

SUMMARY OF TESTIMONY ON
FEDERAL FINANCING BANK
AT
PUBLIC HEARING
MARCH 1, 1973
HELD BY THE
COMMITTEE ON WAYS AND MEANS

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



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SUMMARY OF TESTIMONY ON PROPOSAL TO ESTABLISH 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.

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. H.R. 5874, introduced in this session of Congress by Mr. Mills and Mr. Schneebeli, is essentially the same as the bill previously reported by the committee.

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.

Summarized below are the statements of the witnesses appearing during the public hearing of the Committee on Ways and Means held

on March 1, as well as written statements submitted to the committee. *Honorable Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs (March 1).*—Says that the proposed Federal Financing Bank has two major purposes: first, to provide a means of centralizing the marketing and reducing the costs of direct and guaranteed borrowing activities of Federal agencies; and second, to assure debt-management coordination by requiring advance approval of the Secretary of the Treasury with respect to direct and guaranteed security issues in the market.

States that the need for the Federal Financing Bank Act comes from the growing tendency to finance credit programs directly in the securities markets rather than through lending institutions.

Says that Federal credit agencies must now develop their own financing staffs and deal with complex debt-management issues, thereby lessening their abilities to cope with their principal program functions. Maintains that borrowing costs of Federal agency financing methods normally exceed Treasury borrowing costs because of crowding in the financing calendar, cumbersome nature of securities, and limited markets in which the securities are sold. Asserts that agency debt-management problems could be shifted to the Federal Financing Bank. Says that Congress has required Treasury coordination of agency borrowings in many cases, but not in others and that requirements are vague or incomplete. Believes that the proposal would assure more orderly and effective financial management by requiring advance approval of agency financing plans by the Secretary of the Treasury.

Emphasizes the following points: First, the Bank would not be a program agency. Second, the Bank would not be another big bureaucracy. Third, the Bank is not a device to remove programs from the Federal budget nor to bring programs back into the budget. Fourth, the proposal is not an assault on the tax-exempt municipal bond market.

Says that the proposal provides that obligations issued by the Bank would be subject to State and local taxation, for otherwise there would be a loss of tax revenues to these governments as compared to the present methods of financing guaranteed obligations. Says that the proposal includes guaranteed obligations in the advance approval requirement of the Secretary of the Treasury, so that a technical distinction based on whether an agency actually acquires a security before arranging for its market financing would not determine the issues to be coordinated. Asserts there could be a substantial volume of government backed securities flowing into the market without any overall debt-management coordination if guaranteed issues were not covered.

Recognizes potential administrative problems if Treasury approval were required of individual loan guarantees; says the Treasury has no intention of getting involved in such guaranteed loans and thus the current proposal eliminates them from the advance approval requirement.

Points out that the provisions of administration proposal are the same as the provisions of the bill reported by the committee last year with respect to the U.S. Postal Service. Maintains there has been no

change in Treasury's understanding of the application of the proposal to the Postal Reorganization Act, and that the Federal Financing Bank Act would simply provide an additional optional method of financing the Postal obligations.

Benjamin F. Bailer, Senior Assistant Postmaster General, Support Group, U.S. Postal Service, and Roger P. Craig, Deputy General Counsel (March 1).—Affirm agreement with the committee's comments on the relationship of the proposed Federal Financing Bank to the Postal Service, as stated in relation to S. 3001 in the 92nd Congress and at pages 6-7 of H. Rept. 92-1478. Believe that the proposal would give the Postal Service an additional potential purchaser of Postal obligations, the Federal Financing Bank. Believe there is no need to add language to the administration proposal specifically excluding the Postal Service from coverage to achieve this result. Support enactment of the bill.

Albert E. May, Vice-President, American Institute of Merchant Shipping (March 1).—Points out that the shipping and ship building industries are increasingly capital intensive. Says that assistance by the Federal Government for financing the construction of ships is found in Title XI of the Merchant Marine Act of 1936, providing authority for the Secretary of Commerce to insure principal and interest of loans and mortgages required for the construction of U.S. flag ships. Maintains this program has operated profitably.

Notes that section 7 of the Treasury proposal gives the Treasury advance approval over the financing details of obligations guaranteed by any agency. Says that the practical effect of section 7 would be to stifle the Title XI program by adding an unnecessary layer of bureaucracy. Maintains that this proposal would have the effect of overriding action by another committee of the House and the Congress which last year passed the Federal Ship Financing Act, P.L. 92-507.

Maintains that guarantee programs successfully functioning under agencies with proven expertise should not be made vulnerable to Treasury interference. Believes that ship financing is extremely complex, must be done swiftly, and that the Department of Commerce is highly expert and experienced in the needs of this financing.

Requests deletion of the word "guarantee" from section 7 of the proposal.

Earl W. Clark and Talmadge E. Simpkins, Co-Directors, Labor-Management Maritime Committee (March 1).—Do not favor giving advance approval over financing terms and conditions to the Secretary of the Treasury for financing under Title XI of the Merchant Marine Act of 1936. Believe that it is uncertain that the cost of borrowings would be appreciably reduced under the proposal. Suppose that if the Bank's rates were more advantageous, Title XI financing might be sold to the Bank, but that mandatory use of the Bank should not be legislated. Urged the committee to except the Title XI guarantee program from section 7 of the proposal.

George C. Martin, President, National Association of Home Builders, Carl A. S. Coan, Jr., Legislative Counsel, and Burton C. Wood, Deputy Legislative Counsel (March 1).—Concerned about requiring guaranteed issues to be submitted to the Secretary of the Treasury for

advance approval as to terms and conditions of financing. Believe that the current proposal is less onerous than the original proposal to the 92nd Congress, for the current proposal does not apply to guarantees of most single family FHA and VA mortgages. However, believe that the proposal still represents an unwarranted intrusion by the Treasury into substantive program decisions that belong in the agencies responsible for the programs. State that prior approval of financing would seem to be required for several housing related programs, such as Government National Mortgage Association mortgage-backed securities, public housing loans, new community guarantees, and others. Maintains that the power to determine the scope and extent of financing is in effect the power to completely control the program.

Support the concept of centralizing direct Federal borrowing and support discretionary authorization. Recommend eliminating prior control by Treasury over Federal guaranteed programs.

Robert Bethke, Vice-Chairman, Public Finance Division's Government Securities and Federal Agencies Committee, Securities Industry Association, and John A. Petersen, Director of Public Finance, Securities Industry Association (March 1).—Believe establishment of a Federal Financing Bank should be expedited and is overdue. State that new Federal agencies are crowding the financing calendar with issues which cannot be readily understood or appraised by investors. Say that this situation means higher interest costs to the programs than if the Federal Financing Bank were utilized. Believe that a Federal Financing Bank would eliminate doubts in investors' minds about credit worthiness, technical features of securities, or secondary marketability. Furthermore, believe the Bank would eliminate the need for financing staffs and overhead costs at each new agency and could coordinate and consolidate agency securities offerings with significant interest savings.

While supporting the Act, offer caveats: (1) This should not encourage the creation of more underlying credit assistance programs. (2) The cost of centralization and controls is the creation of another check and delay point. (3) The Bank makes no change of outside the budget treatment of underlying loan programs. (4) The Bank could become a tool for direct domination over the flow of credit to State and local governments. In this regard, believe that inclusion of a taxable municipal bond option under the Bank would negate the purpose of such an option, and recommend exclusion of the taxable bond option. Report that the Treasury indicates no objection to such inclusion.

Alfred Maskin, Executive Director, and Joseph A. Klausner, Esq., Counsel, American Maritime Association (March 1).—Maintain that the establishment of a recognized institutional market for shipping loans would be abandoned, and a variant of the old system of direct government loans reinstated, under the proposal. Question whether it is desirable to perpetuate reliance on the government for ship financing. Believe that the government should encourage any trend toward self-sufficiency on the part of the industry. Also believe that the committee should receive the views of the Secretary of Commerce and the legislative committees that preside over the Merchant Marine.

Say that the requirement of advance approval for financing by the Secretary of the Treasury apparently gives the Treasury authority to

judge whether and how a program is facilitated. Additionally believe that review by the Treasury presents practical difficulties. Maintain that to give authority to two departments to fix the terms and conditions of a single shipping transaction is to ensure its breakdown, either through conflict or delay. Believe one department is better than two. Recommend striking guaranteed obligations from the advance approval requirement, as the committee did last year.

American Bankers Association, Eugene H. Adams, President (written statement).—Supports enactment of the bill, on the condition that the Bank's authority to require obligations would not be extended to include obligations not guaranteed by the United States or United States agencies.

National Association of Housing and Redevelopment Officials, Robert W. Maffin, Executive Director (written statement).—Opposes the requirement that federally guaranteed obligations be subject to the advance approval of the Secretary of the Treasury. Believes the compromise in the current proposal does not alleviate the previous concerns since FHA and multi-family transactions, and local public housing and urban renewal obligations would continue to be subject to the requirements set forth in section 7. Believes that a waiting period of 120 days for approval could result in losing favorable market situations. Maintains that advance approval would necessarily result in the Secretary becoming a "decision maker" among the obligations of federally assisted programs.

National League of Insured Savings Associations, William F. McKenna, General Counsel/Vice-President (written statement).—Approves the exclusion of Federal Home Loan Banks and the Federal Home Loan Mortgage Corporation from the bill. Recommends that consolidated obligations of the Federal Home Loan Banks, issued by the Federal Home Loan Bank Board, also be excluded. Suggests careful consideration on exclusion of receipts and disbursements of the Bank from the budget of the United States.

United States Savings and Loan League, Stephen Slipper, Legislative Director (written statement).—Favors the concept of a centralized financing facility to promote orderly marketing of Federal agency securities. Opposes inclusion of guaranteed obligations in the requirement of prior approval by the Secretary of the Treasury of financing conditions. Believes this would allow the Treasury to "second guess" program decisions. Recommends deletion of guaranteed obligations from the advance approval requirement. Additionally recommends that federally chartered savings and loan associations be permitted to invest in Federal Financing Bank securities.

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