[COMMITTEE PRINT]

SUMMARY OF S. 3001: FEDERAL FINANCING BANK

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SUMMARY OF S. 3001: FEDERAL FINANCING BANK

The bill (S. 3001) establishes a Federal Financing Bank to provide for coordinated and more efficient financing of Federal and federally assisted borrowings from the public. The administration proposed this bill in Executive Communication No. 1367 on December 9, 1971. The bill (S. 3001) was reported out by the Senate Committee on Banking, Housing and Urban Affairs on June 12, 1972, and was passed by the Senate on June 22, 1972. It was referred by the House to the Committee on Ways and Means.

Administration Proposal

The bill, as proposed by the administration, is designed to shift debt management problems from program agencies to a Federal Financing Bank, to coordinate the financial management of agency programs which place (or guarantee debt issues placed) in the market, and to allow commitments to guarantee loans under Federal credit programs only in accordance with budget programs submitted to the President.

The bill, as proposed by the administration, has three principal features:

1. It provides for a Federal Financing Bank through which the marketing of Federal and federally assisted borrowing activities can be centralized.
2. It provides for advance submission to the Secretary of the Treasury of financing plans for obligations issued, sold, or guaranteed by any Federal agency, and for the Secretary's approval of the method and source of financing, timing, rates of interest, maturities, and all other financing terms and conditions of issues or sales of such obligations.
3. It provides for the submission of Federal agency budget programs for loan guarantees to the President and for the limitation by the President of these programs if the overall fiscal requirements and credit demands warrant it.

The Senate Bill

The Senate approved the bill substantially as proposed by the administration, except for two basic changes. Both of these changes affected the provision for prior approval by the Secretary of the Treasury of financing plans for obligations issued, sold, or guaranteed by Federal agencies.

The first change eliminated the requirement of prior approval by the Secretary for obligations guaranteed by Federal agencies; thus, the Senate bill requires prior approval only for obligations sold or issued by Federal agencies. The second change in the Senate bill prohibited the Secretary from withholding approval of financing plans for more than 120 days unless he gives Congress a timely detailed explanation of his reasons for withholding approval.

EXPLANATION OF THE BILL

A. Federal Financing Bank

The bill creates the Federal Financing Bank as an instrumentality of the U.S. Government subject to the general supervision and direction of the Secretary of the Treasury.

The bank would be authorized to purchase and sell or make commitments to purchase and sell any obligation issued, sold, or guaranteed by a Federal agency. Any purchase by the bank would have to yield a return not less than a rate determined by the Secretary of the Treasury taking into consideration current average yields on outstanding obligations of the United States or of the bank of comparable maturity.

The bank's activities would be financed, in general, by interest earned on obligations purchased, publicly issued obligations of the bank, bank obligations issued to the Secretary of the Treasury, and charges for its services. The Secretary of the Treasury could advance up to $100 million to the bank for initial capital, and appropriations would be authorized for this purpose. The bank would be authorized, with the approval of the Secretary of the Treasury, to issue its obligations to the public in amounts not to exceed $15 billion outstanding at any one time. National banks would be permitted to invest and deal in these obligations and fiduciary, trust and public funds under Federal control could invest in them. The bank also would be authorized to issue obligations to the Secretary of the Treasury, and the Secretary could use the proceeds of public debt transactions to finance such purchases. The Secretary also could sell any obligations so purchased. The bank could require the Secretary to purchase its obligations in amounts that would not cause the Secretary's holdings of required purchases to exceed $5 billion at any one time. Additionally, since the purchase by the bank of local federally guaranteed obligations must not increase the borrowing costs of local public bodies, Federal agencies would be authorized to make payments to the bank to avoid increasing local bodies net borrowing costs as a result of purchases of local obligations by the bank. Appropriations for such payments would be authorized. Furthermore, the bank could charge fees for its commitments and other services.

The bank would be governed by a five-person board of directors, serving without compensation, consisting of the Secretary of the Treasury (Chairman of the Board) and four persons appointed by the President from among officers or employees of the bank or of Federal agencies. The bank would have the usual corporate type powers. It would be exempt from all taxes except for real and tangible personal property taxes. Taxes on principal and interests of obligations issued by the bank would be taxable to the same extent as obligations of private corporations. Obligations of the bank would be exempt from SEC requirements.

Receipts and disbursements of the bank would not be included in the budget of the United States and would be exempt from statutory limits on expenditures and net lending (budget outlays) of the United States. The bank would be subject to the budget and audit provisions of the Government Corporation Control Act as they are applied to a wholly owned Government corporation.

B. Advance Treasury Approval of Financing Plans

Federal agencies issuing or selling obligations would be required to submit financing plans to the Secretary of the Treasury. The approval of the Secretary would be required of financing plans including the terms, conditions, timing, methods, and sources of financing. The Secretary could not withhold his approval for more than 120 days unless he submits a timely detailed explanation to the Congress of his reasons for doing so.

C. Review of Guaranteed Programs

No Federal agency would be permitted to enter into a commitment to guarantee any obligation except in accordance with a budget program submitted to the President. The budget programs could be limited by the President if he finds that limitations are necessary in view of the overall fiscal requirement and demands for credit.

D. Effective Date

The sections of the bill providing for advance Treasury approval of Federal agency financing plans and for Presidential review of commitments to guarantee obligations would become effective 30 days after enactment. All other sections would become effective upon enactment.