

BOB DOLE
1ST DISTRICT, KANSAS

243 CANNON HOUSE OFFICE BUILDING
AREA CODE 202
225-2715

COMMITTEES:
AGRICULTURE
GOVERNMENT OPERATIONS

DISTRICT OFFICE:
101 FEDERAL BUILDING
GREAT BEND, KANSAS 67530
AREA CODE 316
SW 3-5423

Congress of the United States
House of Representatives
Washington, D.C. 20515

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May 26, 1967

MEMORANDUM

REA ELECTRIC AND TELEPHONE BANKS APPROVED BY AGRICULTURE COMMITTEE

The House Committee on Agriculture on Wednesday, May 24, approved H.R. 10190, (a revised version of H. R. 1400), a bill by Congressman Poage (D-Tex) to provide a new supplemental non-Federal source of capital for rural electric and rural telephone systems.

The legislation would create two new Government-sponsored financial institutions -- a Rural Electric Bank and a Rural Telephone Bank.

As amended by the Committee, the legislation places certain restrictions upon loans for the building of electric generating plants by rural electric systems.

The legislation is intended to bring funds from the private money market into the rural electrification and telephone programs to augment the present Rural Electrification Administration (REA) two percent loan money.

Under H. R. 10190, which now goes to the House for action, the financial structure of each of the two banks would include (1) capital subscribed by the United States which ultimately would be replaced, just as it has been in the Land Banks, by capital paid in by each borrower (5% of each loan), (2) capital subscribed by borrowers and their members as investments, and (3) funds received from the investment of electric consumers of borrowers and capital obtained through sale of debentures in the private money market to an amount not to exceed eight times the capital subscribed by the Government.

The United States would furnish capital to the electric bank, from repayments of current REA loans, at a rate of \$100 million a year until the Government investment reached \$750 million; and would furnish the telephone bank \$30 million annually, from repayments on outstanding rural telephone loans, until the total reached \$300 million. Each bank would pay 2 percent interest on the money provided by the Government.

Bank loans would be made to the cooperatives and to others which previously have received REA 2 percent loans at a rate reflecting the cost of money to the two new institutions. This cost will be a blend of the cost of Government advanced capital and the funds derived from the sale of debentures in the private money market.

The legislation continues the authority of the REA to make direct 2 percent loans to any qualified borrower who has less than 40% equity in its plant, or to any borrower with less than 2 customers per mile. The more prosperous rural systems would go to the bank for money and would pay higher interest rates.

Legislation proposing the creation of the electric and telephone banks, sponsored by the National Rural Electric Cooperative Association, was introduced in the 89th Congress, but never came to a vote in the full Agriculture Committee. The legislation was reintroduced in the 90th Congress early this year as H.R. 1400. This bill was considered by the Committee and amended, and finally the Committee instructed the Chairman to reintroduce it as H.R. 10190 -- with all the changes made in Committee.

The Committee changes in the Electric Bank provisions, made over the months of consideration, include:

(1) All authority for bank loans to borrowers for the expansion or acquisition of non-rural customers was eliminated. Bank loans instead will be made only to borrowers serving "rural areas" as defined in the original REA Act of 1936, meaning rural areas embracing communities with populations of 1,500 or less.

(2) Federal guarantee of all debentures issued by the electric bank was eliminated. All these instruments of indebtedness, under the bill as approved, will be the sole obligation of the electric bank.

(3) A requirement was inserted that the electric bank must pay 2 percent interest on the \$750 million to be invested by the Government, whereas the original bill would have loaned this money to the bank interest free, as was done in the case of the Land Banks and other Farm Credit institutions.

(4) Provisions in the original bill permitting "intermediate" electric bank loans at 4 percent were eliminated, meaning that all bank loans would be made at the cost of money to the bank.

(5) In order to enable the bank to function without the Government help originally provided, the bill was amended to inject Government capital at a faster rate -- \$100 million instead of \$50 million per year.

(6) In the making of 2 percent direct Government loans for generating facilities, the Committee amended the bill to provide, except for money for replacement or repair of an existing facility, (a) public disclosure of the loan applicant's reasons for such loan, cost estimates of the proposed generating facility, and the applicant borrower's estimated cost of power to be produced by such facility; (b) suppliers of electric energy already provided service in the general area may request a public hearing; (c) such suppliers may submit an alternative proposal for providing the service, information on which would be made available to the loan applicant; (d) the REA Administrator, before approving a generation loan, must make a public determination, after a public hearing, that an adequate supply of power is not available at rates equal to or less than the estimated rates which would be in effect under the terms of such loan application; and (e) the loan applicant or the other suppliers may appeal the Administrator's action on the loan directly to the U. S. Court of Appeals for the Tenth Circuit which must render a judgment within 180 days or the Administrator's decision becomes final. These restrictions would not apply to loans made by the electric bank where a formal bid procedure is prescribed, but to the direct Government 2-percent loan program under which the rural electric and telephone systems have been established over the years.

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The telephone bank would be patterned along the lines of the electric bank, but the section of the legislation creating this bank was practically devoid of controversy, since service territory expansion and power generation issues are not involved in the telephone program.

Patterned after the Farm Credit System, the two banks would use both Federal and non-Federal funds with the objective that they ultimately would pay off all indebtedness to the Government and become privately owned, operated and financed corporations.

The REA was established in 1935 to make electric service available to rural areas of the United States. At that time only about 11 percent of the Nation's farms had electric service. The Rural Electrification Act of 1936 placed this agency on a permanent basis, to loan funds to qualified borrowers, principally cooperatives, in rural areas for the financing of rural electric systems and, by amendment of the Act in 1949, to rural telephone systems.