Y4
.Ag 8/3
F 22/5
1032-B

FARM CREDIT ACT AMENDMENTS OF 1979

GOVERNMENT DOCUMENTS
Storage
2 1 1980
KANSAS STATE UNIVERSITY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 1465

A BILL TO AMEND THE FARM CREDIT ACT OF 1971 TO PERMIT FARM CREDIT SYSTEM INSTITUTIONS TO IMPROVE THEIR SERVICES TO BORROWERS, AND FOR OTHER PURPOSES

OCTOBER 4, 5, AND 9, 1979

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

KSU LIBRARIES
A11900 448777

U.S. GOVERNMENT PRINTING OFFICE
53-579 O WASHINGTON : 1980

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

HERMAN E. TALMADGE, Georgia, *Chairman*

GEORGE McGOVERN, South Dakota
WALTER D. HUDDLESTON, Kentucky
RICHARD B. STONE, Florida
PATRICK J. LEAHY, Vermont
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
DONALD W. STEWART, Alabama
DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma

JESSE HELMS, North Carolina
MILTON R. YOUNG, North Dakota
BOB DOLE, Kansas
S. I. HAYAKAWA, California
RICHARD G. LUGAR Indiana
THAD COCHRAN, Mississippi
RUDY BOSCHWITZ, Minnesota
ROGER W. JEPSEN, Iowa

HENRY J. CASSO, *Staff Director*
CARL P. ROSE, *General Counsel*
GEORGE S. DUNLOP, *Minority Staff Director*

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

EDWARD ZORINSKY, Nebraska, *Chairman*

GEORGE McGOVERN, South Dakota
WALTER D. HUDDLESTON, Kentucky

S. I. HAYAKAWA, California
ROGER W. JEPSEN, Iowa

EX OFFICIO MEMBERS

HERMAN E. TALMADGE, Georgia

JESSE HELM, North Carolina

CONTENTS

	Page
Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement	1
Legislation under consideration:	
Reprint of S. 1465	130
Staff explanation of S. 1465	159
Section-by-section analysis of S. 1465	159

CHRONOLOGICAL LIST OF WITNESSES

THURSDAY, OCTOBER 4, 1979

Wilkinson, Donald E., Governor, Farm Credit Administration, accompanied by Dennis S. Lundsgaard, farmer and Chairman of the Federal Farm Credit Board, Cherokee, Iowa	3
Mercure, Hon. Alex, Assistant Secretary for World Development, U.S. Department of Agriculture	21
Gaston, William W., president, Gold Kist, Inc., Atlanta, Ga	24
Harding, Malcolm, president, Central Bank for Cooperatives, Denver, Colo	25
Harling, John A., president, Omaha Bank for Cooperatives, Omaha, Nebr	26
Naill, John, member, Federal Farm Credit Board, Lonoke, Ark	33
Gibson, Jack, chairman, Federal Land Bank Association of Southeast Arkansas, Dermott, Ark	35
Feland, Armstead M. III, executive vice president, and general manager, Southern Farmers Association, North Little Rock, Ark	37
Gist, Thomas H., Jr., chairman, board of directors, Sixth Farm Credit District, Marianna, Ark	39
Smith, Elton R., president, Michigan Farm Bureau Federation, and member of the board of directors, American Farm Bureau Federation, accompanied by Kirk Miller	43
Scott, John W., master, National Grange, accompanied by Robert Frederick, legislative director	47

FRIDAY, OCTOBER 5, 1979

Finson, Charles N., chairman, agriculture division, American Bankers Association	53
Minger, Walter W., senior vice president, Bank of America	56
Heitz, Glenn E., president, Federal Land Bank of St. Louis, St. Louis, Mo	62
Hovendick, Donald, president, Federal Intermediate Credit Bank of Omaha	64
Layton, James A., on behalf of the Farmers Export Co. of Shawnee Mission, Kans	73
Allmendinger, Leo A., on behalf of the Omaha Farm Credit Banks, Eighth District of the Farm Credit System	76
Brubaker, Galen B., member, Farm Credit Board	77
Weller, Paul S., Jr., vice president for public affairs and secretary of the National Council of Farmer Cooperatives	84
Johnson, Reuben L., legislative director, National Farmers Union	89
Carson, Robert, board member, Production Credit Association, Mississippi	94

TUESDAY, OCTOBER 9, 1979

List of witnesses—Continued

	Page
Haugen, Rolf, vice president, finance division, Land O'Lakes, Inc	99
Rast, Edward M., chairman, National Credit Association Committee	101
Redditt, Bardin, representing the Federal Land Bank Associations National Committee	104
May, William S., president, Federal Land Bank of Wichita, Wichita, Kans	114
Morrissey, Daniel J., executive vice president, Lohman Bros. Insurance Agency, representing the Independent Insurance Agents of America, Inc., accompanied by Jeff Yates, counsel	118
Bjornson, Neal, legislative director, National Milk Producers Federation	124
Chapman, Odis, American Agriculture Movement, Scott, Ark	127

PREPARED STATEMENTS SUBMITTED BY WITNESSES

Lundsgaard, Dennis S., farmer, and chairman, Federal Farm Credit Board, statement	171
Wilkinson, Gov. Donald E., Farm Credit Administration:	
Statement	172
Letter to Senator Zorinsky dated October 25, 1979, in answer to a question raised at the hearings	177
Position statement of Farm Credit Administration regarding insurance as a financially related service	178
Information regarding extent to which FLB's and PCA's are serving small- and medium-sized family farms asked by Senator Zorinsky	181
Information regarding how candidates for Farm Credit System district and association boards are certified, asked by Senator Huddleston	182
Attachment A—Eligibility of candidates	182
Attachment B—Conflicts of interest	187
Attachment C—Nepotism	191
Mercure, Hon. Alex P., Assistant Secretary, U.S. Department of Agriculture, statement	191
Gaston, W. W., president, Gold Kist, Inc., Atlanta, Ga., statement	193
Harding, W. W., president, Central Bank for Cooperatives, Denver, Colo., statement	195
Harling, John A., president, Omaha Bank for Cooperatives, Omaha, Nebr., statement	199
Naill, John, member, Federal Farm Credit Board, Lonoke, Ark., statement	201
Gibson, Jack, chairman, Federal Land Bank Association of Southeast Arkansas, Dermott, Ark., statement	203
Feland, Armstead M. III, executive vice president and general manager, Southern Farmers Association, North Little Rock, Ark., statement	205
Gist, Thomas H., Jr., chairman, board of directors, Sixth Farm Credit District, Marianna, Ark., statement	208
Smith, Elton R., president, Michigan Farm Bureau and member, American Farm Bureau Federation board of directors, statement	210
Scott, John W., master, National Grange, statement, with attachments	213
Finson, Charles N., chairman, American Bankers Association, statement	219
Heitz, Glenn E., Federal Land Bank of St. Louis, the sixth Farm Credit District of the Farm Credit System, statement	223
Hovendick, Donald L., Federal Intermediate Credit Bank of Omaha, Eighth Farm Credit District of the Farm Credit System, statement	226
Layton, James A., on behalf of the Farmers Export Co. of Shawnee Mission Kans., statement	231
Allmendinger, Leo A., Omaha Farm Credit Banks, Eighth District of the Farm Credit System, statement	232
Brubaker, Galen B., Federal Farm Credit Board, statement	233
Weller, Paul S., Jr., vice president for public affairs, National Council of Farmer Cooperatives, statement	235
Johnson, Reuben L., director legislative services, National Farmers Union, statement with attachment	239
Carson, Robert A., board member, Production Credit Association, Mississippi, statement	242
Redditt, R. Bardin, Federal Land Bank Associations National Committee of the Farm Credit System, statement	243
Morrissey, Daniel J., executive vice president, Lohman Bros. Insurance Agency, representing the Independent Insurance Agents of America, Inc., statement	248

ADDITIONAL SUBMITTED MATERIAL

	Page
Belden, Sanford A., Deputy Governor, Farm Credit Administration, statement	252
Kennedy, Keith K., president, Federal Intermediate Credit Bank of St. Louis, St. Louis, Mo., statement	253
Wright, F. Vernon, president, Federal Intermediate Credit Bank of New Orleans, New Orleans, La., statement	256
Klusman, Roger W., New Salem, N. Dak., statement	262
Hamilton, Jack, Lake Providence, La., statement	262
Taliaferro, Oscar B., president, Richmond Production Credit Association and the Federal Land Bank of Richmond, statement	263
Feland, John J., Baltimore Bank for Cooperatives of the Farm Credit System, statement	264
Mills, John N., Richmond Farm Credit Service, statement	264
Brockett, William R., president, Virginia Beef Corp., statement	265
Independent Bankers Association of America, statement	265
Price, Richard F., Southern States Co-op, Richmond, Va., statement	266
Boucher, Robert G., president, Mortgage Bankers Association of America, statement	267
Swackhamer, Gene L., Farm Credit Banks of Baltimore, statement	268
Security Pacific National Bank, statement	270
Hellebust, Hal, executive president, Kansas Cooperative Council, Topeka, Kans., Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	277
Lang, James L., general manager, Colorado Potato Growers Exchange, Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	277
Miller, Dale R., Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	278
Klenke, Wilbur F., executive vice president, and secretary, Kansas Farmers Service Association, Hutchinson, Kans., Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	279
Hulver, George M., Farmers Cooperative Grain Dealers Association of Oklahoma, Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	279
Partington, Richard, general manager, Andale Farmer's Cooperative Co., Andale, Kans., Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	280
McGuire, Jim, executive secretary, Colorado Cooperative Council, Wichita Bank for Cooperatives, Ninth Farm Credit District of the Farm Credit System, statement	281
Price, Richard F., director, Southern States Cooperatives, Inc., Richmond, Va., statement	282
American Cotton Shippers Association, statement	283
Partridge, Robert D., executive vice president and general manager, National Rural Electric Cooperatives Association, statement	284
Johnson, Frank O., director, Southern Minnesota Sugar Cooperative, St. Paul Bank for Cooperatives, Seventh District of the Farm Credit System, statement	285
Campbell, Alan K., Director, Office of Personnel Management, letter to Senator Talmadge dated Oct. 30, 1979	286
Leipprandt, Ted S., general manager, Cooperative Elevator Co., Pigeon, Mich., statement	288
Bankers Committee for Tax Equality, statement	289

FARM CREDIT ACT AMENDMENTS OF 1979

THURSDAY, OCTOBER 4, 1979

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 324, Russell Senate Office Building, Hon. Edward Zorinsky (chairman of the subcommittee) presiding.

Present: Senators Zorinsky, McGovern, Huddleston, and Pryor.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Good morning.

This is the first of three hearings to be held by the Subcommittee on Agricultural Credit and Rural Electrification on S. 1465, the Farm Credit Act Amendments of 1979.

The Farm Credit System has long played a major role in providing credit and related services to American farmers and their cooperatives. Today, the System, with an annual loan volume of over $50 billion, is the largest lender to American agriculture. One-third of the total amount of credit used by farmers and ranchers, and two-thirds of the credit used by farmer cooperatives is provided by the Farm Credit System; 8 years ago, Congress completely rewrote the laws governing the Farm Credit System, greatly broadening its lending and fundraising authorities in order to meet the changing credit needs of American agriculture.

We are assembled here this morning to accept testimony on another series of proposed amendments to the Farm Credit Act of 1971. These amendments are designed to ensure that the System continues to play its progressive role in U.S. agriculture, and continues to adequately meet the needs of today's farmers, ranchers, fishermen, and cooperatives.

Several of the 28 proposed amendments are of a housekeeping nature, intended to increase the efficiency of the System's internal operations. Other proposals, however, address some of the most important questions facing American agriculture today.

One question concerns the problems faced by young farmers.

Many young, low-equity farmers face severe difficulties getting started in agriculture. Congress addressed the problem last year when it passed the Agricultural Credit Act of 1978. The legislation we are considering today would complement that act by allowing Federal land banks to participate more fully in the loan guarantee

programs of the Farmers Home Administration. Authorizing Federal land banks to make loans for more than 85 percent of the appraised value of real estate security where guarantees are provided by the Farmers Home Administration will increase available credit to young, low-equity farmers.

A second question addressed in the Farm Credit Act amendments bill is the need to expand U.S. agricultural exports. Today, agricultural exports are one of the relatively few bright spots in the U.S. balance-of-trade picture.

I might add that if it was not for the agriculture of this Nation, our deficit of trade balance with the rest of the world would be far more severe than even it is at the present time.

This year, farm exports could earn $35 to $40 billion. Nearly $20 billion of the amount the United States has to pay for imported petroleum products this year will come from money earned abroad by this Nation's farmers.

One provision in the Farm Credit Act amendments is intended to help American farmers to do an even better job than they are doing today in exporting their products. This provision would authorize the banks for cooperatives to engage in international banking activities which benefit the U.S. farmer cooperatives.

A third key policy question this legislation addresses concerns rural development. Various legislative remedies have been enacted throughout the year which are designed to do something about the problems of rural America.

Yet, many of the problems remain and some problems have even become more severe. The Farm Credit Act amendments bill is not a panacea for all rural ills. However, two provisions in the bill could contribute to a lessening of the problems facing America's rural population.

One such provision would broaden the eligibility criteria for financing by Federal land banks and production credit associations to include processing and marketing activities directly related to an applicant's agricultural operation and those of other bona fide agricultural producers.

This proposal would provide creditworthy farmers, ranchers, and fishermen, with the means for obtaining credit to improve their processing and marketing activities. Agricultural economists have pointed out that improving a farmer's processing and marketing capacity is one important way of improving farm income, which, in turn, can help to stimulate local rural economies.

The second major provision in this legislation which should contribute to rural development concerns the farmer-member eligibility requirements for bank cooperative financing. Under present law, 80 percent of the voting members of a cooperative—70 percent in the case of rural electric cooperatives—must be farmers in order for the co-op to be eligible for bank cooperative financing

The population mix and needs of rural America have changed dramatically in recent times. In order to fully serve the credit needs of rural America, the percent requirement must be lowered. This bill would lower the requirement to 60 percent or to such higher percentage as district Farm Credit Boards may establish.

Finally, it is important to note that none of the proposed changes would require appropriated funds. The banks and associations of

the Farm Credit System are organized as cooperatives, completely owned by their borrower-members and use no Federal money.

I might add that in a day in which all problems seem to be met by a flood of Federal dollars, it is a pleasure to begin consideration today of a helpful proposal which will not put a further drain on the taxpayer.

A copy of S. 1465 with an accompanying staff explanation and section-by-section analysis of S. 1465 will be inserted in the record.[1]

At this time, I would like to welcome to the subcommittee our first witnesses this morning, Governor of the Farm Credit Administration, Donald Wilkinson and Mr. Dennis Lundsgaard, Chairman of the Federal Farm Credit Board.

Gentlemen, would you please take a seat here?

Since our witness list is rather long and we have several issues to cover today, I suggest that oral testimony be limited to 5 minutes, if possible. If you wish, you may summarize your prepared statements and enter the entire statement in the record.

STATEMENT OF DONALD E. WILKINSON, GOVERNOR, FARM CREDIT ADMINISTRATION, ACCOMPANIED BY DENNIS S. LUNDSGAARD, FARMER AND CHAIRMAN OF THE FEDERAL FARM CREDIT BOARD, CHEROKEE, IOWA

Mr. LUNDSGAARD. Thank you, Mr. Chairman. I have submitted a statement and would like to comment briefly on where we are and how we got here.[2]

I want to express appreciation from the Federal Farm Credit Board for the early granting of this hearing. The remainder of our Board is in the room with us today, and I will not introduce them, but they are representatives of the Farm Credit System. The Farm Credit Administration is located here in Washington, but when I speak of the System, I speak of the district banks and the associations, the local cooperatives who borrow from us and, finally, but certainly most important, the ranchers and farmers who use the credit of the Farm Credit System.

The System was challenged by Congress not to come to you unless we had a consensus from the borrowers and owners of our System, and we think we have done this.

The Federal Farm Credit Board is not going to come to Congress frivolously unless we feel we have a need for some changes in the Farm Credit Act of 1971.

Looking back about 4 years ago the System began, through its organizations and boards of directors to make suggestions where legislative changes were needed.

A group called the Policy Coordinating Committee, representing each district, came to us with some changes that they had talked about. We asked them to put them in writing and the numbers came out to 70 or 80 changes. So our job was to condense these down into the 28 changes that we are asking you to consider.

The Federal Farm Credit Board authorized the putting together of a nine-member task force to study these proposals and to develop the legislative language further. This has been done.

---

[1] See p. 130 for a reprint of S. 1465 with accompanying staff explanation and section-by-section analysis.

[2] See p. 171 for the prepared statement of Mr. Lundsgaard.

The districts in total are backing us on this legislation, so we feel that we have done our homework and we are presenting it to you as it is.

I thank you very much.

Senator ZORINSKY. Thank you.

Mr. Wilkinson?

Mr. WILKINSON. Thank you, Mr. Chairman.

I, too, will submit my statement, which has been designed to provide documentation as to the reason behind several of these proposals.[1]

I would like now to provide additional information regarding the desire of the System to update its authority which, of course, is found in the Farm Credit Act of 1971.

We have a strong conviction that an institution providing more than $50 billion in credit for American agriculture must remain contemporary with the needs of agriculture itself. We look upon S. 1465, then, as updating authority, not a major revision.

You have in a very concise fashion, Mr. Chairman, spoken to several of the major issues. The one on cooperative eligibility refers to the eligibility of a cooperative borrower to participate in the lending program of a bank for cooperatives and basically recognizes major demographic changes taking place in rural America. You cited the percentages required at present, 80-percent farmer voting control in marketing and supply cooperatives, 70 percent in the utility cooperatives, and the recommendation that these requirements be reduced to 60 percent for all.

I think we should recognize that, when you look at the utility cooperatives, the regulations of many of the State public service commissions require that a rural electric cooperative or a rural telephone cooperative serve everyone located in their territory. Their total membership is then involved in the voting authority. This then presents some problems when it comes to securing funding from a bank for cooperatives for their percent of voting membership who are farmers or ranchers is diminished.

A similar situation exists in the marketing and supply cooperatives, although not mandated by law. So we do recommend the change to 60 percent; but we want you to know that we still believe strongly in the principle of farmer control of their cooperatives and farmer control of the cooperative Farm Credit System.

The second major issue is the one you cited regarding the removal of the 85 percent of appraised value in the Federal land bank lending program for those loans which would be guaranteed by a governmental agency such as the Farmers Home Administration. It was the Agriculture Credit Act of 1978 that brought about a change of direction in Farmers Home lending away from the direct loan program to the loan guarantee program.

If the Federal land bank is to continue lending to young farmers and those farmers who may be momentarily economically distressed, we believe that to participate with the new guarantee emphasis, especially in the Farmers Home program, we need the authority to waive the 85-percent provision.

The third proposal would broaden the authority of the land bank associations, and banks themselves, and the production credit asso-

[1] See p. 172 for the prepared statement of Mr. Wilkinson.

ciations to finance marketing and processing so long as the operation relates directly to the producer's own production. There is a strict limit on this form of financing at the present time.

An applicant who is a borrower from a PCA or FLB must provide at the present time at least 50 percent of the throughput of the product to be processed or marketed to be eligible for a loan.

The bill before us would remove this limit and allow each district board to set its own throughput requirements, so long as there is a demonstrated relationship between the total processing and marketing activities and the applicant's own farm or aquatic enterprise.

Perhaps the thing to stress here is that this proposal would not create a new class of eligible borrowers. The borrower who is eligible for this form of financing is the same borrower we are presently serving.

The fourth proposal would authorize our banks for cooperatives to engage in international financing on behalf of their domestic cooperative borrowers. You know well, as do the other members of your committee, the importance of agricultural exports. This bank for cooperative export proposal is based on the premise that more can be done by U.S. farmers themselves to export their own products, and that this is best accomplished through farmer-owned cooperatives.

Now, the present situation is that our banks for cooperatives have authority to provide credit and services to our borrowers for their domestic enterprises. They may finance the product to the port and that is where their authority ceases. This request in this legislative proposal would authorize the extension into the international financing area of our U.S. cooperatives.

I would want you to know, Mr. Chairman, that the Farm Credit Administration will impose appropriate regulatory safeguards to ensure prudent management in this area. In fact we have been already talking to experts from the Export-Import Bank, the Overseas Private Investment Corporation, and as recently as last week, the Office of the Comptroller of the Currency, so that we may be prepared to adopt tested procedures for maintaining effective oversight of this program.

Our fifth major proposal basically authorizes the aquatic producers to be eligible for the same type of lending that we have already granted to our farmers and ranchers. We can go into further detail should you desire.

Finally, our sixth proposal, we believe, is of significance in increasing the cooperation between the Farm Credit System institutions and the commercial banks in meeting the growing credit needs of American farmers, ranchers and aquatic producers.

There are two specific amendments proposed here.

One would authorize the Federal land banks to sell loans to and participate in loans with lenders outside our System, the same as our production credit associations now can do.

The second one would authorize our PCA's to issue participation certificates to commercial banks and to other lenders. Commercial bankers have told us they would like to see this change in our participation and we believe this would facilitate their increased cooperation.

Mr. Chairman, there is one issue that I think needs specific attention, and I am speaking now of the proposal to authorize the Farm Credit Administration to charter corporations which perform service functions for system banks. I am fearful that there may be some who are misinterpreting the intentions of the Farm Credit System.

The intent of this proposal is simply to allow our own system service entities, such as our fiscal agency in New York City, our farm bank services office in Denver, Colo., to operate more efficiently.

As drafted, the bill would not allow the Farm Credit Administration to charter an entity which performed a service that had not already been authorized by Congress. In other words, we are simply talking about a housekeeping proposal. It would not in any way authorize the Farm Credit System to do anything it cannot already do.

The proposal would simply enable FCA to charter corporations to perform tasks now performed by unincorporated entities of our own system.

I assured Senator Talmadge when he introduced this bill that this proposal would not authorize the incorporation of an insurance company under the Farm Credit System to ensure system borrowers. This is not the intent of the proposal.

Finally, I would like to state, as you did, Mr. Chairman, in your comments, the fact that the cost of the Farm Credit Administration, as we look at some of the proposals relating to FCA, are borne by the banks and associations of the systems. No tax dollars are used. It should also be noted that these six proposals seek no authority which has not already been granted to some other Federal agency or quasigovernment institution.

Mr. Chairman, this is my brief summary of our key legislative proposals and I thank you.

I will attempt to answer questions.

Senator ZORINSKY. Thank you, Mr. Wilkinson and Mr. Lundsgaard. I do have a few questions I would like to ask. Either one or both of you may respond to these questions.

There have been allegations made by some persons in my State that the Farm Credit System may be contributing to a concentration of bigness in agriculture. These critics say that you are making loans to doctors and lawyers and other nonfarmers for custom feedlots They claim you are making loans to corporations that have interests other than agriculture; and they say you are making loans to large-scale corporate integrators. Finally, they claim that you are planning to expand your lending to corporate borrowers.

How do you respond to that?

Mr. WILKINSON. I am pleased that we have the opportunity to respond; and I will make my comments and then Chairman Lundsgaard may wish to add to it.[1]

I think the record of the Farm Credit System proves that it is dedicated to serving the farmer and rancher and his cooperative. This service of American farmers and ranchers, in itself, caters to the perpetuation of the family farm because it is the dominant entity by its sheer numbers and by its importance.

---

[1] See p. 181 for a more extensive answer from Governor Wilkinson.

At the same time, we recognize that the basic law under which we operate requires us to serve a legitimate farmer and rancher, regardless of the size of his operation.

Today, acreage does not indicate whether it is a corporate or a family farm. It is basically the cost per unit that is significant. Perhaps a statistic from our own land bank lending program might be helpful to indicate that we are not lending large sums to large producers.

In 1978, the Federal land bank made over 62,000 farm loans; more than 78 percent of those loans were for less than $100,000. Only 1 percent of the loans exceeded $500,000. Over 56 percent of all of the farm loans made went to borrowers who had less than $20,000 net farm income. That is not a large farm or ranching enterprise.

Now, your question also infers that we are lending to large, conglomerate corporations.

We have in our present lending program—and it would not be modified by any of our proposals—some rather strict eligibility criteria that must be taken into consideration in determining whether an entity may borrow from any part of our system.

For example, if you are looking at a corporation that may be related to a larger entity, you look at the total entity and ask yourself: Is 51 percent of the production assets in agriculture?

Is over 50 percent of the corporate income derived from agriculture?

Is the majority of stock ownership held by farmers?

Any one of those three must prevail for a corporate borrower to be eligible.

Finally, Mr. Chairman, I would remind you again that we are dealing with a cooperative Farm Credit System. We have boards elected at all levels. These board members therefore have a strong cooperative interest and, I can assure you, that their policies reflect the fact that they consider the strength of American agriculture to be the family farm; and it is their desire to make sure that their cooperative system caters to that.

Three of our legislative issues, as you cited, speak to serving the needs of smaller farms.

Mr. Lundsgaard, do you wish to add to this?

Mr. LUNDSGAARD. I think I would comment on how we define the family farm; because I do not think it has ever been defined and I am not sure it is definable. I consider myself a family farmer. My family and I provide much of the labor on my farm. We hire one outside man to help us during the busy parts of the season; and I am not sure that I could even define a family farm.

Perhaps the best definition that I could give is someone who had taken intense interest in everything that is going on on that farm—the day-to-day operations, and even the technical things like getting up in the middle of the night and looking at livestock. I am not sure that that is a very good definition.

Senator ZORINSKY. At present, you can make an agricultural loan if more than 50 percent of the value or number of shares of a corporation's outstanding stock is owned by individuals actually operating the farming business.

Mr. WILKINSON. That is correct.

Senator ZORINSKY. And you can make loans if more than 50-percent of the value of the corporation's assets are related to the production of agricultural products.

You can make a loan if more than 50 percent of a corporation's income originates from the production of agricultural products.

What would be the effect if the Congress increased these 50 percent requirements to 60 percent, in order to ensure that you concentrated your lending to family farms, of which I think we are all agreed on—we really do not have an accurate definition?

Mr. WILKINSON. Our experience would indicate that the guidelines which you have cited earlier have been effective in directing the majority of our credit service to the so-called family farm enterprise. I am not suggesting that you not consider this.

However, we have not, to my knowledge studied the difference between our present 50 percent requirement and your 60-percent proposal, Mr. Chairman, so I do not think we can add any more specific information at this time.

Can you, Dennis?

Mr. LUNDSGAARD. No, not unless we could get those figures. You would have to review the effects of raising it from 50 to 60 as each individual is considered and then see how many of them are in fact already over 60 percent; and I have no idea. It may be that most of them are over 60 percent.

Senator ZORINSKY. But there would be no assurance that all of them were over 60 percent.

Mr. WILKINSON. No; our basic requirement is over 50 percent, as you cited, at the present time.

Senator ZORINSKY. At the present time, you have no corporate entities that you are aware of that have over 50 percent?

Mr. WILKINSON. Corporate entities are difficult to discuss because we have family farms, as you know, Senator, that are incorporated. You are referring to conglomerate corporations; if I understand your question.

Senator ZORINSKY. Yes.

Mr. WILKINSON. We are assuring you, as we take those three criteria indicated, that one of those must prevail, or they may not be eligible; and in our supervisory relations with our banks, we watch this closely in our total scope of lending.

Our banks and our district boards are very conscious of the concerns that are in the best interests of American agriculture.

Senator ZORINSKY. Well, you state you have three criteria and now you state that only one of those three criteria need apply.

Mr. WILKINSON. You apply one of those three, not all three; that is correct.

Senator ZORINSKY. Depending on what? The Board's opinion?

Mr. WILKINSON. As you review the entire process, one of them must apply before that borrower is eligible. The other two may not apply, but it still indicates that either in the area of production assets or corporate income from agriculture or farmer ownership, there will be at least one of those three conditions prevailing, which will show dominant interest in agriculture. That is what we are attempting to measure.

Senator ZORINSKY. Thank you.

Late yesterday, I received your response to a letter I sent you last week regarding an inquiry by Mr. Melvin Evans' representative from the Virgin Islands, about the possibility of extending the lending services of the Farm Credit System to U.S. territories.

Your letter indicates that you do not have adequate data at this time on whether or not a self-sustaining farm credit institution could be maintained on the islands.

Have you initiated a study to provide you with that information?

Mr. WILKINSON. We have not yet initiated such a study, Senator. We recognize the interest of Mr. Evans. We would want to ascertain that there would be no misrepresentation to the agriculture community of those islands and those territories by assuming that, because we had authority, they would immediately have their own production credit association or their own Federal land bank association.

As you know, these must be self-sustaining entities.

We frankly also have some problems of making sure that the banks in their respective districts have the ability to serve those associations; because this is what retains the integrity of our system, protects the investor and provides service to the borrower.

We presently serve Puerto Rico through our Baltimore banks. We have a relationship in Alaska, a State where we have somewhat the same problems because of the agriculture in that area and the difficulty of maintaining a viable farm credit institution there.

In answer to your question, we will be pleased to conduct a study and then make a recommendation if it would be your wish.

Senator ZORINSKY. Thank you. I would certainly appreciate an answer.

Mr. WILKINSON. You will have an answer, Senator.

[The following information was received by the committee:]

OCTOBER 29, 1979.

Hon. MELVIN H. EVANS,
House of Representatives,
Washington, D.C.

DEAR MR. EVANS: Thank you for your letter of October 12, 1979, concerning the extension of the Farm Credit Act of 1971 to the United States Virgin Islands.

We know that you are aware of a bill—the Farm Credit Act Amendments of 1979—that has been recommended to the Congress by the Farm Credit Administration and the Farm Credit System and is now pending in both Houses. This bill, H.R. 4782, would provide authorizations which we and the System believe would further enhance the ability of the Farm Credit banks and associations to meet the credit needs of farmers, ranchers, their cooperatives and other eligible borrowers. The bill does not, however, authorize the extension of Farm Credit System credit services to the Territory of the Virgin Islands.

We would have no objection to an amendment to H.R. 4782 which would include the Territory of the Virgin Islands in one of the twelve Farm Credit districts now authorized by the Farm Credit Act of 1971, if it would also provide that the actual extension of credit services in the Territory by a Farm Credit institution is subject to the approval of the Farm Credit Administration and would be made under such conditions as it may prescribe. Any approval by FCA and prescribed conditions would be based on a feasibility study, such as you mentioned in your letter, which has not yet been completed and, because of its nature, may require some time.

If the qualifications we have outlined are included in the legislation it would not be necessary to delay amending H.R. 4782 until after the feasibility study is completed.

We appreciate your interest in this matter.

Sincerely,

DONALD R. WILKINSON, *Governor.*

Senator ZORINSKY. Senator Huddleston, would you care to ask any questions?

Senator HUDDLESTON. Thank you, Mr. Chairman.

Mr. Wilkinson, I want to ask a few questions about the supervisory capacity and efforts of the Farm Credit Administration over the district 4 in particular, where some questions have been raised about some management practices and operational practices of district 4 banks located in Louisville, Ky.

You are aware, I am sure, of the General Accounting Office report; I think your office has also mailed a report on the operations there.

First of all, can you review essentially what those reports indicate?

Mr. WILKINSON. Yes.

Thank you, Senator Huddleston.

The reports which refer to district 4 banks have indicated a concern as expressed in our first report to the district board of Louisville some 3 years ago, regarding the type of lending, the scope of lending, the philosophy of lending within the district—specifically, the credit bank, and the production credit associations.

We were also concerned with the ability of our land bank associations to best serve the borrower; and I would remind you that we are dealing with the district that is very important in agriculture. It is those two banks that are referred to that are among our higher-volume banks. We again had two things we were watching: Was the borrower being provided the best service possible? Were we protecting the integrity of our securities; namely, the reputation of our system as far as investors are concerned?

We hold accountable the district boards that supervise our banks and, in turn, the associations. We were not achieving the response as fast as we desired; but I am pleased to indicate to you now that there are corrections being made as we have continued to work with the district board and to provide guidance in the area of supervision to the banks.

Senator HUDDLESTON. You referred to the question as to their "philosophy of lending." Now, what, precisely, do you mean?

Mr. WILKINSON. There are several areas that I would mention. I refer to the conflict of interest area, the use of inside information by management personnel or members of association boards for personal gain.

Senator HUDDLESTON. Is this based just on philosophy or are there actually rules and regulations?

Mr. WILKINSON. There are rules which we are now urging that our banks more rigidly enforce. I refer to philosophy and the fact that certain boards and their associations were not rigidly following the requirements of those rules, Senator.

Senator HUDDLESTON. They were violating the rules and procedures established by the Farm Credit Administration?

Mr. WILKINSON. Yes.

Senator HUDDLESTON. And you got an indication of this 3 years ago?

Mr. WILKINSON. Our first report to the district boards on these problems was 3 years ago.

Senator HUDDLESTON. What recourse do you have to move on irregularities that you discovered? Can you only counsel and urge? Where do you go from there?

Mr. WILKINSON. We have, under the authority granted us in 1971, authority for examination. It is the examination process that brings to light these practices.

Second, we have authority to supervise—intensively—if necessary, the banks, providing them specific recommendations that we wish to have accomplished. It is our present philosophy that a bank can only accomplish this if its board of directors backs its management team totally. We have been working to achieve understanding of this philosophy by that district board.

If we are concerned about severe losses—and, Senator, we do not have that concern in the Louisville district—we can curtail services. Removal of selected approval of loans which has been delegated to that bank is one such action. FCA can also retain prior approval of selected loans.

Senator HUDDLESTON. If you had—if the deficiencies there had indicated that they were in fact jeopardizing the financial stability, you would be in a position to move more aggressively than you have in this particular case?

Mr. WILKINSON. If we had found those serious concerns, our approach would have been this: We would have issued an order for corrective actions to that district board. Failure of the district board to comply with that order would then have been brought to the attention of the Federal Board.

If, with approval of the Federal Board, we still found no compliance on the part of that district board and those district banks, then we would request the Justice Department to secure compliance through due process. We did not feel it necessary to go that extent at this time.

Senator HUDDLESTON. What did you find in relation to the irregular practices that caused you the greatest concern? Did you look at the makeup of the Boards? Did you look at the question of making loans to Board members, the question of the types of loans that were made to other entities?

Mr. WILKINSON. There were several things that we found. One was that we found that they were going beyond the normal scope of lending, going beyond the traditional farmer-rancher loans beyond what we think the Farm Credit System itself would——

Senator HUDDLESTON [continuing]. Lending for other type commercial operations?

Mr. WILKINSON. Yes. Using the funds for nonagricultural purposes, even though this borrower had an agriculture base.

Senator HUDDLESTON. That is a direct violation of the legislation.

Mr. WILKINSON. It is; correct.

Others would be the area of using private loan information for an individuals' personal gain. This could be management or Board personnel.

Senator HUDDLESTON. What authority do you have to supervise or oversee the manner in which the directors, both at the local level and the district level, are selected? I think the act spells out how this is to be done; does it not?

Mr. WILKINSON. Yes, we have regulations dealing with the election of directors, both at the association level and at the district level.

Senator HUDDLESTON. Do you investigate this on occasion to see that these regulations are being complied with?

Mr. WILKINSON. We do investigate. We have an investigative unit within our Office of Examination.

Senator HUDDLESTON. Does FCA have adequate procedures to identify these problems in a timely fashion?

Mr. WILKINSON. Yes; we believe we have the necessary authority; and the reason I say that, Senator Huddleston, is that we have been through difficulties in other districts. There were no severe losses; but basically our desire was to make sure we were operating the system at the highest level of efficiency possible.

We have worked out those problems by working with the Board members themselves, without having to impose rigid Federal domination. If we had moved in, we think it would not have been in the best interest of the system and its borrowers. It would have set back the concept of accountability at the local level.

Senator HUDDLESTON. Well, that implies, of course, a willingness and a cooperative effort by the Board to adjust to the regulations as you indicate to them.

Mr. WILKINSON. It does.

Senator HUDDLESTON. Have you had that kind of reaction in Louisville?

Mr. WILKINSON. We are now seeing that kind of reaction in Louisville, but it often has to go out to the actual borrowers, to the stockholders themselves to know of these concerns and to begin indicating that they want an improved directorate.

Senator HUDDLESTON. You say you are beginning to get it now?

Mr. WILKINSON. Yes.

Senator HUDDLESTON. How long has it been?

Mr. WILKINSON. Within the last 3 or 4 months, we have seen improvements in Board direction.

Senator HUDDLESTON. But you went for a period of about 2½ years after you indicated the discrepancies or irregular practices existed before you began to make any progress; is that right?

Mr. WILKINSON. We were still working with the districts board in an effort to have them understand the seriousness of their situation. Again, Senator, may I remind you, there were no severe losses. It would have been a different situation had there been such losses.

Senator HUDDLESTON. What authority do you have if there had been serious losses indicated or potential serious losses beyond pulling the charter? Can you actually physically take over and operate the bank?

Mr. WILKINSON. We would have issued an order. We would have expected the Justice Department to serve in its proper manner to bring about compliance. We would have tried other efforts; namely, prior approval of loans, as I have already indicated. We would have been hesitant, frankly, to have moved in with FCA staff to take over a bank.

Senator HUDDLESTON. But do you have the authority to do that?

Mr. WILKINSON. We would have had authority only if the district board had so concurred.

Senator HUDDLESTON. What about revocation of the charter?

Mr. WILKINSON. Yes; we have that authority. But what bothers us there, Senator Huddleston, is that it would not be the Board nor the banks that would be suffering; it would be the farmer, rancher, borrower, and this would cause us considerable concern, to revoke the charter or to curtail funding. We have that authority as well, to not permit them to secure funds.

Senator HUDDLESTON. So it is your judgment now that while these irregularities have existed, while, for a period of time the board did not seem particularly receptive to making changes that FCA recommended, they are now in fact more receptive and are moving toward correcting whatever deficiencies you have indicated in your report might exist?

Mr. WILKINSON. Definitely; yes.

Senator HUDDLESTON. Is that an accurate description of the situation at the present time?

Mr. WILKINSON. Yes; it is.

Senator HUDDLESTON. Is there anything that has developed in that 4th district situation that would suggest any new authority that you should have, suggest any change in the present proposed legislation that we are considering?

Mr. WILKINSON. My answer to that would be no. I think no new authority is needed as far as the law itself is concerned.

I think what must be recognized is the new and growing responsibility of the directors. It must be recognized by the directors at all levels of our Farm Credit System. Directors in other districts have recognized this and have acted appropriately. I have faith that the Louisville board is no different; that they will do the same. It is the true cooperative process.

Senator HUDDLESTON. I think that is probably a problem that all cooperatives, where directors are chosen many times on the basis of popularity more than on the basis of expertise or experience. They have a tendency to follow very closely what the management suggests, rather than give the management the direction that they are supposed to give.

Mr. WILKINSON. This has been a traditional problem of many of our agricultural cooperatives.

Senator HUDDLESTON. Do you have any kind of ongoing program to advise the directors or counsel them?

Mr. WILKINSON. We certainly do.

Senator HUDDLESTON. Where responsibilities are?

Mr. WILKINSON. Yes. The entire system has expanded and enlarged its director development programs. At association levels, the banks are going out and working with newly elected directors. At the district level, we invite newly elected directors to Washington to an orientation session. We have an annual ongoing updating session for directors. I am also pleased to indicate that the National Council of Farm Cooperatives works with our System very closely with an ongoing cooperative training program.

Senator HUDDLESTON. Of course, the district bank itself, with its board, if it is lackadaisical, or not performing, you could not expect that it is going to do an effective job on the local boards?

Mr. WILKINSON. You make sure that your own Federal Board is with you and then you work with the district boards and I have conviction and faith that the System will respond to this, and is responding.

Senator HUDDLESTON. Is there any type of certification process after a director is elected to make a determination of whether or not he is in the right category? [1]

Mr. WILKINSON. There is no formal certification of directors as such.

Senator HUDDLESTON. Would that be helpful?

Mr. WILKINSON. I will take that under consideration. I do not have an immediate response.

Senator HUDDLESTON. There are certain criteria that you require both locally and at the districts. If you do not know whether you are fulfilling those criteria or not, you do not know whether your directors are qualified. I do not mean in the sense of their ability but from the standpoint of the criteria.

Mr. WILKINSON. Our system is going through quite an evolution. Only in the last few years has it recognized the very major role by directors. It is a very helpful progressive change as boards now are working out commitments with management personnel and vice versa. I think the System is continually upgrading itself as far as integrity and efficiency is concerned.

Senator HUDDLESTON. While the GAO report has not been totally finalized, as I understand it, I guess the contents of it have been; on the basis of that and your own investigation, what now are you proposing as far as district 4 is concerned, and what is your course of action at this point?

Mr. WILKINSON. Our course of action at the present time is to make sure that the president of the credit bank and his staff are following up on every one of the reports which we have made and some of these deal with specific production credit association problems.

The district board is in concurrence with our actions there, and I am pleased to inform you that the bank has new staff members and working with its existing president, I feel will accomplish this.

In the land bank, the search committee made up of district board members has developed a rather comprehensive list of requirements to be met by a new president. They are interviewing candidates from several districts of the System.

Senator HUDDLESTON. Are you playing any role in that selection?

Mr. WILKINSON. We have worked with them on the criteria. As you know, the approval of the salary of a president rests by law with the Secretary of the Farm Credit Administration.

Senator HUDDLESTON. Has this experience and any other situation that may have developed in any of the other districts, caused you to wonder whether the 1971 act that decentralized and put no responsibility at the district level was the right approach?

Mr. WILKINSON. No; it has not caused that broad concern. I truthfully believe the philosophy of decentralization as authorized by that act is very proper. The concern, however, is that its implementation has not been uniform from one district to another. It took too many years, Senator Huddleston, for some of the leader-

[1] See page 182 for a more thorough answer from Governor Wilkinson.

ship of our Farm Credit System to recognize this concept; that there was not total autonomy granted without accountability. The System through FCA is still accountable to Congress, to the borrower and to the investor.

I firmly believe in the act of 1971 and what it has authorized our System to do and most of the districts are doing an outstanding job of implementing that concept.

Senator HUDDLESTON. Well, I do not want to dwell on the district 4 difficulties too much or overemphasize their importance. I think any time that we are dealing with financial institutions, some care has to be taken that we do not create an attitude or situation that could have adverse effects far beyond the importance of the problems that we are dealing with; and I think that from what I can understand, that FCA has moved fairly aggressively to correct those deficiencies. I guess the test will be as to what happens now in the next few months and what those procedures are.

Will you increase your monitoring, or will you stay closer to that situation now?

Mr. WILKINSON. We will definitely increase our monitoring. As a matter of fact, we have differential supervision programs and it is actually that. As we find a district or a bank requires more attention, it will get more monitoring from us.

Senator HUDDLESTON. And you have given us assurances that as far as the stability of the bank, financialwise, as far as the capital assets, the financial security, that it is not in jeopardy?

Mr. WILKINSON. Not in jeopardy; that is correct.

Senator HUDDLESTON. That will be watched very closely.

Mr. WILKINSON. That very definitely is correct.

Senator HUDDLESTON. As time goes on, I think maybe the manner in which this is resolved and handled may very well reflect on the current type operation and it might help make a determination as to whether it is working.

Mr. WILKINSON. It will; and I want you to know that we are doing our best to have that district board realize that it has an impact on the entire system because of what you have just said.

Senator HUDDLESTON. I am concerned that you, in your position, not only do your best to have them see the light but that you exercise the authority that you have to see that corrections are made. Whether that is going beyond threats or cajoling or urging or general persuasion or firm persuasion, I think is a crucial point here. They may have good intentions but I think we have got to make sure that intentions and all aside, that the actual corrections are made.

Mr. WILKINSON. That board has now requested its president of the credit bank to achieve specific goals within a given time frame. We, in turn, will expect the board to secure such compliance. We will expect the proper selection of a president in the land bank. One thing I have not said, Senator, is that the Louisville board is familiar with good bank management because their bank for cooperative is one of the most outstanding in our system.

Senator HUDDLESTON. I am glad you mentioned that. I wanted to say that everything is not all bad.

Mr. WILKINSON. Everything is not all bad; no, sir.

Senator HUDDLESTON. Just one general question about S. 1465, if it is passed.

What are your comments on the part of the bill that relates to salaries, proposed changes and allowances in retirement annuities for Farm Credit Administration employees? We are talking a lot about salaries up in the Congress the last few days.

Mr. WILKINSON. We have conferred with OMB in this area. We have recognized the concerns that they have in trying to determine whether FCA is similar to all other agencies or whether because it is financed by non-tax dollars, it should have more flexibility granted to it.

As I indicated earlier, we are asking for no authority which has not already been granted to some other Federal agency or quasi-Government institution; and many of these authorities are found within the monetary agencies of the Government. The Federal Reserve, for example, has been granted its own classification program.

The Comptroller of the Currency, also has the kind of flexibility in classification of personnel we are requesting.

We believe that, since our programs are so similar, there may be reasons for consideration here. We have discussed this point with Mr. Campbell, in the Office of Personnel Management and with OMB as well.

Senator HUDDLESTON. Thank you, Mr. Wilkinson.

Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, Senator Huddleston.

I agree with you. Oftentimes people are elected to boards, commissions, based on popularity contests rather than on their ability to serve. That happens once in a while even in the U.S. Congress.

Mr. Wilkinson, I have heard answers to questions this morning with regard to your testimony, the most recent question posed by Senator Huddleston, wages and salaries and pension benefits.

It seems—and I have had many people tell me that your lending group assumes a position on behalf of the Federal Government when it behooves you to do so, and separate yourself from the Federal Government when it behooves you to do so. We are talking about raises; we are not talking about Federal dollars but when we are talking about seeking new authority, you are not asking for anything that any other Federal entity has not already got the authority to do.

How do you reconcile that type of dichotomy? I am sure it is apparent to many of the people in private enterprise, that you walk that fine line through the rapids, depending on what may be to the best interests of farm credit.

Mr. WILKINSON. To respond requires us to look back in history when the Farm Credit System was totally Federal, and some of you may remember that even the employees of banks and associations were Federal.

As the Government capital was repaid, the System itself, except for the Farm Credit Administration in Washington, became private enterprise. It is chartered, true, and it operates under the authority of Congress, true; but other than that, they are full-fledged businesses operated by their boards but supervised by us. It does present us some problems, because the leadership, the management

of those banks, we believe, have to be truly professional. They are big businesses.

The banks we were talking about in Senator Huddleston's district total over $5 billion. There are few commercial banks in that category. They must be managed by professionals.

As a result, then, we are dealing with salary schedules of presidents that must be competitive with the banking industry. We do not try to stay on par with the top presidents of commercial banks but we follow the general salary schedules.

In turn, it is reflected through staff of the banks.

Now, it presents a real problem to an agency such as ours when the best of talents for our agency should come from the System. An individual that knows the operation of banks and associations, knows the problems that Senator Huddleston was talking about, the best can come from those banks themselves into our agency.

It is very difficult for us to go to a university for graduates and train that experience into them and have them be professionals. This presents us a real problem.

When we come to our own salary schedules as established within the ranges of OPM, we try to recruit people at various levels from our banks and associations. Soon, because of their newly gained skills they are hired back and become part of the management teams of the System——

Senator ZORINSKY. Do you work under the same set of rules with regard to Federal taxes as the banks that you say you should compete with salarywise? Are there any benefits to the Farm Credit System that do not accrue to the private bank with which you compare your management?

Mr. WILKINSON. We are conscious of some of those differences and we are aware of that in applying our salary schedules. It does not specifically apply to FCA, and its salary program.

Dennis, do you have any observation to make?

Mr. LUNDSGAARD. No; but I would like to make a comment on this issue.

Having been on the Federal Board for almost 5½ years now, it has become a very important issue maintaining salaries and acquiring the type of people; of course, the Federal Board's main objective, or charge, is to supply management and to hire the Governor. It is also very important that we are able to get the very best man that we can get. No reflection on the three Governors that I have served with; I think they would all agree that the salary has been very restrictive at times to attracting not only the top management positions but the positions underneath; and the Federal Board is very concerned that we need some relief in this type of thing.

Senator ZORINSKY. I think this is a problem in many areas of Government. Lately, I have heard a great deal from the Armed Services about their inability to hold technicians when competing with private enterprise; and I would imagine it exists throughout the entire Federal Government.

I do feel that one of the major points in your benefit is that you are self-sustaining and do not rely on appropriations, annual appropriations, to make up deficits from Federal tax dollars.

Mr. WILKINSON. I was going to indicate, that the recommendation is that the Board would only be authorized to adjust salaries within the executive salary level.

Senator HUDDLESTON. Do you have any control over salaries paid at the district level, to employees?

Mr. WILKINSON. Yes. We, of course, review the salary schedules and have a range within which the president's salaries may be set. This is a direct responsibility of the Governor of FCA.

This, in turn, has a direct relationship to the salary levels of the rest of the bank staff. We do not set salaries of association presidents or staff.

Senator HUDDLESTON. A bank president—in Louisville, there are two different banks, of course, approximately $3 billion each.

Would the salary range for their officers be comparable with the salary range of a regular commercial bank?

Mr. WILKINSON. Their salary is probably slightly less than the top commercial officers of a bank of that size. But we attempt to follow the same trends as salary levels increase commercially; we have a program working with our district boards to do likewise. We authorize a salary range and that also takes into consideration the volume of that bank.

Senator HUDDLESTON. But you do not have any legislative restrictions on that range?

Mr. WILKINSON. No; we do not.

Senator ZORINSKY. Could you demonstrate through available data that there is a need to lower cooperative farmer eligibility requirements from 80 percent to 60 percent?

Mr. WILKINSON. Cooperative eligibility?

Senator ZORINSKY. Yes.

Mr. WILKINSON. I think the need is basically indicated by the Rural Electric Cooperative concerns where we see the trend of people moving from the towns and the cities out into the rural environment. The service-to-all concept required of rural electrics is one which is causing them to have difficulties in continuing to borrow from our bank for cooperatives. I think testimony from the National Rural Electric Association will provide you specific information along that line. I do not have data in front of me.

Senator ZORINSKY. S. 1465 allows Federal land bank associations and production credit associations to finance marketing and processing activities.

Are you sure these activities are not being adequately financed currently?

Mr. WILKINSON. I think the way to answer that is perhaps to give you an illustration.

A farmer desiring to develop his own processing facility such as a drying establishment for seed, is authorized to borrow from the System as long as over 51 percent of the commodity going through that unit is his own output.

Once he expands in an effort to be more efficient, Senator Zorinsky, and processes more of his neighbors' seed, he no longer is able to utilize the full services of his own cooperative credit institution. He must go elsewhere, sometimes paying higher interest costs.

We believe that the lowering of that percentage and the authorizing of farmers to integrate themselves upward into the marketing and processing area and still be able to use their own cooperative Credit System, will provide greater return back to that farmer or those farmers who are involved.

Senator ZORINSKY. Why should Federal land banks and Federal land bank associations and intermediate credit banks be treated differently than production credit associations and banks for cooperatives with respect to the tax laws?

Mr. WILKINSON. Basically, your Federal land bank associations are exempt from taxation; whereas, the production credit associations are taxed. It goes back to congressional intent years ago when the land bank program was the first one in 1916. Such authority was granted at that time.

Senator ZORINSKY. Your answer is that the legislation makes it different?

Mr. WILKINSON. Yes.

Senator ZORINSKY. But I am saying, what reason, in practice, should there be for the difference? There are a lot of differences between entities, but that does not make them right or wrong.

Mr. WILKINSON. Would you permit me to ask one of our staff who has lived with this program for some time to respond at this time?

Senator HUDDLESTON. Certainly.

Mr. WILKINSON. This is Mr. Terry Fredrickson.

Mr. FREDRICKSON. I am Terry Fredrickson; I am Senior Deputy Governor.

Senator, as the Governor said, this goes back into history quite a long time.

The Federal land bank associations were created originally and given tax-free status because they were carrying out clearly a Government purpose and they had placed on them the special obligation to serve the needs of agriculture in all areas and under all sorts of economic conditions and under all kinds of agricultural conditions.

That obligation has continued to rest on both the land bank and land bank associations as well as on the FICB's. The banks for cooperatives and the production credit associations fit in a little bit different kind of status in this particular regard.

The law clearly establishes that, to the extent possible, the Farm Credit System should make credit service available through its production credit associations and the banks for cooperatives, as long as that can be done on a clearly economically feasible basis. The same weight of obligation that exists on the Federal land bank and land bank associations does not extend to the production credit associations or the bank of cooperatives. There are in fact some limited areas for production where production credit service is not available.

Senator ZORINSKY. But for what reason does it not extend, other than that the law says so? I could cite the example of U.S. Senators. I am exempt from prosecution in many areas, according to the Constitution. That does not make that right, just because the law says it.

Mr. FREDRICKSON. No; I think that the difference in the tax status exists because there is a different service obligation imposed on those institutions.

Senator ZORINSKY. OK.

Now, we are hearing from many institutions that say, you are beginning to get into their areas. I suppose you could make the same comments with regard to other lending institutions, getting into your granted areas. I am asking some questions that many people are thinking and not saying; and I feel that this hearing would be the place for people to respond to this.

Mr. FREDRICKSON. Senator, I think the only thing that I would want to add to what we have already said is simply that the Farm Credit Administration would respond to a review of that tax status by the tax writing committees at any time. We have repeatedly made that statement. Legislation has been periodically introduced and referred to the Ways and Means Committee of the Senate Finance Committee, as the case may be. To this point, those committees have not chosen to hold hearings on any of those bills; but we stand ready to respond to that kind of a request at any time.

Senator ZORINSKY. Well, I will say one thing. You are fortunate you are not in the middle of a regulation Q argument.

Mr. WILKINSON. Yes.

Senator ZORINSKY. With respect to the incorporation of CFCS—cooperative Farm Credit System—services, how can you assure us, without more specific language in the legislation, that CFCS will not own and operate many types of nonfarm businesses? The language in S. 1465 appears to provide for wide discretion by CFCS.

Mr. WILKINSON. I think that the writing of the language itself so restricts us to only those authorities which have already been granted to the System. My assurance recognized by Senator Talmadge in his introduction of the bill, and, again, my testimony this morning has specifically indicated that this is exclusively a housekeeping type of authority to try and provide more efficiency in our own system entities.

I think the way it is written in the bill, Senator Zorinsky, is sufficiently restrictive.

Senator ZORINSKY. We hear, with increasing frequency, that the cooperative Farm Credit System member institutions offer loan funds somewhat below market rates, due in part to special treatment under the law—this gets back to my previous question—including tax advantages and an identity as a Federal agency.

Is it possible that the long-term effect of these CFCS advantages in the competitive marketplace will be to eliminate other sources of agriculture credit that is now available?

Mr. WILKINSON. My response to that is definitely no.

We have watched with interest the share of the total agricultural debt program that is being taken care of by the Farm Credit System, by the commercial banks, by the individuals and by the government programs. There is going to be a need for all lenders as we anticipate what agriculture will need going into the decade of the 1980's.

There are changes in the share, but it is not due to our involvement. It is due to the ability of other lenders to go elsewhere, where there may be a greater return on their investment. With us,

our mandate is agriculture. Stay with it, and that is where we will stay.

Senator ZORINSKY. Thank you very much, Mr. Wilkinson and Mr. Lundsgaard. We appreciate your very articulate presentation, your very knowledgeable grasp of your obligations and responsibilities.

Mr. WILKINSON. Thank you for your cooperation.

Senator ZORINSKY. I now would like to call the Honorable Alex Mercure, Assistant Secretary for Rural Development, U.S. Department of Agriculture.

As you are aware, we do have a time constraint and if you could summarize your statement, it would be helpful.

STATEMENT OF HON. ALEX MERCURE, ASSISTANT SECRETARY FOR WORLD DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. MERCURE. I guess I have a time constraint, too. I think I was volunteered by the Chair——

Senator ZORINSKY. Many of us get offered as human sacrifices.

Mr. MERCURE. I hope that is not an indication of what is happening here this morning.

But let me just summarize our attitude with regard to the amendments being proposed.

Mr. Chairman, it is a pleasure to appear before the subcommittee to present the Department of Agriculture's views regarding S. 1465, the proposed Farm Credit Amendments of 1979.

The administration supports the principles articulated in my statement and the legislation. However, we suggest that Congress consider these amendments in terms of the total availability of credit. I notice in your comment that you really are hacking at that issue. We recommend that Congress in making its decisions consider the administration's plans to submit to Congress its suggestion related to credit markets and the levels of Federal credit availability. There are important elements in the amendments being proposed which we think improve the base for partnership which is, in my view, very strong partnership between the Farm Credit Administration and the Department of Agriculture, not just Farmers Home Administration, but including the Rural Electrification Administration as well.

It is in that context that some of these amendments, I think, will produce particularly with regard to our loan guarantee program for farmers more effective instrument for us in strengthening the partnership which already exists.

As you know, the Farm Credit System generally operates under variable interest rate policy and some of the amendments will address that question. We think that is a good policy to follow and it essentially provides the kinds of flexibility that we think agriculture needs. We share the views you expressed in terms of the importance of FCA and the total farm credit picture.

We notice that, from time to time, other credit markets become more available to farmers depending on what happens to be the situation in the credit market. We also know the scarcity of capital for agriculture varies significantly and it is important, I think, to maintain stable source of adequate credit for America's farmers. And I think FCA provides that stable source.

Farmers Home Administration provides some credit but a very small proportion of the total credit made available to farmers as compared to FCA, and we think that the amendments produced to strengthen partnership is important to continue.

I think that is all I need to say and I will submit the statement.[1]

Senator ZORINSKY. Thank you.

Mr. Mercure, you suggest in your testimony that Congress consider these amendments in terms of the total availability of credit. You further ask us, when making decisions on this legislation, to consider the administration's plans to submit to Congress its suggestions related to credit markets and the levels of Federal credit availability.

Could you please elaborate just a bit on what the administration's plans are as they relate to credit markets and levels of Federal credit availability?

Mr. MERCURE. I am not really competent to give you specifics. I think I could give you some of the general attitudes which prevail in terms of the administration's view of availability of credit.

As you know, one of the basic concerns is—that is going on now is to try to evaluate to what extent Federal credit instruments either guarantees direct loans, loan participation, what is their effect on the total credit market of the United States and what effect does it perhaps cause distortion and then, ultimately, finally, what is the potential exposure to the Federal Government by virtue, particularly of the guarantees which have been growing very significantly?

Now, we also know that there are guarantees and there are guarantees. Many of the guarantees which the Farm Credit Act provides through its programs are based on solid collateral. There are other guarantees which the Federal Government provides in which their collateral is less gold plated than some of the real estate loans that we have made. So it is in that context that the entire review is being made by both Treasury and Office of Management and Budget.

We are not very deeply involved in that review at this time. It is not appropriate perhaps but we expect that within the next week or two that there will be coming forward from the administration its views on this question.

Senator ZORINSKY. As I understand it, you feel the authorities contained in this bill can help ease some of the work pressures being experienced by the Farmers Home Administration.

Do you see this legislation complementing the Agriculture Credit Act of 1978?

Mr. MERCURE. Yes, I do. The Agriculture Credit Act of 1978 provided as a new effort for the Farmers Home Administration a guaranteed authority. It had not worked as well as it might have, and it has not worked as well as it should have with the Farmers Credit Administration, which has been one of our more critical and important partners, partly because they have constraints in their operating procedures. This one helps that.

On the issue of providing processing and marketing resources to farmers, I think that the past 30 years, 40 years, in fact, have demonstrated the importance of farmer-owned facilities which ex-

[1] See p. 191 for the prepared statement of Secretary Mercure.

tend the value of products for them further and further toward the consumer, and that has, I think, been of important benefit to the farmer, both in terms of introducing new competitive elements in the market system, even though farm co-ops, in fact, are not that important except in a few sectors.

I think the international market, I think the Secretary has on a number of occasions strongly urged the strengthening of the marketing system by farmers in terms of promoting and establishing a more solid base in terms of the export system. We think this contributes to that.

Senator ZORINSKY. From your standpoint, do you see any particular problems with the banks for cooperatives getting involved in export financing? I know you endorse the concept. I simply want to know if you think the banks for cooperatives can do this job properly?

Mr. MERCURE. I think clearly they can do it. I think probably—well, in partnership with operating cooperatives, I think it is probably important to recognize, and I recognize the testimony that Governor Wilkinson—they are already trying to establish whatever arrangements are necessary with OPIC, and other entities have guarantees for export markets. And I think that perhaps one of the problems that one might perceive, which I think probably is not a real problem, there is no question that there is a fear that the cooperative system is somehow going to become a dominant force in that market. But our experience or our data suggests that they are relatively small in terms of their influence in agricultural exports. We think they ought to be more important.

Senator ZORINSKY. With the exception of the Office of Personnel Management, does your testimony represent administration-wide acceptance of this legislation?

I understand that as late as yesterday afternoon, there was some confusion as to what your testimony would be, where you were going to come down on it.

Mr. MERCURE. Everything in the testimony reflects now the administration's position. My previous testimony had two little paragraphs introduced, and I will highlight those.

The first one, the one that I read, and then the second one which through some oversight of ours and mine, we had not really addressed, and that is the issue of what the salary levels ought to be. It is really not, I think, my responsibility to address that issue. I think it is an issue that should be addressed in the Office of Personnel Management and the context that has been alluded to here by Governor Wilkinson and the Chairman.

Senator ZORINSKY. Thank you very much, Alex, for presenting your testimony.

I would like to now call as a panel the following three individuals. If you would please come to the head of the table here.

William W. Gaston, president, Gold Kist, Inc., Atlanta, Ga.; Malcolm Harding, president, Central Bank for Cooperatives, Denver, Colo.; and John A. Harling, president, Omaha Bank for Cooperatives, Omaha, Nebr.

Welcome, gentlemen.

Mr. Gaston, do you want to begin with a summary of your testimony?

STATEMENT OF WILLIAM W. GASTON, PRESIDENT, GOLD KIST, INC., ATLANTA, GA.

Mr. GASTON. Yes, sir, Mr. Chairman. I would like to make a summary statement [1] and then also Mr. Harding and Mr. Harling would make a summary statement, and then we will answer questions, if that is your procedure.

I am Bill Gaston, president of Gold Kist, Inc. As the chief executive officer of a major farm supply and marketing cooperative, I represent one of the large users of the cooperative Farm Credit System. Gold Kist is headquartered in Atlanta, Ga., and operates from Virginia across the Southeastern and Southwestern States from Virginia to Oklahoma. We are the largest U.S. processors of poultry, peanuts, and the largest cooperative processors of soybeans and pecans in the United States. So I speak with some authority on the need for export financing capabilities.

Now, I have submitted to you and the committee a more detailed statement, and I would like to say that we consider this legislation very important to the continued well-being of agriculture. I appear before you today very much in support of the amendments that—that will let the bank of cooperatives to serve our needs in the area of export financing.

Gold Kist has been an exporter of agricultural products almost from the beginning of our existence. Gold Kist was organized in 1933 as a cooperative to market cotton. This past year, we exported over $216 million to a number of foreign countries and this past year this represented about 13 percent of our total business volume. This percentage has gone up substantially in the last 4 years. Margins that are made on exporting these products are distributed to the commodity operating division, and then to the members of those divisions.

Now, over the past 2½ years I have been very actively engaged in bringing together a new worldwide trading organization that will be owned by six—at the present, six U.S. cooperatives, one Canadian cooperative and four European cooperatives. This organization is headquartered in Germany. Our goal in this effort is to continue to expand our export marketing of our members' products throughout the world and capturing whatever profit potential we can to return to our cooperative owners, the farmers of this country and the farmers of the world.

We feel that it is very important for the bank of cooperatives to be given the necessary authority to provide for their cooperative owners export financing. What we are requesting in this legislation will enable the banks for cooperatives to also be the cooperative's lead banker in the international arena. Commercial international banks have followed their customers all over the world with banking services. We feel and we want the bank of cooperatives to also be able to follow their customers over the world with banking services and banking facilities. They will work in conjunction with the established channels of commercial banking, and their international banking relations. The Farm Credit banks do a lot of business with commercial and international banks, and we will contin-

[1] See p. 193 for the prepared statement of Mr. Gaston.

ue to do that, but the bank of cooperatives would be our lead bank and our representative with those international banks.

I would be pleased to respond to any questions about my written statement or this brief introductory statement.

Senator ZORINSKY. Thank you.

Mr. Harding?

STATEMENT OF MALCOLM HARDING, PRESIDENT, CENTRAL BANK FOR COOPERATIVES, DENVER, COLO.

Mr. HARDING. Thank you, Mr. Chairman. I am Malcolm Harding, president of the Central Bank for Cooperatives, which is located in Denver, Colo.[1] The Central Bank for Cooperatives is the 13th bank for cooperatives.

Our major function is to participate with the district banks in their financing of the large regional cooperatives. The bank of cooperatives system last year provided cooperatives about $17 billion in credit. This was to approximately 3,500 farmer cooperatives and represents, as you indicated earlier, Mr. Chairman, about two-thirds of the total credit used by agricultural cooperatives. The CBC provided about $8 billion of the System's total of $17 billion.

Our interest here today is to speak primarily on the issue of export financing, although we support the legislative package in its entirety.

I would like to review briefly why we are interested in having the authority to offer export financing. Our interest and involvement in export financing really started many years ago, but it's importance was dramatically emphasized at the time of the Russian wheat sale of 1973, when farmers suddenly began to ask themselves if they sold all this grain to Russia, why are our cooperative marketing organizations not participating to a greater extent in the sales, and thereby permitting a greater share in the earnings from those sales? The farmers, through the boards of directors of their marketing cooperatives began to ask their bankers, the BC's, how can we do this, what should we be doing? The banks responded that they did not have the necessary authorities to provide full export financing in marketing their products overseas.

We do not mean to imply that we are not financing exports because we are. Farmers, based upon recent projections are exporting through their cooperatives this year between $5 and $6 billion in agricultural products. We are presently financing 65 percent of credit used by co-ops and, to the extent that credit is used by the co-op to export, we are involved in the financing of exports. However, we are providing the financing only to the U.S. port. We are not following it overseas.

What we need, and what cooperatives are asking us to do for them, is the same basic authorities and the same financing facilities that commercial banks have. As we have approached this issue, the amendments to the act would give us basically the same authorities that commercial banks have. We believe it is proper and appropriate for the principal leaders to the cooperatives to have this authority. You will recall that the banks for cooperatives were originally established to provide the marketing, processing and supply cooperatives owned by farmers with financing for these

[1] See p. 195 for the prepared statement of Mr. Harding.

businesses. In the beginning, most if not all, of the co-ops' business, was domestic. Now, their interests have expanded to finding foreign markets for the products of the American farmer.

What we are asking for is the authority to follow our cooperatives and owners overseas.

Some concern has been expressed that this would infringe upon the traditional areas of business of other lenders. As we see the implementation of the authority, if the Congress grants it, we would, in large measure, utilize the facilities of commercial banks in implementation. We believe this will enhance, not lessen, commercial banks' opportunities to participate in international banking.

So, Mr. Chairman, in the interest of time, I would just summarize by encouraging the Congress to approve these amendments to the Farm Credit Act. We believe we can manage it properly and to the economic benefit of farmers. It is for this reason we request the authority to do so. I, too, will be happy to respond to questions.

Senator ZORINSKY. Mr. John Harling from my favorite city.

STATEMENT OF JOHN A. HARLING, PRESIDENT, OMAHA BANK FOR COOPERATIVES, OMAHA, NEBR.

Mr. HARLING. Thank you, Mr. Chairman. It is a pleasure to appear before your committee.

I have submitted written testimony on the eligibility issue and do support S. 1465 in its entirety. I would like to summarize my statement on eligibility and also to comment briefly about the export provisions of the bill.[1]

As you know, we are asking Congress to lower the eligibility requirements for cooperatives who borrow from the banks for cooperatives from the present 80 percent voting stock requirement held by producer members, 70 percent in the case of utility cooperatives to 60 percent for all cooperatives.

We believe that in the many months that the Farm Credit System has been working on this legislative package, that there are two primary issues that have surfaced around this eligibility proposal. The first of those issues is the shifting trends and population across the country. More farmers are moving off the farm into small towns and urban communities.

The second issue is farmer control of the System.

I would like to comment briefly on each of those two areas. Rural population have been shifting for several years. There are fewer farming units, and those farmers have moved into small towns and cities across the country. Farms are becoming larger and, at the same time, there has been healthy growth in our small communities and rural areas, especially in recent years as we find industry depending more and more on discovering the dependability of the rural labor force. The bond between the family farm operators and rural communities is very strong and cooperatives are directly involved in that. Cooperatives have remained a very viable tool for family farm operations having them to secure their production input and to market their crops and livestock. But, at the same time, how many cooperatives, especially the rural electric systems and other utility cooperatives are feeling that shift in population.

[1] See p. 199 for the prepared statement of Mr. Harling.

The rural electrics are required to serve all residents whether they live on a farm or a town or a city. The result is that just one or two fair-sized communities can make them ineligible to borrow from a bank for cooperatives.

The problem is not entirely limited to the rural utilities systems. As town residents, particularly in the small communities, where there are limited services, are turning more and more to the cooperatives to supply their products and services, such as petroleum and propane, for example, for heating fuels and lumber and hardware, and even fertilizers. Although the primary volume and service business of that cooperative is with the farmers and ranchers, when you look at the head count of those cooperatives, the membership and the makeup of that membership may show an increasing number of nonfarm members.

In developing this proposal, the directors of the Farm Credit System were emphatic that the System remain farmer controlled and their cooperatives remain farmer controlled. We believe it was the intent of Congress when the System was created that our primary objective be the improvement of farm and ranch income through the extension of sound and adequate cooperatives. We believe that the legislation that is being proposed meets both needs, maximum service to rural Americans and farmer control of the Farm Credit System.

The other aspect of this legislative package is the export financing provisions that I would like to comment on this morning. Every member of this subcommittee is aware of this country's deficit balance of trade position as our imports of foreign crude oil continue to increase. It is becoming more evident each year that exports of farm commodities are the bright spot in America's productive capacity and our ability to export and counter the flow of incoming oil and other foreign production.

Over $30 billion worth of farm commodities will be exported this year with some forecasts hitting over $50 billion in the last few years. Farmers want to increase their direct share of the export market.

International export transactions are extremely complex arrangements. The handling and exchange of commodities in the international market require such things as delayed payments, inventory financing and deposits, and transactions with and from domestic and foreign banks. In order for cooperatives to secure the necessary services at the present time, they must work with other lenders that are not familiar with or involved with cooperative operations and financial structures. Since financing cooperatives is the only business of the banks for cooperatives, it is the desire of the stockholders of this system that we be able to provide financial services for exporting.

The banks for cooperatives can help expedite the transactions which are essential to exporting any agricultural commodity. The banks can also provide the necessary services at minimum costs to cooperatives which translates in terms to maximum profit for the farmers that are members of those cooperatives.

There are a few international trading firms that presently handle about 90 percent of the farm exports, and they buy and sell grain all around the world.

53-579 O - 80 - 3

In addition to being major exporting firms from this country, there are also major exporting firms for the Canadian farmers, for the Australian farmers, farmers in Argentina and even in Europe. Since these same firms are also major importers of farm products in the same areas of the world, plus Japan and the Mideast, American farmers would like their cooperatives to have a larger part in the U.S. exports to give them greater confidence that the prices that they are actually receiving fairly reflect world market value for their products. Not every cooperative is ready to plunge immediately into direct sales with foreign buyers, although I know many farmers in our area would like to see them do that. But I can say that cooperatives are moving steadily in that direction. Farmers have proven that they are willing to finance this expansion.

Only a few years ago, grain cooperatives held less than 10 percent of shipping capacity in our major ports. In recent months they have acquired or expanded facilities in major ports like Galveston, Tex., Philadelphia, and on the Great Lakes. Current estimates indicate cooperatives may now have as much as 20 percent of the U.S. shiploading capacity. We have a much bigger job to do. We need a balanced pipeline all the way through to the ultimate consumer. This means much more cooperative involvement beyond the limits of the United States.

We believe this will help us to also correct some of the transportation problems that we are having in the Midwest.

Senator, this country needs expanded exports, and that means that agriculture has a very vital role to play in our economy. In turn, farmers and ranchers need the cooperatives, too, that serve them, to help them maintain a high level of efficiency and productivity. That is where the Farm Credit System plays a key role, and that is why these amendments are extremely important to the American farmer.

Again I would urge your support of H.R. 1465, and would be happy to respond to any questions.

Senator ZORINSKY. Thank you.

When I ask a question, anyone is free to answer it and, if any of you gentlemen have something to add to that answer, I would be pleased to hear from you.

Do you have available data that suggests a need for the banks for cooperatives to enter the international financing of export business, and are not the present sources of credit adequate to finance our agriculture exports?

Mr. HARDING. Mr. Chairman, let me start out with that question.

There is some available data. The Central Bank for Cooperatives was asked by the District Banks for Cooperatives in 1975 to conduct a study to determine whether or not cooperatives would have an interest in their banks being able to provide export financing. That survey indicated strong support for the service. A survey of all the district banks this summer shows that farmers are increasing their exports through their cooperatives.

On the question of whether this service is being provided adequately by existing lending institutions, I would be complimentary of commercial banks and the services that they have offered to the large regional cooperatives—the service has been generally good.

The one area we think we can improve is expediting the collection of payments for exported goods, to get the money back from the foreign buyer and into the hands of the cooperatives. We understand that it often takes 5 to 7 days from the date the payment is actually made by the foreign buyer until the funds are in the hands of the cooperative. Most of the farmer cooperative export sales are large and so any holdup in the transfer of those funds back to the cooperatives is costly to farmers.

Additionally, there is a large number of exporting cooperatives that are small. They do not have the same access to, or interest by, the larger commercial bank. They also are asking for this service. Therefore, we believe that there is a need there for us. And, as I indicated before, even though we would be the lead bank in some of this export financing, all the transfer of funds would be through existing international commercial banks, and much of it would be through U.S. international banks.

As you know, the Farm Credit System was patterned after the cooperative Farm Credit Banking System in Europe. Just last week, I attended the opening of the Los Angeles office of the DG Bank, which is the German Cooperative Bank. This is their second branch office in the United States. They are here pursuing investments in agriculture.

So, yes, in most cases commercial banks have done a good job, but there is a need not being met by commercial banks.

Senator ZORINSKY. There have been some charges that allowing the banks for cooperatives to engage in export financing would create a further incursion of your activities in the market traditionally serviced by commercial lending institutions. I believe it was you, Mr. Harding, that identified the fact that you were going through the commercial bank in this area and that this method was being accepted very well. I believe you made that statement in your opening remarks.

Is it being accepted well by the banking institutions themselves or is this a unilateral observation?

Mr. HARDING. I am not sure I understand the question.

Mr. GASTON. Are they going to welcome this with open arms?

Senator ZORINSKY. Yes, sir.

Mr. GASTON. No, sir. They will oppose it. We do not really think the commercial international banks have a fence around the world as far as the banking activities are concerned. We think we should be able to follow our customers to the ultimate as well as they follow their commercial customers to the ultimate decision. We have calls in Atlanta—I would say about three times a week—by banks outside this country coming into Atlanta and the United States wanting to do business with American companies. They are following their customers to this country.

It follows what he said about the DG Bank opening a branch office. We have had 10 or 12 new banks open in Atlanta.

Mr. HARDING. We have contacted and asked the major commercial banks here to make a proposal to us as to how they would work with us in offering this service. We have had excellent response from all those banks. I believe you have a letter from a major money center bank in New York City offering full support to

this legislation. If you have not received it, we have a copy of it and we would make it available.

Mr. HARLING. I would like to comment, too. I think you are going to find varying degrees of opposition among banks across the country. We have a close working relationship with the banks in the Midwest, and I feel that they will be supportive of this effort as they are supportive of—just as we are of farmers sharing more in that export market.

Senator ZORINSKY. The authority that allows you to enter into export financing arrangements also provides authority for you to enter into leveraged lease arrangements. For the committee, can you please explain what a leveraged lease arrangement is and why the banks for cooperatives should be financing transactions of this sort?

Mr. HARDING. Mr. Chairman, I am not technically well qualified to respond to that question. Leveraged leasing is a financing technique utilized by many business organizations and cooperatives. It is designed to take advantage of certain tax credits, and it involves making loans to an entity that will buy the equipment or the facility as equity owners. The equity owner would not necessarily be a cooperative. They might build a facility or buy equipment and lease it to the cooperative. The cooperative would retain the beneficial interest by utilizing the facility or equipment. Most lenders have the authority to finance that equity on it.

Because of our unique requirements that we can lend money only to eligible cooperatives, this short-circuits the bank for cooperatives' ability to finance the equity owner, even though you could make the loan directly to the cooperative.

What we are asking for is, so long as the beneficial interest of the use of those funds would be to an eligible cooperative, that we would be able to finance the equity owner, which might be a subsidiary of the cooperative or might be someone totally unrelated to the cooperative except in a business sense.

Mr. GASTON. An example would be grain hopper cars. Some company might buy 1,000 grain hopper cars and get the benefits of depreciation cash flows and tax credits and then be willing to pass some of that on to the leasing cooperative. So the bank for cooperatives could provide the base funds to buy the hopper cars to lease to the cooperatives.

Senator ZORINSKY. I see.

What are the eligibility problems of supply cooperatives and why are these supply cooperatives experiencing eligibility problems?

Mr. HARLING. I think I should respond to that, Senator.

In our area where cooperatives are located in small communities, and those communities have expanded because of that movement from the farm into town, or because people have moved into that community because of employment due to the growth of industry in that area, we have found that the cooperatives that have traditionally served the farmers in that area are now being asked to not only serve the farmers but serve a growing number of people who live in town.

They are becoming members of that cooperative to buy things that they need. The cooperative may be the only source of supply for those items in that community.

Senator ZORINSKY. To what extent have present eligibility restrictions tended to retard the formation of new cooperatives or of new mixed entities involving co-ops and nonco-op entities?

Mr. HARLING. Well, I am not sure that they have retarded growth of cooperatives because, as we work with the farmers to establish those new cooperatives, generally they are agricultural in nature and they meet their eligibility requirements.

So I do not believe that is particularly restrictive to the growth in development of new cooperatives but, in fact, the eligibility problem is more prominent among those cooperatives that have been operating for many years and have served farmers in a specific area and have, because of that demographic change, been asked to serve both farmer and nonfarm families.

Senator ZORINSKY. Mr. Harling, I understand that between 50 and 100 hog production facilities have been financed by PCA's, banks for cooperatives, and Federal land banks in the four-State region served by the Omaha office of the Farm Credit System. Would you say that is an accurate estimate?

Mr. HARLING. I can speak only for the bank for cooperatives. I do not have the estimates from the PCA's. It sounds reasonable.

In our case, in our four-State area, we have financed 13 feeder pig cooperatives. We have very specific policies relative to those kinds of loans.

I want to assure you that we are concentrating on those cooperatives that are serving farmers in their present farming operation. The farmers are looking to this kind of an operation to provide them with a dependable source of feeder pigs, of high quality, disease free, and provide them on a consistent basis so that they have no difficulty getting that livestock where they need it. It is also an opportunity for the young farmer who is just getting started to gain in the benefits of the economies of size and yet not have a large equity investment or investment to make as he might ordinarily have to make.

These units are serving existing farmers and providing them with quality livestock.

Senator ZORINSKY. A recent article in the National Hog Farmer states that more of the hog production facilities being built in the Nebraska/Iowa area are now constructed by single individuals or by large agribusiness corporations than in the past when the emphasis was on cooperative efforts by a dozen or so farmers who sought a stable source of feeder pigs to take back to their farms to finish.

In your experience, is this analysis correct?

Mr. HARLING. Those were the kinds of operations that we were financing. Those 10 to 15 farmers, sum up to 20 or so, some are larger than that, but they are farmers.

Senator ZORINSKY. What effect do you see the rapid growth of large-scale hog production facilities having on the traditional role of hogs as the "mortgage burner" for young farmers?

Mr. HARLING. I think that continues to be a fact of life and this is a way that the farmer can continue to compete in a highly competitive industry, and so the farmer is looking to some kind of a cooperative arrangement with his neighbor to gain a source of

supply that he can finish out and use as an additional income item to help him retire his indebtedness, not to retard it.

Senator ZORINSKY. Thank you very much, Mr. Gaston, Mr. Harding, Mr. Harling, for your very articulate presentations, your contribution to our hearings today. Thank you very much.

I would now like to call on my colleague, Senator Pryor from Arkansas, to take the chairmanship of this committee and introduce the next panel to come forward, and Senator Pryor has a very keen interest in this piece of legislation. He has been one of the more articulate new members of this committee concerning his interest in the ability to finance those people who form our basic mode of agricultural production.

So I would like to ask Senator Pryor to chair.

Senator PRYOR. I appreciate your kind remarks and I would at this time like to have the opportunity, if I might, Mr. Chairman, to present to the committee four outstanding citizens of our State who are here to testify before this committee today.

So with the chairman's permission, I will ask these gentlemen to come forward at this time. Mr. Naill, Mr. Gist, Mr. Feland and Mr. Gibson, if you will take those four chairs right there. We are proud to see you this morning and I have not had the opportunity to shake your hands, but I look forward to seeing all of you later.

Senator ZORINSKY. I might say, Senator Pryor, that these gentlemen, you, and I possibly have something in common. I think both football teams are having a good season.

Senator PRYOR. Yes. At one time, something like 1964, we played Nebraska, as I recall, and I do not know whether I want to remember that score or not. I cannot remember whether we won or lost. Probably you all do.

Mr. Chairman, thank you very much. These individuals, Mr. Chairman, in addition to being personal friends of mine, for many years, are faced on a day-by-day basis with making decisions that affect the lives and the well-being of actually thousands of farm families in our State of Arkansas and in the regions that they represent in their various capacities. They all know agriculture from A to Z. They have been involved in farming. They are known in our State to have the highest reputation and impeccable credentials to be before our committee and to speak with a great deal of authority on the subject today.

Mr. Chairman, if I might, I would like to first call on Mr. John Naill. Mr. Naill is from Brinkley, Ark. He is a cotton, soybean, and cattle farmer. He represents the sixth Farm Credit district on the Federal Farm Credit Board.

Our next witness after that will be Mr. Jack Gibson. Mr. Gibson is a farmer, he is a banker, he is chairman of the board of the Federal land bank association of southeast Arkansas. He is an oldtime friend of mine, Mr. Chairman.

Armstead Feland is a cattle farmer and general manager of the Southern Farmers Association, board member of the sixth Farm Credit district representing cooperative borrowers, and I had the opportunity to speak to Mr. Feland's organization about 2 weeks ago in Arkansas, and it was a good meeting.

Tom Gist is our next witness, Mr. Chairman. He is a cotton, soybean, rice, and cattle farmer from Marianna. He is the chair-

man of the sixth Farm Credit district board, board member of Riceland Foods, and Southern Farmers Association.

Both of these organizations, as you know, Mr. Chairman, are co-op borrowers from the bank of cooperatives.

So these gentlemen, I think, come today armed not only with a great number of facts, but also a lot of knowledge, and certainly a large amount of credibility. We look forward to hearing from you this morning.

I notice that you do have statements. You are free to read those statements. If you prefer, you can summarize your statement and have the full text of the statement printed in the record.

So, Mr. Naill, we will call on you first and we look forward to your statement.

STATEMENT OF JOHN NAILL, MEMBER, FEDERAL FARM CREDIT BOARD, LONOKE, ARK.

Mr. NAILL. Thank you, Senator.

Mr. Chairman, I would like to take advantage of the opportunity to submit the written statement and just summarize.[1]

Senator ZORINSKY. Thank you. We would appreciate that in the essence of time.

Mr. NAILL. I will expand on the Senator's introduction by saying that I am John Naill, Brinkley, Ark. That is in the eastern part of the State. It is a predominantly agricultural area, depending on cotton, rice, and soybeans. I am on the board of directors of the Federal land bank association of Lonoke, Ark. I am a member and borrower from the Cache River PCA, and I sell most of my farm products through co-ops that are financed by the bank of cooperatives.

I am the third generation of Farm Credit users on this farm that we operate there, and I am also a Federal Board member.

I would like to say to begin with that I support the entire package of Farm Credit amendments as stated in S. 1465. It has been a real pleasure to watch the systemwide development of this package and the systemwide support of that package. But as a farmer from Arkansas, and I speak primarily as a farmer this morning, I would like to speak specifically to one issue and that is the clarification of the Farm Credit System's exemption of the State usury laws. Over the years, some 65-plus years, you in the Senate and in the Congress have given the charter and the direction to this System to provide continuous financing to the farmers of this country.

Senator PRYOR. John, if you will suspend for a moment. I would like the witnesses to note, and the record to note, that Senator McGovern has walked in, and he is going to chair the hearing.

Senator, this is John Naill from Brinkley, Ark., and we have several witnesses from Arkansas, and I think they are going to share some good testimony. We appreciate your joining us. I wanted you to know who you are listening to.

Senator MCGOVERN. Thank you very much.

Mr. NAILL. Senator, over the years, this System has been improved. Always it was the direction to expand and improve service to the farmers of this country. There was one purpose in this

[1] See p. 201 for the prepared statement of Mr. Naill.

System, and that was to make loans to farmers, and there was one source of funds that this System got its money and that was from the investing public. It was assumed throughout the years by all involved that this System was exempt from State usury laws. There was an assumption by the district boards, district banks, Farm Credit System and the Federal Board. Over the years, this System expanded and was successful.

But, as it grew in its expansion, this System has come into conflict and a possible jeopardization of its ability to serve has developed, and that is, since this System expanded, involved hundreds of thousands of farmers, millions and billions of dollars, and entwining loss-sharing agreements, an assumption of an exemption from the usury laws was not enough by these loan officers who were dedicated, not only to making constructive loans that farmers could pay back, but to making the System strong and preserving the integrity of the System.

There are many States that have usury laws and many different limitations and many different penalties.

An example of this situation is in Arkansas, and I would like to speak to that because I am from Arkansas and I know the situation down there. The limit down there is 10 percent. The penalty in Arkansas is forfeiture of the principal and interest. Service to the farmer is slowing down in this area. This is an actual day-to-day concern down there on the farm right now.

The farmers are going into the harvest right now. They are coming out eyeball to eyeball with their loan officers, the PCA's. The PCA's are telling them, Mr. Farmer, we cannot continue indefinitely to loan you money for less than what we are borrowing it for. These are facts that the farmers can understand. They understand also the hard cold black and white facts that each month an additional PCA in the sixth district from the State of Arkansas operates in the net loss position for the year.

The farmer has no other choice to go for funds when he is turned off by the PCA or the land bank under these conditions. Certainly, when the PCA and the land banks would move out of the loan position, the other sources would have already left the farmer a long time ago. The farmer certainly down there, as he looks at the situation, is saying today I would rather have the money, as unpleasant as it is to pay this kind of rate for the funds, I would rather have the money than not be financed at all.

Mr. Chairman, by the hard work and the industriousness of the farmers in Arkansas, they have paid off their original individual loans, they retired the original Government seed money and they established a strong system of their own. But, by this hard work and by the industriousness, the purpose was to meet unanticipated and unavoidable financial disasters by themselves and their neighbors, and it was not for the purpose of being depleted because of lack of clarification of the law that put them into business to begin with. It was not the intention of the originators of this System nor their successors to help to improve to cut off farmers, to interrupt the financing of their agricultural financing. And certainly it was not their plan that the Farm Credit System should go about its financing by schemes or device or under the cloud of being in

violation of State laws or to the accompaniment of perennial legal gymnastics as is going on in Arkansas and other States.

This issue of clarification along with the other 27 items of this amendment package asks for no broad new authorities. It seeks to establish no new groups of borrowers and it requires not 1 cent of taxpayers' money. But until it is clarified, farmers in one State or another stand vulnerable for potential limiting, paralyzing limitations in their agricultural financing. This is an opportunity, a timely opportunity, a worthy opportunity to improve and to extend the service to farmers throughout this country, and I would urge you all to support the entire package.

Thank you very much.

Senator McGOVERN. Thank you, Mr. Naill, for your testimony.

Do you other gentlemen have statements?

All right, we will proceed then with Mr. Gist——

Senator PRYOR. The next gentleman is Jack Gibson. He is a very well-known farmer, banker and an old friend. When he speaks, we can rest assured that he is speaking for many farmers in Arkansas.

Senator McGOVERN. We will take it in that order then.

STATEMENT OF JACK GIBSON, CHAIRMAN, FEDERAL LAND BANK ASSOCIATION OF SOUTHEAST ARKANSAS, DERMOTT, ARK.

Mr. GIBSON. Mr. Chairman, I appreciate these kind remarks and I am sort of here today in dual roles.[1] As my statement will reflect, I have associated with the Farm Credit System for many years. Now, I am chairman of the Federal land bank association of southeast Arkansas, a rural banker and a borrower from the PCA system. So my remarks here will be brief, but I would like to bring my remarks here to another facet of this bill that I think is extremely valuable to the economy of southeast Arkansas or any farm community.

The first thing we do when we look at the Federal credit system is that we know that it is the most stable source of farm credit that is available in the rural parts of the United States. So that is extremely important because it has been periods of time and there has been a period of time in Arkansas right now that outside money from the fund system is very hard to come upon.

I think the improvements of this act of 1979 will greatly enhance the forwarding of the agricultural credit in our State.

We also know that today interest rates are real high. In today's economy, land, equipment and crops planted, the harvest cannot be done without ample credit, and it is getting more difficult every day to arrive at the amount of credit that is needed to finance the farm operation. Of course, you have heard a lot today about the usury situation in Arkansas, and I want to address that, but we are under a critical time there because of that.

I think this amendment to the Farm Credit Act would greatly enhance our availability of the money that was brought about in 1979. That is one of the great things that I can see.

Another thing that I would like to address you about, you have heard a lot about the marketing and processing activities that are not adequately financed by PCA's and other things in this System.

[1] See p. 203 for the prepared statement of Mr. Gibson.

In this day of agriculture, the farmer needs to derive every bit of interest income that he can from the products that he raises.

By being able to improve upon this marketing process and to engage in that, it greatly enhances his chance to make a profit and thereby repay the loans.

I think that all facets of farm economy would greatly be improved if this were brought about. As a rural banker, I greatly and strongly support the amendment which would authorize production credit associations to issue participation certificates to commercial banks and other lenders. This change would strengthen the relationship between the Federal land bank and production credit associations with their local rural banks.

As chief executive officer of a country bank, I can certainly verify this is very important. The financing of farm operations today demands such a large output of capital that most rural banks are not large enough to singly satisfy all the needs of the farm community. At present, they have to sell overlines of credit to the larger city banks. This is a very fickle source of money as their positions fluctuate with the availability of funds.

When there is a surplus of money, they are soliciting your farm loans. But if the money supply becomes tight, they are the first to abandon you. So it is very profitable for other directions. Therefore, this bill would make it possible for closer participation between PCA's, Federal land banks and the local banks which we are doing in this area right now, this would greatly enhance that, and it would greatly help the local situation in all areas of rural Arkansas in this respect.

Another thing that I would like to touch briefly is the relieving or releasing of 85 percent limitation on the Federal land banks to where we can finance young farmers with Government loans. This is a critical situation in Arkansas. As you can find, I am sure, in other parts of agricultural countries, a young man, it is almost impossible to get started farming today unless he has inherited wealth or something else. We are losing a great many capable families in Arkansas today because they cannot get farming operations financed.

In conclusion, I would like to say that I support the whole legislative package that I have presented here today, and especially we would like to have some relief in the usury situation. We know it is a local situation, but it is very important to our State. I am grateful for this opportunity to present my views to you, and I would entertain any questions that you would like to ask.

Senator McGovern. Thank you very much, Mr. Gibson.

I agree with the points you have made about helping these young families get started in agriculture. I think that is one part of our Credit System that just does not fit the existing needs, the startup costs so high that I do not know how young people are going to make it without some change in the way we are approaching that particular need.

Mr. Gibson. Senator, the producers get older and older, and their children, college educated, are going to have to go into the job markets to survive. Really we need those, we need the future of those people in the rural areas.

Senator McGovern. All right. Who is next?

Senator PRYOR. Mr. Feland is our next witness, Mr. Chairman.

Senator MCGOVERN. I am going to suggest, in looking over all these Arkansas witnesses here, that Senator Pryor, who knows you gentlemen much better than I do, ought to be presiding, and I am going to yield the Chair to him. When we assigned these presiding times, we did not know just when the witnesses were going to come up, but he is so familiar with all of you, I think a more appropriate and also, in view of his own special interest in agriculture credit problems, that he preside.

So, with his permission, I am going to turn the gavel over to him and I will come back at a later point.

Senator PRYOR. We appreciate your presence and they can go back home and say that they had the privilege of being in the same meeting with George McGovern.

Senator MCGOVERN. I am not sure that will be a big thrill to them.

Senator PRYOR. That is a thrill.

Our next witness is Mr. Armstead Feland III. Mr. Feland is speaking today on behalf of the Southern Farmers Association and the farm credit banks of St. Louis. We are very proud that Mr. Feland is with us. As with the preceding witnesses who testified, he speaks with a great deal of authority on these subjects that relate to agriculture and the farmers in our State and country.

In addition to Mr. Feland being a fine spokesman for the agricultural interests, I might note, that his son is a member of my staff and handles our agricultural matters with this committee.

Mr. Feland, we are proud that you are before our committee this morning, and you may proceed.

STATEMENT OF ARMSTEAD M. FELAND III, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, SOUTHERN FARMERS ASSOCIATION, NORTH LITTLE ROCK, ARK.

Mr. FELAND. Thank you, Senator Pryor.[1] I want to put my main emphasis on the usury aspects, the section 403 and the related sections of the amendments as they would apply and, yet, I will speak briefly to a couple of other sections.

Really, I look on the amendments, as I mentioned to you before, more of a housekeeping nature to try to clean up the 1971 act and make it more applicable to the problems that we are aware of since it was passed.

I would hasten to say that I can freely support all of the amendments as entered, and I would surely hope that the amendments in dealing with usury would be left in at all costs because they happen to be the most critical amendments for the sixth farm credit district. We already had allusion to the fact that we have a constitutional provision in Arkansas which forbids any interest rate in excess of 10 percent at the expense of interests if it is abused.

On the advice of the best counsel available in the sixth farm credit district, the three banks and the PCA's, land bank associations, have not felt free to violate that constitutional provision just simply because the risk is too great. There is over $1 billion dollars of credit extended in Arkansas, and counsel has just not felt it wise to risk $1 billion even though we feel rather confident that

[1] See p. 205 for the prepared statement of Mr. Feland.

after a long bitter battle we might prevail, but it means an awful lot of litigation.

The Congress, in 1967, clearly amended the then existing Farm Credit Act to provide preemption so that there would not be a problem with State usury laws. When the 1971 act was passed, this preemption was not specifically spoken to. So we all assumed that it exists.

There are at least 10 other States that have usury laws that if they were rejected might affect the Farm Credit System, but they have gone ahead because the penalties are not anything like they are in Arkansas. We just have a real critical problem but it is a problem that is nationwide. It needs to be cleared up. If we had an unfavorable court case in Arkansas, obviously the thing would be affected. So it is something that concerns us a great deal.

The current cost of our farm credit bonds, the 6-month issue for October 1, at 11.50 and the November issue went at 11.40. With the cost of doing business, it is obvious that the lending of the three farm banks in Arkansas is at a loss. With the current cost to the PCA's in Arkansas at 10.29 percent, and yet even with their cost of doing business, they are lending at 10 percent. PCA's, 10 of the 14, are in a loss position. The loss so far for those PCA's is over half a million dollars, and it is rising rapidly. It is a problem that the local boards are really concerned with. It is one that only the clarification of this issue can relieve the burden of, and so even though it may not seem to be a problem for all 12 districts in equal proportion, it is one that is most vital for us.

The organization I manage borrows from the St. Louis bank for cooperatives. It lends about $150 million in Arkansas. There are 83 cooperatives borrowing from that organization. For our organization and the $23 million it borrows, we expect to pay the cost of funds to the St. Louis bank for cooperatives plus a reasonable handling charge.

The bank presently does not feel free to lend to its borrowers on that basis. We are rapidly approaching a crisis in this area.

The other two areas I would briefly mention, one has been mentioned here today on cooperative eligibility, changing the eligibility from some 80 percent to 70 percent to rural electrics down to 60 percent. You are familiar in Arkansas, they have an integrity of law where they actually serve all users in their assigned territories, and the private utilities will serve all of theirs. This has meant a steady dilution in farmer members. Many of these are rural electrics and it affects their eligibility.

The St. Louis Bank for Cooperatives has had to decline the interest and loan applications from generating because they could not meet the eligibility requirements that presently exist in the law. This is not exactly turning it loose, but it would still leave a majority of control of the borrowing cooperatives in the hands of farmers, but normally 60 percent would provide opportunities to borrow from the banks.

The other area that I would speak to briefly is in the opportunity for export financing. It is true that our organization is not involved in exports, but I chair the National Council of American Farmers. I am on the board of the agricultural cooperative development, I am familiar with the needs of cooperatives and, more than that, I am

familiar with the fact that many of our cooperatives could not survive without something other than money from the banks of cooperatives, and the organization that I work for is one of them.

I have seen many cooperatives that would have gone out of business had it not been for the management expertise and advice of the bank of cooperatives. The bank for cooperatives needs to provide the same assistance in the area of overseas financing and also to serve as a single source of credit and credit advice for those cooperatives that it is helping because, unfortunately, there are instances where maybe rapidly growing cooperatives might tend to overextend itself if it did not have this counsel and advice that could be made available for the bank of cooperatives.

So I would urge that this amendment be recognized as vital to the service of the bank for cooperatives to those borrowing cooperatives. I am delighted to have this opportunity, and I would certainly be glad to answer any questions later.

Senator PRYOR. Thank you, Mr. Feland.

Before I do ask any questions, I will call on our fourth and final witness who is Mr. Tom Gist.

Mr. Gist is no stranger to this committee or to the farmers of our section of the country. Mr. Gist, we are very proud that you are with us today and look forward to your statement.

By the way, I would like to request for the record that all of the statements in full will be placed in the record as if read with the accompanying comments by each of the four witnesses.

Mr. Gist, we are proud to have you before the committee.

STATEMENT OF THOMAS H. GIST, JR., CHAIRMAN, BOARD OF DIRECTORS, SIXTH FARM CREDIT DISTRICT, MARIANNA, ARK.

Mr. GIST. Thank you, Senator. I appreciate your kind introduction, and I hope I live up to the words that you used.

Let me brief the committee that I plan to summarize my remarks and keep it as brief as possible.[1]

I live on a family farm in Lee County. We are involved in the production of cattle, cotton, soybeans, and rice. I am presently chairman of the sixth district Farm Credit Board. I am here today to urge your support for the passage, and ask that you use your influence to pass S. 1465, which contains amendments to the Farm Credit Act of 1971.

In particular, I would call your attention to section 403 of the bill which relates to the preemption of State interest rate limitations, and sections 301 and 304 which relate to expanded authority for the banks for cooperatives to provide export financing services.

I am proud that last year in our sixth district alone, our Farm Credit bank and the associations that they supervise loaned more than $5 billion to farmers in Illinois, Missouri, and Arkansas, and to their cooperatives in those three States. Our banks did that in 1978 and in prior years because they were able to pay the market rate for money on Wall Street and lend it at a rate that not only covered the cost but also paid the freight plus allowed for reserve.

Section 403 of S. 1465 provides language that would remove all doubt that the rates charges by these institutions are not subject to interest rate limitations imposed by any State.

---

[1] See p. 208 for the prepared statement of Mr. Gist.

It is very important that the clarification be made, particularly in my home State of Arkansas, where the best legal talents available have advised these institutions that the constitutionally imposed limit of 10 percent must be complied with. These banks and associations are 100-percent borrower-owned cooperatives with loan rates set by farmer Boards of Directors within FCA regulations and approvals. I cannot imagine farmer/borrowers gouging themselves with high interest rates. In any case, the profits they would earn would only go to strengthen their own organization or be returned to the borrowers in the form of patronage refunds.

As chairman of the board of the sixth district Farm Credit banks, I feel a heavy responsibility for their ultimate success or failure in providing an ongoing source of agricultural credit in our three States. At 10 percent, the St. Louis bank for cooperatives is charging the lowest rate of any BC in the country with a margin above average debt cost that would not pay operating costs.

The St. Louis Federal Land Bank is lending long-term credit at 9.75 percent, its highest rate in history. These institutions cannot lend money at a loss for any sustained period. If they must cease operations because of continuing losses, then their congressional objective of providing a dependable credit source cannot be attained, and they are put out of the only business which their limited purpose charters permit.

I would also like to call your attention to the provisions of the bill relating to expanded export financing services offered by banks for cooperatives. I have been privileged to serve as a member of the board of directors of several agricultural cooperatives. I am presently a member of the board of Riceland Foods, Inc., a major cooperative exporter of rice and soybeans.

Farmers, through their cooperatives, need to play a larger role in promoting and facilitating farm exports. This interest stems not only from the obvious importance of farm products to the U.S. balance in trade, but also because of the importance of exports to farm prices and farm income. Through increased exports, substantial economic benefits can accrue for our agricultural economy without massive or costly Government programs.

Farmers believe that they can become more active direct exporters and are directing their cooperative management to become more active in selling and shipping to foreign buyers. They also believe that it would be in their best interests if their cooperatives handled more than the 9 or 10 percent of the U.S. grain in international trade that cooperatives presently handle. Many major foreign cooperatives have expressed interest in establishing cooperative to cooperative trade relations. Their reasons for such interest are the quality of product supplied by cooperatives and the integrity of cooperatives as business organizations.

S. 1465 provides amendments to the act which would give the banks for cooperatives expanded authorities to serve the needs of cooperatives which desire to engage in the export of farm products. Specifically, it would allow banks for cooperatives to make deposits in foreign banks; to receive and hold credit balances from banks and borrowers; to buy and sell bankers' acceptances; the purchase of time drafts payable by foreign buyers of agricultural products, and other instruments arising in the ordinary course of business; to

engage in currency exchange; to make loans to parties affiliated with cooperatives where there will be substantial benefit to member cooperatives.

Now, I am just a farmer from Marianna, Ark., not an international banker. And these authorities are quite technical to me. But I do know all of these authorities are absolutely necessary if banks for cooperatives are to provide the basic services required by my cooperatives involved in international transactions.

Further, I also know that cooperatives need their primary lender, their banks for cooperatives, to assist them in expanding export markets and in managing risks in that market.

As a farmer and as a member and director of several cooperatives, I urge that you act favorably on S. 1465 for the benefit of all of us.

Thank you.

Senator PRYOR. Mr. Gist, thank you very much.

I only have three or four questions.

First, Mr. Gibson, as a banker, do you know of farmers today who are being denied credit for farming operations because of a 10-percent usury ceiling?

Mr. GIBSON. I certainly do.

Senator PRYOR. Is this a substantial number of farmers?

Mr. GIBSON. It is beginning to be a substantial number.

Senator PRYOR. Do you feel that the provisions set out in this legislation would help give some relief?

Mr. GIBSON. It would alleviate it tremendously.

Senator PRYOR. If I understand your testimony correctly, Mr. Feland, it is your position, and that of the Farm Credit Administration, that the banks of the Farm Credit System are already exempt, or—all of the members of the panel may want to respond to this—are already exempt from States usury laws, and the language contained in S. 1465 is more of a clarifying nature as opposed to new language.

If you would like to comment on this.

Mr. FELAND. As a lawyer, and Arkansan, I think you are aware that in the event of credit difficulty, attorneys quite frequently resort to anything at hand. In this instance, it is so easy to get involved in litigation over the usury question that it makes the operation of the lending institution much more precarious. Clarification is vitally needed. It is the only way to run the business. It has been provided in the past by Congress.

All we are asking is that it be reinstated or clarified. The members are not going to suffer. The members are well aware of the fact that the system is operated at cost for their benefit. And they are not worried about being hurt by the system. They only control—they just want access to the availability of credit.

Senator PRYOR. If the Farm Credit banks in our State of Arkansas were required to adhere to the 10 percent rate ceiling for an extended period of time, is there any way to anticipate how much money these institutions would lose?

Mr. FELAND. Each time we have one of these cycles, interest rates go higher. This time it has gone higher and lasted longer. We would get to the point that there would be either no credit available, or we would bankrupt the institution making it less than cost.

Mr. GIST. Yes, projected yearend losses from loans amount to $1 million in the State of Arkansas.

Senator PRYOR. And we assume that the institutions could not continue for an indefinite period to assume such losses such as this?

Mr. GIST. That is right.

Senator PRYOR. I would like to have the opportunity to make one clarifying statement for the record so our colleagues on the committee and in the Senate will know one additional step as it relates to our particular situation in Arkansas.

Arkansas is caught in a unique situation today because we are one, and perhaps the only State today, that has a 10 percent usury ceiling that the legislature cannot change. Many of my colleagues come up to me, and to my colleague, Senator Bumpers, and ask about our particular situation, the crisis that we are experiencing in the credit business, and ask why the legislature doesn't change it.

The answer is simple, the legislature may not change it. It is a constitutional provision, that must be changed by the people of our State. At this time a constitutional convention is in session, and will recommend a change for the voters to approve or disapprove in November 1981. Until that time we have sought time for relief through the passage of H.R. 2515.

So we have several opportunities on the Washington level to give some temporary relief to our situation at home, in addition to the opportunities that we have that affect primarily farmers and those involved in agricultural occupations, as embodied in this legislation, the Farm Credit Act Amendments of 1979.

We we are attempting to address ourselves to this problem in these ways, and we are very grateful for the information that you have shared this morning.

Mr. Feland, did you have a comment?

Mr. FELAND. I would like to point out to you that two-thirds of the loans of the PCA's in Arkansas are less than $25,000. So H.R. 2515 with its limited timespan and its application, really would not solve our problem by a long ways, and then you also are aware that when the people vote, and I am talking about the entire population, that they have not been inclined in the past to vote for a change. If it were borrowers of the Farm Credit System voting it would be entirely different.

Senator PRYOR. I think those are points well made.

Gentlemen, we thank you for coming, and for your testimony.

Our next two witnesses before the subcommittee this morning are Mr. Elton R. Smith and Mr. John Scott, and we would ask you gentlemen to come forward, please.

We welcome you to the committee this morning.

Senator Zorinsky, our chairman, is going to be joining us in just a moment. I have been asked to preside in the Senate at 12, so I will have to be leaving in midstream.

We will have now Mr. Elton R. Smith, president, Michigan Farm Bureau Federation, and member of the board of directors, American Farm Bureau Federation.

We are very honored to have you before our committee. We look forward to your statement this morning.

In addition to Mr. Smith, we have Mr. John Scott, who is a Master of the National Grange.

Mr. Scott, we are honored to have you before our committee. You have two other panelists, too. Are they going to be part of the panel this morning, Mr. Smith, or are they just accompanying you if you need some background?

Mr. SMITH. To answer questions.

Senator PRYOR. We are proud to have you and your colleagues with us this morning.

Excuse me, Senator Zorinsky has returned, our esteemed chairman, and we appreciate your coming back, Senator Zorinsky. I will have to be leaving in just a moment.

STATEMENT OF ELTON R. SMITH, PRESIDENT, MICHIGAN FARM BUREAU FEDERATION, AND MEMBER OF THE BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY KIRK MILLER

Mr. SMITH. Thank you, Mr. Chairman.

I, too, am an operating farmer in Michigan.

We appreciate this opportunity to comment on S. 1465, "A bill to amend the Farm Credit Act of 1971." Many Farm Bureau members and several Farm Bureau-affiliated cooperatives finance their credit needs through units of the cooperative Farm Credit System. Most farmers know these institutions as their local production credit associations—PCA, Federal land bank associations—FLBA, or district banks for cooperatives—BC.

S. 1465 includes a series of amendments to the Farm Credit Act of 1971 which are being proposed by the Farm Credit System and the Farm Credit Administration—FCA—a Government regulatory agency. Before we make specific comments on this bill, we would like to outline the steps that we are undertaking to obtain grassroots input into the consideration of the issues raised by this bill.

Farm Bureau has developed a condensed summary of the various farm credit amendments proposed in S. 1465 for the use of county Farm Bureaus during local policy development and county annual meetings.

We have also sent to all of the State Farm Bureaus copies of a more detailed summary of the amendments along with some staff observations and questions regarding the implications of the proposed amendments. This policy development process will not be finished until the upcoming AFBF annual meeting in January 1980.

Since the Farm Credit System is so important to the entire agricultural economy we urge this committee to allow this issue to be completely reviewed at the State and county level by the farmers and cooperative managers who are dependent upon the System prior to markup.

Because we do not have a firm or final position on this proposed bill at this time we would like to utilize this opportunity to focus this committee's attention on several of the proposed amendments and suggest one additional amendment on which we do have clear policy at this time.

The first major proposal would authorize the bank for cooperatives to become involved in "export-import financing and servicing

53-579 O - 80 - 4

and financing of equipment and facilities for lease to and direct use of farmer cooperatives."

This is a very far-reaching proposal. International banking is a complicated and risky business. The fact that other banking institutions, including U.S. branches of foreign banks, already have the capacity to render the range of needed services to their clients can be used as an argument against, as well as an argument for, this proposal.

We are urging Farm Bureau members to consider whether it is necessary for the banks for cooperatives to invest in foreign financial institutions or servicing operations to fulfill the export-import credit needs of U.S. farm cooperatives. On the surface, at least, this proposal seems a long way from the original intent and purpose of the Farm Credit System.

Another point we are urging our members to consider relates to the proposal to finance equity investors who build facilities or provide equipment for lease to, and direct operation by, farmer cooperatives. Again, on the surface this seems logical and in line with good management practices and sound business principles but, like many other good ideas, this authority is extremely vague and could be abused if not properly controlled.

We also question the extent to which the banks for cooperatives should be involved in monetary exchange transactions and other services which are now being provided competently by existing commercial banking institutions.

The proposal to amend the 1971 Farm Credit Act to permit Federal land banks to make loans in excess of 85 percent of appraised value would appear to move the Farm Credit System toward a more complementary position with the new Farmers Home Administration and Small Business Administration guaranteed loan programs. If, in fact, this is the intent, we would suggest specific language which would limit Federal land bank loans, guaranteed by the FmHA or SBA or State programs, to 90 percent of the appraised value of the real estate security.

FmHA has a limited resource program for beginning farmers, which can accommodate the needs of entry-level farmers who may not be able to meet the 10-percent equity requirements of the Federal land banks. Most entry-level farmers should be able to meet the 10-percent-equity requirements or there may be some question as to their ability to withstand adverse production or marketing conditions.

The cooperative eligibility amendment would lower the percentage of farmer-voters in cooperatives eligible to borrow from the banks for cooperatives from 80 percent—70 percent for rural utility coops—to 60 percent.

This has been a controversial measure inside the Farm Credit System, and it has special implications for farmers in the more densely populated areas of the United States. Traditionally, whenever a farmer cooperative becomes topheavy with nonfarmers the nonvoting farmers tend to receive special consideration, often at the expense of farmers. A good example of this type of problem occurs when a traditional farm cooperative invests in a town and country store, which has limited utility to farmers, but a high utility to rural nonfarmers and suburbanites instead of allocating

its resources to a new feed or fertilizer plant which may not yield as high a return on investment.

The other amendment which the Farm Credit Administration has identified as a major consideration from its perspective relates to FLBA and PCA financing for the processing and marketing activities of farmers or aquatic borrowers. This proposed amendment has significant implications for existing and future farmer cooperatives. Farmers and aquatic borrowers would be able to receive farm credit system funding for noncooperative marketing and processing enterprises. The eligibility requirements of this proposal seem to be very ambiguous. At a subsequent time, we may urge the Congress to specify a minimum percentage of the production to be processed or marketed through a facility which must be produced by the borrower if the facility is to be financed by a Farm Credit bank.

There are several other proposals in the package which are not considered by the Farm Credit System to be major proposals but which appear to us to be extremely important.

One of these proposals would authorize all Farm Credit System institutions to enter into general loss sharing agreements with other Farm Credit System institutions. Loss sharing agreements could increase the possibility that individual institutions might make risky loans. The proposed amendments to authorize loss sharing agreements between and among institutions in the Farm Credit System would distribute the risk over the entire System. This could mean that if the export financing amendment is adopted, the risks involved in this activity would be reflected in the costs of borrowing farm operating and ownership capital. This averaging of risks and the costs of money associated with risks would likely lower the cost of money to some segments of the Farm Credit System and raise the cost of money to others.

Another major proposal, from our standpoint, would authorize the FCA to charter corporations to perform service and finance functions for Farm Credit institutions. This may be one of the most controversial provisions in the FCA package.

We understand from some of the farm leaders who served on the Farm Credit study commission in 1970 that some staff people in the Farm Credit System raised the issue of whether FCA should develop its own credit life insurance company. Farm Bureau, along with other farm organizations, opposed the idea at that time, and will likely oppose any authorizing legislation which would allow FCA to charter insurance companies or other corporations to provide services to borrowers which can be provided by other private sector sources. We probably would not object to a service corporation that is restricted to such things as the performance of bookkeeping and computer services for the various units of the Farm Credit System.

The Farm Credit System should be guided by its original charter and fulfill its commitment to meet the credit needs of farmers and ranchers rather than seeking to build an empire of farm service business companies.

The Farm Credit System is also proposing broader authority for loans to aquatic producers and cooperatives.

Senator ZORINSKY [presiding]. Mr. Smith, if I could interrupt you for a minute. If it would be possible to summarize the remainder of your statement, we would appreciate it.

Mr. SMITH. I will do that.[1]

I might say that in regard to the Federal Truth and Lending Act laws that apply to the System, the purpose is to ensure that amendments relaxing and removing Federal requirements not be offset by State laws. We suggested, for some time, that all agricultural business loans should be exempted from the truth and lending.

Regarding the State usury laws, we cannot see how any lending institution can be expected to lend money at interest rates below the cost of money.

Regarding to the number of candidates in the nominating votes, they have three now, and are requesting that this be changed to two. We cannot see where this changes the allotment of seats on the district board, and the Governor appoints one additional board member. In no way would this affect the allocation, and there is no objection to this change.

Now, when we get into the nontechnical set of amendments proposed by FCA, the portability of sick leave and retirement credits, as a farm organization, we would like to know what these proposals are expected to cost the former members' before we endorse it. Most of the other amendments are technical.

There is one area that I have to bring before this committee, and that is, a need for additional clarifying language in the statutes to carry out the intent of Congress as set forth in reports of 1971 Farm Credit Act with reference to the sale of collateral insurance by the farm credit system.

Now, we have been told by State Farm Bureaus in the three pilot farm districts, that have trial collateral insurance programs, that the Farm Credit institutions are not following the directive of Congress as expressed in the report in the 1971 Farm Credit Act. We have been made aware of farmers who felt intimidation by production credit associations' offers to provide insurance coverage at the time loans were requested. Whether this practice is widespread or isolated, it is really inexcusable, and all the more reason that such an environment for intimidation, either real or perceived, should not be allowed to exist.

Now, Farm Bureau members spoke to this problem at the 1979, annual meeting. We have definite policy against financially related services which are available to borrowers from other established sources, and we will propose changes in the Farm Credit laws that will prohibit this from going on.

We have met with the Farm Credit Administration, and representatives of the various Farm Credit districts, which have been participating in the collateral insurance pilot programs, and to date, we have been unable to find any justification for their involvement, or any demonstration of need.

We urge Congress to prohibit the Farm Credit System's operation of those programs, because the System has never been able to demonstrate the need for the program, or the professional skill to

[1] See p. 210 for the prepared statement of Mr. Smith.

market it in a way which will not offend or intimidate farmer-borrowers.

Thank you very much for this opportunity. We hope that you will consider delaying final action on this issue until after the first of the year, at which time Farm Bureau and other farm organizations will have more firm recommendations to make to you.

Senator ZORINSKY. Thank you, Elton. I appreciate your well thought-out presentation. I am sure you are asking some questions that many other people are asking also.

I would like to ask if any of your members of the board of directors would have any comments, any statements to make at this time?

Mr. SMITH. I understand that there will be members, or board of directors making statements at other hearings that they are holding during the—across the country.

Senator ZORINSKY. I was not here for the introductions.

Mr. SMITH. This is Kirk Miller, assistant director of national affairs for the American Farm Bureau, our staff person.

Senator ZORINSKY. Mr. Scott, would you care to make your statement?

STATEMENT OF JOHN W. SCOTT, MASTER, NATIONAL GRANGE, ACCOMPANIED BY ROBERT FREDERICK, LEGISLATIVE DIRECTOR

Mr. SCOTT. I have with me Mr. Robert Frederick, legislative director for the National Grange, and I would like to submit our statement for the record, but I will summarize it to save time.[1]

Senator ZORINSKY. It will be put into the record as if given in its entirety.

Mr. SCOTT. And everything I read will be from the statement, so you will not have to work at it.

The word "grange" is almost synonymous with farm credit. The Grange was one of the first organizations to recognize the need of better credit facilities for farmers, and when the formation of loaning associations with lowered interest rates was being advocated, the National Grange at its session of 1891 recommended extensive discussion of the subject among granges.

From this beginning, and in the years preceding the passage of the Federal Farm Loan Act of 1916, the Grange pressed the subject of farmers' financial needs until the actual establishment of the Farm Credit Administration in 1933.

Since then it has constantly reaffirmed its position in support of the cooperative Credit System based on sound business principles, under the ownership and control of farmer borrowers. Federal supervision is recognized as necessary to assure that the provisions of Congress are complied with, and the Grange has taken a determined stand in favor of having all responsibilities for such operations vested in the boards of directors of the cooperative institutions in the field.

The Grange continues to be a strong advocate of the cooperative credit systems.

I was honored to serve on the study commission appointed by the Federal Farm Credit Board in 1969. As a member of that Board, I

[1] See p. 213 for the prepared statement of Mr. Scott.

would like to present to you, Mr. Chairman, a copy of that report, and I will allude to it further in our statement.

The commission was composed of 27 members, half selected from various areas of the Farm Credit System, and half from the general farm organization leadership outside of farm credit.

The study by the commission laid the groundwork for the first major overhaul of the Farm Credit System in recent years, and was consummated by the enactment of the Farm Credit Act of 1971.

S. 1465, the present package being considered by this committee, is not the result of a similar study commission composed of members from the System and agricultural leaders outside the System. Therefore, I believe it would be beneficial to review the commission's recommendations and judge the present legislative proposal accordingly.

Then, I skip over to page 3, which is some of the statements made by the commission, all on page 2, and leave them so that we can save time, and our first departure from support of this legislation is on section 404, part D-service organizations, broadens the authority of FCA banks to organize one or more corporations for the purpose of performing functions and services for or on behalf of the organizing bank or banks, other than the extension of credit, which said bank or banks may perform pursuant to this act.

While this section does not specifically mention insurance, I believe that it can and will be interpreted to broaden the FCA authority to form an insurance company. The Grange is strongly opposed to the extension of the economic power of lending institutions.

The entry of the Farm Credit System into the insurance business has been of deep concern to the Grange. The study commission on which I served also debated the insurance issue long and hard, with the general farm organizations represented on the commission strongly opposed to the Farm Credit System entering the general insurance business. We agreed that there were sound reasons for, and no objection to, the banks writing credit life in amounts to cover the loan, but we were opposed to the writing of other life insurance, and property and casualty insurance.

However, the amendments passed in 1971 have been interpreted by the Farm Credit Administration as giving them the authority to write insurance other than credit life. The House and Senate conferees on the Farm Credit Act of 1971 disagreed on the report language. I have that language as part of my statement.

I seriously question the extension of FCA into the insurance agency business. The extension of financial institutions, bank holding companies, FCA, and so forth, into activities of this kind is another step in the concentration of economic power in the hands of financial institutions and, in our opinion, should be avoided.

If I may, I would like to touch on two or three more points.

We strongly recommend that S. 1465 be amended to prohibit the FCA from organizing insurance companies. We would suggest that section 4.14, part D, page 22, lines 15 and 16, should be amended by inserting at the end of line 15 the words "or the writing of property and casualty insurance,".

The second major concern of the Grange is found in section 210, which amends section 2.15 of the Farm Credit Act of 1971. The

proposed amendment to this section would broaden the authority of the PCA's and the FLB's to finance processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers.

As we understand this, this would allow a farmer to borrow money from the farm credit system, and then process other farmers' products. He would have to maintain 20 percent of his own product. We feel this could lead to the development of situations where the Farm Credit bank would have started this enterprise and later the farmer sells out, and we have another major agribusiness organization in process.

The third concern of the Grange is that S. 1465 would lower the percentage of farmer members of cooperatives borrowing from BC's from 80 percent to 60 percent. The Grange understands the unique position of rural electric cooperatives and will support lowering of the membership eligibility requirement for such co-ops, but believes that it is in the long-range best interest of farmer cooperatives to maintain the 80-percent farmer membership requirement.

The fourth and last concern that we have is establishing that the Farm Credit System would be exempt from State truth-in-lending laws, and also being a strong States' rights organization, we oppose bypassing State usury laws.

Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, Mr. Scott.

Mr. Smith, in looking over your prepared testimony, it appears that you have reservations about most of the proposals being put forth by the Farm Credit Administration.

Are there any provisions that you have looked at, which you think can stand on their own merits?

Mr. SMITH. I do not want to create a negative impression, Senator. We have not had an opportunity to discuss this proposed package of amendments with our local people.

Senator ZORINSKY. I see.

Mr. SMITH. And that is why I asked that this bill be delayed in markup until the 1980 session, after the Farm Bureau organization annual meetings are held, at which time we will have definite positions on this, but at this time, since it has not been discussed in the State and county farm bureaus, we do not have a position. We could only raise questions for getting discussion.

Senator ZORINSKY. There seems to be fairly stiff opposition from the farm organizations, who sell insurance, themselves, to involving the Farm Credit System in the sale of credit life and collateral insurance.

Can either you, Mr. Smith, or you, Mr. Scott, tell me the total amount of insurance being handled by the Farm Credit System, and then compare this to the amount of insurance you are selling, and then how it would relate to the total amount of similar insurance being sold nationwide through private companies?

Mr. SMITH. I cannot, and the only thing I do have some information here from the three districts involved, and I will leave this with you, and I am sure that more evidence of what I spoke about can be forthcoming, if you desire.

Senator ZORINSKY. OK, without objection, I will make your presentation a matter of record of this hearing.

Mr. SCOTT. Mr. Chairman, we have no objection to life insurance to back up the value of the loan. But we certainly do have objection to them selling every other kind of insurance.

I cannot answer your question, but we can produce material which will show that pressure has been imposed by PCA's and land banks to carry the insurance, especially in the districts that cover the Southeastern United States, and we do not own any insurance companies. We started several insurance companies, but we no longer own them, but they are concerned, and we are concerned, from the basis of the great buildup of economic power in financing banks and companies.

Senator ZORINSKY. What is your response to the comment that the Farm Credit System has had the authority to do this since 1971? It is not new authority.

Mr. SCOTT. In my statement I did copy the—Mr. Frederick copied the committee language, the conference committee language, and I know that you will find in that report of the Farm Credit Commission I gave you, that that Commission specifically limits them, and the Farm Bureau, Grange, NFO, we were all on that Commission. We specifically got the whole Commission to agree that their sale of insurance would be limited to credit life insurance.

Mr. SMITH. Mr. Chairman, could I ask Kurt Miller to give some information?

Senator ZORINSKY. Certainly.

Mr. MILLER. But one of the Farm Credit Administration directives requires that before a bank could offer any financially related service there must be a demonstration of need, also the bank must show that the service is not available from other private sector sources. These were just two of the four criteria established by the Farm Credit Administration as a prerequisite for financially related service by the district bank. We met, on numerous occasions, with the Farm Credit Service, and the pilot districts in the collateral insurance program, and at no time have they ever been able to demonstrate any types of surveys or documentation where there is, first of all, demonstrated need, or second, unavailability of adequate insurance programs. They have not been able to penetrate the market very well.

Three years ago, we contacted the general counsel for the Columbia district bank, and asked for figures on the market penetration of the collateral insurance program in the Columbia district. At that time the figures indicated penatration were very low. I would suspect that they are still very low, and I think this is a clear affirmation that the program is not needed by farmers and ranchers, and that the service is being provided adequately by other sources at this time.

I think that we should leave the record very clear that this is not a protectionist issue on the part of any of the farm organizations, or anyone else, as far as I can tell. From our standpoint, we are concerned about the intimidation factor here. We think it is inexcusable for a farmer to think that he has to take out any type of insurance, to qualify for a loan. It is an uneasy situation. Farmers and others in our society will do almost anything that might enhance their opportunities to get a loan.

Senator ZORINSKY. Since this will become one of the central issues of these hearings, I am sure as we get additional testimony, I would like to read into the record a paragraph on the conference report dealing with this.

The Conference rediscussed at length the scope of insurance services that should properly be made available to eligible borrowers. It is felt that the sale of liability insurance, and any insurance on passenger automobiles is not necessarily an incident to the functions of the lending institutions, but that they should be able to sell such insurance as may be necessary to protect the loan, thus, credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and an insurance against loss of any collateral securing the loan could be sold for the full value of such collateral.

It is, of course, not the intent of the conferees that the borrower's insurance necessarily be purchased through the farm credit service lender. These lenders should appropriately notify the borrowers that they possess the option of buying the insurance needed to secure the loan elsewhere if they so wish.

Of course, it has the signatures of the conferees testifying to that. Nevertheless, I do feel that your comments on this are going to be typical of many others that we will hear, and certainly the Farm Credit System will have its own feelings on this situation, as to what the law actually provides that they can or cannot do.

I would like to ask of any of you, about some of the concerns raised by your testimony which were the subject of some of the questions I asked Governor Wilkinson and Mr. Lundsgaard. You were in the room at the time; were you not?

Mr. SCOTT. Yes.

Senator ZORINSKY. Do you feel that their answers were satisfactory, or that further additional explanations are in order?

Mr. SMITH. I would say, sitting in the back of the room, and not having a copy of the statement, it was hard to follow and interpret.

Senator ZORINSKY. Mr. Scott?

Mr. SCOTT. I think, Mr. Chairman, we got here just a little bit late, and we might have missed the earlier part of the Wilkinson discussion.

We have discussed the subject with them, and they know our feelings, and why we feel this way.

Senator ZORINSKY. Do you have evidence of intimidation concerning insurance sales? I think you alluded to it at one time.

Mr. SCOTT. We have letters in our office which state that, and we have asked for documented evidence, affidavits accompanying it, to prove it, and I expect that we will have that later on.

Mr. MILLER. Senator Zorinsky, I would like to comment on that.

I would just make this comment, that this is something that is very hard for us to get our members to come forward and discuss. It is hard to obtain this type of documentation for this type of proceeding, because farmers are really concerned with their source of future credit. They have a very strong need for credit, otherwise they would not be in farm credit office in the first place. Farmers first allegience has to be their farm operation and their credit needs. On the other hand, we do have some farmers who have been willing to come forward with documentation in instances where they have been intimidated, and we think we can get them to come forward before this committee.

As far as the comments of Mr. Lundsgaard and Mr. Wilkinson, we would like to have the opportunity to review their comments, and supply it for the record at a later time.

Senator ZORINSKY. Well, I am sure that from their point of view intimidation is not something that they say. In the interest of resolving a problem that confronts us all, if we could give anonymity to this type of evidence, as long as we could have some way of verifying it, we certainly would appreciate that type of evidence.

Mr. SCOTT. One part of our statement that I did not read, because of the time limit, was the fact of what was being done with the money. As a member of a board of an insurance company, I know that there is at least 15 percent credit for liability insurance, there is up to 70 to 80 percent credit for the sale of life insurance. What is becoming of that money? That is the major question that we have. Is it going back to the employees? Is it being used to increase the profits in the system, or is it being returned to the borrower?

Now, that is a big question in our minds. Because no matter how, they sell collateral insurance more than anything else, but where is all that money going that the agent will normally make?

Senator ZORINSKY. OK. I would like to thank you, Mr. Smith, and you, Mr. Scott, for your good presentations here this morning, and thank you for participating in these hearings.

This hearing is recessed until 9 o'clock tomorrow morning.

Thank you.

[Whereupon, at 12:30 p.m., the subcommittee recessed, to reconvene at 9 a.m., Friday, October 5, 1979, in room 324, Russell Senate Office Building.]

FARM CREDIT ACT AMENDMENTS OF 1979

FRIDAY, OCTOBER 5, 1979

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m. in room 324, Russell Senate Office Building, Hon. Edward Zorinsky (chairman of the subcommittee) presiding.

Present: Senators Zorinsky and Jepsen.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. The Subcommittee on Agricultural Credit and Rural Electrification hearing on the Farm Credit Act Amendments of 1979 will come to order.

This morning we begin the second day of hearings on the Farm Credit Act Amendments of 1979. Yesterday we began this series of hearings by receiving testimony from the Farm Credit Administration, U.S. Department of Agriculture, and representatives from two farm organizations as well as several representatives from the Farm Credit System itself.

Since our witness list this morning is equally as long, I would like to proceed immediately to our first panel, Charles Finson, chairman of the American Bankers Association, agriculture division, and Mr. Walter Minger, senior vice president, Bank of America.

Will you come forward, please, and have a seat.

Gentlemen, welcome to the subcommittee. I would ask that you limit your oral testimony to 5 minutes, if possible, in summarization of your statements. Your written statements will be entered into the record in their entirety. That will leave us more time for questions and answers.

Mr. Finson, if you will proceed.

STATEMENT OF CHARLES N. FINSON, CHAIRMAN, AGRICULTURE DIVISION, AMERICAN BANKERS ASSOCIATION

Mr. FINSON. Mr. Chairman and members of the committee, I am Charles N. Finson, president of the National Bank of Monticello, Ill., and chairman of the American Bankers Association's agricultural bankers division. My bank has $35 million in assets and is in a predominantly agricultural community of 5,000 people.

Appearing with me today is Walter Minger, senior vice president, Bank of America, who is the immediate past chairman of the agricultural bankers division.

The ABA, incidentally, is the trade association for the banking industry, which has a membership of 90 percent of 13,000 banks.

Mr. Chairman, I am going to try and fit that 5 minutes. If you will rap your gavel, I will wind up.[1]

We do appreciate the opportunity to present the concensus of bankers' views on a number of provisions and issues relating to this bill, your Amended Farm Credit Act of 1971.

We feel that what we have before us here is a very significant piece of legislation that has some far-reaching aspects, and a piece of legislation that certainly warrants a close and detailed study by your committee.

During the hearings of 1971, the ABA stressed a point that is applicable today: The law that emerges will have an important bearing on whether farms of the future and farmers today will have two or more types of strong financial institutions bidding vigorously for the credit business.

This legislation could have a profound impact on the credit climate that will prevail in agricultural lending in the future.

As you have mentioned, we have filed written testimony and I will just touch briefly on a few important aspects of this.

The American Bankers Association recognizes that the cooperative Farm Credit System is an important part of financing agriculture in this country.

At the beginning of this year, American farmers were borrowing $132 billion. Approximately 30 percent of this was supplied by the various agencies in the Farm Credit System; 28 percent was supplied by banks.

The banking industry recognizes that in this period of extremely high demand, all lenders are necessary to finance food production, which is so important.

There are a number of provisions in this proposed bill that we would take no exception to. Some of these involve housekeeping arrangements that are necessary to adjust the changing conditions.

There are several proposals, however, that we would like to discuss and invite further study of your committee with regard to the long-term effects that could result.

There are two basic principles that have governed our examination: One is that we as bankers seek a level that should be maintained between the lending agencies in the Farm Credit System and commercial banks in order to maintain a healthy and aggressive competitive situation.

Second, we feel that the activities of the Farm Credit System should be continued in the areas in which they were formed to take care of and to stay primarily within the function of providing farm credit.

It is our belief that the credit needs of agribusiness and other uses related to agriculture are being met by the commercial banking industry and other nongovernmental lenders and that the expansion of the Farm Credit System is not needed in these areas.

---

[1] See p. 219 for the prepared statement of Mr. Finson.

I would like to comment just very briefly on some of the aspects of our written testimony.

We have raised some question about increasing the cooperative eligibility for nonfarmers and nonmembers, reducing it from 80 percent to 60 percent. We feel that this liberalization is not necessary to enable the agencies of the System to service their farming constituents.

Second, in the area of finance in the processing and marketing activities of bona fide farmers, the proposal would permit the agencies to finance processing and marketing activities for farmers that they are not now doing. It would not qualify new borrowers, but would permit them to finance more off-farm business.

We believe that these processing and marketing needs are being met adequately through existing services provided in the very highly competitive financial environment.

We have mentioned the export financing provisions for banks for cooperatives. We feel that this is a very critical part of this bill, and one that needs study. I am going to ask Mr. Minger to comment in some detail on that when I conclude my remarks.

Reference is made to interest rates and usury laws in the proposed bill, and it would exempt the agencies in the Farm Credit System from State-imposed interest rate limitations in the usury laws.

We feel that if there is a need to change the usury rate limitations, these changes should apply to all lenders. If inequities exist in the usury laws, and we agree these do exist, we think the correction should be made applicable to all lenders. And parallel to this, the truth-in-lending laws. This bill would exempt the Farm Credit agencies from State truth-in-lending laws.

There are inequities we think in truth in lending, but we believe the Farm Credit System should join banking and other lenders covered by truth in lending, and seek relief in this area for all lenders and not just special exemptions. Any such relief should be coupled with similar relief for all.

The subject of taxation of the agencies of the cooperative Farm Credit System is of concern to us. These institutions hold a very substantial proportion of the total amount of farm credit—$53 billion approximately during this year.

These changes would expand the scope of the Farm Credit Act and would increase the volume of business that is exempt from taxation.

On our part, we would like to challenge this committee to study the implications of this tax-exempt status, and incorporate it into your legislation provisions for more near nearly equal tax equality.

We will try to be very brief.

Senator ZORINSKY. Go ahead.

Mr. FINSON. We have, in our written testimony, mentioned the chartering of system service entities within the Farm Credit System. And we feel that the System was not established to sell services. It was established to provide farm credit, and we think it should continue in that posture.

We have made reference to the change in the 85-percent lending limitation, and we think it proper that the agencies in the Farm Credit System should participate, Farmers Home and other Gov-

ernment guaranteed loans. We do feel that the limitation should parallel those that are limitations to banks and other agencies and not be treated separately.

The other thing, just very briefly, and I will conclude, that we wish to comment on is really not in the bill, but on the subject of equality for OFI, other financial institutions, and their relationship to FICB's.

As you know, it is possible for a credit corporation to be organized at a discount with the Farm Credit System. Today, 97 percent of the FICB's discounts are with PCA's. In this environment, banks and OFI's are finding it difficult to obtain access to FICB's discount services as originally intended.

Our bankers have been quite strong in their response so we express the concern of bankers hoping to have better access to the discount services of FICB's.

Mr. Chairman, at this time, I would like to call on Mr. Minger to report a little more and also discuss some of the inequities that we feel exist.

Senator ZORINSKY. Mr. Minger.

STATEMENT OF WALTER W. MINGER, SENIOR VICE PRESIDENT, BANK OF AMERICA

Mr. MINGER. Thank you, Senator.

The ABA canvassed a number of bankers. The canvass was extensive, and I think in that light some of the responses were similar to the canvass that the Farm Credit System made of financial institutions around the country; namely, that our bankers recognize there is a tremendous need for capital inflows into agriculture and that this capital need will grow in the future.

So they do see a need for an increased amount of activity on the part of lenders and bankers themselves, and desire to make more agricultural credit available to their customer constituents.

Many of these people have been in their rural communities longer perhaps than even some of the Farm Credit units. They are part of the warp of those communities. A substantial number are also farmers and they have a real interest in continuing to provide banking services to farmers.

You can imagine the dismay and frustration that these people who are bankers and some institutional lenders other than the Farm Credit System feel when they are faced with things that inhibit their ability to service agriculture; such as the limitation on being able to purchase deposit funds, competition from money centers market instruments, the differential in regulation Q rates between banks and the savings and loans, and the host of things that are really inequities and keep the commercial banks from doing what they really want to do in serving farm customers to the maximum extent.

Then comes along bill S. 1465, which not only perpetuates a couple of the inequities which are fairly longstanding, but adds to those and further inhibits the ability to maintain a competitive environment between the major lenders in American agriculture.

I just want, in the last couple of minutes I have available, to touch on some of these and reiterate what Chip Finson has already covered.

In the international sector, there has been no good overseas sale of commodity lost because of inadequate financing. And I come to that conclusion, admittedly, only after making a modest survey of cooperatives and proprietary interests who export U.S. agricultural commodities. But to date I think it is a fair statement that few export sales have been lost because of the inability of the present system to handle export financing.

This bill provides for the ability of Farm Credit System to set up a complete international banking operation.

Now, that also would permit the Farm Credit System to make overseas investments in foreign-owned and foreign-located entities or transport facilities or what have you. The commercial banking system is not empowered to make those kinds of investments under the controls of the Federal Reserve Bank, creating another inequity in our ability to provide services that this bill proposes for the Farm Credit System.

Second, setting up an international bank seems to be outside the control of the Comptroller and the Federal Reserve System. Everything that a commercial bank does in its international activities is governed by one of these two institutions. This creates possibly a lack of similar controls. We have to operate under those and that creates an inequity.

The bill also offers an opportunity to provide financial services related to international transactions and, Senator, to consummate most commodity transactions internationally, there are a bundle of services that normally accompany that transaction. And this bill, I think, liberally interpreted, would permit the Farm Credit System to organize and operate some of those services.

We, under our presently regulated environment, cannot do those things as a commercial bank, which creates another inequity.

Now, then, to get back to some of the domestic things, we have been living with the inequities of usury laws. Commercial banks have to observe these and the Farm Credit System wants to be exempt.

We sympathize with the people from Arkansas, but if that exemption was granted the effect of that in the present kind of pricing environment for loan funds, would effectively eliminate commercial banks in agricultural financing, and I don't think the Senate or Congress has as its goal the elimination of competitive lending in the farm credit business.

Domestic services, Chip touched on that. We have no ability to provide services other than those approved by the Fed as being under the umbrella of permitted activities. And, again, a liberal interpretation of this act, being a new act, would permit the Farm Credit System to engage in those kinds of activities.

My time is up. I hit the timing nicely.

Senator, I just want to conclude by saying that the matter of maintaining two very competitive farm financing systems, I think would enure to the best interests of not only agriculture, but the consumer.

This bill not only seems to perpetuate some of the inequities that inhibit our commercial banking sector, but will add to those inequities and restrict our ability to compete in the future.

I think, with saying that, I will conclude my statement.

Senator ZORINSKY. Would I be accurate, Mr. Minger, in characterizing your views as leaning against S. 1465? I mean is there anything good about it?

Mr. MINGER. Certainly.

In our survey of banks we were included in that. We presented a consensus. All banks are not in general agreement that this bill is totally bad.

The thing that we object to, however, is the fact that it does create additional inequities and I think that ours as a bank has to be consistent. I am speaking now not for the ABA but for Bank of America. We have been consistent in saying that we encourage good competition as long as we play by the same rules. And that is consistent with the testimony our officers gave on allowing foreign banking in the United States, and our posture is consistent in this respect. But we have to object to a bill that does not really promote that kind of competition.

Senator ZORINSKY. The same language that permits the banks for cooperatives to engage in export financing also allows them leverage lease arrangements. Is it not true that any commercial lending institution having leasing corporations could benefit from the banks' cooperative?

Mr. MINGER. Yes, there are some things in the bill that commercial banks can do. We do leasing. We do leverage leasing, allowing the cooperative banks to be in leverage leasing would add one more investor. It would add another option for people who wanted to find an investor and it would broaden the ability to fund, in total, large ticket items that are under lease. Yes, that would be positive.

Senator ZORINSKY. Is there not also in this legislation opportunity for commercial banks to have Federal land banks to participate in first mortgage real estate loans? Would this not be important to you in the future because it increases capital, larger loans, and various——

Mr. MINGER. I will let Mr. Finson answer that. We do not have a problem meeting real estate loan requirements in our bank, but Mr. Finson might have a response to that.

Mr. FINSON. Yes, there is no question many, many of the rural banks in the country work closely with Federal land bank associations in the field of long-term real estate loans. I think the tendency is increasing for banks to concentrate more on short and intermediate term credit for financing farm operating costs, purchase of farm equipment and livestock and placing less emphasis on their part on long-term mortgage loans, simply as a means of dealing with the problem of increased loan demand in relation to deposits.

So banks have worked closely with the Federal land bank associations; the opportunity to share in these does present a plus, offer additional services to many rural banks. Related a little bit to this also is a provision that would permit banks to sell participation to PCAs.

I might elaborate on that a moment. I mentioned briefly in our testimony that we would like to encourage a wider use of the FICB's by banks through OFI's or direct discount. And we would like to ask that the proponents of the bill explore whether that

might not be a more efficient way for banks to participate in Farm Credit System funds.

Senator ZORINSKY. Mention has been made about the Farm Credit System having a competitive advantage over the commercial banks. Is it not true that the Farm Credit System has to obtain its money at money market rates by law and you are constrained from paying your investors and savers anywhere near market rates for the money?

Mr. FINSON. I would like to comment on that. It is true that the rates banks can pay for time deposits are set by ceiling under regulation Q in regulations issued by the Federal Government. However, we are finding in our rural banks that our money cost is changing very rapidly and is reflected in the money market situation.

For one thing, banks are experiencing very, very little growth in demand deposits. They are experiencing some growth in passbook savings, which are limited to 5¼ percent. But more and more we are forced to go to large $100,000 and over certificates of deposit. So bank costs are going up reflecting the increasing interest costs in the money market. There is a great deal of service involved in servicing demand deposits, and particularly passbook savings.

We feel we are still under about the same interest rate constraints as the Farm Credit System or other agencies going into the money market for money.

Senator ZORINSKY. It has been brought to my attention that Senator Talmadge, the chairman of the committee, the Agriculture Committee, has received a letter from Mr. John W. Hannon, Jr., president of Bankers Trust Co. in New York. In his letter, Mr. Hannon indicates that his bank is in support of the Farm Credit Act Amendments of 1979, particularly those provisions that would expand the authority of banks for cooperatives to finance agricultural exports. Are the activities of Mr. Hannon's bank so different from yours that they are in a position to support S. 1465 while you feel there are major inequities in this bill? Can you relate your objections to his agreement?

Mr. MINGER. You have received a letter from Bankers Trust, and I cannot really comment about his approval and enthusiasm for the bill as opposed to our exceptions to it. We do have a basic difference of opinion.

Senator ZORINSKY. But your banks, basically, are not that dissimilar, are they?

Mr. MINGER. Well, yes, there are these dissimilarities. Bankers Trust is a substantial lender in the export markets, foreign exchange; has a substantial number of affiliates and branches overseas. I do not believe Bankers Trust has any involvement in domestic U.S. agriculture.

This bill not only speaks to foreign trade opportunities, but also talks about making some basic changes in the domestic lending activities to U.S. agribusiness and farmers and ranchers. So, to answer the question as well as I can, I think we are probably very similar in the kind of business that we do offshore. We are very dissimilar in the business that we do in domestic United States relating to agriculture.

Senator ZORINSKY. Mr. Finson, in your testimony you called the provision which would allow banks for cooperatives to engage in export financing the least palatable from your point of view. And then you go on to say the emphasis in the proposed changes should be to permit a better integration of functions between the banks for cooperatives and U.S. commercial banks rather than to add additional financial services such as international credit.

In his testimony yesterday, Governor Wilkinson indicated that it would be the intention of banks for cooperatives to use wherever possible domestic banking institutions or foreign subsidiaries of domestic banks in their international financing transactions. Does this help make export financing more acceptable to bankers—Mr. Wilkinson's desire to use more domestic banks in international financial transactions?

Mr. FINSON. Basically, our position, or feeling is that the present system and the mechanisms of the banking industry are satisfactorily meeting the needs in this area.

I am not sure I can comment specifically on this without understanding more about how domestic banks would be used in a different way than they are now taking care of the business. I think there is a little vagueness there.

Senator ZORINSKY. With respect to the banks for cooperative export financing provisions, do you not feel that we in Congress should be structuring policy to encourage optimal agricultural exports?

Mr. FINSON. We certainly do. We think the very profitability of agriculture today depends on a strong export demand to create the kind of pricing needed to make farming profitable. We need those markets.

We do not necessarily feel that these changes, as proposed, are needed to make the exports possible. Private industry has been financed at the expense of exports from $8 billion to $32 billion very satisfactorily. Our position is based on the view that we think the industry can handle it.

Senator ZORINSKY. Mr. Finson, would you please elaborate how the exemption of the combined Farm Credit System from State-imposed interest rate limitations would permit a windfall increase in the share of the market for CFCS?

Mr. FINSON. I am sorry. May I ask you to repeat?

Senator ZORINSKY. Could you elaborate on how the exemption of combined Farm Credit System from State-imposed interest rate limitations would permit a windfall increase in the share of the agricultural market for CFCS?

Mr. FINSON. To the extent that the debt instruments of the System are not subject to State income taxes, they receive in the open marketplace, we believe, a more favorable rate because of this, which enables a lower rate than private industry, than private corporations could. And in that sense that is a competitive advantage, being able to get money in the marketplace somewhat cheaper because of that privilege.

Mr. MINGER. Senator, if I might respond further to the question you asked. The question has to be further conditioned. When you say "windfall profits," that could occur particularly in periods of sharply rising general interest rates.

In periods as we are in now, and assuming that we have a State, well, like Arkansas, with a 10-percent usury rate, the local commercial banks are prohibited by regulation Q and other constraints from purchasing adequate funds out of the money market to satisfy customer needs.

If they want to acquire funds aside from possibly the modest level of deposit funds that stay in the banks, they then must go to the money market, which is now roughly 11 percent-plus for most money market instruments.

If you are constrained by usury rates, and those banks in that State would be, they would be acquiring funds at 12, adding the cost of doing business to that, and forced to lend it at 10.

Now, the testimony yesterday indicated that the farmers in Arkansas are in need of operating capital, and that price, while it is always of concern, in this particular case, the need is for funds and prices are a secondary concern.

If that continues, and the Farm Credit System is the one exempt entity, it could meet the needs of farmers for operating capital unconstrained by State usury rates, and in that way there would be a reasonable expectation of a massive shift of lending from the commercial banking sector to the Farm Credit System.

I think it is just logical to assume it will happen. In fact, it has happened in some of our past credit crunches.

Is that responsive?

Senator ZORINSKY. Yes.

In relation to increased cooperation between commercial banks and the Farm Credit System, would you not agree that this is a method which allows a closer working relationship between the cooperative Farm Credit System and commercial lending institutions?

Mr. MINGER. Chick, could I be responsive to that?

Mr. FINSON. Yes.

Mr. MINGER. First, I would like to say that what is done here in Washington in the way of putting legislation together and what transpires out in the field, those two things are not always similar. And that has been a case in point relating to participations and the working relationships of Farm Credit System units with commercial banks and other institutional lenders.

In some parts of the country those relationships work very well. In other sections of the country they do not work at all. So I think possibly the objective is good, and that would be fine if we had universal fine working relationships all over the country. But, as pointed out yesterday, these units are fairly autonomous and we do not have uniformly similar actions.

I think there is one other concern. Participation with your friendly competitor I think is good, but may be a secondary option that most people would take advantage of. That is why we stress the improvement in the ability of OFI's, other financial institutions, to discount paper with the FICB's, and in that way create a little more autonomy and competitiveness in the two lending systems, while continuing to serve agriculture very nicely.

Now, in lieu of having OFI's available to commercial banks, again the option of participating with PCA's would be a reasonably

good option, if the climate was such that you could do this. That has not been the case up to now.

Mr. FINSON. I do not have too much to add to what he said. I agree entirely with that. In the local communities, of course, in generation of farm loans, banks are competitive with PCA's and they with us. It is a little bit difficult to be a stern competitor in the morning and a cooperator in the afternoon.

Now, certainly rural banks are having a little trouble these days in having their deposits grow as rapidly as their demands for farm credit. And banks do reach out into other sources of funds. Participation with PCA's would be another way of putting money into the picture for farm borrowing. But the actual practice of it might be a little more complex because of the competitive relationship.

Senator ZORINSKY. Gentlemen, I want to thank you very much for your presentations and for contributing to these hearings. We certainly appreciate it.

Mr. FINSON. Thank you.

Mr. MINGER. Thank you.

Senator ZORINSKY. Mr. Glenn E. Heitz, president of the Federal Land Bank of St. Louis and Donald L. Hovendick, president, Federal Intermediate Credit Bank of Omaha, Nebr.

Mr. Heitz, do you want to begin with your statement?

STATEMENT OF GLENN E. HEITZ, PRESIDENT, FEDERAL LAND BANK OF ST. LOUIS, ST. LOUIS, MO.

Mr. HEITZ. Thank you, Senator. I would just say that on behalf of the Federal Land Bank of St. Louis, serving farmers in Arkansas, Illinois, and Missouri, I want to thank you and your committee for giving me this opportunity to testify this morning.

Recognizing your limitation of 5 minutes, which I can appreciate, I will hope to give you some of that time back for whatever questions or comments you might like us to respond to, and we will do our best on it.[1]

First off, I would like you and your committee to know that on behalf of the land bank system as well as the other parts of the cooperative Farm Credit System in our three States that we serve, that we fully support all of the 28 amendments to the Farm Credit Act.

I would like, however, in the brief time that I have to pick out three of them, even though we support all of them, and perhaps highlight those particular three.

The first one is section 106 that would remove the 85-percent limitation to the land bank system in order that we could better serve young farmers, especially through the guaranteed loan program of the Farmers Home Administration, and any guaranteed loan programs that State governments may have, and a few of them do have. And I must confess to start with that this 85-percent limitation, Senator, was established within the system rather than without the system, thinking that perhaps we did need a limitation of that sort when the 1971 act was passed.

However, now that Farmers Home Administration is changing its emphasis from the so-called joint or coordinated loan program with the Federal land bank and other lenders, to the guaranteed

[1] See p. 223 for the prepared statement of Mr. Heitz.

loan program, there is no question in our minds that if we are to continue to serve young farmers through such a program, we will need removal of the 85 percent. And I must say that while I am not familiar with other lenders, we are the only lender in this country serving agriculture, that I know anything about at least, that has a limitation such as the 85 percent.

I believe that our experience in the coordinated and joint loan program for the past 7 years throughout the land bank system, and particularly in our three States, indicates that it works extremely well, whereby Farmers Home has put up some 40 to 60 percent of the funds with the land bank system putting up the rest of it. We have made some 25,000 such loans, amounting to about $1¼ billion throughout the system.

In our district, typically, the young farmer with the joint loan program is about age 31 and we have typically had about 10 percent of the number of our loans and about 6 to 7 percent of the dollar volume made jointly with Farmers Home.

And the thing that is so persuasive to me is that we have a lower delinquency rate with those than we have on the average, and the delinquency rate generally is quite good, substantially under 2 percent. So we believe in keeping with your policy in the Senate and Congress of serving young farmers. This has worked exceptionally well; that we have tried to be highly selective in picking those young farmers who have the capacity, particularly the cash flow to repay these loans and be better off after they got them than they were before. So it is working exceptionally well and my plea to you and your colleagues on the committee would be to pass this and help us, as a major agricultural lender, to serve through the guaranteed loan program, as we have in the past, with the coordinated loan program, particularly since we are a major lender to agriculture and recognize your policy of serving young farmers who deserve to be served.

Now, I would like to pass on without trying to say everything that might be said about the removal of the 85 percent on the guaranteed loans by the Federal or State government. Sections 112 and 113 that have to do with patronage refunds and differential dividends by the land bank system.

We believe that if we could pay patronage refunds and differential dividends that we would be in a position to definitely pass on any earnings that we are not compelled to keep within the system to the users of the system, the borrowers in the system in direct proportion to their usage. In other words, whatever interest they happen to pay, whatever we might be able to return would be in direct relation to the amount of interest they have paid on their land bank loans.

This is an old co-op principle, and certainly we have a cooperative Farm Credit System, and more and more we realize our interdependence on one another in working together and our need to, frankly, recognize farmers in the direct use that they make of the System.

I repeat, Senator, our complete support, not only in the land bank system, but FICB's, PCA's, and cooperatives throughout Arkansas, Illinois, and Missouri for all the 28 amendments proposed in S. 1465.

Thank you for this opportunity to make a statement, and I welcome whatever comments and questions you may have.

Senator ZORINSKY. Thank you. Mr. Hovendick.

STATEMENT OF DONALD HOVENDICK, PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA

Mr. HOVENDICK. Thank you.

I am Donald Hovendick,[1] president of the Federal Intermediate Credit Bank of Omaha, serving production credit associations and 21,500 farmers who are members of those associations in our four States in the Midwest; that would be Nebraska, Iowa, South Dakota, and Wyoming.

We provide production loans and loans which can have maturities at the maximum of 7 years.

As Mr. Heitz, I would like to take the time, but will not, to speak on behalf of all 28 points in the bill, because I think every one of them is significant and of benefit to the American farmer.

The Farm Credit System, as has been pointed out many times already, is a big System. We have about $50 billion of loans to farmers in this country. We recognize our responsibilities with that much credit.

I am here to speak mainly on behalf of what we refer to as the processing and marketing authority which would be provided by one of the amendments to the Farm Credit Act of 1971, authority that would extend the ability of PCA's and Federal land bank associations to make loans for extensions of farmers' businesses to help them in the area of processing and marketing their products.

I might say at this point that we do not perceive this as being a source of large amounts of new business in terms of dollars. But we see the authority we are asking for as being a means for us to eliminate some frustrations we have had as we have tried to finance the whole farm operation and found ourselves stopped from going that last step.

I would like to quote from the amendment in the bill you are considering, the authority we are asking for.

The present law, the Farm Credit Act of 1971, talks about PCA loan authority in this way: Each production credit association under rules and regulations prescribed by the Board of Directors of the FICB of the district and approved by the Farm Credit Administration may make, guarantee, or participate with other lenders in short and intermediate term loans and other similar financial assistance to bona fide farmers, ranchers, and producers or harvesters of aquatic products for agricultural or aquatic purposes and other requirements—and then the amendment would add this statement:

> Including financing basic processing and marketing directly related to the borrower's operation and those of other eligible farmers, ranchers or producers of aquatic products provided that the borrower's operation shall supply a percentage of total processing or marketing for which financing is extended and is required by the supervising bank under the regulations of the Farm Credit Administration.

In brief, again this would not open a new class of borrowers to us; it would be an extension of our authority to finance farmers who are already eligible to borrow money from our System.

---

[1] See p. 226 for the prepared statement of Mr. Hovendick.

Examples of this kind of financing might include, for instance, seed corn producers, cattle feeders, mixing feed and selling it to neighboring feeders, alfalfa dehydrators, turkey processors, and especially fruit and vegetable processing operations, such as you might find in California.

This is an authority which would help borrowers in this sense: It would help a lender, the production credit association, for example, finance the whole operation and not stop at the point where the processing and marketing would start, and not have to force the borrower to go to some other lender for the rest of their financing and, consequently, dilute the collateral they have to offer as a result of having a split line of credit, which no lenders really like.

We see a bit of rural development spillover advantage to be obtained from this as the processing and marketing operations are financed. We would make some jobs in communities and bring about sales of supplies, and so on during the building job.

Finally, then, there would be limits prescribed by each individual district as required by this amendment, by the individual districts on the amount of throughput, we call it, the amount of business that the farmer who owns this processing-marketing operation would have to put through his own operation. This would preclude the processing and marketing from becoming much bigger than the parent farmer's basic operation. It would we think, properly limit the size of the financing operation.

I have used a little more than the time I have available. I am happy to be here and will be pleased to answer questions.

Senator ZORINSKY. Thank you.

Mr. Heitz, I have been told that 7 percent of all agricultural loans made by Federal land banks in each of the last 7 years were either FmHA's, FLB's, joint or subordinated loans.

The total number of borrowers served under these participating relationships in the 1973 to 1978 period was $24,952; the total amount of loan was $1,232 million.

Economic analysis concludes these numbers suggest potential loss of service that FLB's can offer to borrowers as the FmHA switches to a guaranteed only program. And if FLB's are not permitted to exceed the 85 percent lending limit on such borrowers. Which State now, other than Georgia now guarantees loans made to young and low equity farmers?

Mr. HEITZ. Senator, I am embarrassed that I cannot answer that question. I know that Georgia does, and I know there are two other States, and perhaps others at least considering it. And if you are willing, I would like the opportunity to get those facts and present them to you for the record.

Senator ZORINSKY. I would appreciate it.

[The following material was subsequently submitted by Mr. Heitz:]

State guaranteed loan programs for farmers and ranchers.—Georgia and Minnesota have such programs. The Texas Legislature is actively considering establishing one.

Mr. HEITZ. Your reference to perhaps loss of business, let me say that you have alluded to something in my testimony that should have been there that is not, and that is the fact that we serve a lot of young farmers now, as evidenced by the fact that in our land

bank district, the average age is 43. The average age, I believe, is 44 throughout the country, compared to only 31 in our district in the joint loan program in Farmers Home compared to 34 or 35 average age. So we are serving a lot of young farmers now. But this particular area of farmers that do not yet have enough equity capital. That's the primary lack in borrow strength in order to meet the requirements of conventional lenders, such as commercial banks and insurance companies, Federal land banks, at least through the joint or coordinated programs we had been doing it. And I submit for the record that there is an excellent record of repayment from those young farmers. And if we cannot do the removal of the 85 percent with the change in emphasis by Farmers Home, we simply would not be able to serve them.

Our records show that last year, 1978, only 5 percent of the joint loans that were made would have been under the 85 percent level.

I would admit that may look like pretty generous lending, pretty liberal lending, but I submit the record has been excellent in terms of repayment.

Senator ZORINSKY. If this amendment is enacted, what will stop the Federal land banks from taking on too many poor credit risks?

Mr. HEITZ. I appreciate that question. Nothing will keep us from taking on poor credit risks other than the fact that some 63 years of experience has indicated to us that if we ever lend more money to farmers than they can repay, we injure those farmers and their families more than anyone else, because before the lender loses anything, the farmer loses everything, for all practical purposes.

We have through the joint and coordinated loan programs, Senator, for these 7 years turned down many, many applications; frankly, applications that Farmers Home was willing to make and other lenders were willing to make because we thought the odds were too great they could not repay the loan.

So, if we are going to err, we would prefer to err on the conservative side rather than the liberal side, and to have the opportunity, and perhaps the probability of breaking those families.

I think the odds are very great that we would not overlend any more than we have at present.

Senator ZORINSKY. To what extent have the FCA and FMA's memorandum of understanding been implemented at the State level?

Mr. HEITZ. At least in our district, Senator, we have similar memorandums of understanding with each of the State Farmers Home Administration offices. They have signed them; I have signed them. We just completed this week a Land Bank Presidents Conference in my home city of St. Louis, and most of the farm credit districts have signed similar memorandums of understanding. And, as we said in that conference, this kind of memorandum of understanding either between us and the State Farmers Home Administration or between Farm Credit Administration and Farmers Home here in Washington, will not guarantee we will work together, but at least it is a memorandum of understanding and it is a basis for starting our working relationship on the guaranteed loan program.

Frankly, we have already made a few such guaranteed loans in our St. Louis District, but I will admit we cannot make very many

under the 85 percent figure. So, I would say at the start it is an assurance if we want to work together, just as I am sure with other lenders.

Senator ZORINSKY. Do you feel that adoption of the amendment would contribute to an increase in farmland prices?

Mr. HEITZ. I would not admit, Senator, that I think the amendment to this legislation, the amendment to our act, removing the 85-percent limitation would raise the value of farmland, and I will tell you why.

There is so little money in the aggregate loaned this way. For instance, in the last 1974 to 1978 period, you just gave us a figure, some 25,000 loans, for about $1¼ billion in joint loans, coordinated loans between Federal land banks and Farmers Home Administration loaned on farmland, that is such a small proportion of the total that I submit it would have almost no impact. I am not going to say no impact, but almost no impact, and, yet, at the same time, if you could know the farmers I know who have bought their first land, that own just some portion of the total land that they farm which was made possible through a Farmers Home loan program, to help assure the continuance of the family farm concept that personally I am just so imbued with I just cannot get away from it. And I believe, Senator, that this has been in keeping with your policy in the Senate and in the House, not only to help young farmers but to maintain the family farm concept not only for them, but, primarily, because it is in keeping with what is in the best interests of consumers across this country.

Senator ZORINSKY. Mr. Hovendick, let me ask you several questions with regard to the proposal allowing FLB's and PCA's to finance processing and marketing activities.

Why is it appropriate to allow farm credit districts to establish different minimum throughput requirements?

Mr. HOVENDICK. It is appropriate because we are a group of district operations comprised of groups of farmer owned types of entities.

The district board, for example of Omaha would be asked to prescribe how much of the throughput would have to be provided by the owner of the processing and marketing plant.

The District Board of Omaha is a group of farmers elected by other farmers to represent them, and, in their judgment and in their wisdom, knowing the agriculture of our region, we believe they should be the ones who would prescribe throughput.

But it might be quite another circumstance in some other part of the country, arising, I would say, from the needs of agriculture. For example, in California, where there is a big fruit and vegetable industry and a lot of processing and marketing to be done.

Senator ZORINSKY. Since there is no minimum throughput requirement in the proposal, how can cooperatives be assured by the Farm Credit Administration that the Farm Credit System institutions will not be financing organizations which will unfairly compete with co-ops?

Mr. HOVENDICK. Senator, that is a good question, and one which, as you may know, has been the subject of a lot of debate within our system.

I think we have come to understand each other and come to—that is, internally—to believe that we can use this kind of authority without causing harm to cooperatives.

Bear in mind, of course, the PCA's and the Federal land bank associations are themselves cooperatives. The banks are cooperatives. We would, I believe, be thoroughly enough embued with cooperative beliefs that we would not use this to cause harm to other cooperatives.

I perceive this as being generally too small a business, the processing and marketing, to result in farmers wanting to get together and form cooperatives. I believe it would be a type of operation that would involve a parent farmer with the processing or marketing plant and three or four or half a dozen nearby neighbors, as opposed to maybe several hundred who would be likely be best off organizing a cooperative.

Senator ZORINSKY. Mr. Hovendick, is there any evidence that commercial banks are not adequately meeting the needs for this type of financing?

Mr. HOVENDICK. I don't know if I could say with great assurance that there is strong evidence of need. I do know this, that neither commercial banks nor the production credit associations, for instance, really want to have split credit. As I have said in my written testimony, what we believe is needed is a way for our institution to follow these loan operations and make the credit available that would carry them from planting to harvesting and on to the next logical step, which would be the processing and marketing of the commodities produced.

If we cannot do that, we must cause that farmer to go somewhere else for the rest of his credit. And once the line gets split between us and another lender, there is good likelihood that his total credit availability will be reduced, and that he will just not have a good package of credit available to him.

Senator ZORINSKY. S. 1465 allows Federal land bank associations and production credit associations to finance marketing and processing activities. S. 1465 further provides that the applicant operations shall supply at least a percentage of total processing or marketing and financing would extend it.

Could you explain how you feel the percentage should be decided by the FCA in its regulations, should it not be a high percentage in order to maintain a true connection with the farm?

Mr. HOVENDICK. I think it need not, Senator, be a high percentage. I would say high would be more than 25 or 30 percent. When you look at individual operations and you consider the severe limitations that even a 5-percent throughput would impose, you begin to take away the usefulness of the authority.

What I am saying then is this: In our district, for example, and I think in many others, we have talked in terms of 20-percent throughput. That would mean that if five farmers got together to use this facility, the farmer who owned it would have to put through at least a one-fifth share in order to be eligible for financing.

That adequately limits size and keeps it from becoming more a processing and marketing operation than a farmer production operation. And that is the intent of the System, not to go away from

farmer financing and over to a situation where we are more involved in the processing and marketing end of it.

Mr. HEITZ. Senator, if I could interject one thing. One of the things that we have talked about which is so vital, and I believe the Governor offered in his testimony, is that for this type of loan, first of all, the applicant and borrower, must have been a farmer. He must have been, Don, as you testified, eligible in his own right, and then subsequent to becoming a farmer and being eligible for a loan, he decided that somehow he should carry his produce closer to market. And then whether that figure, the requirement of throughput that comes from his own production, whether that be 20 or 25 percent, but I guess, at least in St. Louis, we think at least 20 percent, but we should not get it too high because we have learned from legislation previously, I guess like the 85 percent that we injected to limit ourselves, sometimes for various reasons we had not been able to see over the hill into the future and these things become too limiting to us, as long as we stay close to the farmers we are dedicated to serve.

Senator ZORINSKY. Have either of you two gentlemen, either intentionally or unintentionally, observed, seen, or participated in any intimidation because of loans to sell insurance?

Mr. HEITZ. I will start first on that. Being with the Federal land bank system, Senator, I cannot recall one instance in Arkansas, Illinois, or Missouri where there has been any intimidation or anything approaching that because of insurance.

Let me add to this. I believe that we should be in a position to serve farmers, I am not going to say without regard to other lenders. We have never opposed legislation by bankers or savings and loans in the 30 years I have served through the Farm Credit System. Likewise, simply because some organizations make farm loans, I think it better to have healthy competition in farm loans. I believe in insurance that, frankly, farmers are better off and consumers generally with healthy competition, rather than not having such competitors

And I have seen absolutely no such intimidation in the three States that we serve.

Senator ZORINSKY. Do you feel that competition can truly be called competition if there are tax advantages which exist in one area but not in the other?

Mr. HEITZ. I would say yes, and let me mention some of the reasons why. When we look at competition in what we have, Senator, I believe that we have to look at the whole kettle of fish.

For instance, I know from complaints on occasion, not lots of them, but I have had my part of them, because I know where the buck stops, when some farmer feels that he and his family have not received the kind of financial service that they believe they deserve, they write their Congressman, they write their Senator, and that comes pretty fast to me. And we believe that you folks have established a mandate that we are to serve eligible applicants, eligible borrowers who can meet our credit requirements wherever they may be. And if you have ever traveled southern Missouri, down in that hill country, if you have ever traveled western and northern Arkansas, you would know it is a pretty uneconomic area

in which to serve. But we feel a mandate to serve those people even if it is relatively uneconomic.

Second, I submit to you that we do not have the privilege of the depository function, as our commercial bank counterparts have. We want them to have that function. We do not oppose that. We are not striving to get a depository function.

Third, the law requires that at least 50 percent of our earnings be set aside in a permanent reserve. I do not know what commercial bank requirements are or what insurance company requirements are, but I submit to you that when we look at the whole ball of wax in terms of serving in the environment, I believe we have competition, even with the tax item that you just alluded to.

Mr. HOVENDICK. I want to be sure to respond to your question about coercion and insurance. Neither have we, in the Omaha district, ever had a single instance of coercion substantiated, and I am pleased to say that.

I started out with the PCA system and I recognize very well the amount of trouble one can get into in making loans, either making too big a loan or too small a loan, starting too late or stopping too quick in the lending part of the function. We cannot afford in our system to lay ourselves open for trouble by doing any kind of arm-twisting in order to sell insurance.

We are very, very careful. We constantly admonish ourselves not to fall into this trap.

Senator ZORINSKY. You know I am not a borrower from your system, but I would anticipate that if I needed credit and if I was a marginal borrower and you suggested to me that I buy some insurance from you, and this was one avenue of receiving a loan, I certainly would not argue with that suggestion.

Yesterday in the hearings, I heard innuendos, and I did say that if there is any evidence by anyone that this is taking place that they should bring the evidence to this committee. If they seek anonymity, that is fine too. I want to bring it out in the open because many people allude to it, but, to the best of my knowledge, no one has brought forth definite evidence.

Mr. HEITZ. Senator, our bank and related 41 land bank associations in Arkansas, Illinois, and Missouri really only offer mortgage life insurance. We call it credit life insurance, mortgage life insurance, but it is credit insurance. And I submit that that might even help folks to be even more life insurance conscious, and I would not think that would be inhibiting to the sale of more permanent life insurance at all.

And we almost never make that requirement. If you really get to a very marginal case where if someone were to die, if that sort of thing were to happen, we might make that a requirement but I would submit that would be in 5 percent or less of the cases, as other lenders, I submit, might do similarly.

Mr. HOVENDICK. I have seen our people go what I consider an extra mile in that regard on heavy loans, loans that are potentially problem loans for the lender or the borrower or both. We recognize then the threat or danger of coercion charges being brought against us, and our standard phraseology is: Yes, you need, we believe, as a credit qualification for your loan to have hail insurance on that corn crop. We offer it here. You can get it anywhere

you want. The only requirement we make is that you show us evidence that you have insurance to protect yourself and to protect your loan.

Senator ZORINSKY. Senator?

Senator JEPSEN. Yes, I would like to walk through some questions for the record, so that we have this in perspective.

The first question I would like to ask and get the answer, then I'll go to the second.

Do you personally, through your organization or any organization related to yours, actually underwrite any type of insurance that you sell?

Mr. HEITZ. Do we underwrite any kind of insurance that we sell?

Senator JEPSEN. Another way to put it, are you in the insurance business?

Mr. HEITZ. The only thing we offer, Senator, through the land bank system in our district is mortgage credit life insurance. There is another one that is relatively close and it is a disability insurance if somebody is disabled and in the hospital. And we have sold so few of those policies I do not even remember how much we have. But I would say that 2 percent of our borrowers or less have that type, but quite a few of them have the credit life. That is all we have. You asked about related associations——

Senator JEPSEN. Let me interrupt, if I may, because we are not on the same wavelength. Who is the carrier for the insurance?

Mr. HEITZ. There is a mutual insurance company in Minneapolis that carries the mortgage life insurance for us. Then the Lincoln National Life Insurance carries the disability insurance.

Senator JEPSEN. Now you are answering my question. You are not in the insurance business.

Mr. HEITZ. We are not in the insurance business.

Senator JEPSEN. That is all I want to know. Your underwriting is handled by an insurance company that is something other than an organization, either directly related or indirectly related to your organization. There is no relation between your organization, on any level at any dimension, and the insurance business as far as underwriting or carrying the risk? That is very important.

Mr. HEITZ. As I understand your question, the answer is "No."

Mr. HOVENDICK. And that would be true, Senator, in our district also.

Senator JEPSEN. Most of the questions I am asking you I know the answers to, but I want the information on the record.

Second, do you have any of your people that are either employed by, or part of, the organization, member of boards and so on that solicit actively, sell or receive commission for insurance?

Mr. HEITZ. In our case, the answer is an absolute no.

Senator JEPSEN. Third, do you feel that there is anything in the proposed bill here that will in any way change or expand the present posture, attitude, or activity that you have with regard to providing or making available the insurance program as you have in the past?

Mr. HEITZ. In our case, the answer is absolutely no, because any privileges that we have we have through present laws. This law here does nothing for us in terms of insurance.

Mr. HOVENDICK. And, Senator, the same would be true for us, and the same for the previous question, I might add.

Senator JEPSEN. And this is repetition, at this point, my final question. I may have others if I think of them and if I do I will just ask you to state for the record.

As you previously indicated, to the best of your knowledge in all cases where you make a loan, and provide total and complete service, and many times a situation dictates that prudent business action would be that a person have a form of reducing term, which is the industry's name for mortgage insurance that would cover the amount of loan; you so advise them and if they, in fact, purchase that somewhere else as long as you have submission of proof that they do have this coverage, that satisfies the requirements for the loan, and they will have the same accessibility, the same action on their loan as if they had purchased the insurance or arranged for it through you?

Mr. HEITZ. You have stated it better than I could, Senator. And let me repeat, so help me, God, I have never known of a case in our district where our people have coerced, compelled, or forced the purchase of such insurance in our district.

Mr. HOVENDICK. Senator, I do not want to overanswer this question, but in this business of credit and agriculture, just the matter of extending credit and doing an appropriate job of it, and doing it in such a way that it helps the farmer, means we can not afford to be self-serving with the insurance part of our business at the expense of what we are trying to do in credit. And I believe that our people consider that way universally.

Senator JEPSEN. For the record, I would like to point out, in my opinion, the involvement of this bill provides for agencies with regard to providing insurance of any type. It is one of availability of complete service, and in no stretch of the imagination can be construed as promoting the sale of or profiting from the sale of insurance in any manner because of the fact that does exist. I say that as a professional in insurance for over a quarter century. If I felt it did, I would be questioning you in a lot more detail and with a different slant.

Mr. HEITZ. Senator, we certainly appreciate your views and I repeat that to our knowledge this bill has nothing to do with insurance at all.

Senator ZORINSKY. Thank you, Senator Jepsen. The only reason I brought the issue up initially was because whether anyone at this table wants it or not, it is an issue, as I see it. I think we should feel free to speak about it.

I want to thank you gentlemen for appearing at the hearing.

Mr. HEITZ. Thank you. We certainly appreciate it.

Mr. HOVENDICK. Thank you, Senator.

Senator ZORINSKY. I would like to call on Jim Layton, representing the Farmers Export Cooperative.

Mr. LAYTON. Good morning.[1]

Senator ZORINSKY. Good morning, Mr. Layton.

---

[1] See p. 231 for the prepared statement of Mr. Layton.

STATEMENT OF JAMES A. LAYTON ON BEHALF OF THE FARMERS EXPORT CO. OF SHAWNEE MISSION, KANS.

Mr. LAYTON. Two things that I am glad to get up here. One is the water and the other, since I am a borrower from all these folks, it reminds me of the story where a producer went in to a banker and said, "I would like to have a loan for a million dollars." The banker said, "Well, for a loan of that nature, we would like to have a statement." He said, "I will give you one. I am optimistic."

We at Farmers Export are a grain cooperative and have as members 12 regional grain marketing cooperatives throughout the Midwest and East of the United States. In the last year of operation, we were in fifth place as the fifth leader of exporters of grain from the United States. This year, we are up in fourth place and probably challenging to get up into third.

We had sales of some $1.3 billion last year and our facilities are located in New Orleans, La., Galveston, Tex., Philadelphia, Pa., and we have our sales office in Portland, Oreg.

We appreciate the opportunity of making some observations and being here with you all this morning concerning S. 1465, the Farm Credit Act Amendments.

And I am sure it has been discussed here, the role the cooperatives have played in the area of production, financing and marketing of farm products of the producers of this great Nation of ours.

It is interesting that 80 percent of all American farmers belong to and invest in at least one cooperative, with many belonging to several cooperatives.

Since I was born and raised on a farm in southern Illinois, and still have a farm in Illinois, I am one of those people also. But we do feel that producers continue to need their cooperatives to provide competition necessary in many areas of operation, for the production of food in the world that is needed for the export trade.

It is quite interesting that Lenin years ago said, "Grain is the currency of currency." I think that is becoming more true all the time.

It has been discussed also the extreme vital need for the export market and that is our job at farmers export to try to take the grain from the regional grain market and cooperatives who have brought it from the country elevator and the producers who are members of all these cooperatives and get that grain into world commerce by loading it out of the ports that we mentioned earlier.

Of course, it certainly looks like we are going to be blessed with an opportunity to try to increase these exports in the coming decade and therein lies the challenge for us to be competitive to do that.

We had a $32 billion farm export for the year just ended and it looks like it could be in excess of $40 billion for the coming year. So with the record levels of production that the good Lord has blessed us with, it is our hope to maintain the proper income for the producer and agribusiness, per se, that we can do this export job because therein lies the key to profitability.

It is Farmers Export's job and challenge to try to make the market, to try to handle the grain and try to make a return to the members. And with this, of course, comes in the area of financing which is so terribly vital to have that thing accomplished.

I think that it would be our observation that there is potential for cooperative banks in the United States to work with our counterparts in other foreign countries. It would be hoped that in this type of working together we could open up some new market areas and some new things that would be helpful to try to increase the exports. And we think that every area where finance can work on a competitive basis, which is what we have to do in our continual competition with the multinationals and other people who are in the marketplace. Competition is really what makes the world go around. If we could get a speedup of the time of the transfer of funds in the export area, which we think there is a potential for this, that would certainly be very, very helpful because the margin of grain being what it is, and our grain sales not widening out that much, every small eighth or half a cent a bushel means big things to a producer and the person we are trying to service.

I think we would have to view this, as one said, that most of us do not recognize the opportunity until we see it working for our competitors.

Thank you very much, Senator.

Senator ZORINSKY. Thank you, Mr. Layton.

You state your strong support for the export financing provisions of S. 1465. Am I to understand that you see this as a logical extension of banks for cooperative service?

Mr. LAYTON. Yes, I think we would say it has great potential in that area. And, of course, any of that that can be done that can be helpful in the job that we are doing and the heavy borrowing get another chance to get that money back to the producer. And a purism for a cooperative to work, that is what our job is to do, try to get funds back to the people who are members and producers.

Senator ZORINSKY. Do you have available data that suggest a need for the banks for cooperatives to enter into international financing? Or, to put it another way: Are present sources adequate to finance agricultural exports?

Mr. LAYTON. As I said, I think the big thing that we see as a potential is more competition and competition will hopefully make some potential savings. This is our area. We think it would be very helpful in the area of competition.

Senator ZORINSKY. Earlier in the testimony, Mr. Minger testified that S. 1465, as written, provides a significant competitive advantage for cooperatives in the area of agricultural financing. It is their contention that we are not talking about equality between commercial banks and cooperatives, but rather a further dislocation of commercials. Could you comment on their perceived inequities?

Mr. LAYTON. Well, from my observation of it, I do not really share that as being a concern. And I guess I would have to say that our big concern being a borrower is that we try to get the job done as quickly and as cheaply as possible so the returns can go back to the producer.

Senator ZORINSKY. Senator Jepsen.

Senator JEPSEN. I would like to put a word frame around the example of farm export loans—can you now obtain loans from commercial banks for storage and handling facilities say in a port in a foreign country?

Mr. LAYTON. We have not attempted any of this sort of thing. And we have had people with some requests that would have interest in such a thing. I think that is one area of this legislation that offers some potential.

Senator JEPSEN. I strongly believe the marketplace should provide for farm exports. In so doing, all the things that go into exporting of grain, transport, load out, unloading, when we go into undeveloped countries some of the problems that we have in exporting of grain is the lack of facilities to handle it properly.

Mr. LAYTON. Right.

Senator JEPSEN. There is some interest, I understand, and I think fruitfully so, to get the job done on the basis of load companies to establish their own receiving port facilities and obtain loans for them. My question again is: To the best of your knowledge is there any readily available loan source or banking institution that is looking for that type of loan?

Mr. LAYTON. Well, I have to speak from my experience. And we have not officially laid out a program. We do banking with others as well as banking with cooperatives. I would have to say they have been very helpful and everything. So I would imagine if we had a feasible program with the right country that this type of financing would be available.

Senator JEPSEN. In the grain export area, loans for primarily equipment, and I suppose you can get into the point of purchasing ships or something. Can you picture any individual cooperative elevators in your area asking for, or participating in, trying to get loans of this type on an individual basis?

Mr. LAYTON. Well, not really the way we are structured. Farmers Export is a Kansas corporation and we have, as I say, 12 regional grain cooperatives that are our members. On such a venture this would be Farmers Export's challenge to try to arrange such a financing package.

Senator JEPSEN. Thank you. That is the way it is set up in Iowa also.

Mr. LAYTON. Right.

Senator JEPSEN. Well, as you are structured now, are you able to obtain adequate credit, in your opinion?

Mr. LAYTON. No, we are not in that situation. As I say once again, we are looking to the competition, which is what we are faced with today, I mean to bid, buy, and offer to sell. That kind of makes the margin go in.

Senator JEPSEN. I guess I have no further questions.

Senator ZORINSKY. Thank you, Mr. Layton.

Mr. LAYTON. Thank you, Senator.

Senator ZORINSKY. I would like to call on the panel of Mr. Leo A. Allmendinger, farmer and member of the Farm Credit Board of Omaha, Selby, S. Dak.; and Mr. Galen B. Brubaker, dairyman and past chairman of the Federal Farm Credit Board; Rocky Mount, Va.

Mr. Allmendinger, if you will start off. Please give us a résumé of your statement and we will place it in its entirety in the record.

STATEMENT OF LEO A. ALLMENDINGER, ON BEHALF OF THE OMAHA FARM CREDIT BANKS, EIGHTH DISTRICT OF THE FARM CREDIT SYSTEM

Mr. ALLMENDINGER. Thank you, Mr. Chairman.

My name is Leo Allmendinger. I am a farmer from Selby, S. Dak. I am also director of the Farm Credit banks of Omaha, having been elected to that board by the Federal land bank associations in the Omaha District.

The Omaha District is part of the Farm Credit System which provides financing for farmers and ranchers and agricultural cooperatives located in Iowa, Nebraska, South Dakota, and Wyoming.

I appreciate very much this opportunity to appear here and discuss S. 1465, and more especially the section dealing with the incorporation of system service entities. And I will try to keep my talk down to less than 5 minutes as my statement has been filed.[1]

The Farm Credit Act permits the creation of corporations to provide specific loans to various groups of farmers. The land banks are allowed to make long-term real estate loans. Production credit associations are allowed to make short-term production loans. And the bank cooperatives are allowed to make loans to agricultural cooperatives.

Since the Farm Credit System began over 60 years ago, there have been a lot of changes not only in farming, but in business practices in general.

Farm Credit banks are geared to develop separate joint entities to take advantage of cost savings and to really make our operation more efficient. The result has been reduced overhead costs. And then we in turn have been able to pass on these savings to our farmers and ranchers in lower interest rates.

Examples of these joint services include an office of joint services for the purpose of centralized purchasing of office supplies, a central personnel office and payroll department, a print shop, building, parking facilities, public relations department, and so forth.

The 37 Farm Credit banks have had to create a fiscal agency in order to have a voice on Wall Street to sell our bonds at competitive rates.

At this time this agency administers over $50 billion public health funds annually. The banks also created farm bank services to provide a systemwide personnel service, training, research and information centers.

The use of the various districts and systemwide service entities has helped us reduce personnel and facilities in each of the Farm Credit districts. But, however, since the Farm Credit Act does not permit the Farm Credit banks to incorporate these service entities which are needed to provide the noncredit services to the banks, these entities have no power commitments to suppliers, to purchase supplies or services from the banks to obtain the normal business and tax privileges that are available to every other formal business entity or to enter into any binding agreements with vendors.

This amendment would permit the Governor of the Farm Credit Administration to prescribe within the framework of the regula-

[1] See p. 232 for the prepared statement of Mr. Allmendinger.

tions issued by the Farm Credit Administration and also approved by the Board, the charter, bylaws and so forth in a corporation that he finds necessary to accomplish the purposes of the Farm Credit Act.

And I want to be sure it is understood that the capital funding, the operating expenses of the service corporation would be paid entirely by the Farm Credit banks and no Federal dollars would be involved.

Also that any of these corporations would be a part of the Farm Credit System and, therefore, subject to the same examination and supervision as any of the Farm Credit banks.

I also want to emphasize that no expansion of services or activities by the banks is allowed under the provisions of this act. And we are only asking you to extend authority to us to utilize existing forms of business and business entities to further complement our internal operation and thereby achieve some more cost-savings which we in turn can pass on to our members.

Mr. Chairman, this concludes my brief remarks. We would be pleased to try to answer any questions.

Senator ZORINSKY. Thank you. Mr. Brubaker, did you have any statement?

STATEMENT OF GALEN B. BRUBAKER, MEMBER, FARM CREDIT BOARD

Mr. BRUBAKER. Thank you, Mr. Chairman and members of the subcommittee.[1]

I am Galen Brubaker, a member of the Farm Credit Board and immediate past chairman.

The Federal Board is the policymaking arm for the Farm Credit Administration. You have already heard information of the total credit and how much is provided, over $55 billion to American agriculture.

We are an independent agency of the U.S. Government. And I would like to share with you the views of the Federal Farm Credit Board concerning S. 1465. My statement has been filed.

I would like to address six items pertaining to the internal operations or, as you may refer to, as personnel items in this bill.

Of course, I am in full support of the entire bill, and the entire Federal Board is, and the entire system, all districts have endorsed this bill in its entirety.

These six items that I would like to review are: (1) To authorize the Federal Farm Credit Board to set the salaries of the Governor and the Deputy Governor within the executive pay scale; (2) to authorize the FCA to set its own salary and classification system for employees below the Deputy Governor level, subject to the ceiling of the General Schedule; (3) to authorize FCA to establish its own qualification requirements for positions within the agency; (4) to exempt Farm Credit Administration from Federal travel procurement and property regulations; (5) to allow improved portability of employees between the Farm Credit System and the Farm Credit Administration; (6) to increase the Federal Board's per diem to the daily equivalent of the rate prescribed in grade GS–18.

[1] See p. 233 for the prepared statement of Mr. Brubaker.

I am in my last year on the Federal Board. Prior to that I was on the Baltimore District Board for 8 years, and have served as local PCA and Federal land bank director from 1950 to 1974 when I went on the Federal Board.

Over the years we have seen many, many changes in Farm Credit. Some of the changes we have seen in the time I have been on the Federal Board are decentralization and decisionmaking to the banks and associations. Rapid growth of loans made and volume; systemwide securities; systemwide loss protection plan, and there are many more. The farmers and ranchers of this country have benefited from these changes. But as farming and ranching is a complex business, with all this decentralization and change, supervision also becomes very complex. We need good individuals.

Many times the best place to find these individuals are banks or associations where they have had experience in working with institutions.

When we attempt to go out and hire, since all banks are governed by their board of directors, they have personnel privileges, which include the normal benefits, many of them thrift plans and other plans that we do not provide in FCA. Many of their vice presidents of banks are paid higher salaries than we can pay in the Farm Credit Administration. For these reasons, we believe that we should be granted the opportunity to move in the areas that we have outlined here.

Our staff has worked with the Office of Personnel Management to develop more flexibility provided by the recent Civil Service Reform Act. But we are still having some problems in this area.

On the Federal Farm Credit per diem, it is $100 for the present, which was set in 1966. This was at that time near the GS–18 rate and so we are asking that this be at the GS–18 rate. It is my understanding that some other agencies in Government already have all these provisions that we are asking for. Again, I do not want to be too repetitious of the things you gentlemen have heard, but we are a self-supporting agency. There are no tax dollars that go into this. And I do, as a member and a borrower, think I speak for the users of the System and users are willing to pick up this additional cost to pay for the things that I have outlined here in my report.

Senator ZORINSKY. Mr. Brubaker, you said this additional cost. What will be the cost of the proposal at this time?

Mr. BRUBAKER. I am talking about the opportunity to pay more for the Governor's salary and the Deputy's salary.

Senator ZORINSKY. You are talking about a restructuring of your pay scale system?

Mr. BRUBAKER. Right.

Senator ZORINSKY. What is the estimated cost of that restructuring?

Mr. BRUBAKER. I do not have that figure before me, but I am sure it would be very, very small because it is not that much different from the present, but I think it would bring us more in line and more competitive with the district banks where many times we attempt to hire these people.

Senator ZORINSKY. I have heard Senator Jepsen ask how much and I have asked how much before, and we get answers like "just a small amount," and we find it is all relative.

Mr. BRUBAKER. I believe our total cost of operating the Farm Credit Administration is 0.017 percent of the total volume of loans, money that we have lent. We are talking about a figure that would be less than that. That is our total cost.

Senator JEPSEN. Administrative costs?

Mr. BRUBAKER. Yes, examination and supervision.

Senator ZORINSKY. Talking to the outstanding loans?

Mr. BRUBAKER. Yes.

Senator ZORINSKY. Current?

Senator JEPSEN. Less than 1 percent?

Mr. BRUBAKER. No, less than 2 percent, 1.7. Let me get it correct, 0.017.

Senator JEPSEN. That is considerably less than 1 percent. I am not sure we are talking about the same thing. I think we are talking about general cost for administration of the entire program. Do you have figures on that? We heard the other day in the same committee where 40 percent of the moneys we were talking about went to administration.

Mr. BRUBAKER. I will be glad to get all of this information and provide it. It is given to you annually, but since you are asking the question, we will give you that.

Senator ZORINSKY. Thank you.

[The following material was subsequently submitted for the record:]

Farm Credit Administration system statistics (summary) as of Dec. 31, 1978

[Dollars in thousands]

	Total system
Total loans outstanding	$46,842,031
Interest charged borrowers	$3,702,453
Less dividends declared	$79,434
Net charge to borrowers	$3,623,019
Percent net charge to borrowers	7.73
Operating expenses: FCA and system	$431,503
As percent of loans outstanding	.92
As percent of net charge to borrower	11.91
FCA supervisory expenses	$10,362
As percent of loans outstanding	.02
As percent of net charge to borrower	.29

Mr. ALLMENDINGER. I think of the interest dollar the farmer pays, 5 cents of that dollar goes for administration. And to be sure that is right, I will also make that available to you.

Senator ZORINSKY. Five percent of the interest, not of the outstanding loans?

Mr. ALLMENDINGER. Five cents of every dollar the farmer pays in interest goes to operating costs.

Senator ZORINSKY. There is certainly a relationship between outstanding loans and interest paid.

Mr. ALLMENDINGER. Yes.

Senator JEPSEN. Mr. Brubaker, I think what I gather from listening and following you along on this other proposal section, you are

essentially asking for total autonomy on how you administer or handle it. I do not mean to be negative, but I want clarification.

Mr. BRUBAKER. Not complete, total, because as far as the Governor is concerned, we would still be within the executive schedule requirement, which I believe the maximum at this time would be $66,000.

And under the second part, to develop our own salary classification system, I believe it would still be within the field of the general schedule. So we are not asking for removal, but this would be a discretion of the Federal Board up to the ceiling.

Senator JEPSEN. In this portability, so much percentage, retirement, my guess is you would bring yours up commensurate with——

Mr. BRUBAKER. Many people that we have an opportunity to employ, and particularly the professional people, are in districts which have different types of retirement plans, and we would like to be able to give them credit and mesh with civil service.

Senator JEPSEN. You do not have that autonomy now to have a uniform retirement system throughout the country?

Mr. BRUBAKER. The banks under the Farm Credit System are not under civil service.

Senator JEPSEN. I understand that, are you advocating——

Mr. BRUBAKER. No, we are not advocating that, but we are advocating credit for the other service so they may be able to continue other retirement plans, so that service would not be lost. Because in many cases this is in excess of civil service.

Senator JEPSEN. Getting back to my first question, would the end result of this policy be that you will establish your fringe benefits essentially parallel with civil service?

Mr. BRUBAKER. That is my understanding it would be.

Senator JEPSEN. Do you have any estimate of what that increase would cost?

Mr. BRUBAKER. I do not have that, but I would be glad to provide it for you so that it may be included in the record.

[The following was subsequently submitted for the record:]

At the October 5 hearing of the Senate Subcommittee on Agricultural Credit and Rural Electrification on S. 1465, Mr. Galen Brubaker, a member of the Federal Farm Credit Board, was asked to provide an estimate of the potential cost of the six Farm Credit Administration-related proposals. In his statement, Mr. Brubaker said that, since the administrative costs of the Farm Credit Administration are paid by the Farm Credit System, the six proposals would not entail any expenditure by the U.S. taxpayer. It has been subsequently learned that the portability provision of S. 1465 would, as drafted, increase the unfunded liability of the Civil Service Retirement System—and, therefore, entail a future cost to the U.S. taxpayer. However, the Farm Credit Administration would be supportive of a modification in the portability provision of S. 1465 which would allow the Farm Credit System to assume the full cost of this provision. The Agency's Office of General Counsel is at present drafting an amendment for this purpose.

The Farm Credit Administration's Personnel Division has researched the question of the potential cost to the Farm Credit System of enacting the six FCA-related amendments. A cost estimate of each of the six proposals follows, as well as an estimate of what the total cost of the six proposals would be in proportion to all other System operating costs.

The first proposal would authorize the Federal Farm Credit Board to set the salaries of the Farm Credit Administration's Governor and Deputy Governors within the limits of the Executive Schedule. Under this proposed amendment, it would be theoretically possible for the Governor and Deputy Governors to receive a maximum salary of $69,000 (the maximum rate currently provided for under the Execu-

tive Schedule). It would therefore be possible for the Federal Farm Credit Board to set the salaries for the Governor, Senior Deputy Governor and Deputy Governors at the same maximum salary of $69,000. It would also be theoretically possible, but unlikely, for the Federal Board to set salaries below current rates. The most realistic assumption is that enactment of the provision would provide pay increases to the Governor and Deputy Governors according to a revised differential hierarchy. Based on this more realistic assumption, we estimate that this provision would mean an increased cost to the Farm Credit System of approximately $122,000 in fiscal year 1980.

An additional expenditure for paying the relocation cost of a new Governor would also be authorized by this provision. If a new Governor were to take office in 1980, the potential relocation cost could be approximately $15,000. Since the Governor serves "at the pleasure of the Federal Farm Credit Board," it is not possible to estimate how often this cost would be incurred in the future.

The second proposal would authorize the Farm Credit Administration to establish its own salary and classification system for employees below the Deputy Governor level, subject to the ceiling of the General Schedule. Based on the assumption that the authorization would result in an average 10-percent increase in the salaries and benefits of FCA staff below the Deputy Governor level, this proposal would cost the Farm Credit System approximately $717,000 in fiscal year 1980. The estimated cost incurred for interviewing and relocating new professional employees below the Deputy Governor level would be approximately $126,000 in fiscal year 1980. This estimate is based on the assumption that 20 professional employees with no prior Government service are hired by FCA in that year.

The third proposal would authorize the Farm Credit Administration to establish its own qualification requirements for positions within the Agency. This proposal would entail no additional cost to the Farm Credit System. Indeed, a modest savings may be expected if the Farm Credit Administration is able to hire staff without satisfying the detailed administrative requirements imposed by the Office of Personnel Management's examining process.

The fourth proposal would exempt the Farm Credit Administration from Federal travel, procurement and property regulations. No increase in transportation costs is expected under this proposal, although an increase in the cost of reimbursing employees for lodging and meals may be expected if the Agency is not bound by the current statutory limit of $50.00 per day. While it is impossible to say with any degree of certainty what the increased cost would be, we estimate it to be approximately $115,000. No increase in costs to the Farm Credit System is expected if FCA is authorized to establish its own procurement and property regulations. In fact, this aspect of the proposal may lead to certain administrative savings by the Agency.

The fifth proposal would allow for portability of sick leave and retirement between Farm Credit System district retirement plans and the Civil service Retirement System. In regard to the cost of leave portability, we estimate that additional expenditures would be less than $60,000 at a maximum, and probably less than $12,500 in fiscal year 1980. A major cost-limiting factor is the trade-off in leave which is likely to take place when an employee leaves the System or the Agency or vice versa.

In regard to the aspect of the proposal which would grant retirement credit to an FCA employee for uncovered service acquired when he was a Farm Credit System employee, we estimate an immediate cost of $450,000 in fiscal year 1980. This is a very rough estimate based on the assumption that 12 employees received these benefits in fiscal year 1980. In addition there would be a one-time cost of $580,000 to fund the retirement benefits for current employees with uncovered Farm Credit System service. This cost would be amortized over an extended period. A different estimate may be given by an Office of Personnel Management actuary which is at present analyzing the cost potential in this provision.

The sixth proposal would increase Federal Board per diem to the equivalent rate prescribed for a GS–18. The estimate fiscal year 1980 impact of this change would be to increase Federal Farm Credit Board salaries and benefits by $86,300.

The table below summarizes the cost estimates of the six Farm Credit Administration related amendments.

(1) Authorize the Federal Farm Credit Board to set the salaries of the Administration's (FCA's) Governor and Deputy Governors within the limits of the Executive Schedule.	$122,000
(Relocation costs)	15,000

(2) Authorize FCA to set up its own salary and classification system for employees below the Deputy Governor level, subject to the ceiling of the General Schedule	$717,000
(Relocation costs)	126,000
(3) Authorize FCA to establish its own qualification requirements for positions in the Agency	0
(4) Exempt FCA from Federal travel, procurement, and property regulations	115,000
(5) Allow improved portability of employees between the Farm Credit System and FCA	450,000
(Leave)	60,000
One-Time expense [1]	580,000
(6) Increase the Federal Board per diem to the daily equivalent of the rate prescribed for GS-18	86,000
Total	2,271,000

[1] This figure represents an estimate of a one-time expense only. This cost would be paid by the Farm Credit System if the proposed amendment to the portability provision of S. 1465 described above is adopted.

Total Farm Credit System costs in year ending June 1979 are provided below:

[Dollars in thousands]

	Amount	Percent of total
FCA supervision cost	$8,778	.19
Dividends and refunds	46,931	1.02
Added to reserves and provision for losses	638,308	13.81
Interest on borrowed funds	3,539,466	76.60
Expenses—Taxes	387,325	8.38
Farm Credit System costs	4,620,808	100.00

From the two above tables it can be seen that the total cost of the six proposed amendments would have constituted only 0.05 percent of total Farm Credit System costs in the year ending June 1979. When the cost of the six proposed amendments is added to FCA supervisory costs, as of June 1979, the new total FCA supervisory costs would be $11,049,000. This figure would have constituted only 0.24 percent of total Farm Credit System costs in the year ending June 1979.

Senator JEPSEN. How much does a GS-18 get in per diem now; do you know?

Mr. BRUBAKER. I believe it is $182 and some odd cents.

Senator ZORINSKY. Could you yield for a moment?

Senator JEPSEN. Yes.

Senator ZORINSKY. In other words, if you went to Omaha, Nebr., you would get that per diem per day?

Mr. BRUBAKER. Yes.

Senator ZORINSKY. I do not know how you would spend that much in Omaha.

Mr. BRUBAKER. Let me qualify. This is our pay, our salary, and not expense. As members of the Federal Board, full expenses are covered.

Senator ZORINSKY. It is not a per diem?

Mr. BRUBAKER. It is not a per diem in addition to your salary. This is the salary of the Federal Board, and then the expense, airline transportation, food and hotel bills are actual expenditures.

Senator ZORINSKY. Well, do you not get paid——

Mr. BRUBAKER. We are paid presently at the rate of $100 a day. What we are asking is that the pay be increased to this GS-18

grade level, which would be $182. That would be the pay and the expenses——

Senator ZORINSKY. We are on the same wavelength as to whether it is per diem as we know it.

Mr. BRUBAKER. Right. Per diem as you know it is not quite——

Senator JEPSEN. This would be equivalent to the board of directors' fee. When you go to a meeting you get a certain stipend.

Mr. BRUBAKER. Right.

Senator JEPSEN. But they do not get pay except when they go on active duty.

Mr. BRUBAKER. Right. That is right.

Senator JEPSEN. And now you want to pay $182 instead of $100?

Mr. BRUBAKER. Right.

Senator JEPSEN. How many days a year?

Mr. BRUBAKER. It varies from, I would say, from 60 to 90, somewhere in that area. Federal Board members are encouraged to attend the district board meetings in the district plus other meetings that they have in addition to the Federal Board meeting.

Senator ZORINSKY. Mr. Brubaker, could you give me an indication of how many potential employees you have lost because of inability to offer competitive salaries and benefits?

Mr. BRUBAKER. No, not in a certain precise figure. I have seen that information and, again, I will be glad to get it and enter it into the record. But we have over the years and at the present time are understaffed by what is approved. I want to emphasize again, the main consideration of the Federal Board is with the senior staff in FCA. In my term on the Board, we have selected two Governors and three or four Deputy Governors. That is quite a turnover for senior staff within a 5½-year period of time. This continues to be of concern to the Federal Board, and I think we have been extremely fortunate in getting well-qualified men to fill these positions. But this rapid turnover with our responsibilities of serving the complex industry with the credit needs that we have, we think this is too fast a turnover.

[The following material was subsequently provided for the record:]

The Farm Credit Administration's Office of Personnel has compiled statistics on attrition in the Agency from 1976 to 1978. During this period, FCA had an annual turnover rate of 18 percent for Credit and Operations Specialists, 17 percent for Credit Examiners, 9 percent for Bank Examiners, 18 percent for Association Examiners, and 11 percent for other professional positions. Of those professionals who departed FCA since 1976, 21 percent assumed positions in the Farm Credit System whereby they generally obtained substantial increments in salary as well as benefits. Summary statistics also indicate that, since 1976, 30 percent of the professionals we have hired are no longer with the Agency and that FCA had experienced a chronic problem of understaffing which ranged from between 10 and 20 percent per annum.

Senator ZORINSKY. Although the subcommittee has not yet been contacted by the Office of Personnel Management, I understand they have some questions about the proposed personnel amendments.

Are you aware of what their concerns are; and are you at liberty to discuss those concerns with us?

Mr. BRUBAKER. I am not aware. I am aware that they have some concerns, but, as you say, they have not made their report to you and we are not fully aware of what their concerns are.

Senator ZORINSKY. Have they made their report to you?

Mr. BRUBAKER. I am not aware. I know they have discussed it with our staff, but it is my understanding that they are still working on the report.

Senator JEPSEN. Would there be a chance of raid on employees, possibly proselytizing if you started to have this authority that you could pay more than they could?

Mr. BRUBAKER. I cannot——

Senator JEPSEN. Where do you get most of your candidates? Do you look to the private sector or these quasi-governmental area for your top employees?

Mr. BRUBAKER. For our top employees, we normally like to have someone who is familiar with agricultural credit. And so I guess it is natural that we look to the Farm Credit System. And, again, because they are independent business organizations, this is what has created our problem. It makes smooth operation and this transfer moves much quicker and easier if the terminology and familiarity is the same. Now, when you move down to the lower levels, we do move in the same areas that any other Government agency would move in.

Senator ZORINSKY. Thank you very much, gentlemen for participating in our hearing.

Mr. BRUBAKER. Thank you.

Senator ZORINSKY. I would like to call on Paul S. Weller, vice president for public affairs and secretary of the National Council of Farmer Cooperatives.

Welcome, Mr. Weller. Would it be possible for you to summarize in 5 minutes and submit your statement for the record?

STATEMENT OF PAUL S. WELLER, JR., VICE PRESIDENT FOR PUBLIC AFFAIRS AND SECRETARY OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. WELLER. Thank you, Mr. Chairman. I do appreciate the opportunity to be here before the subcommittee this morning. I will endeavor to keep my statement [1] short, although there are several major points that the farmer cooperatives would like to express comment on.

The National Council of Farmer Cooperatives is a nationwide association of cooperatives which are, of course, owned and controlled by farmers.

We are pleased to have in this membership all 37 banks in the Farm Credit System. We feel that it is in the best interests of all American farmers and ranchers that they have a ready supply of sound, adequate and constructive credit and financial services. It is for that reason that the farmer cooperatives have asked me to appear here before you this morning.

We have said during the past 2 days that no Federal money have been allocated to this privately funded system for more than 10 years. And the legislation before you today has not asked for any Federal appropriations.

---

[1] See p. 235 for the prepared statement of Mr. Weller.

The National Council of Farmer Cooperatives is pleased to support this legislative package as it has been debated, deliberated and approved by the Farm Credit System. And we ask that it be reported out in the form developed over the past year or year and a half.

Many of these are housekeeping points that are necessary to update and amend the Farm Credit Act of 1971.

Let me touch on several major points that we feel very strongly on: One is cooperatives' eligibility. We support this proposal. We support the proposal to ensure that farmers will retain control of their cooperatives while allowing the Farm Credit System, the banks for cooperatives specifically, to maintain the service necessary to the cooperative organizations.

I might add here that each of the 12 Farm Credit districts will have the option to raise the eligibility level if they so desire. What you are considering here today is a Federal minimum.

Let me touch on the land bank loan limitations from 85 percent. We think and know that it is a complement to the current direction of the Farmers Home Administration and support such increased lending flexibility for the Farm Credit System. We think it is in the right direction.

Let me touch on the subject of processing and marketing financing. The facts of an inflated economy demand a new look into traditional modes of financing modern farming operations. And this provision addresses that issue. As family farming operations have grown more sophisticated, many have turned to neighboring farmers to join in joint ventures. We have specific examples in our office of poultry farmers who have formed joint ventures to finance egg processing and packing operations; of diversified farmers who have joined with neighbors to build fruit cold storage facilities and family farm units who add to their annual income by working with neighbors on community sawmill operations, for example.

All of these joint operations are benefiting the family farmer, and we support any effort in that area.

There has been some concern by farmer cooperatives that such residual authority as is addressed here would permit farmers to join in joint ventures without the benefit of a bona fide cooperative organization. We share that concern, but have been assured by the Farm Credit System that this is not the intent. And we support their efforts in this area.

Let me touch on export financing. If you read the Washington Post yesterday, you know that no aspect of U.S. agriculture today is more important to the Nation as a whole than the positive trade balance earned through commodity sales to overseas customers—25 million metric tons of grain that benefit both of your States and I am sure will mean a lot to us.

The American farmer would like to do more of this exporting himself. He would like to retain title to his grain and agricultural exports longer. He would like to gain greater dollar return on his commodities. We feel the American farmer can do this through his already organized cooperative organizations, as Mr. Layton said earlier this morning.

But farmer cooperatives need the assistance of the banks for cooperatives, and the banks for cooperatives need the legislative

assistance of you gentlemen this morning. And we ask that you consider this favorably.

The proposals before you would permit the banks for cooperatives to follow the farmers' products beyond the U.S. borders into foreign ports, merchant houses and government storehouses.

Our farmers have asked us: "Why are cooperatives not handling our foreign sales?" "Why are our cooperatives not offering the same services as large international trading companies?" And we would like to answer that in an affirmative way. We would like to have that authority.

We also understand that this will encourage more farmer-owned cooperatives to enter the export market, and this would provide obvious benefits for both farmers and our Nation.

Let me touch on another area that has come up here repeatedly, and that is in the incorporation of bank services. We have been told that this would give rise to the chartering of an insurance company to provide collateral and credit life insurance to Farm Credit System borrowers.

This is not the intent of this provision. As you know, under the Farm Credit Act of 1971, insurance authority has already been granted to the Farm Credit System.

If insurance is offered, it is offered to protect the loans in the Farm Credit System. And in order for this to be changed, this committee would have to prohibit or restrict the authority already in the 1971 act. We certainly do not see any need for that.

In closing, Mr. Chairman, we feel this legislative package has been debated and deliberated by the banks and by the farmers and feel that it deserves favorable approval.

With that, I would offer any answers to any questions you may present.

Senator ZORINSKY. Thank you, Mr. Weller.

With regard to the proposal relating to cooperative eligibility, what does the eligibility problem for cooperatives mean to farmers and other rural residents?

Mr. WELLER. Well, I think in the case of lowering this eligibility, we have one major area that we want to protect and that is that farmers, the actual producers have full control over their cooperative organizations. Obviously, they would under 260-percent minimum.

No. 2, we feel very strongly that we must give flexibility there to allow the banks for cooperatives to continue to serve cooperatives. And in the case of some rural utility cooperatives, they are being stretched beyond the current limits. This is a district-by-district authority. They can keep it at 80 percent if they like or lower it to 60.

Senator ZORINSKY. Could you explain to the subcommittee what, if any, other sources of credit are now available to cooperatives which are presently ineligible for assistance through the banks for cooperatives?

Mr. WELLER. Ineligible for assistance?

Senator ZORINSKY. Yes.

Mr. WELLER. Well the cooperatives have sources of—I am not sure I fully understand. We can go to commercial banks as well as the cooperative banks.

Senator JEPSEN. Are you saying that insurance companies and things like that?

Mr. WELLER. Yes, and do, of course, yes.

Senator ZORINSKY. Do you have a question?

Senator JEPSEN. No, I am sorry, I was just trying to get at it.

Senator ZORINSKY. What services cannot now be offered to cooperatives?

Mr. WELLER. In the way of financial services?

Senator ZORINSKY. Yes.

Mr. WELLER. Senator Zorinsky, we would like to work with both the commercial banking sector and banks for cooperatives, but we would like the banks for cooperatives to be able to follow the cooperative loans and financial services as broadly as we think is necessary to serve the American farmer. If it is beyond the geographical borders of the United States, we think we should have that authority to do so.

If it is beyond the geographical boundary of a farm in Nebraska or Iowa, we think they should have the authority to do so as long as the beneficiary is the American farmer. In specific areas, I think the bill addresses specific areas, the processing and exporting area.

We would like to have that authority. We think very strongly that it is necessary to help the family farmer.

Senator ZORINSKY. Thank you.

Senator JEPSEN. With regard to availability of loans for on-farm storage, the farmer wants to put up a $20,000 bin and he normally would probably go to his local banker; is that the way it goes?

Mr. WELLER. I think so. He would still have the authority to do that if he wants to.

Senator JEPSEN. On the other hand, if he went to his local banker and along with, say, seven or eight of his fellow farmers and said, "We are going into a joint venture to put up rooms for chicken plucking," or something like that. The chances are they would be a little bit hard pressed for that local banker, and they do not look at that with a very warm eye, the type of risk venture with several people involved in the loan. A person can go and get a loan, individually, and go ask for the same loan for a partnership, partnerships often fall apart and so on. Is there the same availability and accessibility to farmers who want to develop processing and a general system of marketing?

Mr. WELLER. The issue here, I think, Senator Jepsen, is whether, indeed, an individual farmer would have the wherewithal to get the loan to set up an operation on his own. And in many cases he would not have the collateral necessary or the equity necessary to get that loan. But if he joined in a joint venture, he could bring in and share this loan liability with other farmers in the area to set up an operation that would directly benefit his particular farming operation.

Now, we understand that regulations will be promulgated by the Farm Credit Administration that would set up a 20-percent minimum producer-throughput guideline which cooperatives feel they can live with, and we support that.

No. 2, I think we have to look at the fact that maybe the small rural bank, and I think you alluded to this, do they have the wherewithal to make that loan, whereas the systemwide PCA and

land bank system districtwide would have the ability to make that loan?

Again, we are trying to serve the family farmer in the best way possible, and agriculture is fast changing.

Senator JEPSEN. I am pleased to see the emphasis on the specific addressing of marketing and processing. The American farmer is doing a very excellent job of producing and a poor job of marketing.

Mr. WELLER. We agree with you.

Senator JEPSEN. One last question: In this foreign export financing, making deposits in foreign banks, receiving credit balances, buying and selling, purchasing time drafts and engaging in currency exchange, are all of these services available presently—are they not presently available from commercial banks?

Mr. WELLER. They are, Senator Jepsen. Let me address it. I am glad you brought that up. They are, in most cases, available for the larger cooperatives, the Farmland Industries, the Land O' Lakes, the co-ops you are aware of, but are they, indeed, available to the smaller cooperatives? We say they might be available, but if you are a smalltime borrower from a large bank, a large commercial bank or money center, do you get the same service that you would get if you were a large cooperative?

Now, there are two things to consider here. Are these open and available and on a sufficient and economical manner to the smaller co-op? We think maybe not. We would like to see our own system provide this service, not necessarily in competition with but to supplement the large commercial banks. We think very strongly that this would help the farmer in the long run.

What underlines this whole matter to you people here today and yesterday is the word "competition." Will you allow competition into this market?

We think we can provide the competition that cooperatives have provided for years in helping the American farmer and the American consumer. Competition in insurance is necessary. Competition in the export trade is necessary. It is a very important fact to consider here.

Senator JEPSEN. I have a little trouble following that. I hear you. If you would change it and say you would like to see the producer end up with a better part of his share, or more of a fair share for his investments and his efforts, his family labor and so on, then I feel very comfortable. But you have to be careful about competition. We are trying to understand and work with both sides.

Mr. WELLER. Yes, sir. I fully realize that.

The cooperative philosophy, and the reason for a cooperative is that if there are any returns on the business, they are returned to the farmer investors only, in one way or another. Maybe they decrease the interest rate. Maybe they decrease the cost of doing business or they come back in dividends, in some form back to help him.

What I am saying is when we go out and get business, the producer-owners of that cooperative benefit. If it is not, the co-op is not doing a good job for him.

This is what underlies my statement there, the whole history of trying to do business.

We are not a profitmaking system. If a cooperative has any returns, they go back to benefit the producer-owner, or we would not have any reason for being.

Senator ZORINSKY. Thank you. When Senator Jepsen and I are going into the chicken-plucking business, we are going to be looking for a soft loan.

Thank you.

Mr. Reuben Johnson, the legislative director for the National Farmers Union.

STATEMENT OF REUBEN L. JOHNSON, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. JOHNSON. Mr. Chairman, I had the privilege of testifying yesterday in Memphis, Tenn., at a House Agriculture Committee hearing on a bill similar to the bill before this subcommittee. I am going to be saying the same thing to this subcommittee that I said in Memphis.

We have had witnesses at other House hearings in Hutchinson, Kans., this week. We have had witnesses in Aberdeen, S. Dak., including president Ben Radcliffe. We will have witnesses at all of the House hearings and if you pursue the matter further here, we intend to be represented.

We do appreciate the opportunity to appear. We in the Farmers Union have a long history of support for the credit agencies authorized by the Farm Credit Act of 1916. The need for the agency was obvious at that time and it continues to be obvious.

I have attached an excerpt from the Farmers Union 1979 statement of policy.

I would like to have my entire statement in the record.[1]

Senator ZORINSKY. Without objection it will be.

Mr. JOHNSON. Thank you, Senator.

Mr. Chairman, I would like to turn immediately now to address some of the proposed amendments.

First, I would like to discuss the proposed amendment which authorizes the FCA agencies to charter corporations under present law. There are services provided, such as recordkeeping, equipment leasing, or at least authorized, not currently in vogue in many areas, real estate appraisal service, and the sale of casualty and liability insurance, credit life insurance, and crop, fire, and hail insurance.

Mr. Chairman, if you will note from the policy statement, our delegates have strongly objected to the FCA agencies engaging in the sale of insurance except for credit life.

The language that was adopted in the amended 1971 act which purports to authorize the sale of insurance is rather vague. At that time it was certainly not intended or understood by any of us in the general farm organization sector that sale of insurance would be authorized by the language included. In fact, we were assured to the contrary. And, yet, we have found ourselves with an active program in some areas which puts the FCA in competition with private insurance companies, and we object to that.

We do not think a credit agency sanctioned by the Federal Government has any place in the private insurance sector.

---

[1] See p. 239 for the prepared statement and attachment submitted by Mr. Johnson.

Senator JEPSEN. May I interrupt this? This is an additional dimension. You are saying, with the exception of credit life insurance that availability is part of the planning?

Mr. JOHNSON. Well, credit life insurance is a common insurance of all borrowers to protect the amount of the loan. We do not have any problem with that.

Now, this chartering of corporations raises a question in our mind as to whether the long-range implications may be that FCA would be getting further into the business by forming an insurance company. They are big enough. They have enough borrowers and enough business to certainly warrant them into the business. They have assured us that that is not the intent but, again in 1971, they assured us it was not the intent of the law to sell insurance. So we have some questions about it.

Senator ZORINSKY. Mr. Johnson, may I interject this?

Yesterday, Governor Wilkinson and Mr. Lundsgaard gave the subcommittee their assurances that the legislation neither gives them the authority nor is it their intention to use the incorporation of systems service entities to incorporate insurance companies. In view of that statement, would the Farmers Union be satisfied with the Farm Credit System disbanding insurance activities beyond what was specifically authorized in 1971 Farm Credit Act?

Mr. JOHNSON. That does not satisfy us, Mr. Chairman, for the reasons I have just cited. The 1971 act was not supposed to put the Farm Credit agencies into the insurance business.

I have not reviewed the language but, as I recall, it is very vague and I even question whether or not it has been interpreted correctly—whether it does in fact authorize it. But, in any event, before the practice becomes more widespread than it is currently, we think it is time that action be taken to stop that activity.

Mr. Chairman, let me move on to the amendment which exempts the FCA agencies from the Truth-in-Lending Act. Glen Hight, Farm Credit, St. Louis office, is in the room. We had a big debate over at the Subcommittee on Consumer Affairs on truth in lending. Glen keeps winning the battle in the Senate but I keep whipping him in the House.

The Senate has approved twice a bill that would exempt agriculture credit from truth-in-lending provisions. But we have a little thing going over in the House, there is a certain Member over there—a chairman—and we have been able to prevent that legislation from passing.

We would like to urge you not to exempt agricultural credit from truth-in-lending provisions. In this day of computerized technology, of course, the co-op lenders know exactly what the bottom line interest rate is. We do not think there is any problem with that. And I might add, we are especially concerned that you will not exempt other lenders from the Truth-in-Lending Act. The Farm Credit Administration provides, approximately a third of the credit to farmers. That is what Glen said in his debate. That is a lot of money. And we are pleased. But two-thirds of it comes from other lenders that if you exempt agricultural credit from truth in lending these private lenders would also be exempt. Therefore, we have some questions about it, and ask you to protect the borrowers—all farmer borrowers.

The third amendment I want to address, and I will move along rapidly, is that of making loans to finance processing and marketing enterprises. We raise some questions about it.

Would the making of such loans, which would require additional capital in the system—rather sizable additional capital—some farm borrowers complain that we have a shortage of capital now—interfere in any way with the making of traditional loans?

Would the authority which this amendment would extend result ultimately in the Farm Credit agencies making loans to businesses for processing and marketing, moving away from the farmer clientele that it has traditionally served?

Would the extension of such authority interfere with the lending operations through the bank for cooperatives which include loans to groups of farmers for processing and marketing purposes?

I want to talk about the amendment which would authorize the bank for cooperatives to finance export transactions, including the making of deposits in foreign banks, holding and receiving credit balances from banks overseas for borrowers, and buying time drafts.

International banking is a complicated business. We know that banking institutions which engage in international banking have a huge network of overseas offices.

Mr. Chairman, if we can do anything to enhance the farmer's opportunity to market his crops overseas, we want to do it.

However, we question whether we are at a point where a move in this direction would serve a worthwhile purpose. If it would, it would certainly be a step in the right direction.

Senator ZORINSKY. Do you support expanding the international climate for exports?

Mr. JOHNSON. We are very pleased that President Carter has opened up the opportunity for expanding overseas grain sales.

I am going to skip my fifth, sixth, and seventh amendment commentary. Except just let me say one word about the usury law. When I was in Memphis, I learned that the State of Arkansas has a usury law that sets a limit of 10 percent on interest rates. Well, you know, that sounds pretty good these days. There is an exemption that applies to these State laws currently in the law as applied to Farm Credit agencies. The real problem as we view it is that that amendment is needed in the first place. Hopefully, we can look to efficiencies and savings within our Farm Credit System, which would keep interest rates below the level of other credit sources. I am not sure this is the case in all instances. FCA agencies go to the same money market that every other private lender goes to. The amendment is obviously needed, particularly in tight money periods we are experiencing now. I want to make the comment, however, that the problem is the fact the amendment is needed in the first place. But we have to live with the situation.

Mr. Chairman, I am going to move now to the last part of my statement. I want to make a few comments on the employee administrative changes that are proposed. This bill would remove FCA employees from classification requirements of the Office of Personnel Management, but it would continue the salary ceiling of the general schedule currently set at $47,000.

53-579 O - 80 - 7

FCA under this proposed amendment would be able to establish its own requirements for qualification for positions within the agency; to set salaries of the Farm Credit Administration Governor and Deputy Governors within the perimeters of the executive schedule; to be exempt from Federal travel, procurement and property regulations; to be permitted portability of sick leave and retirement between Farm Credit System, district retirement plans, and the civil service; and to increase the per diem of the members of the FCA Board to the daily equivalent of that prescribed for GS-18, and I just learned it is——

Senator JEPSEN. $182.

Mr. JOHNSON. There appears to be some contradiction in these amendments.

Spokesmen for the Farm Credit Administration have expressed considerable pride on occasion on the autonomy of the agencies—the fact that no Federal funds are appropriated to sustain the agencies' operations is often cited as a major accomplishment of the Farm Credit Administration.

The conflict, as we see it, is between the amendments that would further exempt FCA employees from classification requirements of the Office of Personnel Management and exempt the FCA from other Federal regulations, and the amendment to allow for portability of sick leave and retirement between Farm Credit district retirement plans and the civil service retirement system. These amendments move in the opposite directions. The committee, therefore, may want to give consideration to procedures in this connection which are consistent and, at the same time, reflect sound management policy.

I might add that Congressman Maddington raised the question in Memphis about this, and pointed out we have 500 Federal agencies sanctioned by Congress and operate under the Federal Government regulations of this kind, and that there might be a break in precedent here to exempt one agency from the regulations that apply to others.

I have not commented on all the amendments, some of them, obviously, we support. There are some Washington observers that I have talked to who characterize the changes in this bill as moving the Farm Credit Administration and its agencies in the direction of so-called full service banking institutions. Whether this is good for farmers depends on the extent to which these agencies depart from the historic mandate of Congress to represent and serve the ready credit needs of the Nation's farmers.

We urge the committee to consider the comprehensive changes that are proposed and whether they are consistent with objectives.

Thank you.

Senator ZORINSKY. Thank you, Mr. Johnson.

I notice in your policy statement excerpts that reference is made to activities of CFCS banks in asserting "undue influence upon persons of insurance coverage by their patrons."

Do you have any documentation to support that statement?

Yesterday we asked the Farm Bureau and the Grange to submit similar documentation.

Mr. JOHNSON. Mr. Chairman, we have made some effort to document some of these activities. However, I think we are going to find it rather difficult to accomplish it.

A farmer standing and waiting in a credit institution with his hat over his rearend, shifting his weight from one foot to another, is not in a very good position to negotiate with his lender who wants to sell him insurance. I do not think he is going to be in a very good position to trot down to the public square and accuse his FCA agency of coercing him to buy insurance even if they did it.

Senator ZORINSKY. Possibly we might find one who has paid off his debts and is retired and would no longer be subject to that.

Mr. JOHNSON. Did you ask the Farm Credit witnesses that question on whether or not they are engaging in pressure tactics with the borrowers?

Senator ZORINSKY. Yes.

Senator Jepsen, do you have any questions?

Senator JEPSEN. Along this same line, I asked if they had received any commission and I think their answer was an unequivocable no, but I did not ask specifically.

To the best of your knowledge, are they licensed to sell, and do they get commissions for selling casualty and liability insurance?

Mr. JOHNSON. I presume they operate just like any other agency with commission.

Senator Jepsen, we are in the insurance business in Farmers Union. This is the only business that we have ever been able to run as a farm organization where we have made any money.

I have decided that if you could lose money in the insurance business, Farmers Union would have figured out how to do it and been out of the business years ago. The State insurance commissioners will not let you get to a point where you are not as responsible a carrier of insurance that you sell to citizens of Iowa or any other State. Is that not correct?

Senator JEPSEN. That is absolutely correct.

Mr. JOHNSON. Now, that being the case, it is not exactly unusual that the Farm Credit people would want to get into the insurance business. They have got, after all, a line of operations that puts them in a most advantageous position to sell insurance. Therefore, the temptation is there for them to want to get into the business.

Senator JEPSEN. It is not very easy to get into the insurance business today. Most States, the laws and the insurance commissioners, with the rules and regulations and the equity you have to have and so on, really say, "We do not want any more insurance companies."

Mr. JOHNSON. Of course, the question of farm credit, what their people are doing currently is that they are acting as agents for another company or companies.

Senator JEPSEN. That was my question: If they act as an agent, do they, in fact, get paid a commission and make some money on the transaction?

Mr. JOHNSON. I would not think they would be interested in getting into the business if that were not the case.

Senator JEPSEN. In the pure sense of business, if you want to buy insurance you can get it, as you know, a direct rider, there will be no commissions to individual agents. I understand and appreciate

the problem; they do not like that. I am talking about the industry business where you get a direct rider relationship between someone. They could provide a direct underwriting relationship where they would receive, or not receive it.

Mr. JOHNSON. Perhaps you ought to ask that question of the Farm Credit witness.

Senator ZORINSKY. Mr. Johnson, to get back in perspective myself, do you have any figures available as to how much insurance they are selling as compared to how much insurance your groups are selling?

Mr. JOHNSON. No, I do not, Senator. And I doubt very seriously if that information is available except through the Farm Credit Administration.

The practice, even within the Farm Credit System, is somewhat controversial I think, because you do not have universal sales of insurance within the System.

Senator ZORINSKY. Just looking at the share of the market.

Mr. JOHNSON. I have no figures on that. I think at the current time, it must be relatively small in terms of percentage of the total market.

If it is the desire of this committee to make a change in the practice, I think now is the time to do it. Certainly you do not want to wait until they get more heavily involved.

In this connection, Mr. Chairman, I just happen to have an amendment I would like to provide you with, which has some nicely worded language which would accomplish what we think ought to be done in this regard. Senator Jepsen, I have one for you too.

Senator ZORINSKY. I am sure this will not be the last time I will see this amendment. [Laughter.]

Mr. JOHNSON. I might add that we have had that in our files for some time.

Senator ZORINSKY. I am sure you have long before I even came to Washington.

Thank you very much, Mr. Johnson, for appearing before us.

Senator ZORINSKY. Our final witness is Mr. Robert Carson, farmer and board member of the Production Credit Association, Mississippi.

STATEMENT OF ROBERT CARSON, BOARD MEMBER, PRODUCTION CREDIT ASSOCIATION, MISSISSIPPI

Mr. CARSON. Thank you, Mr. Chairman. I have a formal statement that has been submitted.[1] I have one copy here before me if you do not have one. But there were others that we put in the room here.

Senator Zorinsky. We will enter it in the record.

Mr. CARSON. My concern to you is one not to come up and read you a statement. You can read as well as I can and I do not need to encroach on your time. You read it in your free time, if you have any.

With your indulgence here this morning, I admire both of you gentlemen for what you go through day after day up here. So much of the testimony this morning has dealt with whose ox is getting

[1] See p. 242 for the prepared statement of Mr. Carson.

gored, and very few have said anything about how this is going to benefit the farmer.

I am a dirt farmer. I can substantiate that. I serve on boards that are financed by FICB's, by Rural Electrification, by bank cooperatives, and I left off one which is the largest financer of my operation on the land I bought, the Federal land bank. I should have put that in there. I did not do it.

But, Mr. Chairman, would you believe it, I also serve on the board of a $40 million national bank in the rural community in which I live?

So, I can wear many hats, if you like. I see both sides of the question. But my concern is the bottom line to the farmer.

Now, you have got a good bill here. If you did not have a good bill, you would not have any opposition to it. If you do not have any opposition, it is not helping anybody. Forget it. Tell the committee to adjourn and write it off. But when you have got a good bill, people are going to oppose it. Let us face that.

You know, I am not so smart. My Congressman from the district in which I live in Mississippi taught me a lot. He is a very astute, among other things, politician, and he taught me a lot of things. And some of the things that I have cited to you already about, "Don't insult me" and so on and so forth.

But we have got to get down to the point of what the bottom line to the farmer is and what he can best get out of it. Now, I submitted a statement that Mr. Jones had before his committee in Memphis today, copies of those are available through our Senators and Congressmen here in Washington now. But we must find out which service can best serve the farmer, the man down there in the trenches doing the work. All of the rest of these things are just part of the system. But I am talking about that small minority that has become so efficient that they are outproducing themselves and, consequently, we have to go into the export market to get a return—a fair return.

I was amazed this morning, just to digress a minute, to hear the Secretary say we are going to have $40 billion worth of exports this year, and the television people were saying, "Well, would not the price to consumers be cheaper if we did not export this food?"

Now, Mr. Chairman, we need to educate this public, the television media or somebody, because who is going to pay the farmer's bills if he cannot get a fair return? We can talk about that, you and I, some other time. Let us move on with this.

I am speaking really in behalf today of a fertilizer chemical company, of which I sit on the board, the Mississippi Chemical Corp. We manufacture roughly 2 million tons of fertilizer each year. About 250,000 tons of that product goes into export, and we do it in the off season or the off market time simply to keep the plant operating at capacity because fertilizer manufacturing is a hard bargain and a low-profit business. And you run your facilities to keep it going. We need the export business.

At the present time, we are exporting without the help of bank for cooperatives. At the present time, we have these services provided by outsiders. This question has been here all morning: Can you get these services? Can you get these services? Yes, sir, we can. But, I say to you, we could buy fertilizer before we organized this

company. But you would be amazed what the organization and success of this company has shown the American farmer about what the price of fertilizer should be.

I think the chairman can understand what I am talking about.

So, let us not look at who is going to have what my Congressman calls "a fair advantage." Let us look at equal advantage to all of these credit sources.

If the Farm Credit System can provide me crop financing at an equal cost and a better service; if the bank for cooperatives can provide us with export information and handle it financially at an equal cost or better service, then give these organizations a chance to do it.

Farmers all over this country will tell you that the longer they have some control over their product, it looks like the return gets a little bit better. Because when you lose it in the field at harvest time, whatever is made on it, somebody else is getting it. They can lose on it too, but the farmer is the first to lose on it if it is that bad. But we need the opportunity to have these parts of this bill enacted.

It is not effective, if it is not cost saving, if it does not bring it down to the bottom line on returns to the producer, the farmer is not going to use it. He is no fool. He has got a lot more sense than people give him credit for.

The same thing about the insurance program. I personally—I told Mr. Jones this in my testimony—do not buy one nickel's worth of insurance from the Farm Credit System. I can get it better on the outside, better service and maybe at a better rate under the present circumstances.

I am president of an association, chairman of the board of an association, as you see, in Mississippi. There is no coercion about selling insurance. People would be foolish to try to force somebody. You know, you can get financing elsewhere. You do not have to go to Farmers Credit.

Mr. Chairman, please enact this bill, as submitted. Give it a chance to work. Give us an opportunity to see and let competition determine which source people want to buy. We need the bill, Mr. Chairman.

I thank you for your time. I had a lot more to say, but you are busy and the hour is getting late. Do you have any questions?

Senator JEPSEN. Yes, I do. Your last statement, I heard you say again that really there is no coercion. The witness prior to you listed the types of insurance they do have available.

Mr. CARSON. Yes, sir.

Senator JEPSEN. He listed hail, casualty insurance, types of insurance that need personal service. So I am going to take it a little deeper. I want to ask you, to the best of your knowledge, is the insurance that is available in the casualty area, everything except credit life; credit life is kind of a final sort of thing. A person is dead. But the other stuff, like judgment services and expertise, there is sophistication involved. Now, I have asked the question, do you get paid commissions? Do any of your people get paid commissions? One of two things is happening. They say no, we do not get paid commissions and we do not make any profit.

Who is paying for all of the services that must be rendered, adjustments, to measure the buildings and walk off the fields, and do all these things?

Mr. CARSON. Mr. Chairman, I can assure you, Mr. Jepsen, I can assure you there is no coercion whatsoever on credit life. You do not have to buy credit life.

Senator JEPSEN. I am not talking about that. You learned well from this politician friend of yours. You are not answering my question.

Mr. CARSON. Your question is who gets paid for these services. Is that what you are asking me?

Senator JEPSEN. Leave out credit life. Casualty——

Mr. CARSON. All right, sir, I will tell you about our particular deals. There may be some individuals in some associations in some districts who may persuade, but in the farm district that I am in, and in the PCA that I am in, there is no coercion, no force, no encouragement to buy insurance. The commissions that are paid are not paid to the individual employee. They come to the association and offset operating costs which, in turn, can mean a lower interest rate to producers or farmers.

Senator JEPSEN. So there may be commissions that are paid?

Mr. CARSON. Commissions are paid by the underwriters or the people who have the insurance. Certainly they pay back to somebody. There are commissions paid for this type of thing. What they are, I have no idea, but I am sure they are in the realm of what the other insurance companies pay. There is no free lunch. The members know that. There is no free lunch. Somebody is going to pay for something. But the commissions or the margins made on the sale of insurance come back into the total, not to an individual who is in that particular thing. Today he may be consulting on insurance and tomorrow he is closing a loan or making an investigation.

Senator JEPSEN. That is the thing I am exploring. In other words, do you have on your board an expert in making loans and going out and estimating what percentage of crop damage has been done after a hail storm?

Mr. CARSON. No, sir, we do not now write that type of insurance. The crop insurance people write the hail. We are not involved in that. If we got involved in that, I would say we would have to have some type of adjustment program. I think Congress eventually would come up with an encompassing crop insurance program that would take care of this aspect of it. No, sir, we do not write hail insurance.

Senator JEPSEN. This is provided very well.

Mr. CARSON. I am not saying that it should come from the Federal.

Senator ZORINSKY. Mr. Carson, I appreciate your appearance at the hearing. I am going to find myself that speech school that you and John Stennis go to so I can——

[Laughter.]

Mr. CARSON. No particular school. We just try to come up and tell, kind of like a sermon on Sunday. You enjoy the preacher much more when he looks at you and he does not read everything. We may not agree and I may not say everything you want to hear,

but at least I am looking at you and I can read your reactions and you can read mine.

Senator ZORINSKY. Thank you. This hearing is recessed until 9 o'clock Tuesday morning.

[Whereupon, at 11:50 a.m. the hearing recessed to reconvene at 9 a.m., Tuesday, October 9, 1979, in room 324, Russell Senate Office Building.]

FARM CREDIT ACT AMENDMENTS OF 1979

TUESDAY, OCTOBER 9, 1979

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 324, Russell Senate Office Building, Hon. Edward Zorinsky (chairman of the subcommittee) presiding.

Present: Senators Zorinsky, Hayakawa, and Jepsen.

Also present: Senator Pryor.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Good morning. Welcome to the third and last of the hearings on S. 1465, the Farm Credit Amendments of 1979. Last week the Subcommittee on Agricultural Credit and Rural Electrification heard testimony on this bill from the Farm Credit Administration, the U.S. Department of Agriculture, and various farm organizations.

Today we will continue the hearing process to receive testimony from more Farm Credit System witnesses and a representative of the Independent Insurance Agents.

On our first panel today we have Mr. Edward M. Rast, a farmer and production credit association national committee chairman; Mr. R. Bardin Redditt, secretary-treasurer of the Federal land bank national committee; and Mr. Rolf Haugen, vice president, finance division, Land O'Lakes, Inc.

Would you three gentlemen please come to the table here and be seated.

Inasmuch as we do have a long list of witnesses this morning, we will be adhering to our 5-minute rule. If you could summarize your statements as briefly as possible, which would enable us to take more time with questions and answers, we would appreciate it. Your statements will be entered into the record of this hearing as if presented in full.

And, with that, would you like to begin?

STATEMENT OF ROLF HAUGEN, VICE PRESIDENT, FINANCE DIVISION, LAND O'LAKES. INC.

Mr. HAUGEN. Yes; I would.

Mr. Chairman and members of the committee, my name is Rolf E. Haugen. I am here today as chairman of the Banks for Coopera-

tives National Committee of the Farm Credit System. The national committee is a group of individuals elected or appointed from the Farm Credit districts to represent the cooperative borrowers of the System.

The purpose of the committee is to assist the Federal farm credit board in being responsive to the needs of the System by providing borrower input on services, programs, and policies. We feel this committee has been very effective in its role as many recommendations have been implemented within its relatively short, 9-year period of existence.

By profession, I am the chief financial officer of Land O'Lakes, Inc., a Midwest cooperative that serves nearly 200,000 farmers. It should be noted that I am not testifying on behalf of Land O'Lakes, but rather the 3,200 cooperative borrowers and their farmer-owners across the Nation.

Before proceeding, I would like to express my appreciation to you for the opportunity to present the borrowers' views on this very important legislation. Further, the borrowers would like you to know the importance we place on the Farm Credit System and the appreciation we have for the earlier legislation that made it all possible.

The Banks for Cooperatives National Committee addressed each of the changes included in the Farm Credit Act Amendments of 1979, S. 1465. While all the amendments were endorsed by our grassroots committee, I would like to take time to emphasize our support of three of the changes that are of the utmost importance to cooperatives and their farmer-owners. They are: cooperative eligibility, export financing, and leverage lease financing.

Regarding cooperative eligibility, the existing Farm Credit Act requires cooperatives to have at least 80 percent, 70 percent for utilities, of their voting control in the hands of farmers to be eligible to borrow from the System. This concept of farmer control is sound.

However, under the one-man-one-vote voting rules, this can cause hardships, and does in many of our smaller, locally based supply cooperatives. This hardship comes about usually as a result of the local cooperative being required to serve rural communities' needs as well as farmers. It is important in most cases to meet these total needs to make the operations economically feasible as well as to serve those who are providing local services to the farmers.

In the experience of the St. Paul district, the 80-percent voting rule has resulted in some local cooperatives not being eligible to borrow from the bank for cooperatives. Other cooperatives have had to restrict their operations and as a result have not efficiently served either their community or farmer-owners.

The second item I would like to discuss is that of export financing. Under the current act, the banks for cooperatives do not have the authority to serve the export needs of their borrowers. They may finance only domestic activities and capital needs.

The proposed amendment, S. 1465, would allow the banks to engage in export activities for their cooperatives and provide them with those services necessary to enable, expedite and encourage their export activities. Examples of some of those services would

include the arrangement of foreign credit, foreign currency exchanges, operating funds for foreign subsidiaries and financial transactions through and with foreign banks.

As you may know, several U.S. cooperatives have recently entered into a partnership arrangement with four European cooperatives to own and operate an international trading company. Land O'Lakes, Inc. is involved in this foreign-based organization. It was put together principally to export the production of U.S. farmers.

Unfortunately, the Federal Farm Credit System was not able to assist us in the financial arrangements due to their lack of authority under the current act. Funding and service arrangements have now been made with foreign banks. I feel the Farm Credit System could have been of significant assistance to the U.S. cooperative partners had the proposed amendment, S. 1465, been in effect.

The last item I would like to address is that of leverage leasing. As you know, leverage leasing is a relatively recent form of financing which allows for significant leveraging of leased property by the lessor-owner. This tool has not been generally available to cooperatives using the banks for cooperatives as a debt source because of the lack of authority under the existing act. This has placed them at a competitive disadvantage. In order to adequately serve our farmers, it is essential that cooperatives be able to use this method of financing as provided in S. 1465.

It is indeed a rare occasion when we can recommend legislation that has the following advantages:

First, it involves no taxpayer costs.

Second, it will improve the economic well-being of our Nation's farmers.

Third, it will strengthen our economy by improving the U.S. balance of payments.

I sincerely urge you to give the Farm Credit Act Amendments of 1979, S. 1465, your favorable consideration.

Thank you.

Senator ZORINSKY. Thank you, Mr. Haugen.

STATEMENT OF EDWARD M. RAST, CHAIRMAN, NATIONAL PRODUCTION CREDIT ASSOCIATION COMMITTEE

Mr. RAST. Mr. Chairman and members of the subcommittee, my name is Edward M. Rast, chairman of the national PCA committee, and am testifying on behalf of this committee. For further identification purposes, I am a farmer and raise cotton, soybeans, and corn near Cameron, S.C. I am chairman of the board of directors of Orangeburg Production Credit Association, which has an approximate membership of 400, with a loan volume of $16 million. I am also a member-borrower of the Orangeburg Federal Land Bank Association and am currently serving on the PCA district advisory committee of the third Farm Credit district.

As you can see, I am closely acquainted with the Farm Credit System. And I appreciate this opportunity to present the PCA national committee views concerning S. 1465, the Farm Credit Act Amendments of 1979.

I am sure that each and every member of this committee realizes the important role agriculture plays in our Nation's economy. Agriculture is this Nation's largest industry in terms of assets, biggest

employer, and the largest exporter of products. We all realize the important role credit plays in agriculture. Without the continuing availability of adequate credit on terms suited to agricultural needs, farmers cannot continue to supply this Nation with food and fiber.

The Farm Credit System has and is playing a great role in helping agriculture become very efficient. But there is a great challenge ahead for all of us. Economists predict that agriculture will have to double food production in the next 20 years, and we know that demand for agricultural credit will continue to grow.

If our System is going to meet future credit demands, and if we are going to maintain our record of progressive lending, then we must update and broaden our farm credit laws. The Farm Credit Act Amendments of 1979 bill as introduced is necessary for the production credit system, Federal land bank system, and banks for cooperatives to keep pace with the growing needs of farmers, ranchers, fishermen, and their cooperatives. Saying it in a simple way, gentlemen, we have got to get on the ball.

I will be speaking today on the amendments that affect the production credit system, since I am most familiar with those items. While I am familiar with the other amendments that affect the Federal land banks and banks for cooperatives, there will be others who will speak on these that are more familiar with them than I am.

I am particularly interested in the amendment which will allow production credit associations to finance processing and marketing activities for farmers and aquatic borrowers. This will fill a real credit need and allow borrowers to enhance their income by extending their businesses closer to the point of consumption.

With the cost of energy skyrocketing, it is very important for farmers, ranchers, and fishermen to acquire or improve processing or marketing facilities for their agricultural production. It is anticipated that farmers and fishermen who are currently eligible to borrow from PCA's will use their established line of credit with this institution to finance the nonproduction activities of their business that do not now qualify for PCA borrowing.

Under existing authorities, good PCA borrowers who have expanded into processing and marketing have had to rely on other sources of financing that did not offer terms or rates comparable to those from PCA's. This situation created an undesirable split line of credit that was not good for the borrower or lender.

It is not anticipated that this amendment will lead to great expansion in processing and marketing activities, but rather would lead to more effective financing for existing farmers and aquatic borrowers. The end result will be successful farmers who have been helped by the sound use of credit.

There are additional features of the bill which would do much to improve the Farm Credit System, such as permitting land bank loans for more than 85 percent of the appraised value of real estate when guaranteed by a Federal agency or a State government. Other important items are member eligibility for BC financing and the financing of agricultural export transactions by the banks for cooperatives.

I also feel that the amendments expanding the present participating arrangement that PCA's now have with commercial banks and the items expanding the FICB's ability to finance other financial institutions will benefit farmers, ranchers, and aquatic producers. The needs of agriculture in the future are such that it will take all lending institutions in the Farm Credit System working together to provide adequate financing.

I have special interest in several other amendments in the bill. It is imperative that we clarify and reaffirm that lending by PCA's is exempt from State usury laws. Since loanable funds are obtained from the sale of bonds on the world money markets, we have to pay the market price for money. Because of the law of supply and demand, our rates are high at times and some States have usury statutes with rates lower than what we sometimes pay for loanable funds.

It is obvious that PCA's cannot lend money at a lesser amount than it paid for the funds. The cost of funds to borrowers by PCA's is always as low as operating expense and maintenance of legal reserves permit. I remind you that PCA's exist for the purpose of providing dependable credit to farmers and low State usury laws could jeopardize this dependability.

Gentlemen, agriculture cannot endure credit that is turned off and on as interest rates go up and down. A steady supply of loan funds has and will continue to be essential to farmers as they produce and market food and fiber.

Another amendment that is needed to help prepare our System for the future is delegation to the Federal Farm Credit Board the authority to set salaries of the Governor and Deputy Governor of FCA. This amendment would also allow FCA to manage salaries and employee qualifications below the Deputy Governor level. These changes would help the Farm Credit Administration recruit, hire, and retain qualified people to supervise the systems. With the demands that will be placed on Farm Credit in the future, we have got to have good people to run our System.

Gentlemen, in the interest of time, I will not review every item in the bill. But I want you to know that I support the overall package. I want to emphasize that this legislation did not come about overnight. It is the result of much research, intensive study, and hard work by many people. Starting with the grassroots of the System, which is the advisory committees, which I represent, this legislation has progressed through the legislative task force, the policy coordinating committee, and finally was approved by the Federal Farm Credit Board.

During the many months of deliberation and consultation, certain concessions were made by the PCA's, FLBA's, and CBC's. For instance, the PCA's wanted to extend loan terms to 10 years and 3-year balloon payments, and certain districts wanted to drop the two nominee requirement for director elections. These items, of course, were deleted from the final bill and there were other items deleted also. I can truthfully say although everyone did not get what they wanted, the System is unified on this legislative initiative. Support is unanimous throughout the Farm Credit System for this bill.

I have a son that has recently joined my farming operation, and I certainly hope that Farm Credit will be in a position to help him in the future as it has helped me for the past 25 years. Gentlemen, available credit is the greatest contributing factor in American agriculture today. The American farmer is the lowest paid member of our society for the amount of work he does and for the products he produces.

I am marketing cotton, corn, soybeans, and small grain for the same price I got in the 1960's. The cost of producing crops has increased 50 percent, and the cost of land has doubled. Because food is a necessity of life, it has to be available to every American at a reasonable price. It is my opinion that passage of this legislation will provide the System with the tools needed to finance the American agriculture of the future. It is for this reason that I urge this committee to take favorable action on this bill. It is of great importance to every farmer, and it deserves your close attention.

I want to again express my appreciation for your allowing me to appear in support of this important legislation.

Senator ZORINSKY. Mr. Redditt, would you care to make an opening statement?

STATEMENT OF BARDIN REDDITT, REPRESENTING THE FEDERAL LAND BANK ASSOCIATIONS NATIONAL COMMITTEE

Mr. REDDITT. Thank you, Mr. Chairman.

I am Bardin Redditt from Greenwood, Miss., representing the Federal Land Bank Associations National Committee. Our committee is composed of one representative from each Farm Credit district representing land bank borrowers of that district. It is our function to present the Federal board grassroots input on items for consideration by the Federal board. We feel that this grassroots line of communications to the top policymaking body of the Farm Credit System has been instrumental in strengthening the Federal land bank system as we know it today.

I am also one of nine stockholder representatives on the New Orleans District Federal Land Bank Associations Stockholders Committee. This committee acts as liaison between the borrowers and the association to bank management and the district board. Both of these committees are purely advisory.

I am a borrower of the Federal Land Bank Association of Greenwood, Miss., and the chairman of its board of directors. My other affiliations with Farm Credit financed institutions includes being a board member and vice president of a co-op cotton gin, a director of a cooperative farm supply and grain facility, and a PCA borrower.

Primarily, I am a farmer interested in the cooperative Farm Credit System and the Federal land bank in particular. I sincerely appreciate the opportunity to present my views as a member of the Federal Land Bank Associations National Committee concerning Senate bill 1465, the Farm Credit Act Amendments of 1979.

I previously submitted a written statement to your committee, which details our views on the major legislative amendments pertaining to the Federal land bank and the Federal land bank associations.[1]

[1] See p. 243 for the prepared statement of Mr. Redditt.

At this time, I will not review these proposed amendments in detail, but will give you some general impressions concerning the proposed legislation; and, at the conclusion of this general summary, I will be happy to further discuss my views or answer questions.

The legislative initiative, as submitted to Congress, is the best thinking of the Farm Credit System at this time. Many proposals to amend the act were considered by various boards of directors and committees across the country. Of all the suggestions submitted from various segments of the Farm Credit System, 28 items finally evolved as the consensus position of the entire Farm Credit System.

To my knowledge, the Federal land banks and the Federal land bank associations, as well as all of the other entities in the Farm Credit System, are unified behind these 28 legislative proposals. Each part of the Farm Credit System has submitted those items which it thinks would best serve its needs.

We are reasonably sure that everyone is not totally satisfied. However, I can say on behalf of the Federal Land Bank of New Orleans and the Federal Land Bank Associations National Committee this is the best effort that can be offered at this time to improve the Farm Credit Act of 1971.

The primary purpose of the legislative package is to afford an opportunity for each Farm Credit System entity to offer more efficient and effective credit services to its borrowers, which will eventually serve the best interest of the American public. We must be prepared to move into the 1980's with progressive, dynamic lending organizations if we are to satisfy the credit needs of farmers in the coming decade. For this reason, the legislative package being proposed must meet the requirements of the coming decade, and we feel that it does.

The Federal land bank pays its own way. The funds we borrow are not guaranteed by the Federal Government. We recognize that the public interest must be served through a strong supervisory posture, and we, the borrowers, pay for the cost of supervision of our system.

The land banks are major farm mortgage lenders. The Federal Land Bank of New Orleans holds over 37 percent of all of the farm mortgage debt in the district. We consider ourselves to be a major lending institution and are a part of the competitive American agricultural system. There is no other segment in the American economy that is more competitive than agriculture. In fact, farmers purchase most of their production inputs at retail and sell what they produce at wholesale. They compete with industry for raw materials and for labor.

Because of the efficiency of agriculture, the American people are now spending about 17 percent of their disposable income on food. This is certainly a bargain when compared to other nations, such as Russia, where 50 percent of disposable income is spent on food.

In general, farmers feel that they are providing food and fiber to the consuming public of this Nation at bargain prices. At the same time, we are feeding a large part of the rest of the world. Because of the nature of agriculture and the competitive nature of farmers in general, farmers feel the American public is at a distinct advan-

tage. American agriculture has played a major role in maintaining the high standard of living that we have become accustomed to. In many countries, wealth is measured by the amount of food available to its people. If this is true, we are indeed the richest Nation on Earth.

I feel that the enactment of this proposed legislation will give American farmers an even greater opportunity to continue to provide food and fiber to the consuming public at bargain prices. Farmers must have a strong credit system if they are to continue their substantial contribution to the economy and our increasing high standard of living.

The major opposition that I have heard concerning this legislation was from groups or individuals who do not want us, the farmers, through our credit institutions, to compete with them.

Mr. Chairman, the Federal Land Bank Associations National Committee is grateful for the opportunity to express its views to you. It was a real pleasure for me to be able to be here and visit with you concerning a subject that has been close to me all of my adult life. I have used the Farm Credit System for a number of years, and, had it not been for this progressive credit system, I would not be able to conduct my farming operation in the manner I am doing today. The Farm Credit System is one of the reasons for the success I have achieved. American farmers and the public need the Farm Credit System. With the passage of this legislation, we shall achieve even more. The Federal Land Bank Associations National Committee solicits your support of this legislation.

Thank you, sir.

Senator ZORINSKY. Senator Hayakawa, do you have any questions?

Senator HAYAKAWA. I would like to hear more discussion before I ask questions.

Senator ZORINSKY. Mr. Haugen, on Friday, October 5, representatives of the American Bankers Association testified that they were concerned that the language giving the bank for cooperatives authority to perform loan servicing and financial services related to international transactions is so broad as to give the banks for cooperatives a distinct advantage over commercial institutions, especially with regard to the types of financially related services to be performed. Could you comment on that inference?

Mr. HAUGEN. I do not understand exactly what you are getting at.

As I understand what we are proposing, it would be for no more than what is currently in effect with commercial banks now. They have other advantages we do not have. Our position here, with the bank for cooperatives being the lead bank, they should be allowed to compete with other banks. We share our loans with commercial banks as cooperatives. We should be allowed to share other services as well.

Senator ZORINSKY. In your testimony, you mentioned that the inability of the banks for cooperatives to engage in leveraged lease transactions has placed them at a competitive disadvantage. If this is true, who is holding the competitive advantage over the banks for cooperatives in these types of transactions?

Mr. HAUGEN. Right now, private sources of debt. Examples of these would be insurance companies, banks, and the like. They have the advantage.

But the real problem is that the borrowers, the cooperatives, would not be able to use the lower cost bank for cooperative funds and would be at a disadvantage. I think, too, if the bank for cooperatives were going to be competitive and serve the needs of the borrowers, they should have this tool in order to serve them efficiently and effectively.

Senator ZORINSKY. Do you know how many cooperatives stand to benefit from the lowering of the eligibility requirements for cooperatives to receive assistance from the banks for cooperatives?

Mr. HAUGEN. No, I really do not. I am sure it is not the majority, because this is geared to the smaller, local cooperatives and also some of the electrical cooperatives. As we mentioned earlier, this is really important, to keep those cooperatives alive. This is to help mostly the smaller cooperatives that serve rural needs.

Senator ZORINSKY. Mr. Rast, why should cooperative Farm Credit System member institutions be treated differently than other institutions with respect to State usury laws and Federal/State truth in lending disclosure requirements? Mr. Haugen just mentioned equity and having equal opportunity to serve members.

Mr. RAST. State usury laws have a particular purpose and design. The Farm Credit System has proved we do lend money at cost. We do not overcharge our borrowers. The interest is higher. We charge all our members the same interest, and usury laws are designed to really keep bankers from taking advantage of the borrowers with different interest rates.

In the Farm Credit System, we do not have different interest rates. Usually, within the association. Everybody pays the same interest rate. If you borrowed $5,000, or $500, or $500,000, your interest rate would be the same.

You might not experience this in a local bank.

We feel that usury laws which would establish a set interest rate on a State level affects the borrowing capacity of members of our System. And because we feel that our System keeps its interest rates out in the open and they are approved by district boards, we feel the usury laws should not apply to Farm Credit members or borrowers and we should come under Federal regulations.

Senator ZORINSKY. With regard to the proposal authorizing Federal land banks and production credit associations to finance processing and marketing activities, why is it appropriate to allow different Farm Credit districts to establish different minimum throughput requirements?

Mr. RAST. We feel that we have, you know, like the shrimp business, we have some crops that probably have a high production rate compared to lower production rates. We feel that some of the regulations should be given to the district boards to control what throughput we might have in, let us say, a facility that we might be able to finance. Whether the farmer would have to process 50 percent, 60 percent, or 100 percent, we feel the district board should have the responsibility to determine how much of the product he would have to process before he could qualify for an onfarm

processing operation. We feel it would normally be, I would think, over 70, 80 percent, or maybe 100 percent.

Senator ZORINSKY. Is there any evidence that commercial banks are not adequately meeting the need for this type of financing?

Mr. RAST. I do not have any documented evidence. I do know situations whereby we get involved in loaning money for equipment, commercial banks in most areas of our country do not have the financial reserves, maybe, to finance a half-million-dollar business. We do experience the fact that he might limit his financing to $100,000 or $50,000.

The Farm Credit System, we try to finance the total business. Many banks cannot finance the tremendous amount of money that agriculture requires, especially in sophisticated equipment that might have to be bought for a processing facility.

We do not think that banks—I do not personally think banks absolutely do not want to finance it. I think they have a limit as to how much funds they would have available to finance it.

Of course, if we could finance processing and marketing of farm products that are produced, the member would be better served. He would not have to have a split line of credit. If we could service this particular operation completely, we feel it would be better for our members.

We do not anticipate every farmer putting up a soybean crushing plant, or whatever. But we feel we have some farmers, a few, that do need this type financing.

Senator ZORINSKY. In your testimony, you mentioned consideration of production credit associations doing 10-year loans. I understand that this proposal is receiving mixed reactions in Congressman Jones' field hearings on their version of the Farm Credit Act Amendments. Could you comment on this proposal?

Mr. RAST. There has been quite a bit of controversy and discussion on this particular item. The National PCA Committee supports this legislation as it was submitted. We have discussed 10-year loans. We have had some discussion of 15-year loans. We feel as we go into the year 2000 in the next decade, with the increase in the cost of machinery for production of agricultural products, we feel that the longevity or life expectancy of this equipment will increase and, under certain conditions, and not very many, we may have to make a loan of a longer period.

And we feel that maybe this 10-year loan should be a provision given to Farm Credit to utilize in certain special loan situations or member situations where it would better serve the member to have a longer time to pay off this type of loan.

Senator ZORINSKY. Mr. Haugen, I believe it has been established that the changes in the Farm Credit Act which have been proposed by the Federal Farm Credit Board represent a consensus of the various segments of the Farm Credit System.

Some co-op people say that they have some concern about a provision relating to loans that land banks or PCA's could make to individuals for grain elevators, cotton gins, packing plants and other processing and marketing facilities. Their concern is that farm credit funds could be used to finance processing and marketing activities without regard to the interests of large groups of farmers through their cooperatives, without regard to the experi-

ence and interests of the banks for cooperatives, and perhaps in ways that would tend to turn back the progress that co-ops have made through the years.

Can you tell me what your advisory committee recommended and what safeguards or limitations were proposed with regard to this kind of financing?

Mr. HAUGEN. We met last April. The committee recommended that there be a 20-percent-throughput requirement placed on this kind of financing. We also recommended, or we also realized, however, at that same time, that it was essential to come forward with a total agreement on the type of legislative package to be offered. We did feel, however, that we would drop that issue if we could be assured within the Farm Credit System that the kind of controls we felt should be built in, would be. We have received evidence that tells us the controls are there, and we will work hard to make sure that they are maintained.

Senator ZORINSKY. Can you enumerate the controls that are there?

Mr. HAUGEN. Yes.

The authority under which this will be carried out is actually governed by regulations. We have seen the draft of those regulations, and we have also felt the pressure that some of the cooperatives are placing on this issue. So we are certain that those drafts will become real in the regulations. And we are certain that the cooperatives themselves will monitor and make sure they are carried out.

In the seventh district, the local board there has gone on record favoring 25-percent throughput to be eligible for that kind of financing.

Senator ZORINSKY. Thank you.

Mr. Redditt, in your testimony you touch on the expansion of the aquatic lending proposals. I would like to ask you if you can give the subcommittee an indication of how much more financial assistance the system will make available to fishermen if this proposal is adopted.

Mr. REDDITT. This is a problem that we have not experienced to any significant degree in our district.

However, this need appears to be centered primarily around the Springfield District. My knowledge is what I have gathered at our committee meetings. What I know about that particular aspect is that producers and harvesters of aquatic products are eligible. Most of the financing has been of a medium-term nature. There appears to be a need for long-term loans. As to the amount, I really do not know how much more financial assistance would be made available.

Senator ZORINSKY. You also indicated your support for the proposal relating to the incorporation of system service entities. As the proposal is now written, the so-called service entities would be chartered by the Governor of the Farm Credit Administration. Why should such service corporations not be chartered under State law like most other corporations?

Mr. REDDITT. Mr. Chairman, I do not feel adequate to be able to answer that other than to say that the present system of organization of these service entities for the Farm Credit System appears to

be a little cumbersome and burdensome. The corporate form would be a more streamlined method of handling this type of service.

Senator ZORINSKY. Do you know of any precedent for allowing a Federal agency to grant a charter to a corporation which performs services for a nongovernment institution?

Mr. REDDITT. No, I do not.

Senator ZORINSKY. Senator Hayakawa?

Senator HAYAKAWA. First of all, I would like to ask an extremely broad question. There is the Federal Land Bank System, the Farm Credit Administration, the banks for cooperatives, Farmers Home Administration, production credit associations. How do these all relate to each other? Are they products of separate pieces of legislation?

Mr. REDDITT. The Federal land bank was set up in, I believe, 1916. In the 1930's, the production credit associations were formed. And I do not know about the BC's. For the Federal land banks, Federal intermediate bank, and the bank for cooperatives, the fiscal agent provides the funds.

Senator HAYAKAWA. These are the three branches of?

Mr. REDDITT. The Farm Credit System.

Our funds are abtained from the investing public. They are not guaranteed by the public in any way. And our supervisory agency, the Farm Credit Administration's budget, is paid for by the System itself.

Senator HAYAKAWA. Now, where does the Farmers Home Administration fit in?

Mr. REDDITT. It does not.

Mr. RAST. It is a different system altogether.

Senator HAYAKAWA. All right.

Now, the proposed legislation in S. 1465 amends the Farm Credit Act. That applies to all these, then?

Mr. RAST. The Farm Credit Act of 1971.

Senator HAYAKAWA. It will permit them to improve their services to borrowers.

Mr. RAST. Right, that is the idea.

Senator ZORINSKY. If you will permit me to interrupt, in my opening remarks, I commented that, for a refreshing change, this bill will not cost the taxpayers of this country any money. I think that is highly unusual.

Senator HAYAKAWA. Extraordinary.

The bill then would reduce from 80 percent to 60 percent or such higher percentage as the district boards may establish the level of control that must be in the hands of farmers, producers, or harvesters of aquatic products, or other eligible cooperatives, to enable a cooperative to borrow from a bank for cooperatives.

The present requirement is that 80 percent of the district boards have to be farmers?

Mr. RAST. Right.

Senator HAYAKAWA. And you like more——

Mr. RAST. Rural America is moving out into agricultural America. Rural America is not agriculturally oriented. They would be a member of that cooperative because he uses their facilities. But he would not be a farmer.

We feel 60 percent would still give a majority. We would still have a majority of farmers controlling the cooperatives in the Farm Credit System.

Senator HAYAKAWA. In the third title of the explanation, it says, "empower the Federal land banks and the production credit associations to make loans to farmers, ranchers and producers or harvesters of aquatic products for financing basic processing and marketing directly related to their operations and those of other such farmers, ranchers and producers or harvesters of aquatic products. Has that not been done before? Is this novel?

Senator ZORINSKY. Has aquatic financing ever been done before?

Mr. RAST. It is new.

Senator HAYAKAWA. You refer to fish and shrimp?

Mr. RAST. Right, and possibly some other product we might harvest from the sea. Fishing boats are expensive, they go out on the high seas and get outside the legal limits of this country. And we have a lot of problems financing this type thing. We find some aquatic producers need a longer term.

Senator HAYAKAWA. To whom have they had to turn before?

Mr. RAST. I really do not know, local banks or other financial institutions, whoever they could get the money from.

Senator HAYAKAWA. Then, the next section, "authorize the banks for cooperatives to finance transactions for the exportation of agricultural or aquatic products by American cooperatives which are borrowers from the banks." This, to me, is a very important part of this. The whole purpose is to encourage export, is it not?

Mr. RAST. Yes, we would like to be able to finance our exporting. It gives our members a tremendous boost to realize some of the tremendous profits made by foreign grain companies because the members of the cooperatives and the whole System share in all of the profits. It is a nonprofit type organization. It is our intent to get as much of the profits back to our members as we possibly can.

Senator HAYAKAWA. I am interested in this especially because I am highly aware if it were not for our enormous agricultural exports from all over the country, we would have a much, much higher trade deficit than we do.

Mr. REDDITT. This legislation would also, to my understanding, bring the services that our cooperative banking system performs in the United States more in line with what foreign cooperative banking services do for their cooperatives.

Senator HAYAKAWA. I see. So other nations do have these cooperatives——

Mr. REDDITT [continuing]. That do provide this service on an export business. That is my understanding.

Senator HAYAKAWA. Another thing, another amendment authorizes the land banks to pay patronage refunds and to issue equities to Federal land bank associations to evidence capital contributions to the banks. This would give the land banks power to pay patronage refunds to borrowers, an authority which production credit associations and banks for cooperatives already possess.

This is a patronage refund in the same sense as supplier cooperatives would have?

Mr. REDDITT. The authority we have now, if we pay a dividend, it would be on the amount of stock the individual owns. However,

due to several factors, the contribution to the net profits is not always in line with the amount of stock a man owns.

In a land bank, they have a few 4.5 percent loans on the books. We feel it would be unfair to pay a man a dividend on his stock when another man is paying 8 or 9 percent. We would like to have the authority to pay a refund which would be consistent, rather, with that person's contribution to the profits.

Senator HAYAKAWA. That is very good.

I think I understand Senator Zorinsky's question about the truth in lending. You said that the provision really should not apply to land banks. That means, well, that means that the farmers themselves are the boards of directors, are they not? Therefore, there is no particular purpose to be served in untruth in lending.

Mr. REDDITT. We do not feel like we need to be under truth in lending because of our past record and the number of regulatory agencies that must approve our interest rate. What the legislation proposes is that the Farm Credit System be only subject to the Federal truth in lending. We do not want the several States to have differences in their truth in lending practices, and we would be required to maintain different standards according to the States. We would like to be just under a national, Federal truth in lending.

Senator HAYAKAWA. Are the State laws more demanding?

Mr. REDDITT. They could be.

Senator HAYAKAWA. Is it just the fact they are different from State to State?

Mr. RAST. Some States do not have any usury laws. I represent Georgia, Florida, South Carolina, and North Carolina. Because we serve these four States, it is hard to serve a usury law for each State. We feel it should come under Federal control. Most districts cover more than one State.

Senator HAYAKAWA. There is a question I would like to ask, and it would have to be based on your broad general knowledge. How does this affect California?

Mr. RAST. California is a right aggressive State. They produce a lot of fresh products out there. They want to process and have ready for the market right off the farm. They like to have it wrapped up in cellophane. This is onfarm processing, you know. We want to be able to finance that.

Senator HAYAKAWA. Because of the high level of mechanization of our agriculture, the needs for financing are intense.

Mr. RAST. They are very sophisticated. They require more out of their land because it is limited. They do go in for a lot of fruits and vegetable production.

Senator HAYAKAWA. Does that require higher capital investment?

Mr. RAST. Right.

We feel that the member would be better served if he could get his financing from one source instead of having to borrow some from a local bank here; and, if the bank does not have enough funds to finance the amount of money that this processing facility, for this particular farm, might need, he will have to go to another bank. Then we have a member financed by three financial institutions. It creates problems, when we can serve it all.

Senator HAYAKAWA. I have to ask this question: Are we having loud squawks from the private banks about this?

Senator ZORINSKY. I do not know how you would define loud, but we have had squawks; yes.

Mr. RAST. Senator Hayakawa, competition is what makes our country successful. We feel we should be able to compete. If we did not have competition in this country and I had all the tomatoes or vegetables to sell, we would probably be meeting in my board room instead of here.

Mr. REDDITT. Let me add to that, please.

We are not here trying to obtain the right to have depositors deposit money with us. We are not here making an attempt to have insurance companies get out of the long-term lending business on the farms.

We are here trying to make our cooperative loan system more effective and more efficient for our member-borrowers. That is our sole motivation.

And I challenge anyone to really question that seriously. Mainly we are trying to provide service for our farmers of this Nation more efficiently and more effectively.

Senator HAYAKAWA. When you say this is not going to cost the taxpayers anything, where does the funding, then, come from? I understand the funding is returned. These are loans.

Mr. REDDITT. The investing public purchases the bonds, et cetera. We have a fiscal agent in New York City who sells these bonds. They have an extremely fine reputation in the financial world. The regulatory agency's budget is picked up by the system itself. The original Government capital that was used to start the System has been fully repaid. The farmers that use the System own and pay for the System.

Senator HAYAKAWA. It requires no large Federal bureaucracy to keep this System going?

Mr. REDDITT. If you go to FCA over in L'Enfant Plaza, there are not too many people over there. And they are doing a good job of keeping it running.

Mr. HAUGEN. And they are not federally funded.

You asked how the California people felt about this legislation. Actually, California is represented on each of the committees that we meet with every year. Individuals representing California voted in favor of this legislation on each of these committees. So I am certain the State of California would be well served by this legislation.

Senator HAYAKAWA. Thank you, Mr. Chairman.

Senator ZORINSKY. You commented that it would enable the farmers to get all their loaning capacity from the Farm Credit System rather than having to split it up between some small banks and the Farm Credit System. If what you say becomes a reality and all the small banks are shut out because all the farmers would be able to deal with just one entity, what will happen to the small banks?

Mr. RAST. I think the small banks would fare better.

The Farm Credit System is qualified to handle agricultural loans. Some small banks are, but not many of them that I know about. They do not have people trained in agricultural loans. I feel

that the funds small banks have will be needed by other members of our society, other people than farmers, in buying homes, automobiles, kitchen appliances, and whatever else that would use up the funds that the banks would normally put into an agricultural processing operation.

Agriculture demands such vast amounts of money. I feel a small bank would better serve itself to let Farm Credit handle the large volume loans. I think the small volume loans would consume whatever money Farm Credit would have taken from them.

Senator ZORINSKY. Thank you very much, gentlemen. I appreciate your appearing at the hearing and providing us with your valuable input.

Senator ZORINSKY. I would now like to invite to the table William S. May, president, Federal Land Bank of Wichita, Kans.

I would like to indicate that the subcommittee will be submitting additional questions in writing to the Farm Credit Administration receiving the answers as quickly as possible for inclusion in the record would be appreciated.

Mr. May, we welcome you to our hearing. Inasmuch as we do have a time constraint, I would appreciate a summation of your statement. Your statement will be included in the record in its entirety.

STATEMENT OF WILLIAM S. MAY, PRESIDENT, FEDERAL LAND BANK OF WICHITA, WICHITA, KANS.

Mr. MAY. Thank you, Mr. Chairman. I appreciate the fact that Senator Hayakawa is here from the leading agricultural State in this Nation as far as income is concerned.

Mr. Chairman and members of the subcommittee, I am William S. May, president of the Federal Land Bank of Wichita, which serves agricultural producers in four States in the very heart of the Nation's wheat and livestock belt. Although farmers and ranchers in those four States are frequently victims of the vagaries of weather and the fickleness of wheat and livestock prices, they alone produced enough wheat this year to supply the total needs of this entire Nation for food, with plenty remaining to seed next year's crop. They are foremost among the producers whom I serve and for whom I speak.

As a product of a family farm in that extensive agricultural area, and as a former 4–H Club boy who weathered the Depression and Dust Bowl hardships through the State agricultural university, I welcome and much appreciate this privilege and opportunity to present to this committee my views and those of the Federal Land Bank of Wichita concerning S. 1465, the Farm Credit Act Amendments of 1979.

My 38 years experience directly in the Farm Credit System, occupying numerous positions serving rural people, personally making hundreds of farm and ranch appraisals, and committing millions of dollars in loans en route to the presidency of one of the System's great agricultural banks provide the background and experience leading to my support of this legislation.

The Federal Land Bank of Wichita, the very first among 12 such banks chartered 62 years ago, holds a record 40 percent of the total farm mortgage debt in Kansas, Oklahoma, Colorado, and New

Mexico. Through its 44 local associations it now has outstanding more than $3 billion in long-term farm real estate loans to 52,000 farmers and ranchers, and will close about 10,000 new loans this year requiring $725 million in new lending.

The Wichita Land Bank is a typical bank and integral part of the Farm Credit System which aggregately provides approximately $50 billion or roughly one-third of the total agricultural credit of this Nation. All of this lending is with private money. None is provided by the Government. Neither does the Government guarantee the bonds nor bear the supervisory costs of this System.

Mr. Chairman, I surface these points first to point out and commend the vision and wisdom of the Congress over a long period of years in creating and nurturing the very reputable Farm Credit System, and, second, to emphasize that continuing increases in capital and service requirements of the agricultural industry make advisable the passage of S. 1465 to enhance the stability and well-being of agricultural producers and thereby be in the public interest without any cost to the taxpayer.

Periodically the cooperative Farm Credit System has expressed the need for, and the Congress has responded with, legislative amendments and fine tuning to keep abreast of changing conditions. I believe the proposals in S. 1465 are ideas whose time has now come. And I should like to endorse them in total and address a few of the principal ones specifically.

Cooperative eligibility.—This fine tuning proposal broadens the service of banks for cooperatives by lowering the farmer-member eligibility requirement to 60 percent from the present 80 percent—70 percent in the case of rural electric cooperatives—each district board would retain the option to set a higher percentage.

This would enhance rural development in our district by making eligible for BC loans more of the rural electric cooperatives whose memberships are trending toward a lesser majority of farmers in view of increasing numbers of rural residents who are not farmers.

Eighty-five percent lending limitation.—Beginning in 1971, the Federal Land Bank of Wichita, through joint and participation lending with the Farmers Home Administration, has made hundreds of helpful farm real estate loans each year to low equity and higher risk borrowers, primarily to young farmers entering or expanding agricultural enterprises. Other banks of the Farm Credit System have had similar good experience.

Recently, however, the FmHA has shifted away from such participation loans in deference to guaranteeing loans made by private lenders. Consequently, Federal land bank credit requirements and a lending limit not to exceed 85 percent of appraised value preclude the Federal land banks serving, alone, the usual high credit needs of such borrowers.

This proposed legislative amendment would enable Federal land banks to continue serving many of them by permitting loans in excess of 85 percent of appraised value of real estate security where guarantees are provided by governmental units. Such guarantees could be extended by Farmers Home Administration, Small Business Administration, and certain State governmental agencies. The guarantee feature, in effect, would supplement the low collat-

eral equity of higher risk yet worthy borrowers without impinging on system lending standards or diluting bond collateral.

Processing and marketing activities.—This amendment would broaden eligibility of bona fide farmers for financing by Federal land banks and production credit associations to include processing and marketing activities directly related to applicant's operations and those of other bona fide producers. Again, each district board would have the authority to specify policies for implementation to avoid increasing competition in areas served by cooperatives.

Expanding the scope of this lending by the system in our district could well result in farmers having better, more efficient processing and marketing facilities, thereby improving net income.

Banks for cooperatives export financing.—We urge the enactment of this proposal authorizing banks for cooperatives to finance agricultural export transactions where a U.S. cooperative is a primary beneficiary. We believe the time is ripe for the American farmer to promote and share more abundantly in the benefits derived from our expanding and vital exports, and that this can best be accomplished by permitting his bank for cooperatives to offer financial services to facilitate international trade.

We heartily recommend this proposal as a logical step toward bringing the American producer, through his cooperative system, closer to the foreign purchaser of his products to effect a more efficient and profitable channel of trade.

Senator ZORINSKY. Mr. May, I understand Senator Hayakawa must leave. He has a conflict with another hearing.

We in the Senate have a unique ability to schedule several hearings, but all at the same time. God never provided a way to get to all at the same time.

Senator HAYAKAWA. If you will excuse me. Thank you very much for your testimony.

Senator ZORINSKY. Please proceed.

Mr. MAY. FCA related proposals.—As one who served for several years on the Washington, D.C., staff of the Farm Credit Administration, I understand fully the absolute necessity, yet recognize the great difficulty, in recruiting and maintaining top quality leadership and supervisory personnel on the Farm Credit staff here in Washington.

It is fitting that this leadership should gravitate upward from among the 12 district entities of the Farm Credit System. However, that is virtually precluded by the salary ceilings, travel and personal requirements imposed under existing laws and regulations. Proposals under S. 1465, Farm Credit Act Amendments of 1979, would relieve this near critical situation and would entail no cost to the U.S. Treasury, since all of the expenses ultimately are paid by the System's borrowers rather than by U.S. taxpayers.

Mr. Chairman and members of the subcommittee, there are other proposals in S. 1465 of somewhat lessor but yet important significance than these I have specifically addressed. However, these: (1) Cooperative eligibility requirement; (2) 85 percent lending limitation; (3) financing processing and marketing activities of bona fide farmers; (4) export financing; and (5) Farm Credit Administration personnel restrictions are foremost among the proposals, all of which are designed to permit the long-established, reputable coop-

erative Farm Credit System to serve even better the financial and related needs of the Nation's agriculture.

The enactment of this legislation, in my opinion, will definitely be in the best interest of the public also, and will not cost the Treasury or U.S. taxpayers 1 cent.

Gentlemen, on behalf of the Federal Land Bank of Wichita, and as its president representing its board of directors and 52,000 borrowers, I am grateful for this opportunity to express our views before this subcommittee and to endorse and encourage the enactment of S. 1465.

I shall be pleased to respond to any questions you might have.

I might allude to the matter of 10 year loans that someone mentioned. This is a matter that is still in the consideration stage among the banks of our System. Presently we do not see an urgent need for it now. If it surfaces further, the system may come forward with a proposal of this kind. Presently we think the service as a whole is satisfactory.

Thank you, sir, for this privilege.

Senator ZORINSKY. Thank you, Mr. May.

Do I interpret your testimony correctly when I would say that you do feel that this proposal goes far enough to meet the needs of young and low-equity farmers?

Mr. MAY. Yes, I do. We are doing the very best we can.

Senator ZORINSKY. It would also help if we could change our inheritance tax laws.

Mr. MAY. Yes, sir. The passing of this land from one generation to another is a tremendous problem under our tax situation, when you realize that 75 percent of all the investment in agriculture is in the land and it has tripled in value in the last decade. It is a repository for the wealth of a great segment of our Nation.

And remember, an army travels on its stomach. We are the best fed country in the world.

Senator ZORINSKY. It is difficult enough to pay for a farm once, let alone to have to sell it to pay for it again.

Mr. MAY. Much of our lending is to heirs.

Senator ZORINSKY. Do you know of any coercion of PCA and Federal land bank borrowers to purchase collateral insurance sold by these associations?

Mr. MAY. Coercion?

Senator ZORINSKY. Yes, sir, intimidation.

Mr. MAY. No, sir, I do not.

Senator ZORINSKY. Or linkage.

Mr. MAY. No, sir. It is strictly on a voluntary basis. We are just acting as agents to advise them, to say, look, you want to be sure you are insured. I do not think there is any intimidation at all, sir.

Senator ZORINSKY. What happens to commissions? Do they go to the employee's commission?

Mr. MAY. This goes into the association. This does not go to the salary, but into the assets of the association, to help to cover its overhead cost, thereby helping them to lend just as cheaply as possible.

Senator ZORINSKY. The commissions go into the association.

Mr. MAY. Yes; as any other fee collected.

Senator ZORINSKY. Then that becomes part of the funding to offset the cost of doing business, which would reflect in the interest rate.

Mr. MAY. Or anything else, if it is sufficient to do so.

Senator ZORINSKY. Well, thank you very much, Mr. May, for an articulate presentation, and certainly one that comes from experience.

Mr. MAY. Thank you, sir.

Senator ZORINSKY. Mr. Daniel J. Morrissey, executive vice president, Lohman Bros. Insurance Agency, representing the Independent Insurance Agents of America, Inc., accompanied by Jeff Yates, counsel.

Welcome, gentlemen.

STATEMENT OF DANIEL J. MORRISSEY, EXECUTIVE VICE PRESIDENT, LOHMAN BROS. INSURANCE AGENCY, REPRESENTING THE INDEPENDENT INSURANCE AGENTS OF AMERICA, INC., ACCOMPANIED BY JEFF YATES, COUNSEL

Mr. MORRISSEY. Mr. Chairman, in the interests of saving time I will summarize my prepared remarks and ask that the full text of my written statement be included in the hearing record.[1]

Senator ZORINSKY. Without objection, so ordered.

Mr. MORRISSEY. Mr. Chairman, my name is Daniel J. Morrissey. I am an independent insurance agent with Lohman Bros. Agency in Geneseo, Ill. I am also farm consultant to the Independent Insurance Agents of America, Inc., a trade association comprising 34,000 member insurance agencies and nearly 126,000 insurance agents in all 50 States and the District of Columbia. With me today is Jeffrey Yates, IIAA's general counsel.

The subcommittee's consideration of the Farm Credit Act Amendments of 1979, S. 1465, provide an opportunity for Congress to scrutinize a part of the Farm Credit System entirely unrelated to credit that we believe exceeds the 1971 Farm Credit Act's limits and is not in the best interests of America's farmers or unaffiliated small insurance agencies.

I speak of the production credit association and Federal land bank association crop-hail and collateral insurance programs under which Farm Credit institutions in certain districts have been authorized to sell virtually every type of property and casualty insurance coverage with the exception of automobile, in spite of the clearly expressed congressional intent in 1971 that these coverages be strictly limited and offered only when similar service is not adequately provided in terms of cost, quality, and availability by unaffiliated businesses in the community.

Congress hotly debated the sections of the Farm Credit Act of 1971 that would permit PCA's and FLBA's to sell insurance as a financially related service. In an effort to reach an accommodation on the issue, the conferees agreed to limit strictly the lines of insurance that PCA's and FLBA's could sell because of the competitive advantages these institutions would have over unaffiliated small businesses, and because of the conferees' fear that these institutions would be diverted from their primary function of extending agricultural credit.

---

[1] See p. 248 for the prepared statement of Mr. Morrissey.

The conferees concluded that:

* * * the sale of liability insurance, and any insurance on passenger automobiles, is not necessary and incident to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. Thus, credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral.

In spite of this report language, PCA's and FLBA's have been authorized to offer liability coverages as part of farm owners' and homeowners' packages and have read the collateral restriction out of the report language by defining collateral to be any asset where:

* * * loan repayment reasonably may be considered to be jeopardized if such assets are not protected by insurance.

In addition to the conference report language, numerous other documents which contributed directly to, or became a part of the act's legislative history, including a November 3, 1971, letter to Senator Talmadge, the report of the Commission on Agricultural Credit, the Federal Farm Credit Board policy statement on financially related services, and Farm Credit Administration regulations, carefully assessed the competitive advantages PCA's and FLBA's enjoy and recommended restraints and requirements designed to minimize the adverse effects those competitive advantages would have on farmers and unaffiliated small businesses.

All of these reports are fully documented in my prepared remarks, and I urge this subcommittee to study them carefully.

In spite of the clear findings and recommendations of these reports and the recommendations of Congress as expressed in the 1971 conference report and floor debate, PCA and FLBA insurance programs have been authorized with absolutely no showing that comparable insurance services are not being adequately provided by unaffiliated businesses in the community in which the particular PCA and FLBA operates.

We believe that S. 1465 should be amended specifically to require that before the Farm Credit Administration can authorize a Farm Credit institution to offer insurance as a financially related service, it must make a finding, after due notice and opportunity for a hearing on the record, based on the preponderance of the evidence contained in the factual record, that similar service is not being provided adequately in terms of cost, quality, or availability by others in the particular community being served by the Farm Credit institution.

The statute should also require, in addition to notice in the Federal Register, that notice of each such application be published in at least two newspapers having general circulation in each of the trade areas in which the particular association does business. Such notice would summarize the application of the association and would invite interested parties to submit written comments on the availability of the particular lines of insurance that are the subject of the application in terms of cost, quality, or availability.

Such procedures would assure that the Farm Credit Administration's own regulations are carried out and that the decision to authorize a particular insurance service is based on credible evidence as to what is available in the insurance markets in the particular community.

The establishment of meaningful procedures to make the need determination has been IIAA's central goal in comments and letters submitted to the Farm Credit Administration repeatedly since 1972. The Farm Credit Administration has shown absolutely no inclination to adopt these or equivalent procedures to assure that there is an objective determination of need before authorizing an insurance service in a particular community.

We also believe the statute should be amended to reflect the agreement of the conferees in 1971 not to permit the sale of liability insurance and to limit the sale of property coverages to the collateral that is the formal security interest granted in connection with the secured loan.

Unless Congress acts now to carry out the original intent of the Commission on Agricultural Credit and the 1971 conferees, Farm Credit insurance programs are likely to expand on a wholesale basis because of the promise of extra income to the cooperatives. Section 404 of S. 1465 would directly facilitate the expansion of these insurance programs by authorizing the establishment of service corporations for the specific purpose of performing financially related services for Farm Credit institutions.

We believe wholesale entry of PCA's and FLBA's into the insurance agency business would be against the best interests of America's farmers for several reasons. First, the promise of growing income from expanded insurance activities will divert associations from their primary function of extending farm credit, thereby potentially jeopardizing the solvency of particular cooperatives and frustrating the goals of S. 1465 to build a stronger Farm Credit System.

Second, as a general rule, farmers will not receive the same professional counseling and service when purchasing insurance from a PCA or FLBA employee who sells insurance as a sideline to his lending responsibility. In contrast, the independent agent's primary business is selling insurance, and he depends upon a satisfied insured to stay in business.

Third, whenever insurance is sold in connection with the lending of money, there is the danger that the borrowers' freedom to choose where to purchase his insurance will be compromised whether through the subtle suggestions of the loan officer or by his own perception that he will stand a better chance of procuring the loan from the institution if he buys his insurance there.

The fact that PCA's and FLBA's are cooperatives and the borrower is part owner is irrelevant. What is relevant is the particular borrower's situation, how badly he needs credit, and the risk that the cooperative will deny the loan. The greater the need or risk, the more inevitable the tying effect. Not only is this tying effect contrary to the best interests of the farmer, who buys his insurance from the cooperative to facilitate getting his loan rather than because it is the best product; it is unfair to the unaffiliated agent.

Wholesale entry of PCA's and FLBA's into the insurance agency business would also have a severe adverse effect on unaffiliated agencies because of the competitive advantages these institutions have by virtue of their power over credit, their unlimited access to confidential insurance expiration information submitted in connection with the loan, the tax advantages PCA's and FLBA's enjoy,

and the ability to "dangle the carrot" of using commission income to reduce future interest rates not available to unaffiliated agencies.

There is no way to neutralize the competitive advantages that PCA's and FLBA's have over unaffiliated insurance agencies. This is why the conferees in 1971 strictly limited the types of insurance these institutions could sell and limited such sales to those communities where similar services were not being provided by unaffiliated businesses.

Thank you for your time.

Senator ZORINSKY. Thank you, Mr. Morrissey.

Can you tell me how much insurance is sold by the Farm Credit System and how this compares with the amount of similar insurance sold by your members?

Mr. MORRISSEY. Currently there is approximately $2.9 million of premium volume written on approximately $53.2 billion of outstanding loans.

Senator ZORINSKY. Is this of all your members?

Mr. MORRISSEY. This is the premium volume written today by the PCA's.

Mr. YATES. Those are the figures from the Farm Credit Administration given to us. Crop-hail, I think, is more.

Senator ZORINSKY. How does that compare with yours?

Mr. MORRISSEY. This would be a small percentage. Looking at the overall farm premium that is written by our member agents or other agents at this time, I do not have the total volume figure available.

Senator ZORINSKY. You do not have your own?

Mr. MORRISSEY. I do from the standpoint of States.

I am from Illinois. I know one particular company in Illinois writes in excess of $25 million in farm premium. I would be unable at this time to look at it on a whole Nation basis.

Senator ZORINSKY. Would you be able to forward that for the record?

Mr. YATES. Certainly.

[The following information was subsequently submitted by Mr. Yates:]

During testimony October 9 on the Farm Credit Act Amendments, S. 1465, IIAA was asked to provide for the subcommittee hearing record information on farm related property and casualty collateral insurance sold through unaffiliated companies and insurance agents. IIAA cited analagous figures for property and casualty collateral insurance sold through the Farm Credit System's Production Credit Associations and Federal Land Bank Associations in connection with a pilot insurance program underway in three federal land bank districts.

The total farm premium volume written by unaffiliated companies as reported to Best's Insurance Review in 1977 was $147,327,000. This figure does not distinguish collateral property and casualty insurance written by unaffiliated companies, and does not include crop-hail premium volume.

Nevertheless, it is the most comprehensive statistic available, and provides a useful comparison to the Farm Credit System figures cited in our testimony. If IIAA can be of further help, please let me know.

Mr. YATES. Our whole reason for testifying today is to indicate that we see a problem in the bud here, and we feel it is the appropriate time for the Senate to act on it. Currently, as we understand it, the collateral insurance is sold in North Carolina and South Carolina in a basically unlimited way. In Mississippi,

New Orleans, basically unlimited. In Missouri and Arkansas and Illinois, they have restricted it to two PCA's in each State. We are talking about a relatively small portion of the System right now.

Senator ZORINSKY. Are you concerned about this as an economic matter or as one outside the scope of financially related services?

Mr. YATES. Our basic concern is, first of all, that it is clear in the 1971 legislative history that before these institutions would enter the insurance agency business there would be a determination of need. This was repeatedly stressed.

Also, the lines of insurance were specifically limited to collateral insurance.

Basically our concern is that these restrictions are not being adhered to. The reason those restrictions were included was the recognition on the part of Congress that these institutions do have competitive advantages over other businesses.

Senator ZORINSKY. Do you have any documentation that Farm Credit institutions are not advising the members of their right to purchase collateral insurance elsewhere if they so desire?

Mr. YATES. No, we do not. We think they do.

What we are talking about here is the connection between the lending of money and the sale of insurance. Now, it does not take outright coercion and intimidation of the borrower for there to be a tie-in. It can result if the borrower needs credit badly and feels his credit may be turned down.

Our concern basically is that the borrower's free choice is jeopardized. He will buy his insurance there to enhance his chances of getting his loan.

There is a lot more than just outright coercion or intimidation. We are talking about any hint by the loan officer. This problem always occurs when you tie the lending of money to the sale of insurance.

Senator ZORINSKY. Do you advocate the complete removal of the Farm Credit System from the collateral insurance business, or the need to conform more to the act of 1971?

Mr. YATES. The latter.

Our feeling is that the S. 1465 should be amended to make clear that there be some procedure set up, a hearing procedure, whereby this need determination would be assessed. In those areas where insurance is not adequately provided in the community, then they should be provided to sell insurance.

Our informal surveys of our State associations indicate that, on average, we have two to three member agencies of our association in each of these rural communities in the States selling insurance on a pilot basis. And there are other unaffiliated agencies. Our indications are the markets are open and this insurance is available.

So we feel it should be amended to make clear there should be a hearing procedure and other people should have an opportunity to present testimony as to what the state of the insurance market is. That has not occurred.

Senator ZORINSKY. Thank you.

Senator Jepsen, do you have some questions?

Senator JEPSEN. Well, most of them have been answered.

The initial intent of the act with regard to their involvement in insurance was to provide it in the event it was not readily available or accessible in that area.

Mr. YATES. That is our reading of the law.

Senator JEPSEN. Was there any limitation with regard to the types of insurance? When you are talking about loans—we talked about hail. We talked about fire. We talked about liability. We talked about casualty. This is far afield from what I initially thought they were involved in. These other insurance coverages, were they included in the original act?

Mr. YATES. On the Senate side, when the bill left the Senate, there was ambiguity as to the extent of insurance that could be sold. The House said only credit life. The bill went to conference, and there was a controversy over the issue. The conferees concluded that:

> The sale of liability insurance, and any insurance on passenger automobiles, is not "necessary and incident" to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. Thus, credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral.

The conferees reached that accommodation.

The limitation was also in the context of the need question. In the conferees' report is a letter to Senator Talmadge from the then Governor of the Farm Credit System:

> The need factor has been evaluated at the local district and Federal Board levels. This approval procedure should reassure the committee that the system is only concerned with providing services where member-owners have determined that real needs exist.

In the Farm Credit Administration's own regulations, the regulations say one of four criteria necessary to offer a financially related service is:

> Need for the service based on persuasive evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost and that similar service is not being provided adequately by others in the community.

I would finally say the Commission on Agricultural Credit, which I believe was the Commission that basically came up with much of the language for the 1971 Farm Credit Act, made clear in their report that the Farm Credit System should not go into other types of business unless there was a real need. I just quote you one section from that. This is from that Commission on Agricultural Credit report, which I think came up with the financially related services provision:

> (4) The availability of competent services through other normal business channels should be recognized and, where they are provided at reasonable cost, the System should not develop competing services but assist members in the profitable use of such services.

That is our contention in this area. We feel there is a problem. They should be working with the existing resources in the community or printing brochures to help them understand their needs as a first step, and not enter the business unless there is an absolute need in the community.

Senator JEPSEN. I do not have anything else.

Senator ZORINSKY. Thank you, gentlemen.

We have now Mr. Neal Bjornson, legislative director, National Milk Producers Federation.

Welcome Mr. Bjornson. If you would care to make your opening remarks.

STATEMENT OF NEAL BJORNSON, LEGISLATIVE DIRECTOR, NATIONAL MILK PRODUCERS FEDERATION

Mr. BJORNSON. Thank you. I am Neal Bjornson, director of legislation, for the National Milk Producers Federation. Mr. Patrick Healy, secretary of the federation, had been scheduled to appear here today. Unfortunately he is ill and has asked me to represent him.

I do have a short statement. I would ask this be included in its entirety.

Senator ZORINSKY. Without objection, so ordered.

Mr. BJORNSON. The National Milk Producers Federation is a national farm commodity organization representing dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States.

A major concern of the Nation's dairy farmers, both in their farm operations and through their cooperative marketing operations, is the availability of adequate credit to finance their day-to-day operations and to underwrite the modernization needed to maintain a strong and competitive industry.

The agricultural credit structure developed under the authority of the Farm Credit Act is a unique, essential element of American agriculture. It has provided agricultural producers the ability to assure themselves of needed credit. This assurance is reflected in the rapid increases we have witnessed in agricultural productivity. Farmers have been able to finance land improvements, better livestock, improved equipment and facilities as well as the land necessary for their operations. Through the banks of cooperatives, their marketing organizations have been able to obtain the financing necessary to allow them to meet the needs of a changing market and to adjust to the changing demands of their members.

Without this, many of the credit needs of rural areas would be unmet or would be met only at terms which would seriously reduce the gains agriculture has made.

We have had the opportunity to examine S. 1465, the Farm Credit Act Amendments and feel that the proposed changes in authority for the Farm Credit System will provide a strengthening of the System's ability to meet the needs of agriculture in the years ahead. The legislation will permit the System to function more as a complete system in meeting the demands placed on it. It will be valuable to a large segment of the Nation's farmers by improving their ability to carry their cooperative marketing efforts into the export arena. The goals set forth in this legislation are certainly in keeping with the initial intent of the Farm Credit Act and are responsive to the changing nature of the Nation's agriculture.

There is one element of the expanded lending authority provided the Federal land bank associations and the production credit associations to which we direct specific comment. Sections 107 and 210 of S. 1465 provide expanded authority for the associations to fi-

nance basic processing and marketing operations related directly to the borrower's operations and those of other eligible farmers.

This provision raises questions for dairy farmers and their cooperatives as it might relate to the status of producer-handlers of milk under Federal milk marketing orders. As the committee knows, a producer-handler is a farmer who produces milk and markets the milk of his own production directly to consumers either through farm stores or similar outlets or via milk routes.

The Agricultural Marketing Agreement Act, the authority for Federal milk marketing orders, provides for the regulation of producer-handlers as handlers of milk. This means they would be included under the provisions of market orders relating to classified pricing and pooling of returns among all producers. Administratively, however, producer-handlers have been exempted from these provisions of market orders so long as their marketings are confined to milk of their own production.

The committee and the Congress have rejected repeated requests for changes in the status of producer-handlers. Proposals to remove these operations from the provisions of milk market orders would have the effect of permitting those who could claim such status to avoid equitable sharing of the costs of maintaining reserve milk supplies for the market so that consumers can be assured of their needs at all times. Exemption of producer-handlers would have the effect of decreasing returns to the vast majority of dairy farmers supplying Federal order markets.

Our concern with the provisions of sections 107 and 210 is that this action could be used at a later date to argue that Congress indeed has taken a new look at such marketing operations and that those able to establish producer-handler status, whether on the basis or marketings of their own production only or their own production coupled with that of other farmers, should be exempted from market order requirements.

In addressing this question as part of general farm legislation since 1965, the Congress has included provisions in each such measure, including the Food and Agriculture Act of 1977, which specifically states that the legal status of producer-handlers under marketing orders shall not be changed by the provisions of the legislation at hand.

We recommend that the committee report on S. 1465 contain a similar directive to make clear that no change is intended or inferred by this legislation. Toward this end, we suggest the following language:

> It is not intended that the authority extended to Federal land banks by section 107 or to production credit associations by section 210 of the bill to make loans for the financing of basic processing and marketing directly related to the borrower's operations and those of other eligible farmers, ranchers, and producers or harvesters of aquatic products shall in any way be construed to alter or revise the view taken by the Congress toward the legal status of producer-handlers of milk under the provisions of the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended.

We have discussed this question with the Governor of the Farm Credit Administration and his staff, and they have indicated willingness to accept this report language as a clarifying provision. It does not, in any way, diminish or interfere with the lending authority envisioned in the legislation.

We appreciate this opportunity to express our support for legislation strengthening the Farm Credit System. It has served agriculture well. The proposed changes will permit it to continue this service.

Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, Mr Bjornson.

We know you have made a specific point concerning proposed amendment language. What is your opinion on the insurance question?

Mr. BJORNSON. I will have to be frank, Mr. Chairman. We have not addressed the insurance question specifically. This is something that, quite frankly, would be beyond the realm of the expertise of the federation. We do feel we have an expertise in milk marketing.

Senator ZORINSKY. Your milk cooperatives do not sell insurance?

Mr. BJORNSON. They do not. What they may maintain among the membership is a method to provide assistance to farmers who lose their capability to produce milk. They do provide some degree of assistance there, almost in the form of a self-insurance program to help restore the production capacity if the farmer is taken off the market for some reason.

Senator ZORINSKY. Do you feel S. 1465 will aid the milk producers concerning export markets?

Mr. BJORNSON. The dairy industry has developed and is oriented toward serving the domestic market. From the standpoint of international trade, our prime concern is the unnecessary import of milk products.

We have looked at the export provisions of this legislation. We recognize while it may not be of direct value to the dairy industry, there are major segments of agriculture that this would be valuable for. For cooperative marketing efforts to be successful in the grain business and in other commodities, it simply makes sense they be able to participate in this export market. And we recognize the adequate financing of these efforts is absolutely essential.

Senator ZORINSKY. Thank you, Mr. Bjornson.

Senator Jepsen?

Senator JEPSEN. I do not have anything.

Thank you very much.

Senator ZORINSKY. Thank you, sir.

I would now like to call on Senator David Pryor, Senator from Arkansas, who will introduce the final witness, who, just coincidentally, happens to be a constituent of his.

Senator PRYOR. Mr. Chairman, before I introduce our final witness this morning, Mr. Chapman, I would like to express a vote of thanks for the long number of tedious hours that you have devoted to carrying out these hearings in such a diligent and, I must say, in such a responsible manner. I think this is probably the third, hearing on this issue. You have been extremely patient and courteous. I think that the agricultural community of this Nation owes you a tremendous vote of thanks for what you have done and, Mr. Chairman, the manner in which you have done it.

So, as one member of the committee, I would like to say, Mr. Chairman, thank you very, very much.

Senator ZORINSKY. Thank you, Senator Pryor, for your usual eloquent statement. My mother will appreciate that.

Senator PRYOR. We do have, Mr. Chairman, a very fine farmer from Scott, Ark. He, I think, Mr. Chairman, represents the real, true family farmer in our State and in our country. He represents, I think, what is the glue that holds this country together. He represents the best in agriculture.

He is not only a self-made person, but all of his family has been actively engaged in the field of agriculture. He is an eloquent spokesman.

In addition to farming, Mr. Chairman, he is also, a minister, and he does a great deal of lay work in this capacity. He is also a member of the American Agriculture Movement. He has been a very, very strong voice in that movement. He has been a voice, I think, that all of us have listened to in our own State. Certainly he has been a person who has rallied us to the farmers in our own State and the country in the past.

I think he has some very valid points this morning as he presents his testimony.

So, Mr. Chairman, if I might, Mr. Odis Chapman of Scott, Ark. Mr. Chapman?

STATEMENT OF ODIS CHAPMAN, AMERICAN AGRICULTURE MOVEMENT, SCOTT, ARK.

Mr. CHAPMAN. Thank you, Senator, very much.

Let me say that I do not have any obligation to you, and I want to tell you, as a farmer, how much I appreciate the effort that has gone into this. We the farmers in Arkansas feel that, for the first time in many, many years, the farmers are getting an unbiased, fair hearing in the U.S. Senate and in our House of Representatives. And we appreciate it so very, very much, the effort that is going into the legislation that does concern the very heart of America. We appreciate you and your effort and the effort of all the committee.

I am Odis Chapman from Scott, Ark. My five brothers, two sons and I farm approximately 8,000 acres of cotton, rice, and soybeans in central Arkansas. We do not own the land which we farm. We lease from individual landowners, investment companies and estate trusts. However, a portion of this land has been leased by my family for four generations. We have sharecropped it, rented it, leased it. And we still work it, but we do not own it.

I am very concerned about agricultural credit since we borrow all the capital required to operate our farming operation. Our credit needs per year exceed $1 million due to excessive production costs in these days of flagrant inflation.

I fully realize that this committee has heard from practically every agency and organization that touches agriculture even in a minute way. But since Farm Credit is my life blood, I urge you to hear and consider this matter from the grassroot farmer's standpoint.

In the State of Arkansas the Farm Credit System has been able to make available to deserving farmers a capital outlay in excess of $1.062 billion as of August 31, 1979. This capital has come to Arkansas farmers through our farmer-owned production credit associations, Federal land banks and banks for cooperatives at an interest rate below that of commercial industry.

Please allow me now to share with this committee some of the facts and foreseeable problems in the near future if action is not taken by this Congress. First of all, be sure that the need for agricultural credit does not rise and fall with the interest rates in the public money market. Then, remembering that our Farm Credit System money comes from the public money market and not from Government funds, I will share with you the importance of the Lonoke Production Credit Association, this being the association that loans our farms our needed capital.

We at Lonoke PCA loaned over $45 million to local area farmers this year. In compliance with the 1933 Farm Credit System law, we have in reserve $2,935,000 in abeyance to the requiring one-half of 1 percent of the outstanding balance to be set aside for reserve.

Our PCA operated in 1978 at the rate of 1.47 percent. Considering we are spread across three counties and finance both large and small farmers including timber, cotton, corn, rice, soybeans, milo, wheat, oats, chicken, rabbits, turkey, hogs, beef cattle, dairy, short-term real estate, and equipment, I believe this to be a very efficient way to provide much needed capital to capital-deficit areas.

However, we have a problem with the high cost of obtaining money on the Wall Street public money market and our State of Arkansas usury limit of 10 percent. Our PCA has operated this year to date at a loss of $95,628. Of this amount $87,928 was earned as income from services, namely credit life insurance sales and crop-hail insurance sales, leaving us a not loss of $7,700. Thus, considering our earned income, we operated at a cost of 1.02 percent.

Since we farmers do not have a company retirement plan or company-subsidized health care and benefits, I trust that this committee can see the necessity and urgency to exempt agricultural credit from our State usury law and allow us to keep our credit life and crop-hail insurance regulations as they are. We at Lonoke PCA do not write collateral insurance, and no employee receives 1 penny for writing this crop-hail and credit life insurance.

I further feel that, due to the Farm Credit System regulations allowing our farmer-owned credit cooperatives to charge only enough interest to cover normal operating cost, if we could link our interest rates to and index relating to the cost of money on the public market plus 2 percent, that this will provide us the ability to operate on a sound basis providing we can keep only the insurance privileges we now have.

Mr. Chairman, may I impress upon this committee once again the urgency of this need and need for immediate action due to the fact that we are signing leases and planting grain crops for the 1980 crop year. And we need the assurance that money will be available to fertilize and harvest those crops.

One other thing I would like to address, the urgency of this matter to be acted upon now. In our local county we have less than 50 farm families that earn a living by farming. Yet we have in excess of 3,300 Farm Bureau farm families. This would tell us that the Farm Bureau is interested in the consumer in our county.

And I am Farm Bureau. But they do not speak for the farmer. They want to put this off until the first of the year. But the farmers in the State of Arkansas, it was a unanimous vote for us to

ask to keep our insurance as it is. We are not asking to add collateral insurance. We want to keep it just as it is, credit life and crop-hail. We need it. It is a necessity for us.

Senator ZORINSKY. Thank you very much, Mr. Chapman, for your articulate presentation.

Senator PRYOR. You should see him when he really gets warmed up.

Senator ZORINSKY. I think today's introduction is worthy of mention. As a matter of fact, when I discovered that you come from Pulaski County, I thought the Pope had come back. Now I am sure of it.

I certainly agree with your statement that farming by its very nature is one of the toughest endeavors, for a business-oriented individual to attempt. It reminds me of the story I heard about the doctor and the farmer that inherited $1 million each.

They were discussing what they were going to do with the money. The doctor said he would retire, turn his office over to his associates, and live the good life. He asked the farmer what he was going to do. The farmer replied, "I guess I will just keep farming until it is all gone."

This is one of the problems; the family farm income is no longer covering the cost of production.

Mr. CHAPMAN. That is correct, Mr. Chairman.

Mr. Chairman, I would like to make one other statement in response to Mr. Morrissey. In Lonoke, in our PCA in the State of Arkansas, we buy this insurance, this credit life insurance, from the insurance company that offers us the best deal. If they have a better deal, I invite them to come to us. We will talk turkey with them.

Senator PRYOR. What would the comparative costs be of buying ordinary life insurance under a private plan versus the PCA plan?

Mr. CHAPMAN. Senator, I have not priced the ordinary life.

The last little policy I bought was for an added $10,000. Every insurance policy I had was assigned to my farm debt. And I come to realize, should I have a heart attack and die, my wife would not have a dime to bury me with. That is costing me something like $385 a year. You can multiply that.

Senator PRYOR. I have no other questions, Mr. Chairman.

Thank you, Mr. Chairman.

Senator ZORINSKY. I would like to wish you well and thank you for appearing before the hearing.

I would like to conclude the hearing by notifying all those who are desirous of inserting any additional statements in the hearings, that we will keep the record open for a period of 2 weeks in order to enable those who would like to do so to do so.

Thank you for your attendance. The hearing is adjourned.

[Whereupon, at 11:35 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

96TH CONGRESS
1ST SESSION

S. 1465

To amend the Farm Credit Act of 1971 to permit Farm Credit System institutions to improve their services to borrowers, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 9 (legislative day, JUNE 21), 1979

Mr. TALMADGE (for himself, Mr. MCGOVERN, Mr. MORGAN, Mr. PRESSLER, Mr. DOLE, and Mr. ZORINSKY) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

---

A BILL

To amend the Farm Credit Act of 1971 to permit Farm Credit System institutions to improve their services to borrowers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act Amendments of 1979".

TITLE I—FEDERAL LAND BANKS AND ASSOCIATIONS

SEC. 101. Section 1.4 of the Farm Credit Act of 1971 is amended by—

(1) striking out in paragraph (6) "loans and" and inserting in lieu thereof "and participate in loans, make";

(2) inserting before the period at the end of paragraph (12) ", participate with one or more other Farm Credit System institutions in loans made under this title or other titles of this Act on the basis prescribed in section 4.18, and participate with lenders which are not Farm Credit System institutions in loans that the bank is authorized to make under this title";

(3) striking out everything after the second comma in paragraph (15) and inserting in lieu thereof "and, as may be authorized by its board of directors and approved by the Farm Credit Administration, (i) sell to lenders which are not Farm Credit System institutions interests in loans, (ii) buy from and sell to Farm Credit System institutions interests in loans and in other financial assistance extended and nonvoting stock, and (iii) make other investments."; and

(4) adding new paragraphs (22) and (23) as follows:

"(22) Accept contributions to its capital from Federal land bank associations and account therefor as authorized by the Farm Credit Administration.

"(23) Agree with other Farm Credit System institutions to share loan and other losses, whether to protect against capital impairment or for any other purpose, as may be authorized in regulations of the Farm Credit Administration.".

SEC. 102. Section 1.5 of the Farm Credit Act of 1971 is amended by—

(1) striking out in subsection (b) "hypotheticated" and inserting in lieu thereof "hypothecated";

(2) striking out the first sentence of subsection (d) and inserting in lieu thereof two new sentences as follows: "Nonvoting stock may be issued to the Governor of the Farm Credit Administration to borrowers as patronage refunds, and may also be issued to Federal land bank associations in amounts which will permit the bank to extend financial assistance to eligible persons other than farmers, ranchers, and producers or harvesters of aquatic products. Nonvoting stock also may be issued to and shall be retired for other Farm Credit System institutions as may be authorized by its board of directors and approved by the Farm Credit Administration."; and

(3) adding new subsections (f) and (g) as follows:

"(f) Patronage refunds may be paid in nonvoting stock, participation certificates, allocated surplus, and other equities of the bank, or cash, or in both equities and cash, as deter-

mined by the board of the bank, to borrowers of the fiscal year for which such patronage refunds are distributed. All patronage refunds shall be paid in the proportion that the amount of interest on the loans to each borrower during the year bears to the interest on the loans of all borrowers during the year or on such other proportionate patronage basis as the Farm Credit Administration may approve.

"(g) Equities to evidence contributions to capital may be issued to Federal land bank associations when the bylaws of the bank so provide.".

SEC. 103. Section 1.6 of the Farm Credit Act of 1971 is amended to read as follows:

"SEC. 1.6. REAL ESTATE MORTGAGE LOANS.—The Federal land banks are authorized to make or participate with other lenders in long-term real estate mortgage loans in areas defined by the Farm Credit Administration, and make continuing commitments to make such loans under specified circumstances, or extend other financial assistance of a similar nature to eligible borrowers, for a term of not less than five nor more than forty years.".

SEC. 104. Section 1.7 of the Farm Credit Act of 1971 is amended by inserting before the period in the first sentence "as provided in section 4.17".

SEC. 105. Section 1.8 of the Farm Credit Act of 1971 is amended by striking out in clause (1) "and ranchers" and

inserting in lieu thereof ", ranchers, or producers or harvesters of aquatic products".

SEC. 106. Section 1.9 of the Farm Credit Act of 1971 is amended by striking out the first sentence and inserting in lieu thereof the following: "Loans originated by a Federal land bank or in which it participates with a lender which is not a Farm Credit System institution shall not exceed 85 per centum of the appraised value of the real estate security, or such greater amount as may be authorized in regulations of the Farm Credit Administration for loans guaranteed by Federal, State, or other governmental agencies, and shall be secured by first liens on interest in real estate of such classes as may be approved by the Farm Credit Administration.".

SEC. 107. Section 1.10 of the Farm Credit Act of 1971 is amended by striking out the first sentence and inserting in lieu thereof the following: "Loans made by the Federal land banks to farmers, ranchers, and producers or harvesters of aquatic products may be for any agricultural or aquatic purpose and other credit needs of the applicant, including financing for basic processing and marketing directly related to the applicant's operations and those of other eligible farmers, ranchers, and producers or harvesters of aquatic products: *Provided*, That the applicant's operations shall supply at least the percentage of total processing or marketing for which financing is extended that is required by the board of

directors of the bank under regulations of the Farm Credit Administration.".

SEC. 108. Section 1.11 of the Farm Credit Act of 1971 is amended by inserting "and aquatic" before "operations".

SEC. 109. Section 1.12 of the Farm Credit Act 1971 is amended by striking out "(a)".

SEC. 110. Section 1.15 of the Farm Credit Act of 1971 is amended by—

(1) striking out in paragraph (13) "shall";

(2) striking out in paragraph (14) "may" the second time it appears; and

(3) adding a new paragraph (21) as follows:

"(21) Contribute to the capital of the bank.".

SEC. 111. Section 1.16 of the Farm Credit Act of 1971 is amended by—

(1) striking out in the sixth sentence of subsection (a) "fair"; and

(2) adding a new subsection (c) as follows:

"(c) Notwithstanding the provisions of subsection (a), the purchase of stock need not be required with respect to that part of any loan (1) made by a Federal land bank which it sells to a lender which is not a Farm Credit System institution, or (2) which such lender retains or acquires in participating in the loan with a Federal land bank.".

SEC. 112. Section 1.17 of the Farm Credit Act of 1971 is amended by—

(1) striking out in the last sentence of subsection (a) "exess" and inserting in lieu thereof "excess"; and

(2) amending subsection (b) by inserting ", and pay patronage refunds, or do any of them, as provided in its bylaws," after "dividends", and striking out "with" and inserting in lieu thereof "the".

SEC. 113. Section 1.18(b) of the Farm Credit Act of 1971 is amended to read as follows:

"(b) Any association may declare a dividend or dividends and pay patronage refunds, or do any of them, as provided in its bylaws, out of the whole or any part of its net earnings available therefor which remain after (1) maintenance of the reserve required in subsection (a) hereof and (2) bank approval. All patronage refunds shall be paid on the proportionate patronage basis approved by the bank. Dividends shall be noncumulative, and the rate of dividends may be different between different classes and issues of stock and participation certificates on the basis of the comparative contributions of the holders thereof to the capital or earnings of the Federal land bank by such classes and issues, but otherwise dividends shall be without preference.".

SEC. 114. Section 1.19 of the Farm Credit Act of 1971 is amended by adding at the end thereof a new sentence as

follows: "Associations also may enter into agreements with other Farm Credit System institutions to share loans and other losses, whether to protect against capital impairment or for any other purpose, as may be authorized by the bank in accordance with regulations of the Farm Credit Administration.".

SEC. 115. Section 1.20 of the Farm Credit Act of 1971 is amended by inserting after "stock" the second time it appears "or participation certificates," and inserting after "Administration" "or other Farm Credit System institutions".

TITLE II—FEDERAL INTERMEDIATE CREDIT BANKS AND PRODUCTION CREDIT ASSOCIATIONS

SEC. 201. Section 2.1 of the Farm Credit Act of 1971 is amended by—

(1) striking out in paragraph (13) everything after "agency" the second time it appears and inserting in lieu thereof ", and, as may be authorized by its board of directors and approved by the Farm Credit Administration, (i) buy from and sell to Farm Credit System institutions interests in loans and in other financial assistance extended and nonvoting stock, and (ii) make other investments.";

(2) Amending paragraph (18) to reads as follows:

"(18) Agree with other Farm Credit System institutions to share loan or other losses, whether to protect against capital impairment or for any other purpose, as may be authorized by its board of directors and approved by the Farm Credit Administration."; and

(3) inserting before the period at the end of paragraph (20) ", and participate with one or more other Farm Credit System institutions in loans made under this title or other titles of this Act on the basis prescribed in section 4.18".

SEC. 202. Section 2.2 of the Farm Credit Act of 1971 is amended by—

(1) inserting before the period at the end of the first sentence of subsection (d) ", and may be issued to and, notwithstanding the provisions of subsection (g), shall be retired for other Farm Credit System institutions as may be authorized by its board of directors and approved by the Farm Credit Administration";

(2) striking out in the second and fourth paragraphs of subsection (g) "fair".

(3) striking out everything through "Governor" in subsection (h) and inserting in lieu thereof "Except with regard to stock or participation certificates held by the Governor or other Farm Credit System institutions"; and

(4) striking out in subsection (i) "fair".

SEC. 203. Section 2.3 of the Farm Credit Act of 1971 is amended by—

(1) amending subsection (b) to read as follows:

"(b) The Federal intermediate credit banks are authorized to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, association of agricultural producers engaged in the making of loans to farmers and ranchers, and any corporation engaged in the making of loans to producers or harvesters of aquatic products, with its endorsement or guaranty, any note, draft, or other obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock, or for the production or harvesting of aquatic products; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Farm Credit Administration: *Provided,* That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers and producers or harvesters of aquatic products eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for

53-579 O - 80 - 10

any agricultural purpose or for the production or harvesting of aquatic products."; and

(2) inserting in the second sentence of subsection (c) before "if" "or for the production or harvesting of aquatic products,".

SEC. 204. Section 2.4 of the Farm Credit Act of 1971 is amended by inserting in the first sentence after "Administration" "as provided in section 4.17".

SEC. 205. Section 2.5 of the Farm Credit Act of 1971 is amended by inserting after "on-farm" "and aquatic".

SEC. 206. Section 2.6(c) of the Farm Credit Act of 1971 is amended by inserting in the second sentence before "25 per centum" "or more than".

SEC. 207. Section 2.10 of the Farm Credit Act of 1971 is amended by striking out the comma after "States" and inserting in lieu thereof a period.

SEC. 208. Section 2.12 of the Farm Credit Act of 1971 is amended by—

(1) inserting before the period at the end of paragraph (11) "and buy from and sell to such banks interests in loans and in other financial assistance extended and nonvoting stock, as may be authorized by the Federal intermediate credit bank in accordance with regulations of the Farm Credit Administration".

(2) inserting before the period at the end of paragraph (13) "and when authorized by the bank participate with one or more other Farm Credit System institutions in loans made under this title or other titles of this Act on the basis prescribed in section 4.18"; and

(3) amending paragraph (15) to read as follows: "(15) Agree with other Farm Credit System institutions to share loan or other losses, whether to protect against capital impairment or for any other purpose, as may be authorized by the Federal intermediate credit bank in accordance with regulations of the Farm Credit Administration."

SEC. 209. Section 2.13 of the Farm Credit Act of 1971 is amended by—

(1) inserting before the period at the end of subsection (e) "or in lieu of nonvoting stock";

(2) striking out in the first sentence of subsection (f) "fair";

(3) amending the last sentence of subsection (f) to read as follows: "Notwithstanding any other provisions of this section, for a loan in which an association participates with a commercial bank or other financial institution other than a Farm Credit System institution, nonvoting stock or participation certificates may be issued to the commercial bank or other financial institution in satisfaction of the requirement that the bor-

rower own stock or participation certificates, which requirement shall apply only to the portion of the loan which is retained by the association.";

(4) striking out in the first sentence in subsection (g) "fair";

(5) striking out everything through "Governor" in subsection (j) and inserting in lieu thereof "Except with regard to stock or participation certificates held by the Governor or other Farm Credit System institutions"; and

(6) striking out in subsection (k) "fair".

SEC. 210. Section 2.15 of the Farm Credit Act of 1971 is amended by—

(1) amending clause (1) in the first sentence of subsection (a) to read as follows: "(1) bona fide farmers, ranchers, and the producers or harvesters of aquatic products, for agricultural or aquatic purposes and other requirements of such borrowers, including financing for basic processing and marketing directly related to the borrower's operations and those of other eligible farmers, ranchers, and producers or harvesters of aquatic products: *Provided,* That the borrower's operations shall supply at least the percentage of total processing or marketing for which financing is ex-

tended that is required by the supervising bank under regulations of the Farm Credit Administration,"; and

(2) inserting in subsection (b) after "borrowers" "as provided in section 4.17".

SEC. 211. Section 2.16 of the Farm Credit Act of 1971 is amended by inserting after "on-farm" "and aquatic".

TITLE III—BANKS AND COOPERATIVES

SEC. 301. Section 3.1 of the Farm Credit Act of 1971 is amended by—

(1) inserting before the period at the end of paragraph (11) ", and participate with one or more other Farm Credit System institutions in loans made under this title or other titles of this Act on the basis prescribed in section 4.18";

(2) inserting in the first sentence in paragraph (12) after "System" "or any other financial organization, domestic or foreign, as may be authorized by its board of directors and approved by the Farm Credit Administration";

(3) amending paragraph (13) to read as follows:

"(13)(A) Buy and sell:

"(i) Obligations of or insured by the United States or of any agency thereof, or securities backed by the full faith and credit of any such agency;

"(ii) bankers acceptances which are obligations of any member bank of the Federal Reserve System;

"(iii) as may be authorized by its board of directors and approved by the Farm Credit Administration, other obligations which, for purposes of this paragraph, shall include but not be limited to drafts, notes, checks, loans, acceptances, accounts, currencies, or obligations payable in recognized currencies, originating in the ordinary course of transactions which the bank may finance under section 3.7.

"(B) As may be authorized by its board of directors and approved by the Farm Credit Administration, (i) buy from and sell to Farm Credit System institutions interests in loans and in other financial assistance extended and nonvoting stock, and

"(ii) make other investments.

"(C) As may be authorized by its board of directors and approved by the Farm Credit Administration, invest in ownership interests in business entities, foreign or domestic, to facilitate obtaining credit information and performing loan servicing and financial services related to international transactions."; and

(4) adding new paragraphs (18) and (19) as follows:

"(18) As authorized by the board of directors and approved by the Farm Credit Administration, maintain credit balances and pay or receive fees or interest thereon, for the purpose of assisting in the transfer of funds to or from parties to transactions authorized by this title.

"(19) Agree with other Farm Credit System institutions to share loan or other losses, whether to protect against capital impairment or for any other purpose, as may be authorized by its board of directors and approved by the Farm Credit Administration.".

SEC. 302. Section 3.3 of the Farm Credit Act of 1971 is amended by adding a new subsection (f) as follows:

"(f) Participation certificates may be issued to parties to whom voting stock may not be issued.".

SEC. 303. Section 3.5 of the Farm Credit Act of 1971 is amended by—

(1) striking out the first three sentences and inserting in lieu thereof three new sentences as follows: "Any nonvoting stock held by the Governor of the Farm Credit Administration shall be retired to the extent required by section 4.0(b) before any other outstanding voting or nonvoting stock or participation certificates shall be retired except as may be otherwise authorized by the Farm Credit Administration. When those requirements have been satisfied, nonvoting in-

vestment stock and participation certificates may be called for retirement at par. With the approval of the issuing bank, the holder may elect not to have the called stock or participation certificates retired in response to a call, reserving the right to have such stock or participation certificates included in the next call for retirement."; and

(2) striking out in the fourth sentence "fair book value not exceeding".

SEC. 304. Section 3.7 of the Farm Credit Act of 1971 is amended by—

(1) inserting "(a)" immediately before the first sentence and inserting in the first sentence "currency exchange," before "collateral"; and

(2) adding new subsections (b) and (c) as follows:

"(b) A bank for cooperatives is authorized, in connection with transactions of an association which is a voting stockholder, to make or participate in loans and commitments to a domestic or foreign party in which such association has at least the minimum ownership interest approved in accordance with regulations of the Farm Credit Administration, or which engages in transactions with such association for the purchase, sale, or exchange of agricultural commodities, farm supplies, or aquatic products, or the lease of real or personal property and extend to such domestic or foreign party other

technical and financial assistance if a bank for cooperatives determines, pursuant to such regulations, that the voting stockholder will benefit substantially as a result of such loan, commitment, or assistance.

"(c) Loans, commitments, and assistance authorized by subsection (b) of this section shall be extended in accordance with policies adopted by the board of directors of the bank and approved by the Farm Credit Administration.".

SEC. 305. Section 3.8 of the Farm Credit Act of 1971 is amended by—

(1) striking out in the first paragraph the comma the second time it appears and inserting "or aquatic" before "business";

(2) striking out in subsection (c) "or farm business services" and inserting in lieu thereof "farm or aquatic business services, or services to eligible cooperatives"; and

(3) striking out in subsection (d) "not less than 80 per centum (70 per centum in the case of rural electric, telephone, and public utility cooperatives)" and inserting in lieu thereof "not less than 60 per centum".

SEC. 306. Section 3.9(a) of the Farm Credit Act of 1971 is amended by striking out the first sentence and inserting in lieu thereof a new sentence as follows: "Each borrower entitled to hold voting stock shall, at the time a loan is

made by a bank for cooperatives, own at least one share of voting stock and shall be required by the bank with the approval of the Farm Credit Administration to invest in additional voting stock or nonvoting investment stock at that time, or from time to time, as the lending bank may determine, but the requirement for investment in stock at the time the loan is closed shall not exceed an amount equal to 10 per centum of the face amount of the loan.".

SEC. 307. Section 3.10 of the Farm Credit Act of 1971 is amended by—

(1) inserting before the period in the first sentence of subsection (a) "as provided in section 4.17";

(2) striking out in the first sentence of subsection (d) "book" and inserting in lieu thereof "market" and adding a new sentence as follows: "In no event shall the bank's equities be retired or canceled if the retirement or cancellation would adversely affect the bank's capital structure, as determined by the Farm Credit Administration.".

SEC. 308. Section 3.11 of the Farm Credit Act of 1971 is amended by—

(1) striking out in the second sentence of subsection (b) "less than 25 per centum" and inserting in lieu thereof "less than or more than 25 per centum"; and

(2) striking out the first sentence of subsection (c) and inserting in lieu thereof a new sentence as follows: "The net savings of each district bank for cooperatives, after the earnings for the fiscal year have been applied in accordance with subsection (a) or (b) of this section, whichever is applicable, shall be paid in stock, participation certificates, or cash, or in any of them, as determined by the board, as patronage refunds to borrowers to whom such refunds are payable who are borrowers of the fiscal year for which such patronage refunds are distributed."

TITLE IV—PROVISIONS APPLICABLE TO TWO OR MORE CLASSES OF INSTITUTIONS OF THE SYSTEM

SEC. 401. Section 4.5 of the Farm Credit Act of 1971 is amended by—

(1) striking out in the first sentence "presidents" and inserting in lieu thereof "president" and inserting before the period at the end thereof "or his designee"; and

(2) striking out in the third sentence "subcommittee's" and inserting in lieu thereof "subcommittees".

SEC. 402. Section 4.10 of the Farm Credit Act of 1971 is amended by striking out "name" and inserting in lieu thereof "same".

SEC. 403. Title IV of the Farm Credit Act of 1971 is amended by adding new sections 4.17, 4.18, and 4.19 as follows:

"SEC. 4.17. INTEREST RATES.—In order that lending can continue on a self-sustaining basis, interest rates on loans made by institutions of the Farm Credit System shall be determined with the approval of the Farm Credit Administration as provided in this Act, notwithstanding any interest rate limitation imposed by any State constitution or statute or other law, which is hereby preempted for purposes of this Act.

"SEC. 4.18. PARTICIPATION LOANS.—Notwithstanding any other provisions of this Act, the terms of any loan participated in by two or more Farm Credit System institutions operating under different titles of this Act, including provision for capitalization of the portion of the loan participated in by each institution, shall be as may be agreed upon among such institutions and authorized by the Farm Credit Administration, except that for purposes of determining borrower eligibility, membership, term, amount, loan security, and purchase of stock or participation certificates by the borrower, the provisions of law applicable to the loan shall be the provisions in the title under which the institution that originates the loan operates.

"SEC. 4.19. TRUTH IN LENDING.—The provisions of any State statute or any other law or regulation which impose, with regard to a credit transaction, any duty or requirement that had been imposed by the Truth in Lending Act (83 Stat. 146) prior to any amendment thereto shall not be applicable to credit transactions of Farm Credit System institutions.".

SEC. 404. Title IV is amended by adding at the end thereof a new part D as follows:

"PART D—SERVICE ORGANIZATIONS

"SEC. 4.25. ESTABLISHMENT.—Any bank of the Farm Credit System, or two or more of such banks acting together, may organize a corporation or corporations for the purpose of performing functions and services for or on behalf of the organizing bank or banks, other than the extension of credit, which said bank or banks may perform pursuant to this Act. A corporation so organized shall have no greater authority with respect to such functions or services than the organizing bank or banks possess under this Act. The organizing bank or banks shall apply for a Federal charter for the corporation by forwarding to the Governor of the Farm Credit Administration a statement concerning the need for the corporation and proposed articles specifying in general terms the objects for which the corporation is formed, the powers to be exercised by it in carrying out the functions and services, and the

territory it is to serve. The Governor for good cause may deny the charter applied for. Upon the approval of articles by the Governor and the issuance of a charter, the corporation shall become as of such date a federally chartered body corporate and an instrumentality of the United States.

"SEC. 4.26. POWERS OF THE GOVERNOR.—The Governor shall have power, under rules and regulations prescribed by him or by prescribing in the terms of the charter or by approval of the bylaws of the corporation, to provide for the organization of any corporation chartered under this part and the territory within which its operations may be carried on, and to direct at any time such changes in its charter as he finds necessary for the accomplishment of the purposes of this Act. The powers of the Governor to provide for the organization of any corporation chartered under this part include, but are not limited to approval of—

"(1) corporate title;

"(2) general corporate powers;

"(3) eligibility for membership on, and the powers, composition, selection, terms, and compensation of the board of directors;

"(4) classes, issuance, value, and retirement of stock;

"(5) sources of operating funds;

"(6) dissolution, liquidation, and distribution of assets on liquidation; and

"(7) application and distribution of earnings.

"SEC. 4.27. SUPERVISION AND EXAMINATION.—The corporations organized pursuant to this part shall be institutions of the Farm Credit System and shall be subject to the same supervision and examination by the Farm Credit Administration as are the organizing bank or banks under this Act.".

TITLE V—DISTRICT AND FARM CREDIT ADMINISTRATION ORGANIZATION

SEC. 501. Section 5.2 of the Farm Credit Act of 1971 is amended by—

(1) striking out in the last sentence of subsection (b) "three" and inserting in lieu thereof "two"; and

(2) striking out in the first sentence of subsection (c) "three" and inserting in lieu thereof "two".

SEC. 502. Section 5.8(h) of the Farm Credit Act of 1971 is amended by striking out in the first sentence "the sum of $100 a day" and inserting in lieu thereof "compensation at a rate equal to the daily equivalent of the rate prescribed for grade GS–18 under section 5332 of title 5 of the United States Code".

SEC. 503. Section 5.11 of the Farm Credit Act of 1971 is amended to read as follows:

"SEC. 5.11. COMPENSATION; SALARY AND EXPENSE ALLOWANCE.—The compensation of the Governor of the Farm Credit Administration shall be at the rate fixed by the Federal Farm Credit Board but not to exceed the maximum rate of basic pay in the Executive Schedule (5 U.S.C. §§ 5311–5317). The Board shall fix allowances, or per diem in lieu thereof, for necessary travel and subsistence expenses of the Governor while traveling on official business. In addition, the Board may fix (1) allowances, or per diem in lieu thereof, for necessary travel, relocation, and subsistence expenses of a person newly appointed as Governor and the immediate family of such person, and (2) allowances for necessary travel and subsistence expenses of persons under consideration for appointment to the position of Governor incurred in connection with interviews requested by the Board.".

SEC. 504. Section 5.13 of the Farm Credit Act of 1971 is amended to read as follows:

"SEC. 5.13. FARM CREDIT ORGANIZATION.—The Governor of the Farm Credit Administration is authorized, in carrying out the powers and duties now or hereafter vested in him by this Act and acts supplementary thereto, to establish and fix the powers and duties of such divisions and instrumentalities and to appoint such number of Deputy Govenors as he may deem necessary to the efficient functioning of the Farm Credit Administration and the successful execution of

the powers and duties so vested in the Governor and the Farm Credit Administration. The salary for the positions of Deputy Governor shall be at the rate or rates fixed by the Federal Farm Credit Board but not to exceed the maximum rate of basic pay in the Executive Schedule (5 U.S.C. §§ 5311–5317). The Governor is further authorized, without regard to the provisions of the competitive civil service and classification statutes and regulations issued thereunder, to establish, determine the level of responsibilities of, make appointments to, and fix in advance salaries for, such other positions in the Farm Credit Administration as may be necessary to carry out its functions: *Provided,* That the salary for any such position may not exceed the annual rate of basic pay for positions at Level V of the Executive Schedule. With the approval of the Federal Farm Credit Board, the Governor may fix without regard to the provisions of Chapter 57, title 5 of the United States Code (1) allowances, or per diem in lieu thereof, for necessary travel and subsistence expenses of officers and employees of the Farm Credit Administration while traveling on official business, (2) allowances, or per diem in lieu thereof, for necessary travel, relocation and subsistence expenses of new appointees, and of officers and employees of the Farm Credit Administration who are transferred in the interest of the Farm Credit Administration from one official station to another for permanent duty, and their

53-579 O - 80 - 11

immediate families, and (3) allowances for necessary travel and subsistence expenses of applicants for employment with the Farm Credit Administration incurred in connection with preemployment interviews.".

SEC. 505. Section 5.15 of the Farm Credit Act of 1971 is amended by—

(1) inserting in the first sentence after the second comma "and without regard to the provisions of law relating to the acquisition of property and services by the Government of the United States."; and

(2) adding at the end thereof a new sentence as follows: "The Farm Credit Administration may dispose of property so acquired without regard to the provisions of law relating to the disposal of Government property, and any amounts collected from the disposition of such property shall be deposited in the special fund provided for in section 5.16(b) and shall be available to the Administration in the same manner and for the same purposes as the funds collected under section 5.16(a)."

SEC. 506. Section 5314 of title 5 of the United States Code is amended by striking out paragraph (57).

SEC. 507. Section 6308 of title 5 of the United States Code is amended by inserting in the first sentence before "(vi)" "or", and by striking out ", or (vii)".

SEC. 508. Section 8332(b) of title 5 of the United States Code is amended by—

(1) striking out in paragraph (8) after the semicolon "and";

(2) striking out the period at the end of paragraph (9) and inserting in lieu thereof "; and";

(3) adding a new paragraph (10) as follows:

"(10) service in the employment of a Farm Credit System institution which is not otherwise included as service under this subsection if he later becomes subject to the provisions of this subchapter.";

(4) inserting before "for the purpose of paragraph (5) of this subsection—" a new sentence as follows: "The Office of Personnel Management shall accept the certification of the Governor of the Farm Credit Administration or his designee concerning service for the purpose of this subchapter of the type performed by an employee named by paragraph (10) of this subsection."; and

(5) inserting at the end thereof a new sentence as follows: "Service referred to in paragraph (10) is allowable only in the case of persons who are subject to this subchapter on, or become subject thereto after, the effective date of the Farm Credit Act Amendments of 1979."

SEC. 509. Section 8339(i) of title 5 of the United States Code is amended by adding at the end thereof a new sentence as follows: "With respect to an annuity which is based upon service credited under section 8332(b)(10) of this title, unless the employee or Member elects to eliminate the service involved for the purpose of the annuity computation, the annuity is further reduced by an amount equal to that portion of any retirement benefit payable to the annuitant for the year under a Farm Credit System institution retirement plan which is allocable to such service, or where there has been a lump sum payment under the plan to the annuitant, by an amount which the Office of Personnel Management determines would have been payable to annuitant for the year and allocable to the service if the lump sum payment had not been made.".

Staff Explanation of S. 1465

S. 1465 amends the Farm Credit Act of 1971 to permit Farm Credit System institutions to improve their services to borrowers. The major provisions of the bill would—

(1) reduce from 80 percent (70 percent in the case of rural utility cooperatives) to 60 percent or such higher percentage as the district boards may establish, the level of control that must be in the hands of farmers, producers, or harvesters of aquatic products, or other eligible cooperatives, to enable a cooperative to borrow from a bank for cooperatives;

(2) permit Federal land banks to make loans in excess of 85 percent of the appraised value of the real estate security when the loans are guaranteed by a Federal, State, or local governmental agency;

(3) empower the Federal land banks and the production credit associations to make loans to farmers, ranchers, and producers or harvesters of aquatic products for financing basic processing and marketing directly related to their operations and those of other such farmers, ranchers, and producers or harvesters of aquatic products; and

(4) authorize the banks for cooperatives to finance transactions for the exportation of agricultural aquatic products by American cooperatives which are borrowers from the banks and provide their member cooperatives with other financial services to enable them to participate effectively in foreign markets for agricultural and aquatic products.

Section-by-Section Analysis of S. 1465*

The bill contains a short title and five separate titles as follows:

(1) Title I—Federal Land Banks and Associations

(2) Title II—Federal Intermediate Credit Banks and Production Credit Associations

(3) Title III—Banks for Cooperatives

(4) Title IV—Provisions Applicable to Two or More Classes of Institutions of the System

(V) Title V—District and Farm Credit Administration Organization

SHORT TITLE

The first section provides that the bill may be cited as the "Farm Credit Act Amendments of 1979."

Title I—Federal Land Banks and Associations

Section 101. Section 101 amends section 1.4 of the Farm Credit Act of 1971 (12 U.S.C. 2012) which sets out the powers of the Federal land banks. References in this analysis to "the Act" are to the Farm Credit Act of 1971, as amended, 12 U.S.C. 2001, et seq.

Loan participations

The banks are now authorized by sections 1.4(6) and (12) of the Act to participate in loans with other Federal land banks. Subsections (1) and (2) expand this authorization to include participations in loans with other Farm Credit System institutions and, in loans that the bank may make under the Act, with lenders which are not System institutions. The bill elsewhere contains similar provisions authorizing intra-System loan participations by other System institutions. Subsection (2) also subjects participations among System institutions to common provisions set out in Title IV of the bill.

Sale and purchase of loans

Subsection (3) amends section 1.4(15) of the Act to provide new authority to the land banks to sell interests in loans to lenders which are not Farm Credit System institutions and to buy from and sell to System institutions interests in loans and other financial assistance extended, and non-voting stock. These provisions, together with those in subsections (1) and (2) and elsewhere in the bill, will permit System institutions to make more efficient use of their equity base and, in conjunction with commercial banks, more fully meet the needs of borrowers. The provision concerning stock allows for capitalization of the interests purchased or sold on an intra-System basis.

---

*Prepared by the Office of the General Counsel of the Farm Credit Administration.

Contributions of capital; loss sharing

Subsection (4) adds to section 1.4 new provisions to make clear that the banks may accept contributions of capital from the Federal land bank associations and enter into agreements with other System institutions to share losses of whatever nature. Similar provisions elsewhere in the bill authorize the other System institutions to enter into such agreements which are important means of enhancing the capital viability of the System.

Section 102. Section 102 amends section 1.5 of the Act (12 U.S.C. 2013) which pertains to bank stock.

Technical correction

Subsection (1) corrects the spelling of the word "hypothecated" in section 1.5 (d) of the Act.

Issuance of stock

Subsection (2) amends section 1.5(d) of the Act to authorize the banks to issue nonvoting stock to (a) borrowers as patronage refunds, and (b) other Farm Credit System institutions. These provisions provide for stock issuance in connection with other changes in Title I of the bill which authorize the land banks to make patronage refunds, to lend to aquatic producers or harvesters and to buy from and sell to System institutions interests in loans and other financial assistance extended.

Patronage refunds; equities

Subsection (3) adds to section 1.5 of the Act provisions authorizing the land banks to pay patronage refunds and to issue equities to Federal land bank associations to evidence capital contributions to the banks. This would give the land banks power to pay patronage refunds to borrowers, an authority which production credit associations and banks for cooperatives already possess. And the provision regarding equities would complement the authorization in section 101 of the bill for the banks to accept contributions of capital from the associations.

Section 103. Section 103 amends section 1.6 of the Act (12 U.S.C. 2014) governing real estate mortgage loans to authorize the land banks to participate with other lenders in long term loans in areas defined by the Farm Credit Administration. This parallels other provisions in Title I of the bill authorizing loan participations, and recognizes that loans may be made to producers or harvesters of aquatic products who may not be located in rural areas.

Section 104. Section 104 amends section 1.7 of the Act (12 U.S.C. 2015) relating to interest rates by inserting a reference to a clarifying provision to be added to Title IV of the Act which deals with State interest rate limitations. Similar references are added by the bill to the provisions of the Act relating to interest rates charged by other System lending institutions.

Section 105. Section 105 amends section 1.8 of the Act (12 U.S.C. 2016) relating to eligibility for loans by adding producers or harvesters of aquatic products as eligible to receive services, including loans, from the land banks. This will permit the banks to make long term real estate mortgage loans to aquatic producers for purposes such as construction of dock and storage facilities and for other long-term credit needs. Such producers are now eligible under the Act to borrow from production credit associations.

Section 106. Section 106 amends section 1.9 of the Act (12 U.S.C. 2017) governing loan security by permitting loans (a) made or participated in by a land bank with a non-System lender and (b) guaranteed by Federal, State, or other governmental agencies, to exceed the ceiling of 85 percent of the appraised value of real estate security which is imposed generally by the Act on land bank loans. This provision, which authorizes the Farm Credit Administration to establish ceilings in excess of 85 percent, will permit the land banks to continue to serve borrowers under programs such as those conducted by the Farmers Home Administration which are shifting their emphasis from the making of loans to loan guarantees. This will be advantageous to younger farmers who have lower equities in their farm operations.

Section 107. Section 107 amends section 1.10 of the Act (12 U.S.C. 2018) relating to loan purpose by expanding the credit needs of eligible borrowers which may be served by the land banks to include basic processing and marketing directly related to the loan applicant's operations and those of other eligible borrowers. The bill provides, however, that the applicant's own operations must provide at least that percentage of the total processing or marketing for which financing is extended as is established by the bank board under regulations of the Farm Credit Administration.

This will permit the banks to make long term real estate financing available to farmers, ranchers, and producers or harvesters of aquatic products for facilities needed for basic processing and marketing directly related to their operations and

those of other such farmers, ranchers, and aquatic producers and harvesters. The bank boards will have the responsibility, under Farm Credit Administration regulations, for establishing a minimum percentage of "throughput" for the facility by the applicant from his own operations—in effect, an eligibility standard for financing for this purpose. Under this authority, those otherwise eligible to borrow from the bank may obtain financing to assist them to process and market their production—a crucial self-help link in the farm to consumer chain.

Section 108. Section 108 amends section 1.11 of the Act (12 U.S.C. 2019) to authorize the land banks to make financially related services available to borrowers, members and applicants appropriate to their aquatic as well as on-farm operations. This provision parallels other provisions of the bill which authorize the banks to make loans and services available to producers or harvesters of aquatic products.

Section 109. Section 109 corrects a technical defect in section 1.12 of the Act (12 U.S.C. 2020) by removing the designation "(a)", which is unnecessary.

Section 110. Section 110 amends section 1.15 of the Act (12 U.S.C. 2033) which enumerates the powers of the Federal land bank associations.

Technical corrections

Subsections (1) and (2) correct technical defects in sections 1.15 (13) and (14) by striking out, respectively, the word "shall" and, the second time it appears, the word "may".

Subsection (3) adds a new provision authorizing the associations to contribute to the capital of the land banks, which are authorized by Title I of the bill to accept them.

Section 111. Section 111 amends section 1.16 of the Act (12 U.S.C. 2034) which pertains to association stock.

Book value

Subsection (1) strikes the word "fair" from the sixth sentence of section 1.16(a) of the Act. The word "fair", modifying the words "book value", is deleted here and in several other provisions of the Act to eliminate a word which, in this context, has no generally accepted meaning.

Stock purchase

Subsection (2) adds a new subsection 1.16(c) to the Act to make an exception to the requirement that borrowers of the land bank purchase association stock. The exception applies with respect to the part of a loan which the bank sells to a non-System lender or which the non-System lender retains or acquires in participating in a loan with the bank. The provision is necessary in these circumstances inasmuch as there would be no System need for that part of the loan to be capitalized.

Section 112. Section 112 amends section 1.17 of the Act (12 U.S.C. 2051) which relates to land bank reserves and dividends.

Technical correction

Subsection (1) corrects the spelling of the word "excess" in section 1.17(a) of the Act.

Patronage refunds

Subsection (2) amends section 1.17(b) of the Act to authorize the land banks to pay patronage refunds to borrowers and thus complements other provisions of the bill addressing this subject.

Section 113. Section 113 amends section 1.18(b) of the Act (12 U.S.C. 2052 (b)) to authorize Federal land bank associations (a) to pay patronage refunds, and (b) to prescribe the basis upon which such payments may be made. These provisions are consistent with other provisions of the bill authorizing payment of patronage refunds by the land banks.

Section 114. Section 114 amends section 1.19 of the Act (12 U.S.C. 2053) to make clear that the Federal land bank associations may enter into agreements with other System institutions to share losses of whatever nature. The bill elsewhere confers similar authority on other System institutions.

Section 115. Section 115 amends section 1.20 of the Act (12 U.S.C. 2054) to also except from the requirement that the land banks and associations shall have a first lien on stock and participation certificates issued by them, any stock or participation certificates held by other System institutions. Such certificates may be issued in connection with intra-System transactions authorized by the bill. It is not considered necessary to furnish the issuing institutions first lien protection as regards the other System institution holding the certificates.

Title II—Federal Intermediate Credit Banks and Production Credit Associations

Section 201. Section 201 amends section 2.1 of the Act (12 U.S.C. 2072) which sets out the powers of the Federal intermediate credit banks.

Sale and purchase of loans

Subsection (1) amends section 2.1(13) of the Act to authorize the banks to buy from and sell to other System institutions interests in loans, and nonvoting stock. This provision parallels the intra-System loan purchase and sale authority granted to other System institutions by the bill.

Loss sharing

Subsection (2) amends section 2.1(18) of the Act to make clear that the banks may enter into agreements with other System institutions to share losses of whatever nature. The bill elsewhere confers similar authority on other System institutions.

Loan participation

Subsection (3) amends section 2.1(20) of the Act to authorize the banks to participate in loans with other System institutions, subject to common provisions set out in Title IV of the bill. This provision complements the intra-System loan participation authority granted to other System institutions by the bill.

Section 202. Section 202 amends section 2.2 of the Act (12 U.S.C. 2073) which pertains to bank stock.

Issuance of stock

Subsection (1) amends section 2.2(d) of the Act to authorize the banks to issue nonvoting stock to, and retire it for, other System institutions in connection with intra-System transactions authorized by preceding subsections of the bill.

Book value

Subsections (2) and (4) strike the word "fair", modifying the words "book value", from sections 2.2(g) and 2.2(i) of the Act.

First lien

Subsection (3) amends section 2.2(h) of the Act to also except from the requirement of the act that the banks shall have a first lien on stock and participation certificates issued by them, any stock or participation certificates held by other System institutions. The first lien requirement is considered unnecessary in connection with equities issued in connection with intra-System transactions.

Section 203. Section 203 amends section 2.3(b) of the Act (12 U.S.C. 2074(b)) to authorize the Federal intermediate credit banks to discount for or purchase from certain non-System financial institutions notes or other obligations the proceeds of which are advanced in the first instance for the production or harvesting of aquatic products. It also authorizes the banks to make loans to such financial institutions secured by obligations of producers or harvesters of aquatic products.

The banks presently may discount for such institutions, and make loans to them secured by, notes and other obligations the proceeds of which were originally advanced for agricultural purposes. The production credit associations may presently make loans to aquatic producers and discount them with the banks. This provision merely provides like treatment for loans and made by certain other financial institutions to aquatic producers. Section 203 makes a companion amendment to section 2.3(c) of the Act to add loans made for the production or harvesting of aquatic products to the obligations to be considered for purposes of certain limitations on bank discounts for other financial institutions.

Section 204. Section 204 amends section 2.4 of the act (12 U.S.C. 2075) relating to interest rates by inserting a reference to a clarifying provision to be added to the Act by Title IV of the bill which deals with State interest rate limitations.

Section 205. Section 205 amends section 2.5 of the Act (12 U.S.C. 2076) to authorize the banks to make available to borrowers, members and applicants from the banks and production credit associations financially related services appropriate to aquatic operations. This provision reflects other provisions of the bill designed to equate bank services for producers or harvesters of aquatic products to those for farmers and ranchers.

Section 206. Section 206 amends section 2.6(c) of the Act (12 U.S.C. 2077(c)) to permit the banks, under regulations of the Farm Credit Administration, to apply more than 25 percent of net earings, after payment of operating expenses, to the restoration or maintenance of the allocated reserve account and other purposes.

Presently, under the Act, FCA regulations may allow application of less than, but not more than 25 percent of earnings to these purposes.

Section 207. Section 207 makes a technical correction in section 2.10 of the Act (12 U.S.C. 2091) by substituting a period for the comma after the word "States".

Section 208. Section 208 amends section 2.12 of the Act (12 U.S.C. 2093) which sets out the powers of the production credit associations.

Sale and purchase of loans

Subsection (1) amends section 2.12(11) of the Act to authorize the associations to buy from and sell to System banks interests in loans and other financial assistance extended, and nonvoting stock. This provision parallels the intra-System loan purchase and sale authority granted to other System institutions by the bill.

Loan participations

Subsection (2) amends section 2.12(13) of the Act to authorize the associations to participate in loans with other System institutions, subject to common provisions set out in Title IV of the bill. This provision likewise parallels other similar authorities contained in the bill.

Loss sharing

Subsection (3) amends section 2.12(15) of the Act to make clear that the associations may enter into agreements with other System institutions to share losses of whatever nature. The bill elsewhere confers similar authority on other System institutions.

Section 209. Section 209 amends section 2.13 of the Act (12 U.S.C. 2094) which pertains to association stock.

Participation certificates

Subsection (1) amends section 2.13(e) of the Act to authorize associations to issue participation certificates in lieu of nonvoting stock.

Book value

Subsections (2), (4) and (6) strike the work "fair", modifying the words "book value", from sections 2.13 (f), (g) and (k) of the Act.

Stock; participation certificates

Subsection (3) amends section 2.13(f) of the Act to provide that, with respect to loans in which an association, under its present powers, participates with non-System financial institutions, associations, may issue nonvoting stock or participation certificates to such institutions, with respect to the portion of the loan retained by the association, in satisfaction of the requirement of the Act that the borrower own association stock or participation certificates. This authority will facilitate association-commerical lender loan transactions.

First lien

Subsection (5) amends section 2.13(j) of the Act to also except from the requirement of the Act that the associations shall have a first lien on stock or participation certificates issued by them, any stock or participation certificates held by other System institutions. The first lien requirement is considered unnecessary in connection with equities issued in connection with intra-System transactions.

Section 210. Section 210 amends section 2.15 of the Act (12 U.S.C. 2096) which relates to loans of the production credit associations

Processing and marketing

Subsection (1) amends section 2.15(a) of the Act by expanding the purposes for which associations may make loans and other financial assistance available to include basic processing and marketing directly related to the borrower's operations and those of other eligible farmers, ranchers, and producers of harvester of aquatic products. Like the similar provision relating to land bank lending, this subsection provides that the borrower's operations must provide at least that percentage of the total processing or marketing for which financing is intended established by the supervising bank under regulations of the Farm Credit Administration.

This will permit the associations to make short and intermediate term loans available to borrowers for basic processing and marketing directly related to their operations and those of other farmers, ranchers or aquatic producers. The supervising bank will have the responsibility, under Farm Credit Administration regulations, for establishing a minimum percentage of "throughput" by the borrower from his own operations—in effect, an eligibility standard for financing for this purpose.

Interest rates

Subsection (2) amends section 2.15(b) of the Act relating to interest rates by inserting a reference to a clarifying provision to be added to the Act by Title IV of the bill which deals with State interest rate limitations.

Section 211. Section 211 amends section 2.16 of the Act (12 U.S.C. 2097) to authorize the associations to make available to borrowers, applicants and members financially related services appropriate to aquatic operations. This provision reflects other provisions of the bill designed to equate services for producers and harvesters of aquatic products to those for farmers and ranchers.

Title III—Banks for Cooperatives

Section 301. Section 301 amends section 3.1 of the Act (12 U.S.C. 2122) which sets out the powers of the banks for cooperatives.

Loan participation

The banks are now authorized by section 3.1(11) of the Act to participate with other banks for cooperatives, commercial banks and other financial institutions in loans made to eligible cooperative associations. Subsection (1) expands this authorization to include, subject to the common provisions set out in title IV of this bill, participations in loans with other Farm Credit System institutions. The bill elsewhere contains similar provisions authorizing intra-System loan participations by other System institutions.

Deposit of funds

The banks are currently authorized to deposit securities and current funds with member banks of the Federal Reserve System. Subsection (2) expands this authority to permit a bank for cooperatives to make deposits in any other financial institutions, domestic or foreign, as may be authorized by its board and approved by FCA. This will permit the banks for cooperatives to make such deposits as may be necessary in connection with financing export sales or providing other services authorized by section 3.7 of the Act, as amended by section 304 of this bill.

Investments

The banks are currently authorized to buy and sell obligations of, or insured by, the United States or agencies thereof and to make other investments as may be authorized by the Farm Credit Administration. Subsection (3) amends section 301(13) of the Act to add new provisions which provide specific authority for the banks for cooperatives to invest in bankers acceptances which are obligations of any member bank of the Federal Reserve System and to invest in, with the approval of the Farm Credit Administration, (1) other obligations, including those originating from transactions which the banks may finance under the Act, and (2) ownership interests in business entities, domestic or foreign, to facilitate obtaining credit information, servicing loans, and performing financial services related to international transactions. This will permit the banks to make such investments as may be necessary to expedite the bank's financing of export sales and providing other services authorized by section 3.7 of the Act, as amended by section 304 of this bill.

Subsection (3) also adds a provision clarifying the authority of the banks for cooperatives to buy from and sell to System institutions interests in loans and other financial assistance extended, and nonvoting stock. This provision, together with those elsewhere in the bill, will permit System institutions to make more efficient use of their equity base.

Credit balances and loss sharing

Subsection (4) amends section 3.1 of the Act to add new paragraphs (18) and (19). The new paragraph (18) authorizes the banks for cooperatives to maintain credit balances, and pay or receive fees or interest thereon, for the purpose of assisting the transfer of funds to and from parties to transactions under Title III of the Act. This will help the banks service the needs of cooperatives in international trade transactions. The new paragraph (19) provides authority for the banks to enter into agreements with other System institutions to share loses of whatever nature. The bill elsewhere confers similar authority on other System institutions.

Section 302. Section 302 amends section 3.3 of the Act (12 U.S.C. 2124) by adding a new subsection (f) which authorizes the banks for cooperatives to issue participation certificates to parties to whom voting stock may not be issued. This would provide a mechanism by which (1) loans and other financial assistance extended under section 3.7 of the Act, as amended by section 304 of this bill, could be capitalized and (2) patronage refunds other than cash could be paid.

Section 303. Section 303 amends section 3.5 of the Act (12 U.S.C. 2126) which relates to retirement of capital.

Retirement of participation certificates

Subsection (1) provides for the retirement of participation certificates which may be issued under the new section 3.3(f) in the same manner as nonvoting investment stock is retired under the current provisions of section 3.5.

Retirement of voting stock

Currently voting stock of a bank for cooperatives may be retired at "fair book value not exceeding par" on call or on such revolving basis as may be determined by the bank board with approval of the Farm Credit Administration. Subsection (2), by deleting the phrase "fair book value not exceeding", is intended to assure that a bank for cooperatives will not be allowed to retire stock in the normal course of business at less than par value.

Section 304. Section 304 amends section 3.7 of the Act (12 U.S.C. 2128) which relates to the lending powers of banks for cooperatives.

Technical and financial assistance

Subsection (1) designates the current provisions of section 3.7 as a separate subsection (a) and adds "currency exchange" to the enumeration of technical and financial assistance which may be offered by the banks for cooperatives to eligible cooperatives. The technical and financial assistance currently designated in the Act includes, but is not limited to, discounting notes and other obligations, collateral custody, or participation in loans to eligible cooperatives. Subsection (1) is intended to provide specific authority for the banks for cooperatives to provide the currency exchange services which eligible cooperatives may need in connection with international transactions.

International and leverage lease transactions

The banks for cooperatives now are authorized to make loans and commitments for credit only to eligible cooperatives and to extend to them technical and financial assistance. Subsection (2) expands this authority by adding new subsections (b) and (c) to section 3.7. The new subsection (b) authorizes the banks, in connection with transactions of a cooperative which is a voting stockholder, to make or participate in loans and commitments and extend other technical or financial assistance to a foreign or domestic party (1) in which the stockholder-cooperative owns at least the minimum ownership interest that is approved in accordance with regulations of the Farm Credit Administration, or (2) which engages with the stockholder-cooperative in the purchase, sale, or exchange of agricultural or aquatic commodities or farm supplies or the lease of real or personal property. Such loans, commitments, and assistance may be provided only if the bank determines, pursuant to regulations of the Farm Credit Administration, that the stockholder-cooperative will benefit substantially therefrom. Subsection (c) provides that loans, commitments, and assistance to these parties will be extended under policies adopted by the bank board and approved by the Farm Credit Administration. These provisions will allow the banks for cooperatives to provide financing and other assistance which is needed in connection with international and leverage lease transactions of their member cooperatives.

Section 305. Section 305 amends section 3.8 of the Act (12 U.S.C. 2129) which sets out the eligibility requirements for cooperative borrowers from the banks for cooperatives.

Aquatic cooperatives

Cooperative associations which are engaged in the business of furnishing aquatic business services to their members, unlike those which provide farm business services, are not now eligible to borrow from the banks for cooperatives. Subsection (1) adds aquatic business services to the list of business activities which a cooperative must be empowered to transact in order to be eligible to borrow from the bank. This provision is similar to other provisions of the bill designed to equate bank services for producers and harvesters of aquatic products to those for farmers and ranchers.

Member business

Section 3.8(c) provides that, to be eligible to borrow, a cooperative association must transact certain types of business with members in an amount greater in value than with nonmembers. Under the general provisions of Section 3.8, an association may qualify as an eligible cooperative if it is empowered to furnish "services to eligible cooperatives." However, section 3.8(c) contains no provision which authorizes the value of these services to be considered in determining wheth-

er a cooperative meets the member business requirement. By substituting the words "farm or aquatic business services, or services to eligible cooperatives" for the words "or farm business services" in section 3.8(c), subsection (2) corrects this imperfection and also reflects the change made by subsection (1) with respect to the eligibility of certain aquatic cooperatives.

Voting control

Currently, in order for a cooperative to be eligible to borrow for a bank for cooperatives, not less than 80 per centum (70 per centum in the case of rural electric, telephone, and public utility cooperative) of its voting control, or such higher percentage as may be established by the district board, must be held by farmers, producers or harvesters of aquatic products, or eligible cooperatives. Section (3) lowers the required percentage of the voting control to be so held to 60 per centum. This will allow the banks for cooperatives to more fully serve thd credit needs of rural America by providing financing and other assistance to cooperatives which are controlled by farmers, ranchers, and producers and harvesters of aquatic products. A district board will continue to have the power to establish a higher farmer-member requirement in its district for cooperative eligibility if it desires.

Section 306. Section 306 amends section 3.9(a) of the Act (12 U.S.C. 2130) which relates to ownership of stock in the banks for cooperatives by their borrowers. Currently each borrower is required to own at least one share of voting stock at the time the loan is made and such additional amounts of voting or nonvoting investment stock, at that time, of from time to time, as the bank may determine; only those borrowers "entitled to hold voting stock" must meet this requirement. This amendment reflects the new authorization in section 304 of the bill which provides for loans to be made under certain circumstances to parties which are not entitled to hold voting stock, and will facilitate the banks' financing of international and leverage lease transactions. The required investment in stock will continue to be limited to 10 per centum of the face amount of the loans at closing.

Section 307. Section 307 amends section 3.10 of the Act (12 U.S.C. 2131) as it relates to interest rates and the cancellation of stock and application on indebtedness.

Interest rates

Subsection (1) amends section 3.10(a) relating to interest rates by inserting a reference to a clarifying provision to be added to the Act by Title IV of the bill which deals with State interest rate limitations.

Cancellation of stock and application on indebtedness

Under the present provisions of section 3.10(d), in the case of default by a borrower or in the case of liquidation or dissolution of a present or former borrower, the bank for cooperatives may, but is not required to, retire and cancel all or a part of equities in the bank owned by or allocated to the borrower at "the fair book value thereof" not exceeding par. Subsection (2) will provide for such retirements at fair "market" value not exceeding par in lieu of fair "book" value. In addition, subsection (2) adds a provision which precludes the retirement of equities under these circumstances if the Farm Credit Administration determines that the retirement or cancellation would adversely affect the bank's capital structure. This provision will allow the banks for cooperatives the flexibility to discount equities which are to be retired or cancelled outside the normal revolving cycle but will permit such retirement or cancellation only if the bank's capital structure will not be adversely affected.

Section 308. Section 308 amends section 3.11 of the Act (12 U.S.C. 2129) which relates to earnings and the applications of net savings by the banks for cooperatives.

Allocated surplus account

Presently, whenever the Governor owns no stock in a bank for cooperatives, the banks may be permitted under regulations of the Farm Credit Administration to apply a maximum of 25 per centum of their net savings to the allocated surplus account. Subsection (1) removes this limitation to permit an application of a greater amount of net savings to this account. This will enable the banks for cooperatives to create and maintain adequate risk funds to preclude stock impairment.

Patronage refunds

Subsection (2) merely authorizes the payment of patronage refunds by banks for cooperatives in participation certificates as well as in stock or cash as is currently provided for. This reflects the authority of the banks to issue participation certificates which is added by section 302 of the bill.

Title IV—Provisions Applicable to Two or More Classes of Institutions of the System

Section 401. Section 401 amends section 4.5 of the Act (12 U.S.C. 2156) which provides for finance committees for the Farm Credit Banks composed of the presidents of the respective banks. Subsection (2) provides authority for a bank president to delegate his responsibility on the committee. This proposal will permit a bank president to more effectively manage the bank through the efficient utilization of his time and skills and those of other officers of the bank. Subsection (1) also makes a technical correction in section 4.5 by substituting the word "president" for the word "presidents" in the first sentence thereof. Subsection (2) makes a technical correction in the third sentence of section 4.5 by substituting the word "subcommittees" for the word "subcommittee's".

Section 402. Section 402 makes a technical correction in section 4.10 of the Act (12 U.S.C. 2181) by substituting the word "same" for the word "name".

Section 403. Section 403 amends Title IV of the Act by adding new sections 4.17, 4.18, and 4.19 which relate to interest rates, participation loans and truth in lending, respectively.

Interest rates

The new section 4.17 clarifies that interest rates on loans made by institutions on the Farm Credit System established with the approval of the Farm Credit Administration are not subject to any interest rate limitations imposed by any State constitution, statute or other law. This provision does not reflect any change in the law since State limitations on interest rates are not now applicable to loans made under the Act. It is included in the bill merely to eliminate any possible concern either inside of outside the System about this issue by explicitly providing for Federal preemption of State laws in this area.

Participation loans

The new section 4.18 provides that loan participations among Farm Credit System institutions operating under different titles of the Act shall be upon such terms as may be agreed upon by the institutions and authorized by the Farm Credit Administration, except that eligibility, membership, term, amount, security, stock purchase, and some other loan requirements will be determined pursuant to the provisions of the Act applicable to the institution which originates the loan. The bill elsewhere provides for intra-System loan participations. This provision ensures that, while the participating institutions will be given flexibility in handling the loans involved, the general framework of the Act with respect to eligibility and other basic factors relating to services from the several System institutions will remain intact.

Truth in lending

The new section 4.19 of the Act provides that any State law which imposes any duty or requirement that had been imposed by the Federal Truth in Lending Act (83 Stat. 146) prior to any amendment shall not be applicable to credit transactions of Farm Credit System institutions. This assures that no State may require a Farm Credit institution to comply with a truth-in-lending requirement from which the institution has been exempted by an Act of Congress.

Section 404. Section 404 amends Title IV of the Act to add a new Part D relating to service organizations.

Establishment of service organizations

Under current law, the district boards are empowered to authorize agreements between System institutions to provide for services which can most effectively be made available by joint undertakings. There is no authority, however, for the institution to organize corporations to perform those functions which may be more efficiently performed through a separate legal entity. The new section 4.25 authorizes the banks of the System, either individually or in concert with other banks, to organize service corporations. These corporations may be empowered to perform for the organizing bank or banks functions or services, other than the extension of credit, which are authorized by the Act. Applications for Federal charters for such corporations will be made to the Governor who may for good cause deny a charter. Upon the approval of the articles of incorporation and the issuance of a charter by the Governor, the corporation will become a federally chartered corporate body and an instrumentality of the United States. This section provides that a corporation so chartered shall have no greater authority with respect to the functions or services it performs, than the organizing bank or banks possess under the Act.

Powers of Governor with respect to service corporations

Under the new section 4.26, the Governor will have the power to provide for the organization of any service corporation chartered under section 4.25, to prescribe the territory within which it may transact business, and to direct such changes in the charter as he finds necessary to accomplish the purposes of the Act. These powers are similar to those which the Governor is given elsewhere in the Act with respect to the Farm Credit banks and associations. They specifically include the power to approve the corporate title, general corporate powers, composition and compensation of boards of directors, sources of operating funds, dissolution, liquidation, distribution of assets, and applications of earnings.

Supervision and examination

The new section 4.27 provides that any service corporation organized under this Part will be an institution of the Farm Credit System and will be subject to the same supervision and examination by the Farm Credit Administration as the banks which may organize it.

Title V—District and Farm Credit Administration Organization

Section 501. Section 501 amends section 5.2 of the Act (12 U.S.C. 2223) to reduce the required number of candidates for election to a district farm credit board from three to two. Currently the Act provides that the three nominees who receive the highest number of votes in the nomination poll shall be the candidates for election to the district board. Therefore, it is possible that a candidate may be elected to membership on the board by less than a majority vote. The reduction of the number of candidates to the two nominees who receive the highest number of votes in the nomination poll will assure that district directors will be elected by a majority vote. This is consistent with most election practices in the United States.

Section 502. Section 502 amends section 5.8(h) of the Act (12 U.S.C. 2242) to provide for members of the Federal Farm Credit Board to receive compensation for each day or part thereof in the performance of official duties at a rate equal to the daily equivalent of the rate prescribed for a GS–18. Members now receive compensation at the rate of $100 per day. The per diem rate of $100 was established in 1966 and was then roughly equivalent to the daily rate of compensation of a GS–18. The increase in compensation reflects the increase in the rate of compensation at the GS–18 level since that time.

Section 503. Section 503 amends section 5.11 of the Act (12 U.S.C. 2245) which relates to the compensation and allowances for the Governor of the Farm Credit Administration. Currently, the rate of compensation of the Governor is set in the Executive Pay Schedule at level III (5 U.S.C 5314(57)). The amendment to section 5.11 authorizes the Federal Farm Credit Board to fix the salary of the Governor at a rate not to exceed the maximum rate of basic pay in the Executive Schedule (5 U.S.C. §§ 5311–5317) which is presently $66,000 per annum. The Federal Board will continue to have the authority to fix the allowance or per diem in lieu thereof, for necessary travel and subsistence expenses of the Governor while traveling on official business. The amendment also gives the Board the additional authority to fix (1) allowances for necessary travel, relocation, and subsistence expenses incurred by a person newly appointed as Governor and (2) allowances for necessary travel and subsistence expenses of persons under consideration for appointment to the position of Governor which are incurred in connection with interviews requested by the Board. These new provisions will assist the Federal Board in its efforts to recruit and retain highly qualified persons as Governor, but will limit the salary for the position of Governor to the top level received by the heads of other agencies in the Executive Branch of Government.

Section 504. Section 504 amends section 5.13 of the Act (12 U.S.C. 2247) which provides for the organization of the Farm Credit Administration. It continues the Governor's power to appoint such numbers of Deputy Governors as he determines necessary for the efficient functioning of the agency. It provides that the salaries of the Deputy Governors will be fixed by the Federal Board at a rate or rates not to exceed the maximum rate of basic pay in the Executive Schedule (5 U.S.C. §§ 5311–5317). In addition, it permits the Governor, without regard to the civil service laws, to establish, determine the level of responsibilities of, make appointments to, and fix in advance salaries for, such other positions in the agency as are necessary to carry out its function. It limits the maximum salary for any such position, however, to the annual rate of basic pay for positions at Level V of the Executive Schedule. It authorizes the Governor, with the approval of the Federal Board, to fix, without regard to the provisions of Chapter 57, Title 5 of the United States Code, (1) allowances for necessary travel and subsistence expenses for FCA employees, (2)

allowances for necessary travel, relocation, and subsistence expenses of new appointees or employees who are transferred from one official duty station to another, and (3) allowances for necessary travel and subsistence expenses incurred by applicants for employment incurred in connection wih preemployment interviews. These provisions will facilitate the hiring and retention of an experienced and highly qualified staff which is needed to effectively supervise and examine the System institutions. By removing civil service restrictions, there will be greater flexibility in determining qualifications and salary level for positions in the agency. This will place the Farm Credit Administration in a stronger position in its efforts to hire personnel with specialized skills in the area of agricultural finance.

Section 505. Section 505 amends section 5.15 of the Act (12 U.S.C. 2249) to provide that the Farm Credit Administration may acquire property and services without regard to provisions of law relating to the acquisition of property by the Government. Such property and services are paid for with funds made available to the Farm Credit Administration by way of assessments collected from the Farm Credit institutions. Authority is also provided for property so acquired to be disposed of without regard to provisions of law relating to the disposal of Government property. Any amounts collected from the disposition of such property will be deposited in the special fund provided for in section 5.16(b) of the Act, 12 U.S.C. 2250, and will be available to the Farm Credit Administration for administrative expenses and salaries in the same manner as funds collected under section 5.16(a) of the Act, 12 U.S.C. 2250. This will allow the Farm Credit Administration to conduct its operations on the basis of good business practices.

Section 506. Section 506 amends section 5314 of Title V of the United States Code by striking out paragraph (57), which places the Governor of the Farm Credit Administration in Level III of the Executive Schedule. Section 502 of this bill provides for the Federal Farm Credit Board to fix the salary of the Governor.

Section 507. Section 507 amends section 6308 of Title V of the United States Code which concerns the transfer of annual and sick leave credited to an employee transferring between positions with different leave systems without a break in service. By deleting the reference to 5 U.S.C. 6301(2)(vii), which excludes employees of the Farm Credit institutions from coverage of the provisions of Title V relating to annual and sick leave, the accrued annual and sick leave of an employee of a Farm Credit institution who accepts a position with a Government agency will be permitted to be transferred to the employee's credit in that agency on an adjusted basis under regulations of the Office of Personnel Management. Currently, sick and annual leave earned by an employee of a System institution cannot be so transferred, and this hinders the ability of the Farm Credit Administration to recruit experienced personnel from the System institutions.

Section 508. Section 508 amends section 8332(b) of Title V of the United States Code to permit, in certain cases, service as an officer or employee of a Farm Credit institution to be included as civilian service of the Government for Federal civil service retirement purposes. Currently, service as an officer or employee of the Farm Credit banks is creditable as Government civilian service only if the person was an officer or employee of a Farm Credit bank before January 1, 1960. Persons employed by the banks subsequent to that date are not covered by the civil service retirement system.

Subsections (1) and (2) makes minor grammatical adjustments in the provisions of section 8332(b) to accommodate the new paragraph (10) to be added by subsection (3). The new paragraph (10) provides that service in the employment of a Farm Credit institution, which is not otherwise included as civilian Government service for the purpose of civil service retirement, may be credited as civilian service if the person subsequently becomes subject to the provisions of Title V which relate to civil service retirement. Subsection (4) provides for the Office of Personnel Management to accept the certification of the Governor of the Farm Credit Administration as to such service. Subsection (5) adds a new sentence which allows this service to be credited as Government service only if the person is subject to the civil service retirement system on, or becomes subject thereto after, the effective date of amendments provided for in this bill.

Section 509. Section 509 amends section 8339(i) of Title V of the United States Code to preclude the possibility that a person whose service in the employment of a Farm Credit institution which is credited as civilian Government service pursuant to section 508 of this bill will receive annuities benefits on account of such service under both the civil service retirement system and a retirement program of the Farm Credit institution. Whenever a civil service retirement annuity is based upon service credited pursuant to section 508, the annuity will be reduced (1) by an amount equal to that portion of any retirement benefit payable to the annuitant for

the year under a Farm Credit System retirement program which as allocable to such service, or (2) where there has been a lump sum payment to the annuitant under a System retirement program, by an amount which the Office of Personnel Management determines would have been payable to the annuitant for the year and allocable to the service if the lump sum payment had not been made.

PREPARED STATEMENTS SUBMITTED BY WITNESSES

STATEMENT OF DENNIS S. LUNDSGAARD, FARMER, AND CHAIRMAN, FEDERAL FARM CREDIT BOARD

My name is Dennis S. Lundsgaard. Along with two brothers, I own and operate a family farm in Cherokee, Iowa, on which we raise grain, feed, and beef cattle. I am appearing here today not only as a farmer but as Chairman of the Federal Farm Credit Board. Speaking on behalf of the Federal Farm Credit Board, I want to thank you not only for the opportunity to appear here today, but also for the assistance Congress has provided the farmers' cooperative Farm Credit System over the years.

The Farm Credit System is a creature of Congress. The U.S. Government provided the System most of its initial seed capital, along with a considerable amount of encouragement over the years. This has proved to be a magnificent partnership between the U.S. Government and a segment of its people—the farmers of America. Although assisting these farmers initially, the U.S. Government permitted the farmers, through stock investment, to retire the Government's capital investment. As of December 31, 1968, the Farm Credit System is entirely farmer owned and operated. In the process, not only did the U.S. Government design a vehicle by which the farmers could help themselves but, at the same time, the farmers have gained considerable skill and knowledge on the proper use of credit and of owning and operating their own credit institutions.

It is also pertinent to point out the fact that the cooperative Farm Credit System was built by a bipartisan effort and operates today under the bipartisan leadership provided by Congress.

The cooperative Farm Credit System operates under authorities contained in the Farm Credit Act of 1971, Public Law 92-181, as amended. Today, the cooperative Farm Credit System provides credit and closely related services amounting to well over $53 billion to farmers, ranchers, producers and harvesters of aquatic products, agricultural cooperatives, rural homeowners, and certain agribusinesses providing farmers with services essential to their onfarm operating needs.

As you know, the Farm Credit System does not loan Government money. As a matter of fact, if you had to select the most important function it performs for its farmers, members would undoubtedly say it would be its role of serving as a vehicle for moving capital—which tends to be concentrated in urban areas in our economy—into rural America. This is accomplished through the operation by the System of a Fiscal Agency located in New York City. Specifically, the Fiscal Agency pools the assets of farmers as collateral to back the Farm Credit banks' securities, which are sold to investors throughout the Nation and the world to obtain their funds. Last year, the Fiscal Agency sold bonds and discount notes amounting to $62.4 billion.

In short, the cooperative Farm Credit System has made first-class credit citizens out of farmers by providing them with a dependable source of credit at a reasonable cost, at rates comparable to those provided to other businessmen. It has been of untold assistance in bringing the farmers of America through the recent agricultural revolution. It has helped make possible the most efficient and productive agricultural industry in the world.

Providing this credit, of course, is a big job and that job changes. Thus, it sometimes becomes necessary for the Farm Credit System and the Farm Credit Administration to come before Congress and ask for changes. This does not happen often. It is our policy to "stick to our own knitting" and only come before Congress when we feel that we have some genuine need to do so.

In 1971, we had a total change in our enabling legislation—a new charter act. This time, we are seeking only relatively minor changes which we feel will help the System to continue to improve its service to its members and, in the process, assure the continuing supply of food and fiber for the Nation. The legislation we propose, then, could be described as something of a "tune-up," not a complete overhaul as was the case with the Farm Credit Act of 1971. However, we do consider this

53-579 O - 80 - 12

legislation important, and again thank you for this opportunity for an early hearing.

It is for the others who will appear before you this week to provide more detail on the individual issues and proposals. I would, however, like to comment briefly on one with which I am particularly familiar. As a representative of Farmers Export Company, I went on a trip earlier this year to the Far East, including Mainland China, to determine the possibilities for further trade of our farm products. I came to the conclusion, as did many others on the trip, that there is great opportunity for cooperatives not only to increase the sale of U.S. farm products but, by handling it through their cooperatives, increasing the share of the returns to farmers. The watchword for farmer cooperatives throughout history in the U.S. has been "quality." We are convinced that we can help restore among foreign buyers the credibility of U.S. farm products through this emphasis on quality. At the same time, such increased trade would be of benefit to the general public through the improvement in the balance of payments with foreign nations. Thus, I strongly support the authority in this bill which would permit banks for cooperatives to finance exporting activities of the Nation's cooperatives.

This is by no means the only important proposal in the bill. We seek also to:

1. Lower the farmer-eligibility requirements for banks for cooperatives financing which would permit the banks to more fully serve the credit needs of rural co-ops, including utility co-ops, without abandoning our time-honored principle of farmer control;

2. Allow Federal land banks to make loans in excess of 85 percent of the apprised value of the real estate security where Government guarantees are involved. This will enable the banks to assist more young farmers; and

3. Broaden eligibility for financing by FLBs and PCAs to include processing and marketing activities directly related to the applicant's farm. With proper safeguards, which we feel are either included in the bill or will be handled through regulation, the result will be farmers improving their income opportunities.

There are other proposals, one of which would provide for inter- and intra-Farm Credit System loans which would provide the means for making more efficient use of our equity capital base. Another proposal would enhance cooperation between PCAs and the commercial banks in meeting farmers' growing needs by permitting PCAs to issue participation certificates to commercial banks and other lenders.

Over the years, we have been advised by Congress to make sure that there is a consensus among the farmer-owners of the Farm Credit System before advancing any legislative proposals. I am particularly happy to report that S. 1465 enjoys Systemwide support—that is, the support of all 12 Farm Credit districts and the Central Bank for Cooperatives. Certainly all of the proposals of all of our borrower-members are not included. No single unit in the system got all that it wanted. Thus, what we are proposing represents a consensus of feeling within the System. The Federal Farm Credit Board has endorsed the legislation unanimously and we commend it to the committee.

As I indicated earlier, the Farm Credit System is completely self-sustaining. In fact, the System even pays for its own supervision, supplied by the Farm Credit Administration. In this same spirit, what we are seeking in S. 1465 will be of no cost to the U.S. taxpayers, yet should be of benefit. There are no appropriated funds involved. We hope that this legislation will gain your support and, through early passage, will permit the System to devote its full time and energy to its main job of supplying lifeblood—capital—to its farmer members, thereby assuring an abundance of food and fiber for a growing America.

STATEMENT OF GOV. DONALD E. WILKINSON, FARM CREDIT ADMINISTRATION

Mr. Chairman, my name is Donald E. Wilkinson. I am Governor of the Farm Credit Administration—the independent Federal agency which regulates and supervises the cooperative Farm Credit System. I am here today to express the full support of the Farm Credit Administration for S. 1465—the Farm Credit Act Amendments of 1979 Bill.

As Chairman Lundsgaard has already told you, this legislation enjoys the unanimous support of the Federal Credit Board, and has been endorsed by every district Farm Credit board, as well as by the board of the Central Bank for Cooperatives. Mr. Chairman, these democratically elected boards have concluded, after more than a 9-month period of careful deliberation, that the 28 proposed amendments to the Farm Credit Act of 1971 would make an important contribution to the welfare of American agriculture, rural America and the Nation as a whole. The Farm Credit Administration fully concurs with this conclusion and respectively recommends

them to you for your consideration. It is our belief that this legislation will enable the Farm Credit System to do a better job in serving its borrower-members and their cooperatives. And, of course, it will be able to do a better job without any additional expenditures by the U.S. taxpayer.

Congress performed a real service to American agriculture by enacting the Farm Credit Act of 1971. It is hard to imagine what the Farm Credit System would be like today if it had not been for this landmark legislation. The Act of 1971 established a legal framework for a new Farm Credit System which had evolved since its inception in 1916. In a word, the Farm Credit Act of 1971 constituted a new charter for a completely borrower-owned and decentralized system of lending institutions serving American agriculture. The Act broadened the legal authorities of the System without changing its historic mission—which is to provide American agricultural producers with a reliable source of credit tailored to their special needs.

Mr. Chairman, the legislation before your subcommittee today would continue the work begun by the 1971 Farm Credit Act. The 28 proposed amendments contained in S. 1465 would not constitute a new Farm Credit Act. No redirection in the historic mission of the Farm Credit System is proposed or contemplated. Instead, modifications in the 1971 Act are being recommended for your consideration. We believe these modifications are needed to enable the System to more effectively fulfill its historic mission.

I believe that six broad proposals contained in S. 1465 deserve special attention. These proposals are:

First, lowering the farmer member eligibility requirement for bank for cooperative financing to 60 percent of the voting members, or such higher percentage as district boards may establish.

Second, allowing Federal land banks to make loans for more than 85 percent of the appraised value of farm real estate when these loans are guaranteed by a Federal, State or regional governmental unit.

Third, authorizing the Federal land banks and production credit associations to finance a larger part of the processing and marketing activities of bona fide farmers.

Fourth, authorizing the banks for cooperatives to finance the exporting and importing activities of U.S. farmer cooperatives.

Fifth, expanding, in three distinct ways, the Farm Credit System's capacity to serve the credit needs of producers and harvesters of aquatic products.

Sixth, providing for greater cooperation between Farm Credit institutions and commercial banks.

The first major proposal—dealing with cooperative eligibility—is rooted in some of the major demographic changes which have been taking place in rural America during the past several years. At present, rural electric and other utility co-ops are required to have at least 70 percent of their voting stock in the hands of farmers, in order to be eligible for bank for cooperative financing. Supply and marketing co-ops are required under present law to have 80 percent farmer voting control. The legislation before you today would lower the minimum voting control requirement to 60 percent for marketing, supply, and utility co-ops. The bill also provides that each Farm Credit district may establish a higher voting requirement for its own region.

The population of rural America has been changing, is changing, and will continue to change in the future. Farmers and ranchers are increasingly finding new nonfarm neighbors. In many parts of the Nation, former inhabitants of cities and towns are finding rural life a preferred mode of existence. In some ways, of course, this is a welcome sign for rural America. Yet this new demographic pattern has placed some former co-ops in an awkward position. Take rural electric co-ops, for example. The regulations of most State public service commissions require that RECs and telephone co-ops serve everyone located in their territory. Also regulations of the rural Electrification Administration require that all rural utility cooperative users have the right to vote in the affairs of their rural electric cooperative. As a result of this "area coverage rule," utility cooperatives have no control over who is and who is not a member of their organization and cannot restrict voting rights to agricultural producers. Yet, these co-ops become ineligible to receive competitively priced credit from the banks for cooperatives when one member more than 30 percent of the membership is not a farmer or a rancher.

At the same time that the very substantial capital needs of rural electric generating and transmission co-ops are increasing, a source of credit is being threatened due to demographic factors beyond their control. The banks for cooperatives provided 64 utility co-ops with $586 million in the year ending June 30, 1979. While this represents a dramatic increase when compared to the amount loaned by BCs

the previous year, the point is that the banks for cooperatives could have provided even more credit to more RECs last year, if the eligibility requirement had been set at 60 percent rather than 70 percent. To put the matter bluntly, unless the eligibility requirement is adjusted to the demographic realities of rual America today, the number of utility co-ops which will be unable to take advantage of BC credit can only increase in the years ahead.

There are similar eligibility problems facing supply and marketing co-ops. The situation they face is not identical to the one facing rural utility co-ops, since the voting control requirement for marketing and supply co-ops is set at 80 percent, rather than at 70 percent, and because the REA "area coverage rule" does not apply to them. Yet the same basic dilemma exists. Demographic factors beyond their control are making it difficult for many supply and marketing co-ops to maintain eligibility for BC financing. The district Farm Credit banks tell us that a substantial number of supply and marketing co-ops are now, or soon will be, ineligible if the present voting control requirement is not lowered. This is the reason why they and we have recommended to you that the minimum eligibility requirement be set at 60 percent.

But, before leaving this topic, I want to emphasize that nothing in this proposal would vitiate, in any way, the long cherished principle of farmer control of their cooperatives. Mr. Chairman, there is undiminished support within the Farm Credit System to retain farmer control as a guiding principle of the System. All that the System and FCA are proposing is to formulate the principle of farmer control in more realistic terms. If we fail to make the required adjustments in this formula, many farmers and ranchers, as well as others in rural America, will lose, either now or in the near future, the vital benefit of access to financing from the banks for cooperatives.

The second major proposal would allow the Federal land banks to make loans in excess of 85 percent of the appraised value of the real estate security when these loans are guaranteed by Federal or State governmental units. This proposal is designed to enable the land banks to continue providing credit to young and low-equity farmers. In the past, the FLBs have reached these borrowers by cooperating with the Farmers Home Administration by means of that agency's joint and subordinated loan programs. This cooperative effort on the part of the Farmers Home Administration and the land banks has proven to be highly successful. More than $1 billion was loaned to almost 25,000 farmers in the 1974–1978 period as a result of this cooperative effort. Moreover, the program's loss record has been admirably low.

The need for the proposed amendment before you today, arises from a change in the direction of FmHA loan programs away from direct loans to loan guarantees. As you know, this change in direction came from Congress last year when it passed the Agricultural Credit Act of 1978 [P.L 95–334]. While this change in direction is, in our view, consistent with the requirements of good public policy, it does mean that the land banks will be unable to serve young and low-equity farmers with the assistance of the FmHA joint and subordinated loan programs, since these programs are direct loan programs. At the same time, the land banks will be unable to reach the same number of young and low-equity farmers through the FmHA guaranteed loan programs unless the Farm Credit Act of 1971 is revised.

Under current law, FLB loans cannot exceed 85 percent of the appraised value of the real estate security. A further restraining factor is the requirement in present law that the borrower invest in the stock of his Federal land bank association in the amount of between 5 and 10 percent of his loan. The net effect of these two restrictions on loan amount is that many young and low-equity farmers will be unable to take advantage of FLB financing, even if they could qualify for an FmHA or other guarantee. The proposed amendment would make it possible for the 85 percent limit to be waived when it is demonstrated to the lending officer that other credit factors warrant the limit being exceeded. For example, a loan guaranteed by the FmHA of up to 90 percent of appraised value might be made to an applicant if his earning potential and repayment capacity are particularly promising. In other words, this proposal would enable the Federal land banks to base their decision about young farmers on a broader range of credit factors than is now possible under current law. I believe the enviable loss record of the land banks—less than 0.1 percent of loans outstanding as of June 30, 1979—provides every reason for believing that they will use this increased flexibility in a sound and constructive fashion.

The third major proposal would broaden the authorities that the FLBs and PCAs now have to finance the processing and marketing activities of an applicant's farm, ranch or aquatic operation, and those of other bona fide farmers, ranchers and aquatic producers. At present, FLBs and PCAs are authorized by the Farm Credit Act of 1971 [Sections 1.10 and 2.15] to provide loans to farmers, ranchers and

aquatic producers for these purposes. But there is a strict limit on this form of financing. The applicant must provide more than 50 percent of the throughput processed or marketed in order to be eligible for a loan from a PCA or land bank. The bill before you today would remove this limit and allow each district board to set its own throughput requirement—so long as there is a demonstrated relationship between the total processing and marketing activities and the applicant's own production.

The objective of this proposal is to better equip the Federal land banks and PCAs to help farmers, ranchers and aquatic producers to increase their income. Farmers are increasingly engaged in these activities in order to obtain a higher return from their production. According to the 1974 Agricultural Census, more than 40 percent of farmers receive income from performing some type of custom service for other farmers. This development is, in the eyes of many observers, an inevitable consequence of the present mode of farming in the United States. Many others have pointed out that this is a highly desirable consequence, when viewed as a means of increasing farm income.

It deserves to be emphasized that this proposal would not authorize FLBs and PCAs to finance a new class of borrowers. Only those agricultural producers who are now eligible for a PCA or land bank loan would be eligible for this type of financing. In addition, each district board would be required to establish a throughput requirement, which would ensure that the processing and marketing activities financed by the FLBs and PCAs are an extension of the farmer's own production. Finally, FCA would be charged with the responsibility of seeing that district board policies provide adequate sideboards on this authority. In other words, the proposal does not in any way entail a shift in the Farm Credit System's longheld prime objective of serving agricultural producers and their cooperatives. It contains several built-in safeguards against any departure from this basic principle of the System.

The fourth proposal would authorize the banks for cooperatives to engage in international financing activities on behalf of U.S. farmer cooperatives. This is undoubtedly the most widely known proposal of the 28 contained in S. 1465 and for good reason. Agricultural exports are one of the few bright spots in the current U.S. balance of trade picture. Total foreign exports this year are projected by the Department of Agriculture to exceed 130 million tons. In dollar terms, this amounts to more

than $32 billion—a $16 billion surplus of agricultural exports over agricultural imports. The BC export proposal is based on the premise that more can be done by U.S. farmers themselves to export their own products and that the means for this participation is through farmer-owned cooperatives.

The latest USDA statistics show that cooperatives account for about 10 percent of all U.S. farm exports. Cooperatives are significant exporters of fresh citrus; nuts and related products; processed fruits; and certain feed grains. Farmers, working through their cooperatives, want to play a greater role in export trade.

The authorities available to banks for cooperatives are those specifically granted to them by Congress, and those used to finance international trade are not included at this time. As a result, farm cooperatives engaging in international trade have been able to use the banks for cooperatives only to finance the movement of farm products to an American port.

Cooperatives, through farmer-member committees and by individual contact, have requested the authorities of the banks for cooperatives be broadened to meet these financing needs directly. The cooperatives believe this is a reasonable and equitable request, especially when the U.S. branches of foreign banks already have the capacity to render a greater range of financial services than those now being sought by the banks for cooperatives.

The legislation before you today would enable the banks for cooperatives to provide these international financing services for U.S. farmer cooperatives; specifically, S. 1465 would enable the BCs to make deposits in foreign banks, buy and sell bankers acceptances, purchase time drafts payable by foreign buyers of agricultural products, engage in currency exchange, finance trading facilities which are jointly owned by a U.S. cooperative and a foreign cooperative, and invest in foreign financial institutions or servicing operations related to export trade.

To understand why the banks for cooperatives need these authorities, it is necessary to understand some of the basic elements in an international commodity exchange transaction. In international transactions, the seller's bank generally provides the credit to the buyer. This is the normal arrangement primarily because the seller may not know the buyer and because of the need to deal in more than one currency. International commodity transactions are almost always short-term and self liquidating. That is, the credit is typically for 60 to 180 days and is paid for out

of the proceeds of the sales of the commodities themselves, which, by their nature, are moved quickly into the distribution stream. Such credit is often extended through bankers acceptances, which have become an integral financing feature of the export trade. Incidentally, acceptance financing is a very low/risk form of financing because the seller's bank—in this case the banks for cooperatives—would hold a claim against a foreign buyer which is also guaranteed by a first-line foreign bank.

The banks for cooperatives would also be authorized, under S. 1465, to finance trading facilities and to invest in certain foreign financial servicing operations. These proposed authorities are assigned to enable the BCs to help U.S. farmer co-ops to market their products abroad. The point here is that in order to market products abroad, it is extremely helpful, if not absolutely necessary, to maintain a marketing presence in the foreign markets.

Directly related to exporting but of value domestically is the authority to directly finance equity investors who build facilities or provide equipment for lease to a U.S. farmer cooperative. This financing will help to improve the transportation of cooperatively produced commodities inside the United States and abroad. It is also important in reducing the cost of replacing cooperatives' processing equipment and facilities.

We in the Farm Credit Administration have reviewed this set of proposals carefully. We have concluded that the effects of these changes would improve farm income and pose no unreasonable risks for the banks for cooperatives. FCA will impose appropriate regulatory safeguards to insure prudent management.

The financing of international commodity movements is a relatively low-risk form of finance. Short-term and self-liquidating commodity credit transactions have had extremely low rates of default. In addition, there are a number of governmentally supported insurance arrangements through the Export-Import Bank, Overseas Private Investment Corporation, and Foreign Credit Insurance Association which provide additional help in managing risk in the sale of commodities in international trade. Moreover, the finance of exports by banks for cooperatives will never amount to a major proportion of their business. Thus, the natural diversification reflected in the fact that most American farm products are sold domestically will limit the exposure that the banks for cooperatives will have in this area.

The Farm Credit Administration has consulted with Eximbank, OPIC and the Office of the Comptroller of the Currency and is prepared to adopt tested procedures for maintaining effective supervisory oversight of the commodity financing activities that the banks for cooperatives would undertake.

In summary, the proposals to enhance the export financing capabilities of the banks for cooperatives represent a natural evolutionary extension of the service of the banks to farmers. The banks would be able to service the growing export trade of cooperatives as they have serviced the growing domestic trade, with attendant benefits for the farmer and the U.S. economy.

The fifth major proposal would authorize the Farm Credit System to more fully serve the credit needs of producers and harvesters of aquatic products. This broad proposal consists of three distinct amendments to the 1971 Farm Credit Act. One amendment would authorize the Federal intermediate credit banks to discount the aquatic loans of other financial institutions [OFIs]. The second would clarify that cooperatives solely engaged in furnishing aquatic business services are eligible to borrow from the banks for cooperatives. The third amendment would allow Federal land banks to make long-term loans to producers and harvesters of aquatic products.

Mr. Chairman, fundamental changes in the condition of the U.S. fishing industry have occurred since the passage of the 1971 Farm Credit Act. On one hand, the 200-mile limit has opened up vast, new opportunities for American fishermen. On the other hand, successful exploitation of these opportunities requires greater capital investment. Recognizing this situation, Congress acted last year to open up a vital credit source to commercial fishermen by passing the Allen-Weaver Bill. This legislation [Public Law 95-443], extended the term for PCA loans to producers and harvesters of aquatic products from 7 to 15 years. This relatively minor change in law has had an immediate impact on fishing communities in coastal areas. An indication of this is provided when one compares annual PCA aquatic loan volume statistics. In the year ending May 31, 1978—which is about when the bill was enacted into law—there were 1,900 aquatic loans outstanding for about $101 milion. In the following year, a dramatic increase occurred in the amounts outstanding as well as the amounts loaned. As of May 31, 1979, 2,200 aquatic loans were outstanding for about $187 million. In terms of aquatic loans made, the increase was from $68 million in the year ending May 31, 1978, to $148 million in the year ending May

31, 1979. In a word, the three aquatic proposals contained in S. 1465 will, we feel certain, continue the good work already being done as a result of the Allen-Weaver Act.

The sixth major proposal would foster increased cooperation between System institutions and commercial banks in meeting the growing credit needs of American farmers, ranchers and aquatic producers. Two specific amendments are proposed to accomplish this objective. One would authorize the Federal land banks to sell loans to, and participate in loans with, lenders outside the System. The second amendment would authorize PCAs to issue participation certificates to commercial banks and other lenders.

The first proposed amendment would provide the Federal land banks with the same basic authority which PCAs now possess to participate with other lenders in making credit available to farmers. The second "participation certificate" amendment would revise and streamline the process by which PCAs currently participate with non-System lenders in extending credit. The process would be streamlined by removing a requirement, in current law, which has discouraged some commercial banks from taking full advantage of the opportunity to participate with PCAs. At present, nonvoting stock in PCAs equal to not less than 5 percent of the loan retained by the PCAs, must be purchased in connection with each loan participation. The Act of '71 requires that such nonvoting stock be issued to the borrower. As a result, the PCA is introduced as a third party in the loan transaction with the borrower. The proposed amendment would remove PCAs as the third party from the transaction by allowing associations to issue nonvoting stock directly to the commercial bank. Commercial bankers have told us they will be more likely to participate with the PCAs if the current authority can be simplified and streamlined in the way proposed. FCA has long maintained that in order to meet the expanded credit needs of farmers, the combined efforts of all agricultural lenders will be required.

I will not comment on all of the remaining proposals. Many of these, I think, speak for themselves. But I do wish to say something which I hope will clarify some points about certain aspects of these amendments.

First, I would like to comment on the proposal to authorize FCA to charter corporations which perform service functions for System banks. The intent of this proposal is simply to allow System service entities, such as the Fiscal Agency and Farmbank Services, to operate more efficiently. As drafted, the bill would not allow FCA to charter an entity which performed a service that had not been already authorized by Congress. In other words, this proposal is simply and purely a "housekeeping proposal." It would not, in any way, authorize the Farm Credit System to do anything it cannot already do. Instead, the propsal would simply enable FCA to charter corporations to perform tasks now performed by unincorporated entities. Moreover, as I have told Senator Talmadge, this proposal would not authorize the incorporation of a Farm Credit insurance company to insure System borrowers. This is not the intent of the proposal, nor is it hidden in any other provision of S. 1465.

Finally, in regard to the six Farm Credit Administration proposals, I believe it deserves to be noted that the costs of FCA are borne by the banks and associations of the Farm Credit System. No taxpayer dollars are used to pay for the operations of the agency. It should also be noted that all of these six proposals do not seek any authority which has not already been granted to some other Federal agency or semi-governmental institution.

This concludes my remarks. I will gladly attempt to answer any questions you may have on the Farm Credit Act amendments Bill of 1979.

FARM CREDIT ADMINISTRATION,
Washington, D.C., October 25, 1979.

Senator EDWARD ZORINSKY,
Chairman, Subcommittee on Agricultural Credit and Rural Electrification,
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN ZORINSKY: I write in regard to a question raised at the October 4, 5, and 9 hearings before your subcommittee on S. 1465, the Farm Credit Act Amendments bill of 1979. The question does not concern a provision in the proposed legislation but relates instead to the insurance practices of Farm Credit System institutions. As I understand it, the question is: How are surplus funds derived from the Farm Credit System's sale of insurance disposed?

As background information on this question, I have enclosed a copy of the Federal Farm Credit Board's policy statement of April 1979 on financially related services. In its statement, the Board reaffirmed its long-held position that the System's objective in offering all financially related services to borrower-members must be to improve their ". . . income and well being." Following this principle, surplus in-

come derived by Farm Credit System institutions is disposed of in two ways. First, some banks and associations use such income to reduce the net costs of the borrower-members. Secondly, other banks and associations use such income to reduce their general operating costs and, thereby, lower the interest rates on loans to its borrower-members. Both uses of this surplus income are, we believe, consistent with the Federal Farm Credit Board's April 1979 position statement.

I should also like to emphasize that the Farm Credit Administration has issued strict guidelines to ensure that bank and association employees have no vested interest in maximizing the sale of insurance. The Agency's Supervisory Guidelines for Financially Related Services specifically prohibits:

1. Direct payments to employees based on production quotas.
2. Employees receiving premiums, gifts, free trips, etc. from either their employer or from the insurance company.
3. Including volume of services as a criterion for measurement in salary administration programs.

Of course, Farm Credit System employees do indirectly receive income from the sale of insurance when a bank or association uses part of such income to help defray personnel costs. But, in this respect, the sale of insurance differs in no way from a bank or association compensating an employee with funds derived from its normal lending activity.

In summary, Farm Credit System institutions use the surplus income derived from the sale of insurance to lower premiums or interest rates of its borrower-members. The Farm Credit Administration has taken special steps to ensure that System employees have no vested interest in maximizing the volume of insurance sales.

I hope that this letter provides the information you need on the Farm Credit System's involvement in insurance as a financially related service to its borrower-members. I will gladly provide additional information upon request.

Sincerely,

C. J. FREDRICKSON,
Senior Deputy Governor
(For Donald E. Wilkinson, Governor,
Farm Credit Administration).

FARM CREDIT ADMINISTRATION POSITION STATEMENT REGARDING INSURANCE AS A FINANCIALLY RELATED SERVICE

The objective of the farmer-owned cooperative Farm Credit System is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related business necessary for efficient farm operations.

Within the policies and Regulations issued by FCA, the policies for each of the banks and associations in the district are established by the elected district Boards of Directors. Within this framework, the affairs of a local association are directed by Boards of Directors elected by association member/owners and administered by a Chief Executive Officer employed by the board.

Because both the banks and associations are chartered as instrumentalities of the Federal Government, they are subject to Federal supervision. This supervision, including enforcement of law and Regulations, is provided by the Farm Credit Administration, an independent Agency in the executive branch of the Government.

While it remains the major function of the Farm Credit System to provide sound, adequate, and constructive credit to its owner/users, the Farm Credit banks and associations are authorized by law, Federal Farm Credit Board policy, and System Regulations to also provide financially related services.

The Farm Credit Act of 1971, Section 1.15(15), authorizes the Federal land bank associations to, "Provide technical assistance to members, borrowers, applicants, and other eligible persons and make available to them, at their option, such financial related services appropriate to their operations as it determines, with Federal land bank approval, are feasible, under regulations of the Farm Credit Administration." Section 2.16 of the Act states that, "Each production credit association may provide technical assistance to borrowers, applicants, and members and may make available to them at their option such financial related services appropriate to their on-farm operations as is determined feasible by the board of directors of each district bank, under regulations prescribed by the Farm Credit Administration." Section 3.1(6) of the Act authorizes the banks for cooperatives to "make loans and commitments for credit, provide services and other assistance as authorized in this Act, and charge fees therefor."

The Federal Farm Credit Board in its April 1979 meeting reaffirmed its formal position regarding financially related services, which includes collateral insurance. This policy was formulated and approved by the Board in 1974 and reads as follows:

"In keeping with the System objective of improving the income and well-being of farmers and ranchers, the System, as an adjunct to its credit operations, should make available to borrowers, members, and applicants financially related services appropriate for a successful farming business. The primary consideration in offering any service should be the benefit it provides members and the lenders rather than the remuneration which may accrue to the banks or associations. Consistent with the policy of the law, these services should be undertaken only when there is evidence of lack of availability as to convenience, quality, or cost and there is sufficient interest on an association or districtwide basis to assure that the service will be at least self-sustaining. It should be recognized, however, that some services have indirect benefits which contribute to cost recovery.

"The decision to offer a financially related service shall be optional with each institution of the System. It shall be the responsibility of the district board to authorize the offering of a particular financially related service within the district. In giving such authorization, the board should give careful attention to assuring that a similar service offered by more than one institution is as nearly coordinated as possible. The bank board shall approve programs to implement any such authorized financially related service. That approval shall be based on a determination that the proposal is economically and operationally feasible and in keeping with the basic objective of the System. Approval by the bank for an individual Farm Credit association to offer a financially related service shall be based on a determination that the need for such a service exists among the association membership and that the service meets the feasibility tests set forth in Section 8010 of the FCA Regulations. The bank also has the responsibility for the continued supervision of such programs.

"All proposed financially related service programs shall have the approval of the Farm Credit Administration. When request for approval of a service is made, the request shall be supported by an in-depth study determining the feasibility of the service and the contribution it provides in meeting the objective of the System. The submission should document the nature of the program, those to whom it will be offered, and the basis on which the service is judged to meet the tests set forth in Section 8010 of the Farm Credit Administration Regulations.

"Farm Credit Administration approval shall be based on the determination that legal authority to offer the service exists, an administrative determination that the proposed service can be authorized, and that the submission establishes the need for the service to be offered."

* * * * * * *

The following types of insurance are offered by Farm Credit associations in one or more districts of the Farm Credit System. Although, in certain circumstances, insurance may be required as a condition for obtaining a loan, in each case the borrower is offered the option to purchase insurance through an agent or a company of his choice not affiliated with the System's lending institutions.

Group Credit Life Insurance is made available on the life of a borrower in an amount appropriate to the credit commitment to and use of loan funds by the borrower. This is available in most associations in all Farm Credit districts. The program has existed in some districts for more than 25 years and has demonstrated a record of being a "free choice"service.

Credit Disability Insurance and Disability Income While Hospitalized Insurance provide a degree of income protection if the insured borrower is disabled. There must be a debtor/creditor relationship and the program must afford the lender an opportunity to apply funds received from claim payments on the insured's indebtedness. This insurance has been available for about 5 years in some districts.

Multiple Peril and Crop Hail Insurance are made available to borrowers for covering hazards incident to the growing and storage of crops, regardless of whether such crops are pledged as collateral. Crop hail insurance is commonly available to borrowers through most lenders and has been available through the System (primarily PCAs) for over 10 years in some districts.

Collateral Insurance is property and casualty coverage to protect against loss from damage to property owned by a borrower and significant to his operation and repayment of his debts. It may also cover a farmer's liability. This insurance is currently offered in only three Farm Credit districts on a pilot (test) basis and is limited to four types of policies: Home Owners, Farm Owners, Standard Fire, and Inland Marine.

Since the Collateral Insurance Program was first authorized on a pilot basis January 17, 1975, there have been several concerns expressed by a segment of the insurance industry. For the most part, these concerns were directed at the System's involvement in collateral insurance. It has been alleged that "the Government is competing with private industry;" that "the Farm Credit Administration has indiscriminately approved the sale of all forms of insurance by System institutions;" that "System borrowers have been coerced into taking System insurance to assure favorable action on loan applications;" and that "the Farm Credit System has expanded the program of financially related services beyond the scope of the original intent of the Farm Credit Act of 1971." It should be noted that these complaints have come from either insurance agents or from organizations involved in the sale of insurance to farmers. These complaints have not come from individual policyholders who use the System for their credit needs and are the ones for whom concern is expressed.

It was recognized that entrance by the System into the insurance area of financially related services ultimately might lead to competition with those dealing in the same business area. The agency believes, however, that there is no significant difference between farmers joining together to obtain insurance or other financially related services to their best advantage and farmers combining to purchase fertilizer, seed, feed, or other production inputs. In the specific case of insurance, there are some clear service advantages which Farm Credit System institutions can provide to farmer/members. Among the key advantages are: the capability of continually updating coverages; the ability to provide coverage not otherwise readily available; and the counsel of agriculturally oriented staff which can tailor insurance coverage to the specific needs of farmers. It is reiterated that the System insurance programs should not be judged on the basis of whether they benefit the farmer/members of the System. To deny farmers this opportunity through their cooperative credit organization is contrary to the whole "self help" farmer cooperative philosophy which has longstanding congressional support.

It is simply not true that the System's involvement in insurance can be equated with the "Government competing with private industry." The Farm Credit System, unlike the Farm Credit Administration which supervises it, is not an Agency of the Federal Government. The banks and associations of the Farm Credit System are neither owned nor subsidized by the Federal Government. Instead, the Farm Credit System is owned by its borrower/members. Its funds are obtained from the sale of bonds in the public money market which carry no Federal guarantee.

The concern over the alleged "tying" of extension of credit to the procurement of insurance appears unfounded. The Farm Credit Act of 1971, Regulations for Banks and Associations of the Farm Credit System, district and bank policies, and individual PCA/FLBA policies all provide for financially related services (including collateral insurance) to be optional for both the entity offering the service and the individual members. If circumstances warrant, insurance may be required as a loan condition; but, in all cases, the member is given the option of selecting the insurance carrier. To ensure that this is done, the member is asked to sign a statement indicating he understands his freedom to choose among insurance carriers. The following is an example of the statement used by associations in one of the Farm Credit districts to ensure that members are given this choice:

CERTIFICATION REGARDING COLLATERAL INSURANCE

Name of Association————————————

This is to certify that I have been informed by the production credit association and/or the Federal land bank association of which I am a member of the availability of collateral insurance through the association offices. This is to further certify that I fully understand the insurance services through the association are offered to members only on an optional basis, and that I am perfectly free to obtain this insurance from any other available source.

Signature of Borrower————————————

Date————

In order to ensure that the System's financially related services are provided in the manner intended by Congress, Farm Credit Administration supervisory guidelines prohibit employees from receiving commissions or incentive bonuses in any form. These prohibitions help to ensure that salaried employees are in a more objective position to tailor insurance coverage to the best interest of the members. Experience has shown that the intent of Congress has been carried out in practice. Simply stated, borrower/members have not complained about being coerced into buying System insurance. In fact, the borrower/members have said that the System, by providing an insurance option, filled what had been a major void in their business operations. It is difficult to see the logic in an association risking the loss of

substantial interest income for a minimal potential additional income of a collateral insurance premium.

Farm Credit Administration's position is not one which promotes the development or adoption of financially related services by the banks and associations nor is its position one of inhibiting the development of worthwhile financially related services by those banks and associations (based on member desires) capable of implementing them appropriately. Needs of the owner/users and the ability to service those needs soundly are the overriding considerations.

Rather than allow immediate wholesale introduction of new financially related services authorized by the 1971 Farm Credit Act, FCA restricted some to a pilot (test) period of operation before permitting full implementation. It is FCA's intent to continue to proceed cautiously but straightforwardly with the implementation of the insurance programs. In each case, we will continue to make sure that all insurance programs meet the following requirements:

1. The services which are provided are those which are needed and desired by the owner/borrowers of the System.
2. The services are made available on a purely voluntary basis.
3. The reason for the System to extend such services is that they result in benefits to borrower/members and *not* that they will result in a more favorable operating margin for the institutions extending the service.

It is and has been FCA's expressed intent to maintain a strong supervisory posture on the System's financially related services. We are determined that those banks proposing to implement insurance programs will have the institutional capacity, particularly in terms of staff and supervisory effectiveness, to ensure that programs will be implemented on a sound basis.

[The information provided below relates to questions raised by Chairman Zorinsky to Gov. Donald E. Wilkinson regarding the extent to which the Federal land banks—FLB's—and production credit associations—PCA's—are serving small- and medium-sized family farms.]

Question. To what extent do FLBs and PCAs serve small-medium sized family farm operations?

Answer. One of the fundamental objectives of the Federal land banks and production credit associations is to provide credit to the family farmer. There are several basic factors that allow the FLBs and PCAs to favor family farm operations.

Only bona fide farmers and ranchers who either own agricultural land or who are engaged in the production of agricultural products are eligible for loans. A legal entity, including partnerships and corporations, in addition to meeting this requirement, must meet restrictive qualifications which include majority control by the individuals conducting the farming or livestock operation. If a borrower is not a full-time farmer, financing is provided for only the agricultural portion of his credit needs. These restrictions clearly favor family farm operations.

While they are careful to provide funds only to bona fide agricultural producers, FLBs and PCAs lend money for all types of farming operations, and they make loans in all geographical locations throughout the United States to provide a dependable credit source for all farmers.

Interest rates charged on loans strongly support family farm operations. Whether the loans are very small or very large, all borrowers within a given area are offered the same interest rate.

FLBs and PCAs are clearly committed to providing loan funds for family farm operations. They also strive to fund small and medium sized farms. FLBs made 62,357 farm loans in 1978. More than three-quarters of all loans were less than $100,000. Almost 40 percent of total farm loan volume was in loans less than $100,000.

Providing funds for smaller sized loans is one indication of service to small and medium sized farms. Perhaps a better measure is based on income. FLBs made 40 percent of all farm loans in 1978 to borrowers with less than $30,000 total net income (including farm and nonfarm sources and calculated before any principal and interest payments, taxes or family living expenses were deducted). Only 9 percent of all farm loans were made to borrowers with total net incomes in excess of $100,000.

Although aggregate PCA data comparable to FLB data are not available, there is evidence that PCAs also support small and medium sized farms. A 1977 study in the Eighth Farm Credit District indicated that nearly 60 percent of the loans were $50,000 or less. Less than 1 percent exceeded $1,000,000. Loans ranging from less

than $1,000 to $500,000 accounted for over 75 percent of total loan volume. Evidence indicates that similar lending patterns exist in other parts of the country.

[The information below relates to a question Senator Huddleston posed to Governor Wilkinson on October 4 regarding how candidates for Farm Credit System district and association boards are certified.]

CERTIFICATION FOR DISTRICT DIRECTOR ELECTION

An individual nominated to fill a vacancy on the district board is apprised of eligibility requirements:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

And upon nomination the individual is required to give written certification that he meets all requirements before the election takes place. In addition, the FLBAs, PCAs, and borrowing cooperative associations from the BCs, before making nominations for their respective banking group, receives excerpts from the Regulations for the Banks and Associations of the Farm Credit System covering Nepotism (hiring of relatives); Conflicts of Interest (prohibited acts); and Soliciting Support in election polls. Additionally, each nominee receives this information when certifying to the aforementioned eligibility requirements.

After nomination, each nominee is required to complete a questionnaire regarding personal history, education, principal occupation, and past and present affiliation with other organizations (business, professional, civic, etc.). This biographical sketch is published and made available to the electorates. Therefore, each individual's qualification, affiliation, etc., are readily available for the electorate to determine his capabilities as a director.

ASSOCATION DIRECTOR ELECTION

At each annual meeting of association stockholders, the holders of voting stock elect a nominating committee to serve for the ensuing year. The nominating committee, one or two months before the election, selects eligible stockholders who are willing to serve as nominees for director positions to be filled. The nominating committee members who are borrowers and farmers in the subject association are knowledgeable of the association's needs and are most interested in selecting candidates that will represent the stockholders. The printed ballots used by associations contain a biographical sketch of each nominee that aids stockholders in making their choice.

The above two election processes recognize the importance of an informed electorate. Copies of the documents used for district director elections are attached.

Attachments.

[Attachment A]

ELIGIBILITY OF CANDIDATES

SPRINGFIELD DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Springfield provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a director of a Federal land bank association."

Bylaws of the Federal Intermediate Credit Bank of Springfield provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a director of a production credit association."

Bylaws of the Springfield Bank for Cooperatives provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a salaried employee of any cooperative."

BALTIMORE DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Baltimore, the Federal Intermediate Credit Bank of Baltimore, and the Baltimore Bank for Cooperatives provide that: "No person shall serve as a director if he becomes 70 years of age at any time during the calendar year in which the election is conducted."

COLUMBIA DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer of employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Columbia, the Federal Intermediate Credit Bank of Columbia, and the Columbia Bank for Cooperatives provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his elecfion or reelection."

LOUISVILLE DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Louisville, the Federal Intermediate Credit Bank of Louisville, and the Louisville Bank for Cooperatives provide that: "No person shall serve as a director if he becomes 65 years of age at any time during the calendar year in which the election is conducted."

NEW ORLEANS DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of New Orleans, the Federal Intermediate Credit Bank of New Orleans, and the New Orleans Bank for Cooperatives provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection."

ST. LOUIS DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Policy of the Federal Land Bank of St. Louis, the Federal Intermediate Credit Bank of St. Louis, and the St. Louis Bank for Cooperatives provides that: ". . . no person should be a candidate for or be elected a director on the District Farm Credit Board . . . who, as of the first day of the term for which elected, is or will be 65 years of age."

ST. PAUL DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

There are no additional eligibility requirements imposed by bank bylaws or bank board policy in the St. Paul District.

OMAHA DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Omaha provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a director of a Federal land bank association."

Bylaws of the Federal Intermediate Credit Bank of Omaha provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a director of a production credit association."

Bylaws of the Omaha Bank for Cooperatives provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a salaried employee of any cooperative."

WICHITA DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Wichita provide that: "No person shall serve as a director if he is a director of a Federal land bank association."

Bylaws of the Federal Intermediate Credit Bank of Wichita provide that: "No person shall serve as a director if he is a director of a production credit association."

Bylaws of the Wichita Bank for Cooperatives provide that: "No person shall serve as a director if he is a salaried employee of any cooperative."

HOUSTON DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

There are no additional eligibility requirements imposed by bank bylaws or bank board policy in the Houston District.

SACRAMENTO DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Sacramento, the Federal Intermediate Credit Bank of Sacramento, and the Sacramento Bank for Cooperatives provide that: "No person shall serve as a director if he is or will become 67 years of age or older at any time during the calendar year in which the election is conducted."

SPOKANE DISTRICT

The following eligibility requirements for elected members of district Farm Credit boards are prescribed by law:

(1) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(2) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(3) No person is eligible if he has been convicted of a felony or adjudged liable in damages for fraud.

(4) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

Bylaws of the Federal Land Bank of Spokane provide that: "No person shall serve as a director if he becomes 65 years of age at any time during the calendar year in which the election is conducted. No person shall serve as a director if he is a director of a Federal land bank association."

Bylaws of the Federal Intermediate Credit Bank of Spokane provide that: "No person shall serve as a director if he become 65 years of age at any time during the calendar year in which the election is conducted. No person shall serve as a director if he is a director of a production credit association."

Bylaws of the Spokane Bank for Cooperatives provide that: "No person shall serve as a director if he become 65 years of age at any time during the calendar year in which the election is conducted. No person shall serve as a director if he is a salaried employee of any cooperative."

SPRINGFIELD DISTRICT

The information in this form will be used to assist in determining whether legal requirements are met for eligibility as a district Farm Credit board director.

1. Elected directors of district Farm Credit boards are subject to the following legal requirements as imposed by the Farm Credit Act of 1971.

(a) A district director must have been a citizen of the United States for at least ten years, and a resident of the district for which he is elected for at least two years.

(b) No person is eligible for election to a district Farm Credit board if he has within one year next preceding the date of election been a salaried officer or employee of the Farm Credit Administration, or a salaried officer or employee of any corporation or association operating under the supervision of the Farm Credit Administration.

(c) No person is eligible if he has been convicted of a felony, or adjudged liable in damages for fraud.

(d) In any district which includes more than one state, no person shall be eligible to be elected if he is a resident of the same state as the other member elected by the same electorate and then serving.

The effective date of election is the closing date of the election poll as specified by the Farm Credit Administration.

2. Bylaws of the Federal Land Bank of Springfield provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a director of a Federal land bank association, except that incumbents on May 18, 1972, of a Federal land bank association board and of the bank's board shall be eligible to serve in both capacities until January 1, 1977."

Bylaws of the Federal Intermediate Credit Bank of Springfield provide that: "No person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a director of a production credit association, except that incumbents on May 18, 1972, of a production credit association board and of the bank's board shall be eligible to serve in both capacities until January 1, 1977."

Bylaws of the Springfield Bank for Cooperatives provide that: "no person shall serve as a director if he is 70 years of age or older as of the effective date of his election or reelection. No person shall serve as a director if he is a salaried employee of any cooperative except that an incumbent of the bank's board who, on May 18, 1972, also was a salaried employee of a cooperative shall, until January 1, 1977, be eligible to serve on said Board while he continues to be such employee."

[Attachment B]

CONFLICTS OF INTEREST

The democratically controlled, borrower-owned structure of the Farm Credit System makes it essential that each member of the boards of directors of the institutons of the System, as well as the officers and employees, be aware of potential conflicts of interest. Each director shall:

(a) Refrain from divulging or using for his own personal benefit information acquired as a director, except in the performance of his official duties.

(b) Abstain from participating directly or indirectly in the deliberations on any question affecting his personal interest or those of his family or of any corporation or other business organization in which he has an interest.

(c) Avoid any action toward or the appearance of obtaining special advantage or favoritism in dealing with borrowers from any of the institutions of the System, or with officers of employees thereof, paritcularly in relation to real or personal property which any such institution owns or in which it claims a lien or other interest, and

(d) Consider the potential conflict of interest arising from his employment by, or directorship of, other lending institutions and his ability to impartially and objectively perform his duties and responsibilities as a director of the Farm Credit institutions.

SOLICITING SUPPORT

Soliciting support in polls for district or Federal Farm Credit Board membership.

(a) No salaried officer or employee of a bank or association shall take any part, directly or indirectly, in the designation of nominees for the Federal Farm Credit Board, in the nomination or election of members of a district Farm Credit Board, or in the election of directors for the Central Bank for Cooperatives, or make any statement, either orally or in writing, which may be construed as intended to influence any vote in such designations, nominations, or elections. Action shall immediately be taken, for suspension or dismissal in accordance with applicable procedures, against any such officer or employee who violates the provisions of this section.

(b) No bank or association property, transportation, communications and official stationery shall be used in the interest of any candidate, unless the same facilities and resources are simultaneously made known to and are available for use by all candidates.

(c) No director, officer, or employee shall, for the purpose of furthering the interest of any candidate, furnish or make use of Farm Credit System records which would not be available to all candidates.

Candidate for Elected Director

FARM CREDIT ADMINISTRATION

QUESTIONNAIRE - DISTRICT FARM CREDIT BOARD DIRECTOR

The information in this form will be used in preparing a biographical sketch which will be sent to the associations participating in the election. If necessary, attach additional sheets.

1. Name _____ Soc. Sec. # _____

2. Residence Address _____
(Street & Number, Town, State, Zip Code, Phone, Area Code)

3. Business Address _____
(Street & Number, Town, State, Zip Code, Phone, Area Code)

4. Have you been a resident of your present farm credit district for the last two years? _____ Since when? _____
(Yes or No) (Month) (Year)

5. Place of birth _____ 6. Date of Birth _____
(City and State) (Month) (Day) (Year)

7. Education - Name of School or College | Graduate (Yes)(No) | If not graduate show number years attended | Degree or Degrees obtained

High School	_____	_____	_____	_____
College	_____	_____	_____	_____
	_____	_____	_____	_____

Special courses attended or other pertinent information regarding education ___
_____

8. What is your principal occupation at present? _____

9. State extent of present farming or livestock operations - (Such as size, principal crops, type of operation, etc.). _____
_____
_____
_____
_____

10. What other occupations do you pursue? _____
_____
_____

11. Give any information you desire regarding your business or professional experience, positions held in connection with previous or present employment, etc. _____
_____
_____
_____

Candidate for Elected Director

12. State any present or past connection with Federal Land Bank, Federal Land Bank Association, Federal Intermediate Credit Bank, Production Credit Association, or Bank for Cooperatives, other than previously listed in this form.

Organization	Present connection	Past connection

13. Are you a borrower from any bank or association which is supervised by the Farm Credit Administration? If so, give name of institution. _____

_____

14. State connection with any farm organizations--show position such as member, stockholder, director, officer, etc.

Organization	Present connection	Past connection

15. State connection with any other organization, such as business, professional, civic, church or other groups; councils, special committees, etc.

Organization	Present Connection	Past Connection

16. If related to any person now in the employ of the Farm Credit Administration or of any bank or association under its supervision, give name and relationship of such person. _____

17. If you are married, you may wish to enter the first name of your spouse:

_____.

I hereby give my permission and grant authority to the Farm Credit Administration to publish and/or distribute in connection with the election and any subsequent service as a director of the Farm Credit Board in the district of which I am a resident, all or any part of the information given in this questionnaire; and, or such purposes, to condense and/or restate all or any part of such information.

_____ _____

Date Signature

[Attachment C]

NEPOTISM

Nepotism. (a) To emphasize and assist the merit system of appointments and promotions of salaried officers and employees of the institutions of the Farm Credit System, the following restrictions shall be observed:

(1) A relative of a director of a Farm Credit institution shall not serve as a salaried officer or employee of that institution.

(2) A relative of a director of a Farm Credit bank shall not serve as chief executive officer of an association supervised by that bank.

(3) A person shall not serve as a salaried officer or employee of a Farm Credit institution in any position which is directly or indirectly supervised by a relative except that this restriction shall not apply when the salaried officer or employee of an association is other than a chief executive officer and the relationship is with a director, an officer, or an employee of the supervising bank.

(4) Notwithstanding the other provisions of this subsection (a), a person may serve as a salaried officer or employee in a position directly or indirectly supervised by a relative for periods in any calendar year not exceeding a total of 75 workdays provided that positive documented efforts have been made to recruit a qualified nonrelative for the position.

(b) The term "relative" as used in this section means parent, son, daughter, sibling, stepparent, stepson, stepdaughter, stepbrother, stepsister, half brother, half sister, uncle, aunt, first cousin, nephew, niece, spouse, parent-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandparent, grandson, granddaughter, and any person having a similar relationship by marriage.

(c) Any person engaged by a Farm Credit institution to provide professional services for a fee or other compensation is considered to be within the term "salaried officer or employee" for the purposes of this section.

(d) The provisions of this section shall not preclude any person involved in a nepotistic relationship allowable under previous regulations from continuing to serve in a position occupied by him or her on the effective date of this regulation.

(e) To prevent the creation of relationships prohibited under this regulation, the following actions shall be taken:

(1) Each bank shall establish the mechanism by which a nominee for director position is informed of the provisions of this section. Specifically, a nominee whose election would create a prohibited relationship must be fully aware of the consequences of his or her election.

(2) Prior to the employment or promotion of a person, the institution shall determine whether a prohibited relationship would be created by the action.

(3) Stockholders shall be notified prior to any election of those nominees whose election would create a prohibited relationship.

STATEMENT OF HON. ALEX P. MERCURE, ASSISTANT SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, it is a pleasure to appear before the Subcommittee to present the Department of Agriculture's views regarding S. 1465, the proposed Farm Credit Amendments of 1979.

The Administration supports the principles articulated in my statement and the legislation. However, we suggest that Congress consider these amendments in terms of the total availability of credit. We recommend that Congress in making its decisions consider the Administration's plans to submit to Congress its suggestion related to credit marketers and the levels of federal credit availability.

In several respects, the bill offers long-term relief for farm credit problems dealt with in part through new authorities—some temporary—given the Department of Agriculture under the Agricultural Credit act of 1978.

That act of 1978 raised limits and revised interest policy on farm lending by the Department's Farmers Home Administration (FmHA), authorized an Economic Emergency program to be operated through FmHA until mid-May 1980, and made better provisions for Farmers Home to play its supplemental role in farm credit through the guarantee of loans made by institutions of the private sector.

It is very much in order that a similar updating be accomplished in authorities of the Farm Credit System.

That system, operated under oversight of the Farm Credit Administration, embracing Federal Land Banks and associations, Intermediate Credit Banks and Production Credit Associations, and the Banks for Cooperatives, is the largest source of

credit for American agriculture. It lends upwards of $50 billion a year. That exceeds any other private institutional group, and far exceeds the record one-year total of $7.5 billion loaned to farmers by FmHA in fiscal year 1979.

The Department is concerned about the upward trend of farm debt and the adequacy of farm credit resources to keep pace with this trend.

Total farm real estate debt in the United States rose from 41.3 to 63.3 billion dollars between 1974 and 1978, and non-real estate farm debt from 32.1 to 51.1 billion dollars. The totals will rise to an estimaed 72.2 billion for real estate and 58.2 billion for non-real estate by the end of this year; and farm credit needs are expected to rise at an even faster pace in the near future due to inflation of land values, farm equipment and fuel.

The Farm Credit System is a major potential source of new credit that could be generated under the FmHA guarantee authorities, which have yet to engage enough response from private lenders to be substantially effective. We found lenders the past year for only about $40 million of guaranteed non-emergency farm real estate and production loans, as compared to $75 million targeted in our budget authority. Of more than $3 billion loaned under the FmHA Economic Emergency program, only about $135 million has been supplied by other lenders under guarantee.

Amendments proposed in Title I of the bill before us would enable the The Farm Credit System's institutions to take greater advantage of guarantees from FmHA and othe federal and state agencies. Land Banks could make loans for more than 85 percent—their present limit—of the appraised value of farm real estate under a federal or state guarantee.

This lessening of equity requirement would make it possible for Land Banks to increase their services to young farmers and others of modest resources. It would be a step toward the objective of both Congress and the Administration to emphasize FmHA's role as a guarantor of loans, rather than direct lender, to farmers who can operate at reasonable money market rates.

There is at least one other reason why this is a better way for government to support the needed expansion in credit resources for family farmers. FmHA is heavily taxed for personnel to make and service its present loan levels. No substantial heavier load could be placed upon that agency without a significant increase in people, and budget, to take on the job.

We endorse other provisions of the bill to broaden the services of Farm Credit lenders and make technical improvements in their operational authorities.

Title II proposes that Land Banks and Production Credit Associations be permitted to finance producers and harvesters of aquatic products, and for Federal Intermediate Credit Banks to discount loans made to such borrowers by other financial institutions. These operators provide essential food and various other products, and they should have the same access to credit as other producers of food and fiber commodities.

The bill's proposed exemptions of Farm Credit institutions from state usury laws will open up much needed credit resources during periods of higher interest rates. Usury laws that are inconsistent with prevailing conditions can cause a loss of credit availability, where they prohibit profitable loanmaking ventures. These laws are often amendable only by a slow and difficult process, during which an applicant is blocked from finding any lender who can meet his or her credit needs.

Title IV of the bill authorizes institutions of the the Farm Credit System to organize cooperatives to perform non-lending services which the lending institutions are authorized to perform. This will be beneficial in providing adequate supervision to borrowers, especially those having Farmers Home-Land Bank participating loans, or loans guaranteed by FmHA.

We also endorse the important provision in Title III that would authorize Banks for Cooperatives to finance agricultural export transactions in which United States farmer-owned cooperatives are primary beneficiaries. Farmer cooperatives have an important role to play in ensuring strong and continuing efforts to sell American agricultural commodities overseas, and in returning more of the export marketing margin to the farmer.

With respect to the personnel provisions of the bill we defer to the Office of Personnel Management, which we understand will be communicating to the Committee directly.

Mr. Chairman, that concludes my prepared remarks. I thank you for the opportunity to submit these comments, and I will be glad to answer any questions you may have at this time.

STATEMENT OF W. W. GASTON, PRESIDENT, GOLD KIST INC., ATLANTA, GA.

Mr. Chairman and members of the subcommittee, I am W. W. Gaston, President of Gold Kist Inc., Atlanta, Georgia. As the Chief Executive Officer of a major farm supply and marketing cooperative, I represent one of the large users of the cooperative Farm Credit System. Gold Kist is a long time borrower from the Columbia Bank for Cooperatives and the Central Bank for Cooperatives which participates in loans originated through Columbia.

Gold Kist was organized in 1933 as a cooperative to market cotton. Over the years it has grown and expanded its operations to meet the needs of today's farmers and is serving over 250,000 farmer members directly and through local cooperatives known as Farmers Mutual Exchanges.

Gold Kist is farmer owned and controlled with savings made in operations being returned to members annually in proportion to the use each makes of the operations services. Gold Kist is one of the largest poultry processors in the nation, operating facilities which process and market broiler chickens and other poultry products. Feed mills and an egg processing plant are an integral part of the poultry operation. Gold Kist operates plant food manufacturing facilities and other production plants which serve the input needs for Farmers Mutual Exchanges, of which there are over 130 in Georgia, Alabama, Florida, and South Carolina. Many of these local cooperatives serve as receiving points for peanuts, pecans, grain, and soybeans from local farmers.

Gold Kist operates three soybean processing plants and several peanut shelling plants and is the largest processor of peanuts in the world.

In our most recent operating year, Gold Kist had sales in the amount of $1,700,000,000. Farmer member investment in the cooperative is now approximately $160,000,000. This investment supports the borrowed capital required to operate the diversified business of Gold Kist. In connection with borrowing from the Banks for Cooperatives, Gold Kist is an owner in the Farm Credit System through stock owned in the Columbia Bank for Cooperatives. As an owner in the cooperative banking system, we constantly seek ways to better utilize our investment.

One method by which use of this investment can be furthered is through the entry of the Banks for Cooperatives into the export financing field. The Farm Credit Act Amendments of 1979 contain provisions which would enable Banks for Cooperatives to do just this. If passed, this bill would have a far-ranging impact on our cooperative and its members.

In response to the need to expand markets for agricultural products for its members, Gold Kist has been an exporter for a number of years. Our early export concentration was in cotton, poultry, and peanuts. In 1973, we established an International Marketing Division to concentrate our marketing expertise in world trade. In recent years, our export sales operations have increased, including the chartering of vessels for delivery of goods to foreign destinations. For our most recent operating year, a gross volume of export sales amounted to approximately $216,000,000, an increase of almost 100 percent over the marketing levels of a year earlier. Total export sales amounted to approximately 13 percent of the business that we did. To give you an example of our growth in this area, less than 5 percent of our total volume was in export sales as recently as 1974.

Our objective in the International Marketing Division is to become a dependable source of supply for export customers and thereby help maintain good outlets for the products we market on behalf of our members.

Sales made early in our export efforts were on an f.o.b. point of shipment basis. However, as sales have expanded, different methods of selling and collecting have been utilized in order to be competitive with other exporters and, in order to be of the best service to our export customers by providing different terms of sale, we have been able to expand our export marketings. This has been important to our farmer members who have found that our ability to move commodities into export markets has helped in stabilizing domestic prices and has provided additional service that Gold Kist as a cooperative can provide to its members.

Gold Kist's diversification reflects the diversified nature of Southeastern and Southwestern agriculture. Our export marketing of those commodities produced on thousands of family farms is likewise a result of our diversification efforts. Over $100,000,000 worth of soybeans and their derivative products, over $55,000,000 worth of peanuts, and $20,000,000 of poultry exported last year attest to the importance of the export trade to our cooperative and its members. Margins made on the export portion of our business originated from member stockholders are distributed to our operating divisions. Thus, the ultimate member return for products marketed through the cooperative is enhanced.

Our plans are to agressively seek to expand export marketing of our members' products. Our Board of Directors, made up of 13 farmers who hail from states all the way from South Carolina to Oklahoma, feels it is in the best interest of our members for Gold Kist to continue to be agressive in world trade. We are commiting additional resources to this end.

As an example, Gold Kist, along with six U.S. cooperatives have joined four European cooperatives in operating InTrade, Inc. This new firm now owns 50% of a major European commodity trading company.

Through cooperation, our goal is to maximize our joint efforts in obtaining as favorable position as possible in export marketing. This goal arises from the efforts of U.S. farm marketing cooperatives to seek the best price possible for their farmer members. The inflationary spiral of agricultural input costs leaves farmers with only two choices—increase production and attain economies of scale on their farms or obtain a larger share of the consumer's expenditure for food and fiber.

Often cited are the statistics which reflect that farmer cooperatives handle 44 percent of U.S. grain at the point of first sale, but they handle less than 10 percent at the export sale level. Our farmer members are asking us to do a better job in this area; that is, they want us to increase cooperative market shares closer to ultimate consumers.

It is in this connection that we respectively submit to you our views on the Farm Credit Act Amendments of 1979. The Banks for Cooperatives, given expanded legislative authority, can and will support Gold Kist and many other farmer cooperatives in expanding cooperatives' shares in export trade.

We feel strongly that the public interest is served and our nation's policy of trade expansion is supported by favorable consideration being given to the provisions of the Farm Credit Act Amendments of 1979. The export financing provisions, which will be directly commented on later, are consistent with long standing congressional intentions that the Banks for Cooperatives should serve fully the credit and financially related needs of America's farm supply and marketing cooperatives. The Farm Credit Act of 1971 makes specific reference to the need to continue to update credit and other services of the Farm Credit System in order to meet the changing needs of agriculture and the nation's agricultural cooperatives. The Farm Credit Act Amendments of 1979 provide a direct and positive step forward by allowing members of cooperatives added access to a growing world market for agricultural products.

In its 45 years of existence, the Banks for Cooperatives' System has built a strong experienced base in dealing with cooperatives. These cooperatives are moving into world trade to a greater extent each year. Effective banking services and sound financial transactions are a crucial part of profitable international trade. Delays and transfers of funds and similar problems can reduce cooperatives' ability to compete effectively with other exporting firms. Our member owned banks can now carry our financing to the point of export, but not beyond. It is a perfectly logical extension of the Banks for Cooperatives' services to follow their member borrowers into international trade with appropriate financial accommodations to serve specialized needs.

Farmers invest in cooperatives primarily through retained patronage allocations. This retained capital is not available to farmers to assist in financing their own operations. Likewise, the capital invested in Banks for Cooperatives by its member borrowers is costly. Its use should be maximized. Cooperatives currently have invested over $700,000,000 in Banks for Cooperatives.

Why should we not gain further use of our cooperatives' investment in the banks by gaining additional advantages for our members and using the banks' services to finance farm exports. We at Gold Kist see opportunities to more rapidly expand into world trade if the Farm Credit Act Amendments of 1979 are passed. We feel secure in speaking for other cooperatives engaged in the export marketing of over a dozen different U.S. commodities to many different countries abroad as well.

Specifically, while there are eight provisions in the Farm Credit Act Amendments of 1979 relating to export financing, each of which is important, we will comment only on several of the major items.

To gain an effective ability to assist its members in financing their transactions in foreign trade, Banks for Cooperatives need the authority to establish correspondent relationships with foreign banks to expediate payments and collections. In the case of Gold Kist, as we rapidly expand our export sales, the use of our own cooperative banking system to facilitate transactions will help us manage our cash more effectively—with the ultimate beneficiary of this being our farmer members.

Gold Kist, in recent years, has found it very advantageous to use bankers acceptances as a key tool in our financial management and so have other U.S. coopera-

tives. Clear statutory authority is needed by the Banks for Cooperatives to allow the purchase and sale of acceptances.

Gold Kist and other diversified cooperative marketing firms have found that the best arrangement for certain types of ventures used to facilitate international trade may be through investment in subsidiaries or by establishing certain trade relationships. Presently, Banks for Cooperatives are prohibited from assisting their members in financing such arrangements although a clear and direct benefit from the arrangement runs to the cooperative. In those cases where substantial benefits from the loan arise to the cooperative, it seems to us that Banks for Cooperatives' participation should be permitted. Such authority would simply allow U.S. cooperatives to further utilize their own banking system.

While we discuss here several added authorities sought by Banks for Cooperatives, I would like to make the point that we seek for the Cooperative Banking System no authorities in international transactions which are not now available to the commercial banking institutions of the nation.

The essence of this testimony is to seek from Congress added flexibility for the Banks for Cooperatives System. The policy of Congress, as established in the Farm Credit Act of 1971, is for user direction of the Farm Credit System under the broad policies of the Federal Farm Credit Board with supervision by the Farm Credit Administration. Since that landmark legislation was enacted, progress has been significant in the Farm Credit Banks and Associations. However, the rapid changes in our operating environment called for expanded authorities to meet the needs of agriculture and the nation's farmer cooperatives.

As one who has devoted his working life to a major cooperative, I can speak firsthand as to the many benefits which have accrued to our farmer members from doing business with the Banks for Cooperatives. Looking ahead, we trust the Subcommittee will see fit to approve the new authorities needed by Banks for Cooperatives as they assist their members who attempt to meet the challenges of operating in a world agricultural economy.

Gold Kist is greatful for this opportunity to express its views before this Subcommittee.

STATEMENT OF W. M. HARDING, PRESIDENT, CENTRAL BANK FOR COOPERATIVES, DENVER, COLO.

Mr. Chairman and members of the subcommittee, I am W. M. Harding, President of the Central Bank for Cooperatives in Denver, Colorado. The Central Bank for Cooperatives is a bank of participation, owned by the 12 district Banks for Cooperatives, that participates with the district banks in financing regional farmer cooperatives. In the past year, the Central Bank loaned $8.1 billion to farmer cooperatives and currently has loans outstanding of $2.6 billion.

The Banks for Cooperatives were chartered by the Congress in 1933 to meet the special financial needs of farmer cooperatives. Originally established with Government "seed money", all Federal funds were repaid in 1968. Today, the Banks for Cooperatives are totally owned by the farmer cooperatives that they finance. In the year that ended on August 31, 1979, they loaned $17 billion to more than 3,500 farmer cooperatives. Of this, the Central Bank provided $8.4 billion. This represents about 65 percent of all that cooperatives borrow.

As members of the Subcommittee are aware, agricultural commodities have become the keystone of our nation's export business. We have found that, in recent months, farmers across the nation similarly have developed an awareness of the importance of world markets for their products. They are concluding they should take a more active, direct role in selling their products to foreign buyers. They are calling on their marketing cooperatives to be more active and more effective in selling their products around the world.

A recent survey by a regional cooperative illustrates farmer interest in exports. The cooperative surveyed its farmer directors of local cooperatives on issues facing the cooperative in the future. In the survey, more than five thousand directors completed questionnaires. When these farmers were asked how their cooperative should allocate its resources in coming years, the number one priority was "grain exporting".

It is clear that cooperatives, under the direction of their farmer elected boards of directors, are seeking to increase their foreign sales of farm products. As the principal lender to cooperatives, the Banks for Cooperatives must undergird this effort by establishing financial services that will facilitate the international transactions of our cooperatives.

But to establish effective, efficient international banking services, the Banks for Cooperatives need authorization from the Congress through amendments to the Farm Credit Act Amendments Bill, S. 1465.

This legislation is in direct support of and consistent with the Agricultural Export Trade Expansion Act of 1978 that this Committee strongly approved a year ago. With the proposed authorities, it would be the objective of the Banks for Cooperatives to foster the expansion of agricultural exports through our Farmer Cooperatives and to help return to the American farmer his fair share of the economic benefits of the food and fiber he produces so successfully for world markets. The authorities we request are the same general authorities that commercial banks have in order to provide international banking services for their customers.

Cooperatives are exporting agricultural commodities this year valued at approximately $5.5 billion. Nearly half of this, is being sold indirectly—sold at the dock of a U.S. port, often to international trading companies. Such sales do not always provide the best return for farmers. It may be more profitable if the farm product is delivered abroad to the ultimate user than if the foreign buyer is required to pick up the product in this country or rely on middlemen to handle the shipment. Only a few cooperatives have experience in arranging and handling export transactions that require collections in other countries. Most are not familiar with the mechanisms available for sound contracts for the sale of farm products to other countries with manageable risk. As cooperatives seek to increase their export business, they will need financial services carefully tailored to these specialized requirements.

In addition to being able to manage the financial risk of foreign sales, cooperatives need financial services that will make their products more competitive. Foreign buyers of agricultural shipments often need to delay payment for the commodity until they have processed and sold the product to the consumer. This requires credit arrangements that the cooperative's sales representatives can offer when bidding for the sale. This may consist of financing of the foreign buyer's inventory and the domestic seller's account receivable.

These are traditional credit arrangements common in international trade. They are the financial arrangements promoted and insured by the Export-Import bank to stimulate U.S. exports. This financing is for specific transactions, secured by title documents on the shipment, and is self-liquidating. Cooperatives have had only limited success in offering trade-credit alternatives to prospective buyers because they are unfamiliar or unsure of them. Financial institutions now assisting cooperatives in trade transactions often are unfamiliar with cooperatives. The Banks for Cooperatives have been unable to offer cooperatives this important credit service.

Cooperatives need specialized financial services to effectively facilitate their export sales. Most cooperatives' sales of agricultural commodities are large in size. It is essential, therefore, that the transactions be handled expeditiously, with a minimum of delay, because delay is costly to the cooperative and, therefore, the farmer. It would be our objective to provide international banking services that minimize the cost of the transaction and thereby assure the greatest return to the farmer.

The Banks for Cooperatives, therefore, need the authority to develop an effective international financing capability for the following reasons:

1. Farmer cooperatives require the knowledge and assistance of their primary lender to help maximize returns on their foreign sales of agricultural commodities.

2. To be competitive in international markets, U.S. cooperatives need financing alternatives for handling payments by foreign buyers.

3. Cooperatives require specialized banking services tailored to their agricultural export business.

4. Development of export services to cooperatives is a logical extension of the BC System needed to further support development of cooperatives in coming years as directed in the Farm Credit Act.

I would like to comment briefly on each of the major authorizations requested by the Banks for Cooperatives to establish an effective, efficient international banking service for cooperatives.

1. Permit the Banks for Cooperatives to make deposits in foreign banks.—A key element in international banking is establishing correspondent relations with Banks in foreign countries. The Banks for Cooperatives presently are limited to maintaining bank deposit relations with member banks of the Federal Reserve System. To establish correspondent relations, however, banks traditionally exchange deposits and, thereby, open accounts in each others bank. These deposits would be nominal in amount only to open such accounts which are essential to making payments and collections in an expeditious, efficient manner.

The Bank for Cooperatives System will rely for much of its interbank needs in international banking on U.S. banks that have effective worldwide networks of

branches and offices. In some areas of the world, however, correspondent relations with foreign banks would offer the most cost efficient method of accomplishing collections and payments. Correspondent relations also would provide an important source of credit and market information for the BC System. Great caution would be exercised by the Banks for Cooperatives, of course, in selecting foreign correspondent banks giving due regard to both political and economic risk.

2. Enable the Banks for Cooperatives to receive and hold credit balances from banks and borrowers.—To transfer funds most efficiently, it will be essential for the Banks for Cooperatives to accept funds from borrowers and from financial institutions. This authority would be used to efficiently transfer funds for international transactions of former cooperatives. This authority would not permit the Banks to accept deposits from the public or from other unrelated sources.

Holding deposits of foreign banks is the second part of establishing correspondent relations with foreign banks. The authority would permit the exchange of deposits to open reciprocal accounts that is the normal basis of establishing correspondent relations between banks in different countries.

The purpose for the power to hold credit balances of both foreign banks and cooperatives is to minimize the time and cost of transferring funds in international transactions. The goal is to reduce the time involved in such transfers to the shortest time possible, and, therefore, reduce transaction costs to cooperatives and maximize returns to farmers.

3. Authorize the Banks for Cooperatives to purchase and sell banker's acceptances.—This proposal would give clear authorization for the Banks for Cooperatives to buy and sell banker's acceptances that are obligations of banks which are members of the Federal Reserve System and would require FCA authorization to buy and sell acceptances which are obligations of banks that are not members of the Federal Reserve System.

Banker's acceptances are an important money-market instrument. Due to their credit quality and their liquidity characteristics, they make excellent investments for managing liquidity reserves.

Acceptances are increasingly used by commercial banks to finance inventory loans on agricultural commodities. Often it is advantageous to purchase acceptance drafts drawn on an importer's bank under an export financing accommodation.

Banker's acceptances are a common tool in international banking that are an essential element of such services for cooperatives.

4. Authorize the Banks for Cooperatives to purchase sight and time drafts drawn by cooperatives on domestic and foreign banks for the purpose of financing and facilitating collection for export.—This provision would enable the Banks for Cooperatives to further assist cooperatives by facilitating collection and payment for exports and imports and provide financing to the cooperative. This procedure is equivalent to providing the exporting cooperative with accounts-receivable financing on the commodities sold in export transactions.

Financing a cooperative's receivables from export sales may be with or without recourse to the cooperative. Non-recourse financing has become common today owing to the availability of Government programs that insure lenders against commercial and political risk. Even though recourse to the cooperative is removed, normally there is recourse to the buyer, his bank and to the insurer of the credit.

5. Authorize the Banks for Cooperatives to engage in currency exchange.—The Banks for Cooperatives need this authority to purchase and sell currencies for the accounts of their cooperatives. While the majority of export transactions are denominated in dollars, a buyer may wish to make payment in his own currency. The ability of a cooperative to accept this condition of sale may mean the difference between making the sale or not.

Because the rate of exchange between the dollar and foreign currencies fluctuates, a change in the exchange rate between the date of the sale and settlement date could wipe out all profit margin for the exporting cooperative. Such foreign exchange fluctuation, of course, can be hedged in the "forward" or futures exchange market for many currencies.

With the authority the Banks for Cooperatives would be able to provide cooperatives with currency exchange that is as straight forward and efficient as possible. In addition, the Bank for Cooperatives would be able to counsel and guide the exporting cooperative to help minimize its currency exchange risk exposure. Use of this authority by the banks would be for the purpose of buying and selling currencies to meet conversion needs to cover specific transactions and would not be intended for trading currencies as a profit making activity.

6. Authorize the Banks for Cooperatives to make loans to associated parties where there will be substantial benefit to member cooperatives.—The proposed legislation

would give the Banks for Cooperatives authority to make loans and give other technical and financial assistance to parties that are related to cooperatives through ownership affiliation or trade relations where there would be substantial benefit to an eligible cooperative.

Loans to entities where there is ownership affiliation will be limited to the percentage of ownership of our cooperative member, loans to associated parties will be for specific transactions such as leasing and limited to the extent of the direct benefit received by our member cooperative.

To market their products effectively, cooperatives sometimes must compete in foreign markets through business structures that are different from those described in Title III of the Farm Credit Act. As cooperatives increase their business outside of the United States, it becomes difficult for the Banks for Cooperatives to provide full, constructive financing for exporting cooperatives within the constraints of Title III.

This authority also would permit the Banks for Cooperatives to finance such associated parties for the purpose of facilitating leasing to cooperatives.

Leasing can be especially advantageous to cooperatives under certain circumstances. The authority to purchase mortgages and notes with related security from lessors leasing to cooperatives assists members in retaining the advantage of BC financing through their bank without losing the advantage of leasing. This advantage can be very important to exporting cooperatives. It can be utilized to provide the capital intense export facilities such as transportation, storage and handling equipment without the initial capital outlay normally required for purchase of such facilities.

The Banks for Cooperatives have not been permitted to extend such financial assistance to their members although commercial banks and other lenders have had this authority for offering such service to their customers. Farmer cooperatives need the availability of such financing arrangements. This proposal is intended to enable the Banks for Cooperatives to provide the range of financial services required by cooperatives.

7. Authorize the Banks for Cooperatives to participate in ownership of foreign agencies and institutions.—In many foreign markets it is extremely difficult to handle export transactions without the close assistance of foreign nations and local trading companies. Traditionally, U.S. Banks have either utilized these firms on a fee basis or joined together with other banks to establish "localized" agencies staffed by foreign nations. These agencies usually are limited scale operations with several highly qualified professionals and a supporting staff. Total capital investment in such firms usually is modest. Using the unique resources of native residents, these agencies are able to collect excellent financial information about importers and local economic conditions. Also, they can rapidly expedite legal and financial transactions necessary to complete export/import sales and finance.

This authority would permit the Banks for Cooperatives to make equity investments in export oriented agencies and financial institutions, thereby enhancing cooperative exports. We would have greater access to services and information that would be beneficial to our cooperative exports and eliminate unnecessary duplication of international financial services.

Affiliation with such institutions would be a catalyst to bring together foreign importers of agricultural products and our cooperative exporters. Equity ownership would assure that the foreign affiliate agency would service cooperative clients and channel potential customers for agricultural products to our U.S. Cooperatives. This authority would promote a more efficient cooperative export marketing system, enhance our ability to adjust to changing markets for U.S. agricultural products, and create a more positive demand for American commodities.

Mr. Chairman, the Banks for Cooperatives were created 46 years ago when the Congress enacted the Farm Credit Act of 1933. The purpose of these banks in the beginning was, as it is today, to improve the income and well-being of American farmers and ranchers by furnishing their cooperatives sound, adequate, and constructive credit and closely related services.

Through the years, the Banks for Cooperatives have been successful in this endeavor. They have developed into highly respected financial institutions in our country that have a solid record of bold but prudent financing for these essential farmer-owned businesses.

Through the years, the Congress has modified our charter act to enable the Banks for Cooperatives to grow in meeting the changing financial needs of cooperative businesses. Similarly, the proposals in this Bill are in response to changing needs of farmer cooperatives. Exports have become a vital element for American agriculture. Cooperatives responding to the directions of their farmer directors are launching

out into the export business to assure farmers that they receive their fair return from the sale of their farm products around the world. The Banks for Cooperatives, in order to continue to constructively finance the business operations of cooperatives, must grow and develop in this area of international finance.

Our request, therefore, is to enable the Banks for Cooperatives System to continue its growth and development for the purpose of adequately serving cooperatives, just as the Congress envisioned nearly a half century ago. We respectfully request the approval of this subcommittee and the Congress for these international banking authorities so that we may support cooperatives in this new area and, thereby, enable the Farm Credit System to become participants in marketing our U.S. agricultural commodities abroad. We believe the international banking authorities for the Banks for Cooperatives in S. 1465 are in the best interest of farmers, their cooperative businesses, our balance of trade and the Nation's economy. We urge your approval.

STATEMENT OF JOHN A. HARLING, PRESIDENT, OMAHA BANK FOR COOPERATIVES, OMAHA, NEBR.

Mr. Chairman and members of the committee. My name is John Harling. I am President of the Omaha Bank for Cooperatives, headquartered in Omaha, Nebraska. We are part of the Farm Credit System, providing more than $1.2 billion in loan funds this year to agricultural cooperatives in Iowa, Nebraska, South Dakota and Wyoming.

I appreciate the opportunity to appear before you today to discuss S. 1465. Specifically, I would like to discuss the portion of the bill that addresses cooperatives' eligibility to borrow from a Bank for Cooperatives.

The legislation we are presently operating under specifies separate eligibility requirements for rural utility cooperatives and other types of agricultural cooperatives. Utility cooperatives are required to have at least 70 percent of their voting stock held by farmers and ranchers, while other cooperatives are required to have 80 percent producer ownership.

The legislation before you reduces the minimum eligibility to 60 percent for all types of cooperatives. I believe strongly that such a reduction will benefit not only the Nation's farmers and ranchers, but also the consuming public. The proposal change will enable more cooperatives to have access to competitively priced money and services available from the Banks for Cooperatives. We work closely with our stockholders to help them become stronger and more competitive for their members. The stronger and more efficient they become, the more effective they can be in passing these efficiencies along to consumers.

In the Omaha District right now, four of our existing borrowers are marginally eligible, and may have difficulty remaining eligible in the near future. From our studies of cooperatives that presently are not borrowing from us, at least two supply cooperatives and approximately one-half of the public utility cooperatives are either marginally eligible, or unable to meet the existing requirements.

At this time, we have found only one cooperative that would not be able to borrow from us if eligibility requirements were lowered to 60 percent.

Other Districts are reporting similiar situations. For Example:

In the Spokane District, only 28 of the 76 Rural Electric Cooperatives are presently not eligible to borrow. They could serve at least 10 of these 28 if the eligibility requirement was lowered to 60 percent. If eligibility does not change, and present trends continue, at least 30 more RECs will become ineligible.

In the Witchita District, they estimate 16 of their present borrowers will experience eligiblity problems in the near future. In addition, at least 18 RECs are presently ineligible, with several others facing eligibility problems in the near future.

The Columbia District estimates 35 cooperatives in their District are presently facing eligibility problems.

St. Paul reports that 17 percent of the RECs in their District are presently not eligible to borrow. In addition, a check of 65 non-borrowing farm supply and marketing coops revealed 28 were unable to meet eligibility requirements.

St. Louis reported 14 cooperatives, including 10 RECs, have been rejected because they cannot meet present eligibility requirements, 10 of these cooperatives would become eligible if the requirement was reduced to 60 percent.

Nearly all other Districts report similiar situations.

Public utility cooperatives experience eligibility problems primarily because of the "area coverage" rule. This requires an electric or telephone cooperative to serve all residents, business and entities in its service area. The cooperative, therefore, has

little, if any, control over the composition of membership. As a result, cooperatives adjacent to urban areas or serving rural industries have the most problems meeting our eligibility requirements.

I think it is important for you to understand the evolution that has occurred in rural areas from the time that rural utility cooperatives started to form many years ago. Some of you have heard the story many times and are very aware of the transitions. When the first lines started crossing the rural areas, there were many more farmers and ranchers to be served. In time, production efficiencies have resulted in fewer, but larger, farms and ranches. The population leaving the farm has swelled the towns and cities. The change has not diminished the need for utility services in rural areas, but the demographics have now outdated some of our operating procedures. Changing the eligibility requirements will help us continue to offer competitive credit services to the rural areas.

Non-utility cooperatives have felt the demographic changes in population in similiar ways. Most of the farm supply cooperatives experiencing eligibility problems are also located adjacent to urban areas. These cooperatives were organized to serve farmers and ranchers, and continue to provide valuable services to agriculture. In recent years, however, the expanded cities and towns have resulted in some significant increases in non-producer memberships. On the positive side, the memberships help these associations' business volume. The negative result, however, is that some have (or may soon) become ineligible to borrow from the Banks for Cooperatives. The problem is not limited to areas with large cities.

In sparsely populated rural areas, it may take only one or two small or intermediate-size towns to create some eligibility problems. To deny the residents the benefits and services of the cooperatives would erode a very strong and valuable bond between the various rural populations. Just as economic trends and demographics change in the rural areas, so must the operating procedures of the lenders serving agriculture.

Industry is having a dramatic effect on the rural areas, as they discover that rural populations can be more productive and reliable as a labor force. This is especially true for industries serving the agricultural economy. Their desire to move production efforts closer to their market should accelerate the trends I have mentioned.

Another factor affecting eligibility has been the success of cooperatives, leading to the formation of new cooperatives for specialized services such as transportation, livestock, and processing of agricultural production. Many of these new cooperatives have a membership mix of producers and non-producers that eliminate them as eligible borrowers.

We are also experiencing a new regional cooperative structure emerging that includes both cooperative and non-cooperative membership. In most cases, they are formed to insure adequate supplies of agricultural inputs such as petroleum, fertilizer, and chemicals. There has also been interest in forming transportation cooperatives to help combat the ongoing difficulties faced by shippers of agricultural commodities. Once again, we are seeing an evolution in the business structure serving the agricultural community. In order to continue offering the services of the Banks for Cooperatives to these new organizations, we will need to change our eligibility requirements.

Two viewpoints have been expressed about lowering eligibility requirements to 60 percent.

One opinion is to keep eligibility requirements at the present high levels to insure agriculture retains control of the system.

The other opinion has come primarily from RECs, who want eligibility requirements even lower than 50 percent producer control. As I have explained, they have been among the first to feel the service needs of rural America changing.

I can assure you that the Farm Credit System has worked with this issue long and hard to make sure our request for the 60 percent control requirement is in the best interest of agriculture. It has been a compromise, but we think a solid decision, reached after many hours of discussion, with cooperative leaders and farmers and ranchers who need the services.

We believe that all cooperatives need access to many sources of credit. We believe that having access to the Banks for Cooperatives provides additional competition, healthy in all forms of business. Every lender has different requirements, loan agreements, covenants, administrative costs, and other differences that provide the reasons for competition. Cooperatives ineligible to borrow from us do not receive the full advantage of this competition through the services and ownership benefits of the Banks for Cooperatives.

As a part of the Farm Credit System, we are committed to one clear objective: improving the income and well being of producers of food and fiber. In the Omaha District, we have estimated (conservatively) that we might be able to provide as much as a half billion additional dollars in credit for agricultural cooperatives over the next ten years if eligibility requirements are updated to reflect the current trends in agriculture.

Finally, I want to comment briefly on the total scope of S–1465. As a whole, it will allow expansion of the direct benefit of Farm Credit financing to a greater number of farmers, ranchers, and their cooperatives. The improved efficiency in agricultural production and marketing will be extended to both domestic and foreign markets and will yield tremendous benefits to the U.S. economy through improved foreign trade and balance of payments, and more efficient costs of operation to be passed along to American consumers.

I encourage your support of these efforts to provide a more progressive Farm Credit System for agriculture through S–1465.

Mr. Chairman, this concludes my testimony. If you have any questions, I shall be happy to answer them.

STATEMENT OF JOHN NAILL, MEMBER, FEDERAL FARM CREDIT BOARD, LONOKE, ARK.

Mr. Chairman and members of the subcommittee, I am John Naill, a member of the Federal Farm Credit Board and former member of the Board of Directors of the Federal Land Bank Association of Lonoke, Arkansas. I am an Arkansas farmer residing on a farm 15 miles outside of Brinkley. I am a member and borrower from the Cache River PCA. This is a predominantly agricultural community with cotton, soybeans, and rice as the chief agricultural products. I appreciate this opportunity to present some views on the Farm Credit Act Amendments of 1979, Senate Bill 1465.

These Amendments offer several constructive changes to the Farm Credit Act of 1971, but I wish to limit my remarks to one item in which I have particular interest, the clarification of the Farm Credit System's exemption from state usury laws as specified in Section 403 and related Sections 104, 204, 210, and 307 of the bill. The Farm Credit Administration has consistently taken the position that system institutions are exempt from state usury laws. This opinion is based on the legislative history behind the Farm Credit Act of 1971 and by legislation anteceding it. Unfortunately, however, the Farm Credit Act of 1971 does not specifically state this exemption. A clarification is essential, however, to insure that state usury laws neither restrict the availability of credit disseminated by farm Credit institutions nor have an adverse impact on the financial stability of those institutions.

These objectives are important to me both as a farmer and as a Federal Board member. As a farmer, I need a dependable source of credit, and as a Federal Board member, I have a responsibility to see that the Farm Credit System fulfills its Congressional mandate to provide that credit.

Section 1.1 of the Farm Credit Act of 1971 delineates the important relationship of agricultural credit to the agricultural community and the nation. This Section states:

"It is declared to be the policy of Congress, recognizing that a prosperous, productive agriculture is essential to a free nation and recognizing the growing need for credit in rural areas, that the farmer owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them, their cooperatives, and to selected farm related businesses necessary for efficient farm operations." Having received this mandate from Congress, Farm Credit institutions have performed admirably. The Farm Credit System currently provides approximately $53 billion of agricultural credit, about one-third of the nation's total amount. This success story results from the Congressional plan which implemented a System which has as its sole purpose the financing of agriculture.

Although originally government sponsored, Farm Credit institutions are expected to operate on a self-sustaining basis. The methods available for funding their operations are extremely limited. The primary source of lending funds for these institutions is the sale of their securities to the investing public at prevailing market rates. The limited nature of their business and funding would make them extremely vulnerable in periods of high interest costs if state usury laws prohibited them from passing on their costs to borrowers. Their only option would be to curtail lending or allow their financial base to become eroded. The first alternative in the short run

would be disastrous to farmers because so many of their credit needs are not deferrable, and the second would be equally undesirable in the long run because the eroded financial base would limit the ability of these institutions to service the ever-increasing future credit needs of farmers as they have done so successfully in the past.

Although there are many state usury laws that could theoretically affect our System, a specific example of the adverse impact of state usury laws on Farm Credit institutions can be currently found in the Sixth Farm Credit District which includes the state of Arkansas. In Arkansas a lender found to be in violation of the state usury limitation loses the security for the loan, the interest for the loan, and the principal. The debt is voided. This extremely harsh penalty has caused The Federal Land Bank of St. Louis and the production credit associations in Arkansas to be extremely reluctant to rely on a system usury exemption which is not explicitly stated in the Act. Because of the risk, these institutions have therefore decided not to exceed the state limit even though they believe they are exempt. The immediate result of this decision is that 10 of the 14 production credit associations in Arkansas are lending at a loss. Obviously this cannot continue indefinitely, and if money costs do not improve, these associations will have to either curtail or cease their lending, either of which would be to the detriment of Arkansas farmers who get 50 percent of their operating credit from PCA.

The Federal Board appreciates the reluctance of some System institutions to rely upon an exemption not stated in the clearest terms when local laws such as in Arkansas are so penal in nature that they might shake the very financial foundations of the lending organization. It is in response to the fears of these System entities that the Farm Credit Administration and the Federal Farm Credit Board has supported the introduction of the amendments clarifying the System's usury exemption. Without a clear Congressinal expression of the exemption, System institutions may be subject to litigation challenging interest rates precipitated by a high-cost money market with such litigation bringing a possible unwelcome decision.

I believe that such an exemption is absolutely essential to the American farmer and utimately to the general public. System institutions may be the predominant source of agricultural credit during periods of high money costs. The magnitude of the credit extended by this System makes it extremely unlikely that other sources would be able or willing to supplement the supply of credit if Farm Credit institutions were forced to retrench lending during such periods. In fact, because of the cooperative nature of the System, its interest rates are often lower than those of other credit sources whose rates would approach the usury rate sooner resulting in a slowdown of their lending activities. Such periodic retrenchment, however, would eventually be necessary by System institutions if state usury laws prevented them from passing on the high costs to their borrowers. The curtailment in the availability of agricultural credit would have an adverse effect on farmer productivity thereby creating inflationary pressures on the cost of food and fiber to the consuming public, in addition to thwarting the purpose of the Farm Credit System.

To summarize, I believe that in order for this System, with its limited lending, operating, and funding authorities, to be able to comply with the congressional mandate to be a dependable source of agricultural credit, it must be clearly exempt from state usury laws. The System must not be in a position of circumventing or violating that law, but it also must not be forced to curtail lending or deplete its financial reserves which were built up through the years due to sound and constructive lending operations. I believe Congress always intended for this System to be exempt and surely an oversight in drafting the 1971 Act should not be allowed to undermine the financial foundation of this credit System or its ability to provide the credit so vitally needed by the American farmer.

I caution that the need to clarify the System's usury exemption is not just a local problem involving one state, but rather it is a national problem. System loss sharing agreements combine all entities of the System into a nexus, and an adverse decision in any one area can have repercussions nationally that could place the whole System in a precarious position. I, therefore, urge that Congress enact these amendments and thereby remove any uncertainty about the Congressonal intent, enabling the System to continue its historical responsibility of being a dependable and available source of credit to Amercan agriculture, in complete fulfillment with the spirit and purpose underlying the establishment of the Farm Credit System.

Although I have stressed the importance of one facet of the legislation, I wish to reiterate that I support the total package of amendments because they will enable the Farm Credit System to be more effective in serving the credit needs of American agriculture. These amendments do not ask for broad authority, nor do they ask to serve large new groups of borrowers. They do not ask for any taxpayer's funds.

They merely represent an attempt to refine an already proven System, one of which I, as a farmer and Federal Board member, am proud.

I am grateful for the opportunity to have expressed these views before this committee.

STATEMENT OF JACK GIBSON, CHAIRMAN, FEDERAL LAND BANK ASSOCIATION OF SOUTHEAST ARKANSAS, DERMOTT, ARK.

Mr. Chairman and members of the subcommittee, I am Jack Gibson, a farmer and rural banker. I am also chairman of the Board of the Federal Land Bank Association of Southeast Arkansas, in Dermott, Arkansas, and a member and former director of the Delta Production Credit Association. I appreciate this opportunity to present my views concerning S. 1465, the Farm Credit Act Amendments of 1979.

In my capacity as director of a Federal Land Bank Association and a former director of a production credit association, I have become aware of some of the facets of the Farm Credit act of 1971 which inhibit Farm Credit institutions from providing as complete a service to their members as I believe they should. When I step back from my role as director and view the Farm Credit System as a member and user, I sometimes ask the question: What do I expect out of this cooperative credit system? I believe the answer is simple. I want funds to be available for my credit needs and I want a say in the affairs of my association. While the Farm Credit Act of 1971 made some great strides in meeting these desires, I believe there remain some areas for improvement. I wanted to testify in behalf of this legislative package because I believe this package will help promote credit availability and borrower control of the System.

I would first like to discuss those parts of the legislation which affect credit availability. This, I believe, is of paramount importance to the users of the Farm Credit System. In today's economy, neither land nor equipment can be purchased nor crops planted and harvested without the use of credit. Credit is one of the key tools that has enabled American agriculture to become the most productive in the world. The economic trend in agriculture today dictates that more and more capital will be necessary to do the job and, therefore, we have to be certain that the Farm Credit System remains a dependable source of credit for both good times and bad times.

While we may not now be in one of the bad times, we are at least in a difficult period. Interest rates are at historically high levels and seem to be continuing to go higher. There is no question but that this creates a hardship on farmers whose operations mandate the use of credit. But, I believe most farmers would say that although the high cost of credit is rough, the lack of it is rougher.

In the present economy, state usury ceilings, such as that in Arkansas, have greatly restricted the available sources of credit. While this has affected all forms of economic activity requiring credit, it is particularly hard on the agricultural segment of the community because credit is their life's blood. They cannot defer their spending until times get better, such as a consumer might in spending for a new automobile. Fortunately, the Federal Land Bank system and production credit associations have remained dependable sources of credit even during periods of high money cost.

As cooperatives, the Federal Land Bank system and production credit associations have charged only that interest necessary to cover the cost of the funds they loan, the cost of operation, provide for necessary reserves and generate such earnings necessary to maintain a strong financial base. This lending philosophy along with the fact that agricultural credit is the only business of these cooperatives meant that credit was usually available to deserving borrowers. The System's exemption from state usury ceilings meant that the Land Banks and production credit associations could continue to lend even though their cost of money might be relatively high. However, in some states such as Arkansas where the usury laws are extremely punitive in nature in that they result in the loss of the security, the interest, and the principal, Farm Credit institutions have become exceedingly reluctant to loan in excess of that state's ceiling. Although the Farm Credit System has always considered its loans exempt from state usury limits, the 1971 Act does not specifically state this fact.

The major determinate of the cost of money to Federal Land Banks and production credit associations is the cost of the funds obtained by the sale of bonds to the investing public. During periods of high money costs, these bond rates can rise substantially resulting in interest rates to borrowers which exceed state usury limitations. Obviously during these periods, if these Farm Credit institutions are subject to state usury limitations or if there is some doubt about their exemption,

Federal Land Banks and production credit associations will have to curtail their lending operations to prevent the weakening of their financial position by charging an inadequate interest rate. This would be disastrous to the farmers and to the American public. I am sure everyone on the Subcommittee is aware that American agriculture has to produce at full throttle in order to provide sufficient exports to defray some of our balance of payments deficits and also to keep prices reasonable at the consumer level. Anything that would tend to curtail the productiveness of the American farmer, such as the reduction in his ability to obtain credit, will give impetus to the inflationary pressures on prices. It is my belief that it is not only in the interest of the credit organizations and the American farmer that the usury exemption be clarified but, also, that such clarifications are in the public interest.

Another important item of the legislation which affects the availability of credit is that part which would broaden eligibility for financing by Federal Land Banks and production credit associations to include processing and marketing activities directly related to a farmer's farm, ranch, or aquatic operations and those of other bona fide farmers, ranchers, or aquatic producers.

A key consideration in the processing and marketing activities of farmers is that sufficient financing be available to erect efficient processing and marketing facilities. Often the most efficient facilities would require an input of farm products in excess of that which a particular farmer can produce. But the way the law is now, once the borrower's marketing or processing facility has grown to the point where he's handling more volume from his neighbors than from his own farm, the operation is then ineligible for PCA or FLB financing. This legislation would let District Farm Credit Boards (with FCA approval) expand the limits on financing these facilities through Federal Land Banks and production credit associations even though that farmer-borrower is also providing some marketing and processing for other farmers.

Here again, I believe that the general public would benefit from such an expansion of authority. Expanding the scope of Federal Land Bank's and production credit association's service in financing processing and marketing activities should result in farmers acquiring better processing and marketing facilities which in turn, would allow them to operate more efficiently. Any improved productivity should improve agricultural income but without the inflationary pressure on price.

As a rural banker, I support the amendment which would authorize production credit associations to issue participation certificates to commercial banks and other lenders. This change would strengthen the relationship between the Federal Land Bank and production credit association with their local rural banks. As chief executive officer of a country bank, I can certainly verify this is very important. The financing of farm operations today demands such a large output of capital that most rural banks are not large enough to singly satisfy all the needs of the farm community. At present, they have to sell overlines of credit to the larger city banks. This is a very fickle source of money as their positions fluctuate with the availability of funds. When there is a surplus of money, they are soliciting your farm loans, but if the money supply becomes tight, they are the first to abandon you. This is not a very fruitful relationship for an organization engaged in financing farm needs. This bill would make it easier for rural banks to participate loans with their local production credit associations. Not only would that create a more stable money supply for agricultural needs in the various rural communities, it lets us participate with folks who are specialized in farm lending and knowledgeable of the local agriculture.

Another item of the legislation which would increase the availability of credit is that amendment which would allow Federal Land Banks to make loans in excess of 85 percent of the appraised value of the real estate security when the loan is guaranteed by a federal, state, or other governmental agency. This would enable Federal Land Banks to continue to make credit available to young or new farmers. Presently, Federal Land Banks meet the credit needs of young and new farmers with a coordinated lending program with Farmers Home Administration in which the Federal Land Bank furnishes a portion of the credit need and Farmers Home Administration, under their direct lending authority, furnishes the remainder of the credit need. But Farmers Home Administration is beginning to place more emphasis on its guaranteed loan program which requires the private lender to finance the full amount of the credit need. Unfortunately, the financing need of the new and young farmer, who is generally in a low equity position, generally exceeds the statutory lending limit of the Federal Land Banks.

Young and new farmers, because of their low equity position, need careful analysis by a creditor who understands the problems such farmers are confronted with before they become firmly established. The outstanding record of Federal Land

Banks in providing productive credit to agriculture through the years is shown by the ever-increasing use of that cooperative credit system by the American farmer. I believe that it is even more important for the new farmer to have access to this credit than the more established farmer.

In my opinion, the 85 percent lending limitation is not necessary when there is a governmental loan guarantee. I know of no other lending organization that has such a limitation when loaning under a governmental guarantee. The governmental guarantee provides much of the same protection against loss that the 85 percent limitation does. In fact, under the governmental guarantee the extent of possible loss is known while under the judgmental system of appraisal and credit analysis practiced in the Federal Land Bank system, the extent of possible loss could be much greater depending on the skill of the loan analyst.

In view of these considerations, I strongly recommend that the 85 percent limit be removed when Federal Land Banks make guaranteed loans so that the new and young farmer will have access to this source of credit.

The preceding items I have discussed dealt mostly with the availability of funds. I would now like to discuss an item of the legislation which would allow the members of the cooperative greater say in the affairs of their organization. This item in the legislative package would allow Federal Land Banks and Federal Land Bank Associations to pay patronage refunds or differential dividends to their members. I believe that this is important because it would allow greater flexibility in the operations of these organizations.

A basic principle in the cooperative movement is that surplus earnings of the cooperative should be distributed according to the members' use of the services of that cooperative. Because of this, cooperatives make a distinction between returns on invested capital as contrasted with returns based on a volume of business done with the cooperative. This amendment would allow Federal Land Banks and Federal Land Bank Associations to make this distinction and thereby pay out surplus earnings back to members according to the interest which they paid, thereby proportionally reducing the cost of that member's farming operation. This I believe is desirable from the farmer's standpoint and also by the public at large.

In conclusion, I wish to reiterate that I support the full legislative package but I have merely commented on these few legislative items. I have a keen interest in the continued presence of the Farm Credit institutions as a dependable source of credit and to insure this, it is necessary that Congress remove any cloud from the Federal Land Banks and production credit associations usury exemption. I also believe it is important that these organizations should be allowed to finance the new and young farmer and also finance the production and marketing facilities of farmers. I also support the patronage refund section and differential dividend section because it will allow greater member control of their cooperative lending institution. The amendment which authorizes production credit associations to issue participation certificates to commercial banks and other lenders is also very important in improving the availability of farm credit.

I am grateful for this opportunity to express these views before this committee. I would be pleased to respond to any questions.

STATEMENT OF ARMSTEAD M. FELAND III, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, SOUTHERN FARMERS ASSOCIATION, NORTH LITTLE ROCK, ARK.

INTRODUCTION

Mr. Chairman and members of the subcommittee, I am Armstead M. Feland, III, of Cabot, Arkansas, Executive Vice President and General Manager of Southern Farmers Associations of North Little Rock, Arkansas. I am also a member of the board of directors of the Farm Credit Banks of St. Louis which serve the three-state district of Arkansas, Missouri, and Illinois. As part of the $50 billion Farm Credit System we provide over one-third of the total agricultural credit in the territory we serve and have been the leading lender for many years. I appreciate this opportunity to present the views of the Southern Farmers Association and to be one of the members of the Farm Credit Board of St. Louis to speak on its behalf and, thus, on behalf of The Federal Land Bank of St. Louis, the Federal Intermediate Credit Bank of St. Louis, and the St. Louis Bank for Cooperatives. In so doing, I hope to be speaking on behalf of farmers, who are the sole reason for the existence of the Farm Credit System.

First, I want to state in the most emphatic way that Southern Farmers Association and the Sixth (St. Louis) Farm Credit District fully support all of the proposed amendments to the Farm Credit Act of 1971 as written. I will, however, address

most definitively those proposals (or sections, if you will) with which I am or have been most directly involved or otherwise in a position to aid this Committee in its deliberations.

INTEREST RATE CLARIFICATION

The thrust of Sections 403 and related sections of S. 1465 is to remove any possible doubt the fact the loans made under the Farm Credit Act of 1971 are not subject to any limitations imposed by states on the rate of interest which may be charged borrower/members by Banks for Cooperatives, production credit associations, and Federal Land Banks through the federal land bank associations. While the legal aspects are technical, I have lived rather closely with this problem for the past 10 year or so and feel reasonably comfortable with my knowledge of the subject, although distinctly uncomfortable with the subject matter itself.

This history and legal aspects of this problem are set out in some detail by Mr. Keith K. Kennedy, president of the Federal Intermediate Credit Bank of St. Louis, in his prepared statement on file with this Committee. I would summarize it as follows: From the beginning, loans made by units of the Farm Credit System have been considered to be exempt from the provisions of state "usury" laws, and the courts have consistently so held in the few reported cases decided at different times under different provisions of state and federal law. The problem arises from the fact that, in adopting the Farm Credit Act of 1971 which updated and consolidated all prior Farm Credit legislation, the Congress inadvertently omitted any reference to the System exemption. By and large, the System has felt so confident of its continued exempt status that it has continued to lend in reliance on its congressional mandate without regard to state law, except in unusual circumstances such as that which exists in my own state of Arkansas, and with respect to which the bulk of my testimony will be addressed.

Arkansas has an "all or nothing" constitutional provision in which the lender loses everything—both principal and interest—if he goes over the 10 percent limitation by even the smallest fraction. The Farm Credit System has almost $1.1 billion at risk in Arkansas and has elected to hold the line at 10 percent, with one exception now in litigation. For all units concerned, The Federal Land Bank of St. Louis, the production credit associations in Arkansas, and the St. Louis Bank for Cooperatives, the present cost of the major source of loan funds (investor funds obtained through the sale of Consolidated Federal Farm Credit Bank bonds) far exceeds the rates of interest being charged in the state of Arkansas: October bond issues cost 11.40 percent for the 9-month maturity; 11.50 percent for the 6-month maturity.

The economics of the problem have been developed at length by Mr. Kennedy in his testimony, especially for the FICB/PCA System. The message is clear and simple. With their cost of borrowed funds presently at 10.29 percent, the Arkansas PCAs, to varying degrees, are either in a loss position or will be very shortly with no relief in sight. They will soon have to decide whether to gamble on the System exemption or go out of business, in which case they will not be able to perform the function for which Congress created them.

The situation for The Federal Land Bank of St. Louis is similar, although the problem has been slower in developing because the "delivery cost" on long-term real estate loans is subtantially less than in the case of the high activity, high service requirements of production type financing. The Federal Land Bank of St. Louis has gone to a 9¾ percent rate (except for so-called "blended" loans) and with other charges which might be held to be "interest" under Arkansas law, it can go no higher. However, the current cost of new money is now the same for all elements of the Farm Credit System. It is only the net worth account, the lower cost of some longer-term bonds, and the lower loan service costs which have spared the Federal Land Bank until recently. The situation will become rapidly more critical at present money costs.

Now let me speak as the chief executive officer of a borrower from the St. Louis Bank for Cooperatives. As a member of the board of directors of that bank I am quite familiar with their own financial data and know that with their present cost of new money they cannot continue to lend at 10 percent indefinitely.

As a result of the uncertainty over the System usury exemption, the lending rates of the St. Louis BC have been locked at 10 percent since January of 1979—the lowest of any BC in the nation. (Recent years' bond prices, BC interest rates, and the impact of the current "squeeze" are reflected in the graphs attached.) With $903,259,458.57 in loans outstanding at the end of August, the overall average rate on loans was 9.885 percent with an average total debt rate of 9.719 percent which leaves a margin of only .16 percent. With operating cost amounting to an average of .20 percent, we're fortunate that our BC management has had the foresight to build

its own net worth to a level that permits the bank to weather a period of this sort. But it's not a sound mode of operation that should not and cannot be permitted to continue.

As of August 31, the St. Louis Bank for Cooperatives had almost $148 million loaned to 83 co-ops in Arkansas. That is a volume of money that could not be found elsewhere in Arkansas today. Southern Farmers Association, that I represent here today, is currently using a $23 million line of credit from the St. Louis BC.

As a borrower representative, I want the Bank for Cooperatives to be able to charge whatever rate is necessary for it to remain a viable lending organization able to fill the credit needs of the Southern Farmers Association and other cooperatives.

In our case, we're talking about providing seed, chemicals, fertilizer, petroleum, feed, and other farm supplies to farmers, at cost, through the cooperative way of doing business. It's the same principle as far as the Banks for Cooperatives is concerned—supply money at cost—not below cost. That can't be done over any period of time. We have no government capital in the Farm Credit System, lend no public funds, and have no government guarantors. We have no deposit accounts. The only practical source of funds is through the sale of consolidated Farm Credit System bonds and that reflects the cost of money in general.

The Southern Farmers Association serves farmers, many of whom are PCA and Federal Land Bank borrowers. SFA, which had annual sales of $141.6 million in the past fiscal year, needs Farm Credit System money to operate and so do the farmers who buy our supplies and for whom we exist. A sound and continuing source of credit is imperative. We know Congress intended we should have it regardless of state law. We ask the Congress to make its intent more clear through these provisions of S. 1465.

COOPERATIVE ELIGIBILITY

In urging your favorable support of S. 1465 there is another provision of the bill to which I would like to call your attention. Section 305 provides for reducing the percentage of voting control of a cooperative which must be in the hands of farmers from the present 80 percent (70 percent in the case of rural electric cooperatives) and 60 percent for a cooperative to be eligible to borrow from a Bank for Cooperatives.

The Farm Credit Act of 1971 maintained the basic requirements for cooperative eligibility which were contained in the Agricultural Marketing Act including the 80 percent limitation. In 1975 Congress reduced the amount of voting control in the case of public utility cooperatives to 70 percent. This reduction has provided benefit, but if S. 1465 is passed, more cooperatives would become eligible for Bank for Cooperative financing. By lowering the requirement to 60 percent, Banks for Cooperatives will be able to more fully serve the credit needs of rural America without abandoning the principle of farmer control of eligible cooperatives.

Particular benefit would be realized by the rural utility cooperatives because they are not usually in a position to exclude from membership any nonfarmers in the areas which they serve. They are generally required to provide service to all users, whether they be farmers or town residents in areas we would all consider rural America. Because of this regulatory requirement over which they have no control, they are, in essence, penalized to the extent that by having to serve nonfarmers they are effectively prohibited from using the services of the Banks for Cooperatives if the service to nonfarmers pushes them below the 70 percent requirement. Similar benefits would accrue to strictly agricultural cooperatives whose percentage of farmer control does not meet the present requirement, but which are nontheless substantially controlled by their farmer members.

EXPORT FINANCING

Although Southern Farmers Association, of which I am chief executive officer, is not involved in marketing farm products, I have followed the marketing problems of farmers rather closely for the past 20 years or so in several different capacities, including that of being Chairman of the Board of Directors of the National Council of Farmer Cooperatives and the American Institute of Cooperative Development International and a member of other organizations in which foreign markets for farmer products was and is a subject of major concern.

The importance of exports to our nation from the standpoint of balance of trade is so well recognized and documented that no useful purpose would be served by repetition here. What may not be so well understood is the importance of exports to the state of Arkansas, which accounts for 35.5 percent of the rice, 7.2 percent of the cotton, and 5.7 percent of the soybeans produced in the United States. Nationally, 73 percent of our rice, 55 percent of our soybeans, and 39 percent of our cotton is

exported. A very high percentage of Arkansas production is marketed through cooperative channels, as contrasted with many other states.

Farmers want to increase their share of the export market, market through cooperative channels, and have their own Bank for Cooperatives play a more direct role by being able to participate in international financial transactions. Banks for Cooperatives do not presently have that authority. Without that authority the BCs are precluded from the opportunity of financing much of their own member cooperatives' export transactions.

Southern Farmers Association and I have had a long and healthy relationship with the Banks for Cooperatives. They have been more than just a lender to us. They have been an advisory and counselor in times of need. They have come to our aid because of their knowledge of our business and its objectives. This same counseling role should be available to exporting cooperatives by their primary lender to help them manage their risks better. The Banks for Cooperatives have the resources and expertise to develop sound programs to offer commercial exporting services which would include the use of present insurance, guarantee, and information programs provided by the U.S. Export-Import Bank, FCIA, private insurors, international commercial banks, and others who have appropriate roles in export transactions.

My belief is that a real need exists and that the passage of S. 1465 will provide the authority to meet that need. As a Farm Credit District Director, I pledge my best efforts to cause that authority to be utilized in a sound and sensible manner.

STATEMENT OF THOMAS H. GIST, JR., CHAIRMAN, BOARD OF DIRECTORS, SIXTH FARM CREDIT DISTRICT, MARIANNA, ARK.

Gentlemen, my name is Thomas H. Gist, Jr. I am a farmer and my home is at Marianna, Arkansas. In addition to my primary occupation of farming, I am a member of the board of directors of several agricultural cooperatives, including the Board of Directors of the Sixth Farm Credit District, of which I am currently serving as Chairman.

I am here before you today to urge your support in passage of S. 1465, which contains amendments to the Farm Credit Act of 1971. In particular, I would call your attention to Section 403 of the bill which relates to the preemption of state interest rate limitations, and Sections 301 and 304 which relate to expanded authority for the banks for cooperatives to provide export financing services.

The costs associated with the land, seed, fertilizer, machinery and labor that go into farming today are very substantial. Without a reliable source of credit, the whole structure of United States agriculture including the family farm and farmer cooperatives would topple. The effect on our nation's economy generally and on farmers particularly would be disastrous.

Approximaterly one-third of all agricultural credit in the United States is provided by the institutions of the Farm Credit System, which is the primary provider of the reliable source of credit that keeps our agriculture producing at its present level. The continued existence of these institutions was made possible by the Farm Credit Act of 1971. I'm proud that last year in our Sixth District alone our Farm Credit Banks and the Associations they supervise, loaned more than $5 billion to farmers in Illinois, Missouri, and Arkansas and their cooperatives. Our banks did that in 1978 and in the prior years because they were able to pay the market rate for money on Wall Street and lend it at a rate that not only covered the cost but paid the "freight" and allowed for reserves on earnings they need to remain in business as strong financial institutions. But our district and the System need Section 403 of the bill if we are to continue that lending in 1979 and beyond.

Sections 403 of S. 1465 provides language that would remove all doubt that the rates charged by these institutions are not subject to interest rate limitations imposed by any state. Where state interest rate limitations interfere with the ability of Farm Credit institutions to charge a rate of interest on loans which is sufficient to keep the institutions operating on a self-sustaining basis, the reliable source of credit that farmers and cooperatives need is jeopardized. The need for agricultural credit which the Farm Credit institutions were chartered by Congress to supply would go unsatisfied. It is imperative that the clarification be made, particularly in my home state of Arkansas, where the best legal talents available have advised these institutions that the constitutionally imposed limit of 10% must be complied with. Yet, if the current high cost of money cannot be reflected in the rate charged in my state by Farm Credit institutions, then they cannot continue to serve the needs of farmers and cooperatives there.

I've generally looked on usury rates as a good thing to prevent loan sharking, price gouging, and building of unreasonable profits to lenders at debtors' expense. But those justifications just don't apply to Farm Credit institutions—and (I think) were never intended to. These banks and associations are 100% borrower owned cooperatives with loan rates set by farmer boards of directors within FCA regulations and approvals. I can't imagine farmer/borrowers gouging themselves with high interest rates. In any case the profits they'd earn would only go to strengthen their own organization or be returned to the borrowers in the form of patronage refunds.

Application of state usury laws to the PCA, FLBs, and BCs would serve no purpose and could only prohibit their serving the very purpose for which they were created: to provide a dependable source of credit to farmers and their cooperatives.

As Chairman of the Board of the Sixth District Farm Credit Banks, I feel a heavy responsibility for their ultimate success or failure in providing an ongoing source of agricultural credit in our three states.

Under current conditions, it is quickly becoming impossible for those institutions to continue in business in my home state. With the cost of funds well above their 10% loan rate, 9 Arkansas PCAs reported year-to-date losses on lending operations totalling almost $578,000 as of August 31. At 10%, the St. Louis Bank for Cooperatives is charging the lowest rate of any BC in the country with a margin above average debt cost that wouldn't pay operating costs. The St. Louis Federal Land Bank is lending long-term credit at 9.75%—its highest rate in history. With a 1% loan fee they can go no higher and remain under 10%. These institutions cannot lend money at a loss for any sustained period. If they must cease operations because of continuing losses, then their Congressional objective of providing a dependable credit source cannot be attained and they are put out of the only business which their limited purpose charters permit. We ask that you act favorably on S. 1465 to clarify the preemption on state interest rate limitations contained in the Farm Credit Act of 1971 in order that the institutions of the System can accomplish their reason for being.

I would also like to call your attention to provisions of the bill relating to expanded export financing services offered by banks for cooperatives. I have been privileged to serve as a member of the board of directors of several agricultural cooperatives. I am presently a member of the board of Riceland Foods, Inc., a major cooperative exporter of rice.

The history of cooperatives in the United States is one of the real success stories of our times. The ability of farmers to work together to provide for their own needs in the areas of farm supplies and the marketing of farm products, and the financing of their own credit needs is one of the major reasons for the success of our family farms. The ability of farmer cooperatives to fulfill the necessary functions in the channels of supply and distribution has given the family farmer a voice in the marketplace.

However, this success story has not extended to the ultimate user in the distribution channel for farm products. About 40 percent of the total U.S. agricultural production moves into export markets and a very large percentage of these exports is controlled by a few private international traders. Cooperatives control only a small percentage of such products.

Farmers, through their cooperatives, need to play a larger role in promoting and facilitating farm exports. This interest stems not only from the obvious importance of farm products to the U.S. balance of trade, but also because of the importance of exports to farm prices and farm income. Through increased exports, substantial economic benefits can accrue for our agricultural economy without massive or costly government programs.

Farmers believe that they can become more active direct exporters and are directing their cooperative management to become more active in selling and shipping to foreign buyers. They also believe that it would be in their best interests if their cooperatives handled more than the 9 or 10 percent of the U.S. grain in international trade that cooperatives presently handle. There is a recognition that cooperatives may hold the potential for expanding our total farm markets in other countries. Many major foreign cooperatives have expressed interest in establishing cooperative-to-cooperative trade relations. Their reasons for such interest are the quality of products supplied by cooperatives and the integrity of cooperatives as business organizations.

In order to accomplish these ends, we in cooperatives are calling on our primary lender, the banks for cooperatives, to provide international financial services which will expedite our cooperative sales abroad. However, when the Farm Credit Act was written in 1971, the tremendous importance of farm exports and the key role of

cooperatives in marketing our agricultural products were not contemplated. It is now necessary that the authorities granted to banks for cooperatives in the Farm Credit Act of 1971 be expanded.

S. 1465 provides amendments to the Act which would give the banks for cooperatives expanded authorities to serve the needs of cooperatives which desire to engage in the export of farm products. Specifically it would allow banks for cooperatives to make deposits in foreign banks; to receive and hold credit balances from banks and borrowers; to buy and sell bankers acceptances, the purchase of time drafts payable by foreign buyers of agricultural products, and other instruments arising in the ordinary course of business; to engage in currency exchange; to make loans to parties affiliated with cooperatives where there will be substantial benefit to member cooperatives; and to participate in the ownership of foreign agencies and institutions for the purpose of facilitating the gathering of credit information and performing financial services related to international transactions.

Now I am just a farmer from Marianna, Arkansas, not an international banker and these authorities are quite technical; but I do know all of these authorities are absolutely necessary if banks for cooperatives are to provide the basic services required by my cooperatives involved in international transactions. Further, I also know that cooperatives need their primary lender—the banks for cooperatives—to assist them in expanding export markets and in managing risks in that market.

As a farmer and as a member and director of several cooperatives, I urge that you act favorably on S. 1465 for the benefit of all of us. Thank you.

STATEMENT OF ELTON R. SMITH, PRESIDENT, MICHIGAN FARM BUREAU AND MEMBER, AMERICAN FARM BUREAU FEDERATION BOARD OF DIRECTORS

We appreciate this opportunity to comment on S. 1465, "A Bill to Amend the Farm Credit Act of 1971." Many Farm Bureau members and several Farm Bureau-affiliated cooperatives finance their credit needs through units of the cooperative Farm Credit System. Most farmers know these institutions as their local Production Credit Associations (PCA), Federal Land Bank Associations (FLBA), or District Banks for Cooperatives (BC).

S. 1465 includes a series of amendments to the Farm Credit Act of 1971 which are being proposed by the Farm Credit System and the Farm Credit Administration (FCA), a government regulatory agency. Before we make specific comments on this bill, we would like to outline the steps that we are undertaking to obtain grass roots input into the consideration of the issues raised by this bill.

Farm Bureau has developed a condensed summary of the various Farm Credit amendments proposed in S. 1465 for the use of County Farm Bureaus during local policy development and county annual meetings.

We have also sent to all of the State Farm Bureaus copies of a more detailed summary of the amendments along with some staff observations and questions regarding the implications of the proposed amendments. This policy development process will not be finished until the upcoming AFBF annual meeting in January, 1980.

Since the Farm Credit System is so important to the entire agricultural economy we urge this Committee to allow this issue to be completely reviewed at the state and county level by the farmers and cooperative managers who are dependent upon the system prior to markup.

Because we do not have a firm or final position on this proposed bill at this time we would like to utilize this opportunity to focus this Committee's attention on several of the proposed amendments and suggest one additional amendment on which we do have clear policy at this time.

The first major proposal would authorize the Bank for Cooperatives to become involved in "export-import financing and servicing and financing of equipment and facilities for lease to and direct use of farmer cooperatives." [1]

This is a very far-reaching proposal. International banking is a complicated and risky business. The fact that "other banking institutions, including U.S. branches of foreign banks, already have the capacity to render the range of needed services to their clients" [2] can be used as an argument against, as well as an argument for, this proposal.

We are urging Farm Bureau members to consider whether it is necessary for the Banks for Cooperatives to invest in foreign Financial institutions or servicing oper-

---

[1] "Digest of Bank for Cooperatives Task Force Report," by Richard Bonney, President, Columbia Bank for Cooperatives; Burgee Andahl, President, St. Paul Bank for Cooperatives; Jack Hughes, President, Houston Bank for Cooperatives.

[2] Ibid.

ations to fulfill the export-import credit needs of U.S. farm cooperatives. On the surface at least, this proposal seems a long way from the original intent and purpose of the Farm Credit System.

Another point we are urging our members to consider relates to the proposal to finance equity investors who build facilities or provide equipment for lease to and direct operation by, farmer cooperatives. Again, on the surface this seems logical and in line with good management practices and sound business principles but, like many other good ideas, this authority is extremely vague and could be abused if not properly controlled.

We also question the extent to which the Banks for Cooperatives should be involved in monetary exchange transactions and other services which are now being provided competently by existing commercial banking institutions.

The proposal to amend the 1971 Farm Credit Act to permit Federal Land Banks to make loans in excess of 85 percent of appraised value would appear to move the Farm Credit System toward a more complementary position with the new Farmers Home Administration and Small Business Administration guaranteed loan programs. If, in fact, this is the intent we would suggest specific language which would limit Federal Land Bank loans, guaranteed by the FmHA or SBA or state programs to 90 percent of the appraised value of the real estate security.

FmHA has a limited resource program for beginning farmers, which can accommodate the needs of entry-level farmers who may not be able to meet the 10-percent equity requirements of the Federal Land Banks. Most entry level farmers should be able to meet the 10-percent equity requirements or there may be some question as to their ability to withstand adverse production or marketing conditions.

The cooperative eligibility amendment would lower the percentage of farmer-voters in cooperatives eligible to borrow from the Banks for Cooperatives from 80 percent (70 percent for rural utility co-ops) to 60 percent.

This has been a controversial measure inside the Farm Credit System, and it has special implications for farmers in the more densely populated areas of the United States. Traditionally whenever a farmer cooperative becomes top-heavy with nonfarmers the nonvoting nonfarmers tend to receive special consideration often at the expense of farmers. A good example of this type of problem occurs when a traditional farm cooperative invests in a town and country store, which has limited utility to farmers but a high utility to rural nonfarmers and suburbanites, instead of allocating its resources to a new feed or fertilizer plant which may not yield as high a return on investment.

The other amendment which the Farm Credit Administration has identified as a major consideration from its perspective relates to FLBA and PCA financing for the processing and marketing activities of farmers or aquatic borrowers. This proposed amendment has significant implications for existing and future farmer cooperatives. Farmers and aquatic borrowers would be able to receive Farm Credit System funding for noncooperative marketing and processing enterprises. The eligibility requirements of this proposal seem to be very ambiguous. At a subsequent time, we may urge the Congress to specify a minimum percentage of the production to be processed or marketed through a facility which must be produced by the borrower if the facility is to be financed by a Farm Credit Bank.

There are several other proposals in the package which are not considered by the Farm Credit System to be major proposals but which appear to us to be extremely important.

One of these proposals would authorize all Farm Credit System institutions to enter into general loss sharing agreements with other Farm Credit System institutions. "Loss sharing" agreements could increase the possibility that individual institutions might make risky loans. The proposed amendments to authorize loss sharing agreements between and among institutions in the Farm Credit System would distribute the risk over the entire system. This could mean that, if the export financing amendment is adopted, the risks involved in this activity would be reflected in the costs of borrowing farm operating and ownership capital. This "averaging" of risks and the costs of money associated with risks likely lower the cost of money to some segments of the Farm Credit System and raise the cost of money to others.

Another major proposal, from our standpoint, would authorize the FCA to charter corporations to perform service and finance functions for Farm Credit institutions. This may be one of the most controversial provisions in the FCA package.

We understand from some of the farm leaders who served on the Farm Credit Study Commission in 1970 that some staff people in the Farm Credit System raised the issue of whether FCA should develop its own credit life insurance company. Farm Bureau, along with other farm organizations, opposed the idea at that time and will likely oppose any authorizing legislation which would allow FCA to charter

insurance companies or other corporations to provide services to borrowers which can be provided by other private sector sources. We probably would not object to a service corporation that is restricted to such things as the performance of bookkeeping and computer services for the various units of the Farm Credit System.

The Farm Credit System should be guided by its original charter and fulfill its commitment to meet the credit needs of farmers and ranchers rather than seeking to build an empire of farm service business companies.

The Farm Credit System is also proposing broader authority for loans to aquatic producers and cooperatives. In some Farm Credit districts the banks have limited experience in making and supervising aquatic loans. In order to avoid jeopardizing the equity position of individual associations and district banks, we may urge Congress to impose a limit on the percentage of total loans outstanding that any one association or bank can have in aquatic enterprise loans.

The Farm Credit System is proposing an amendment to provide that only the federal truth-in-lending law applies to the System. The purpose is to insure that any amendments relaxing or removing federal requirements will not be offset by state laws. Farm bureau has suggested in the past that all agricultural business loans should be exempted from "truth-in-lending." However, Farm Bureau has not endorsed a blanket exemption from "truth-in-lending" for the Farm Credit System, which also makes consumer-type loans.

Another amendment would clarify and reaffirm the contention that lending by the Farm Credit System is exempt from state usury laws. Again, there is a question of whether Farm Credit System institutions should be subject to state laws. A case can be made for exempting Farm Credit institutions from state usury laws; however, the fact that FCA has claimed to have such an exemption is a sore point with many private lenders. An exemption from state usury laws gives the system, a distinct advantage over some of its competitors. On the other hand, neither Farm Credit System institutions nor other lenders can be expected to lend money at interest rates below the cost of money to the institution.

Another proposal would require that lists of candidates for the position of elected district director each consist of two nominees receiving the highest number of votes rather than three nominees as is required at present. Each component of Farm Credit districts is allotted two seats on the District Board. In addition, the governor appoints one additional member. This amendment would not affect the allocation of seats on the Board, but would change the requirement that there be three nominees for the electoral seats held by each District Bank to a requirement for two nominees.

The remaining major nontechnical set of amendments proposed by the FCA and the System would give the Farm Credit Board greater discretion in establishing FCA personnel policies and allow for greater "portability" of sick leave and retirement credits between system banks and the Civil Service. We would like to know what these proposals are expected to cost member-borrowers before we endorse them.

The other amendments appear to be technical in nature.

The last topic which we would like to bring to the attention of this Committee is the need for additional clarifying language in the statutes to carry out the intent of Congress, as set forth in the reports on the 1971 Farm Credit Act, with reference to the sale of collateral insurance by the Farm Credit System.

We have been told by State Farm Bureaus in the three pilot Farm Credit districts which have conducted trial collateral insurance programs that Farm Credit System institutions are not following the directive of Congress as expressed in the reports on the 1971 Farm Credit Act. We have been made aware of cases where farmers felt intimidated by Production Credit Association offers to provide insurance coverage at the time loans were requested. Whether this practice is widespread or isolated, it is inexcusable and all the more reason why such an environment for intimidation, either real or perceived, should not be allowed to exist.

Farm Bureau members spoke to this problem at the 1979 Farm Bureau annual meeting as follows:

"We recommend that the Farm Credit System not offer financially related services where adequate services are available to borrowers from other established sources. We will propose changes in the farm credit laws that will prohibit cooperative farm credit institutions from selling property and casualty insurance."

We have met with the Farm Credit Administration and representatives of the various Farm Credit districts, which have been participating in the collateral insurance pilot program. We have been unable to find any justification for their involvement or any demonstration of need, which we understand was to have been a prerequisite for the establishment of the program.

We urge the Congress to prohibit the Farm Credit System's operation of those programs because the system has never been able to demonstrate the need for the program or the professional skill to market it in a way which will not offend or intimidate farmer-borrowers.

Thank you very much for the opportunity to present these comments. We hope the Congress will delay final action on this issue until after the first of the year at which time Farm Bureau and other farm organizations will have more firm recommendations to make to you.

STATEMENT OF JOHN W. SCOTT, MASTER, NATIONAL GRANGE

Mr. Chairman and Members of the subcommittee, I am John W. Scott, Master of the National Grange, headquartered at 1616 H Street, N.W., Washington, D.C.

The Grange is a general farm organization, representing farmer members in 41 of our 50 states. However, our membership does embrace residents of rural-urban areas that have maintained an interest in the economic well-being of today's commercial family farm. It also includes other residents of rural-urban communities who understand the importance of a healthy, strong, viable agricultural economy as the wellspring of rural community development.

The word "Grange" is almost synonymous with "farm credit". The Grange was one of the first organizations to recognize the need of better credit facilities for farmers, and when the formation of loaning associations with lowered interest rates was being advocated, the National Grange at its session of 1891 recommended extensive discussion of the subject among Granges.

From this beginning and in the years preceding the passage of the Federal Farm Loan Act in 1916, the Grange pressed the subject of farmers' financial needs until the actual establishment of the Farm Credit Administration in 1933.

Since then it has constantly reaffirmed its position in support of the cooperative credit system based on sound business principles, under the ownership and control of farmer borrowers. Federal supervision is recognized as necessary to assure that the provisions of Congress are complied with, and the Grange has taken a determined stand in favor of having all responsibilities for such operations vested in the boards of directors of the cooperative institutions in the field.

The Grange continues to be a strong advocate of the cooperative credit systems: The Production Credit Associations which provide farmers with operating capital, Federal Land Bank Associations which provide real estate loans, and the District Banks for Cooperatives which serve the credit needs of farmer-owned cooperatives.

I was honored to serve on the study commission appointed by the Federal Farm Credit Board in 1969. Our task was to study the present operations and structure of the system, the potential future, kinds of agriculture, the evolving needs of the agriculture to be served in the foreseeable future and to make recommendations which would insure Farm Credit's relevancy and ability to serve the changing credit needs of American agriculture to the maximum and in the most efficient fashion.

The commission was composed of 27 members, half selected from various areas of the Farm Credit System and half from the general farm organization leadership outside of Farm Credit.

The study by the commission laid the groundwork for the first major overhaul of the Farm Credit System in recent years and was consummated by the enactment of the Farm Credit Act of 1971.

We now have before Congress legislation that would further expand the lending authority of the Farm Credit System and make some long-overdue administrative changes throughout the system.

The present package being considered by this Committee is not the result of a similar study commission composed of members from the system and agricultural leaders outside the system. Therefore, I believe it would be beneficial to review the commission's recommendations and judge the present legislative proposal accordingly.

The commission recommended the following objective for the Farm Credit System which was adopted by the Federal Farm Credit Board at the June meeting in 1970, as follows:

"Recognizing that prosperous agriculture is essential to a free Nation, it is the objective of the farmer-owned cooperative Farm Credit System to improve the income and well-being of American farmers and ranchers by furnishing adequate and constructive credit and closely related services to them, their cooperatives and selected farm-related businesses necessary for efficient farm operation."

We commend them for adopting such a far-reaching objective and for bringing to the attention of all the following potential goals as a basis for attaining the objective. These goals are:

"1. On a sound credit basis extend to farmers credit adequate to meet their total needs;

"2. On a sound credit basis provide greater opportunity for competent young farmers to obtain an adequate amount of credit;

"3. Serve the total needs of cooperatives which help meet farmers' supply, marketing and processing needs;

"4. Provide credit to selected farm-related businesses providing services directly to farmers;

"5. Employ credit standards permitting recognition of management ability and earnings potential to maximize availability of credit;

"6. Assure availability to member borrowers of essential credit-related services;

"7. Utilize the most reliable sources of loan funds;

"8. A close cooperative working relationship of farm credit units should be encouraged to insure the best quality credit service;

"9. Maintain sensitive boards of directors cognizant of a changing agricultural economy and aware of farmer credit needs;

"10. Farm Credit System should develop and promote the strongest possible farm credit organization;

"11. Maintain external communication with others concerned with financing American agriculture."

We feel very strongly that final determination of any changes in the Farm Credit Act that affect lending authority or eligibility requirements should be vested in the local cooperative credit governing boards.

In line with Grange policy and with the recommendations of the 1971 study commission, I would like to turn to S. 1465 and comment on some of the specific changes in credit policies and eligibility.

First, Title IV, sec. 404, Part D—Service Organizations, broadens the authority of FCA banks to organize one or more corporations "for the purpose of performing functions and services for or on behalf of the organizing bank or banks, other than the extension of credit, which said bank or banks may perform pursuant to this act."

While this section does not mention insurance, I believe that it can and will be interpreted to broaden the FCA authority to form an insurance company. The Grange is strongly opposed to the extension of the economic power of lending institutions.

The entry of the Farm Credit System into the insurance business has been of deep concern to the Grange. The study commission on which I served also debated the insurance issue long and hard, with the general farm organizations represented on the commission strongly opposed to the Farm Credit System entering the general insurance business. We agreed that there were sound reasons for—and no objection to—the banks writing "credit life" in amounts to cover the loan, but we were opposed to the writing of other life insurance and property and casualty insurance.

However, the amendments passed in 1971 have been interpreted by the Farm Credit Administration as giving them the authority to write insurance other than "credit life". The House and Senate conferees on the Farm Credit Act of 1971 disagreed on the report language concerning Sec. 2.16. The House Agriculture Committee indicated that they intended this language to mean that the various agencies of the Farm Credit System should not be allowed to write or sell any form of insurance except "credit life". The Senate Agriculture Committee disagreed and in the end the legislative history contains the following:

"The conferees discussed at length the scope of insurance services that should properly be made available to eligible borrowers. It is felt that the sale of liability insurance, and any insurance on passenger automobiles, is not 'necessary and incident' to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. Thus credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral. It is of course not the intent of the conferees that the borrowers' insurance necessarily be purchased through the Farm Credit System lender. These lenders should appropriately notify the borrowers that they possess the option of buying the insurance needed to secure the loan elsewhere if they so wish."

I seriously question the extension of FCA into the insurance agency business. The extension of financial institutions (bank holding companies, FCA, etc.) into activities

of this kind is another step in the concentration of economic power in the hands of financial institutions and, in our opinion, should be avoided. It is unfair competition for institutions that have been given special privileged powers over the availability of money and credit to use their earnings to compete with private business in this manner. It is also anti-competitive for such institutions, which have the privileged power to grant loans, to sell a related service that the credit client may interpret as being a prerequisite to the granting of the loan.

The extension of the authority to the FCA to act as insurance agents, and now to organize their own insurance company, will not reduce insurance rates for their borrowers. They cannot sell insurance at discount rates, nor can they legally rebate agency commissions in most states across the nation. Since there is no evidence of unmet needs to be satisfied, there is little, if any, justification for their decision to invade this field.

The Grange in opposed to the concentration of economic power in financial institutions, not only regarding the FCA but also as it relates to bank holding companies. We have opposed for the past two years the granting of the authority for bank holding companies to act as insurance agents in towns of less than 5,000 population. This position was adopted by the delegates of the National Grange at their annual meeting in November, 1974, when they sought legislation to prevent financial institutions from engaging in unrelated business activities (see page 10).

We strongly recommend that S. 1465 be amended to prohibit the FCA from organizing insurance companies. We would suggest that Sec. 4.25, Part D, page 22, lines 15 and 16, should be amended by inserting at the end of line 15 the words "or the writing of property and casualty insurance,".

This would prevent the FCA from organizing property and casualty insurance companies, but it would not correct the Act of 1971 so that they may not act as agents in the sale of property and casualty insurance.

We would suggest that the Committee exercise its oversight responsibility and investigate the need for Farm Credit banks acting as agents for the sale of insurance as three districts are presently doing. We would like to know what distribution is being made of any fees that banks are collecting on the sale of insurance. Are the funds being returned to producer members? If so, in what form—reduced interest on the loan or a cash rebate, or is it staying in the bank's general operating fund?

The second major concern of the Grange regarding S. 1465 is found in Sec. 210, which amends Sec. 2.15 of the Farm Credit Act of 1971. The proposed amendment to this section would broaden the authority of the PCA's and the FLB's to finance processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers.

While we understand that this amendment would not open up a new class of borrowers, we question the real need for such increased lending authority. As we understand the proposal, an individual eligible producer could borrow from PCA's or FLB's to establish a marketing or processing facility directly related to their own farming operation, such as a fruit or vegetable packing house, cotton gin, peanut sheller, cattle feedlot or confined hog feeding operation.

At the present time, such operations can be and are financed through the Bank for Cooperatives in each Farm Credit Administration district. The Grange, credited with starting the cooperative movement in the United States, feels very strongly that producers should continue to organize as cooperatives and not set up marketing and processing establishments as proprietorships.

Once again, I believe that we must refer to the recommendations of the Farm Credit Study Commission. The commission gave strong support to the financing of selected off-farm related businesses that perform on-farm services, such as custom harvesting, spraying, etc. and to serve the total needs of cooperatives which help meet farmers' supply, marketing and processing needs.

The amendments to the 1971 Act provided the lending authority to meet these two objectives, but now we find in the June 21, 1979 Federal Register that the Farm Credit Administration proposes to change the regulations pertaining to the establishment of businesses off-farm that perform on-farm services. The proposed changes would permit the financing of farm-related businesses providing off-farm services and waive the concurrence of the Bank for Cooperatives, which is presently required when such loans are made.

Our concern is that such new loan authority, after once being granted by Congress, may, by administrative changes, be used to provide credit to establishments that will be in direct competition with family farms that are providing all their own on-farm services, or that it will be used to finance an establishment that is directly in competition with a Bank for Cooperatives-financed, farmer-owned cooperative. The basic question is whether the objective of the Farm Credit System is to meet

the credit needs of family farmers and ranchers or be expanded to meet the credit needs of integrated agriculture.

We would urge this Committee and Congress to consider very carefully the expansion of the lending authority of the PCA's and FLB's to include the financing of marketing and processing facilities of eligible applicants and borrowers. If it is proven that such lending authority is in the best interest of family agriculture, we would urge that the legislation set specific criteria of eligibility for such loans and require that the loans could not be made without the concurrence of the Bank for Cooperatives.

The third concern of the Grange is that S. 1465 would lower the percentage of farmer members of cooperatives borrowing from BC's from 80 percent to 60 percent. The Grange understands the unique position of rural electric cooperatives and will support lowering of the membership eligibility requirement for such co-ops, but believes that it is in the long-range best interest of farmer cooperatives to maintain the 80 percent farmer membership requirement.

The fourth concern of the Grange is establishing that the Farm Credit System would be exempt from state truth-in-lending laws and state usury laws. The Grange is a strong advocate of states' rights and questions the advisability of usurping state authority to control credit requirements within their boundaries.

The most important proposal being offered in S. 1465 would allow BC's to make at least two basic kinds of transactions: (1) letters of credit, and (2) financing of foreign subsidiaries.

The National Grange, at its 112th Annual Meeting, held in November, 1978, adopted a policy position in favor of further development of cooperative export marketing (see page 10). Therefore, we support extending export financing authority to the BC's. However, we urge the Committee to give consideration to the impact of this change on the Farm Credit System and the availability of funds to meet the credit needs of production agriculture before granting the authority for export financing.

We also would encourage the Committee to limit the financing of foreign subsidiaries by the BC's to those jointly owned with foreign farmer-owned cooperatives.

In conclusion, the National Grange, with these few exceptions, is in general support of S. 1465. We would urge the Committee to use its wisdom in extending new lending authority to the Farm Credit System, keeping in mind that the emphasis throughout the system must be to continue to fulfill the credit needs of farmers and ranchers actively engaged in the production of agricultural commodities. We caution against programs that will unduly enhance other services provided by the system that are not related directly to production of agricultural commodities.

We thank you for this opportunity to present the views of the National Grange on this important legislation. I will be glad to respond to any question you or the members of the Subcommittee may have regarding our position.

National Grange Resolutions

Concentration of economic power

Whereas, the ownership or operation of insurance agencies by financial institutions is another step in the concentration of economic power; and

Whereas, the entrance of financial institutions, with special privileged powers over money and credit, into unrelated business activities creates unfair competition and a threat to the private enterprise system; and

Whereas, there is no evidence of unmet needs, or absence of good service, or competition in the selling of insurance; and

Whereas, individuals seeking credit from lending institutions engaged in selling insurance could be subject to coercion or made to feel that failure to purchase their insurance from the lender may impair their ability to get credit; and

Whereas, many financial institutions have established Holding Companies and are engaging more and more in a number of unrelated business activities; and

Whereas, the Grange, historically, has opposed monopolies, and been a stong supporter of legislation to prevent concentrated economic power; and

Whereas, we believe that a threat to the future of the private enterprise system results when economic power is concentrated so that the public interest will be served and the private enterprise system preserved by the adoption of legislation to prevent financial institutions from engaging in unrelated business activities; therefore be it

Resolved, that the National Grange actively seek legislation to prevent financial institutions from engaging in unrelated business activities.

COOPERATIVE EXPORT MARKETING

Whereas, the majority of American farm products that are sold through farmer cooperatives are marketed abroad by private exporters, therefore be it

Resolved, that the National Grange urge further development of cooperative export marketing.

NATIONAL GRANGE,
Washington, D.C., October 26, 1979.

Hon. EDWARD ZORINSKY,
Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: When the Grange testified before your subcommittee on amendments to the Farm Credit Act of 1971, we were asked to supply for the record some information regarding our experience in having the Farm Credit Banks as insurance agents.

We informed you then that the National Grange does not own directly or indirectly any insurance companies. But we do have State Granges, located in the area of the country where they are selling insurance in competition with the Farm Credit Banks.

Please find enclosed a copy of a letter from one of our State Grange insurance companies that is in the situation cited above. The letter not only sets forth the postition of the insurance company but lists several examples of the pressure applied by the Farm Credit Banks.

The letter also recommends language to prohibit Farm Credit Banks from acting as insurance agents by amending the Farm Credit Act of 1971. We endorse and support that amendment.

We would appreciate this letter and the enclosed letter being made a part of the hearing record. Thank you.

Sincerely,

JOHN W. SCOTT, *Master.*

N.C. GRANGE MUTUAL INSURANCE CO.,
Greensboro, N.C., October 22, 1979.

Hon. EDWARD ZORINSKY,
Chairman, Subcommittee on Agricultural Credit and Rural Electricfication, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The extension of F.C.A. banks (P.C.A. and F.L.B.A.) in to the sale of property and casualty insurance was a mistake and needs to be corrected. The F.C.A. interpreted language in the act of 1971 to justify extension of their operations into this field and attempts to eliminate the practice administratively have been unsuccessful. We are informed that F.C.A. officials now say that they are in the Insurance Agency business to stay.

The language in "Section 4.25 of Part D.—Service Organizations" of the pending legislation will open the way for F.C.A. banks to organize insurance companies. It authorizes them to organize corporations "for the purpose of performing functions and services or banks may perform pursuant to this Act." The purpose of this legislation is "to amend the Farm Credit Act of 1971 to permit Farm Credit institutions to improve their services to borrowers, and for other purposes."

The act of 1971, with the language included in the legislation history, was the spring board used by F.C.A. to authorize P.C.A. banks to act as agents for the sale of property insurance. The sale of property insurance by F.C.A. banks will be regarded as a "function which said banks may perform" until it is corrected by the Congress.

The pending legislation provides Congress with the opportunity to amend the Act of 1971 and make it clear that "F.C.A. banks may not act as agents or otherwise engage in the sale of property insurance, unless it is shown in a public hearing within the area of such bank that existing facilties or services are inadequate for the needs of their borrowers." An Amendment of this kind will prevent F.C.A. banks from acting as agent or engaging in any way in the sale of property insurance, except where a definite need for their involvement is shown to exist.

There was no justification then and no justification now for F.C.A. banks engaging in the sale of insurance. There has been no showing that insurance services are not readily available from companies and agents who have no affiliation with F.C.A. banks. No evidence of unmet needs, absence of good service or lack of competition has been shown to exist.

The agents serving rural areas are generally small independent operators. Their ability to maintain a good service for the area is affected when F.C.A. banks sell insurance to borrowers of the bank. A large percentage of farmers, as you know, are users of F.C.A. Credit. When these borrowers, who were clients of the small inde-

pendent agents, transfer their accounts to F.C.A. agents, it will impair the ability of the independents to maintain adequate services for others in the community.

Rural agents in all areas of North Carolina have told us of Crop Hail and property insurance accounts lost to P.C.A. agents. A long time Grange member and well known citizen who has carried his property insurance through an agent of this Company for 45 years, recently lost a building by fire. Our Company was in the process of settling with the insured when we learned that the P.C.A. had also written insurance on the building. We were told over the telephone by the member-borrower that he felt an obligation to buy insurance from the P.C.A. The P.C.A. had and still holds a policy issued by this Company covering the buildings owned by this policyholder with a mortgage clause in their favor attached.

Many F.C.A. borrowers who have transferred their insurance business to P.C.A. agents have felt obligated to use the P.C.A. Some typical remarks from agents follow:

1. An agent in Eastern North Carolina writes our office—"I had a good friend who had purchased hail coverage from me for ten years to come by the office and tell me he had purchased his hail this year from P.C.A." The agent was told "I am sorry I had to give P.C.A. my hail business this year as they supply my farm account and told me that the more people who purchased hail from them the less our interest rate would be this fall when we settle our account."

2. Another agent in Eastern North Carolina writes, "I am losing business to the P.C.A. We need to stop this practice of coercion."

3. An Agent in the piedmont area writes, "I have observed that the P.C.A. people are very active in their insurance work. It seems that the lender does a good job in making the borrower feel obligated to secure insurance from them. I feel that this sort of obligation is wrong. I have lost sales to P.C.A."

4. An agent in Western Carolina writes, "I feel that F.C.A. institutions, as well as other lending agencies should be prohibited from acting as agents. They do not provide a better service; the structure of the program itself is a form of coercion; the client is not going to take any chances. Coercion can be implied as well as stated."

5. An agent in Soutern Piedmont wrote, "Each time I try on new construction, it seems like P.C.A.; Federal Land Bank and loaning Agencies have them tied up."

It is interesting to note that the Federal Land Bank and Intermediate Credit Banks were very disturbed in 1974 when the Federal Home Loan Bank proposed Amendments for the purpose of expanding the authority of Federal Savings and Loan Associations to make farm loans. In opposing that proposed action they said, "the Farm Credit Board of Columbia took action to oppose the Amendments in the interest of farmers who in their opinion have adequate sources of credit. Farm lending is a highly specialized business and it is the hope of the officers and board that savings and loan associations will not embark upon farm credit financing and run the risk of impairing their ability to finance homeowners." The F.C.A. did not want that kind of competition. We suggest that F.C.A. stick to its primary function of providing credit for farmers.

A letter from an F.C.A. official to me in 1974 states that it is their plan to offer fire and extended coverage insurance on property; crop hail and insurance on stored crops and other lines of insurance (which were not specified). In responding to that memo, I said "the extension of financial institutions into activities of this kind is another step in the concentration of economic power and threatens our most important social and economic principles and institutions. It is unfair competition and contrary to basic principles for institutions that have been given privileged powers over money and credit to compete with private business in this manner."

It is interesting to note that an independent agent in a rural county who was at the time a P.C.A. director was advised by a representative of the P.C.A. that it might be a conflict of interest for him to sell Grange Insurance in competition with P.C.A.

A letter from an F.C.A. official stated that "the main purpose behind the Farmbank Services is to save money for the system." Insurance is a part of the Farmbank service.

This is a lengthy letter for which I apologize. It deals with some specific principles and issues that concern small business represented by insurance agencies in North Carolina. We hope that it will help you to understand the problem. Your active support for the changes suggested are solicited.

Cordially,

HARRY B. CALDWELL.

STATEMENT OF CHARLES N. FINSON, CHAIRMAN, AMERICAN BANKERS ASSOCIATION

Mr. Chairman and members of the committee, I am Charles N. Finson, President of the National Bank of Monticello, Illinois and Chairman of the American Bankers Association's Agricultural Bankers Division. My bank has $35 million in assets and is in a predominantly agricultural community of 5,000 people. Appearing with me today is Walter Minger, Senior Vice President, Bank of America, San Francisco, who is the immediate past Chairman of the Agricultural Bankers Division. Also American Bankers Association is a trade association with a membership of over 90 percent of the more than 14,000 full-service banks in the United States.

We appreciate this opportunity to present the Association's views on a number of issues and provisions related to S. 1465, a bill to amend the Farm Credit Act of 1971. What we have before us is a significant piece of legislation. During the congressional hearings of 1971, ABA stressed the point applicable today, that the law that emerges will have an important bearing on whether the farmer of the future, like the farmer of today, will have two or more types of strong financial institutions bidding vigorously for his credit business. This legislation could have a profound impact on the competitive climate that will prevail for agricultural lending in the future.

The American Bankers Association believes the current proposed package of amendments would give the Cooperative Farm Credit System (CFCS) further authority to provide financial resources outside the farm sector and would be an additional encroachment on the private sector including the commerical banking system. The amendments also expand the inequities already existing between the operations of private lenders and the CFCS, thereby reducing the competition between CFCS and other lenders. Thus the American Bankers Association broadly and basically opposes those amendments which would result in CFCS encroachment into non-farm lending activities.

Several legislators have clearly indicated the belief that free intense competition does the best job of allocating credit. Bankers would actually be the first to agree as long as all institutions compete on equal grounds.

Our purpose today is to discuss specific difficulties we see in the proposed amendments. Obviously, this hearing covers an extensive range of topics embodying a series of complex issues. Some of these topics involve interrelated issues while others are independent subjects. In order to expedite the presentation, and to make the views of the American Bankers Association most clear, I wish to comment on each subject in turn beginning with the banking industry involvement in the ever growing agricultural industry.

BANKING AND AGRICULTURE

Agriculture is America's single largest industry, with assets totaling $820 billion, equivalent to approximately 60 percent of all capital assets of manufacturing corporations in the United States. All phases of agriculture still employ the largest number of people of all industries, and agriculture is the country's most effective creator of new wealth. Banks are deeply interested in the agricultural sector, so much so that banks hold over $36.8 billion of farm debts—28 percent of the total estimated to be $132 billion. Two-thirds of the nation's full-service banks are in communities of less than 25,000 people. In fact, half of these banks are in towns with fewer than 5,000 residents. According to the latest estimates, nearly 60 percent of these community banks listed agriculture as the single most important source of income for their communities.

The banking community recognizes that the CFCS plays an important role in providing agricultural credit. We support, as we did in 1971, those amendments which modernize CFCS methods and procedures enabling it to serve the needs of a changing agriculture. However, we oppose the new authorities this legislation would grant that provide new directions while special treatment under the present law remains. Thus our testimony will be limited to those amendments we believe would reduce competition with the private sector by granting undue competitive advantages of CFCS member institutions.

1. Cooperative eligibility.—The proposed legislation would reduce from 80 percent to 60 percent the requirement that voting members of cooperatives borrowing from Banks for Coopératives (BCs) be farmers. However, the legislation before us does not state the criteria used to qualify one as a farmer. We, therefore, feel that the word "farmer" should be properly defined in the language of the bill. Various publications, such as the United States Department of Agriculture Statistical Bulletin No. 609 of July 1978, state that many farmers earn a high percentage of their annual income from off-farm sources. Mr. Chairman, since the Farm Credit Administration

53-579 O - 80 - 15

deems it desirable, and we agree, that "farmers" continue to control eligible cooperatives, a clear-cut definition of who a farmer is would be necessary.

The continuing erosion in the number of full-time farmers has led to fewer farmers running bigger operations each year. This proposal would broaden the eligibility criteria for rural electric and other cooperatives to enable the BCs to serve an ever wider range of credit needs in rural and suburban America. We believe there should be no further liberalization of the farmer-member eligibility requirement for financing. The present 80 percent standard (70 percent for rural electric cooperatives) allows a cooperative eligible for BCs financing to have a substantial number of its membership supported by non-farm income, either as part-time or non-farmer members. It is our belief that if an agricultural community truly needs a cooperative, there will be enough farm constituents available to support it on its current base of farm to non-farm memberships.

2. Financing of processing and marketing activities of bona fide farmers.—This proposal would permit Federal Land Banks (FLBs) and Production Credit Associations (PCAs) to finance processing and marketing activities for farmers. Although we understand this authority is not intended to qualify any new borrowers, it does provide new authority to finance off-farm businesses in which a substantial portion of the product processed and/or marketed is not that produced by the borrower. In 1971, Congress wisely limited such agribusiness financing to on-farm activities. We believe this guideline should be continued since it provides a reasonable control as to a qualified borrower. Otherwise, there is danger of opening the door to serious violations of the intent of the law. For example, there are many large processors and marketers, such as in California, who are also growers. Although involved in farm production, their main activities have always been processing and marketing. Processing and marketing activities of such organizations should not be entitled to PCA and FLB financing. We believe processing and marketing needs are being met adequately through existing services provided through the present highly competitive financial environment.

3. Banks for cooperatives export financing.—One of the major amendments proposed would authorize the BCs to handle the financing and related servicing functions of farmer cooperatives' direct foreign sales of commodities, or purchases from foreign sources of items needed to conduct their own cooperatives operations. To accomplish this will require the establishment of correspondent relationships with appropriate foreign banks, U.S. banks, and/or their foreign branches. Reciprocal agreements in these correspondent relationships would cover the issuance, receipt, and guarantee of letters of credit, bankers' acceptances, time drafts; also obtaining credit reports on buyers entering into currency exchange transactions, and other services.

This proposal is among the least palatable from our point of view. It seems to us that these transactions can be handled efficiently and effectively by U.S. money center and regional commercial banks. We would want to see justification as to why, if letters of credit are important, a commercial bank could not provide them. Indeed, the commercial banking system, including domestic U.S. banks and their domestic and foreign correspondents, have had no problems in handling the letter of credit needs of commodity buyers and sellers. The present export credit system has fully supported the rapid increase in farm commodity exports (from $8 billion on $32 billion since 1971) enjoyed by this country.

Furthermore, Title III of the bill would permit the BCs to make investments in foreign entities that are involved in trading transactions with U.S. cooperatives. U.S. commercial banks have only a very limited authority to make investments in non-bank-owned entities. This is another example of the unfair competitive advantage being provided to the CFCS, and we recommend these provisions be stricken from the bill.

Mr. Chairman, we suggest that the emphasis in the proposed changes should be to permit a better integration of functions between the BCs and U.S. commercial banks rather than to add additional financial services such as international credit.

4. Interest rates.—S. 1465 would exempt the CFCS from state-imposed interest rate limitations; that is, usury laws. This is a gross inequity for other institutional lenders, particularly in periods of high interest rates such as we are now experiencing. In those states having restrictive usury rates, the present environment would permit the penetration into the agricultural loan market by the CFCS without any competitive ability on the part of private lenders to serve the market and would permit a windfall increase in the share of market for CFCS. Smaller commercial banks can not profitably make loans when the usury ceiling is under the market rate.

In many parts of rural America, the CFCS effectively sets the ceilings on farm credit granted by institutional lenders in the area. In periods such as the present, with banks' cost of funds rising, often much higher than the local usury rate and lending rates of local CFCS units, the local banks find their sources of deposits drying up because of competitive money market rates for alternative investments. This competition for local funds is exacerbated by the one-quarter percent differential that the savings and loan institutions enjoy.

Additionally, with our system of communications and information, even local potential depositors have access to money markets in the money centers, and capital often flows away from the small community to the money centers. All this results in a shortage of capital available to the commercial banks. When this is coupled with restrictive usury rates and the competition from the CFCS (which believes itself to be exempt from usury rates and has the ability to fund its own requirements on a favorable basis from national money sources) it becomes extremely difficult for local banks to compete. We believe the CFCS should join banking and seek relief in this area for all lenders and not seek its own special exemptions.

5. Truth-in-lending.—S. 1465 exempts CFCS from all federal and state Truth-in-Lending laws. This is a gross inequity. Exemptions for CFCS member institutions allow special advantages, and contribute to the competitive imbalance with banking and other lenders. Again, we believe the CFCS should join banking and seek relief in this area for all lenders and not seek its own special exemptions. Any such relief for the CFCS should be coupled to similar relief for all other lenders, including commercial banks.

6. Taxation of institutions in the cooperative farm credit system.—The institutions in the CFCS currently hold a very substantial proportion of the total amount of farm credit outstanding; $53 billion for mid-year, 1979. With the proposed changes to the Farm Credit Act of 1971, the role of these institutions is likely to further expand. However, these institutions currently pay little or no Federal income taxes, which enhances their ability to compete with commercial banks and other agricultural lenders. There appears to be no current basis for continuing this present tax advantage to these strong and stable institutions. Also, the CFCS should make a reasonable contribution to the cost of government.

The tax structure of the CFCS is quite complex. FLBs, FLBAs, and FICBs are currrently exempt from Federal income taxes. PCAs are taxable at current corporate income tax rates, but are allowed substantial tax deductions for provisions for loan losses which bear no relationship to actual or anticipated losses. BCs are subject to federal income tax, but pay a nominal corporate income tax due to the cooperative form of organization which allows a deduction for "qualified" patronage refunds. These are refunds in the form of cash (at least 20 percent), allocation of earnings, and stock paid to their member cooperatives. The tax on these dividends are paid by member cooperatives or in turn passed on to their farm members.

Other equitable considerations would call for a termination of the exemptions accorded to FLBs, FLBAs and FICBs. Federal Intermediate Credit Banks currently operate on a cooperative basis and the proposed legislation would clarify the power of FLBs and FLBAs to pay patronage refunds. If these institutions remain tax exempt, it is unimportant that their patronage refunds do not qualify for an income tax deduction. As a result, FLBs, FLBAs, and FICBs can make payment of nonqualifying patronage refunds to their members upon which they do not have to pay tax. If the tax exemption is removed, the patronage refund of such institutions must qualify under the Internal Revenue Code to be deductable for federal income tax purposes. This would result in the amount of the patronage refund being taxable either to the FLB, FLBA, and the FICB or its members—thereby parelleling the treatment of banks for cooperatives.

Currently, PCA's are required to transfer earnings equal to .5 of 1 percent to loans outstanding at the end of the fiscal year to valuation reserves until such reserves equal 3.5 percent of loans outstanding. These provisions for loan losses are accorded a deduction for Federal income tax purposes. Currently, commercial banks are permitted to make additions to maintain a reserve for loan losses equal to 1.2 percent of eligible loans, subject to reduction to .6 percent in 1982. In 1988, additions to banks' reserves will be based on actual loss experience. It is recommended that PCAs, as well as FLBs, FLBAs, and FICBs, if taxable, be allowed to deduct an addition to bad-debt reserves computed in the same manner as competing commercial banks.

7. Incorporation of system service entities.—S. 1465 permits the Farm Credit Administration to charter corporations which perform other than credit services for CFCS institutions. There are a number of farm services such as: farm management trusts, marketing/brokerage, commodity/hedging, computer services, enterprise ac-

counting, payroll service, accounts receivable and accounts payable services, security agency services that could possibly be established by CFCS and chartered as separate entities under this legislation. Insurance to provide various kinds of coverage could also be provided as a service and chartered under this authorization.

The CFCS was not established to sell services. The purpose of the original Farm Credit Act was to provide credit for agriculture. This proposal liberally defines the powers of such corporate entities, permitting the performance of a wide range of services. It is difficult to evaluate this general authority, but it could be interpreted to mean the CFCS could own and operate many types of non-farm businesses. This would be an unwarranted encroachment into the private sector by corporations benefiting from special ties to the federal government.

8. Increase in FLBs 85 percent loan value lending limitation.—This proposal would allow FLBs to make real estate loans in excess of 85 percent of the appraised value of the property securing the loan when guarantees are provided by government agencies. Bankers understand the reasons for this proposed change, allowing FLBs through government guarantee loans to assist low equity borrowers. We are concerned that abuse could result in excessive extensions of credit, causing long term cash flow problems for borrowers. These circumstances would contribute to serious inflationary pressures on land prices. We, therefore, recommend that very tight limitations be placed on the authority allowing loan/value lending in excess of 85 percent.

9. Equality for Other Financial Institutions (OFI's).—The FICBs were organized in 1923 as farm loan discount facilities principally for commercial banks and OFIs. PCAs were organized in 1933 and since then have become the primary benefactor of the FICBs discounting facilities. Today, 97 percent of the FICBs $15.5 billion in loan discounts are with PCAs. In this environment, banks and OFIs are finding it difficult to obtain access to FICBs discount services as originally intended. This discounting facility seems to be administered differently in the various FICBs regions. We believe it is appropriate for Congress to restore the original purpose of FICBs by requiring in the law treatment for OFIs.

We recommend amending the Farm Credit Act to direct FICBs to provide the same services, on the same terms, to both PCAs and OFIs. Major areas that need attention to achieve equality are as follows:

Types of loans eligible for discount.—Specifically allowing agribusiness loans to be discounted for OFIs.

Loan maturities.—FICBs are handling loans for PCAs in excess of 7 years but not doing so for OFIs.

Individual lending limits.—We understand there are many instances where the individual lending limits for OFIs have been reduced substantially below the 100% of capital level generally available to PCAs.

Capital to loan ratio.—OFIs are limited to a level substantially below the 1 to 10 ratio generally permitted PCAs. In fact, 1 to 6 or more limiting relationships have been frequently required of OFIs; at these levels it is difficult to utilize capital efficiently.

Tax exempt reserve for loan losses.—The tax deduction for addition to loan loss reserves of PCAs exceeds the allowable deduction for OFIs.

Loan data processing services.—FICBs lending-related services offered to PCAs should be made available to OFI's on a comparable basis.

Credit standards and policies.—Credit standards and policies should be administered equally to PCAs and OFIs. We have frequently heard of situations where a loan discount offered by an OFI was rejected, but later accepted for a competing PCA.

OFIs representation on FICBs boards.—We believe it would be appropriate for OFIs to have representation on district FICBs boards, even if not voting. Such a presence would provide the board important input as to the needs of OFIs.

Mr. Chairman, we strongly urge that these recommendations be included in the revised Farm Credit Act, and by doing so, remove the present trend of OFIs becoming a more distant "step child" of the CFCS. This would return OFIs to the relationship intended when FICBs were originally chartered.

Finally, ABA does not oppose the "housekeeping" provisions in the proposed legislation which are designed to enable the rapidly growing CFCS to meet its changing needs. In fact, two proposals strengthen the opportunity for banks to work jointly with the CFCS in serving farmers: providing authority for Federal Land Banks to participate in farm loans with commercial banks, and authorizing Production Credit Associations to issue participation certificates to commercial banks and other lenders.

CONCLUSION

We believe that full competition, so long as it is fair and equitable, is the best way to assure that farmers will continue to receive quality financial services and that consumers will receive good products at the lowest prices.

Banks supported the formation of the CFCS during the early part of this century. Indeed, the banking industry has encouraged the repayment of government capital by the system and has not opposed changes in farm credit laws which were required from time to time. However, we believe the CFCS has progressed in scope far beyond the intentions for which it was created. The American Bankers Association believes the proposed package of amendments would give the CFCS further authority to lend and provide other services outside the farm sector and would be an additional encroachment on the private sector, including the commercial banking system. Thus, the ABA basically opposes those proposed amendments which would result in the CFCS moving further from its farm lending responsibilities into nonfarm activities, and at the same time, increasing its inequitable competitive advantages.

ABA is grateful for the opportunity to express its views. We would be pleased to respond to questions.

STATEMENT OF GLENN E. HEITZ, FEDERAL LAND BANK OF ST. LOUIS, THE SIXTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the subcommittee, I am Glenn E. Heitz, president of The Federal Land Bank of St. Louis which has over 50,000 mortgage loans in excess of three billion dollars outstanding in the States of Arkansas, Illinois and Missouri. The Federal Land Bank of St. Louis is part of the Farm Credit System which provides approximately fifty-three billion dollars or roughly one-third of the nation's total agricultural credit. I appreciate this opportunity to present the Federal Land Bank of St. Louis' views concerning the Farm Credit Act Amendments of 1979, Senate Bill 1465.

I first wish to comment in favor of Section 106 of the Bill which would amend the Farm Credit Act of 1971 to allow Federal Land Bank loans to exceed 85% of appraised value of the real estate security when the loan is guaranteed by federal, state or other governmental agencies. The Federal Land Bank of St. Louis and the rest of the Farm Credit System strongly support this Amendment because we believe it is in the public interest and further stated Congressional policy.

The Congress, in authorizing Farmers Home Administration programs for new and young farmers, made a policy determination that such programs were in the public interest. Cognizant of this policy and mindful of the Congressional policy stated in the Farm Credit Act of 1971, that the Farm Credit System was designed to accomplish the objective of improving the income and well-being of American farmers and ranchers; the Federal Land Bank of St. Louis and the Federal Land Bank Associations in the Sixth Farm Credit District, as well as other entities in the Land Bank System throughout the country, have all actively sought to cooperate with Farmers Home Administration in the dissemination of credit to young farmers and those newly entering agriculture.

Most farmers eligible for loans from Farmers Home Administration need more financial assistance than is usually available through Federal Land Banks. Although having an 85 percent lending limitation, Land Banks throughout the country have cooperated with the Farmers Home Administration through a coordinated lending program using Farmers Home Administration's authority to make direct loans.

This program contains two basic loan types: joint loans and subordinated loans. Joint loans are made by both a Federal Land Bank and Farmers Home Administration to new borrowers who have inadequate equity to borrow within Federal Land Bank lending limits, but who have adequate repayment capacity to service added debt. Subordinated loans are those made by a Federal Land Bank to the Farmers Home Administration borrower to assist that borrower to make additional financial progress. Joint loans are commonly made to assist a borrower to make the initial purchase of farm property while the subordinated loan is usually used to assist the borrower to acquire additional acreage for his farming operation.

Through this coordinated lending program, the Federal Land Banks and Farmers Home Administration have provided very meaningful assistance to many young farmers and to those entering farming. In the aggregate, these programs have a significant and positive impact on promoting the family farm by financing the

transfer of land ownership to a new generation of farmers and, later, enabling these farmers to acquire and operate more efficiently sized units.

Over the past several years, approximately 7 percent of all loans made by all Federal Land Banks have utilized the coordinated loan program including both joint and subordinated loans., The total number of borrowers served under the coordinated lending program from 1973 through 1978, was 24,952. During that period, approximately one billion two hundred and thirty-two million dollars has been loaned by the Federal Land Banks under this program. The Federal Land Bank of St. Louis, for the period 1974 through 1978, closed under the coordinated loan program approximately 10 percent of its loans by number and approximately 6 to 7 percent by volume. I believe that this has contributed significantly to the furtherance of Congressional policy, and to the well-being of those farm families involved.

Unfortunately, the opportunities for the Federal Land Bank system to continue to make significant contributions to the development of new generations of farmers might be severely restricted in the future. This result would arise from Farmers Home Administration's shift in emphasis from its direct lending authority to its guaranteed loan program.

The problem with the guaranteed loan program as it relates to Land Bank financing of new and young farmers is that the statutory lending authority of the Land Banks does not allow sufficient latitude to service the credit needs of those new and young farmers participating in that program. Section 1.9 of the Farm Credit Act of 1971 provides that "Loans shall not exceed 85 per centum of the appraised value of the real estate security".

This 85 percent limitation is further reduced because the Act requires that 5 percent of the borrower's loan be used to purchase stock in the Federal Land Bank Association.

In order to determine the impact of any shift of emphasis to the guaranteed loan program, we at The Federal Land Bank of St. Louis examined those joint loans which were closed by this bank in the first quarter of 1978 to determine how many of these loans could have been made under the guaranteed loan program. From this review, we found that only 5 percent of those loans could have been closed under the guaranteed loan program because the total financing needs of the borrower exceeded the 85 percent limitation.

The results of this survey were not surprising. The new or young farmer will normally be in a low equity position. Diverting his own funds to improve his equity position in the security or borrowing additional money on a short term basis would probably have an adverse affect on his cash flow or on his ability to obtain operating money. Allocating the credit need between the Land Bank and Farmers Home Administration under the coordinated lending program was devised as a means of providing credit assistance even though this total need exceeded that which the Land Bank System could provide under current law.

This coordinated lending program will continue to be effective in meeting the credit needs of many new and young farmers so long as Farmers Home Administration continues to make direct loans. But as Farmers Home Administration places more emphasis on the guaranteed loan program, the opportunities for the Land Bank System to assist the new and young farmers will be greatly reduced.

Since the 85 percent lending limitation in the Farm Credit Act will diminish the Federal Land Bank's role in assisting young and new farmers as Farmers Home Administration places more emphasis on its guaranteed loan program, the question presented is whether or not the Congress believes the 85 percent lending limitation concept is so important that it overrides the desirability of the system helping new and young farmers. This question is particularly appropriate since to our knowledge, the Land Bank System is the only source of agricultural credit with such a limitation for guaranteed loans.

The 85 percent lending limitation is a lending control imposed by Congress to require the loans made by this system to be adequately collaterized, thereby insuring the viability of the credit system and offering a high degree of safety and security to investors in the system's bonds. This lending control was important through the system's early years beginning in 1917 when it was primarily a collateral lender but with the advent of the 1971 Act, although collateral remains important, the emphasis is now on proper credit analysis. Each loan must be supported by a careful and accurate analysis of all of the credit factors involved, including the applicant's earning potential and repayment capacity, financial stability, net worth, financial progress, and a reputation for debt repayment. I submit that this emphasis on credit analysis is much more important to the borrowers from this credit system and to its reputation with the fact that the loan is fully collateralized.

The 85 percent lending limitation does impose a restriction which limits the sytem's loss exposure on any individual loan and on its portfolio in general. The need for such a restriction when making a guaranteed loan is questionable, however, because the guaranty significantly reduces the potential loss exposure. We know of no other lender having such a limitation when making a guaranteed loan. Under the Farmers Home Administration guaranteed loan program, the direct lender is guaranteed up to 90 percent of any loss. This creates a minimal loss potential and one whose extent is known; neither of which may be the case for regular loans because the soundness of these loans depends on the varying skills of the loan officers making the appraisals and credit analysis. I, therefore, submit that the purpose behind the 85 percent lending limitation is not cogent when the loan is made under government guaranty because the government guaranty provides the protection against large losses.

Up to this point, I have described the system's interest in maintaining a young farmer and new farmer program; the method under current law that we have used to implement such a program; and the impediments to continuing with our current programs. I have also tried to show why the 85 percent lending limitation is an unnecessary impediment when making guaranteed loans.

In conclusion on this legislative item, I would like to spend sometime discussing why I believe that the young and new farmer should not be precluded from taking advantage of Land Bank financing. As you know, the Federal Land Bank System has become the major source of long term credit available to agriculture. We have continued lending to this vital segment of American industry though both good times and bad times. Agricultural lending and service is our only business. The American farmers understand the advantages of having their own credit system and have increasingly made use of it. It would seem an anomaly for Congressional policy to favor assistance to young and new farmers yet not provide this group access to the source of credit which established farmers have found so desirable and which may be even more useful and necessary to the new and young farmer than the established farmer.

I believe our current coordinated lending program with Farmers Home Administration shows the interest this system has in the future of agriculture and illustrates our commitment to assist this very important group of farmers. The fact that we are reaching this group of farmers is exemplified by the average borrower age of 33 for all joint loans made by all of the Federal Land Banks in the system for the years 1976 through 1978 as compared wth the average borrower age of 44 for all Federal Land Bank loans.

The average borrower age for all joint loans made by The Federal Land Bank of St. Louis in 1977 and 1978 was 31. More than two-thirds of these joint loans were made to borrowers who were under the age of 35 at the time the loan was made. The average borrower age for subordinated loans for this period was 40 for the whole system and 39 for the St. Louis district, both of which are higher than the average age of joint loan borrowers because these loans are made generally to more established farmers who have made some progress.

The young and new farmers' credit sources should emphasize credit analysis to be certain that the credit is constructive credit. These farmers' financial positions usually cannot withstand over extension. The Land Bank System, because of its concern for its farmer membership, does its best not to extend credit that would jeopardize the well-being of those members. Consequently, the system closely analyzes any credit extension to be as sure as possible that after the extension of credit the borrower will still be able to pay all debts, cover the costs of operation and provide family living expenses.

This level of organizational concern is, I believe, especially important to those just entering farming. Previous studies in this district have shown no significant difference in delinquency levels for this program compared to all loans. A delinquency rate of 1.3 percent of number and .08 percent of total volume for all loans in this district as of August 31, 1979, shows that the credit extended by this district, which is representative of the system as a whole, is sound and constructive. Such credit extended to new and young farmers should aid productivity, thereby reducing inflationary pressures and, when extended with a governmental guarantee, should not endanger the stability of this credit system. I, therefore, believe that the removal of the 85 percent lending limitation in connection with guaranteed loans will not only further the stated policy of Congress, but also, enable young and new farmers to take advantage of the expertise within the Land Bank System from which they might be precluded under current law and current programs.

In addition, I wish to comment favorably on Sections 112 and 113 of the Farm Credit Act Amendments of 1979, Senate Bill 1465. These sections would allow

Federal Land Banks and Federal Land Bank Associations to pay patronage refunds and differential dividends. The Land Bank System favors these provisions because they would allow greater flexibility in the handling of earnings primarily by allowing both the banks and associations to operate more fully within cooperative principles.

Under current law, Federal Land Banks and Federal Land Bank Associations, unlike the Productive Credit Associations and Bank for Cooperatives, can distribute earnings to stockholders only in proportion to their equity ownership. Many view this legal requirement as inequitable because the income is not distributed according to the use of the organization as would be more consistent with cooperative principles.

Federal Land Banks have generally not paid dividends because we believe it is better to hold the interest rate down as low as possible rather than to accumulate earnings which might later have to be distributed in the form of dividends. However, if surplus earnings are generated, the policy question is then raised as to whether it is equitable to distribute those earnings according to the stock ownership as would be normal in the operation of a private business, or through a patronage refund or differential dividend which would return the excess earnings to those whose patronage generated the income. Most cooperatives make a distinction between returns on invested capital as constrasted with returns based upon a volume of business done with the cooperative. We believe that the banks and associations should have the flexibility of making a choice depending on the desire of the membership as expressed through bank and association directors.

In addition to flexibility of operations, we also believe that the passage of these would inure to the public benefit. The payment of patronage refunds or differential dividends would be made according to the interest paid, a cost of production, thereby directly reducing that cost in the same proportion as it was incurred. Anything which helps reduce the farmer's costs is desirable from the point of view of the agricultural segment of the economy but also benefits the public at large because it helps in some measure to control inflation. The individual farmer caught in today's cost/price squeeze would benefit not only as a borrower but as a consumer.

I, therefore, urge the adoption of Sections 112 and 113 of the Farm Credit Amendments of 1979 (Senate Bill 1465) because of the added flexibility it would give bank operations and the more equitable distribution of earnings which would be allowed. This would bring the Federal Land Bank system in line with cooperative principles and with the other two parts of the Farm Credit System. The amendments would have a favorable impact on farmers' costs of operation and benefit the general public.

In conclusion, I would like to assure the committee that the Sixth Farm Credit District fully supports all of the amendments included in the Farm Credit Act Amendments of 1979 (Senate Bill 1465) but due to our special interest in these particular parts of the bill, we have limited our comments to them. We firmly believe that the 85 percent lending limit should be removed for guaranteed loans because this would further the Congressional policy of better serving the credit needs of new and young farmers. We, also, support the inclusion of authority to allow the payment of patronage refunds and differential dividends, primarily because we believe this is a more equitable basis for distributing bank earnings.

The Federal Land Bank of St. Louis is grateful for the opportunity to have expressed these views before this committee. I would be pleased to respond to any questions.

STATEMENT OF DONALD L. HOVENDICK, FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA, EIGHTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the Subcommittee, I am Donald L. Hovendick, President, Federal Intermediate Credit Bank of Omaha. The farmer-owned, farmer-controlled Federal Intermediate Credit Bank of Omaha and 40 Production Credit Associations in Iowa, Nebraska, South Dakota and Wyoming are currently serving over 21,500 farmers and ranchers with $1.8 billion of loans outstanding. We are doing this big job by authority granted over the years since 1923 by the United States Congress. The Farm Credit System, comprised of the Federal Intermediate Credit Banks and Production Credit Associations, the Federal Land Banks and Federal Land Bank Associations, and the Banks for Cooperatives, is a great success story of government and agriculture working together, cooperatively, to achieve full farmer-ownership of the successful Farm Credit System of today. The Farm Credit System currently provides approximately $50 billion or roughly ⅓ of the nation's

agricultural credit. I appreciate this opportunity to present the Farm Credit Banks of Omaha and, specifically, the Federal Intermediate Credit Bank of Omaha views concerning S. 1465, the vitally needed "Farm Credit Act Amendments of 1979."

Let me step back a moment to the objectives of the Farm Credit System and the Farm Credit Act of 1971, which we are asking to amend. The objective of the System, as defined in Section 1.1(a) of the Farm Credit Act of 1971 is, and I quote, "to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm related businesses necessary for efficient farm operations." The productivity and efficiency of the American farmer and rancher is unparalleled anywhere else in American society and the world. Adequate, sound, constructive credit in rural areas has been vitally important to these agricultural accomplishments and success, and the Farm Credit System has provided a lot of it.

The objectives of the Farm Credit Act of 1971, as defined in Section 1.1(b) are, and I quote: (1) "to continue to encourage farmer and rancher-borrowers' participation in the management, control, and ownership of a permanent system of credit for agriculture which will be responsive to the credit needs of all types of agricultural producers having a basis for credit," and (2) "to modernize and improve the authorizations and means for furnishing such credit and credit for housing in rural areas made available through the institutions constituting the Farm Credit System."

Farmers and ranchers have achieved 100 percent ownership of their own cooperative Farm Credit System, and do participate in the management and control of that System through farmer and rancher directors elected from their memberships. We have been responsive to the credit needs of all types, sizes and ages of farmers and ranchers having a basis for credit. A 1977 study indicated that 25.3 percent of the nearly 20,000 borrowers served by PCA's in the Eighth Farm Credit District were 35 years of age or younger as shown below:

EIGHTH DISTRICT PRODUCTION CREDIT ASSOCIATIONS, 1977—YOUNG FARMER FINANCING STATISTICS

[Dollar amounts in thousands]

	Members 35 and under		Total PCA members		Percent of members 35 and under	
	Volume	Number	Volume	Number	Volume	Number
Central Iowa	$14,140	242	85,956	940	16.5	25.7
Clarinda	6,897	158	28,150	558	24.5	28.3
Creston	4,691	122	31,919	601	14.7	20.3
Eastern Iowa *	8,397	152	60,396	652	13.9	23.3
Northeast Iowa	5,796	106	35,341	528	16.4	20.1
Iowa Lakes	3,733	71	17,180	291	21.7	24.4
Agricultural	6,365	85	24,501	356	26.0	23.9
Mason City	7,772	174	43,294	685	18.0	25.4
Southeast Iowa	4,060	75	23,908	338	17.0	22.2
Ottumwa	5,544	133	34,142	551	16.2	24.1
Perry *	8,571	224	57,956	774	14.8	28.9
Sheldon	7,030	145	53,047	573	13.3	25.3
Sioux City	2,775	90	33,056	388	8.4	23.2
Storm Lake	6,797	199	29,267	574	23.2	34.7
Farmers	6,206	94	29,825	398	20.8	23.6
Webster City	8,053	116	37,488	412	21.5	28.2
Iowa total	106,827	2,186	625,426	8,619	17.1	25.4
Aberdeen	2,463	82	20,612	530	11.9	15.5
Mitchell-Huron	3,082	96	15,890	448	19.4	21.4
Northwest South Dakota	1,935	93	14,877	298	13.0	31.2
Pierre	1,041	45	7,465	201	13.9	22.4
Rapid City	2,542	104	20,148	370	12.6	28.1
Sioux Falls	2,996	135	19,617	502	15.3	26.9
Northeast So. Dakota	5,023	150	23,538	529	21.3	28.4
Winner	3,012	96	20,289	346	14.8	27.7
Yankton	5,602	156	43,007	687	13.0	22.7
South Dakota total	27,696	957	185,443	3,911	14.9	24.5

EIGHTH DISTRICT PRODUCTION CREDIT ASSOCIATIONS, 1977—YOUNG FARMER FINANCING STATISTICS—Continued

[Dollar amounts in thousands]

	Members 35 and under		Total PCA members		Percent of members 35 and under	
	Volume	Number	Volume	Number	Volume	Number
Alliance	3,339	105	21,328	439	15.7	23.9
Beatrice	8,015	170	34,165	567	23.5	30.0
Broken Bow	7,267	193	45,790	659	15.9	29.3
Columbus *	6,917	139	35,144	499	19.7	27.9
Grand Island	9,175	165	43,114	511	21.3	32.3
Hastings	9,028	139	43,269	568	20.9	24.5
Lincoln *	11,541	154	35,957	571	32.1	27.0
Southwest Nebraska	4,030	92	29,608	460	13.6	20.0
Norfolk	4,492	101	39,939	481	11.2	21.0
North Platte *	730	24	13,132	204	5.6	11.8
O'Neill	3,960	98	27,106	334	14.6	29.3
Scottsbluff *	2,391	71	24,745	305	9.7	23.3
South Omaha *	7,775	286	48,498	983	16.0	29.1
Valentine *	3,784	93	28,825	298	13.1	31.2
Nebraska total	82,444	1,830	470,620	6,879	17.5	26.6
Wyoming total *	2,014	67	77,654	517	2.6	13.0
District total	218,981	5,040	1,359,143	19,926	16.1	25.3

Note.—Figures on young farmer lending are conservative. Information is based on partial data because borrower age was missing on some loans in all PCAs. These figures reflect only that which is known for sure. PCAs marked by asterisk are those in which age was missing on more than 10 percent of total loan volume.

All sizes of farmers and ranchers, small, large and in-between, were served; however, nearly 60 percent by number borrowed $50,000 or less as indicated below:

FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA, NUMBER AND AMOUNT OF PRODUCTION, CREDIT ASSOCIATION BORROWERS ACCOUNTS BY SIZE, JULY 31, 1979

Range size	Eighth district total			
	Number	Percent	Amount	Percent
0 to 50,000	12,519	58.3	$211,037	11.5
50,000 to 500,000	8,521	39.6	1,189,829	65.1
500,000 to 750,000	244	1.1	147,407	8.1
750,000 to 1,000,000	92	.4	79,075	4.3
Over 1,000,000	128	.6	201,746	11.0
Total	21,504	100.0	1,829,094	100.0

All types of enterprises were served with nearly half of the number of borrowers being involved to a large extent with livestock operations as shown on the following page:

FEDERAL INTERMEDIATE CREDIT BANK OF OMAHA, TYPES OF ENTERPRISES FINANCED BY PRODUCTION CREDIT ASSOCIATIONS, JULY 31, 1979

[In thousands]

Enterprise	Volume classified	
	Number	Amount
Crops	2,797	$195,439
Small Grain	1,680	113,563
Total	4,477	309,002
Percent of total	20.8	16.9
Livestock	1,639	$146,092
Dairy Cattle	926	60,266
Beef Cattle	5,333	629,864
Hogs	2,592	188,886
Sheep	157	13,958
Total	10,647	$1,039,066
Percent of total	49.5	56.8
Diversified Farm	4,934	$404,271
Percent of total	23.0	22.1
Other	1,446	$76,758
Percent of total	6.7	4.2
Total	21,504	$1,829,097

We are responsive and we are serving the credit needs of all types, sizes, and ages of borrowers having a basis for credit as specified in the objective of the Farm Credit Act of 1971.

Another one of the objectives of the Farm Credit Act of 1971 was, and I quote, to "modernize and improve the authorizations and means for furnishing such credit . . ." We believe we have done a very good job of that internally within the Farm Credit System; however, agriculture and rural needs continue to change. New problems, challenges and needs in areas of the environment such as energy, marketing, processing, transportation and others must be dealt with effectively. S. 1465, the Farm Credit Act Amendments of 1979 is needed to modernize and improve the Congressional authorizations for furnishing credit to enable farmers, ranchers, and cooperatives in our rural communities to effectively deal with and solve these kinds of problems now and in the future.

S. 1465 is truly a family farmer and rancher bill. The Bank for Cooperatives Export Financing provision will enable farmers through their cooperatives to promote the expansion of U.S. agricultural export markets and share in the benefits of those transactions. The change in cooperative eligibility feature will enable the Banks for Cooperatives to better serve rural credit needs through cooperatives, while insuring the principle of farmer control is retained. The 85 percent Lending Limitation feature will enable the Federal Land Banks to continue to work effectively with government units, such as the Farmers Home Administration and Small Business Administration, on guarantee loan programs. Guarantee loan programs will be important to many farmers, but particularly important for young farmers. Financing of the processing and marketing activities of bona-fide farmers and ranchers by Production Credit Associations and Federal Land Banks is a particular feature which is very important, and I would like to address it more specifically.

The Farm Credit Act of 1971 provides, under Part A Section 1.10, for Federal Land Banks to make loans to farmers and ranchers "for any agricultural purposes and other credit needs of the applicant." Part B Section 2.15(1) provides for Production Credit Associations to make loans to "bona-fide farmers and ranchers and producers or harvesters of aquatic products, for agricultural purposes and other requirements of such borrowers."

We believe Congress in that "Law" recognized that credit, beyond the production needs of farmers and ranchers, was necessary to enhance their operations and income. By doing so, the opportunity is provided, such as through processing and/or

marketing business extensions, for them to become price makers instead of price takers.

An example of a farmer engaged in production, with further interest in processing and marketing, is one who produces seed corn. He engages in production off of his own land, but, in order to process his own brand, he develops a seed corn plant and marketing staff. As a result, he controls the production, grading, treatment, bagging and sale of the product.

Normally, in order to support the investment in the plant, the seed corn producer will engage, under contract, other farmers to produce additional seed corn numbers for him. This is usually done with additional incentives which increase their returns. Under present requirements of the law and regulations, if he is borrowing from a Production Credit Association and, if the production of other farmers under contract exceeds that of the farmer who is processing and marketing the final seed product, his processing and marketing venture no longer would be eligible for financing by the Association.

Other examples of business extensions of farmers into processing and/or marketing are: a cattle feeder processing his own feed formulas, i.e., through a flaking plant, who may provide the service for other feeders; a grape grower who may process or purchase other producers' crops to market under his label; alfalfa dehydration; turkey or chicken processing and marketing; edible beans, etc.

We believe the Farm Credit Act Amendments of 1979, which provides for the financing of processing and/or marketing businesses of farmers and ranchers, would clarify the original intent of Congress. We believe it would relieve the burdens now placed on the farmer and rancher who, in borrowing from his own cooperative credit institution, and who is successful and enhances his operation beyond the initial farm production state, finds himself in the position of not having credit available from such institution for his own processing or marketing business activity. In our opinion, this is counter-productive to the objective of the Farm Credit Act of 1971, which is to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit to them, for the following reasons:

(1) The producer is forced to seek credit from an additional lender. As a result, he must deal with two lenders. This can lead to loss of lender experience and, consequently, continuity in his operations.

(2) The present requirement to seek another lender when processing and/or marketing interests exceed production interests could lead to inadequate credit for either the farm or the processing or marketing, or both, because of the dilution of security between two lenders and differing loan administration, security or loan repayment demands.

(3) The inability of farmers and ranchers to gain the advantage of obtaining a broader coverage of credit through their Production Credit Associations or Federal Land Banks for production and processing and marketing needs can, for the reason stated above, limit competitive forces at processing or marketing points, resulting in lower prices for producers.

In the same vein, the Farm Credit Act Amendments of 1979, which provides for financing of farmers; and ranchers; processing and marketing businesses, does provide the limitations that prevent an excessive shift of financing by their Production Credit Associations and Federal Land Banks to processing and marketing.

This is done through the amendment by requiring each Farm Credit District Board of Directors, whose members are elected by the farmers and ranchers who own their cooperative, Farm Credit System, to determine the percentage of a farmer's and rancher's own production inputs which must be handled in the processing and marketing extensions of his business. The amendment recognizes that needs are and will be different across the country and therefore provides that those closest to the grass roots of agriculture will determine what constitutes an excess of business interests in processing and marketing, which dilutes the farming or ranching interest to one of "sideline investment" rather than a viable part and extension of a farm or ranch unit.

We believe the addition of the amendment which will allow the farmers; and ranchers; own credit institutions, the Production Credit Associations and the Federal Land Banks, to provide credit for their members' processing and/or marketing businesses beyond present limitations will result in a more sound and constructive credit service where these needs exist, and will contribute positively to assure that such combined ventures make the best economic sense for farmers and ranchers and rural America.

The Farm Credit Banks of Omaha and particularly the Federal Intermediate Credit Bank of Omaha is grateful for the opportunity to express its view before this Committee. I would be pleased to respond to any questions.

STATEMENT OF JAMES A. LAYTON ON BEHALF OF THE FARMERS EXPORT CO. OF SHAWNEE MISSION, KANS.

Mr. Chairman and members of the Subcommittee: I am James A. Layton, President of the Farmers Export Company of Shawnee Mission, Kansas. Our cooperatives serve twelve regional grain marketing members in Louisiana, Mississippi, and throughout the Midwestern section of the United States. In our last year's operation, we exported approximately $1.3 billion worth of producer's grain, originated primarily from our members to our export facilities at Ama, Louisiana, Philadelphia, Pennsylvania, Galveston, Texas, and the Farmers Export Company's sales office in Portland, Oregon.

We appreciate the opportunity to present the Farmers Export Company's observations concerning S. 1465, the Farm Credit Act Amendments of 1979. With your approval, I will limit my remarks to those amendments regarding our areas of operations in the field of grain exports.

Cooperatives through the years have played a critical role in the production, financing, and marketing of farm products for the producers of the country. It is interesting that 80% of all American farmers belong to and invest in at least one cooperative—many belonging to several cooperatives. Obviously in the competitive world that we all operate in, cooperatives have been instrumental in assisting the producer in many areas. Producers continue in their many areas of operations. The production of food for the world export trade is extremely beneficial to this country and its balance of trade, and to the millions of people throughout the world who utilize American food for nutrition.

This export market is extremely vital to the American farmer because more than half the rice, about 50 percent of the wheat and soybeans, and half the cotton moves into this area. Feed grains continue to grow in demand; thus, as we all know and have seen in many areas, grain exporting should continue on the rise in the coming decade.

Farm exports projected at $32 billion for the year ended September 30, 1979 and at nearly $40 billion for the following year account for more than one-fifth of the total United States' sales abroad so, while grain production is reaching record levels so is consumption and, as stated, the rest of the world increasingly is relying on the United States for feedstuffs.

To do this job within the framework of world commerce, we need to utilize all available areas of the finance community for the benefit of all. Revenues generated from farm exports also stimulate business in related industries, and obviously create substantial employment in both areas.

It would be our observation that there is some potential for cooperative banks in the United States to work with their counterparts in the Bank for Cooperatives in Foreign countries. It would seem that in this area of working closely together, the financing of those foreign users by the Banks for Cooperatives could possibly expand our grain export markets. As we attempt to sell the producers' product for the highest price, obviously the foreign user is attempting to buy at the lowest price for his member's consumption. Consequently, any area of finance that could assist this process should prove helpful in our continual quest to increase exports from the United States.

In the commercial world in which we all must operate, we feel that the Bank for Cooperatives should be allowed to compete with their services to assist in the financial process of exporting, as competition and profit is the name of the game in which we all must operate. The Banks for Cooperatives were initially established at a time when no one could have anticipated the current international needs of cooperatives. By giving our Banks for Cooperatives more freedom to serve in this area, you will give our cooperatives more options to obtain export services. And by providing more options—in effect, stimulating more competition—I believe you will help to stimulate improved services for both cooperatives and corporations in the long run.

Mr. Chairman, I appreciate the opportunity to meet before you and your Subcommittee, and I would be happy to respond to any questions you might have regarding my statement.

We would like to thank the Subcommittee for giving Farmers Export Company the opportunity to express its views on this highly important legislation.

STATEMENT OF LEO A. ALLMENDINGER, OMAHA FARM CREDIT BANKS, EIGHTH DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the Committee. My name is Leo Allmendinger. I am a Director of the Farm Credit Banks of Omaha, headquartered in Omaha, Nebraska. We are part of the Farm Credit System providing loan funds to farmers, ranchers, and cooperatives through the Federal Land Bank, Federal Intermediate Credit Bank, and Bank for Cooperatives in Iowa, Nebraska, South Dakota, and Wyoming.

I appreciate the opportunity to appear before you today to discuss S–1465. Specifically, I would like to discuss the portion of the bill that addresses incorporation of System service entities.

One of the proposed amendments to the Farm Credit Act of 1971 would enable the Farm Credit Administration to charter corporations to be owned by one or more of the Farm Credit Banks.

The amendment would allow the Banks to organize a corporation for the purpose of performing any function or service previously authorized by Congress to the Banks. The bill would permit the Banks to apply for charters and at that time identify the objectives of the corporation, the powers to be exercised, and the service to be performed.

Our Banks as well as our Associations are continually seeking to work together, particularly in areas where we can achieve a common purpose and experience substantial cost savings. In many of these instances it would be very helpful to the Farm Credit System if a separate corporation could be formed to assist in providing services to the Banks.

Following are examples of some areas where our Banks presently work together, on a joint basis:

OFFICE OF JOINT SERVICES

In most Districts, the three Banks (Land Bank, Intermediate Credit Bank, and Bank for Cooperatives) hire joint employees and work together in the area of employee benefits, salary administration, purchasing, print shop, employee cafeteria, parking facilities, public relations projects, training projects, and similar "non-credit" functions.

FISCAL AGENCY

The 37 Farm Credit Banks market, administer, and redeem obligations of the banks through a Fiscal Agency located in the Wall Street area of New York City. The Fiscal Agency presently is administering joint obligations of the Banks in an amount in excess of $50 billion annually.

FARMBANK SERVICES

The Farm Credit Banks have created by agreement what is referred to as Farmbank Services, which seeks to perform the following functions, on a national basis:

Human resources and personnel service.—The objective is to improve human resources capabilities, provide for employee mobility, achieve cost savings and efficiency of operations through coordinated personnel services, coordinate and communicate services and activities among the Districts and effect efficiency of joint services operations.

Research service (farm research information service).—The objective is to provide the basic research which will generate information to support important management decisions.

Records management system.—The objective is to have available a generalized, flexible centralized filing system specifically tailored to handle the changing record managements' needs of the Farm Credit Banks. It would have provisions for all aspects of any well-organized filing process—indexing, retrieval, retention, access, control, security, etc.

Joint system management development and training.—The objective is to provide coordinated management development and training opportunity for directors and employees of the Farm Credit System covering a wide range of identified needs, from conceptual to technical skills, supportive to the mission of the Farm Credit System.

Insurance services.—The objective is to develop surety bond and insurance programs for employees of the Farm Credit System which are placed with private insurance carriers. This bill does not authorize creation of an insurance company.

NATIONAL DATA PROCESSING CENTER

The Land Banks have created by agreement a National Data Processing Center which performs a substantial portion of the data processing required by the Federal Land Banks.

Our Banks, when operating through the Office of Joint Services, Farmbank Services, Fiscal Agency, National Data Processing Center, etc., function on a cost-sharing basis. The joint operations have created problems in entering into contracts with vendors or providers of services because the vendors feel they are dealing with a "nonentity" without financial resources or stability.

I believe if our Banks were able to organize corporations, the difficulties encountered in our present joint operations (such as when dealing with vendors) would be eliminated. The availability of a corporate structure should encourage greater cooperation and coordination between our Banks and result in a more efficient organization and services to American agriculture.

Under the amendment, the Governor of the Farm Credit Administration would have the authority to prescribe the terms of the charter, approve bylaws, provide for the organization of the corporation, and to direct, at any time, such changes in the charter as he may find necessary to accomplish the purposes of the Farm Credit Act. The Governor would be specifically empowered to regulate:

1. Corporate name.
2. General corporate powers.
3. Eligibility for membership on, and the powers, composition, selection, terms, and compensation of the board of directors.
4. Classes, issuance, values, and retirement of stock.
5. Sources of operating funds.
6. Dissolution, liquidation, and distribution of assets of liquidation.
7. Application and distribution of earnings.

Any corporation organized pursuant to these provisions would be a part of the Farm Credit System and subject to the same supervision and examination as the Banks.

I want to be sure it is understood that the capital funding and operating expenses of these service corporations would be paid entirely by the Farm Credit Banks, and no federal dollars would be involved.

I strongly encourage your support of these efforts to provide a more progressive Farm Credit System for agriculture through S–1465.

Mr. Chairman, this concludes my testimony. If you have any questions, I shall be happy to answer them.

STATEMENT OF GALEN B. BRUBAKER, FEDERAL FARM CREDIT BOARD

Mr. Chairman and members of the subcommittee, I am Galen B. Brubaker, member and immediate past chairman of the Federal Farm Credit Board. The Federal Farm Credit Board is the policymaking body for the Farm Credit Administration, an independent Agency of the United States Government which is responsible for supervising the operations of the banks and associations of the Farm Credit System which now have in excess of $54 billion in loans outstanding to farmers, fishermen, and their cooperatives. These banks and associations supply about one-third of all credit used by farmers and ranchers and about two-thirds of that used by their cooperatives. I appreciate the opportunity to present the views of the Federal Farm Credit Board concerning S. 1465, the Farm Credit Act Amendments of 1979, and in particular, those provisions relating to the internal operations of the Farm Credit Administration.

I refer specifically to amendments which would (1) authorize the Federal Farm Credit Board to set the salaries of the Governor and Deputy Governors of the Farm Credit Administration within the maximum limits of the Executive Pay Schedule (currently $66,000 per annum), (2) authorize Farm Credit Administration to establish its own salary and classification system for employees below Deputy Governor level, subject to the ceiling of the General Schedule (currently $47,500), (3) authorize the Farm Credit Administration to establish qualification requirements for positions in the Agency, (4) provide exemptions to Farm Credit Administration from Federal regulations concerning travel, procurement, and property, (5) provide for portability of such leave and retirement credits from Farm Credit district plans to the Civil Service Retirement system, and (6) increase the Federal Farm Credit Board per diem to the daily equivalent of the rate prescribed for Grade GS–18.

I am in my final year of a 6-year term as a member of the Federal Farm Credit Board and will be leaving the Board in 1980. It has been my privilege and pleasure

to serve in this capacity. There have been many changes in the Farm Credit System during my tenure on the Board including a greater decentralization of decisionmaking to banks and associations, rapid growth in loans made and loans outstanding, adoption of Systemwide securities to replace the old single bank system securities, development of a Systemwide loss protection plan, as well as others. These changes have been beneficial to the interests of farmers and ranchers, but have not been accomplished without a good deal of effort, discussion, and debate within the Farm Credit System and between the System and the Farm Credit Administration.

The Farm Credit System and Farm Credit Administration can expect continuing change. The growing demand for credit on the part of farmers and ranchers and their cooperatives, the changing nature of farm and cooperative businesses, and the changing character of capital markets will require that Farm Credit be responsive to these challenges. The Farm Credit Act Amendments of 1979, S. 1465, which you have under consideration is intended to address at least a part of these needs.

A key to Farm Credit's success in meeting these challenges, as it has been in meeting historical challenges, will be its ability to attract, develop and retain employees with the ability to make the increasingly complex decisions required if farmers, ranchers, and their cooperatives are to be effectively served. This is as true at the Farm Credit Administration as it is at the bank and association level. Continued effectiveness is supervision of these banks and associations and accountability to the Committee and others in the Congress will require that the Farm Credit Administration be staffed with highly competent, well trained, and experienced personnel.

Observations based on my service on the district board of directors in the Baltimore District, as well as my experience on the Federal Board, lead me to conclude that banks and associations have salary and benefit programs which are sufficiently competitive to attract competent, well trained employees. Banks and associations are not considered to be Federal employers and their personnel programs can, and are, tailored to local and regional competitive conditions. The decentralized decisionmaking process in Farm Credit and the recognition that its human resources are the most important asset of the Farm Credit System should continue to ensure the continued competitiveness of district salary and benefit programs.

I have, on the other hand, also observed the difficulties experienced by the Farm Credit Administration in attracting and retaining highly competent staff. Numerous examples have been reported by staff where delays in obtaining a list of eligible candidates have meant that highly desirable candidates have taken other non-Government jobs. In other instances, inability to offer a competitive package of salary and benefits has resulted in the loss of a potentially productive employee.

The Agency has experienced significant problems in recruiting professionals from the Farm Credit System, as well as from other sources. Inability to tailor starting salary levels to the unique requirements of highly qualified individuals, inability to make employment offers in a timely fashion, high cost of living in Metropolitan Washington, difficulties in fitting credit and operations professionals into existing Federal salary and classification structures, loss of retirement or sick leave benefits in transferring from the System to the Farm Credit Administration, travel and per diem regulations which impose financial hardship on professionals in travel status and other restrictions have all contributed to this recruiting difficulty.

Salary and benefit programs in banks and associations at senior and upper middle management levels are significantly more attractive than for comparable levels in the Agency. This gap has developed as banks and associations have designed their personnel programs to be effectively competitive with other employers in the regional and national markets for credit and operations professionals. It is anticipated that this gap will widen over time as banks and associations strive to remain competitive.

Historically, the Farm Credit Administration has been effectively staffed in spite of its competitive disadvantage. It has maintained its attractiveness as an employer by offering a level of experience and exposure to national lending activities to compensate for its relatively restrictive and limiting salary and benefit programs. Recruiting on this basis has been difficult and time consuming and will become relatively less effective as the financial gap widens. The implications of such future inability to attract and retain highly competent staff are of grave concern to me as a farmer, as a member of the Farm Credit System, and as a director of this cooperative credit institution which has such a significant record of service to farmers, ranchers, and their cooperatives. Farmers, cooperatives, and the Congress should expect the supervision of the Farm Credit System to be in the most capable of hands!

The amendments under consideration will not, of course, completely remove these difficulties in staffing and operating the Farm Credit Administration. Nor should they. The Farm Credit Administration must retain its identity and unique responsibilities as a supervisory Agency and should not be molded after the banks and associations in the Farm Credit System. Proper lines of responsibility and accountability must be maintained. These amendments would preserve appropriate accountability and restraint by limiting salaries for the Governor and Deputy Governors to the maximum of the Executive Pay Schedule and staff salaries to the limits of the General Schedule. Salary and classification system, qualification requirements, portability provisions, and travel, procurement and property procedures would all be conducted on the basis of sound business practice. Most importantly, the accountability of the Federal Farm Credit Board and Farm Credit Administration to your Committee and others in the Congress will ensure the soundness of the practices. With these restraints, the requested flexibilities will be greatly advantageous to the staffing and operations of the Farm Credit Administration and, most importantly, to the farmers, ranchers, and cooperatives the Farm Credit System is designed to serve. As you are already aware, the Farm Credit Administration operates at no cost to the Government or the taxpayers as all costs are borne by the banks and associations of the Farm Credit System. Hence, none of the six Farm Credit Administration related proposals will involve any cost to the U.S. taxpayers.

It is my understanding that staff of the Farm Credit Administration has worked with the Office of Personnel Management to utilize some of the flexibilities provided by the recent Civil Service Reform Act. While cooperation from Office of Personnel Management has been excellent, the flexibilities do not adequately address the special needs of the Farm Credit Administration. It is my further understanding that each of the opportunities envisioned in the Farm Credit Act Amendments of 1979 in these regards is essentially available at present to one or more Federal Agencies.

I would finally like to comment as a retiring Federal Board member on the amendment which would increase the per diem for the Federal Farm Credit Board to the daily equivalent of the rate prescribed for Grade GS–18. When the current per diem of $100 per day for Federal Board members was established in August 1966, it was roughly equivalent to the daily equivalent of the then current rate for a GS–18. The per diem has not been adjusted since that time. Attaching the rate directly to the GS–18 equivalent would establish that the level of decisionmaking required by the Federal Farm Credit Board is at the most senior level of Government service and would do away with the need to periodically request Congress to increase the dollar amount of per diem. It is my understanding that directors of some other similar Agencies are paid at the GS–18 rate. In summary, I am grateful for the opportunity to express my view on behalf of the Federal Farm Credit Board before this Committee on the matter of the proposed Farm Credit Act Amendments of 1979 (S. 1465), specifically related to (1) authority for the Federal Farm Credit Board to set the salaries of the Governor and Deputy Governors of the Farm Credit Administration within the limits of the Exchange Pay Schedule, (2) authorize Farm Credit Administration to establish its own salary and classification system for employees below Deputy Governor level, subject to the ceiling of the General Schedule, (3) authorize Farm Credit Administration to establish qualification requirements for positions in the Agency, (4) provide exemptions to Farm Credit Administration from Federal regulations concerning travel procurement and property, (5) provide for portability of such leave and retirement credits from Farm Credit district plans to the Civil Service Retirement system, and (6) increase the Federal Farm Credit Board per diem to the daily equivalent of the rate prescribed for Grade GS–18.

Statement of Paul S. Weller, Jr., Vice President for Public Affairs, National Council of Farmer Cooperatives

Mr. Chairman, my name is Paul S. Weller, and I am Vice-President for Public Affairs of the National Council of Farmer Cooperatives. Ours is a nation-wide association of cooperatives, which are owned and controlled by farmers. Members of the National Council provide supplies and credit services to farmers, and market their food and fiber production.

The National Council of Farmer Cooperatives is pleased to present its comments on S. 1465, the Farm Credit Act Amendments of 1979.

The National Council represents more than 130 regional farm marketing and supply cooperatives, with affiliates in nearly every state of the Union. These farmer-owned and controlled cooperative associations are engaged in the marketing of

nearly every type of agricultural commodity, and in the furnishing of agricultural supplies to members and patrons. Nearly 7,000 of the nation's 7,500 farmer cooperatives are represented in the National Council membership, with a combined farmer membership of more than 2.5 million.

We are also pleased to have as our members, the 37 banks of the Farm Credit System. These investor owned and controlled farm credit banks have served the American farmer and his cooperative organizations for more than a half-century. It is in the best interests of all of us that American farmers and ranchers have a ready supply of sound, adequate, and constructive credit and financial services. It is for that reason that the nation's farmer cooperatives have asked me to appear before you this morning.

The nation's Farm Credit System has served both farmers and their cooperatives will. Chartered by Congress, and provided with federal government seed money, the System prospered so that in 1968 it was able to make the final payment of this funding. For more than a decade, no federal moneys have been allocated to this privately funded system. The legislation before you today asks for no federal appropriation.

Immediately following the System's payment of all federal investment, it became obvious that new legislation would be needed to continue to meet the needs of American farmers and their cooperatives. This gave birth to the landmark Farm Credit Act of 1971, the statute that governs the System today. Only twice since 1971 has the System come to Congress with a request for changes in the Act. Those were more than two years ago. And those requests were minor. But America's agricultural industry is fast-changing, and by 1978, it became apparent that a package of major revisions would be needed for the System to grow and to serve its patrons.

For more than 2 years, patrons, board members, and officials of the Farm Credit System have worked to prepare such a package of revisions to the 1971 Act. The 28-point legislative package that is before you today in the form of S. 1465 contains those revisions that have been accepted by each one of the nation's 12 Farm Credit Districts, comprising Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks.

The National Council of Farmer Cooperatives is pleased to support this legislative package, and to ask that this committee accept it, and report it out in the form developed by the Farm Credit Banks and patrons, and approved by the Federal Farm Credit Board.

Many of the proposals are housekeeping in nature, and have been requested by the Farm Credit System to "fine-tune" administrative and regulatory procedures. We support their needs in these areas, and ask that this committee provide them with the flexibility that they request in these respective areas.

There are several major proposals of this legislative package to which we would like to direct specific comments. Let me begin with the proposal to lower the eligibility for Banks for Cooperatives' financing.

COOPERATIVE ELIGIBILITY

The Farm Credit System proposes that the farmer-member eligibility requirement be lowered from its current 80 percent/70 percent combination, to 60 percent for both rural electric and farmer cooperatives. We support this proposal. Many communities, especially in the Northeast and Southeast, are becoming more urban in their complexion. Such a proposal will enable cooperatives to better serve their rural communities without losing their eligibility to borrow from the Banks for Cooperatives. Such a proposal will still ensure that farmers will retain control of their cooperatives, a stipulation that the National Council firmly supports. It should be noted here, that the 60 percent eligibility requirement will be a national minimum. Each of the 12 Farm Credit Districts will have the option to raise to eligibility, or to keep it at its present levels. They would not have the option to lower it below the 60 percent level.

FEDERAL LAND BANK LOAN LIMITATIONS

The Federal Land Banks currently have the authority to make loans up to 85 percent of the appraised value of real estate security. This now requires a considerable cash equity position, which can work against young farmers and ranchers in the establishment phase of their career. The Farm Credit System would like to have authority to go beyond the 85 percent level, in cases where the loans would be guaranteed by state or federal government agencies. This would complement the current direction of the Farmers Home Administration. We support such increased lending flexibility.

EXPANSION OF PROCESSING/MARKETING FINANCING

All of us have followed the trends of U.S. Agriculture. Family farm units have grown in size and scope—and investment. The facts of an inflated economy demand a new look at traditional modes of financing modern farming operations. This provision addresses that issue.

As family farming operations have grown more sophisticated, many have turned to neighboring farmers to join in joint ventures. We have specific examples of poultry farmers, who have formed joint ventures to finance egg grading and packing operations; of diversified farmers, who have joined with neighbors to build a cold storage facility; and of family farm units, who add to their annual income by working with neighbors on a community sawmill investment.

Heretofore, the traditional lender to these farming operations, the Federal Land Banks and Production Credit Associations, have been limited in their scope of financial services. For example, the farmer-applicant must provide 51 percent or more of the throughput that is processed or marketed. This legislative proposal would allow the Farm Credit System to remove the 51 percent limit, and to permit each District board to set its own throughput limit—as long as that limit demonstrated a relationship between the farmer-applicant and the processing/marketing operation. This legislative proposal would assist the farmer in processing and marketing his and his neighbors' produce—a right enjoyed by the Farm Credit System prior to enactment of the Farm Credit Act of 1971. This is not a proposal to establish a new class of borrowers, rather to retrieve what is perceived as lost authority in the 1971 Act.

There has been some concern by farmer cooperatives that such retrieval of authority would permit farmers to form joint ventures without benefit of a bonafide cooperative organization. We share this concern.

However, we have been assured by the Farm Credit Administration that such flexibility in the Farm Credit Act is not intended to cause undue competition in areas served by cooperatives, nor is it designed to more Federal Land Banks or Production Credit Associations into financial areas currently served by the Banks for Cooperatives. Improved facilities and services could well improve farm income, and we support such an effort.

We have also been assured by the Farm Credit Administration that these loans will be made only to currently qualified borrowers from the Farm Credit System, and that guidelines will probably be established requiring a minimum of 20 percent of the operation's through-put be from the borrower's own production. This would prevent the financing of outside enterprises. Let me stress here again, that what is proposed are national guidelines. The intent is to decentralize the Farm Credit System, so as to allow individual Farm Credit Districts to establish their own minimums. These individual districts would have full authority to raise eligibility above the 20 percent guideline.

EXPORT FINANCING

No aspect of U.S. Agriculture is more important to the nation as a whole, than the positive trade balance earned through commodity sales to overseas customers. More than $30 billion will be sold abroad during this marketing year, contributing heavily toward payment of the $60 billion cost of imported crude oil. These agricultural exports are one of the few bright spots in the U.S. balance of trade ledger.

The farmer cooperatives would like to expand this agricultural trade with other nations. And we would like to have the American farmer do more of the exporting himself, to retain title to his grain and agricultural exports longer, and to gain greater dollar return on his commodities. The American farmer can do this through his already organized cooperative organizations.

But the farmer cooperatives need the assistance of the Banks for Cooperatives. And the Banks for Cooperatives need to legislative assistance of the U.S. Congress to help make this possible.

Farmers cooperatives have had a late start in export trading, and they have had to enter a fiercely competitive market already dominated by a few large, well-developed international trading companies.

The fledging cooperative exporters entered the international arena well prepared to cope with the logistics of collecting and placing their members' commodities in the hands of foreign customers. Their port facilities are excellent, equaling those of their competitors. But an integral part of cooperatives' foreign trading is missing—the financial services necessary to bring foreign sales to a full and swift completion.

It makes good sense that authority for the Banks for Cooperatives be enlarged to enable participation in members' export activities. Not only should their authority be expanded to include the servicing of foreign sales, it should also include the

financing of foreign facilities for handling of these commodities. The American farmer should not lose title to his commodities at the local level, without an opportunity to bargin for a better price on world markets.

The Farm Credit Act of 1971 currently restricts the Banks for Cooperatives from going beyond U.S. geographical borders. As a result, farmer cooperatives are at a disadvantage in selling farmers' commodities abroad. The proposal before you today would permit the Banks for Cooperatives to follow its farmers' products beyond U.S. borders, into the ports, merchant houses, and government storehouses of scores of foreign buyers. Farmers have asked us: "Why aren't cooperatives handling our foreign sales?" "Why can't our cooperatives offer the same services as large international trading companies:" This new authority will permit an affirmative answer to these questions.

If enacted, this provision would permit Banks for Cooperatives to bring more competition to the market by offering the same financial services now being offered by some commercial banks. They would be able to make deposits in foreign banks, receive and hold credit balances from foreign banks, purchase foreign drafts, and engage in foreign currency exchange, to name a few. The result would be a more responsive marketing effort, quicker sale of farmers' products, and more profits to farmers from dividends received from this cooperative banking system. We are also informed that such export authority will encourage more farmer-owned cooperatives to enter the export market, providing obvious benefits to both farmers and the nation.

The farmer cooperatives do not see such Banks for Cooperatives' authority as being detrimental to existing relationships with commercial banks. Rather, we see such authority providing for supplemental and complementary transactions, while bringing the same environment of competition that has long benefitted producers and consumers alike.

We ask this committee to consider this provision one of the package's most important and far-reaching issues, and to approve it as a positive step in expanding our export trade.

FARM CREDIT ADMINISTRATION PROPOSALS

There are at least two proposals in the Farm Credit Administration area of the Farm Credit Act of 1971 that deserve special comments.

One set of proposals would authorize the Federal Farm Credit Board to gain critically needed flexibility in establishing compensation schedules for Farm Credit Administration officials. For several years, there has been a reverse drain of executive talent away from the Farm Credit Administration, and into the nation-wide Farm Credit System because of artificially low compensation ceilings set by federal mandate. No single Farm Credit System president makes as little as the Governor of the Farm Credit Administration, the supervisory official over the System. At the same time, the Farm Credit Administration has had increasing difficulty in hiring and keeping a competent management staff because of inflexible personnel requirements.

The National Council believes that the Farm Credit Administration should be permitted the necessary flexibility to secure and maintain an effective management staff. Since the System is completely funded from private sources, there would be no cost to the U.S. Treasury. Borrowers from the Farm Credit System would pay any and all expenses, and have agreed to do so. They need only the authority to do so.

Another proposal would authorize the Farm Credit Administration to charter service and finance functions, such as the Agency's Farm Bank Services. There have been growing needs over the past few years to provide System-wide joint services. These joint services include System-wide purchasing, personnel recruitment, and the New York-based Fiscal Agency. All need to be incorporated for obvious efficiencies and convenience. We support such incorporation authority.

There have been inferences that such incorporation authority would give rise to the chartering of an insurance company, to provide collateral and credit life insurance to Farm Credit System borrowers. This is not the intent of this provision. Indeed, this bill would not allow the Farm Credit Administration to charter an entity which performed a service not already authorized by Congress. But let me add that the Farm Credit System already has authority to insure its loans and lenders under the 1971 Act. This insurance authority has been use only sparingly over the past several years, in three of the 12 Farm Credit Districts, on a test basis to determine both need and feasibility.

Farm Credit Systems surveys have indicated that many farmers are seriously under-insured; that very few have other than minimal liability protection. In several test cases where the Farm Credit System has provided collateral insurance, local competing insurers have streamlined their operations, and reduced their rates.

Although this package of amendments does not address the insurance issue whatsoever, neither should the Congress attempt to limit or prohibit the Farm Credit Banks from insuring their loans and borrowers. To do so would be to jeopardize the loan security of some Farm Credit portfolios, as well as reduce the benefits of competition that have long characterized cooperatives and their programs. It should also be noted here that any income derived from the marketing of insurance is applied to reducing operational expenses, which in some cases directly reduces the farmers' cost of borrowing.

Mr. Chairman, the amendment package before this committee in the form of S–1465, is the product of extensive deliberation and compromise by the member boards and banks of the Farm Credit System. It is critically needed by this privately owned and funded System. It is endorsed by all District boards of the System. It will cost the U.S. taxpayer not one cent. It deserves your consideration and support. We urge its passage.

Thank you for this opportunity to appear before this distinguished committee.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. Chairman and Members of the subcommittee, I am Reuben L. Johnson, Director of Legislative Services, National Farmers Union. My address is 1012 Fourteenth Street, N.W., Washington, D.C. 20005.

Farmers Union has a long history of support for the credit agencies authorized by the Farm Credit Act of 1916. Farmers today know these agencies as Production Credit Associations which provide operating credit, Federal Land Bank Associations which provide real estate loans, and the District Banks for Cooperatives which service the credit needs of farmer cooperatives. The original intent of Congress in establishing these cooperative credit institutions was to give farmers a more satisfactory means of supplying themselves with credit.

The attached excerpt from the 1979 Statement of Policy of National Farmers Union further amplifies the attitude of our members toward the Farm Credit Administration and its agencies.

Now I would like to turn to S. 1465 with comments on its specific changes in credit policies and structure of the credit institutions under the jurisdiction of the Farm Credit Administration.

First, we would like to comment on the proposed amendment to the Farm Credit Act of 1971 which would authorize the FCA to charter corporations to perform service and financial functions. Under present law, district boards are empowered to authorize agreements between institutions within a district to provide for joint services to borrowers, and to make joint undertakings between districts in providing joint services.

Currently, such services relate to record-keeping, equipment leasing, real estate appraisal service, and the sale of casualty and liability insurance, credit life insurance, and crop, fire, and hail insurance.

As you will note from the Policy Statement mentioned above, our delegates have expressed strong disapproval of the FCA agencies engaging in the sale of insurance except for credit life insurance. It would be in order, therefore, for questions to be raised concerning this proposed amendment to the Farm Credit Act.

For example, would extension of such authority to the Farm Credit Administration result in the establishment of an insurance company or companies and expansion into other businesses? We ask that the Subcommittee seriously question the need for such authority. What are the long-range implications of empowering the FCA to charter corporations for the purpose of extending services to borrowers which are not related to the direct lending operations?

Second, we would like to comment on the proposed amendment which exempts the FCA agencies from the Truth-in-Lending Act. For several years, spokesmen for the agency have urged Congress to exempt agricultural credit from the provisions of the Truth-in-Lending Act. This has been the case in spite of the fact that the Farm Credit institutions provide only about one-third of the credit used by the Nation's farm families. We have strongly resisted the proposed change and, on one occasion, debated an FCA spokesman in a public Senate hearing, making what we think is a sound case for retaining full disclosure under the Truth-in-Lending Act for loans made to farmers by Farm Credit Administration agencies.

We therefore urge the Committee to give careful examination to this proposed amendment. Certainly, the information called for by the Truth-in-Lending Act is readily available as loans are consummated, and we see no reason why this informa-

tion should not be made available to farmer borrowers. We are especially concerned that other lenders also be required to comply with the Truth-in-Lending Act.

Third, we would like to comment on the amendment which would broaden the authority of the PCA's and the FLBA's to finance processing and marketing enterprises which would be a part of farming, ranching, or aquatic operations of eligible applicants and borrowers. There are several questions that we would like to raise concerning this amendment:

(1) Would the making of such loans, which would require additional capital in the system, in any way interfere with the making of traditional loans available through the FCA agencies?

(2) Would the authority which this amendment would extend result ultimately in the Farm Credit agencies making loans to businesses for processing and marketing, moving away from the farmer clientele that it has traditionally served?

(3) Would the extension of such authority interfere with the lending operations through the Bank of Cooperatives which include loans to groups of farmers for processing and marketing purposes?

Fourth, another amendment sought by the Farm Credit Administration would authorize the BC's to finance export transactions, including allowing the BC's to make deposits in foreign banks, receive and hold credit balances from banks from borrowers, buy time drafts payable by foreign buyers, take part in currency exchanges, and make loans to facilitate transactions to foreign cooperatives.

This amendment is perhaps the most significant in terms of changing the nature of the lending operations of the Bank of Cooperatives.

International banking is a complicated business.

Our domestic banking institutions, for example, that engage in banking on an international scale have a huge network of overseas offices. It is, therefore, difficult to comprehend just what is to be accomplished by extending the banker cooperatives' lending operations in a manner that would be authorized by this amendment. We urge the Committee to give consideration to the impact of this change and in this context to decide whether this authority is needed to give farmer cooperatives additional sales capabilities in international markets. Certainly, if it would accomplish that purpose, it would be a step in the right direction.

Fifth, S. 1465 would lower the percentage of farmer members of cooperatives borrowing from BC's from 80 percent to 60 percent, except for rural electric cooperatives where the percentage of farmer members of cooperatives would be 70 percent. This change has been considered within our membership ranks for some time, and in the attached Policy Statement you will find that it has the support of our delegate body.

Sixth, S. 1465 would clarify and reaffirm that lending by the Farm Credit system is exempt from state usury laws. It is obvious that such exemption does enable the FCA agencies to assure availability of credit for farmers and ranchers in "tight money" periods. To the extent that interest rates range above limitations set by the usury laws of individual states, farmers and ranchers, of course, pay a price for the maintenance of exemption.

The problem that we see with this amendment is that it is needed in the first place. It would obviously be to the best interests of farmer borrowers from FCA agencies if the credit available were to be at a reasonable cost, hopefully lower than other private credit sources. If such were the case, the question of exemption from usury laws would never have occurred.

Seventh, S. 1465 would require that only two nominees in each district be voted on in the election process for District Director, rather than three nominees as is required under present law. The case for this amendment, according to FCA spokesmen, relates to the fact that two nominees would assure that the elected District Director would receive a majority of the votes cast. Very frankly, we see relatively little merit in reducing the number of nominees. The three-nominee procedure would seemingly be in line with giving eligible voters additional latitude in the selection of a District Director.

Eighth, S. 1465 would amend existing law to remove FCA employees from the classification requirements of the Office of Personnel Management, but would continue the salary ceiling of the general schedule currently set at $47,000 annually.

Further, the FCA would be enabled under the proposed amendments:

(1) to establish its own requirements for qualification for positions in the agency;

(2) to set salaries of the Farm Credit Administration Governor and Deputy Governors within the perimeters of the executive schedule;

(3) to be exempt from federal travel procurement and property regulations;

(4) to be permitted portability of sick leave and retirement between Farm Credit system, district retirement plans, and Civil Service System; and

(5) to increase the per diem of the members of the FCA Board to the daily equivalent of that prescribed for GS–18.

There appears to be some contradiction in these amendments.

Spokesmen for the Farm Credit Administration have expressed considerable pride on occasion on the autonomy of the agencies—the fact that no federal funds are appropriated to sustain the agencies' operations is often cited as a major accomplishment of the Farm Credit Administration.

The conflict, as we see it, is between the amendments that would further exempt FCA employees from classification requirement of the Office of Personnel Management and to exempt the FCA from other federal regulations, and the amendment to allow for portability of sick leave and retirement between Farm Credit district retirement plans and the Civil Service retirement system. These amendments move in the opposite directions. The Committee, therefore, may want to give consideration to procedures in this connection which are consistent and, at the same time, reflect sound management policy.

S. 1465 provides for other changes in the operation of the FCA's credit functions. We have attempted to comment on those we think are of the greatest significance. There are some Washington observers who have characterized the changes in S. 1465 as moving the Farm Credit Administration and its agencies in the direction of a multi- or full-service banking institution. Whether this is good for farmers depends on the extent to which these agencies depart from the historic traditional mandate of the Congress directing them to serve the direct credit needs of the Nation's farm families. This is the yardstick that we urge the Committee consider as it acts on the comprehensive changes that would be authorized by S. 1465.

[Attachment]

Excerpt From National Farmers Union 1979 Policy Statement

(Adopted by Delegates to the 77th Annual Convention, Kansas City, Mo., Mar. 11–14, 1979)

COOPERATIVE FARM CREDIT

We recognize that this cooperative system is dependent on the nation's money markets for its supply of loan funds and is thus largely unable to control factors that determine interest rates and the supply of money. Nevetheless, we urge that the system strive to ease the credit squeeze and reduce high rates of interest to family farmers and ranchers.

The Farm Credit banks should develop additional sources of loan funds to assure a plentiful supply of credit to farmers and ranchers at the lowest possible rates.

The securities of the Farm Credit System are available to individual farmers and ranchers and may be purchased from various dealers throughout the United States. In an endeavor to provide additional funding for the Farm Credit System, we urge that individual farmers and ranchers invest in these securities as they might invest in their own cooperative credit system.

We support the reduction of the membership criteria in the Bank for Cooperatives from 80 to 60 percent so the Bank can more adequately meet the financial needs of all cooperatives.

We urge Production Credit Associations to avail themselves of existing statutes which permit allocation of earnings on interest paid by the borrower.

The preeminent status of Farm Credit agencies in supplying credit to farmers, ranchers, and cooperatives gives such agencies the opportunity to exercise undue influence upon the purchase of insurance coverages by their patrons.

The prejudicing of farmers' and ranchers' choices of insurance coverages by suppliers of credit is contrary to the principle of free competition and abridges the freedom of choice by farmers and ranchers of their insurance coverage and of the general farm organizational or fraternal affiliations which are frequently associated with insurance.

The close relationship that exists between the federal government and the Farm Credit System makes the tie-in between sales of insurance and the granting of credit particularly objectionable.

Accordingly, we urge the Congress to prohibit the sale of insurance by Farm Credit agencies.

We recommend facility loans to include farm machinery and equipment.

CREDIT POLICIES AND PROGRAMS

Farm credit is not a substitute for parity farm prices and income.

Access to adequate credit at reasonable cost is essential if family farmers and ranchers are to operate effectively and competitively. Government policies and programs should be designed to assure an adequate flow of credit to independent farmers and ranchers.

We deplore the constant escalation of interest rates which impose an intolerable burden, especially upon young farmers and ranchers whose initial capital requirements are excessive. The success of efforts by the capital-furnishing interests in abolishing usury limits dismays us. It is vital to the long-term survival of family farm-ranch agriculture to keep interest rates at a minimum.

STATEMENT OF ROBERT A. CARSON, BOARD MEMBER, PRODUCTION CREDIT ASSOCIATION, MISSISSIPPI

Mr. Chairman and members of the subcommittee, my name is Robert A. Carson. I am from Marks, Mississippi. I am a farmer and have been since 1951. Production of cotton, soybeans, rice, feed grains and peanuts is and has been my principal source of income for 28 years. At the present time, my family and I farm 1,600 acres of row cropland.

I am a member of several cooperatives that meet the needs of my business. At the present time, I serve on the Board of Directors of the Electric Power Association that serves the area in which I farm, a local farm supply co-op from which I purchase the large majority of my farm inputs, a cotton gin where my seed cotton is processed, the largest cooperative oil mill in the State of Mississippi, the local PCA from which our crop and equipment financing is received, and the mid-South's largest fertilizer manufacturer, Mississippi Chemical Corporation, with headquarters at Yazoo City, Mississippi.

In addition, I am a member of a local grain elevator that is the first handler of our soybeans and feed grains and a peanut elevator that is the first handler of that crop. Each of these organizations, with the exception of the grain elevator and the Electric Power Association, secure their funds from FICB and the Bank for Cooperatives in New Orleans.

As you can see, Mr. Chairman, I believe in what the cooperative movement can, and does, mean to the farmers in our area. Wherever farmers have a hand in supplying their own needs, they have the means to help control cost, improve service and create healthy competition. Cooperatives are a vital part of American agriculture and must assume even more important roles, both domestically and in international markets, in the years ahead.

Having established my interest in, and support of, cooperatives in general, I would now like to present my present views in support of S. 1465, the Farm Credit Act Amendments of 1979. These remarks are made from the vantage point of my service as a member of the Board of Directors of Mississippi Chemical Corporation.

Mississippi Chemical Corporation is a farmer-owned cooperative with approximately 20,000 members scattered, primarily, throughout the mid-South area. Organized in 1948, Mississippi Chemical Corporation manufactures approximately two million tons of fertilizer each year. About one quarter of a million tons of this total production is exported each year.

The export market is important to Mississippi Chemical Corporation. It makes it possible to operate our facilities around-the-clock, thereby reducing manufacturing costs. Because seasons vary around the world, this provides an off-season market for our production.

The cost of fertilizer to Mississippi Chemical Corporation's farmer-members last year would have increased by more than $10,000,000 without the export tonnage. In a highly competitive industry, this would have been significant in terms of cost of product to the farmer. Our cooperative needs the export volume, underdeveloped countries need fertilizer, and every contribution to our nation's balance of trade situation is important.

More importantly, the export market is an absolute essential to a healthy U.S. farm economy. We have been told that there is a need for food and fiber, both in this nation and in other countries. As most people expected, we responded with an abundance of production. But, we have found that you need a lot more than production to compete and survive on the world market.

In addition to all the domestic and international political problems, there are also a lot of technical and financing problems in the world market. The export process involves a number of extra steps such as shippers, freight forwarders, insurers, added financial institutions and brokers. The whole process becomes burdensome and expensive and I fear that unless we can do something to streamline the effort and get a handle on these "in between" costs, American farm commodities may

eventually be priced out of the world market. I fear that our great superiority in production may be overcome by growing shipping, handling and paperwork costs. American farmers have seen this happen to their commodities in the domestic market. It has reached the point where the wrapper or packing often costs the buyer more than the actual food.

In our area of the nation, we are particularly concerned about the export market because all three of our major crops—soybeans, cotton and rice—depend heavily on international sales. The Mississippi Delta is expected to some day become the nation's next big rice growing area and we are aware that more than half of our American rice must be exported. About half of our soybeans and about one-third of our cotton must also be exported. Since American food and fiber commodities may have to depend on the world market to an even greater degree in the future, I believe the members of the Subcommittee will understand our concern over the handling of those exports.

It is very discouraging, for instance, to realize that farm cooperatives account for only ten percent of the American agricultural export business. We are dependent on our cooperatives to a great extent and we know that they must be competitive and efficient. To be competitive and successful in the future, however, U.S. cooperatives are going to have to be more involved in the world market, because that seems to be where the real growth will be. Yet, we see that U.S. cooperatives are receiving less that $3,000,000,000 of the $30,000,000,000 export business. Several of the large corporations do more export business individually than all of the U.S. cooperatives combined.

As farmers, we know that you've got to keep on growing in size to survive in agriculture. Our cooperatives must also grow to remain competitive.

More than 80 percent of American farmers belong to at least one cooperative. We invest thousands of dollars in these co-ops because we need to work together to remain competitive. In most cases, cooperatives give us a better share of the price paid for our products. They operate for our benefit and on our behalf. We believe we need this same type of cooperative effort when our products move on to the world market.

For instance, the bonds and letters of credit required in international trade are highly specialized and expensive. It is the kind of service that can be provided best by an exporter's lead bank, but Banks for Cooperatives are not authorized to provide the service, so we must seek other bankers. Using other banks not only requires additional time and effort, but it can also delay the crediting of large funds to our loan accounts. It may also influence our ability to compete by having to go through two banks.

So our cooperatives can find themselves having to go through several middle people just to handle the paperwork and financial arrangements. It would seem much more effective to handle all of this paperwork in one place, with people who handle our business on a regular basis.

S. 1465 would address this problem by authorizing the Banks for Cooperatives to provide these services for cooperatives, just as they provide year-round financing for those co-ops. We understand this would save the co-ops both time and money and would make them more competitive in dealing with the corporate giants in international trade. Judging from the statistics on export trade, our cooperatives need all the help they can get.

Mr. Chairman, from a farmer's point of view, it seems that S. 1465 would be beneficial in several ways. By helping cooperatives to be more competitive, it would give farmers a better share of the export market because we own those cooperatives. By making it possible for more Americans to compete in world trade, I believe this nation can improve its position in the international market. That, of course, would help to create more jobs and would also help to overcome some of our trade deficit.

I believe I speak for many farmers when I urge your subcommittee to give favorable consideration to the Farm Credit Act Amendments of 1979.

At this time, I would be happy to answer any questions you might have about my statement. I would also like to thank you for the opportunity to express my views on the bill.

STATEMENT OF R. BARDIN REDDITT, FEDERAL LAND BANK ASSOCIATIONS NATIONAL COMMITTEE OF THE FARM CREDIT SYSTEM

Mr. Chairman, I am Bardin Redditt of Greenwood, Mississippi representing the Federal Land Bank Associations National Committee. Our Committee is composed of one representative from each Farm Credit District representing the Land Bank borrowers of that District. It is our function to present to the Federal Board "grass

roots" input on items for consideration by the Federal Board. We feel that this "grass roots" line of communications to the top policy making body of the Farm Credit System has been instrumental in strengthening the Federal Land Bank System as we know it today. I am also one of nine stockholder representatives on the Federal Land Bank of New Orleans Stockholders Committee. This Committee provides liaison between borrowers and the Federal Land Bank Associations to Bank management and the District Bank Board. I am a Federal Land Bank borrower and Chairman of the Board of Directors of the Federal Land Bank Association of Greenwood, Mississippi. Our Association has over 725 borrowers, and approximately $33 million in loan volume outstanding. The Federal Land Bank of New Orleans has almost 32,000 borrowers with more than $1.5 billion in loan volume outstanding. I am giving you this background information in order that you might have some idea of the scope of mortgage financing offered by the Association I represent, and by our District Land Bank. My other affiliations with Farm Credit financed institutions includes being a Board member and Vice President of a Co-op cotton gin, a director of a cooperative farm supply and grain facility and a PCA borrower. Primarily, I am a farmer interested in the cooperative Farm Credit System, and, in particular, the Federal Land Bank. I sincerely appreciate this opportunity to present my views as a member of the Federal land Bank Associations National Committee concerning Senate Bill No. 1465, the Farm Credit Act Amendments of 1979.

It is my purpose to discuss with you those amendments which are of primary interest to the Federal Land Banks and the Federal Land Banks Associations. I feel sure that those amendments dealing with the other segments of the System will be discussed by individuals far more qualified than I.

FINANCE PROCESSING AND MARKETING ACTIVITIES OF BONA FIDE FARMERS

The purpose of this amendment is to extend the scope of financing by the Land Banks and the Production Credit Associations to include processing and marketing facilities directly related to an applicant's farm, ranch, or aquatic operations. Currently, the Land Banks are authorized to make loans on marketing or processing facilities located on the farm property being taken as primary collateral and the facility uses a majority of products produced on that farm. The authority we are seeking is to broaden our lending authority to finance a processing or marketing facility that is owned and operated by farmers, who process their own production and some of their neighbors. As an example, three cotton farmers wish to go together to build a cotton gin to gin their own cotton, plus some of their neighbors' cotton. The gin is to be located on a small tract off their farms. Currently, we cannot finance this type of facility, but feel we should have the authority. It is important to the Land Bank to be able to finance this type of facility, as it is an extension of the farmer's farming operation. There is no new type of borrower involved in this type of financing. The borrowers must be bona fide farmers. To my personal knowledge, several facilities owned by friends of mine, who are farmers, had to be financed outside the Farm Credit System because of our inability to serve their credit needs. We want to help farmers get more income from the products they produce, by their being able to participate in the marketing and processing of their own production.

If this loan authority is granted by Congress, our District Board has issued a policy position requiring that a minimum of 20 percent through-put of the capacity of the facility must come from the borrower's own production. This means that we will not be financing a business entity for people outside of agriculture. It is my feeling that this amendment is one of the most important in the current legislative package for the Land Bank, as farmers are seeking means of improving income. Participating in the marketing and processing of their own production is one way to accomplish this goal.

THE 85-PERCENT LENDING LIMITATION

Another amendment of interest to the Land Banks is the authority to make loans in excess of 85 percent of the appraised value of the real estate security, when such loans are guaranteed by a Government agency. Such guarantees could be extended by the Farmers Home Administration, the Small Business Administration, or, in some instances, State governmental agencies. This is of primary importance to us, because of the announced shift in Farmers Home Administration loan programs away from participating with private lenders to guaranteeing their loans. Many of the Federal Land Banks have been heavily involved in making participation loans with the Farmers Home Administration. More than 85 percent financing of the primary real estate was necessary from both lenders to meet credit requirements of many applicants. Most young farmers lack equity in real estate they wish to

purchase, but many have strong managerial ability and a desire to succeed. With the guarantee of our loan, we would be in a stronger position to serve the deserving, marginal credit risk. In my judgment, this program would benefit agriculture.

We feel that this amendment is essential, if the Land Banks are to provide credit to many worthy young farmers. A modification in the law will be required, if the Land Bank is to continue to reach borrowers it now serves under the Farmers Home Administration/Federal Land Bank Participation Loan Program. As stated earlier, we understand that the Participation Loan Program will receive less emphasis and funds, and that the Guaranteed Loan Program will receive the principal emphasis from the Farmers Home Administration in the future.

LOAN PARTICIPATIONS

We are interested in amending the law to authorize the Land Banks to participate with other lenders in the System, or outside of the System, on real estate loans. This program would provide us with the authority to make more effective use of capital, and to more fully meet the credit needs of credit-worthy borrowers. Currently, the law provides that we can only participate with other Federal Land Banks. We feel that there is justification in participating with commercial banks, Production Credit Associations, and others in making real estate loans. As an example, the Land Bank and a commercial bank could go together in helping a farmer with his total real estate credit needs by both institutions participating in a loan. Production Credit Associations currently have had the authority to participate with other lenders, such as commercial banks. The Land Banks should be afforded the same privilege.

On several occasions I have noted that the Land Bank could have been of greater credit service to a farmer-borrower, if this authority had been available. We feel, therefore, that there is considerable merit in loan participation with other lenders. I feel that commercial bankers would strongly support this amendment, as it would provide them a means of serving a customer, as well as extending the use of their own capital.

PATRONAGE REFUNDS AND DIFFERENTIAL DIVIDENDS

Another amendment being proposed would authorize the Federal Land Banks and Federal Land Bank Associations to pay patronage refunds. This proposal would be similar to the authority now held by the Production Credit Associations and the Banks for Cooperatives. We feel that this authority would enable the Land Banks to operate on a purely "cooperative" basis, i.e., to return earnings to the borrower on the basis of his contribution. At the same time, we are asking that the law permit us to pay a differential dividend based upon the amount of interest paid on the loan. Currently, dividends are based on the amount of the stock. In essence, his amendment would give us more operating flexibility, and also give us authority to make payments back to borrowers based upon their contribution to the System. It is my personal view that the patronage refund and the differential dividend amendments are providing about the same thing. We would urge passage of these amendments, because in addition to giving more flexibility, they would also give us the additional authority we feel is needed in both the Bank and the associations in handling dividends.

AQUATIC LOANS

An amendment is being proposed which will authorize the Land Bank System to provide long-term, first mortgage real estate loans to producers and harvesters of aquatic products for the purpose of constructing docking and storage facilities, as well as for other credit needs. As you know, the law now gives the Production Credit Associations the authority to make loans to producers and harvesters of aquatic products for short and intermediate-term credit needs. However, we have found that these borrowers need financing for long-term real estate requirements, such as the construction of docking and storage facilities. Therefore, we feel that the Land Banks should be authorized to make long-term real estate mortgage loans to eligible borrowers who are classified as producers or harvesters of aquatic products.

AUTHORITY TO DELEGATE

There are several other provisions in the legislative package which are of interest to the Land Bank. One is the authority of the President to delegate his position on the Finance Committee or Subcommittee to a member of his staff. According to the President of our Bank, this proposal would permit the president of a Federal Land Bank or other System Banks to determine how to more effectively utilize his, and the members of his staff, time and skills. With effective delegation to skilled

members of the President's staff, (Financial Vice President, Treasurer, etc.) considerable savings can be made in assembling Presidents, either in called meetings, or telephone conferences. We feel that this is a housekeeping item, which is desirable, and should be corrected in the law.

LOSS SHARING

The System has just completed Loss Sharing Agreements, to include agreements between all institutions within the System. The purpose of the Loss Sharing Agreements is to preserve the capital of the individual borrower and enhance the capital viability of the System. This legislative proposal would simply expand the legal authority of the System institutions to enter into such agreements with one another. The Land Bank System favors this amendment, as it gives the legal means to enter into agreements which protects the individual borrower's capital in the various System institutions.

TRUTH-IN-LENDING

The purpose of this amendment will establish that only the Federal Truth-in-Lending law would apply to the Farm Credit System lending. This proposal would ensure that, if the Truth-in-Lending Act is amended to relieve any of the burdens it imposes upon the Federal Land Banks or any of the other Farm Credit institutions, similar burdens would not be imposed upon them by state law. It is my own judgment that current Truth-in-Lending provisions are a hindrance, as well as costly, to us in making loans. The provisions of Truth-in-Lending really should not apply to the Land Banks, as we have always been open and above board concerning interest rates, loan terms, loan cost, repayment schedules, etc. Personally, I would really like to see the Land Banks exempted from all the Truth-in-Lending laws, but would settle for exemption from state law.

INTEREST RATES

This amendment has been offered to clarify and reaffirm that lending by the Farm Credit System is exempt from state imposed interest rate limitations, (i.e. usury laws). We have always felt that we were complying with Federal law as any interest rate change must first be approved by the District Bank Board, and then by our supervisory agency, the Farm Credit Administration. We have contended over the years that we are, therefore, in compliance with Federal law, and need not have to comply with state law. The purpose of this proposal is to remove any possible doubt that the Farm Credit System is exempt from state usury law. Clarifying the exempt status would ensure the continued availability of new credit for farmers and ranchers in periods of "tight money." It has been my personal observation that whenever we have "tight money" periods, or whenever there is a so-called "credit crunch," other lenders leave the long-term farm mortgage market because they cannot operate at a profit, or because other investment alternatives are more profitable. The only institution left to make loans to farmers are the Federal Land Banks, and the other Farm Credit institutions. Therefore, I think we should take every step possible to ensure that these dependable sources of credit are exempt from state usury laws. We do not want to charge "points" or exorbitant loan closing fees. We want to make sound loans with interest rates approved by the District Boards and the Farm Credit Administration.

ELECTION PROCESS

This amendment requires that the list of candidates for the position of elected district director consist of the two nominees receiving the highest number of votes, rather than three nominees as is presently required. This amendment would put the election of district director in line with the practice in most elections, i.e., the candidates receiving the majority of the votes would be considered in the election. We believe we should run our elections as most elections, i.e., the candidates receiving the majority of the votes would be considered in the election. We believe we should run our elections as most other elections are run in the United States. (This proposed amendment should not be confused with the requirement in the law that at least two nominees must be nominated by the Nominating Committee for each elected office to be filled in the association. The requirement for two nominees in Federal Land Bank Associations and Production Credit Associations' elections remains in force.)

INCORPORATION OF SYSTEM SERVICE ENTITIES

This amendment would authorize the Farm Credit Administration to charter corporations which perform service and finance functions for Farm Credit institutions. District boards are empowered, under current law, to authorize agreements between institutions within a district for the provision of joint services, and between districts for those services which can most effectively be made available by the joint undertakings of the districts. However, present law does not provide for the incorporation of institutions other than the types presently existing in the System (Banks and associations). Although the Farm Credit Act of 1971 authorizes the performance of services on a joint basis by, or on behalf, of interested Farm Credit System institutions, it does not authorize the organization of a corporation to provide the services. This is the case even though the corporate form may be the most efficient or convenient form of business organization for the purpose desired. The lack of statutory authority to incorporate service organizations in the Farm Credit System is at least one reason for the present non-corporate form of organization for Farmbank Services. It could probably be most efficiently operated as a corporation. We feel that this authority is needed to comply with the original intent of the Farm Credit Act of 1971.

AMENDMENTS DEALING PRIMARILY WITH THE FARM CREDIT ADMINISTRATION

Mr. Chairman, there are also several amendments which have been proposed dealing with personnel matters in the Farm Credit Administration. I would like to address these in a general manner by saying that the Farm Credit Administration is a supervisory agency for the Federal Land Banks and all other System institutions. They operate under specific requirements found in the law. This supervisory function does not cost the taxpayer one "red" cent, as the cost of supervision is paid by the System institutions, which means, in effect, that it is paid for by the borrowers that use the System. It is my feeling that in order for us to attract and retain the kind of people we want within the System, and to have mobility between System institutions and the Farm Credit Administration, steps must be taken to eliminate the restrictions on employment and personnel administration, that would restrict or impede progressive human resource development programs. Although the Farm Credit Administration is a Federal Agency, it is unique in that its costs are borne by the institutions it supervises and that personnel qualifications are mostly related to agriculturally oriented individuals with strong financial backgrounds. They should be well grounded in association and Bank operations, therefore, they should come from these organizations. The proposed amendment would help solve some of those problems, and provide us with a supervisory agency capable to meet the challenges of the 1980s.

SUMMARY

In summary, I would like to emphasize that the Land Banks are major farm mortgage lenders. Nationally, the Land Banks hold about 34 percent of all farm mortgage debt, individuals also hold 34 percent; the Farmers Home Administration six percent; and all other commercial lenders 26 percent. We are a major lending institution. We are a part of the competitive system found in the agriculture economy. There is no other segment of the American economy that is more competitive than agriculture. Farmers purchase most of their production inputs at retail, and they sell what they produce at wholesale. They compete with industry for raw material and for labor. Because of the effectiveness and efficency of agriculture, the American people are spending about 17% of their disposable income on food. This is certainly a bargain when compared to other nations, such as Russia, where about 50 percent of income is spent on food. In general, farmers feel that they are providing food and fiber to the consuming public of this nation at a bargain. At the same time, we are feeding a large part of the world's population. We feel that because of the nature of agriculture and the competitive nature of farmers in general, the American public is at a distinct advantage. American agriculture has played a major role in maintaining our high standard of living. In many countries, wealth is measured by the amount of food available to its people. If this is true, we should be the richest people on the earth.

I feel that the enactment of this legislation will give the American farmer a chance to do an even better job of providing food and fiber to the consuming public. It will add to the increasing high standard of living of the American people. The only opposition I have heard concerning this legislation was from people who do not want us, the farmer, to compete with them through our credit institutions, or from those who want to restrict competition in general.

Mr. Chairman, the Federal Land Bank Associations National Committee is grateful for the opportunity to express its views before your Committee. It was a real pleasure for me to be able to be here and to visit with you concerning a subject which has been close to me all of my adult life. I have used the Farm Credit System for a number of years, and had it not been for this progressive credit System, I would not have been able to conduct my farming operation in the manner I am doing today. The Farm Credit System is part of the reason for the success I have achieved to date. The American farmer and the American public needs the Farm Credit System. With the passage of this legislation, we should be able to achieve even more for the farmers and for the public.

I will be pleased to respond to questions that you, or members of the Committee might have. Thank you.

STATEMENT OF DANIEL J. MORRISSEY, EXECUTIVE VICE PRESIDENT, LOHMAN BROS. INSURANCE AGENCY, REPRESENTING THE INDEPENDENT INSURANCE AGENTS OF AMERICA, INC.

My name is Daniel J. Morrissey, CPCU; I am an independent property-casualty insurance agent affiliated with Lohman Brothers, located in Geneseo, Illinois, and have responsibility within that agency for a farm department that generates approximately one-half million dollars annually in premium volume.

I appear before you today as the farm consultant to the Independent Insurance Agents of America, Inc. (IIAA), a national association representing approximately 126,000 licensed independent property-casualty agents, and 250,000 insurance persons located in virtually every community in the United States—including just about every rural and farming district in the country, IIAA's member agents are small businessmen who take great pride in the personal insurance counselling and service they provide to this nation's farmers and rural homeowners.

Accompanying me today is Jeffery M. Yates, IIAA's General Counsel.

On the occasion of your consideration of the amendments contained in S. 1465, designed to improve the operation of the Farm Credit System, it is appropriate to take a close look at one aspect of the program, entirely unrelated to credit, where Congressional intent as embodied in the Farm Credit Act of 1971 has not been carried out; and where if current initiatives continue, the long-term interests of this nation's farmers will not be served, and unaffiliated small businesses will continue to be faced with unfair competition from government backed Farm Credit lending institutions. The programs are the Production Credit Association (PCA) and Federal Land Bank Association (FLBA) crop-hail and collateral insurance programs under which Farm Credit institutions in certain districts have been authorized to sell virtually every type of property-casualty farm insurance coverage, with the exception of automobile, in spite of the clearly expressed Congressional intent in 1971 that these coverages be strictly limited, and only offered when similar service is not being provided adequately in terms of cost, quality, and availability by unaffiliated businesses in the community.

Congress hotly debated the sections of the Farm Credit Act of 1971 that would permit PCAs and FLBAs to sell insurance as a "financially related" service. In an effort to reach an accommodation on the issue, the conferees agreed to limit strictly the lines of insurance that PCAs and FLBAs could sell, because of the competitive advantages these institutions would have over unaffiliated small businesses, and because of the Conferees' fear that these institutions would be diverted from their primary function of extending agricultural credit. The Conferees concluded that: ". . . the sale of liability insurance, and any insurance on passenger automobiles, is not 'necessary and incident' to the functions of the lending institutions; but that they should be able to sell such insurance as may be necessary to protect the loan. *Thus, credit life insurance could be sold in an amount appropriate to insure repayment of the loan, and insurance against loss of any collateral securing a loan could be sold for the full value of such collateral.*" [1]

In spite of this Conference Report language, PCAs and FLBAs have been authorized to offer liability coverages as a part of farmowners and homeowners packages and have read the "collateral" restriction out of the report language by defining "collateral" to be any asset where ". . . loan repayment reasonably may be considered to be jeopardized if such assets are not protected by insurance." [2]

Further, before reaching this compromise, the 1971 Conferees were assured by the then Governor of the Farm Credit System in a letter to Senator Talmadge, dated November 3, 1971 that the Farm Credit System would not enter the insurance

---

[1] Conference Report No. 92-679, 92d Congress, 1st Session 50, 54, 55 (1971). (Emphasis added)

[2] FCA letter of approval and instruction to pilot district banks regarding collateral insurance.

business unless unaffiliated businesses were not adequately providing the service in a particular community:

"The *need factor* has been evaluated at the local district and Federal Board levels. This approval procedure should reassure the committee that the system is only concerned with providing services where member owners have determined that real needs exist." [3]

The requirement to demonstrate need for the particular service before authorizing it reflected the conclusions of the Commission on Agricultural Credit, the proposals of which ultimately emerged as the Farm Credit Act of 1971:

"(1) The term 'credit related' should mean such business services as recordkeeping, *credit life insurance,* and estate planning. The term does not include services relating to the physical farming operation.

(2) *Credit related services should be undertaken only when a substantial number of members,* on an Association or district-wide basis, *have a need for the System to provide such services.*

(3) *The primary consideration* in offering any service *should be the benefit it provides members* and the lender in using and extending credit, *and not the remuneration which may accrue to the Banks or Associations.*

(4) *The availability of competent services through other normal business channels should be recognized and, where they are provided at reasonable cost, the System should not develop competing services but assist members in the profitable use of such services."* [4]

Even the Farm Credit Administration's regulations condition approval for an association to offer a financially related service upon four criteria, one of which is:

"(1) Need for the service based on *persuasive* evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost *and that similar service is not being provided adequately (cost, quality, availability) by others in the community."* [5] (Emphasis added)

The basic problem is that in spite of the Report of the Commission on Agricultural Credit, the will of Congress as expressed in the conference Report, and the Farm Credit Administration's own regulations, PCA and FLBA insurance programs have been authorized with absolutely no showing that comparable insurance services are not being adequately provided by unaffiliated businesses in the community in which the particular PCA and FLBA operates.

We believe that S. 1465 should be amended specifically to require that before the Farm Credit Administration can authorize a Farm Credit insitution to offer insurance as a financially related service it must make a finding based on the preponderance of the evidence contained in the factual record that similar service is not being provided adequately in terms of cost, quality, or availability by others in the particular community served by the Farm Credit institution. The statute should also require that notice of each such application be published in at least two newspapers having general circulation in each of the trade areas in which the particular association does business. Such notice would summarize the application of the association and would invite interested parties to submit written comments on the availability of the particular lines of insurance that are the subject of the application in terms of "cost, quality or availability."

Such procedures would assure that the Farm Credit Administration's own regulations are carried out and that the decision to authorize a particular insurance service is based on credible evidence as to what is available in the insurance markets in the particular community. The establishment of meaningful procedures

---

[3] Conference Report No. 92–679, 92d Congress, 1st Session, P. 53 (1971).

[4] *The Farm Credit System in the 70's at 21.* (Emphasis added)

[5] (Section 618.8010) *The Federal Farm Credit Board Policy Statement or Financially Related Services, formulated and approved by the Board in February 1974, contains the same requirement:*

". . . The primary consideration in offering any service should be the benefit it provides members and the lenders rather than the remuneration which may accrue to the banks or associations. Consistent with the policy of the law, these services should be undertaken only when there is evidence of lack of availability as to convenience, quality, or cost and there is sufficient interest on an association or district-wide basis to assure that the service will be at least self-sustaining . . ."

". . . When request for approval of a service is made, the request shall be supported by an in-depth study determining the feasibility of the service and the contribution it provides in meeting the objective of the System. The submission should document the nature of the program, those to whom it will be offered, and the basis on which the service is judged to meet the tests set forth in Section 8010 of the Farm Credit Administration Regulations."

"Farm Credit Administration approval shall be based on the determination that legal authority to offer the service exists, an Administrative determination that the proposed service can be authorized, and that the submission establishes the need for the service to be offered."

to make the need determination has been IIAA's central goal in comments submitted to the Farm Credit Administration in April 12, 1972 and February 9, 1976, and continuing correspondence with the Governor of the Farm Credit System since those formal comments. The Farm Credit Administration has shown absolutely no inclination to adopt these or equivalent procedures to assure that there is an objective determination of need before authorizing an insurance service in a particular community.

We also believe the statute should be amended to reflect the agreement of the Conferees in 1971 not to permit the sale of liability coverages and to limit the sale of property coverages to the collateral that is the formal security interest granted in connection with the secured loan.

Unless Congress acts now to carry out the original intent of the Commission on Agricultural Credit and the 1971 Conferees, Farm Credit insurance programs are likely to expand on a wholesale basis because of the promise of extra income to the cooperatives. Section 404 of S. 1465 would directly facilitate the expansion of these insurance programs by authorizing the establishment of service corporations for the specific purpose of performing financially related services for Farm Credit institutions.

We believe wholesale entry of PCAs and FLBAs into the insurance agency business would be against the best interests of this nation's farmers for several reasons. First, the promise of growing income from expanded insurance activities will divert associations from their primary function of extending farm credit, thereby potentially jeopardizing the solvency of particular cooperatives and frustrating the goals of S.1465 to build a stronger Farm Credit System. This danger is very real because the cooperatives are already marketing these insurance programs as moneymakers for the cooperative; not out of a demonstrated member need for the service.

Second, as general rule, farmers will not receive the same professional counselling and service when purchasing insurance from a PCA or FLBA employee who sells insurance as a sideline to his lending responsibility. In contrast, the independent agent's primary business is selling insurance, and he depends upon a satisfied insured to stay in business.

Third, whenever insurance is sold in connection with the lending of money, there is the danger that the borrower's freedom to choose the insurance of his choice will be compromised whether through the subtle suggestions of the loan officer or his perception that he will stand a better chance of procuring the loan from the institution if he buys his insurance there. The fact that PCAs and FLBAs are cooperatives, and the borrower is part owner, is irrelevant; what is relevant is the particular borrower's situation—how badly he needs credit and the risk that the cooperative will deny the loan. The greater the need or risk, the more inevitable the tying effect. Not only is this tying effect contrary to the best interests of the farmer, who buys his insurance from the cooperative to facilitate getting his loan, rather than because it is the best product; it is unfair to the unaffiliated agent.

The 1971 Conferees were keenly aware of the potential for unfair competition from wholesale entry of Farm Credit institutions into the insurance business. This awareness was a large reason for the restrictions placed on these insurance activities by Congress. In presenting the Conference Report to the House, Congressman Poage reflected this concern:

"I shall not take the time of the House to elaborate on the substance of the conference agreement. The details are included in the statement of managers. I would only mention that there was considerable controversy over House report language dealing with the insurance services which should be rendered by Farm Credit System lenders to their members. The House report language was quite restrictive while the Senate report was silent on the issue. *In conference, we worked out report language which we feel will permit the Farm Credit System to adequately serve its borrowers without endangering legitimate insurance agents and companies with unfair competition.*"[6]

Consider the following substantial competitive advantages PCAs and FLBAs have over unaffiliated agencies:

1. The likelihood that the purchase of insurance will be tied to the lending of money as discussed above;

2. The ability to "dangle the carrot" of using commission income to reduce future interest rates; unaffiliated agents are prohibited by the anti-rebate laws from offering any similar incentive or discount;

3. Access to confidential policy information submitted in connection with loans, including dates of expiration, premium amounts, coverages, and coverage amounts. This is an incredible advantage, unavailable to the unaffiliated agent, which enables

---

[6] 117 Cong. Rec. H11538 (Daily Ed., Dec. 1, 1971). (Emphasis added)

the cooperative to quote selectively on risks it knows it can beat. The use of expiration information submitted in connection with a loan by cooperatives to pursue their insurance activities should be strictly prohibited by statute; and

4. While FLBAs and PCAs have repaid their indebtedness to the government, they still derive important advantages in being able to call upon the resource of the other institutions in the Farm Credit System. In addition, FLBAs are exempt from federal income tax and the interest on the notes that both FLBAs and PCAs issue to raise money are exempt from state and local taxation making them extremely attractive investments. Thus, these institutions have substantial capital at their disposal to finance their insurance activities that unaffiliated agencies do not.

There is no way to neutralize the competitive advantages that PCAs and FLBAs have over unaffiliated insurance agencies. This is why the Conferees in 1971 strictly limited the types of insurance these institutions could sell and limited such sales to those communities where similar services were not being provided by unaffiliated businesses. We ask that S. 1465 be amended to carry out the congressional intent expressed in the Farm Credit Act of 1971. Only in this way will the long-term interests of the farmers of this nation be served, and unfair competition with unaffiliated independent small businessmen be avoided.

53-579 O - 80 - 17

ADDITIONAL SUBMITTED MATERIAL

STATEMENT OF SANFORD A. BELDEN, DEPUTY GOVERNOR, FARM CREDIT ADMINISTRATION

Mr. Chairman and members of the subcommittee, I am Sanford A. Belden, Deputy Governor of the Farm Credit Administration. The Farm Credit Administration is the Agency responsible for supervison of the banks and associations of the Farm Credit System. The Farm Credit System currently provides about $50 billion or roughly one-third of the Nations total agricultural credit. I appreciate this opportunity to present the Farm Credit Administration's views concerning S. 1465, the Farm Credit Act Amendments.

While the Farm Credit Administration strongly supports all the provisions of S. 1465, I would like to direct specific attention to the components of S. 1465 which deals with technical changes and typographical errors. These changes and error corrections are minor in nature and are intended to clarify the bases for certain operating procedures in the banks and associations and are, therefore, important to efficient and effective operation of the Farm Credit System but has little direct impact on borrowers.

Section 401 would permit the president of a Farm Credit bank who is serving on a finance committee or subcommittee to delegate his responsibility on such committee to his designee. These finance committees and subcommittees deal largely with the funding or bond and discount note operations of the Farm Credit System. As they are concerned with technical, financial matters, it would often be more efficient and effective to have a bank officer with specialized expertise in those areas to serve on the committee or subcommittee in the president's stead. Additionally, a bank president could manage his own time more effectively if he could delegate such responsibility to a designee when matters coming before the committee or subcommittee could be more effectively handled by such designee. The general system of accountability from management to the Farm Credit bank board of directors and the specific responsibilities of the Farm Credit Fiscal Agent and Governor of the Farm Credit Administration with respect to the sale of Farm Credit securities will provide adequate control over the impact of such delegation.

Section 102, subsections (f) and (g) would permit Federal land banks to make patronage refunds to borrowers on a basis proportional to interest paid during the year. These subsections would further permit flexibility in the form (equities or cash) for making such patronage refunds and in the accounting definitions of what constitutes an equity interest in the Federal land bank. Such ability to pay patronage refunds would place the land bank system on an equivalent basis with the Federal intermediate credit bank and bank for cooperatives systems. The flexibility in the form for making such refunds will allow both borrowers and the Federal land bank some options for making patronage refunds in the most effective and efficient manner. Flexibility in the accounting definition of what constitutes equity interest in the Federal land bank will facilitate the transfer of capital between the Federal land bank associations and the Federal land bank and is purely a technical, operating matter with no direct impact on borrowers.

There are several other minor technical or operational changes to the Farm Credit Act of 1971. Several of these relate to standardizing the accounting definitions for stock retirements and involve the deletion of the words "fair book value" and substituting "book value" in Section 2.2(g), 2.2(i), 2.3 (f), (g), and (h) and "fair market value" in Section 3.10(d) and "par" in Section 3.5. These changes and the correction of several typographical errors in the Farm Credit Act of 1971 will similarly have no direct impact on borrowers.

Section 3.8(c) would be amended to clarify that services to eligible cooperatives may be taken into account in determining whether or not the member business requirement is met. As cooperatives furnishing services are authorized to borrow by the Farm Credit Act of 1971, ommission of these services from the member business calculation was apparently an oversight. This section would also be amended to

include aquatic, as well as farm business services, as eligible for the member business requirement in keeping with the eligibility of cooperatives serving fishermen with business services to borrow from the bank for cooperatives.

Mr. Chairman, I appreciate the opportunity to present the views of the Farm Credit Administration regarding the technical changes and correction of typographical errors contained in S. 1465, the Farm Credit Act Amendments of 1979.

STATEMENT OF KEITH K. KENNEDY, PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK OF ST. LOUIS, ST. LOUIS, MO.

Mr. Chairman, my name is Keith Kennedy. I am president of the Federal Intermediate Credit Bank of St. Louis and chairman of the Presidents Committee for the three Farm Credit Banks of St. Louis. Together the FICB of St. Louis and the production credit associations under our supervision and the other financing institutions to which we lend, loaned almost $2.2 billion to farmers in Arkansas, Illinois, and Missouri during the year ended June 30, 1979. As of August 31, our loans amounted to $1.4 billion outstanding to 31,312 farmers in our 3-state region.

We're proud of our record of service to agriculture and the economies of these three states that make up the Sixth Farm Credit District.

I'm especially grateful for the chance to appear before this committee to speak in support of the Farm Credit Act Amendments that we in the Sixth Farm Credit District believe are so crucial if we are to continue to provide the type of dependable credit our farmers and ranchers will require in the 1980's and beyond.

Just as farm production cycles cannot be switched on and off like an assembly line, neither can farmers forego their need for operating capital in times of high interest rates. Their need for credit is ongoing, and providing an ongoing and dependable source of credit for agriculture is the purpose for which this Farm Credit System was created.

Specifically, we in the St. Louis district are especially interested in five related sections of the bill that would help assure that dependable credit source in times of both high and low money costs.

Section 403 and related Sections 104, 204, 210, and 307 of the bill would resolve any possible doubt that interest rates charged by institutions of the Farm Credit System are to be established in accord with provisions of the Farm Credit Act ". . . notwithstanding any interest rate limitation imposed by any state constitution, statute or other law. . . ." This would not be a change from present law. Rather, these sections would expressly reaffirm the System's long-standing exemption from state usury laws and, thus, allay any concern that its clarity may have been unintentionally diluted by language of the Farm Credit Act of 1971.

In assembling what we now know of as the Farm Credit System Congress has repeatedly recognized capital as a key ingredient to our nation's prosperous and productive agriculture and the need to assure an ongoing and dependable credit source for agriculture. The Congresses that founded the System might have chosen to fill that need through a program of direct government lending of treasury funds. But they didn't. Instead, in 1916 with the creation of the Federal Land Banks (FLBs), in 1923 with creation of Federal Intermediate Credit Banks (FICBs), and in 1933 with the creation of production credit associations (PCAs) and Banks for Cooperatives (BCs), those Congresses chose to:

". . . provide stimulus in the form of government capital and supervision to the establishment of local institutions in which farmers are participants and owners and through which necessary credit may be provided on a safe business basis and at reasonable cost." Senate Committee on Banking and Currency, S. Rep. No. 124, 73rd Cong., 1st Sess. (1933).

These federally chartered, now member-owned, credit cooperatives have for some 63 years functioned as a mechanism by which capital has been funneled from the investing public through the New York bond market to farmers, ranchers, and their cooperatives and ultimately to their rural communities on an ongoing basis. The phenomenal growth of the Farm Credit System to its present $50 billion size is testimony to the wisdom of that scheme. Yet, within the scope of their limited purposes and authorities, these institutions must operate on a sound business-like and self-sustaining basis.

Their funding sources are limited. These institutions have no authority to obtain capital through deposits. Apart from their own capital and surplus, and short-term borrowings to meet interim cash needs, the institutions of the Farm Credit System have since their creation obtained their lending capital almost exclusively through the sale of their securities at prevailing market rates.

While the margins necessary to pay operating expenses and meet necessary earnings requirements vary among banks and among associations, the rates paid by the borrower/users of the Farm Credit System are most directly a function of the average cost of bonds from time to time outstanding from the particular district bank through which the loan funds flow.

In accord with the Farm Credit Act of 1971, interest rates are those which are necessary to:

". . . provide the types of credit needed by eligible borrowers, at the lowest reasonable cost on a sound business basis, taking into account the cost of money to the association, necessary reserves and expenses of the association, and services provided to borrowers and members." Farm Credit Act of 1971, Sec. 2.15(b), 12 U.S.C. 2096(b) (1971).

In the case of the Federal Intermediate Credit Banks (FICBs), at the end of each month each FICB figures its average rate of interest on all of its outstanding bonds for the coming month and adds to that average cost a fraction of a percent (approved by the Farm Credit Administration) to pay its cost of operations and to build necessary reserves and surplus. The resulting interest rate is what PCAs who borrow from the respective banks must pay on all the money they have owing to FICB for the coming month. Since the FICBs are only "wholesalers" of credit to the PCAs, however, each PCA adds to its cost of funds a differential (or spread) to cover its costs of funds, operating expenses, and necessary reserves and surplus. In a similar way, as direct lenders, each Federal Land Bank and Bank for Cooperatives determines its rate of interest on loans to its borrowers subject to Farm Credit Administration approval.

But just as System funding sources are limited, so are System alternatives for use of those funds. As limited purpose lenders, lending by each bank and association is confined to eligible borrowers operating within its assigned geographical territory—which with isolated exceptions, do not (in the case of PCAs and Federal Land Bank Associations) cross state boundaries. Thus, if lending by a PCA were to be restricted by usury rates of its home jurisdiction, it would not have the option of lending or even investing those funds in another more permissive jurisdiction at a higher rate for the duration until rates come down. The application of state interest limits to PCA lending could, thus, effectively preclude its lending at self-sustaining rates of interest to its only lawful borrowers in times of high money costs.

With capital and surplus deteriorating from operating losses, the immediate effect would likely be the imposition of higher credit standards in an effort to minimize exposure to possible loan losses. Ultimately, if high interest rates persisted, the lending would have to cease.

Obviously, with a single source of funding dependent upon fluctuations in the money market, the System institutions could not operate as ongoing institutions if, by application of state usury laws, they were unable to pass on these costs to their cooperative member/borrowers.

On the strength of these arguments and the prior expressions of congressional intent, the Farm Credit Administration has consistently maintained that, as a matter of federal supremacy, interest rates of Farm Credit System loans are subject only to approvals required by the Farm Credit Act and are not subject to interest limitations imposed by state law.

This was the concern of the System and of Congress in 1967 when the 90th Congress amended the Federal Farm Loan Act and the Farm Credit Act of 1933:

". . . to remove the 6 per centum interest rate limitations therein on loans made by Federal land banks and banks for cooperatives; and to permit interest rates on such loans and on loans made by production credit associations to be determined as provided in such Acts of Congress to cover the cost of loan funds and other expenses and reserves so that the lending may continue on a self-sustaining basis." Act of December 15, 1967, Pub. L. No. 90-204, 81 Stat. 612, see House Committee on Agriculture, H.R. Rept. No. 971, 90th Cong., 1st Sess. (1967).

Accordingly, the System has generally operated independent of state interest limitations as necessary to assure that lending may continue on a "self-sustaining basis."

Subsequent to the 1967 Act, FICB bond prices rose to a then all-time high of 8.90 percent in January of 1970. With interest rates of up to 11 percent and higher in many associations, interest earnings on PCA loans during 1970 averaged more than the then generally applicable usury limits of 8 percent in some 20 states.

Perhaps it is because of Congress' clear expression of intent in amending the Farm Credit Act in 1967 and the consistent position of the Farm Credit Administration that its draftsmen apparently felt no need to more clearly express the System usury exemption in the Farm Credit Act of 1971.

In the case of PCAs, the 1971 Act simply provides:

"2.15(b) Loans authorized in subsection (a) hereof shall bear such rate or rates of interest as are determined under regulations prescribed by the board of the bank with the approval of the Farm Credit Administration, and shall be made upon such terms, conditions, and upon such security, if any, as shall be authorized in such regulations. In setting rates and charges, it shall be the objective to provide the types of credit needed by eligible borrowers, at the lowest reasonable cost on a sound business basis, taking into account the cost of money to the association, necessary reserves and expenses of the association, and services provided to borrowers and members. . . ." Farm Credit Act of 1971, Sec. 2.15(b), 12 U.S.C. 2096(b) (1971).

With higher bond costs in the 1970s and the resulting rates of interest more frequently at levels greater than rates generally permitted by laws of many states on agricultural loans, challenges to the System usury exemption have become more frequent. Although to date, every such challenge has been successfully defended by the System, there is still only one reported appellate level decision to cite under the Act. Despite the lack of any intent by Congress or the System to alter the manner in which interest rates were to be established and approved under the 1971 Act, there is concern that because the 1971 Act did not carry forward the precise language of the 1967 amendments and with no clear expression of the usury exemption in the face of the statute and usury challenges will continue.

Section 403 and the related sections of S. 1465 would relieve the System of the burden, frustration, delay, and expense of repeated litigation of an issue that is raised and pursued because the System usury exemption is not clearly expressed in the statute but is instead obscured in the legislative history and congressional objectives behind the System's very existence.

Even beyond the Systemwide need for a clear reaffirmation of the usury exemption, however, this issue is especially important to us in the Sixth Farm Credit District. Our district includes the state of Arkansas where the penalty for exceeding its 10 percent usury law is forfeiture of the loan—interest and principal.

With the exception of one month, during 1979 prices of Federal Farm Credit Bank Consolidated Systemwide Bonds of 6- and 9-month maturities have exceeded 10 percent with costs ranging from 10.20 percent to the October 1, 1979, 6-month issue with a cost of 11.50 percent.

As a result, the cost of funds to PCAs across the nation for the month of July 1979 ranged from 9.70 percent to a high of 10.63 percent. As of July 1, 1979, the most prevalent PCA rates on farm loans ranged from a high of 11.50 percent down to a low of 10.00 percent nationwide. All 14 of the Arkansas PCAs are in that 10 percent group—even while their cost of funds alone was 10.17 percent for the month of July.

Despite assurances of the Farm Credit Administration of the System usury exemption, with more than $1 billion in System loans at stake in Arkansas, counsel have consistently advised against lending there at rates over 10 percent. Without an opinion of counsel to rely on, local farmer boards of directors are understandably reluctant to lend at rates over 10 percent—despite the cost. Today the cost of funds to Arkansas PCAs is 10.29 percent and has exceeded 10 percent for every month since May 1979. With the additional costs of operations,[1] the result is that year-to-date losses on lending operations in 9 of 14 Arkansas PCAs totaled $577,891.08 as of August 31, 1979.

While borrower-elected PCA boards of directors continue to make credit available to their members even at a loss, the short-term impact of their dilemma is already apparent. Faced with the certainty of losses on lending operations, lending activity among Arkansas PCAs has slowed considerably—loan volume as of June 30, 1979, was up only 2.8 percent over the same date in 1978 as compared with a 20.3 percent increase in Missouri, 18.0 percent increase in Illinois, and a 17.3 percent increase in loan volume of PCAs nationwide over the same period.

The longer-term impact will be, at best, a weakened financial condition and reduced ability to withstand loan losses in the future and (depending on how long interest rates persist at current or higher levels) at worst, the eventual liquidation of Arkansas PCAs one by one as their surplus is eroded and is ultimately exhausted. In Arkansas, where PCAs loaned $571 million in 1978 (approximately one-half the operating credit used by Arkansas farmers) the impact would be near catastrophic.

With usury rates of 10 percent or less generally applicable to agricultural lending in at least 10 other states, the PCAs of Arkansas present a graphic example of the crippling effect that state interest limitations could have upon much of the Farm

[1] Operating expenses amounted to 1.47 percent of average daily balance of loans from Arkansas PCAs statewide in 1978.

Credit System if, through a misguided challenge, it were to lose its usury exemption for lack of clarity.

These Farm Credit Act Amendments of 1979 are proposed to update and to "fine tune" the provisions of the 1971 Act—to fill in the hidden gaps that have surfaced with 8 years of experience.

That 1971 Act was a much needed blueprint for what is now a $50 billion system. I submit that for an institution of that size, even the least of design flaws must not be overlooked where public and investor confidence is involved.

To erase any possibility for even the slightest concern that interest rates charged by institutions of the Farm Credit System might be limited by general interest rate limitations imposed by Arkansas or any other state, I ask this Congress not to change the law but to expressly reaffirm the System usury exemption in the very clearest of terms by enacting S. 1465 as introduced.

As a credit source for our nation's farmers, ranchers, and their cooperatives, the Farm Credit System can only be as dependable as the ability of its institutions to pay the market rate for borrowed funds and their authority to lend those funds at a self-sustaining rate of interest.

Mr. Chairman, thank you and I sincerely appreciate having had the opportunity to present these views before your subcommittee.

STATEMENT OF F. VERNON WRIGHT, PRESIDENT, FEDERAL INTERMEDIATE CREDIT BANK OF NEW ORLEANS, NEW ORLEANS, LA.

My name is F. Vernon Wright. I am President of the Federal Intermediate Credit Bank of New Orleans. We furnish lending funds to and supervise 25 Production Credit Associations in Louisiana, Mississippi and Alabama. During 1979, our bank will lend more than one (1) billion dollars to Production Credit Associations and other financial institutions which, in turn, loan these funds to farmers, ranchers, and producers and harvesters of aquatic products in the three-state area.

The Farm Credit Amendments Act of 1979 (S. 1465) is a bill which will broaden and update the Farm Credit Act of 1971. In a world which is changing so fast, it is necessary for the agricultural segment to keep pace. The changes which are proposed by this bill will help improve the income and well-being of the American farmers and ranchers in today's changing world, thereby enhancing the ability of Farm Credit organizations to accomplish objectives of the Congress as stated in the Farm Credit Act of 1971.

Most of today's changes cost money, and often require more tax dollars. But the provisions of the bill require NO appropriated funds—no tax dollars. The Farm Credit System is owned by member-borrowers, and uses no federal funding. Even the Farm Credit Administration's budget is met by System money rather than public funds.

Those of us who have the responsibility to manage and execute the policies of the System, as well as the board members who set the policies, have taken seriously the responsibility to achieve consensus on this legislation within the System. There has been much "give and take", but we have now agreed on the package which will enhance our ability to serve American farmers and ranchers. Because of the unity which was achieved by the System in formulating this legislation, we urge this Subcommittee to use its authority and influence to prevent any amendments to the legislation. We urge passage of the legislation as it was introduced.

Although there are no provisions concerning insurance in the proposed legislation, we understand the suggestion has been made to take away from Farm Credit organizations their authority to provide insurance services to farmer-members—a service which had its start in the early 1950's. This issue is extremely important to the Farm Credit System for many reasons; therefore, I would like to address the following remarks to Farm Credit member insurance programs:

1. The rapidly escalating cost of farm operating expenses, as well as capital goods, has greatly increased the risk in farming.

2. PCA members are telling us they need and want more financial management assistance, a substantial part of which is managing controllable risks. They *do not* want anyone making these decisions for them. They are asking for information, counsel and advice to consider in helping them make their own decisions.

3. A significant part of any farm family's risk management program is that of properly managing the *insurable* risks. These insurable risks for which PCA can now offer insurance service include:

a. *Insurance to cover the life of the principal owner/manager of the farm business.*—Thousands of farm widows across this nation have been able to continue the

farm business after their husband's death due to the PCA loan being paid in full or substantially reduced by credit life insurance coverage purchased from their PCA.

b. *Credit disability insurance.*—Many farm families are able to continue the farm operation without incurring additional heavy debts today because their credit disability insurance, purchased through their PCA, pays for replacement labor during the disability of the principal operator.

c. *Property and casualty insurance.*—The loss of a $50,000 residence, a $40,000 tractor, or a $70,000 poultry house can be disastrous. In fact, it can put a farmer out of business if he or she is uninsured. It can severely weaken their financial position if such loss occurs without adequate insurance. We find that many of the farmers in our district are either uninsured or underinsured. I am attaching a few examples of actual cases in the Fifth Farm Credit District which clearly illustrate this point. Many more examples can be furnished if the Subcommittee would like to have them. Much of this is the result of rapidly escalating values of farm assets and failure to update coverage in a timely manner. PCAs can offer property and casualty insurance coverage which is tailored to the needs of the individual farmer, just as our loans are tailored to the individual farmer. PCA employes effectively interrelate their knowledge of farming, the individual farmer's business operations, their financial analysis expertise, and their knowledge of property and casualty insurance to advise the farmer on his risk exposure and how he can cover insurable risks.

d. *Crop hail insurance.*—This is another service of long standing. Loss of an uninsured crop due to hail loss could very well bankrupt a farmer. PCA crop hail insurance helps to absorb some of the financial loss, thereby enhancing the farmer's chances of growing another crop because that insurable risk was covered.

4. It is important to emphasize that PCA employees receive no commission from the sale of any type of insurance. Nor is their compensation based on sale of insurance. The Farm Credit Administration has issued directives which strictly prohibit relating employee compensation of any nature to the sale of insurance. This is strictly adhered to by all PCAs and is strenuously supervised by the FICBs.

5. I should additionally emphasize that purchase of any type of insurance from a Farm Credit association is strictly optional with the member. Even if insurance coverage is required as a condition of the loan, the member has the option of purchasing that insurance from the source of his choice. During the past two decades, I have been responsible for supervision of PCAs—approximately ten years as Deputy Governor of Production Credit Services at the Farm Credit Administration in Washington, D.C., and during the most recent ten years as President of the Federal Intermediate Credit Bank of New Orleans where I am responsible for the supervision of 25 PCAs located in three states. In those supervisory capacities, I have handled many PCA member complaints concerning loan rejections, and foreclosures in connection with the lending operation. However, I have never—not even one time—received a complaint by a PCA member or applicant alleging coercion or pressure in connection with the PCA insurance programs. It appears that concern about coercion is being expressed by the agents or organizations who sell insurance—not by the farmer-members of the System. The only beneficiary of this competitive source of insurance services is the consumer; in this case, the farmer, because he has one more optional source whose single business is that of serving farmers. Opposition to these services represents opposition to competition, and is contrary to the free enterprise system.

The Congress has previously authorized Farm Credit associations to provide these services on an optional basis, to the member-owners of the Farm Credit System. It would not be in the public interest to remove these existing authorities.

For all of the reasons cited above, I urge you to preserve authority for Farm Credit organizations to serve the insurance needs of members in order that they may continue to serve the best interests of the American farmer.

6. It is my understanding that someone outside the Farm Credit System has stated this legislation will enable the System to establish its own insurance company, and further, has stated the System already has plans on the drawing board for an insurance company. Neither statement is correct. The legislation does not deal with insurance or an insurance company, and there is no system consideration of establishing an insurance company, much less plans for one. Perhaps this misconception of the facts is creating unwarranted concern.

When the Congress created the Farm Credit System, it established a framework within which farmers could join in a cooperative effort to help themselves and help each other—farmers doing business with farmers. Every dollar for operating and capitalizing the Farm Credit System is paid by the farmers who own and use it. It is indeed a unique system—one where the customer and the owner are the same person. The Farm Credit System has not put any of its competitors out of business

over the years; rather, it has been a competitive force which has served the best interests of the entire farm community. In fact, our competitors are stronger and better today because they had to compete. The cooperative concept by which farmers can own and use their own businesses for purchasing loan funds, marketing products, purchasing insurance coverage, and purchasing farm inputs, is an outstanding example of the success which can be achieved in the free enterprise system. Mr. Chairman, we thank you and the other members of Congress who have made this possible.

Thank you for the privilege of presenting testimony concerning the Farm Credit Act Amendments of 1979 and related issues. I urge you to report S. 1465 out of Subcommittee as it was introduced, with no changes or amendments, and to use your full authority and influence to preserve the current authority of Farm Credit organizations to provide needed financially related services to farmer-members on an optional basis.

53-579 O - 80 - 18

PROPERTY INSURANCE PROGRAM
Fifth District

Selected Actual Cases

MEMBERS SAVE MONEY AT PCA

What member had before PCA			What member has through PCA			Bottom Line
Farm Policy	Buildings	$ 3,000	Farm Policy	Buildings	$ 3,000	MEMBER SAVED $40
	COST	$ 88		COST	$ 48	
Home Owners	Dwelling	$ 20,000	Farm Package	Dwelling	$40,000	MORE ADEQUATE COVERAGE. SAVED $13. (NOTE: THIS MEMBER'S DWELLING BURNED TO THE GROUND 3 MONTHS AFTER SWITCHING HIS INSURANCE TO PCA. HE MADE THE STATEMENT THAT HAD HE NOT SWITCHED TO PCA AND INCREASED COVERAGE, HE WOULD NOT BE FARMING TODAY.)
	Dwlg Contents	10,000		Dwlg Contents	20,000	
	Living Expense	1,000		Living Expense	5,000	
				Farm Storage	28,000	
				Machinery	10,650	
Builders Risk	Dwelling	$ 45,000	Farm Package	Dwelling	$50,000	COVERED MILKING PARLOR AND CONTENTS. PROVIDED LIABILITY COVERAGE. SAVED $150.
				Dwlg Contents	25,000	
				Milking Parlor	30,000	
				Parlor Content	10,000	
				Liability	300,000	

PROPERTY INSURANCE PROGRAM
Fifth District

Selected Actual Cases

MEMBERS COVER THEIR ASSETS WITH INSURANCE THROUGH PCA

What member had before PCA	What member has through PCA			Bottom Line
NONE	FARM PACKAGE	Dwelling	$ 90,000	PROVIDED INSURANCE WHERE THERE WAS NONE.
NONE	BASIC POLICY	Tractor	$ 24,000	FINANCED TRACTOR WITH PCA AND MEMBER FOUND IT CONVENIENT TO INSURE THROUGH PCA.
NONE	FARM PACKAGE	Building	$ 60,000	PROVIDED INSURANCE WHERE THERE WAS NONE.
		Equipment	$ 20,000	FOLLOWUP TO WRITE COVERAGE ON OTHER PROPERTY WHEN IT EXPIRES.

PROPERTY INSURANCE PROGRAM
Fifth District

Selected Actual Cases

MEMBERS GET MORE PROFESSIONAL SERVICE AT PCA

What member had before PCA			What member has through PCA			Bottom Line
BASIC POLICY	Dwelling 2 Add'l Bldgs	$ 35,000 18,500	FARM PACKAGE	Dwelling 4 Add'l Bldgs Liability Equipment	$ 60,000 64,000 300,000 99,500	MUCH BETTER COVERAGE FOR SLIGHTLY MORE PREMIUM. SUPERIOR POLICY.
	COST $1,864			COST $2,013		
HOME OWNERS	Dwelling 2 Poultry Hses Liability	$ -0- 54,000 25,000	FARM PACKAGE	Dwelling 2 Poultry Hses Liability	$ 15,000 54,000 300,000	MEMBER HAS POLICY DESIGNED FOR FARMERS. COVERED DWELLING. INCREASED LIABILITY COVERAGE (PREMIUM INCREASED $115)
FARM OWNERS	Dwelling (3,000 sq. ft.) Coverage on Bldgs & Machinery	$ 20,000	FARM PACKAGE	Dwelling Coverage on Bldgs & Machinery	$ 40,000	MORE ADEQUATE DWELLING PROTECTION. CAPABLE APPRAISAL ON BLDGS AND EQUIPMENT. UPDATED INSURANCE PROGRAM. (IT HAD NOT BEEN UPDATED IN TEN YEARS) (PREMIUM INCREASED $235)
FARM OWNERS	3 Broiler Hs	$ 25,000	FARM PACKAGE	5 Broiler Hs	$133,000	ALL BROILER HOUSES COVERED. BROILER HOUSES ADEQUATELY PROTECTED. (PREMIUM INCREASED $880)

STATEMENT OF ROGER W. KLUSMAN, NEW SALEM, N. DAK.

As a director of the Federal Land Bank Association, Bismarck, North Dakota, and a member of the Stockholders Advisory Committee of the Federal Land Bank of St. Paul, Minnesota, I wish to make known to you and your committee my concern of the amendments to the Farm Credit Act of 1971, Senate Bill 1465.

As a grassroots farmer in need of more capital to operate our farm efficiently each year, I urge your support on these amendments.

As many of our farmers are nearing retirement, the need for more young men to enter farming is great and they can only get started with a good line of credit. The Farm Credit System has provided this for years. This free enterprise system has given the U.S. the cheapest food in the world.

With the passage of these amendments, we will be making a good credit system even stronger and assuring our sons the privilege to own a productive farm as our generation has.

In closing, I would like for you to have these comments inserted in the subcommittee's official records.

STATEMENT OF JACK HAMILTON, LAKE PROVIDENCE, LA.

My name is Jack Hamilton. I am a cotton, soybean and wheat farmer from East Carroll Parish, Louisiana. I serve on several boards of directors where financing is obtained from the farm credit system, and also borrow personally from this source. Staple Cotton Cooperative Association at Greenwood, Mississippi is one of these firms. It markets in excess of 500,000 bales of cotton, many of them in export and borrows in excess of 25 million dollars from the New Orleans Bank for Cooperatives, and it's subsidiary, Staple Cotton Discount Corporation, an OFI lending in excess of 50 million dollars for production loans and rediscounting these notes with the New Orleans Federal Intermediate Credit Bank (FICB). Another firm on whose board I serve is Union Oil Mill, Inc. in West Monroe, Louisiana, a cottonseed crushing plant financed by the New Orleans Bank for Cooperatives. This plant also exports part of its production. A third firm financed by New Orleans Bank for Cooperatives, which I actively manage, is Hollybrook Gin, Inc. at Lake Providence, Louisiana. This is a cotton gin and soybean operation which raises and sells certified cotton, soybean and wheat seed, some of which goes into export channels.

In addition, I serve on the board of Agricredit, Inc. an OFI at Lake Providence, Louisiana, borrowing from the New Orleans FICB and the Federal Land Bank Association of Lake Providence, Louisiana. Also, I have personal loans with Tallulah Production Credit Association and the Federal Land Bank of Lake Providence.

I think this clearly shows that my connection with and reliance upon the Federal Farm Credit System is extensive and I will quickly add that this credit system is probably the best thing that ever happened to American Agriculture. Without this unique system of credit it is doubtful that American Agriculture could maintain its position of number one in the world.

Looking at the four major proposals in S–1465, I am very much in favor of the proposal to lower farmer-member eligibility requirements to 60% by the BC's. This can only help farmers as it will make more farmer controlled organizations eligible for loans with the BC's. The decision to make or reject any such eligible loan still rests with the BC's and I believe this change will be beneficial.

The second major proposal is to allow Federal Land Bank to loan in excess of 85% of appraised value on land when a guarantee is provided by a government agency. This would actually replace the old Farmers Home Administration participation loans with Federal Land Bank now used to help young farmers get started. We simply must encourage and help young farmers get into agriculture and with the huge capital requirements to enter farming today this help is needed and justified.

The third major proposal would broaden eligibility for financing by Production Credit Associations and Federal land Bank to include processing and marketing. I believe this is a good proposal, but I think this authority should be extended to OFI's as well. Why discriminate between PCA's and OFI's? Both lend under the same regulations and scrutiny and should be allowed the same privileges under the law. I disagree, also, that FLB should get into this short and intermediate financing. FLB is highly successful doing what it was created to do—make first mortgage long term loans on land. They are set up for this purpose and it would be a serious mistake to put them into another type of credit already being offered by another branch of the farm credit system.

The last major proposal in their Act may be the most important one to farmers in this nation. It would allow the BC's to finance export transactions in which a U.S.

Cooperative is a primary beneficiary. This is a very natural extension of the things BC's are now doing and as American farmers are relying more and more on foreign markets to use their output it would be very helpful to let our BC's carry this process to its natural conclusion. The argument has been made by the ABA that BC's are not competent in this field. I feel that the BC's have long ago proven their ability to become proficient in the financing of all kinds of complex cooperative marketing and manufacturing ventures and could exhibit this same mastery over financing of export transactions.

Among the minor changes, certain exemptions are proposed from requirements of Truth in Lending and state usury laws for PCA's. Again, the OFI's are left out in this proposal and they should not be put in an inferior position to the PCA's. I would urge equal treatment of these two arms of FICB in every aspect of doing business.

STATEMENT OF OSCAR B. TALIAFERRO, PRESIDENT, RICHMOND PRODUCTION CREDIT ASSOCIATION AND THE FEDERAL LAND BANK OF RICHMOND

Mr. Chairman and members of the subcommittee; I am Oscar Taliaferro, President of the Richmond Production Credit Association and a director of the Federal Land Bank Association of Richmond. These Associations have $109,806,360 in assets and serve 2,477 rural people in 22 counties surrounding Richmond, Virginia. The Farm Credit System provides approximately $50 billion or roughly one-third of the nation's total agricultural credit.

I have been farming in eastern Virginia since August 1945 when I was discharged from the U.S. Navy at the end of World War II. During these years I have continuously produced grain for the cash market. Our present set-up is a family corporation consisting of four sons, my wife and myself. We produce wheat, barley, corn and soybeans on 3400 acres. I might add in passing that my boys are modern farmers—especially in the amount of debt they owe!

I have been a Farm Credit director for 24 years and president of the Richmond Production Credit Association for 3 years. Farm Credit has helped finance my operation almost since its beginning.

It disturbs me to see pictures and accounts of starving, hungry little children around the world when I know farmers here are being kept from producing the amount they can produce. I believe we all recognize that the problem is one of distribution and not of production. I am sure, Gentlemen, that you realize that credit is the keystone of the distribution system.

Because the ever present cost-price squeeze is more severe than ever, farmers realize a smaller than ever per unit profit. In order to make a decent living, this means that the American farmer must find ways to increase the number of units. This he is doing well, but he must have a market for these products. When we realize that domestic use now takes only the products from two out of every three acres, we know that exports are necessary.

Also the importance of agricultural exports to the nation's balance of payments must be emphasized. Grain is the only world commodity that can be produced cheaper in the U.S. than anywhere else in the world. In the long run, the U.S. consumer will benefit from grain exports by improving the U.S. balance of payments and by keeping a larger number of U.S. farmers in business.

Farmer-owned co-operatives have the potential ability to stabilize prices because farmers will be dealing more directly with buyers. A friend of mine a few years ago noted one day a good price for the corn that he had stored and so he loaded his trucks and departed very early the next morning. He was half way to Norfolk, Va. when the Chicago Board of Trade opened and he decided to call his wife at home and see what prices were doing. They had dropped 15¢ per bushel overnight. The ideal marketing situation would be to have grain priced before it is planted but farmers have never been able to find any commercial grain dealers interested in attempting this. As I see it, the co-operatives have the potential to contract with buyers and then the farmer-members would each own a part of that contract and would know what price they will receive.

In order to work out this system farmer-owned co-operatives must have credit and this credit and other necessary financial arrangements must extend beyond the shores of the U.S.

Farmers have demonstrated through the years, that they can efficiently and economically provide services and buy and set through their farmer-owned co-operatives. Therefore, Gentlemen, we urge that you favorably consider the Farm Credit Act Amendments of 1979 and that you specifically authorize the Bank for Co-operatives System to become involved in export financing.

In summary, I believe that American agricultural exports can help relieve world hunger; help the U.S. balance of payments; help the American farmer by providing markets for all he can produce. The presence of farmer-owned co-operatives in the world market has the potential of helping to stabilize prices and these co-operatives need financing.

The Richmond PCA and the FLBA of Richmond are grateful for the opportunity to express their views before this subcommittee and I thank you.

STATEMENT OF JOHN J. FELAND, BALTIMORE BANK FOR COOPERATIVES OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the subcommittee, my name is John J. Feland, Executive Vice President and General Manager of Southern States Cooperative, Inc., a regional farm supply and marketing cooperative operating in the states of Kentucky, Virginia, West Virginia, Maryland and Delaware. Southern States has more than 320 thousand members and its sales exceeded $508 million for the fiscal year ended June 30, 1979. I appreciate the opportunity to present the views of Southern States Cooperative, Inc. concerning S. 1465, the Farm Credit Act Amendments of 1979.

Southern States believes that it is in the best interest of farmers and the nation as a whole that the Banks for Cooperatives System be authorized through S. 1465 to become involved in export financing. For the U.S. farmer, this authorization would add another dimension to the markets for his production, thereby potentially increasing his on-the-farm net income.

Higher net farm income as a result of increased export activity would also tend to reduce the level of agricultural price supports that are often necessary during periods of excess farm production supply. Even though increased export levels may result in higher commodity prices, domestic food prices would not be dramatically affected. While food prices have risen during a period of expansion in agricultural exports, the rising costs of food processing, transportation, and other marketing services have been the major causes. In many cases the farm value of the food product purchased by consumers accounts for only a small portion of the cost of the end product. For example, there is only about five cents worth of wheat in a loaf of bread. This means that even a 60 cent per bushel increase in the price of wheat would add less than one cent to the cost of producing a loaf of bread.

For the nation as a whole, it is no secret that agricultural exports have played a major role in reducing the serious international balance of payments problem. From a level of just slightly over $6 billion in 1968 to a level of just under $30 billion in 1978, agricultural exports have been the single biggest offset to the trade balance deficit. The United States, in my opinion, needs to return to a trade surplus position as quickly as possible, and agricultural products provide us with one of our best means of doing so.

Participation by the Banks for Cooperatives System in export activity would not result in huge new extensions of credit. These banks already finance most of cooperative-handled commodities to the point of domestic seaport. The need simply is to extend the credit for the additional time that is needed to deliver the commodity to its export destination.

Closer to home, Farm Credit's participation would help the members of Southern States Cooperative, Inc. Our company entered the grain marketing business in a significant way last year and we will have invested millions of dollars in grain storage facilities in our operating territory over the next several years. Hopefully, a cooperative-sponsored export facility on the East coast will also become a reality in the years to come. Participation by the Banks for Cooperatives System in export activities will heighten the prospects of that event.

In summary, passage of this legislation will benefit the U.S. farmer's net income and further improve agriculture's contribution to our national balance of trade deficit, without either dramatically increasing domestic food prices or endangering the soundness of the Farm Credit System as we know it today.

Southern States Cooperative is grateful for the opportunity to present its views on this legislation before the Subcommittee.

STATEMENT OF JOHN N. MILLS, RICHMOND FARM CREDIT SERVICE

I am John N. Mills, Vice President and Director of the Richmond Production Credit Association. This association has $21,948,472 in assets, serving 878 rural people in the association territory. I have been a member of this association for

many years and a farmer for over 30 years, currently operating a grain farm in Hanover County, Virginia, with the help of 2 sons and a son-in-law. This operation consists of planting, growing and harvesting 2,000 acres of grain.

I would like to offer the following statements on behalf of the Farm Credit Act Amendment of 1979 (S-1465 and HR-4782) regarding the needs for exports legislation:

1. It is most important to the overall economy and well-being of our nation and its people that we have a strong agricultural economy to offset other weak areas in the economy.

2. One of the best ways to keep a strong agricultural economy is to find better ways for marketing our farm commodities, recognizing that we are currently exporting over one-third of the farm products grown. I believe improvements in our exporting facilities through financing marketing, exporting facilities by our Bank for Cooperatives would lend itself greatly to a strong agricultural economy.

3. I believe that it is most essential that we as a nation do everything possible to improve our balance of payment position as a nation. The financing of export facilities by our Bank for Cooperatives is one of the things which would certainly lend itself to more exports by our nation.

4. In recent years, as the exporting of our farm commodities has become more important to our overall economy and balance of payment position and more important to the American farmer, evidence would show that various segments of our society or institutions have been able to take advantage of this need and capitalize on it at the expense of the American farmer and, in some cases, society as a whole.

5. In marketing meetings with the experts, including foreign buyers, one major problem that surfaces is the quality of the American grain being shipped or the lack of quality. This has hurt the export sales of grains. Farmers believe this quality exists when it leaves the farmers but is downgraded by those wanting to make an extra profit. A farmer-owned export facility and market would improve the quality of our grain being shipped and the image abroad of our American farmers as well as those involved in the exporting of said grains.

6. We are currently marketing our grain with a local cooperative and 2 other independent grain markets. Certainly a well financed export market and facilities would benefit us as farmers in the market place and strengthen the overall economy of our country.

In summary, the Farm Credit System as a whole is recognized by the financial experts in this country as one of the most successful private enterprises ever developed by the people of our country. It currently has the assets and expertise to assist that farmer in financing the exportation of his grain. So let's use them.

William R. Brockett, President, Virginia Beef Corp.

Mr. Chairman and members of the subcommittee, I am William R. Brockett, President of Virginia Beef Corporation. My company, Virginia Beef Corporation, is a family owned farm corporation located in Northern Virginia. It is the largest farm in Virginia. I appreciate this opportunity to present Virginia Beef Corporation's views concerning S. 1465, the Farm Credit Act Amendments of 1979.

Passage of the Farm Credit Act Amendments of 1979 is very important for rural America. Agribusiness in America has grown at such high rates over the past eight years that it is necessary to amend the Farm Credit Act of 1971.

A large portion of our grain production is sold for export. Farm cooperatives need to be able to expand their sales by directly exporting grain. In order to do this the farm credit system must be allowed to loan monies to the various farm cooperatives to help in the export of grain. Presently we as farmers and members of farm cooperatives cannot directly participate in the selling of export grain. Therefore, we must allow all profits to go to individual export concerns over which we have no vote or say—nor can we share in any profits as we presently enjoy with our cooperatives. Additionally, this will increase the competition for our grain which is healthy for any business.

Virginia Beef Corporation is grateful for your attention and consideration of my views before this Committee. I would be more than willing to respond to any questions you may have.

Statement of Independent Bankers Association of America

The Independent Bankers Association of America appreciates the opportunity to comment on the Farm Credit Act Amendments of 1979 (S. 1465 and H.R. 4782).

IBAA supports the proposed amendment which would permit commercial banks which have participation agreements with Production Credit Associations to buy participations in the PCAs. We believe this would streamline the commercial bank-PCA participation program and make it more attractive and useful to rural commercial banks.

We take no position on the other amendments proposed by the Farm Credit System. We believe these would have little or no direct effect on rural commercial banks.

The Independent Bankers Association of America is a trade association of locally owned commercial banks. It has nearly 7400 members—slightly more than half of the commercial banks in the U.S. Most of these are country banks deeply involved in financing agriculture and rural development.

Commercial banks and the institutions of the Farm Credit System are the two main types of institutional lenders to American agriculture and compete for farm loan business.

Many of our members feel the Farm Credit System enjoys an unfair competitive advantage because its institutions are exempt from federal income taxes or are taxed at more favorable rates than commercial banks. However, the present legislation does not address the System's tax treatment.

The Farm Credit System, which raises funds from urban investors, also is a useful source of farm loan funds for rural commercial banks.

The PCA participation program is one of the ways commercial banks get loan funds from the Farm Credit System. This is a relatively new program and has been used to a limited extent so far.

Under the program, PCAs provide overline funds for farm loans that exceed commercial banks' legal lending limits per borrower. The program has been somewhat cumbersome because, when a commercial bank originates a loan and a PCA provides overline funds the borrower is required to buy stock in the PCA.

The proposed amendment which we support would make it possible, instead, for the commercial bank to buy participations in the PCA. Thus the borrower would not have to meet the stock purchase requirement. This would make the program simpler for both commercial banks and their farm loan customers.

While we are taking no position on the rest of the proposed Farm Credit Act Amendments of 1979, we would like to comment on some of them.

The proposal to exempt Federal Land Bank loans from the current 85 percent loan-to-value limit when these loans are guaranteed by a Federal or state agency should make it possible for the land banks to do more in financing low-equity farmers—particularly young farmers.

Land Banks have been prudent lenders—this shows in their record of losses, which have been almost nil. We hope they will be equally prudent in using this new authority if they get it.

Our members have mixed views on the proposal to permit FLBs and PCAs to finance farmers' processing and marketing of their own production and that of other bona fide farmers, subject to limitations set by district farm credit boards.

Some feel this would be a useful supplement to financing provided by commercial banks. Others feel it would be a foot in the door for further expansion beyond farm production and real estate lending by PCAs and FLBs.

Some believe the proposal to reduce to 60 percent the proportion of farmers among co-op members borrowing from Banks for Cooperatives would give the cooperatives further unfair competitive advantages over private businesses. However, the proposal recognizes the reality that co-ops are serving increasing numbers of non-farm residents who contribute to the rural economy.

The proposal to grant Banks for Cooperatives wide authority for export financing would create competition for the large commercial banks that finance farm exports. However, American agriculture will benefit if it contributes to greater expansion of exports of U.S. farm products.

The Association again wishes to express its thanks and appreciation for the opportunity to express these views.

STATEMENT OF RICHARD F. PRICE, SOUTHERN STATES CO-OP, RICHMOND, VA.

Mr. Chairman and members of the subcommittee, I am Richard F. Price, grain and livestock producer and elected director from Maryland on the Southern States Cooperative, Board of Directors, located in Richmond, Virginia. Southern States is predominately a supply and marketing cooperative, owned and directed by farmers in Maryland, Delaware, Virginia, West Virginia, and Kentucky. We enjoy a membership of 320,934 members, exhibiting a total volume of $508,600,000 during our

last 12 months, ending June 30, 1979. Much of our success can be directly attributed to the working relationship with the Baltimore and Louisville Banks for Cooperatives. As financing needs of our cooperative grow, we find that more than ever we must rely on the Farm Credit Systems to provide the necessary capital. For this reason, I appreciate this opportunity to present the views of Southern States Cooperative concerning the Farm Credit Act Amendments of 1979, S. 1465.

My primary interest in testifying is to apprise the Committee that farmers, through their Cooperatives, are continuing to expand the direct marketing approach of their products.

As farmers, we are proud of our production records. Unlike many other countries around the world, the United States has an abundance of food, particularly wheat and feed grains. Nearly one out of every three acres of production is available for export.

In order for us to promote the expansion of U.S. agricultural exports, and to increase the farmer's share of the benefits derived from those transactions, we need the financial services of the Banks for Cooperatives, which if passed by the Senate, this legislation would allow. Although much of our grain produced in our five state area is for domestic use, many millions of bushels are available for export. At considerable cost to our farmers, we must presently sell our grain through second and third parties in the export field.

There is no question in my mind, if cooperatives could get the necessary financing and banking needs that the Farm Credit Act Amendments of 1979, S. 1465 can provide, we would benefit farmers and consumers alike. Farmers would derive additional benefits from expanded sales and reduced cost. The economy would be bolstered from the increased exports and agriculture would contribute even more to help lower our deficit balance of payments. Furthermore, our economists tell us that for each $1.00 exported, $2.00 of domestic economic activity is generated. Additionally, increased grain exports will significantly reduce government storage, saving taxpayers thousands of dollars in agricultural program costs. Statistics reveal that 5 out of every 6 farmers use a Cooperative in some way, whether it be in marketing, services or supplies. These same figures go on to point out that only about 9.3 percent of our exported grain is directly exported by regional Cooperatives. With the passage of the Farm Credit Act Amendments of 1979, S. 1465, we are confident there will be a tremendous increase in direct Cooperatives exporting of grains. I ask that you consider this statement along with others and that you will give a favorable report on the Farm Credit Act Amendments of 1979, S. 1465. Southern States Cooperative of Richmond, Virginia and I, Richard F. Price, a farmer, appreciate the opportunity to voice the views so stated above. I will be pleased to appear before this Committee in response to any questions.

STATEMENT OF ROBERT G. BOUCHER, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

On behalf of the Mortgage Bankers Association of America, the trade association of this Nation's mortgage banking industry, I am submitting this statement on various provisions of S. 1465, the Farm Credit Act Amendments of 1979. I respectfully request that it be included in the Subcommittee's hearing record.

MBA is a nationwide organization devoted exclusively to mortgage and real estate finance. MBA's membership is comprised of mortgage originators, institutional lenders, and a variety of industry related firms. Members include: mortgage banking companies, life insurance companies, commercial banks, mutual savings banks, savings and loan associations, pension funds, title companies, private mortgage insurers, state housing agencies, investment bankers, and real estate investment trust, among others.

Mortgage bankers, who comprise the largest portion of the total membership, engage directly in originating and servicing real estate mortgage loans made for institutional lenders. These lenders acquire mortgage loans for their investment portfolios to support obligations they have made to millions of Americans through life insurance policies, savings accounts, pensions, and other fiduciary responsibilities. You may be interested to learn that this Association was founded in 1914 as the Farm Mortgage Bankers Association of America. Our members have financed hundreds of millions of dollars worth of agricultural property and continue to have an active interest in this type of investment.

In view of this long standing interest in agricultural finance, MBA is submitting this letter to indicate its concern over the very significant impact of the provisions of S. 1465 on the competitive climate for future agricultural lending throughout the Nation.

The Mortgage Bankers Association believes that several provisions contained in S. 1465 will encroach on the private lending sector because they introduce the Cooperative Farm Credit System (CFCS) into non-farm lending activities and thereby give the CFCS an unfair and unintended competitive advantage over the private lending sector. S. 1465 seeks to drop from 80 percent to 60 percent the requirement that voting members of cooperatives, borrowing from Banks for Cooperatives (BCs), be "farmers" and yet provides no specific definition of what a "farmer" is. Further, Sec. 305 would encourage Banks for Cooperatives to make loans where farming is not involved and thereby compete unfairly with private banking through the use of subsidize capital. It is neither necessary nor wise to expand BCs into markets now being served effectively by the private sector. Indeed, this serves only to hurt the small farmer as growing numbers of borrowers begin to compete for the available dollars of the BC system.

Sec. 203 of S. 1465 would permit Federal Land Banks (FLBs) and Production Credit Associations (PCAs) to finance commercial processing and marketing facilities for farmers. We oppose this instrusion of the farm credit system into areas outside the family farm where it was intended originally and believe that by encouraging what is really business lending this legislation will further harm the family farm because it will divert credit into off-farm businesses.

Sec. 403 of the bill would exempt the Cooperative Farm Credit System but no other segments of the private agriculture financing community from state usury laws. Such an exemption is a gross inequity, in our judgment, because it permits the CFCS to lend when its competition, not similarly privileged and protected, is forbidden to lend. Such a provision would enable the CFCS to capture an unfair and potentially monopolistic share of the agricultural loan market when interest rates are high and the usury laws have shut private lenders out of the market. If funds can come from only one source, the cost of borrowing for the small farmer will be even higher. CFCS financing would become the "only game in town" during times of high interest rates—a game made dangerous by the unfair advantage this legislation gives the CFCS.

We are particularly concerned by the proposal in Sec. 106 to relax the present 85 percent loan-to-value lending limitation and allow Federal Land Banks to make real estate loans in excess of 85 percent of the appraised value of the collateral security if guarantees are provided by government agencies such as the Farmers Home Administration (FmHA). This does not help young farmers. Indeed, it offers the potential for harm because it creates the opportunity for abuse and speculation through imprudent extensions of credit. This will create long-term cash flow problems for farmers that are potentially ruinous and also contribute serious inflationary pressures on land prices. Thus, we would hope that this specific proposal would be deleted from Sec. 106.

S. 1465 seeks to expand the role of the CFCS without changes in the manner in which its members are taxed. These institutions presently pay little or no Federal income taxes. As it stands, such tax treatment gives the farm credit institutions an unfair competitive advantage. The Mortgage Bankers Association has historically favored the equitable taxation of Federal Land Banks and Federal Land Bank associations. The following is a statement of policy adopted by the MBA Board of Governors on March 27, 1979:

"MBA supports the elimination of the tax-exemption of the Federal Land Banks and Federal Land Bank associations. These privately owned institutions no longer need Government subsidized competitive advantages over private lending institutions."

The Mortgage Bankers Association believes that the best way to assure that farmers continue to receive sound financial services is through fair and equitable competition in the private market place. The proposed amendments to the Farm Credit Act of 1971 contained in S. 1465 would give the Cooperative Farm Credit System authority to lend and to provide services outside the farm sector. This added governmental intervention would unfairly increase the competitive advantage of the CFCS in the non-farm sector to the serious detriment of existing financing sources who must conduct their businesses competitively.

We appreciate this opportunity to express our views.

STATEMENT OF GENE L. SWACKHAMER, FARM CREDIT BANKS OF BALTIMORE

Mr. Chairman and members of the subcommittee, I am Gene Swackhamer, President of the Farm Credit Banks of Baltimore. The Farm Credit banks and associations of the Baltimore District have nearly $2 billion in loans outstanding to more than 40,000 farmers and other eligible borrowers in the five states and Puerto Rico

within the Baltimore District. As part of the $50 billion Farm Credit System, we provide over one-third of the total agricultural credit in the territory we serve. I appreciate this opportunity to present the Baltimore District's view concerning S. 1465, the Farm Credit Act Amendments of 1979.

I would like to state first of all that I fully support all of the twenty-six proposed Farm Credit Act Amendments. I will speak specifically on behalf of items 14 and 19, however. Both of these items enhance the Farm Credit System's ability to better tailor its lending programs to provide maximum responsiveness in serving the nation's agricultural credit needs.

AMENDMENT 14

Background

Loans are normally extended by lending institutions to borrowers on a one-to-one basis. In the case of very large loans, however, where the amount of credit requested exceeds the lending institution's legal lending limit, which is established by law and regulation to control the maximum risk exposure to any one borrower, the lender may make arrangements with one or more other lenders to "participate" or share in the loan being extended. To "participate" in a loan means that each lender agrees to extend a certain proportion of the total credit request. For example, if an applicant requested a loan of $10 million where the originating lender's lending limit was $3 million, the originating lender could participate 70% of the loan or $7 million with other lenders. In this way, credit requirements can be satisfied through a relationship with only one lender, but with the risk being shared by several lenders. Loan participations are an extremely common and accepted practice among the nation's financial institutions.

The Farm Credit Act of 1971 currently authorizes limited loan participation between like institutions of the Farm Credit System. Federal land banks may participate loans with other Federal land banks, banks for cooperatives may participate with other banks for cooperatives, etc. But participation between unlike banking systems is not authorized; a Federal land bank may not participate with a bank for cooperatives.

Present authorization also includes authority for production credit associations and banks for cooperatives to participate loans with lenders outside the Farm Credit System, including commercial banks, which authority does not extend to Federal land banks.

PURPOSE OF AMENDMENT

The principal purpose of item 14 is to authorize all institutions of the Farm Credit System greater latitude to participate loans, both within the Farm Credit System and with outside lenders. Amendment 14 authorizes all Farm Credit institutions to participate with any other Farm Credit institution, regardless of banking system, and also extends to Federal land banks the latitude to participate with commercial banks and other outside lenders.

By removing current restrictions on the type of loan participation permitted, this amendment provides the system with the flexibility to make more efficient use of this capital base and to more fully and responsively meet the credit needs of agriculture. The major benefit of the increased flexibility provided by Amendment 14 is to substantially increase the effective lending limits available to large borrowers by combining the capital base of the entire Farm Credit System, while still restricting the risk exposure of any individual institution to any one borrower.

Another benefit is the improved efficiency and responsiveness resulting from the increased flexibility in establishing participation arrangements. No longer does a bank for cooperatives, for example, have to go to another bank for cooperatives in another city to arrange a loan participation. Instead, the bank for cooperatives can participate in the loan with the Federal land bank or Federal intermediate credit bank in the same district. Loans can, to a greater degree, be retained and serviced within the borrower's home district resulting in better, more responsive service.

Although the number of farmer and cooperative borrowers directly benefiting from Amendment 14 is relatively small, the overall economic impact in providing better credit service to agriculture could be significant.

Summary

The Farm Credit Act Amendments item 14 removes from Farm Credit institutions current restrictions on their ability to participate in loans with other financial institutions, both within and without the Farm Credit System. The increased flexibility provided by Amendment 14 substantially increases the system's ability to make and service large loans in the most efficient and effective manner possible, thereby maximizing the system's ability to fully meet the credit needs of agriculture.

AMENDMENT 19

Background

As previously stated, production credit associations are currently authorized to participate in loans with commercial banks and other lenders. A commercial bank wishing to extend a loan exceeding its lending limit may do so by participating in a portion of that loan with a production credit association. From the borrower's standpoint, however, the credit relationship exists with only one lending institution, specifically the commercial bank. Loan participation is strictly a lender-to-lender transaction which does not affect the borrower's relationship with the originating lending institution.

Due to the borrower-owner structure of the Farm Credit System, non-voting shares of stock in the production credit association must be purchased in connection with each loan participation. Non-voting stock on an amount equal to not less than 5% of the loan participation is issued. Under provisions of the Farm Credit Act of 1971, such non-voting stock must be issued to the farmer-borrower. Many commercial bankers find this requirement to be extremely awkward since it introduces a third party into the bank-to-borrower relationship.

Purpose of amendment 19

The purpose of amendment 19 is to authorize production credit associations to issue non-voting stock directly to the commercial bank or other lending originating the participating loan rather than to the farmer-borrower receiving the loan. This more direct relationship with the participating lender removes an impediment to loan participations and enhances the commercial banks' ability to provide adequate credit to those eligible borrowers exceeding the bank's lending limit.

This proposal does not expand the eligibility or scope of financing permitted under current authority. Borrowers obtaining agricultural credit from a commercial bank or other lender whose loans are participated by a production credit association must still meet the same credit eligibility and scope of financing requirements as exist today. Neither does this proposal compromise or weaken the principle of borrower control on which the Farm Credit System is founded. It simply makes the lender-to-lender transactions involved in loan participation more rational and streamlined.

Summary

Amendment 19 facilitates participation loan programs with commercial banks and other lenders by allowing non-voting stock to be issued directly to the originating lenders. This proposal especially benefits small, rural banks by enhancing their ability to provide dependable credit to farmer-borrowers having credit needs exceeding the bank's legal lending limit while still adhering to sound business practices and controlling the risk exposure on such loans.

CONCLUSION

Both items 14 and 19 are in the interest of the many thousands of farmers served by the Farm Credit System and in the interest of the entire agricultural community. These proposals increase the System's flexibility to satisfy or participate in unusually large credit requirements in the most effective and responsive manner possible. Mr. Chairman, the Farm Credit Banks of Baltimore are grateful to the Subcommittee for this opportunity to express their views. I would be pleased to respond to any questions.

Statement of Security Pacific National Bank

Legislation has been introduced to amend the Farm Credit Act of 1971. The current bills are S. 1476 and H.R. 4782, referred to as the Farm Credit Act Amendments of 1979. While the stated intent of these bills is to allow the Farm Credit System (FCS) institutions to improve their services to borrowers, the legislation would permit further intrusion by FCS members into markets that are presently being serviced by private lenders. Furthermore, this intrusion is enhanced by the competitive advantages granted to the FCS by the Farm Credit Act of 1971. Brief explanations of the proposed amendments are attached.

The institutions that form the Farm Credit System are major factors in U.S. agricultural financing. For example, Federal Land Banks (FLB's) at the beginning of 1978 held nearly 30% of all farm real estate loans. Similarly, nearly 40 percent of non-real estate agricultural loans were held by the various other institutions comprising the FCS.

Focusing on agricultural financing in the State of California alone, as of January 1, 1979, Production Credit Associations (PCA's) had approximately $1.25 billion in outstandings. This compares with $2.29 billion in non-real estate agricultural loans by banks in California. Lending by PCA's accounted for nearly 28% of all financing for the production of agricultural goods in California.

As for financing of farm real estate in California, Federal Land Banks had $1.54 billion in loans outstanding as of January 1, 1979. This is nearly five times the amount of farm real estate-secured loans held by California banks on the same date.

Banks for Cooperatives (BC's) had $626.7 million of loans outstanding in California on January 1, 1979. This compares to $248 million for the same date in 1970.

Both PCA's and FLB's have been increasing their market share over the last ten years. PCA's boosted their 10.7% 1969, market share to 27.9% as of 1979. In comparison, California banks have lost a portion of that market. In 1969, the banks' share was 58.4%, which declined by 1979. FLB's raised their share of market from 17.5% in 1969 to 24% in 1979. Financing of farm real estate by California banks decreased from 8.2% of that market in 1969, to 5% by 1979.

Nationally, PCA's and FLB's enjoy tax advantages that are not shared by commercial banks and other private lenders. According to our calculations, based on data from the "44th Annual Report of the Farm Credit Administration and the Cooperative Farm Credit System", PCA's would have paid an estimated $15.2 million in federal income taxes in 1977 if they had been subject to the same tax laws as private lenders. In addition, FLB's would have paid $72.1 million in income taxes during the same year if they were not tax exempt.

Though there is no direct payouts from the U.S. Treasury to FCS institutions, their tax exempt status is no less of a subsidy. Any dollar that is not paid in taxes must be made up by all other taxpayers. Such subsidies, of course, always carry the risk of diverting scarce resources from other, potentially more beneficial, creditworthy uses.

Many of the 28 amendments proposed by the Farm Credit System would give them further authority to lend outside the farm sector and would represent an expanded encroachment on the commercial banking system. Security Pacific opposes such amendments on the grounds that no clear evidence has been presented to indicate that these markets are not being adequately served by private lenders and because the FCS has an unfair competitive advantage arising from its privileged tax status.

Referring to the attached descriptions of the proposed amendments, Nos. 1 and 3, which would lower restrictions on cooperative eligibility and would permit the financing of processing and marketing activities, respectively, represent attempts by the FCS to expand itself into the area of non-farm lending activities. Proposal No. 4 would permit BC's to engage in a variety of international banking activities related to financing the export of agricultural goods. This would be an intrusion into a market currently being served by numerous private organizations.

Proposed amendment No. 16 would authorize the FCA to charter corporations which perform service and finance functions for institutions which are part of the Farm Credit System. A possible interpretation of this would mean that FCS institutions could own and operate non-farm businesses such as banks and insurance companies. In our opinion, this is a clearly unwarranted encroachment on the private sector.

Proposed amendment No. 21 would allow for a differential dividend to be paid to FLB borrowers based on the amount of interest paid on their loans. The result of this would be to lower the cost of borrowing to FLB members during periods of high interest rates. This seems to us to be a blatant attempt to insulate a portion of the agricultural sector of the economy from the effects of monetary policy—clearly diluting the effectiveness of any possible restrictive measures.

Proposal No. 23 opens the door to exemption of the FCS institutions from Truth-in-Lending laws. It states that if the Federal Truth-in-Lending Act is amended to relieve any burdens it imposes on Farm Credit System institutions, similar burdens may not be imposed upon them by any State. Proposal No. 24 would establish clear exemption of the FCS from state usury laws. Both of these proposals are freedoms that private lenders do not enjoy. We are not convinced that it is appropriate or necessary for a public agency to be in competition with the private sector in the first place. However, if such competition is to exist, we strongly feel that it should, at least, be on equal terms.

In summary, Security Pacific National Bank, as the third largest commercial bank agricultural lender in the U.S., is opposed to any expansion of the Farm Credit System into the non-farm sector of the financial market. Such expansion would further extend the reach of the inequitable competitive advantages of the FCS. In addition, the special tax status of FCS institutions increases the burdens that must be borne by all other taxpayers. SPNB would support legislative actions that would assure equal treatment for FCS, national banks and other private lenders.

CALIFORNIA FARM REAL ESTATE LOANS—AMOUNT OUTSTANDING AS OF JANUARY 1

[Dollars in thousands]

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Total all lenders	$6,428,015	$5,264,661	$4,677,317	$4,177,006	$3,904,386	$373,880	$2,876,396	$2,650,105	$2,451,890	$2,353,445	$2,200,228
Percent increase from previous year	+22.1	+12.6	+12.0	+7.0	+15.7	+17.3	+10.4	+6.2	+4.2	+7.0	NA
Land banks	$1,544,788	$1,326,957	$1,164,870	$1,033,857	$923,907	$757,108	$594,100	$511,155	$456,560	$423,384	$385,750
Percent of total	24.0	25.2	24.9	24.8	23.7	22.4	20.7	19.6	18.6	18.0	17.5
Percent increase from previous year	+16.4	+13.9	+12.7	+11.9	+22.0	+27.4	+16.2	+11.6	+7.8	+9.8	NA
FHA[1]	$39,272	$36,088	$36,732	$25,472	$28,426	$25,765	$24,240	$19,112	$17,838	$16,664	$15,008
Percent of total	.6	.7	.8	.6	.7	.8	.8	.7	.7	.7	.7
Percent increase from previous year	+8.8	−1.8	+44.2	−10.4	+11.8	+6.3	+26.8	+7.1	+7.0	+11.0	NA
Life insurance companies	$1,501,843	$1,295,900	$1,103,669	$995,800	$884,500	$741,300	$652,700	$608,900	$592,600	$584,900	$564,300
Percent of total	23.4	24.6	23.6	23.8	22.6	22.0	22.7	23.4	24.2	24.8	25.6
Percent increase from previous year	+15.9	+17.4	+10.8	+12.6	+19.3	+13.6	+7.2	+2.7	+1.3	+3.6	NA
All operating banks [2]	$322,271	$245,616	$203,487	$204,300	$247,621	$196,616	$209,657	$227,083	$203,060	$190,806	$179,331
Percent of total	5.0	4.7	4.4	4.9	6.3	5.8	7.3	8.7	8.3	8.1	8.2
Percent increase from previous year	+31.2	+20.7	−0.4	−17.5	+25.9	−6.2	−7.7	+11.8	+6.4	+6.4	NA
Others and individuals	$3,019,841	$2,360,100	$2,168,599	$1,917,577	$1,819,832	$1,653,091	$1,395,699	$1,238,855	$1,181,832	$1,137,691	$1,055,839
Percent of total	47.0	44.8	46.4	45.9	46.6	49.0	48.5	47.6	48.2	48.3	48.0
Percent increase from previous year	+27.9	+8.8	+13.1	+5.4	+10.1	+18.4	+12.7	+4.8	+3.9	+7.8	NA

[1] Includes direct and insured farm ownership, housing on farm property, oil and water conservation, grazing, and irrigation and drainage associations. Does not include direct rural housing loans.
[2] Includes 98 of the 235 banks in California.
NA=Not available.

CALIFORNIA NON REAL ESTATE FARM LOANS—AMOUNT OUTSTANDING AS OF JANUARY 1

[Dollars in thousands]

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Total all lenders	$4,459,742	$3,716,545	$3,257,223	$2,777,460	$2,637,937	$2,430,587	$1,999,323	$1,602,479	$1,406,205	$1,432,178	$1,409,024
Percent increase from previous year	+20.0	+14.1	+17.3	+5.3	+8.5	+21.6	+24.8	+14.0	−1.8	+1.6	NA
Production credit associations	$1,245,163	$1,029,858	$837,460	$680,339	$570,845	$394,125	$294,638	$249,936	$206,634	$170,478	$150,743
Percent of total	27.9	27.7	25.7	24.50	21.6	16.2	14.7	15.6	14.7	11.9	10.7
Percent increase from previous year	+20.9	+22.9	+23.1	+19.2	+44.8	+33.8	+17.9	+20.9	+21.2	+13.1	NA
Federal intermediate credit banks	$23,545	$27,705	$22,610	$28,551	$26,710	$22,942	$23,873	$27,934	$24,620	$24,119	$21,549
Percent of total	.5	.7	.7	1.0	1.0	.9	1.2	1.7	1.7	1.7	1.5
Percent increase from previous year	−15.0	+22.5	−20.8	+6.9	+16.4	−3.9	−14.5	+13.4	+2.1	+11.9	NA
All operating banks [1]	$2,292,307	$2,019,538	$1,860,203	$1,614,333	$1,583,707	$1,559,375	$1,254,772	$989,744	$855,148	$866,370	$823,397
Percent of total	51.4	54.3	57.1	58.1	60.0	64.1	62.8	61.8	60.0	60.5	58.4
Percent increase from previous year	+13.5	+8.6	+15.2	+1.9	+1.6	+24.3	+26.8	+15.7	−1.3	+5.2	NA
FHA [2]	$124,723	$27,782	$10,006	$10,777	$7,939	$7,711	$8,459	$9,262	$10,482	$11,556	$12,918
Percent of total	2.8	.7	.3	.4	.3	.3	.4	.6	.7	.8	.9
Percent increase from previous year	+449.0	+227.6	+7.2	+35.7	+3.0	−8.8	−8.7	−11.6	−9.3	−10.5	NA
Individuals and others [3]	$774,004	$611,662	$526,944	$443,460	$448,786	$446,434	$417,580	$325,603	$309,321	$359,385	$400,417
Percent of total	17.4	16.6	16.2	16.0	17.0	18.4	20.9	20.3	22.0	25.1	28.4
Percent increase from previous year	+26.5	+16.1	+18.8	−1.2	+0.5	+6.9	+28.2	+5.3	−13.9	−10.2	NA

[1] Includes 98 of the 235 banks in California.
[2] Includes operating, emergency, and economic opportunity loans.
[3] Estimated from nationwide totals. Includes nonreporting groups and individuals.
NA = Not available.

CALIFORNIA BANKS FOR COOPERATIVES—LOANS OUTSTANDING AS OF JANUARY 1

[Dollars in thousands]

	Amount	Percent
Year:		
1979	$626,749	+6.0
1978	591,026	−8.9
1977	648,767	+13.2
1976	573,291	+55.4
1975	368,911	+35.6
1974	272,046	+6.9
1973	254,467	−10.1
1972	282,946	+0.1
1971	282,061	+13.7
1970	247,999	

AMENDMENTS TO THE FARM CREDIT ACT OF 1971 (PUBLIC LAW 91-181) APPROVED BY THE FEDERAL FARM CREDIT BOARD APRIL 4, 1979

MAJOR PROPOSALS

1. *Cooperative eligibility.*—Lower the farmer-member eligibility requirement for BC financing to 60 percent of voting members or such higher percentage as district boards may establish.

Under present law, 80 percent of the voting members of a cooperative (70 percent in the case of rural electric cooperatives) must be farmers in order for the cooperative to be eligible for BC financing. By lowering the requirement to 60 percent, BCs will be able to more fully serve the credit needs of rural America without abandoning the principle of farmer control of the eligible co-ops. Moreover, district boards would retain the right to set higher farmer-member eligibility requirements for cooperative eligibility if they so choose.

2. *85 percent lending limitation.—Federal Land Banks.*—Allow Federal land banks to make loans in excess of 85 percent of the appraised value of the real estate security where guarantees provided by governmental units are involved. Such guarantees could be extended by Farmers Home Administration (FmHA), the Small Business Administration (SBA), or, in some instances, state governmental agencies.

The principal impetus for the present proposal comes from a shift in direction of FmHA loan programs away from participating with private lenders in making loans to guaranteeing loans made by private lenders. Many of the land banks have been heavily involved in the FmHA participating loan program—especially as a means of providing credit to young farmers. A modification in the law, along the lines of the present proposal, is required if the System is to continue to reach borrowers it now serves under the FmHA/FLB participating loan program.

3. *Finance processing and marketing activities of bona fide farmers.*—Broaden eligibility for financing by FLBs and PCAs to include processing and marketing activities directly related to the applicant's farm, ranch, or aquatic operations and those of other bona fide farmers, ranchers, or aquatic producers, leaving to each district board the authority to set specific limits on this authority subject to the approval of FCA.

The System believes that U.S. agriculture would benefit from the land bank and production credit systems expanding the scope of their services in processing and marketing areas. Greater System involvement could well result in farmers acquiring better processing and marketing facilities which, in turn, could contribute to improved farm income. It is not intended that FLBs and PCAs would finance cooperatives or increase competition in areas served by cooperatives.

Under the proposed amendment, district boards would be authorized to fix specific limits on the authorities of PCAs and FLBs to finance processing and marketing activities. For example, a district may require that a certain percentage of the amount processed or marketed be derived from the applicant's own production. Several districts have already provided indications that they will establish a minimum "throughput" requirement if this proposed amendment is enacted into law.

4. *Bank for Cooperatives Export Financing.*—Authorize BCs to finance agricultural export transactions in which a U.S. cooperative is a primary beneficiary.

In order to promote the expansion of U.S. agricultural exports and to increase the share of American farmers in the benefits derived from those transactions, the System proposes that BCs be equipped to offer the same basic financial services to cooperatives that are now being offered by several commercial banks. Among other things, this would entail authorizing BCs to: (a) make deposits in foreign banks, (b) receive and hold credit balances from banks and borrowers, (c) buy and sell bankers acceptances, (d) purchase time drafts payable by foreign buyers of agricultural products and, (e) engage in currency exchange. The amendment would authorize BCs to make loans to associated parties where there will be substantial benefits to a member cooperative. It would also allow BCs to participate in ownership of institutions for the purpose of collecting information about foreign markets and expediting legal and financial transactions.

OTHER PROPOSALS

5. Authorize the Federal Farm Credit Board to set the salaries of the Farm Credit Administration's (FCA's) Governor and Deputy Governors within the limits of the Executive Schedule.

This proposal is designed to better enable the Agency to attract and retain an executive staff of the caliber required to carry out its mission. An upper limit on the salaries of FCA's executive staff would be retained since the Federal Board would be prohibited from setting a salary above the maximum rate of basic pay in the Executive Schedule (currently $66,000 per annum). This proposal, as well as all other FCA employee proposals, would entail no cost to the U.S. Treasury, since the expenses of the Agency are paid by the System's borrowers rather than by U.S. taxpayers.

6. Authorize FCA to set up its own salary and classification system for employees below the Deputy Governor level, subject to the ceiling of the General Schedule.

This would entail removing FCA employees from the classification requirements of the Office of Personnel Management (OPM), but would continue the ceiling of the General Schedule (currently $47,500 per annum). The purpose of the proposal is to facilitate placement of qualified candidates without OPM clearance for advanced in-hiring rates and to provide flexibility by making FCA salaries competitive with those in the Farm Credit System.

7. Authorize FCA to establish its own qualification requirements for positions in the Agency.

This would entail exempting FCA employees from competitive examining requirements of OPM. A principal benefit of the proposal would be to speed up FCA's recruitment process.

8. Exempt FCA from Federal travel, procurement, and property regulations.

The objective of this proposal is to establish operations of the Agency on the basis of good business practices without the constraints of detailed procedures imposed by current Federal regulations.

9. Allow improved portability of employees between the Farm Credit System and FCA.

Specifically, the proposal would allow for portability of sick leave and retirement between Farm Credit System district retirement plans and the Civil Service Retirement system. This could be accomplished by providing credit for all years of service under either Civil Service or Farm Credit district retirement plans for both annuity calculations and vesting.

10. Increase the Federal Board per diem to the daily equivalent of the rate prescribed for grade GS–18.

The current per diem of $100 per day was established in August 1966. At that time, this amount was roughly equivalent to the daily rate payable to a GS–18. Hence, this proposal would simply bring Federal Board per diem compensation into line with the current rate of compensation for GS–18s.

Aquatic lending proposals.—Three distinct proposals which would increase the System's capacity to serve the needs of producers and harvesters of aquatic products:

11. Authorize FICBs to discount the aquatic loans of other financial institutions (OFIs). Under existing law, FICBs can discount OFI loans to "farmers and ranchers." This proposal would simply provide equal treatment for loans to producers and harvesters of aquatic products.

12. Clarify that cooperatives solely engaged in furnishing aquatic business services are eligible to borrow from the BCs.

13. Allow FLBs and FLBAs to make long-term loans to producers and harvesters of aquatic products. The proposal would allow the land bank system to provide long-term, first real estate mortgage loans to these borrowers for the purpose of constructing docking and storage facilities as well as for other credit needs.

53-579 O - 80 - 19

14. *Loan Participations.*—Authorize institutions of the Farm Credit System to invest and/or participate in loans of inter- and intra-System institutions. Also, with lenders outside the System with regard to Federal land banks.

This proposal would provide System institutions with the means for making more efficient use of their equity capital base and to more fully meet the credit needs of creditworthy borrowers.

15. *Authority to delegate.*—Authorize a bank president to delegate his position on the finance committee or subcommittee to a member of his staff.

This proposal would permit the president of a Farm Credit bank to determine how to utilize most effectively his time and skills and those of other members of his staff.

16. *Incorporation of system service entities.*—Authorize FCA to charter corporations which perform service and finance functions for Farm Credit institutions.

District boards are empowered, under current law, to authorize agreements between institutions within a district for the provision of joint services to borrowers, and between districts for those services which can most effectively be made available by the joint undertakings of the districts. However, present law does not provide for the incorporation of institutions other than the types presently existing in the System. Thus, although the 1971 Act authorizes the performance of services on a joint basis by or on behalf of interested Farm Credit System institutions, it does not authorize the organization of a corporation to provide the services. This is the case even though the corporate form may be the most efficient or convenient form of organization for the purpose. The lack of statutory authority to incorporate service organizations in the Farm Credit System is at least one reason for the present non-corporate form of Farmbank Services.

Under this proposal, any corporate service organization chartered by FCA would also be supervised by the Agency.

17. *Earnings and reserves.*—Remove the limitation in current law on BCs and FICBs transferring more than 25 percent of net savings to allocated surplus.

Removal of the 25 percent limit would enable BCs and FICBs to create and maintain adequate risk funds to preclude stock impairment.

18. *Loss sharing.*—Authorize all Farm Credit institutions to enter into general loss sharing agreements with other Farm Credit institutions (without regard to the type of loss) and Farm Credit banks systems to enter into such agreement with each other.

Capital preservation agreements are an important means of enhancing the capital viability of the System. This proposal would simply expand the legal authority of System institutions to enter into such agreements with one another.

19. *PCA participation certificates.*—Authorize PCAs to issue participation certificates to commercial banks and other lenders.

This proposal would amend Section 2.13(e) of the Farm Credit Act to authorize PCAs to issue participation certificates to commercial banks and other lenders to facilitate participation loan programs. This existing authority is limited to persons eligible to borrow from an association. By permitting a direct lender to lender relationship, this proposal may be expected to generate greater interest on the part of commercial banks in the PCA-commercial bank participation loan program.

20. *Patronage refunds.*—Authorize the Federal land banks and Federal land bank associations to pay patronage refunds.

This proposal would simply extend to FLBs and FLBAs the same legal authority which production credit associations and banks for cooperatives now possess. Such legal authority would enable the land bank system to operate on a purely "cooperative" basis (i.e. returning earnings to borrowers on the basis of interest paid).

21. *Differential dividends.*—Allow for a differential dividend to be paid to a FLB and FLBA borrower based on the amount of interest paid on the loan.

This proposal would give the land bank system more operating flexibility. The authority sought for the land bank system is similar to authorities which PCAs and the BCs now have.

22. *Redefine equity.*—Amend the Act of 1971 to define "equity" in the land bank system as capital stock and other classes of equity and surplus, as may be approved by the Farm Credit Administration.

Current law does not specifically authorize land banks to institute recapitalization programs which involve transfers from associations to banks. These transfers should appropriately be considered "contributed" or "donated" capital and accounted for as such by the land bank.

This proposal would give clear authority for such accounting and thus facilitate the desired recapitalization or restructuring of land bank district capital.

23. *Truth-in-lending.*—Establish that only Federal Truth-in-lending law applies to Farm Credit System lending.

This proposal would ensure that, if the Federal Truth-in-Lending Act is amended to relieve any of the burdens it imposes upon Farm Credit System institutions, similar burdens will not be imposed upon them by State law.

24. *Interest rates.*—Clarify and reaffirm that lending by the Farm Credit System is exempt from State-imposed interest rate limitations (i.e. usury laws).

The purpose of this proposal is to remove any possible doubt that the Farm Credit System is exempt from State usury laws. Clarifying the exempt status of the System will ensure the continued availability of new credit for farmers and ranchers in "tight money" periods.

25. *Election process.*—Require that the list of candidates for the position of elected district director consists of two nominees receiving the highest number of votes rather than three nominees as is required at present.

Establishing a two candidate list would ensure that a district director will be elected by a majority of the vote cast in the election. Under present law, the candidate with the largest number of votes—whether a minority or majority—is elected. Hence, this proposal would bring the district director election process into line with the practice of most elections in the U.S.

Three amendments which are purely technical in nature:

26. *Stock retirement.*—Make terminological changes in the Act of 1971 to remove certain ambiguities and anomalies. Specifically, to delete the words "fair book value" and insert the following:

(a) "Book value" in Section 2.2(g), 2.2(i), 2.13 (f), (g), and (k).

(b) "Fair market value" in Section 3.10(d).

(c) "Par" in Section 3.5.

27. Correct a technical imperfection in Section 3.8(c) of the Act regarding cooperative eligibility. (Services to eligible cooperatives and "furnishing farm or aquatic business services to eligible cooperatives.")

28. Correct a number of typographical errors in the Act.

STATEMENT OF HAL HELLEBUST, EXECUTIVE VICE PRESIDENT, KANSAS COOPERATIVE COUNCIL, TOPEKA, KANS., WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Chairman Zorinsky, I am Hal Hellebust, executive vice-president of the Kansas Cooperative Council, representing some 300 Kansas cooperatives.

I appreciate this opportunity to present the Council's views as they pertain to the Farm Credit Act Amendments of 1979—S. 1465.

As a Member of Congress from an agricultural state, you are well aware of the rapidly growing significance of U.S. farm exports to the economic well being of this nation's agricultural producers; to the U.S. balance of trade; and to help fulfill our moral obligation to help feed the world's hungry.

U.S. farmers and ranchers, comprising the nation's and possibly the world's, most productive and efficient industry, must rely on assistance in two areas: 1. Industry and government leaders unlocking and keeping open the doors to U.S. agricultural trade with foreign nations, and 2. Readily available credit to enable fulfillment of this nation's agricultural commitments as outlined in the paragraph above.

Your Subcommittee's approval, Chairman Zorinsky, of S. 1465 would be a favorable move toward keeping these trade channels open and flowing with U.S. production.

The Kansas Cooperative Council appreciates this opportunity to express our concern, and urge your expeditious approval of the Farm Credit Act Amendments of 1979.

STATEMENT OF JAMES L. LANG, GENERAL MANAGER, COLORADO POTATO GROWERS EXCHANGE, WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the Subcommittee, I am James L. Lang, General Manager of the Colorado Potato Growers Exchange, which is a Regional Cooperative marketing potatoes, onions, beans, and wheat. My Association has assets of $8.2 million dollars, which are the combined assets of our nine local cooperatives servicing the agricultural community. The Farm Credit System provides roughly one-third of our industry's total credit. I appreciate the opportunity to present Colorado

Potato Growers Exchange's views concerning S. 1465, the Farm Credit Act Amendment of 1979.

Mr. Chairman, The Farm Credit Act Amendments of 1979 have been discussed with my Board of Directors over the past two months. On September 15, 1979 the Board of Directors passed a resolution in support of S. 1465. This Board represents 5,000 agricultural producers and consumers.

The Board of Directors of Colorado Potato Growers Exchange is concerned with the plight of young farmers. Inflation has increased land values, equipment and machinery costs, fertilizer and chemical costs. While commodity prices have failed to keep up with the cost of production. Young farmers are depressed and discouraged and see little future in farming. Others go to college, never to return to the farm. We are discouraged that the average age of a farmer continues to climb. It is for these brief reasons we feel the Federal Land Banks should be allowed to make loans for more than the 85 percent of the appraised value of farm real estate.

It is the belief of the Exchange Board that the Farm Credit Act Amendments of 1979, S. 1465, is in the best interest of consumers of our nation. We feel it is absolutely essential that the American people support their nation's largest industry with well over 500 billions in assets. A strong Farm Credit System is essential in continuing growth. Agriculture can only grow if capital is available through the Farm Credit System.

We believe one method of growth is through the ability of farmers to compete in the export of farm commodities. Allowing the Bank for Cooperatives to finance agricultural export transactions will be in the public interest in that it will offer a means to offset our Nation's trade deficit. The Bank for Cooperatives involvement would provide valuable assistance and support functions to local cooperatives who do not have the expertise in export trade. It would establish a consolidated banking arrangement and would stimulate local cooperatives' participation in exporting their commodities, gaining a greater share of the farm product export business, thus benefiting farmer members.

The Exchange Board of Directors has some reservations concerning the broadening of the Federal Land Bank's and Production Credit Association's abilities to finance processing and marketing activities. They feel it would not be healthy to develop competition with the cooperative system. However, we support the position of the Wichita Bank for Cooperatives on this issue.

The Colorado Potato Growers Exchange is grateful for the opportunity to express its views before the Senate Committee. We believe our concern for the young farmer, export financing, and a strong credit system is shared by all our farmer members.

STATEMENT OF DALE R. MILLER, WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the subcommittee, I am Dale R. Miller, President of the Board of Directors of Union Equity Co-Operative Exchange (hereinafter referred to as Union Equity). I am a farmer residing in Garfield County near the predominantly agricultural community of 58,000 people in Enid, Oklahoma. As a farmer, I have been involved in raising wheat and cattle since 1950. I have served as a Director on the Board of Union Equity since 1971; Vice President of the Board from May, 1975 to May, 1979, and have been President of the Board since May, 1979. Union Equity is a federated regional grain cooperative organized under the Cooperative Law of the State of Oklahoma 1937, and in accordance with the Capper-Volstead Act. As a regional cooperative, Union Equity has 292 member elevator cooperatives, representing a total of 575 country elevators operating in Texas, Oklahoma, Kansas, Colorado, Nebraska, Arkansas, Wyoming and Missouri. Union Equity is owned by the producers of agricultural commodities who are members of the member elevator organizations in the eight states named above. At Enid, Union Equity has elevators totaling 50,000,000 bushels storage capacity; at Fort Worth, Texas, storage capacity of 8,500,000 bushels; and an export elevator at Houston, Texas, with storage capacity of 8,500,000 bushels. I appreciate this opportunity to present Union Equity's views concerning S. 1465, the Farm Credit Act Amendments of 1979.

The Farm Credit System provides approximately $50 billion or roughly one-third of the nation's total agriculture credit. Union Equity looks to the Farm Credit System, through our District Bank for Cooperatives at Wichita, Kansas, to finance our entire business operation. In 1978, Union Equity exported 177,000,000 bushels of grain through our elevator at Houston. This includes wheat representing 27 percent of the Hard Red Winter Wheat that left the United States during 1978. To finance

the accumulation of this volume of grain for export requires access to a large line of credit. The Wichita Bank for Cooperatives is able to provide Union Equity with a credit line of $300,000,000. At present, we are utilizing 50 to 70 percent of this line of credit, depending on the quantity of grain awaiting export that we are required to finance.

Union Equity has $7,290,000 of membership stock in the Wichita Bank for Cooperatives and as a major owner-stockholder of the Bank, we are committed to the Farm Credit System of agriculture credit. As a major exporter of wheat, Union Equity is vitally interested in the Export Financing capability the Farm Credit Act Amendments of 1979 would provide our Bank for Cooperatives. The Act would permit or authorize our Bank for Cooperatives to:

1. Make deposits in foreign banks to expedite payments and collections for export transactions.
2. Hold credit balances from borrowers and other banks to efficiently handle the transfer of funds.
3. Buy and sell bankers acceptances, which are short term financial obligations particularly suited for export transactions.
4. Purchase time drafts payable by foreign buyers of agricultural products. This provision would assist in financing the cooperative and in collections and payments for exports and imports.
5. Engage in foreign currency exchanges for the benefit of exporting cooperatives.
6. Other technical changes which would permit the banks more flexibility in assisting cooperatives with their export-import transactions.

Union Equity's goal as a major export grain marketing cooperative is to provide our owner-producer members, in the eight states named in my opening introduction, with the most efficient and effective marketing tool possible. The additional flexibility of financing agricultural export transactions for Cooperatives the Farm Credit Act Amendments of 1979 would provide the Bank for Cooperatives, would further enhance Union Equity's ability to serve our member-owners. In addition, this flexibility given to our Bank for Cooperatives would increase all export cooperatives' ability to expand their foreign sales of agricultural products; thereby benefiting all consumers by further reducing the United States balance of payments.

Union Equity is grateful for the opportunity to express its views before this Committee. I would be please to respond to any questions.

STATEMENT OF WILBUR F. KLENKE, EXECUTIVE VICE PRESIDENT AND SECRETARY, KANSAS FARMERS SERVICE ASSOCIATION, HUTCHINSON, KANS., WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the Subcommittee, I am Wilbur F. Klenke, Executive Vice-President and Secretary, Kansas Farmers Service Association, Hutchinson, Kansas. Our association is owned and controlled by 225 local cooperative associations in the State of Kansas. The purpose of our association is to provide our member cooperatives indepth insurance coverages, consultation on financial matters, credit assistance, safety education and engineering, and tax consultation.

The Farm Credit System provides one-third of the nations total agricultural credit. Farmer cooperatives and their members have received invaluable assistance through the Farm Credit System.

Local cooperatives and their members, however, have been hindered by depressed farm prices. It has been the observation of our association that farmer cooperatives and their members are seeking to increase the price they receive for their products through increased export marketing. Of the estimated 7,500 U.S. cooperatives, only about 70 are now active in exporting. Present export financing service by the Bank for Cooperatives is limited. We, therefore, urge favorable consideration of The Farm Credit Act Amendments of 1979, S. 1465, which will enable Cooperative Banks to finance export transactions.

By increasing the number of cooperatives involved in the export market, the Farm Credit System should make it possible for the U.S. farmer cooperative member to earn more for their commodities.

Kansas Farmers Service Association is grateful for the opportunity to express its views before this committee. I would be pleased to respond to any questions.

STATEMENT OF GEORGE M. HULVER, FARMERS COOPERATIVE GRAIN DEALERS ASSOCIATION OF OKLAHOMA, WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the subcommittee, I am George M. Hulver, General Manager of the Farmers Cooperative Grain Dealers Association of Enid, Oklaho-

ma. The Farmers Cooperative Grain Dealers Association is a service organization for cooperatives that was organized in 1916 and has a membership of 104 cooperatives located principally in Oklahoma and a few in the Panhandle of Texas. A considerable part of the wheat harvest in Oklahoma is handled by these cooperatives who in turn merchandise a large part of their grain through the Union Equity Cooperative Exchange, Enid, Oklahoma. Union Equity sells wheat domestically as well as exporting wheat. In the year 1978 Union Equity was the largest cooperative exporter of Hard Red Winter Wheat in the United States with a total of 166.5 million bushels (all grain—177 million) loaded for export. The majority of Oklahoma wheat is exported. It is extremely important that cooperatives who export on this magnitude be able to secure the proper financing for their export operations and have access to extensive lines of credit. The members of our association are vitally interested in their regional cooperatives being able to finance their export operations. Cooperatives are committed to a Farm Credit System for their credit. Therefore, they are vitally interested in the finance capabilities of the Farm Credit Act Amendments of 1979 to provide credit through the Bank for Cooperatives. The Act would permit or authorize the Bank for Cooperatives to:

1. To make deposits in foreign banks to expedite payments and collections for export transactions.
2. Authorize the banks to hold credit balances from borrowers and other banks to efficiently handle the transfer of funds.
3. Authorize the Bank for Cooperatives to buy and sell bankers acceptances, which are short term financial obligations particularly suited for export transactions.
4. Permit the banks to purchase time drafts payable by foreign buyers of agricultural products. This provision would assist in financing the cooperatives and in collections and payments for exports and imports.
5. Allow the Bank for Cooperatives to engage in foreign currency exchanges for the benefit of exporting cooperatives.
6. Other technical changes which would permit the banks more flexibility in assisting cooperatives with their export-import transactions.

The Farmers Cooperative Grain Dealers Association strongly support the enactment of the Farm Credit Act Amendments of 1979, Senate Bill S. 1465.

The United States is the world's leading exporter of agricultural products. In 1978 nearly 16% of the world's agricultural exports were shipped from the United States. American Agriculture accounts for 70% of total world trade in course grains—50% of world wheat exports, 59% of world high protein meal exports, and 62% of total world exports of all grains. It is estimated that one out of every three acres of crop production is exported. The value of United States agricultural exports is expected to increase about 17% to a record $32 billion in fiscal 1979. United States agricultural exports go to more than 150 countries around the world and have increased 600% during the past 20 years.

We think that farm exports have benefited both farm and nonfarm sectors by generating additional employment and income. With additional income earned from exports, U.S. farmers can purchase needed goods and services. The increased purchasing power is spread throughout the economy. It is estimated that for each dollar of agricultural exports, about two dollars of domestic economic activity is generated.

We think the benefits of this legislation are extremely important to the farmers of this nation in making it possible for farmer-owned cooperatives to finance and promote aggressive export programs. It is impossible to build a strong and aggressive export program without adequate means of financing. Therefore, we recommend most highly to the Senate Committee on Agriculture that the Farm Credit Act Amendment of 1979—Bill Number S. 1465—be passed.

The Farmers Cooperative Grain Dealers Association is grateful for the opportunity to express its views before this Committee. I would be pleased to respond to any questions.

STATEMENT OF RICHARD PARTINGTON, GENERAL MANAGER, ANDALE FARMER'S COOPERATIVE CO., ANDALE, KANS., WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the subcommittee, I am Richard Partington, General Manager of the Andale Farmers Cooperative Company of Andale, Kansas. My association is a farmer-cooperative owned by 1,600 farmer-ranchers located in south central Kansas. Our total assets are over $10 million with annual sales volumes in excess of $20 million. Because our association is in a predominately agricultural community, I appreciate the opportunity to present the Andale Farm-

ers Cooperative Company's views concerning S. 1465 The Farm Credit Act Amendment of 1979.

There are four major issues of critical importance to farmers and the entire United States involved in the Farm Credit Act Amendment of 1979. I would like to address these major areas in my remarks:

1. *Cooperative eligibility.*—The present requirement of 80 percent farmer voting members (70 percent in the case of rural electric cooperatives) in order to be eligible for Bank for Cooperatives (BC's) financing, has become more difficult to comply with because of the decline in numbers of actual agricultural producing farmers and the increase of non-agricultural producing customers in our rural communities.

While farmers as a whole are becoming fewer in numbers, with correspondingly increased needs for BC's financing, their urban counter-parts have increased in number and volume of business required of the cooperative system. In order for cooperatives to maintain its posture of service to its members and its community, this eligibility requirement must be lowered to 60 percent. This would still provide for actual farmer control while providing the credit needs of rural America.

2. *85 percent lending limitations-federal land banks.*—The use of Farmers Home Administration (FmHA), Small Business Administration (SBA) and state government agencies in participating loan programs has become quite extensively used as a means of providing financing for primarily youner farmers. These applicants have a real need for financing but are unable to obtain funding through conventional means without loan guarantees. The Federal Land Bank (FLB) system is able to process and service this type of loan only with the participation of FmHA, SBA and/or some other government agency. Modification in the Farm Credit Act is needed to continue to expand the credit available to our future farmers.

3. *Finance processing marketing activities of bona fide farmers.*—There is a need to broaden the eligibility for financing by Federal Land Banks (FLB's) and Production Credit Associations (PCA's) to farmer related processing and marketing activities. This need is evidenced by the concentration of processing and marketing activities into fewer and fewer large companies. It is essential that financing become more available for farmers in order to extend their marketing and income potential beyond the boundaries of their farms.

4. *Bank of cooperatives export financing.*—Cooperatives have become increasingly involved in movement of agricultural products into the export markets. As a result of these activities, the need for expanded services from BC's has become very apparent. These services include making the arrangements for credit, financing the transactions, exchanging the currency, and financing the facilities to physically handle the export sale. The use of BC's as a source of financing would hasten the development of export marketing activities by U.S. cooperatives and would directly benefit the entire nation through a more favorable balance of trade with other nations.

In conclusion, the Farm Credit Act Amendment of 1979 holds several important and critical areas such as: (a) broadening eligibilities for cooperatives in order to use BC's financing, (b) increasing lending limitations for FLB's through loan guarantee programs, (c) providing financing for farmers processing and marketing activities and (d) encourage the development of U.S. cooperative export activities through BC's financing.

The Andale Farmers Cooperative Company is grateful for the opportunity to express its views before this Subcommittee. I would be pleased to respond to any questions.

STATEMENT OF JIM MCGUIRE, EXECUTIVE SECRETARY, COLORADO COOPERATIVE COUNCIL, WICHITA BANK FOR COOPERATIVES, NINTH FARM CREDIT DISTRICT OF THE FARM CREDIT SYSTEM

Mr. Chairman and members of the subcommittee, I am Jim McGuire, Executive Secretary of the Colorado Cooperative Council. The Colorado Co-op Council is a statewide association of farmer cooperatives which are engaged in marketing agricultural produce and supplying our farmer members with the many tools for agricultural production including fuel, feed, fertilizer, ag chemicals, electricity and financial assistance. We greatly appreciate the services of the Farm Credit System which provides approximately one-third of the nation's agricultural credit. I appreciate this opportunity to present Colorado Co-op Council's views concerning S. 1465, the Farm Credit Act Amendments of 1979.

A large majority of our member associations rely primarily on the Witchita Bank for Cooperatives for their financial support and counsel. We are pleased to know that S. 1465, the Farm Credit Act Amendments of 1979, broadens the services of all

Farm Credit Banks and Associations so they may better serve American agriculture and the American public.

Most of the members of the Colorado Co-op Council are farm marketing and supply cooperatives. Colorado is an agricultural state. In terms of simple production agriculture is second to manufacturing but 25% of the manufacturing is food products. When wholesalers and retailers of farm commodities are considered, agriculture becomes the state's largest industry.

The seventy-four grain marketing cooperatives which are members of the Colorado Co-op Council are vitally interested in exportation of their primary crops; wheat, corn, sorghum and dry edible beans. A substantial percentage of these crops are exported annually but only a small amount—approximately 7%—is exported by cooperatives which are responsible to farmer owners. The Farm Credit Act Amendments of 1979, S. 1465, authorizes the Witchita Bank for Cooperatives to be of greater assistance to agricultural cooperatives, both in the number of cooperatives it could serve and the additional services in export financing it could provide to Colorado cooperatives. Such financial service is very much needed by the regional and inter-regional cooperatives which are owned and controlled in part by marketing cooperatives in Colorado.

Your committee's favorable vote on S. 1465, The Farm Credit Act Amendments of 1979, is encouraged by the Colorado Cooperative Council because of its broadening of direct services to farmers, ranchers and their cooperatives. This assistance will also provide beneficial to our national economy in years to come.

The Colorado Cooperative Council is pleased to be able to express its interests and views before this Subcommitte on Agricultural Credit and Rural Electrification of the Senate Committee on Agriculture. We will be glad to provide further data or provide other information the committee members desire.

STATEMENT OF RICHARD F. PRICE, DIRECTOR, SOUTHERN STATES COOPERATIVES, INC., RICHMOND, VA.

Mr. Chairman and members of the subcommittee, I am Richard F. Price, grain and livestock producer and elected director from Maryland on the Southern States Cooperative, Board of Directors, located in Richmond, Virginia. Southern States is predominately a supply and marketing cooperative, owned and directed by farmers in Maryland, Delaware, Virginia, West Virginia and Kentucky. We enjoy a membership of 320,934 members, exhibiting a total volume of $508,600,000 during our last 12 months, ending June 30, 1979. Much of our success can be directly attributed to the working relationship with the Baltimore and Louisville Banks for Coopertives. As financing needs of our cooperative grow, we find that more than ever we must rely on the Farm Credit Systems to provide the necessary capital. For this reason, I appreciate this opportunity to present the views of Southern States Cooperative concerning the Farm Credit Act Amendments of 1979, S. 1465.

My primary interest in testifying is to apprise the Committee that farmers, through their Cooperatives, are continuing to expand the direct marketing approach of their products.

As farmers, we are proud of our production records. Unlike many other countries around the world, the United States has an abundance of food, particularly wheat and feed grains. Nearly one out of every three acres of production is available for export.

In order for us to promote the expansion of U.S. agricultural exports, and to increase the farmer's share of the benefits derived from those transactions, we need the financial services of the Banks for Cooperatives, which if passed by the Senate, this legislation would allow. Although much of our grain produced in our five state area is for domestic use, many millions of bushels are available for export. At considerable cost to our farmers, we must presently sell our grain through second and third parties in the export field.

There is no question in my mind, if cooperatives could get the necessary financing and banking needs that the Farm Credit Act Amendments of 1979, S. 1465 can provide, we would benefit farmers and consumers alike. Farmers would derive additional benefits from expanded sales and reduced cost. The economy would be bolstered from the increased exports and agriculture would contribute even more to help lower our deficit balance of payments. Furthermore, our economists tell us that for each $1 exported, $2 of domestic economic activity is generated. Additionally, increased grain exports will significantly reduce government storage, saving taxpayers thousands of dollars in agricultural program costs. Statistics reveal that 5 out of every 6 farmers use a Cooperative in some way, whether it be in marketing, services or supplies. These same figures go on to point out that only about 9.3 percent of our

exported grain is directly exported by regional Cooperatives. With the passage of the Farm Credit Act Amendments of 1979, S. 1465, we are confident there will be a tremendous increase in direct Cooperatives exporting of grains. I ask that you consider this statement along with others and that you will give a favorable report on the Farm Credit Act Amendments of 1979, S. 1465. Southern States Cooperative of Richmond, Virginia and I, Richard F. Price, a farmer, appreciate the opportunity to voice the views so stated above. I will be pleased to appear before this Committee in response to any questions.

Statement of American Cotton Shippers Association

The American Cotton Shippers Association is opposed to those provisions of S. 1465 which establish an export banking system for the exclusive use of farm cooperatives.

INTEREST OF AMERICAN COTTON SHIPPERS ASSOCIATION

The American Cotton Shippers Association was founded in 1924 and is basically comprised of merchants, shippers and exporters of raw cotton who are members of five federated associations, located in sixteen states throughout the cotton belt: Arkansas-Missouri Cotton Trade Association; Atlantic Cotton Association; Southern Cotton Association; Texas Cotton Association; and Western Cotton Shippers Association.

The 525 members of the ACSA handle over 80 percent of the domestic cotton crop and 90 percent of the export market. The Association takes an active part in promoting the increased use of cotton in the United States and throughout the world; establishes with other trade groups national and international standards for trade; collaborates with producers throughout the cotton belt in formulating farm programs; and cooperates with government agencies in the administration of such programs.

FUNCTION OF A COTTON MERCHANT

Cotton merchants have a dual function of buying and selling cotton, including the assumption of the time, quality and price risks. The merchants purchase and assemble millions of individual bales of cotton offered for sale by approximately one-hundred thousand farmers producing cotton in sixteen states across the cotton belt. Over 18 varieties of U.S. cotton are produced in several hundred combinations of quality and staple lengths (due to the various types of seed, soil, weather conditions, and harvesting practices). The merchant classes each bale according to the quality factors and assembles the cotton of the same grade, staple length, color and character into even-running lots in warehouses at various locations in the different states. Cotton is sold to textile mills in spinners' markets in even-running lots at various times and delivery is made to locations designated by the various textile mills. The merchant also performs the function of storing and concentrating cotton and the financing of surplus spot cotton including the excess ginnings over consumption during the major harvest months.

EXCLUSIVE COOPERATIVE EXPORT PROGRAM DISCRIMINATORY

Over the years the independent and cooperative segments of the cotton industry have labored to improve the foreign markets for U.S. cotton. These united efforts have resulted in a number of improvements in the export credit programs available through the U.S. Department of Agriculture in particular the programs administered by the Commodity Credit Corporation.

We continue to endorse all of the traditional methods of making credit available to agricultural producers and we recognize the need for improvement. The private banking community and the Farm Credit system has an outstanding record of administering to the important needs of this most productive segment of our economy—the American Farmer.

Recognizing the need for improved credit facilities, we do not support that part of S. 1465 which creates a special export system for the exclusive use of farm cooperatives.

Export credit programs must be available to the entire U.S. export community and not be the exclusive province of a particular segment of the farm economy which already enjoys significant advantages over the private sector.

IMPROVE AND EXPAND CCC CREDIT PROGRAM

There is no need for a special banking system available only to cooperatives. What is needed—is an improved and expanded agricultural export credit program such as that discussed on September 18th by Dr. Kelly Harrison, Director, Office of General Sales Manager, USDA, to the Agricultural Subcommittee of the President's Export Council.

Dr. Harrison observed that fluctuating CCC export credit levels in the USDA budget may have hurt the program, because CCC outlays for commodity support programs increase in years when commodity prices are low and thus CCC export funds shrink proportionately. Harrison told the subcommittee that USDA was discussing a proposal that would remove export credit from the CCC umbrella and create a self-sustaining fund.

We endorse such a self-sustaining fund and support the recommendation of the Subcommittee on Agriculture of the President's Export Council that:

"In recent years certain anomalies of the funding process and other general budget considerations have resulted in wide fluctuations in CCC export credit program funding levels and seriously reduced its effectiveness as a market development tool. (The fiscal year 1979 program has been cut in half to $800 million in fiscal year 1980.) The Subcommittee recommends that funding for the fiscal year 1980 CCC program be increased to take advantage of current export opportunities. As a longer term solution to this problem, the Subcommittee recommends that the executive and legislative branches consider the establishment of a revolving export credit capital fund."

We recommend that the Subcommittee delete the export proposals of S. 1465 and consider instead a substantial expansion of the existing and proven credit programs efficiently and effectively managed by the Commodity Credit Corporation.

STATEMENT OF ROBERT D. PARTRIDGE, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. Chairman and members of the committee, my name is Robert D. Partridge. I am executive vice president and general manager of the National Rural Electric Cooperative Association, the national service organization of nearly 1,000 rural electric systems which provide electricity to approximately 25-million farmers and rural people in 2,600 of the nation's 3,100 counties.

In 1971 NRECA appeared before this subcommittee to voice its support of the Farm Credit Act of 1971. Among other things, the 1971 act reduced the percentage of farmer-members of a cooperative to be eligible to borrow from Banks for Cooperatives from 90 to 80 percent. In 1975 NRECA supported a further reduction from 80 to 70 percent limited to rural electric and rural telephone cooperatives. This was enacted into law in 1975. S. 1465 would lower the farmer-member eligibility requirement to 60 percent. We strongly support this provision.

As a result of the 1971 and 1975 amendments to the Farm Credit System legislation, additional credit has been made available to rural electric systems from Banks for Cooperatives in excess of $1.3 billion. These loans have been made to both distribution systems and to generating and transmission cooperatives. They range from relatively modest amounts, including unsecured short-term loans, to sizeable long-term loans made in conjunction with the Rural Electrification Administration for power generating projects.

The credit needs of the rural electrification program are continuing to expand, particularly for the generating and transmission side of the program. Most of the financing will have to come from non-government sources. For example, in 1980 the NRECA loan survey estimates that financing in the amount of more than $5 billion will be required. REA will be limited to providing about 20 percent of this total with the remainder coming from private lending institutions. In the decade of the 1980's we estimate that approximately $75 billion will be required to build generating capacity and heavy up distribution lines in order to meet the ever growing demands for electricity on the part of millions of farmers and rural people served by rural electric cooperatives. We believe that the Banks for Cooperatives can play an important role in helping meet these tremendous needs for capital. By lowering the present farmer-member requirements to 60 percent, many more rural electric systems will be eligible to borrow from Banks for Cooperatives.

As we are sure you know, rural areas are once again experiencing population growth with the migration of city people to rural areas. From 1970 to 1976 rural areas had an increase of 2.3 million in population, and this trend apparently will continue. Moreover, over the last several decades, the farm population has de-

creased substantially. Because of these demographic changes, rural electric systems are now serving a larger proportion of non-farm residents than was the case in 1971.

Lowering the requirement to 60 percent, in our opinion, will enable the Farm Credit System to better meet the credit needs of both farm and non-farm rural people. At the same time, it will guarantee that farmer control will be maintained.

At the 1979 NRECA annual meeting, the membership unanimously adopted the following resolution supporting the reduction of the farmer-member eligibility requirement from 70 percent to as low as 51 percent:

"We understand that the Farm Credit System is considering making recommendations to Congress for several alterations in the Farm Credit Act of 1971, including a new look at the eligibility requirements to borrow from the Banks for Cooperatives. We support efforts by the Farm Credit System to further modernize their charter Acts as these organizations are vital to the well-being of agriculture, rural America and cooperative organizations. We recommend to Congress that as it considers any legislative package that the farmer membership required for eligibility to borrow from a Bank for Cooperatives be reduced at least from the present 70 to 51 percent."

Our membership resolution would go even further than the provision in S. 1465. In any case, we strongly support the 60 percent minimum in S. 1465. It is obvious to us that rural electrics are going to have to rely on several sources of credit for the billions of dollars that they will have to invest in the years ahead to meet the energy needs of their service areas.

STATEMENT OF FRANK O. JOHNSON, DIRECTOR, SOUTHERN MINNESOTA SUGAR COOPERATIVE, ST. PAUL BANK FOR COOPERATIVES, SEVENTH DISTRICT OF THE FARM CREDIT SYSTEM

Senator Zorinsky and members of the subcommittee, my name is Frank Johnson and I am actively engaged in farming at Hector, Minn. I have also been a director and past president of Southern Minnesota Sugar Cooperative. Our cooperative is presently a client of the St. Paul Bank for Cooperatives and I have been involved with the Redwood Falls, Minnesota Production Credit Association for the past eleven years.

I am very interested in the Farm Credit Act Amendments of 1979, Senate file number 1465. As a farmer and having had experience with cooperative banking, it is imperative that we allow the Cooperative Banking system an opportunity to expand their effectiveness in the agricultural community. According to the August "Outlook" from the U.S. Department of Agriculture, in 1980 U.S. agriculture exports are expected to make a dramatic increase to a total of between 35 and 40 billion dollars. This compares to a value of 32 billion dollars in 1979. Since 1959, U.S. agricultural exports have increased 600 percent and nearly half of this increase has occured between the last 10 to 12 years. Despite this dramatic increase in exports, regional cooperatives have been involved in only 9.3 percent of the grain crop exported during the years ending in fiscal 1977. Today, this has only increased to 11 percent. The proposed amendment in the Farm Credit Act of 1979 will allow the Banks for Cooperatives to become involved in export financing.

The current Farm Credit Act requires that cooperatives have at least 80 percent of their voting control in the hands of farmers. The amendment of 1979 would reduce this requirement to 60 percent or such higher percentage as may be established by a district.

Also, the current act does not provide authority for the banks to use loan participation within the Cooperative Banking system. The Amendment would provide this authority.

At the present time, there is no provision for the development of new corporations and the Amendment would authorize the Farm Credit Banks, or other parts of the system with limited authorities, to incorporate new entities as long as these entities would not change or expand the functions or the purposes for which the system is organized.

The Amendment also allows leverage lease financing and speaks to stock retirement of a cooperative bank in order to prevent the retirement of equity when it would adversely affect the Banks capital structure.

Lastly, the Amendment speaks to Farm related business lending to allow financing by Federal Land Banks and Production Credit Associations to include processing and marketing activities when 25 percent of the proposed processing has been produced on the owners farm and that the proposal grows out of the farming endeavor.

It is imperative that we increase the direct exports controlled by former Cooperatives. Agricultural exports have been a major factor in stabilizing the American dollar. Consumers and farmers alike benefit from such benefits of international trade. Prices of goods and services have more impact on consumers' standard of living than do changes in food prices. Therefore, expanded agricultural exports should have a net positive contribution to consumers. In the Seventh District of the Farm Credit System, St. Paul, Minn., dollar value of direct exports currently exceeds $100 million and value of indirect exports is in excess of $300 million.

My interest in the Farm Credit Act Amendment of 1979 is simply a belief that legislation that helps the nation generally by buoying up the agricultural economy helps each and everyone of us as Americans and consumers in our respective community.

I am grateful for this opportunity to express my views before this subcommittee and would be happy to respond to any question on this proposed Farm Credit Amendment.

OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., October 30, 1979.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture, Nutrition, and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Office of Personnel Management wishes to advise the Committee on Agriculture, Nutrition, and Forestry of its views on S. 1465, the "Farm Credit Act Amendments of 1979." We are concerned with certain personnel provisions in title V of the bill.

Section 502 of the bill would amend the Farm Credit Act of 1971 (Public Law 92–181) to increase the compensation of the members of the Federal Farm Credit Board from $100 per day to the daily rate for GS–18. We have no objection to this change.

Sections 503, 504, and 505 would amend the Farm Credit Act to remove the position of Governor of the Farm Credit Administration from level III of the Executive Schedule, and to remove the present GS–18 limitation on pay for Deputy Governors of the Farm Credit Administration. The Federal Farm Credit Board would be authorized to fix the salaries of the Governor and the Deputy Governors, up to the rate for level I of the Executive Schedule.

We object very strongly to this change. The Executive Schedule was established to provide an equitable and rational pay structure for the most important positions throughout the executive branch. The Executive Schedule is intended to cover not only top positions in the executive departments and the regular Federal agencies, but also top positions in such relatively independent instrumentalities of the Federal Government as the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Tennessee Valley Authority, the Export-Import Bank, the Overseas Private Investment Corporation, and the Farm Credit Administration. With the exception of the Chairman of the Board of Governors of the Federal Reserve System, the top officer in each of these entities is compensated at level III of the Executive Schedule. (The Federal Reserve Chairman is compensated at level II.) The Farm Credit Administration has not presented any good reason for its proposal to fix a level I limit on the pay of its Governor, and we believe any increase from the present level III would be inappropriate.

We also believe it would be inappropriate to remove the GS–18 ceiling on the authority of the Farm Credit Administration to fix the salary of the Deputy Governors. These positions are now in the Senior Executive Service, with potential for substantially increased compensation through performance and rank awards, and there seems to be no clear rationale for removal of the ceiling.

In addition to removing the GS–18 limitation on pay for Deputy Governors, the bill would authorize the Governor of the Farm Credit Administration to appoint and fix the pay of its employees without regard to the laws governing Federal employment, but with pay limited to the rate for level V of the Executive Schedule.

We must object to this provision. Under section 5102(c)(14) of title 5, United States Code, employees who are paid from nonappropriated funds are exempt from the General Schedule classification and pay system. This is the basis under which certain Federal financial agencies, such as the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, are excepted from the General Schedule and are thus able to fix pay administratively. While section 5.16 of the Farm Credit Act would constitute authority to operate without appropriated funds, it is our understanding that Congress has consistently chosen to ignore

this provision of law and specifically appropriate funds for the administrative expenses of the Farm Credit Administration, with these funds to be drawn from assessments collected from the member institutions of the Farm Credit System. (See, for example, Title V of Public law 95–448, October 11, 1978, for the fiscal year 1979 appropriation.) As long as Congress chooses to require the Farm Credit Administration to operate under the appropriations process, we do not believe it would be appropriate to remove this agency from the Government-wide General Schedule system.

The Farm Credit Administration has argued that these exceptions from the normal Federal employment laws are needed to facilitate hiring new employees at rates above the minimum of the grade without OPM clearance and to raise salaries to a level competitive with the Farm Credit System. Under the provisions of the Civil Service Reform Act, OPM has already provided for the delegation of advanced in-hiring rate approval at GS–11 and above to agencies, subject to performance agreements, and this flexibility should provide considerable assistance to the Farm Credit Administration. We note that the Farm Credit Administration has not requested that OPM exercise its authority under 5 U.S.C. 5303 to establish special higher rates of pay for occupations in areas where higher private sector pay rates significantly handicap the Government's recruitment or retention of well-qualified persons. The new Senior Executive Service should also help in recruiting at higher levels. With respect to the need to keep salaries competitive with those in the Farm Credit System, we note that, under section 5.18(4) of the Farm Credit Act, the Farm Credit Administration is responsible for approving the salary schedules for the member institutions of the Farm Credit System (except the associations within that System). We are surprised that the Farm Credit Administration now argues that these salaries which it has approved are so high that it is unable to attract employees from these member institutions to the Administration itself.

Similarly, we must object to the Farm Credit Administration's desire to be excepted from the normal civil service appointment and tenure laws. Under the Civil Service Reform Act, we are making rapid progress toward the decentralization of the examining process, where such decentralization would be appropriate, and we believe these efforts will greatly relieve any staffing delays the Farm Credit Administration has encountered. We note that we have already authorized Special Examining Units under which the Farm Credit Administration has been delegated the entire examining process for four of its major occupations, subject to OPM supervision.

The Farm Credit Act would be further amended to authorize the Board to pay travel, relocation, and subsistence expenses of a newly-appointed Governor and his or her immediate family; and allowances for travel and subsistence expenses of persons under consideration for appointment to the position of Governor in connection with interviews requested by the Board. Relocation expenses are not currently reimbursed for a newly appointed individual in an Executive Schedule position, or for preappointment interviews at that level. The Farm Credit Administration would also be excepted from the provisions of chapter 57 of title 5, United States Code, relating to reimbursement for travel and transportation, and to travel, relocation, and subsistence expenses of new appointees, transferees, and candidates for employment. We must defer to the General Services Administration, which is responsible for the administration of these provisions.

Sections 507 and 508 would provide portability of service credit for non-Federal service in Farm Credit System institutions if the employee moves to a position subject to the Civil Service retirement law after the effective date of the amendment. The Farm Credit Administration evidently feels that portability of retirement benefits would be an incentive for employees in the System institutions to join the Administration, but such a use of the retirement system would be inappropriate and prohibitively expensive. Since no agency contributions would have been made for the service in the System, employees would have the option of taking a 10 percent reduction in annuity rather than making a deposit of their own contributions. Furthermore, this provision could create a dangerous precedent that would lead other groups to press for the same expensive treatment. The Civil Service Retirement System is an integral part of the Government's personnel program, designed to encourage and reward service to the Federal Government. There is no basis on which to reward non-Federal service, and such a practice would reduce the system's effectiveness as an instrument of personnel management.

We are sympathetic to the problems of retirement portability that are faced by the Farm Credit Administration, but these problems are the same as those faced by the Federal Government generally whenever it recruits from outside its own ranks. In fact, the issue of retirement portability is a major problem for all employers in

our economy. It is because the problem is so general that two national study groups, the President's Commission on Pension Policy and the Universal Coverage Study Group at the Department of Health, Education, and Welfare, will consider, along with other matters, the entire area of portability. We believe that it would be undesirable to make any changes in this area until the findings of those two study bodies are available.

Section 509 is intended, we believe, to authorize leave balances earned under the Farm Credit System to be transferred to Federal employment. However, the bill as drafted would not accomplish this. The transfer of leave authorization in section 6308 of title 5, United States Code, applies to the transfer of leave between different Federal leave systems and has no application to the transfer of leave earned under non-Federal systems to the Federal system. The mention of the employees of Farm Credit System institutions in 5 U.S.C. 6301(2)(vii), and the related exclusion from the present 5 U.S.C. 6308, are obsolete references, dating from the period before the 1959 Act when these employees were actually Federal employees. Since that Act, however, they have not been Federal employees, and have not met the definition of "employee" in 5 U.S.C. 6301(2). Therefore, amending 5 U.S.C. 6308 as proposed in section 509 of the draft bill would not accomplish its purpose. Even if it were redrafted, however, we would object strongly to this provision. Accepting transferred leave from a non-Federal organization would be costly, and we believe it would set a dangerous precedent.

The Office of Management and Budget advises that enactment of these provisions would not be consistent with the Administration's objectives.

Sincerely yours,

ALAN K. CAMPBELL,
Director.

STATEMENT OF TED S. LEIPPRANDT, GENERAL MANAGER, COOPERATIVE ELEVATOR CO., PIGEON, MICH.

The Cooperative Elevator Co., of Pigeon, Michigan is a country elevator founded by area farmers in 1915 for the purpose of marketing their crops and providing farm supply inputs. The original incorporators realized that, by joining together, individual farmers could collectively negotiate more favorable selling prices for their crops and lower costs for their farm supplies. These same needs are being served today as our cooperative markets navy beans, corn, wheat, soybeans, barley, oats and other commodities produced by area farmers; the Cooperative also is engaged in an active farm supply business as it operates a seed plant, a fertilizer plant, a feed mill, and a retail store which provide inputs for local producers. The elevator's dollar volume reached a record high of $22,400,000 during our last fiscal year as we served approximately 1,450 farmer patrons, including 713 farmer stockholders. I feel our success is a result of adherence to the cooperative concepts of our original incorporators which are imbodied in our company slogan—"Where there is Unity there is strength", as well as the forsight of the directors who have served our cooperative over the years. These directors have had the vision to plan and construct the facilities necessary to adequately serve the needs of area farmers. Another obvious factor in our success has been the help of our partner, the St. Paul Bank for Cooperatives. The bank has provided a large portion of the capital used to fund construction of the facilities envisioned by our directors and management. In addition to providing both seasonal and long-term capital requirements, we have found the Bank for Cooperatives to be an invaluable source of council and advice in the area of cooperative financing and management. Cooperatives are, to a large degree, financed through "revolved allocated patronage", a concept unique to cooperatives. The bank for cooperatives is the only source of capital which we are aware of that has both the financial resources and an understanding of cooperative elevator concepts and operations. We have been extremely pleased with their efforts over the years and therefore have relied on them for 100 percent of our outside financing.

The above brings us to the purpose of this letter—the Farm Credit Act amendments of 1979. Area farmers have been increasing their production over the years and a larger share of this increased production has been going for export. Since the U.S. farm export market has been controlled by half a dozen large international trading companies, the cooperative method of operating—the method to which we owe our success, has necessarily been abandoned at the U.S. port cities where ownership is transferred to the international trading corporations. In response to the request of our farmers and other in a similar position, our regional cooperatives are now competing for a share of the growing international market and have

recently purchased loading facilities at various U.S. ports. These efforts have, however, been hampered as the traditional source of cooperative financing, the Bank for Cooperatives, is presently prohibited from transacting bankers acceptances, international letters of credit, and other transactions basic to the export market. We therefore urge your support of S. 1465. The amendments proposed by this bill will remove these constraints and allow our Bank for Cooperatives to assist in providing financing for the export market. This action would assist us in achieving the end result of returning the profits from export grain sales to our farmer patrons through the cooperative system as envisioned by our original incorporators 65 years ago. Returning the profits to farmers would also provide additional economic incentive to product; increased production should benefit all U.S. citizens as higher production should reduce both consumer prices and our balance of trade deficit.

The Cooperative Elevator Co., of Pigeon, Michigan is grateful for the opportunity to express its views before this committee. I would be pleased to respond to any questions.

STATEMENT OF THE BANKERS COMMITTEE FOR TAX EQUALITY

The Bankers Committee For Tax Equality (BCTE) appreciates this opportunity to state our position of S. 1465, a bill to expand Cooperative Farm Credit System (CFCS) lending authority. The Bankers Committee For Tax Equality is a special committee of the National Tax Equality Association (NTEA), and consists of over 1,400 commercial banks. The Bankers Committee advocates equal taxation and regulation for commercial banks, thrift institutions, and cooperative banks.

The last few decades have witnessed an unprecedented government-fostered growth of cooperative businesses. The various government measures favoring cooperative expansion have in most instances been based on the recognition of the particularly suitable corporate form the cooperatives offered farmers in marketing or distributing produce. Another impetus to cooperative promotion has been the well-intentioned, but often mistaken view, that private investor-owned businesses were incapable of effectively providing necessary services. A last, less significant factor, has been hostility on the part of some in government towards profit making and private enterprises in general. The adherents of this view see the promotion of cooperatives as a way to ameliorate "exploitation" caused by "monopolistic" private proprietary concerns.

As a result of government policy, a dual economy is gradually emerging in the United States. One sector, composed of private firms, is beset with confiscatory taxation and onerous regulation. The other sector, consisting of cooperative businesses, is largely exempt from income taxation and many regulatory burdens. Furthermore, the cooperative sector is provided with a full array of subsidized credit facilities and government created banks, such as the CFCS.

S. 1465 would authorize the financing through the CFCS to expand and extend the unfair competition posed by tax-exempt cooperative businesses. By liberalizing eligibility requirements for access to Banks for Cooperatives' credit facilities, S. 1465 will contribute to the attenuation of private businesses. The provisions of the bill that authorize Federal Land Banks and Production Credit Associations to finance marketing and processing would also result in a corresponding decrease of lending by commercial banks.

At present, to be eligible to borrow from the Banks for Cooperatives (BCs), a cooperative must have a voting membership of which at least 80 percent are farmers (70 percent for rural electric cooperatives (REAs) and telephone cooperatives). S. 1465 would lower the farmer-member eligibility requirement to 60 percent. This would obviously accommodate a great expansion of BC lending, and stimulate a further growth of cooperative firms and the CFCS. In addition, a clear and precise definition of the term "farmer" is lacking, and is important inasmuch as off-farm employment and part-time farming has increased considerably in recent yars.

Much of the additional funds to be lent by the BCs would be secured by attracting funds that would otherwise have been available to competing intermediaries. These funds, in turn, will be extended in loans that would have been provided by other

institutions. Thus the increased lending powers of the BC's will come mainly at the expense of the other intermediaries. Moreover, the primary reason the BCs may compete so successfully is that their effective cost of capital is reduced by their tax exemption. The other entities of the CFCS are also largely tax-exempt and engaged in competition with commercial banks. Expanding the lending powers of the CFCS can only put commercial banks and other financial institutions under increasing pressure.

According to economic theory, capital will tend to flow to its most profitable use. Furthermore, economic analysis states that allocative efficiency is maximized when the marginal rates of return on investment are equal throughout the economy. Government tax policy distorts the marginal returns on capital by imposing costs on some forms of investment and exempting others. This must lead to a misallocation of resources, and thereby, to economic waste. S. 1465 would exacerbate this problem by extending the financing of cooperative businesses.

The problems created by the unfair competition of cooperatives is especially apparent in the electric utility industry, where the REAs are expanding very rapidly (see Barron's August 27, 1979, p. 4). In the face of rising energy costs, crushing taxation, and evaporating liquidity many investor-owned utilities are selling out to REAs.

The Bankers Committee fully supports free and fair competition between financial institutions, meaning that all businesses should compete on the same basis with no special privileges accorded to any. Fair competition precludes a government policy of bias and favoritism. If competition is to be truly equitable, the CFCS and other cooperative businesses must be willing to accept the same responsibilities and obligations as their taxpaying competitors.

We believe the policy of promoting the growth of cooperatives has gone much too far, and is detrimental to the vitality of private business. Therefore we oppose any further liberalization of the farmer-member eligibility requirements for access to BCs. Furthermore, we oppose CFCS financing of off-farm activities and export trade as envisioned in S. 1465. With respect to state usury laws and BC investment powers in foreign businesses, we oppose any special advantages for the CFCS. Finally, we favor the taxation of CFCS institutions and other cooperative businesses on the same basis as the private businesses with which they compete. The CFCS institutions should not be allowed to retain special privileges, such as the artificially inflated loan loss reserves permitted as a deduction to Federal income taxes. Loan loss reserves should be uniform for all financial institutions.

In addition, the function and scope of CFCS activities should remain restricted to providing agricultural credit. CFCS should not be empowered to charter, own, or control farm service corporations as provided for in S. 1465. This aspect of the bill would result in further encroachments on the private sector.

The position of the Bankers Committee on these issues is not derived from any preconceived notions of the merits or demerits of cooperative corporations. The standpoint of the Bankers Committee concerns only the concepts of tax equality and administrative fairness. Discrimination against a certain form of business is not any more desirable or defensible than any other form of discrimination. The concept of tax equality means only that competing forms of business should be equal before the law. We are thankful for the opportunity to express our views on this proposal.

○