

Statement of Terence F. Hanlon
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Before the

House of Representatives' Committee on Financial Services
Subcommittee on Domestic Monetary Policy and Technology

Hearing on

"Bullion Coin Programs of the United States Mint: Can They Be Improved?"

Thursday, April 7, 2011

Chairman Paul, Ranking Member Clay, and Members of the Subcommittee,

I would like to thank the Subcommittee for the opportunity to appear before it today to discuss the United States Mint's Bullion Coin Program.

It seems appropriate for Congress to take stock of this important program at this time, as 2011 marks the 25th anniversary of the introduction of the American Eagle Bullion Coins. Congress created the world's most successful bullion coin program with its passage in 1985 of the Statue of Liberty-Ellis Island Commemorative Coin Act (Public Law 99-61) and Gold Bullion Coin Act of 1985 (Public Law No. 99-185), which authorized respectively the American Eagle Silver and Gold Bullion Coins. Since the product launches in 1986, the coins have become the dominant bullion coins in the global market for physical bullion coin investments.

Dillon Gage Metals is one of the largest precious metals dealers in the United States. Our Dallas-based firm is proud of its affiliation with the United States Mint (hereafter "Mint"), as a key distributor of its American Eagle gold, silver, and platinum bullion coins. We look forward to the introduction, hopefully later this year, of a palladium coin to the program as a result of Congress' passage last December of the American Eagle Palladium Bullion Coin Act of 2010 (Public Law 111-303).

Over the past 25 years, the Mint has produced bullion coins of exceptional beauty and quality. Their marketing team has built a strong brand for the Mint's bullion coin line of products, which are recognized and desired the world over, and has established an unrivaled distribution network. The Mint is to be congratulated on these accomplishments.

This is an extraordinary time for the global precious metals market as demand for these metals climb, and prices are at or near-record highs. This demand can be traced back to the international financial crisis that began in 2007, and further fueled by economic uncertainty, jittery equity markets, and the looming threat of inflation.

Many investors in physical precious metals products prefer the size and convenience that coins offer, as well as the imprimatur that a national mint provides. Overwhelmingly, investors chose the American Eagle bullion coins, and they do so for three key reasons. First, the coins' weight, content and purity are guaranteed by the United States Government. Secondly, there is a liquid market for these products because of an established network of authorized dealers that ensure a two-way market. Thirdly, the exceptional beauty and quality of the coins make them desirable.

As a result, at times, the Mint has had exceptional demand for its gold and silver bullion products; but it has at times been unable to keep pace with the demand due to an insufficient supply of coin blanks. This has led to disappointed customers and resulted in market-share losses to other Mints' bullion products. The Mint the has taken steps to address its supply difficulties by adding additional capacity, but it still struggles to meet demand, particularly for the silver Eagle bullion coins.

An inadequate supply of blanks caused the Mint to forgo production in 2009 of proof versions of the American Eagle gold and silver coins, because of a requirement that gave priority to the production of bullion coins over proof-collector versions. Fortunately, Congress addressed that problem with its passage of the Coin Modernization, Oversight, and Continuity Act of 2010 (Public Law 111-302), and provided the Mint the authority to produce collector uncirculated and proof American Eagles even in times of unprecedented demand for the bullion versions.

The Mint also experienced problems with its roll-out late last year of the America the Beautiful Silver Bullion Coins. The problem highlighted weaknesses in the communications between the Mint and its Authorized Purchasers and the broader retail dealer community that the Mint relies upon to sell its products to consumers. The Mint should be encouraged to work more closely with its distributors and to have regular dialogue with them. In doing so, it will help the Mint to better gauge the market conditions for their products by hearing first-hand from those making the markets for them.

The anticipated introduction of a palladium American Eagle coin this year will bring a new dimension to Mint's bullion offerings. It will offer investors an attractive price point in relation to gold and platinum, with different supply/demand factors for the metal.

I believe investors would welcome the Mint's resumption of the production of the platinum Eagles this year, which the Mint halted at the end of 2008. Additionally, it would be fitting to mark the 25th anniversary of the American Eagle program with production of a four-coin collector set comprised of a gold, silver, platinum and palladium Eagle coin.

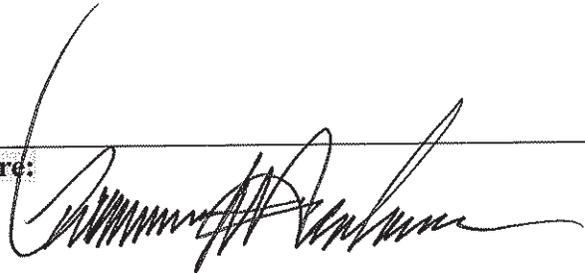
Congress could give a further competitive edge to the American Eagle bullion products by adjusting the capital gains tax treatment of these investments to make them on par with securities. The 1981 passage of The Economic Recovery Tax Act (Public Law 97-34) created a category of collectibles within the Internal Revenue Code, which included precious metals. This change in the tax code caused precious metals investments to be taxed at a different rate than that of investments in equities and mutual funds. As a result, current tax law imposes a maximum rate of 28 percent on long-term gains (investments held one year or more) on precious metals bullion investments rather than the maximum 15 percent levied on securities and mutual funds. By lowering the rate, Congress could substantially boost the market potential for the American Eagles.

Again, I want to thank the Subcommittee for the opportunity to be before it today. I would be pleased to answer any questions you may have for me.

United States House of Representatives
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: <i>TERENCE F. HANLON</i>	2. Organization or organizations you are representing: <i>Dillon Green Inc. & DAIMS</i>
3. Business Address and telephone number: 	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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