

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

The meeting was called to order by REPRESENTATIVE DAVID F. LOUIS, CHAIRMAN at  
Chairperson

9:00 a.m. on Tuesday, February 11, 1986 in room 527-S of the Capitol.

All members were present except:

Representatives Laird, Ott, Peterson-excused

Committee staff present:

Richard Ryan  
Alan Conroy  
Gordon Self  
Rosalie Black

Conferees appearing before the committee:

Representative Ron Fox  
Sam Eberly, Chairman of the Board of Directors, Farm Credit Services  
Kathy Peterson, Committee of Kansas Farm Organizations  
Ron Wilson, Vice-President, Farm Credit System  
Steve Hirsch, Administrative Assistant, State Treasurer's Office  
Lye'll Ocobock, Pooled Money Investment Board, State Treasurer's Office.

The meeting was called to order by Representative David Louis,  
Chairman, to hear House Bill 2635.

HOUSE BILL 2635 - Hearing

Representative Ron Fox explained that House Bill 2635 is needed to clean up and codify the former practice of allowing FCS securities as collateral for investment of state idle funds.

After reviewing the Farm Credit Services prospectus and a Supreme Court decision last year, the State Treasurer placed a moratorium on allowing FCS securities as collateral for investment of state idle funds. Plus, the Attorney General ruled on February 6 that FCS securities would not be eligible under existing Kansas law.

Sam Eberly, Chairman of the Board, Wichita District Farm Credit Council, indicated Farm Credit Services includes three banks in Wichita and numerous farmer-owned associations. The banks and associations are capitalized by stock purchased by borrowers. The Farm Credit System obtains loan funds through the sale of farm credit bonds and discount notes to the investing public. (Attachment 1.) He added that FCS securities are generally considered risk free and since the securities are acceptable at the federal and municipal levels, they should be acceptable at the state level.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON PENSION, INVESTMENTS AND BENEFITS,  
room 527-S, Statehouse, at 9:00 a.m./~~p.m.~~ on FEBRUARY 11, 1986

Page 2 - HOUSE BILL 2635 - (Con't.)

In answer to several questions from members of the committee, Ron Wilson, Farm Credit Systems, said the State Treasurer has not taken adverse action since the Attorney General's ruling of February 6. However, no new FCS securities have been allowed to be pledged since last year's Supreme Court case.

Kathy Peterson, Committee of Kansas Farm Organizations, noted the result of not allowing FCS securities to be used as collateral would mean higher interest rates for Kansas farm borrowers. A change in interest rates could mean the difference in keeping a farm in operation. (Attachment 2.)

Steve Hirsch, Administrative Assistant, State Treasurer's Office and Lyell Ocobock, Pooled Money Investment Board, State Treasurer's Office, indicated the reason that the State Treasurer requested the Attorney General's opinion, after a Supreme Court ruling on a related case, was for clarification on the state level.

The meeting adjourned at 9:50 a.m.



Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

Tuesday, Feb. 11, 1986

NAME	ADDRESS	ORGANIZATION	BILL NO.
Scott Ochs	245 N. Waco Wichita KS 67201	FARM CREDIT SERVICES	H.B. 2635
GARY DANIELSEN	Wichita, KS	FARM CREDIT SERVICES	" "
Kari Schmidt	Wichita, KS	" " "	" "
Kathy Peterson	Topeka KS	Comm. of KS Farm Organ.	2635
Joe Lieber	" "	As. Co-op Council	2635
Sam Cooley	Wichita KS	FARM CREDIT	2635
Ron Wilson	"	Farm Credit Council	"
M.C. Uhrholtz	Topeka	KS Credit Union League	"
MIKE BEAM	<del>2044</del> <sup>TOPEKA</sup> <del>FILE</del>	KS. LIVSTK. ASSN.	2635
Steve Hiroch	700 Harrison	State Treasurer	2635

TESTIMONY OF SAM EBERLY

CHAIRMAN OF THE BOARD

WICHITA DISTRICT FARM CREDIT COUNCIL

FOR

PENSIONS, INVESTMENTS AND BENEFITS COMMITTEE

TOPEKA, KANSAS

FEBRUARY 11, 1986

*Attachment 1*  
*2-11-86 Hs. PIB*

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM SAM EBERLY, A FARMER/STOCKMAN FROM THE WICHITA, KANSAS AREA. I AM CHAIRMAN OF THE BOARD OF DIRECTORS OF FARM CREDIT SERVICES AND OF THE WICHITA DISTRICT FARM CREDIT COUNCIL. THE WICHITA DISTRICT FARM CREDIT COUNCIL IS THE TRADE ORGANIZATION WHICH REPRESENTS COOPERATIVELY ORGANIZED FARM LENDERS THROUGHOUT KANSAS, OKLAHOMA, COLORADO AND NEW MEXICO.

FARM CREDIT SERVICES IS THE NAME OF OUR CREDIT DELIVERY SYSTEM, WHICH INCLUDES THREE BANKS IN WICHITA AND NUMEROUS FARMER-OWNED ASSOCIATIONS. THE FARM CREDIT BANKS OF WICHITA INCLUDE THE FEDERAL LAND BANK, WHICH PROVIDES LONG-TERM REAL ESTATE LOANS THROUGH FEDERAL LAND BANK ASSOCIATIONS; FEDERAL INTERMEDIATE CREDIT BANK, WHICH PROVIDES FUNDS TO PRODUCTION CREDIT ASSOCIATIONS FOR SHORT- AND INTERMEDIATE-TERM FARM OPERATING LOANS; AND THE BANK FOR COOPERATIVES, WHICH OFFERS LOANS TO AGRICULTURAL AND RURAL UTILITY COOPERATIVES. SIMILAR BANKS AND ASSOCIATIONS ARE FOUND IN 11 OTHER DISTRICTS ACROSS THE COUNTRY, WHICH MAKE UP THE NATIONAL FARM CREDIT SYSTEM.

IN THE WICHITA DISTRICT, WE SERVE MORE THAN 70,000 FARMERS AND RANCHERS AND 450 COOPERATIVES WITH MORE THAN SIX BILLION DOLLARS IN LOANS. AT PRESENT, NO GOVERNMENT FUNDS ARE INVOLVED. THE BANKS AND ASSOCIATIONS ARE CAPITALIZED BY STOCK PURCHASED BY BORROWERS. WE OBTAIN LOAN FUNDS THROUGH THE SALE OF FARM CREDIT BONDS AND DISCOUNT NOTES TO THE INVESTING PUBLIC.

WE STRONGLY SUPPORT H.B. 2635, WHICH WILL CLARIFY THAT THESE FARM CREDIT SECURITIES CAN BE USED AS COLLATERAL FOR STATE DEPOSITS. THIS LEGISLATION WILL HAVE THE EFFECT OF MAINTAINING WHAT HAS BEEN THE CURRENT PRACTICE OF THE STATE REGARDING SUCH STATE DEPOSITS.

FOR YEARS, FEDERAL FARM CREDIT BANKS CONSOLIDATED SYSTEMWIDE SECURITIES CALLED FARM CREDIT SECURITIES HAVE BEEN CONSIDERED ELIGIBLE IN KANSAS FOR PLEDGING AS COLLATERAL FOR EXCESS OR IDLE FUNDS DEPOSITED IN KANSAS BANKS.

HOWEVER, AT THE REQUEST OF THE STATE TREASURER, THE ATTORNEY GENERAL HAS REVIEWED THE LEGAL QUESTION OF THE ELIGIBILITY OF OUR SECURITIES. ON THURSDAY, FEBRUARY 6, HE RULED THAT FCS SECURITIES WOULD NOT BE ELIGIBLE UNDER EXISTING KANSAS LAW. HOWEVER, THE ATTORNEY GENERAL'S RULING ACKNOWLEDGES THAT THERE HAVE BEEN CONFLICTING LEGAL OPINIONS ON THIS ISSUE IN THE PAST.

IT IS TIME TO CLARIFY THIS ISSUE ONCE AND FOR ALL. H.B. 2635 WILL ACCOMPLISH THIS PURPOSE, IN A WAY THAT WILL BENEFIT KANSAS BANKS AND KANSAS FARMERS.

WE URGE YOUR SUPPORT OF H.B. 2635 WHICH WOULD CLARIFY THIS ISSUE AND SPECIFICALLY INCLUDE FARM CREDIT SECURITIES AS ELIGIBLE SECURITIES FOR THIS PURPOSE. FARM CREDIT SECURITIES ARE LEGAL INVESTMENTS FOR MANY PUBLIC BODIES, INCLUDING MUNICIPALITIES IN KANSAS.

THEY ARE ACCEPTED FOR FIDUCIARY, TRUST AND PUBLIC FUNDS UNDER THE CONTROL OF THE U.S. GOVERNMENT AND ARE ELIGIBLE AS COLLATERAL FOR TREASURY TAX AND LOAN ACCOUNTS FOR ADVANCES BY FEDERAL RESERVE BANKS TO MEMBER COMMERCIAL BANKS.

IF OUR SECURITIES ARE ACCEPTABLE AT THE FEDERAL LEVEL AND AT THE MUNICIPAL LEVEL, THEN THEY SHOULD BE ACCEPTED AT THE STATE LEVEL AS WELL.

FARM CREDIT SECURITIES MEET THE NEEDS OF A WIDE VARIETY OF INVESTORS, SUCH AS COMMERCIAL BANKS, INSURANCE COMPANIES, STATE AND LOCAL GOVERNMENTS, FIDUCIARY ACCOUNTS, THRIFT INSTITUTIONS, AND INDIVIDUALS.

FARM CREDIT SECURITIES ARE GENERALLY CONSIDERED RISK FREE. OUR SECURITIES PROVIDE YIELDS WHICH ARE GENERALLY HIGHER THAN THOSE OF COMPARABLE TREASURY ISSUES.

COMMERCIAL BANKS ARE A LARGE INVESTOR IN FARM CREDIT SECURITIES. COMMERCIAL BANK PORTFOLIO MANAGERS GENERALLY CONSIDER THE SAFETY, LIQUIDITY AND YIELD OF ANY INVESTMENT. IT HAS BEEN REPORTED THAT IN 1985 OVER 100 KANSAS BANKS USED FARM CREDIT SECURITIES IN THEIR PORTFOLIOS.

IF FARM CREDIT SECURITIES ARE ULTIMATELY DENIED ELIGIBILITY, IT WOULD ADVERSELY AFFECT BOTH BANKS AND BORROWERS. THERE WOULD BE A NEGATIVE INFLUENCE ON THE DEMAND FOR THE FARM CREDIT SECURITIES IN THOSE MARKETS IN WHICH FARM CREDIT SECURITIES ARE TRADED.

WITH REDUCED DEMAND, THE FARM CREDIT SYSTEM WOULD HAVE TO OFFER HIGHER INTEREST RATES TO ATTRACT INVESTORS -- WHICH TRANSLATES INTO HIGHER INTEREST RATES FOR KANSAS FARMERS AND RANCHERS.

THIS ADDED UPWARD PRESSURE CAN BE AVOIDED, WITH YOUR SWIFT ACTION ON H.B. 2635. WE COMMEND THE SPONSOR OF THE BILL, REPRESENTATIVE RON FOX, AND WE COMMEND YOU FOR CONDUCTING TODAY'S HEARING. YOUR POSITIVE ACTION WILL HELP TO BENEFIT KANSAS BANKS AND KANSAS FARM BORROWERS.



Committee of . . .

## Kansas Farm Organizations

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STATEMENT OF THE  
COMMITTEE OF KANSAS FARM ORGANIZATIONS  
FEBRUARY 11, 1986  
to the  
HOUSE PENSIONS, INVESTMENTS AND BENEFITS COMMITTEE

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you this morning in support of HB 2635, clarifying the use of Farm Credit System securities as collateral for state investments in commercial banks. I am Kathy Peterson, representing the Committee of Kansas Farm Organizations. We are a group of 21 agricultural organizations working together for the betterment of agriculture in Kansas. The members of our committee are the Associated Milk Producers, Kansas Agri-Women, Kansas Association of Soil Conservation Districts, Kansas Association of Wheat Growers, Kansas Corn Growers Association, Kansas Cooperative Council, Kansas Electric Cooperatives, Kansas Ethanol Association, Kansas Farm Bureau, Kansas Fertilizer and Chemical Association, Kansas Grain and Feed Dealers Association, Kansas Livestock Association, Kansas Livestock Marketing Association, Kansas Meat Processors Association, Kansas Seed Dealers Association, Kansas Sheep Association, Kansas Soybean Association, Kansas State Grange, Kansas Veterinary Medical Association and the Mid-America dairymen.

Because the Committee of Kansas Farm Organizations strives to form consensus opinions on farm issues, before we take a position on any issue, it must first have the unanimous support of the organization. In short, we work to provide agriculture with a united voice for you the legislators and the public.

This legislation is basically a technical clarification to current law, but we believe it is an important measure to the state. If we fail to allow FCS securities to be used as collateral it is the farmer who will suffer. The result would be higher interest rates for Kansas farm borrowers, who are already facing severe economic conditions. A change in interest rates could spell the difference between keeping a farm in operation and not being able to.

*Attachment 2  
2-11-86 Hs. PIB*

Statement

Committee of Kansas Farm Organizations

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That added pressure on interest rates can be avoided by passage of this measure. Kansas banks have long been using FCS securities as collateral for state investments. Clarifying this matter in the statutes would serve a valuable service to Kansas agriculture, therefore we urge your favorable consideration of this bill.

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