the Treasury, which would require these repayments to go back to the Treasury. They would be available, as I understand it, to the extent that he does not have immediate obligations on a temporary basis, but they would be required to ultimately go back to the Treasury under your language.

Mr. MAYNE. Well, when we specifically discussed this language, I am sure, Mr. O'Neal, you will recall that you were present and both the Secretary and the Administrator assured us that if this is adopted they will, within 30 days, have $25 million available for rural electri-

fication and telephone purposes and that that amount will come in every month.

Mr. O'NEAL. Yes, sir.

Mr. MAYNE. I thought it was generally agreed that that would be more than adequate to meet any foreseeable need that we have in this important rural electrification and telephone area.

Mr. O'NEAL. Yes, sir, you are correct, but those moneys would be available only on a temporary basis. The only point I was making, is that the Administrator now has outstanding obligations to the Secretary of the Treasury which he has signed notes for and those obligations would have to be satisfied under your proposal from these repayments, just as the administration is now doing. That is the only point I was making.

Mr. JOHNSON. Mr. Chairman?

The CHAIRMAN. Mr. Johnson.

Mr. JOHNSON. Mr. Chairman, under Mr. Mayne's proposal, I would like to point out the difference between his proposal and the second revision of your bill. There are 366 REA's who would qualify with less than 3 consumers per mile of line as opposed to 178 under your definition; and there are 93 REA's who would qualify under the tier of less than 1.5. Perhaps those 93 all fall within 366 REA's, but at least 366 associations would qualify under Mr. Mayne's proposal as opposed to yours. It seems to me your criteria are very sound and satisfy the question that I raised the other day.

I would like to raise a question about your bill, though. That relates to taking something out of the budget. When you look at the definition of the budget that the President is required to bring before the Congress, it seems to me it says in one place that the budget has to contain all essential facts regarding the bonded and other indebtedness of the Government. Can we just eliminate something from the budget by passing a statute that says we are not going to include it in the budget?

The CHAIRMAN. Well, I think it is perfectly clear that everybody at every meeting from the Secretary down has agreed that the insured loans, by making insured and guaranteed loans takes the obligation out of the budget—I think that has been repeated time and again on the record. And that, of course, is the whole purpose, the basic purpose of all this legislation, actually, to take it out of the budget.

Now, of course, the budget will mention, or the big book that you have will mention that there is so much money over here in this fund and that this fund does have such authority to make loans, but it is not a part of the budget and will only be shown "for information purposes"—possibly a better way of saying it is by referring to the appropriation process, that it does not appear as something that is spent by the U.S. Government each year, because the Government alone will be spending the difference between the 2 and 7 percent interest. That is the only possible money the Government will be spending.

Mr. JOHNSON. That subsidy will not be included, then, under this provision of your——

The CHAIRMAN. That subsidy will be paid out of this fund and the Government will spend that and that will show, of course. But the Government is not going to be spending when the Government makes a hundred million dollars in loans to these cooperatives or telephone

corporations. But the Government makes those loans but it does not spend any money.

Mr. JOHNSON. The interest subsidy is what I meant.

The CHAIRMAN. The interest subsidy, today that money all comes out of the Treasury and when they make a loan to one of your western Colorado cooperatives for, let us say, $10 million, that money has to come out of the Treasury now. But if we do this, either the Mayne or—Mayne and ours are exactly the same in that respect—the money will come from the private money market, but the Government will insure or guarantee it. The Government will have to take that loss if there is a loss, but history is that that is not more than 4 percent.

Mr. JOHNSON. I understand, but where is the subsidy on the interest rate coming from?

The CHAIRMAN. It is out of the fund primarily from the income to the fund from interest repayments on outstanding loans. In our bill it is the REA revolving fund, but in his bill, it is the rural development fund.

Mr. JOHNSON. But does that not require an appropriation?

The CHAIRMAN. That would not require an appropriation every year into our fund because of the interest income which I referred to. Ultimately an appropriation might be required to reimburse the fund from time to time for these subsidies.

Mr. JOHNSON. And does that not have to be included in the budget?

The CHAIRMAN. Yes, that would have to be included in the budget, but that is only for the 2 percent loans. That only amounts to $5 million on the $100 million, which is approximately what we are proposing here. That is $5 million a year as against $750 million. That is the difference.

Mr. JOHNSON. I understand that. I am not arguing with that point. I am just asking if that does not conflict with the statement in the statute that it is not going to be included as part of the budget. It seems to me that the language is conflicting there. I understand your point and I agree with it completely. But it just seems to me that the subsidy, which obviously is going to have to be part of the appropriation process, cannot be excluded from the budget. It is not clear that it is either in or out of the budget, in my opinion.

The CHAIRMAN. I think when we take it out of that fund, it becomes a part of the budget. If they want to pay it out, it becomes a part of the budget, I think.

Mr. JOHNSON. It just says "shall be exempt from any proposed limitation"——

The CHAIRMAN. These loans are exempt.

Mr. JOHNSON. But not the subsidy.

OK.

Is that your opinion, counsel?

Mr. O'NEAL. Yes, and if I can add to that. You have raised this question previously and I have done some checking on it, on the applicable budgetary statute. That statute does provide for the inclusion in the budget of all essential facts regarding the bonded indebtedness of the Government. Now, the provisions that we have in this draft would not in any way conflict with that, except that they would take it, the provisions would remove the insured notes

from the budget and would exempt them from the general limitations on expenditure ceilings.

Now, this language, I might add, came from the Federal financing bank language which was proposed by the Office of Management and Budget to the Congress last year in which they proposed to do the same thing with the Federal financing bank legislation. On your other question, to the extent that an appropriation might be required to reimburse the fund for losses or interest subsidy differentials, those would be included in the budget for the year in which the appropriations are sought.

Mr. JOHNSON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Johnson.

Mr. MAYNE. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Mayne.

Mr. MAYNE. I would like to clear up what I think is a misunderstanding on the part of the gentleman from Colorado about the number of co-ops that would qualify. There is a difference in criteria between the two proposals. The chairman's proposal says that it will be either $450 below average gross sales or the other category, whereas, in my proposal, they must both be present. The word is "and" rather than "or" must demonstrate consumer or subscriber density of three or less per mile and et cetera.

Mr. JOHNSON. I see.

Mr. MAYNE. I carefully checked with the Administrator just this morning and the co-ops that would be eligible under my amendment are, as I have stated, 81 electric distribution, 53 telephone distribution, and of course, the G. & T.'s on a case-by-case basis.

Mr. JOHNSON. I am sorry, I did not see that.

Mr. MELCHER. Mr. Chairman.

The CHAIRMAN. Mr. Melcher.

Mr. MELCHER. Mr. Chairman, I have a question to raise on page 9 concerning G. & T.'s. I have Basin Electric serves a G. & T. in western North Dakota which serves eastern Montana REA's. They have a commitment from the Administrator, a firm commitment, for in excess of $40 million in loans for the next 6 or 8 months at 2 percent interest. Under this proposed bill if it should become law, would the Administrator be directed to honor those commitments?

The CHAIRMAN. I think you are asking a purely legal question and not a legislative question. If I understand it, if there is a legal obligation there now, this bill does not impair it in the least and the legal obligation remains. This bill does not—either of the bills, as far as I understand them—do not impair outstanding obligations nor create them. And certainly, I would think that Congress would not consider it wise to change outstanding obligations.

Mr. MELCHER. The committee being met with the announcement that 2 percent money would not be available seems to have struck down the validity of that commitment.

The CHAIRMAN. They did not strike down the validity of it. That is the question that is in court right now, and I think your Basin Electric is one of those that has that case case in court, is it not? At least some of those associations do have that very question in court.

I do not think I can answer what the courts will do. I never predict when it will rain in Texas or what a woman will do or what a court will decide.

Mr. MELCHER. I want to return to my question, Mr. Chairman. Would the language of the proposal, if it became law, permit the Administrator to make those loans?

The CHAIRMAN. As I understand it, it does permit it. It does not change it in the least. It does not change any existing obligation. I think you will still be faced with the proposition of what the court holds.

Mr. MELCHER. Then, Mr. Chairman I raise these questions. I hope the anwsers from the counsel are included by the reporter, because I want to make history not only for the committee but on the floor. This would permit the Administrator to go ahead with 2-percent loans for G. & T.

The CHAIRMAN. When you say permit, the President—when the President withholds money, the Administrator is still permitted to go ahead, but if he does not have any money, the permission is not worth much. Now, as I understand it, that is exactly what your association is trying to do in court, to say that the President could not withhold that money and could not keep the Administrator from carrying out that commitment. I think it goes to the question of whether the President has the power to do these things or not.

Mr. MELCHER. I would like to say, Mr. Chairman, that the loans should be made because they are needed now in the next few months and probably the court case would not be resolved as quickly as the loans are needed.

Mr. BAKER. Would the gentleman from Montana yield?

Mr. MELCHER. I will be glad to yield.

Mr. BAKER. We are talking about the discretion of the Administrator in the loan? Has not in essence the loan already been made with your electric cooperative and would this not be a handling of a loan already made.

Mr. MELCHER. As I understand it, the loans are being made in stages and the next two stages, while the commitment was made to make the loans, it has not been consummated.

Mr. BAKER. So these would fall within the next two stages if the law is changed or enacted at this time.

Mr. MELCHER. Yes sir.

Mr. FINDLEY. Mr. Chairman?

The CHAIRMAN. Mr. Findley?

Mr. FINDLEY. As I interpret it, one of the fundamental reasons the President took the step of impoundment of various programs and the REA 2-percent money was the net impact of these programs on the budget. Now, my guess is that the Poage-Nelsen bill had a certain cost element. The cost element of the bill you now recommend would be somewhat lower and the cost of the Mayne bill would be still lower. Can you give us any kind of a guess as to the cost of the bill that you now are recommending?

The CHAIRMAN. Yes, we think that it involves a little more than $100 million of 2-percent money, probably as much as $112 or $115 million of 2-percent money. That costs the Government 5 percent

roughly. It is a little less than that right now. But at 5 percent, $100 million would cost the Government $5 million subsidy.

Then we anticipate that there would be a very substantial part of these loans made at 5 percent, possibly 500 million of them, and I think the Mayne bill would do the same thing. There is no great difference between the cost of the 5-percent money——

Mr. MAYNE. No, Mr. Chairman, if the chairman would permit me.

The CHAIRMAN. Yes, sir.

Mr. MAYNE. We are advised by the Administrator that the cost of the 2 percent money was $31.1 million under my amendment, plus whatever amount went to the G. & T.'s.

The CHAIRMAN. Well, wait, we are talking about costs. You are talking about the total amount of the loans.

Mr. MAYNE. Yes.

Mr. FINDLEY. Costs is what I am getting at.

The CHAIRMAN. The cost is only the subsidy. If you loan $30 million, your cost would only be 5 percent of that—$1½ million would be the only cost involved there.

Mr. FINDLEY. How about the cost of the other loan subsidies, the difference between 5 percent and the going rate? Do you have any estimate of that?

The CHAIRMAN. That is roughly 2 percent of all of your loans there. It is actually under 2 percent a little now.

Mr. FINDLEY. Would that be about $10 million——

The CHAIRMAN. Yes.

Mr. FOLEY. Would the gentleman yield?

Mr. FINDLEY. Surely.

Mr. FOLEY. The administration bill was to make all the loans at 5 percent, so the difference between the bill and the administration's original proposal would be——

The CHAIRMAN. Three percent on $100 million.

Mr. FOLEY. Three percent on $100 million would be $3 million.

The CHAIRMAN. That is about what the difference is, yes.

Mr. FINDLEY. Do you see other substantial cost items?

The CHAIRMAN. I do not see how you can get any other substantial cost item.

Mr. FINDLEY. So the cost of your proposal would be approximately $15 million a year, is that correct?

The CHAIRMAN. That is probably about right. I think that would be about right.

Mr. FINDLEY. Does anybody question the reasonableness of that estimate?

The CHAIRMAN. I think it is on that order. But I think that is only about $3 million more than the present operation that the administration is carrying on. At present, every dollar that the Government is lending through the Rural Development Fund is costing the Government 2 cents. So there will be a $12 million cost if you carry on the same size program under the present operation. There is about $3 million difference in the cost.

Mr. FOLEY. Will the gentleman yield further?

Mr. FINDLEY. Surely.

Mr. FOLEY. You are not going to try to make $3 million sound negligible, are you?

Mr. FINDLEY. As a matter of fact, I was going to make that same point in a little different way. The Agriculture Act of 1970 provides $10 million a year in money for Cotton, Inc., and I think on the scale of priorities and balance of interest, this is far more worthwhile and in the public interest.

Mr. DENHOLM. Mr. Chairman, may I respond to the amendment before the committee?

The CHAIRMAN. Yes, sir.

Mr. DENHOLM. I am inclined to believe that if we accepted the amendment—and I say this for the benefit of all thought on the question—that if we permit REA and RTA loans programs to be administered under the Rural Development Act, we submit every borrower in financing the rural electrics to the criteria and to the tests that we specifically included in the statutes of the Rural Development Act, which include the credit elsewhere availability test, the instant refinancing at the request of the Secretary, and the clearance of all loans by the units of local governments plus planning commissions and everything else, which definitely precludes that notion and makes it wholly unacceptable and wholly unworkable as far as proceeding with a meaningful rural electric utility program.

Mr. FOLEY. Would the gentleman yield?

Mr. DENHOLM. Yes.

Mr. FOLEY. As one of the sponsors of the Rural Development Act and as one of the conferees, I can assure the gentleman, that my understanding and I hope the understanging of the other conferees is that the Rural Development Act 5-percent loans were never intended to apply to rural telephone cooperatives and the rural electric cooperatives and the administration itself has said that at the time that act was passed by the Congress and signed by the President, they saw no relevance in the Rural Development Act to rural electric and rural telephone cooperative financing. This is a later interpretation which suited their monetary convenience.

The CHAIRMAN. Another one is there was never one word, either in the House or the conference, which suggested that this would be used for any other purposes than that which we spelled out in the Rural Development Act. Nobody thought that it would be used to finance REA, the frankly, it cannot be and the Administrator today is just on needles and pins trying to find some way to continue to finance any kind of loans and he is finding it most difficult to do under the Rural Development Act. You will recall the testimony of both the Under Secretary of Agriculture and the General Counsel for the Department of Agriculture.

They both sat there 10 days ago and answered my question that it was utterly impossible for them to make 5-percent loans—to make 2-percent loans or even to make a 5-percent loan from the Rural Development Act that would give any guarantee of security to the cooperatives, the borrowers. Of course, that clearly provides that if they ever get into a position where they can get credit anywhere else, they have to take it, which means that nobody can use this as a means of longtime financing. It places every borrower in severe jeopardy every moment that attempts to use this for this longtime financing.

Mr. MAYNE. Will the gentleman yield?

Mr. DENHOLM. If I have the time, I will be glad to yield to my colleague from Iowa.

Mr. MAYNE. Under my amendment, I would like to point out, it is made very clear that these loan funds will not come from the rural development insurance fund. That is the case now, but if my amendment becomes law, there will be no question about it that rural development funds will not be used.

Mr. DENHOLM. I said I was not sure just what that specific act in the rural development insurance fund would do, but I am inclined to think that it is an invitation to litigation under the whole act and I would find it objectionable on that ground.

And further, the concept of "passing through" loses all control of any invested interest—and it does not direct the Administrator to do any more than it does today, and, therefore, we would be exactly where we are now if we permit the amendment of my distinguished colleague from Iowa.

Mr. SISK. Is a motion in order here? It is 10:30 and I understand we were to cast some kind of vote at 11 o'clock.

The CHAIRMAN. I wonder if you would let me offer——

Mr. SISK. Yes, Mr. Chairman, I am not trying to pick up on you at all, but I think the time has come to——

The CHAIRMAN. I do, too.

Maybe you want to do it. But I would like to move that Mr. Denholm be instructed to introduce for the committee the draft that has been circulated to you, known as a revision of the Poage-Nelsen substitute. That is the thing that I have been turning over to you. He will be instructed to introduce this as legislation.

Mr. SISK. I would make such a motion—or is the chairman making such a motion?

The CHAIRMAN. You make it.

Mr. SISK. I so move.

Mr. MATSUNAGA. Mr. Chairman, point of order. I think it should be a suggestion that he volunteer to do it, because I do not think you can ever force a man to introduce a bill.

The CHAIRMAN. Yes, the committee oftentimes passes resolutions instructing the Chair or any member to introduce a bill. He introduces it in behalf of the committee, you understand. You cannot make a man accept something as his own, but you can certainly instruct any member of this committee to introduce something for the committee.

Mr. MATSUNAGA. The chairman has a different view.

Mr. DENHOLM. Now, for benefit of all the members, and I know my colleague from Hawaii was not here when I said we have agreed to the substitute language, and to clear the record further, I will move to substitute, strike all the language after——

The CHAIRMAN. No, the reason for that is that Mr. Teague will make a point of order against that.

Mr. DENHOLM. Then I——

The CHAIRMAN. Let me make this plain. We are trying to achieve something here and trying to get the wishes of the committee. My purpose is to let the committee decide what they want and you will have an opportunity.

We could solve this quicker but we are going to have to have a meeting tomorrow or some other time. Following this procedure simply means we have to come back.

Mr. DENHOLM. I will volunteer to submit a clean bill.

The CHAIRMAN. It is not a matter of volunteering. We would like to have the committee vote to instruct you to do it if that is the wish of the committee. If the committee wishes, they can vote to instruct Mr. Mayne to introduce the other as a substitute for this motion. Somebody can move as a substitute that Mr. Mayne be instructed to introduce his proposal. Then you get the issue before the committee. That is what I am trying to do.

Mr. MATSUNAGA. Mr. Chairman, since there is no objection, I withdraw my point of order.

The CHAIRMAN. He has stated publicly several times that he was for it so he has no objection.

Mr. MIZELL. Mr. Chairman, parliamentary inquiry.

The CHAIRMAN. Yes, Mr. Mizell.

Mr. MIZELL. In view of the fact that Mr. Mayne has withdrawn his substitute to the Denholm bill by unanimous consent, is not the next procedure under the parliamentary rules that Mr. Denholm withdraw his bill before we take action or either we will have to vote on it?

The CHAIRMAN. No, he does not have to withdraw any bill. Mr. Sisk has moved that Mr. Denholm be instructed to introduce a new clean bill, which will be this substitute that has been presented to you.

Mr. TEAGUE. Parliamentary inquiry.

The CHAIRMAN. Yes sir.

Mr. TEAGUE. Is it going to say after that "by instruction of the committee"?

The CHAIRMAN. You can say that if you want to.

Mr. TEAGUE. I do not mean that. I was being facetious.

The CHAIRMAN. He can do it if he wants to. It does not make the slightest difference.

Now, Mr. Mayne, I want to be sure you are protected here and I assume that either you or somebody else wants to move yours as a substitute, that he be instructed or that you be instructed to introduce yours.

Mr. MAYNE. Mr. Chairman, I move to amend the instruction which has been moved to be given to Mr. Denholm to remove the language in sections 2 and 3 of the instruction and to insert in lieu of it the following: And this is the typewritten amendment to the amendment offered by Mr. Mayne which has been furnished all members of the committee, which commences section 2. Title III of the Rural Electrification Act of 1936 is amended, et cetera.

Mr. FOLEY. Mr. Chairman, I move the previous question on the Mayne amendment.

The CHAIRMAN. Without objection, the previous question will be ordered. The question refers to the Mayne amendment to the Sisk motion and the yeas and nays have been requested. All those in favor of amending the Sisk motion as Mr. Mayne has proposed, which in effect would make it the proposal he has discussed this morning, when your name is called, vote aye; opposed, vote no.

[The Clerk called the role and the following members voted "No": Stubblefield, Foley, de la Garza, Vigorito, Jones of North Carolina, Sisk, Alexander, Rarick, Jones of Tennessee, Mathis, Bergland, Denholm, Matsunaga, Brown, Bowen, Rose, Litton, Gunter, Zwach, Young, Johnson, Madigan, and Poage. The following Members voted

"aye": Teague, Wampler, Goodling, Mathias, Mayne, Price, Sebelius, Mizell, Findley, Baker, Thone and Symms.]

Mrs. GALLAGHER. There being 12 ayes and 23 noes, the motion is defeated.

The CHAIRMAN. Twelve ayes and 12 noes, the amendment fails and the motion recurs on the motion by Mr. Sisk. All those in favor of the motion by Mr. Sisk.

Mr. FOLEY. Mr. Chairman, I move the question.

The CHAIRMAN. On the question those in favor, vote aye. Those opposed will vote no.

[The Clerk called the role and the following members voted "No": Teague, Mayne, Mizell, and Symms. The following Members voted "aye": Stubblefield, de la Garza, Foley, Vigorito, Jones of North Carolina, Sisk, Alexander, Rarick, Jones of Tennessee, Melcher, Mathis, Bergland, Denholm, Matsunaga, Brown, Bowen, Rose, Litton, Gunter, Wampler, Goodling, Mathias, Zwach, Price, Sebelius, Findley, Baker, Thone, Young, Johnson, Madigan, and Poage.]

Mrs. GALLAGHER. Thirty-two ayes, 4 noes.

The CHAIRMAN. There being 32 ayes and 4 noes, the motion is carried. Mr. Denholm will introduce the bill and the committee must—yes sir?

Mr. FOLEY. Mr. Chairman, I move that the committee meet at Tuesday at 9:30 a.m., with an agreement that the committee will vote on the Denholm amendment, the Denholm clean bill, at no later than 10 o'clock.

Mr. TEAGUE. Mr. Chairman, I realize you have the votes, but it seems to me that allowing half an hour to discuss amendments is just not sufficient and not good business on a bill this complex, but personally, I vote no.

The CHAIRMAN. I would say that is true, but we have been discussing it for a good many days. Of course, technically, I realize that some points have been changed. But all those in favor of Mr. Foley's motion, say aye.

[Chorus of ayes.]

The CHAIRMAN. Opposed.

[Chorus of noes.]

The CHAIRMAN. The ayes have it.

We will meet at 9:30, vote not later than 10 on next Tuesday.

I believe that completes the business of the day.

[Whereupon at 10:40 a.m., the committee recessed, to reconvene at 9:30 a.m., Tuesday, March 20, 1973.]

94-225—73——17

REA LOAN PROGRAM

(Business Meeting)

TUESDAY, MARCH 20, 1973

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

The committee met, pursuant to recess, at 9:30 a.m., in room 1301, Longworth House Office Building, the Honorable W. R. Poage (chairman) presiding.

Present: Representative Poage, Foley, de la Garza, Jones of North Carolina, Sisk, Alexander, Rarick, Melcher, Mathis, Denholm, Brown, Bowen, Rose, Litton, Gunter, Teague, Wampler, Goodling, Mathias, Mayne, Zwach, Sebelius, Mizell, Findley Baker, Thone, Symms, Young, Johnson, and Madigan.

Also present: Christine S. Gallagher, chief clerk; John O'Neal, general counsel; Hyde H. Murray, associate counsel; John Rainbolt, assistant counsel; L. T. Easley and Fowler C. West, staff consultants.

The CHAIRMAN. The committee will be in order. It is 9:30. The committee is in session. We have before us a bill by our colleague, Mr. Denholm, H.R. 5683, which is the same bill which the committee instructed Mr. Denholm to introduce.

[The bill H.R. 5683 follows:]

In the House of Representatives, March 15, 1973, Mr. Denholm introduced the following bill; which was referred to the Committee on Agriculture.

[H.R. 5683, 93d Cong., 1st sess.]

A BILL To amend the Rural Electrification Act of 1936, as amended, to establish a Rural Electrification and Telephone Revolving Fund to provide adequate funds for rural electric and telephone systems through insured and guaranteed loans at interest rates which will allow them to achieve the objectives of the Act, and for other purposes

Be it enacted by the Senate and House of Representativcs of the United States of America in Congress assembled, That it is hereby declared to be the policy of the Congress that adequate funds should be made available to rural electric and telephone systems through direct, insured and guaranteed loans at interest rates which will allow them to achieve the objectives of the Rural Electrification Act of 1936, as amended, and that such rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives. The Rural Electrification Act of 1936, as amended (7 U.S.C. 901–950(b)), is therefore further amended as hereinafter provided.

SEC. 2. Title III of the Rural Electrification Act of 1936, as amended, is amended by striking out all of sections 301 and 302 and inserting in lieu thereof the following new sections:

"SEC. 301. RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND.—(a) There is hereby established in the Treasury of the United States a fund, to be known

as the Rural Electrification and Telephone Revolving Fund (hereinafter referred to as the "fund"), consisting of:

"(1) all notes, bonds, obligations, liens, mortgages, and property delivered or assigned to the Administrator pursuant to loans heretofore or hereafter made under sections 4, 5, and 201 of this Act and under this title, as of the effective date of this title, as revised herein, and all proceeds from the sales hereunder of such notes, bonds, obligations, liens, mortgages, and property, which shall be transferred to and be assets of the fund;

"(2) undisbursed balances of electric and telephone loans made under sections 4, 5, and 201, which as of the effective date of this title, as revised herein, shall be transferred to and be assets of the fund;

"(3) notwithstanding section 3 (a) and (f) of title I, all collections of principal and interest received on and after July 1, 1972, on notes, bonds, judgments, or other obligations made or held under titles I and II of this Act and under this title, except for net collection proceeds previously appropriated for the purchase of class A stock in the Rural Telephone Bank, which shall be paid into and be assets of the fund;

"(4) all appropriations for interest subsidies and losses required under this title which may hereafter be made by the Congress;

"(5) moneys borrowed from the Secretary of the Treasury pursuant to section 304(a); and

"(6) shares of the capital stock of the Rural Telephone Bank purchased by the United States pursuant to section 406(a) of this Act and moneys received from said bank upon retirement of said shares of stock in accordance with the provisions of title IV of this Act, which said shares and moneys shall be assets of the fund.

"SEC. 302. LIABILITIES AND USES OF FUND.—(a) The notes of the Administrator to the Secretary of the Treasury to obtain funds for loans under sections 4, 5, and 201 of this Act, and all other liabilities against the appropriations or assets in the fund in connection with electrification and telephone loan operations shall be liabilities of the fund, and all other obligations against such appropriations or assets in the fund arising out of electrification and telephone loan operations shall be obligations of the fund.

"(b) The assets of the fund shall be available only for the following purposes:

"(1) loans which could be insured under this title, and for advances in connection with such loans and loans previously made, as of the effective date of this title, as revised herein, under sections 4, 5, and 201 of this Act;

"(2) payment of principal when due on oustanding loans to the Administrator from the Secretary of the Treasury for electrification and telephone purposes pursuant to section 3(a) of this Act and payment of principal and interest when due on loans to the Administrator from the Secretary of the Treasury pursuant to section 304(a) of this title;

"(3) payment of amounts to which the holder of notes is entitled on insured loans: *Provided*, That payments other than final payments need not be remitted to the holder until due or until the next agreed annual, semiannual, or quarterly remittance date;

"(4) payment to the holder of insured notes of any defaulted installment or, upon assignment of the note to the Administrator at his request, the entire balance due on the note;

"(5) purchase of notes in accordance with contracts of insurance entered into by the Administrator;

"(6) payment in compliance with contracts of guarantee;

"(7) payment of taxes, insurance, prior liens, expenses necessary to make fiscal adjustments in connection with the application, and transmittal of collections or necessary to obtain credit reports on applicants or borrowers, expenses for necessary services, including construction inspections, commercial appraisals, loan servicing, consulting business advisory or other commercial and technical services, and other program services, and other expenses and advances authorized in section 7 of this Act in connection with insured loans. Such items may be paid in connection with guaranteed loans after or in connection with the acquisition of such loans or security thereof after default, to the extent determined to be necessary to protect the interest of the Government, or in connection with any other activity authorized in this Act;

"(8) payment of the purchase price and any costs and expenses incurred in connection with the purchase, acquisition, or operation of property pursuant to section 7 of this Act.

"SEC. 303. DEPOSIT OF FUND MONEYS.—Moneys in the fund shall remain on deposit in the Treasury of the United States until disbursed.

"SEC. 304. FINANCIAL TRANSACTIONS OF THE FUND.—(a) The Administrator is authorized to make and issue interim notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for discharging obligations of the fund and for making loans, advances and authorized expendtiures out of the fund. Such notes shall be in such form and denominations and have such maturities and be subject to such terms and conditions as may be agreed upon by the Administrator and the Secretary of the Treasury. Such notes shall bear interest at a rate fixed by the Secretary of the Treasury, taking into consideration the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the notes issued by the Administrator under this section. The Secretary of the Treasury is authorized and directed to purchase any notes of the Administrator issued hereunder and, for that purpose, the Secretary of the Treasury is authorized to 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 extended to include the purchase of notes issued by the Administrator. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States: *Provided, however*, That such interim notes to the Secretary of the Treasury shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

"(b) The Secretary of the Treasury is authorized and directed to purchase for reseale obligations insured through the fund when offered by the Administrator. Such resales shall be upon such terms and conditions as the Secretary of the Treasury shall determine. Purchases and resales by the Secretary of the Treasury hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

"(c) The Administrator may, on an insured basis or otherwise, sell and assign any notes in the fund or sell certificates of beneficial ownership therein to the Secretary of the Treasury or in the private market. Any sale by the Administrator of notes individually or in blocks shall be treated as a sale of assets for the purposes of the Budget and Accounting Act, 1921, notwithstanding the fact that the Administrator, under an agreement with the purchaser or purchasers, holds the debt instruments evidencing the loans and holds or reinvests payments thereon as trustee and custodian for the purchaser or purchasers of the individual note or of the certificate of beneficial ownership in a number of such notes. Security instruments taken by the Administrator in connection with any notes in the fund may constitute liens running to the United States notwithstanding the fact that such notes may be thereafter held by purchasers thereof.

"SEC. 305. INSURED LOANS; INTEREST RATES AND LENDING LEVELS.—(a) The Administrator is authorized and directed to make insured loans under this title and at the interest rates hereinafter provided to the full extent of the assets available in the fund, subject only to limitations as to amounts authorized for loans and advances as may be from time to time imposed by the Congress of the United States for loans to be made in any one year, which amounts shall remain available until expended: *Provided*, That any such loans and advances shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States.

"(b) Insured loans made under this title shall bear interest at either 2 per centum per annum (hereinafter called the 'special rate'), or 5 per centum per annum (hereinafter called the 'standard rate'). Loans bearing the special rate shall be reserved for and made by the Administrator to the full extent of the authorities contained herein for any electric telephone borrower which meets either of the following conditions:

"(1) has an average consumer or subscriber density of two or fewer per mile, or

"(2) has an average gross revenue per mile which is at least $450 below the average gross revenue per mile of REA-financed electric systems, in the case of

electric borrowers, or at least $300 below the average gross revenue per mile of REA-financed telephone systems, in the case of telephone borrowers: *Provided, however*, That the Administrator may, in his sole discretion, make a loan at the special rate if he finds that the borrower:

"(A) has experienced extenuating circumstances or extreme hardship;

"(B) cannot, in accordance with generally accepted management and accounting principles, produce net income or margins before interest of at least equal to 150 per centum of its total interest requirements on all outstanding and proposed loans with an interest rate greater than 2 per centum per annum on the entire current loan, and still meet the objectives of the Act, or

"(C) cannot, in accordance with generally accepted management and accounting principles and without an excessive increase in the rates charged by such borrowers to their consumers or subscribers, provide service consistent with the objectives of the Act.

"(c) Loans made under this section shall be insured by the Administrator when purchased by a lender. As used in this Act, an insured loan is one which is made, held, and serviced by the Administrator, and sold and insured by the Administrator hereunder; such loans shall be sold and insured by the Administrator without undue delay.

"SEC. 306. GUARANTEED LOANS; ACCOMMODATION AND SUBORDINATION OF LIENS.—The Administrator may provide financial assistance to borrowers for purposes provided in the Rural Electrification Act of 1936, as amended, by guaranteeing loans, in the full amount thereof, made by the Rural Telephone Bank, National Rural Utilities Cooperative Finance Corporation, and any other legally organized lending agency, or by accommodating or subordinating liens or mortgages in the fund held by the Administrator as owner or as trustee or custodian for purchasers of notes from the fund, or by any combination of such guarantee, accommodation, or subordination. No fees or charges shall be assessed for any such guarantee, accommodation, or subordination. Guaranteed loans shall bear interest at the rate agreed upon by the borrower and the lender. Guaranteed loans, and accommodation and subordination of liens or mortgages, may be made concurrently with a loan insured at the standard rate. The amount of guaranteed loans shall be subject only to such limitations as to amounts as may be authorized from time to time by the Congress of the United States: *Provided*, That any amounts guaranteed hereunder shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States. As used in this title a guaranteed loan is one which is made, held, and serviced by a legally organized lending agency and which is guaranteed by the Administrator hereunder.

"SEC. 307. OTHER FINANCING.—When it appears to the Administrator that the loan applicant is able to obtain a loan for part of his credit needs from a responsible cooperative or other credit source at reasonable rates and terms consistent with the loan applicant's ability to pay and the achievement of the Act's objectives, he may request the loan applicant to apply for and accept such a loan concurrently with loan insured at the standard rate, subject, however, to full use being made by the Administrator of the funds made available hereunder for such insured loans under this title.

"SEC. 308. FULL FAITH AND CREDIT OF THE UNITED STATES.—Any contract of insurance or guarantee executed by the Administrator under this title shall be an obligation supported by the full faith and credit of the United States and incontestable except for fraud or misrepresentation of which the holder has actual knowledge.

"SEC. 309. LOAN TERMS AND CONDITIONS.—Loans made from or insured through the fund shall be for the same purposes and on the same terms and conditions as are provided for loans in titles I and II of this Act except as otherwise provided in sections 303 to 308 inclusive.

"SEC. 310. REFINANCING OF RURAL DEVELOPMENT ACT LOANS.—At the request of the borrower, the Administrator is authorized and directed to refinance with loans which may be insured under this Act, any loans made for rural electric and telephone facilities under any provision of the Consolidated Farm and Rural Development Act."

SEC. 3. Section 3(f) of the Rural Electrification Act of 1936, as amended, is amended by striking "Except as otherwise provided in sections 301 and 406(a) of this Act," and by inserting ", *Provided, however*, That notwithstanding subsection (a) of this section, payments of such loans heretofore or hereafter made

to the Administrator for use in making loans to borrowers under titles I and II shall not include any interest" immediately before the semicolon.

SEC. 4. Section 405 of the Rural Electrification Act of 1936, as amended, is further amended by striking subsection (e) in its entirety and by inserting in lieu thereof a new subsection (e), as follows:

"(e) Thereafter, the cooperative-type entities and organizations holding class B and class C stock, voting as a separate class, shall elect three directors to represent their class by a majority vote of the stockholders voting in such class; and the commercial-type entities and organizations holding class B and class C stock, voting as a separate class, shall elect three directors to represent their class by a majority vote of the stockholders voting in such class. Limited proxy voting may be permitted, as authorized by the bylaws of the telephone bank. Cumulative voting shall not be permitted."

SEC. 5. The second sentence of section 406(a) of the Rural Electrification Act of 1936, as amended, is further amended by striking "from net collection proceeds in the rural telephone account created under title III of this Act" immediately after the word "appropriated".

SEC. 6. Subsection (a) of section 407 of the Rural Electrification Act of 1936, as amended, is amended by striking out "eight" in the second sentence and inserting in lieu thereof "twenty", and by striking out all of the third sentence.

SEC. 7. Section 407 of the Rural Electrification Act of 1936, as amended, is amended by adding a new subsection (c) as follows:

"(c) Purchases and resales by the Secretary of the Treasury as authorized in subsection (b) of this section shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States."

SEC. 8. Subsection (a) of section 408 of the Rural Electrification Act of 1936, as amended, is amended (a) by inserting the words "or which have been certified by the Administrator to be eligible for such a loan or loan commitment," immediately following the term "this Act," where it first appears; and (b) by adding at the end thereof the following sentence: "Loans and advances made under this section shall not be included in the totals of the budget of the United States Government and shall be exempt from any general limitation imposed by statute on expenditures and net lending (budget outlays) of the United States."

SEC. 9. Subsection (b) of section 408 of the Rural Electrification Act of 1936, as amended, is amended by striking out all of paragraph (3) and inserting in lieu thereof a new paragraph (3) reading:

"(3) Loans under this section shall bear interest at the 'cost of money rate.' The cost of money rate is defined as the average cost of moneys to the telephone bank as determined by the Governor, but not less than 5 per centum per annum."

SEC. 10. The right to repeal, alter, or amend this Act is expressly reserved.

SEC. 11. This Act shall take effect upon enactment.

The CHAIRMAN. If anybody wants to say anything or have any motions——

Mr. FINDLEY. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Findley.

Mr. FINDLEY. Mr. Chairman, I know it would be a waste of time to offer an amendment at this point, but I do want to express the thought that I think the bill would be considerably strengthened if it did spell out the exclusion of generation and transmission loans.

The CHAIRMAN. If it did what?

Mr. FINDLEY. If it excluded from 2-percent money the G. & T. loans.

The CHAIRMAN. Yes, I understand.

Mr. FINDLEY. It is my belief that the effect of the bill, except for the language on extreme hardship cases, does it anyway and I think that when we get to the House floor, there would be broader support for this bill if it did spell out in plain language that exclusion. I will not offer the amendment now, but I do intend to offer such an amendment when it reaches the floor.

The CHAIRMAN. Of course, we will ask for an open rule on the bill. There will be an opportunity if anybody wants to amend. Of course, I want to make it a matter of record that as far as I am concerned, I do not want any bill singling out generation and transmission associations or taking any kind of crack at them. They are part of our rural electric systems and they are treated just like all the rest of it in the bill. Of course, they will not get much, if any, 2-percent money, I recognize that. And I recognize that most of the money will be the higher priced money because of the criteria, but we will apply the same criteria to everybody.

Mr. FOLEY. Mr. Chairman, I move that H.R. 5683 be forwarded to the House with the recommendation that it do pass.

The CHAIRMAN. There is a motion. All those in favor, signify by saying aye.

[Chorus of ayes.]

The CHAIRMAN. Those opposed?

[Chorus of noes.]

The CHAIRMAN. The Chair is in doubt, the clerk will call the roll.

[The clerk called the roll and the following members voted "No": Teague, Mayne, Mizell, Baker, and Symms. The following members voted "Aye": Stubblefield, Foley, de la Garza, Jones of North Carolina, Sisk, Rarick, Jones of Tennessee, Mathis, Bergland, Denholm, Matsunaga, Brown, Bowen, Rose, Gunter, Wampler Mathias, Zwach, Price, Sebelius, Findley, Thone, Young, Johnson, and Poage.]

Mrs. GALLAGHER. There are 25 ayes, 5 noes.

The CHAIRMAN. With 25 ayes and 5 noes, the motion carries and the bill will be reported with the recommendation that it do pass.

Mr. TEAGUE. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Teague.

Mr. TEAGUE. The committee rules entitle us to 3 days to file a minority report or dissenting views or dissident views. That will take it up to Friday night. I would ask unanimous consent, due to the very complex nature of this bill and the fact that, I think I am safe in saying that some of the members who voted aye on the bill have reservations on it, do not consider it to be a perfect bill, that we be given until Monday night so that we can have the weekend in addition to the usual Friday night limitation to get together what might be some very complex views.

The CHAIRMAN. I wonder if we could not do it on Monday in time to file it.

Mr. TEAGUE. Yes, we can do it if we can have until noon Monday.

Mr. MELCHER. Mr. Chairman?

The CHAIRMAN. Mr. Melcher?

Mr. MELCHER. I ask unanimous consent to be recorded as voting aye.

The CHAIRMAN. First, without objection, Mr. Teague's request will be granted.

Then without any objection, Mr. Melcher's request will be granted.

Mr. LITTON. Mr. Chairman, may I make the same request?

The CHAIRMAN. Mr. Litton makes a similar request. Without objection, the request will be granted.

Mr. ZWACH. Mr. Chairman, if it is all completed, I would just like to state that I believe it is a mistake to set a certain time to vote and

then try to force us into it. I think we often vote without really having the background and information that we want and need to have. I would hope that we would try not to get ourselves into that kind of a box.

I want at the same time to expedite the business, but I do feel that we have sometimes been asked to vote when we have not had a chance to get information we want.

Mr. FOLEY. Will the gentleman yield?

Mr. ZWACH. Yes.

Mr. FOLEY. I did not make the motion with any attempt to force anybody.

Mr. ZWACH. I know.

Mr. FOLEY. There was no request for discussion of the bill when the motion was made.

Mr. ZWACH. It was not with reference to this morning, it was with reference to previous days.

The CHAIRMAN. The Chair will want to say on that that I think our present rules are such that it oftentimes becomes necessary to make this kind of motion. This bill could just as well have been passed last week as now, except that obviously, there were parliamentary procedures that anyone who objected to it could use and had a right to use. We recognize that, and when legislation is delayed simply for the purpose of delay or when it appears that it might be, it seems to me appropriate that we set a date that gives everybody considerable notice. Everybody here has known that we were going to vote on this bill this morning. They have known it for several days. Any information they wanted to get, they could get. Anybody they wanted to question, they could question.

Mr. ZWACH. Mr. Chairman, when I came in here last Thursday, we had your proposal which we had never seen, and we had Wiley Mayne's proposal which I had never seen. Now, I did not like to vote on those without further information. I had not seen either one of them. I did not know what changes had been made. It is a fact that I have had no chance to see them.

The CHAIRMAN. No, you have had it ever since last Thursday. You have had a chance. It just depends on how anxious the individual was to get the information.

Mr. ZWACH. It was changed, Mr. Chairman.

The CHAIRMAN. It has not been changed since last Thursday and you have had it in your possession ever since that date. Certainly, I have been available all the time since that date if anybody wanted to ask a question. I think Mr. Mayne has been, too. I think it has been perfectly possible for anybody who wanted to get information to get it. All I am trying to say is if we want to simply stop the proceedings of this committee and bog down and have meaningless meetings all summer, we can do so. On the other hand, if we want to move, and we have a whole lot of work that must be attended to, we can move if we will set dates and meet them. But if each time that we meet, somebody decides that he wants to postpone something, we are not going to get very far and we will be discussing this general farm bill next September and those of you who have wheat to plant will be in a somewhat embarrassing position, but we will still be here,

gentlemen. It is just a question of how fast you want to act and the Chair does not want to act faster than the committee wants to act. But I would suggest that you can make your choice, either of functioning and doing it without undue delay, or of taking the rest of the summer on each and every one of these bills. I think we have enough rules here that most anybody who wants to can filibuster anything that he wants to.

Mr. ZWACH. I have no intention of filibustering.

Mr. TEAGUE. Mr. Chairman, may I speak?

The CHAIRMAN. Certainly.

Mr. TEAGUE. I am sympathetic to what Mr. Zwach has just said and I have no intention of filibustering. I know I do not have the votes when you and I are in disagreement, but I do believe that it is questionable practice to spend hours and hours and days and days in repetitious testimony and then only 2½ hours in considering a very complex bill of this sort. So I would hope in the future, if necessary, that we cut down on the time allotted for public hearings and increase the time allotted for consideration of the technical aspects of the bill.

The CHAIRMAN. I would certainly agree that that does take a great deal of time, yes, sir. But I do not think, I just do not believe that the committee wants to spend as much time as we will spend if we do not fix the dates and move them. The Chair is not asking you to fix anything, but the Chair is calling your attention to the fact that unless we fix dates and move, we are not going to get very far.

Mr. MELCHER. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Melcher?

Mr. MELCHER. Mr. Chairman, I have heard some disturbing reports made in a speech just in the past 10 days.

Mr. ALEXANDER. Mr. Melcher, will you yield for a unanimous-consent request?

Mr. MELCHER. Yes, I yield.

Mr. ALEXANDER. I ask unanimous consent to be recorded aye on the previous vote.

The CHAIRMAN. The Chair is going to suggest with regard to the vote, that it certainly does not want to bar any vote, but these members who are not here sometimes, it seems to me we are sometimes getting out of line in recording them. I do not want to suggest in this case that we refuse that permission, but I do want to suggest, again, just as I have suggested here, that if we are going to do business, we are going to do it at the time set and not some 20 minutes after the time set. But if there is no objection, Mr. Alexander——

Mr. TEAGUE. I am not going to object, but I want to report to you, Mr. Chairman, that I just received word that Mr. Madigan misunderstood the situation and thought we were voting at 10. He is rushing down here right now and he will be making the same request within a few seconds. I hope he will get the same consideration when he makes his request.

The CHAIRMAN. I hope so and I hope that that will be the last of these untimely requests. I feel when a man is just walking in the door at the time we are taking a vote, it is perfectly proper that we allow him to be recorded, but I do not think that we want to feel that when we do not have people here in time to vote or do not have them here for the next 15 minutes—but I do not want to apply some new

rule here and I am sure that unless there is objection, we will record his vote.

Mr. ALEXANDER. I thank the gentleman for yielding.

Mr. MELCHER. I have heard some disturbing reports about remarks Dr. Eric Thor head of the Cooperative service at the Department of Agriculture, made out at Boise, Idaho, some 10 days ago. A number of my people were over there and heard the speech and it has some bearing on what we are doing today. Dr. Thor told the audience that agricultural rural programs discontinued by the Administration are dead regardless of what Congress does. He was speaking specifically about REAP and REA and he said that if Congress then passes the bills over the veto of the President, the President will refuse to spend the funds and the only recourse Congress has, Thor advised his Boise audience, is to go to court. If we do that, the cases will take the remainder of the present Administration, he said, or longer, and he is quoted as saying, "There will be another President before any of the programs can be reactivated."

Well, this shocked my constituents, and it shocks me somewhat, too. But I make this statement, Mr. Chairman, because I think the Congress is confronted with a considerably broader problem than finding compromises that the Chief Executive will allow us to put into effect. We are confronted with a defiance of congressional constitutional authority. I am well aware, and I think most of the committee is well aware, of the suit instituted by the Sioux Valley Empire Electric Cooperative in South Dakota. Perhaps we should be joining that as friends of the court.

I think Dr. Thor's speech at the Boise is shocking and is in complete disregard of the mandate that Congress has to act in behalf of the people and not have this country run just by Executive fiat or one-man rule.

The CHAIRMAN. Do you think that Dr. Thor's statement is false? I am inclined to agree with the doctor.

Mr. MELCHER. Well, Mr. Chairman, I think maybe this committee ought to be talking personally to Dr. Thor on his statements made in Boise.

The CHAIRMAN. Do you think he is wrong?

Mr. MELCHER. Well, I hope he is wrong, but we should determine the basis for his statement, and if he is right, we should tailor what we are doing to meet the real situation that confronts us.

The CHAIRMAN. Oh, I would hope so, too, but I have not observed anything to indicate that he is wrong.

Yes, Mr. Denholm?

Mr. DENHOLM. Mr. Chairman, Mr. Won Pat, Delegate member from Guam has raised the question of whether the REA Act extends to the territory of Guam. He has submitted to me a prepared amendment to the existing statutes and I have previously discussed this with counsel of the committee. I wondered if the record may include counsel's opinion pertaining thereto. The statute does now extend and include the territory of Guam, and certainly the bill that the committee has just acted upon does not do anything to the existing statute that would change that part of the existing law. But I thought in the interest of Mr. Won Pat, with the permission of the chairman and the committee,

I ask of counsel the question now for the record, if counsel is prepared to answer, as to whether or not the REA Act of 1936, as amended, and the provisions of the proposal before the committee do in fact extend to the territory of Guam?

Mr. O'NEAL. It is my opinion after my discussion with you and doing some research that the Rural Electrification Act of 1936 does provide the requisite authority for loans to territories under section 2 of that act, and the bill that has just been reported by the committee would not jeopardize that provision in any way. Therefore, they would continue to be eligible as a territory of the United States for financing without any further amendment to this bill.

Mr. DENHOLM. Thank you.

Tse CHAIRMAN. Surely the proposed, the pending bill does not change the statutes and if Guam was included, as it apparently was, in the past, certainly this does not change it.

Mr. BROWN. Mr. Chairman, may I inquire if that would apply to the other territories as well, in addition to Guam? I see no reason why it should not.

Mr. O'NEAL. Yes, sir; it would apply to all territories of the United States.

Mr. DENHOLM. If the gentleman will yield, in all other territories, the REA has been operative. But in the territory of Guam, the electrical facilities are operated under Interior and I think that is what caused the question in the mind of Mr. Won Pat as to whether or not REA had jurisdiction in Guam.

Thank you, counsel.

Mr. O'NEAL. Yes sir.

Mr. MADIGAN. I would like to ask unanimous consent of the Chair to be recorded as voting "aye."

The CHAIRMAN. Not that we are going to give any special favors here, but I am going to give you the lecture that the Chair gave others. This thing has gotten rather out of hand this morning. Members who came in here 25 minutes late are asking to record votes——

Mr. GOODLING. I ask the same thing, Mr. Chairman. I would like to vote "No."

The CHAIRMAN. The point is the Chair has already pointed out here to several others, some of whom have now answered and gone, that when we set these things, normally, when somebody is just walking in, we normally grant permission to be recorded. But I do not think it is proper procedure, and I think it is too much trouble to follow our practice of granting permission to be recorded sometime after the vote is taken. Several people have been granted requests this morning, and without objection, Mr. Goodling's request will be granted, too. So without objection, Mr. Goodling will be recorded as voting "no."

I think we have to start attending these meetings about the time that they are called or somewhere near the time they are called if we are going to participate in them.

Is there anything further?

Mr. MADIGAN. Mr. Chairman, I would just like to respond to you by saying that I have been in Illinois and I have just returned. When I left for Illinois, I had from your staff a schedule that showed that this vote would be taken at 10 o'clock this morning. I am here before 10

o'clock this morning. If you have changed that, there is no way that I can get back from Illinois to accommodate your change without knowing about it.

The CHAIRMAN. You are recorded as voting for the bill.

Mr. MADIGAN. I just wanted to respond, thank you.

The CHAIRMAN. I am not talking about individuals here this morning. I am talking about the future, because we are allowing everybody to ask for unanimous consent this morning and I am granting it to everybody. But I do want to say that for future practice, I would like you to make some effort to be present within a reasonable time. This thing started long before the gentleman from Illinois came in and there have been several in that position.

Is there anything further to come before the committee at this moment? It is almost time to start the 10 o'clock meeting.

[No response.]

The CHAIRMAN. The committee will stand in recess.

[Off the record discussion.]

The CHAIRMAN. The committee will stand in recess until 10 o'clock and they may take all the pictures they want to between now and 10 o'clock.

At 10 o'clock, when the committee meets we cannot allow them to take pictures.

[Whereupon at 9:55 a.m., the committee proceeded to other business.]