[COMMITTEE PRINT]

SUMMARY OF PROPOSAL TO ESTABLISH A FEDERAL FINANCING BANK

COMMITTEE ON WAYS AND MEANS

PREPARED BY THE STAFF
OF THE
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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SUMMARY OF PROPOSAL TO ESTABLISH A FEDERAL FINANCING BANK

The administration has proposed the establishment of a Federal Financing Bank to provide for coordinated and more efficient financing of Federal and federally assisted borrowings from the public. This proposal was made in Executive Communication No. 395 on February 8, 1973.[1]

The administration proposal is similar to the "Federal Financing Bank Act of 1972" (S. 3001) passed by the Senate on June 22, 1972, and reported, with amendments, by the Committee on Ways and Means on September 29, 1972 (H. Rept. No. 92-1478). No action was taken on S. 3001 on the House floor.

Administration Proposal

The administration proposal is designed to shift debt management problems from program agencies to a Federal Financing Bank, and to coordinate the market financing activities of Federal agencies which place debt issues (or guarantee debt issues placed) in the market.

The administration proposal has two 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 most Federal agencies, 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 these obligations.

The administration proposal differs from the bill reported by the Committee on Ways and Means in the last session of Congress in two important respects. First, the proposal would require the prior approval of the Secretary of the Treasury of financing terms and conditions for debt issued, sold, or guaranteed by most Federal agencies. The bill previously reported by the Committee did not require prior approval for guaranteed obligations. In this respect, the bill reported by the Committee was the same as the bill passed by the Senate. Second, the proposal provides that obligations issued by the Federal Financing Bank would be subject to Federal, State, and local taxation. The bill reported by the Committee provided that the obligations would be subject only to Federal taxation. The committee did not believe the bank's obligations should be subject to taxation by State and local governments, since this would have changed existing law regarding the taxation of Federal obligations.

[1] The administration proposal has been introduced in the Senate as S. 925.

Explanation of the Proposal

A. Federal Financing Bank

The proposal would create the Federal Financing Bank as a corporate body which is an instrumentality of the U.S. Government. The Bank would be subject to the general supervision and direction of the Secretary of the Treasury. It would exist until abolished by act of Congress.

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. All Federal agencies that issue, sell or guarantee obligations could sell them to the Bank. The Secretary of the Treasury would set the minimum yield to be earned by the Bank on obligations it purchases, taking into consideration current average yields on United States or Bank obligations of comparable maturity.

The Bank's activities would be financed, in general, by interest earned on obligations purchased, by publicly issued obligations of the Bank, by Bank obligations issued to the Secretary of the Treasury, and by charges for its commitments and other 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 publicly issue its obligations 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 could issue obligations to the Secretary of the Treasury, and could require the Secretary to purchase Bank obligations in amounts that would not cause the Secretary's holdings of required purchases to exceed $5 billion at any one time. The Treasury could sell its Bank obligations. These sales and its purchases would be treated as United States public debt transactions, and the Secretary could use the proceeds of public debt transactions to finance purchases of Bank obligations.

The Bank would determine the yield and maturity of its obligations issued to the public, and could provide for redemption before maturity of these issues. In the case of Bank obligations issued to the Treasury, and Treasury advances to the Bank, the Secretary of the Treasury would determine the rate of return. This determination would be based on current yields of outstanding United States obligations of comparable maturity.

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 cost as a result of purchases of local obligations by the Bank. Appropriations for such payments would be authorized.

The Bank would be governed by a 5-person board of directors, serving without compensation, consisting of the Secretary of the Treasury (chairman of the board) and 4 persons appointed by the President from among officers or employees of the Bank or of Federal agencies. Each member of the Board could designate another officer or employee of the Government to serve in his place. The chairman of the board would appoint the persons who would be the officers of the Bank. The Bank would have the usual corporate-type powers. It would be exempt from all taxes except for real and tangible personal property taxes. However, obligations issued by the Bank would be subject to Federal, State, and local taxation to the same extent as obligations of private corporations. Bank obligations would be exempt from SEC requirements, and these obligations could be prepared, held and delivered by the Secretary of the Treasury, who would be reimbursed for expenses incurred.

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. Further, the Budget status and accounting requirements of Federal agencies would not be affected by their sales to the Bank. However, 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, and the Bank would report annually to the President and Congress on its activities.

B. Advance Treasury Approval of Financing Plans—in addition to the Federal Financing Bank

In addition to establishing the Federal Financing Bank, the proposal would require most Federal agencies issuing, selling, or guaranteeing obligations 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.

Advance approval would not be required for obligations issued or sold under an act of Congress which expressly prohibits any U.S. guarantee of these obligations. Furthermore, advance approval would not be required for obligations guaranteed in connection with certain programs involving the guarantee of large numbers of individual obligations originated and serviced by local lending institutions.

C. Effective Date

The section of the proposal providing for advance Treasury approval of Federal agency financing plans would become effective 30 days after enactment. All other sections would become effective upon enactment.

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