[COMMITTEE PRINT]

SUMMARY OF TESTIMONY ON S. 3001: FEDERAL FINANCING BANK

AT

PUBLIC HEARING

SEPTEMBER 27, 1972

HELD BY THE

COMMITTEE ON WAYS AND MEANS

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

SEPTEMBER 28, 1972

U.S. GOVERNMENT PRINTING OFFICE
84-246 WASHINGTON : 1972 JCS-27-72

SUMMARY OF TESTIMONY ON 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.

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 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.

Summarized below are the statements of the witnesses appearing during the public hearing of the Committee on Ways and Means held on September 27, as well as written statements submitted to the committee.

Summary of Testimony

Hon. Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs (September 27).—Indicates that the proposed Federal Financing Bank would provide a means to (1) centralize the marketing and reduce the cost of Federal and federally assisted borrowing activities, (2) assure debt management coordination by the Secretary of the Treasury of Federal agency direct and guaranteed borrowing plans, and (3) facilitate presidential review of loan guarantee activity in the light of fiscal requirements and overall demands on U.S. financial markets.

Points out that total net market demands of Federal and federally assisted borrowers are estimated at about $60 billion in fiscal year 1973, or nearly half as much as the expected total of funds advanced in credit markets, as compared to less than one-fourth in fiscal 1963. Notes that the borrowing costs of the various Federal agency financing methods normally exceed Treasury borrowing costs, because of the proliferation of competing issues, the cumbersome nature of many of the securities, problems of timing and size of issues, limited markets in which they are sold, and underwriting costs.

States that the bank would not be a program agency, nor make any judgments with respect to the purposes of Federal agency programs; that the bank would not involve another bureaucracy, but would avoid having to set up new financial staffs for each new credit program; that the bank is not a device for removing items from the Federal budget; and that the bank proposal is not an assault on the tax-exempt municipal bond market.

Recommends restoring to the bill the provision in the administration's proposal to have a requirement for prior Treasury approval of the financing aspects of "guaranteed" obligations as well as for obligations directly purchased. Indicates that their proposed revised amendment would not require Treasury approval of obligations guaranteed in connection with programs involving the guarantee of large numbers of individual obligations that are originated and serviced by local lending institutions and that are not ordinarily bought and sold in the same market as bonds and other similar types of investment securities.

Benjamin F. Bailar, Senior Assistant Postmaster General, Support Group, U.S. Postal Service, and Roger P. Craig, Deputy General Counsel (September 27).—Assert that S. 3001 would not hinder the borrowing of the U.S. Postal Service because the Postal Reorganization Act of 1970 provides that "no federal law dealing with public or federal . . . budgets, or funds . . . shall apply to the exercise of the powers of the Postal Service." Points out that Senate floor debate on S. 3001 confirms this.

Securities Industry Association, Wallace Sellers, Cochairman of the Federal Legislation Committee of the Public Finance Division;

Thomas Masterson, Chairman, Municipal Securities Committee; Robert Bethke, Vice Chairman, U.S. Governments and Federal Agencies Committee; and John E. Peterson, Director of Public Finance (September 27).—Support S. 3001 as a method of coordinating and simplifying Federal credit programs. Maintain that the diversity and complexity of these credit programs is a deterrent to efficient financing practices, and is more costly to finance than regular Treasury borrowings.

Caution against using the Federal Financing Bank as a rationalization for creating more Federal credit assistance programs. Point out tht the proposal does not address the problem of budget treatment of the various credit programs.

Indicate that, without proper safeguards, the bank could become a tool for direct domination over the flow of credit to State and local governments. Object to the inclusion of "guaranteed" obligations unless the taxable bond option for State and local governments is not considered as a "guaranteed" obligation in section 3 of the bill.

American Institute of Merchant Shipping, James J. Reynolds, President (September 27).—Recommends deletion of the provision of section 16 of the bill that would cover the Federal insurance of shipping loans and mortgages under the annual budget authorization process of the office of Management and Budget. Indicates that this could damage the nation's merchant ship building program in times of tight money or budget limitations. Claims that this could shift ship building to other countries.

Support the Senate's deletion of the guaranteed issues from coverage under the bill.

Points out that the Secretary of Commerce is already required to approve the source and method of financing, the rate of interest, and maturities of federally-insured shipping issues. Asserts that S. 3001 would duplicate this by also requiring Treasury approval.

American Maritime Association, Alfred Maskin, Executive Director (September 27).—Believes that a fuller discussion is needed for the bill. Recommends that administration of title XI of the Merchant Marine Act of 1936 remain with the Secretary of Commerce, which requires the Secretary to approve federally-insured ship loans.

Labor-Management Maritime Committee, Earl W. Clark and Talmage E. Simpkins, Co-Directors (September 27).—Objects to the bill as it applies to title XI of the Merchant Marine Act of 1936. Strongly supports the Senate action in deleting the Treasury Department's section 7 authority over guaranteed obligations. Urges exemption of title XI financing from this legislation.

Hon. Elliot Richardson, Secretary of Health, Education and Welfare (written statement).—Supports the establishment and implementation of the Federal Financing Bank bill with respect to securities being offered on behalf of HEW. Believes the consolidation of government securities will lower interest costs for these programs.

Hon. George Romney, Secretary of Housing and Urban Development (written statement).—Supports the proposed Federal Financing Bank as a way to improve coordination of Federal and federally assisted borrowing programs. Backs the proposal to give the bank authority over the financing arrangements of obligations guaranteed by Federal agencies, except guarantees involving large numbers of individual issues, which are likely to be so small as to have no individual impact on market conditions.

Suggests that it might be advisable to explicitly include the Secretary of HUD as a member of the board of the bank because of the substantial involvement by HUD in housing financing and guarantees.

Hon. William Proxmire, U.S. Senator, Wisconsin (written statement).—Believes that the Senate Banking Committee did not intend that Federal credit agencies be required to finance their issues through the Federal Financing Bank, but rather on a voluntary basis. Notes that this was to prevent the bank from interfering in the program activities of other Federal agencies. Maintains that if an agency can borrow cheaper on its own, there is no reason to require it to finance its issues through the Federal Financing Bank.

Indicates that Treasury apparently does not share this interpretation of a voluntary borrowing basis. Suggests that clarifying language be adopted if the committee agrees on the voluntary borrowing aspect.

Hon. Thaddeus J. Dulski, Member of Congress, New York (written statement).—Recommends that S. 3001 not apply to the independent U.S. Postal Service, since the intent of the independent Postal Service was to give them financial flexibility in borrowing outside of Federal budget restrictions. Believes that to require prior approval of the Secretary of the Treasury would conflict with the provisions of chapter 20 of title 39, United States Code. Urges that Postal Service financing not be subjected to the restrictions of sections 7 and 16 of S. 3001.

Hon. William R. Anderson, Member of Congress, Tennessee (written statement).—Recommends an exemption in S. 3001 for the Tennessee Valley Authority. Maintains that the bill would strike at the autonomy of TVA by placing the Secretary of the Treasury in charge of TVA borrowing. Indicates that the issue of Treasury Department control over TVA was decided in 1959 when Congress gave TVA self-financing authority. Asserts that present law already requires coordination of TVA bond issues with Treasury as to timing and interest rates.

Hon. Ray Blanton, Member of Congress, Tennessee (written statement).—Opposes the bill as it applies to the Tennessee Valley Authority. Recommends that the TVA be excluded from its provisions.

American Bankers Association, Allen P. Stults, President (written statement).—Supports enactment of the bill. Indicates that this support is conditioned in that the authority of the Federal Financing Bank (under sec. 17 of the bill) to acquire obligations of any public body or agency in the United States not be extended to include "obligations of public bodies or agencies other than such obligations which are guaranteed or insured by the United States, or agencies thereof."

National Association of Manufacturers, Eugene J. Hardy, Senior Vice President, Government Affairs Division (written statement).—Notes that extra budgetary lending has mushroomed in recent years, far exceeding the direct government lending under the budget. Indicates that the borrowing costs of the many Federal credit programs exceeds the cost of regular Treasury borrowing. Asserts that the proliferation of credit agencies has led to the development of a number of separate and uncoordinated financing procedures and staff, and that existing authority for the Treasury to coordinate agency borrowing is neither comprehensive nor adequate.

Believes that S. 3001 represents a reasonable approach to better management of Federal credit activities.

Recommends a provision for the submission to the Federal Financing Bank and to the public of regular reports of the planned and accomplished activities of the excluded major federally sponsored, but privately owned, agencies: Federal National Mortgage Association, Federal home loan banks, Federal intermediate credit banks, and banks for cooperatives. Also, suggests deletion of the part of section 11(c) relating to exempting the bank from statutory budget limitations.

Massachusetts Association of Housing Authorities, Clement A. O'Brien, President and Edward J. Sweeney, Vice President (written statement).—Support S. 3001 as passed by the Senate. Object to efforts to revise section 7 to require approval by the Secretary of the Treasury of many locally issued, but federally guaranteed obligations (including local public housing and urban renewal obligations).

Maintain that such Treasury approval would give the Secretary too much control over the operational aspects of loan guarantee provisions and weaken the authority of Federal Agency heads to carry out their responsibilities assigned by Congress. Second, assert that Treasury control over Federal guarantee programs is unnecessary because most individual loan guarantees do not have the same impact on credit markets compared to the issuances or sale of securities by Federal Agencies. Third, contends that Treasury control over Federal guarantee programs is not administratively feasible because of the large number of loan guarantees.

Believes that there should be a way for the Secretary of HUD to coordinate his efforts with the Secretary of the Treasury without transferring control to the Treasury.

National League of Insured Savings Associations, Edwin G. Alexander, Chairman of the Committee on Federal Legislation (written statement).—Endorses the Senate exclusion of the Federal Home Loan Bank Board and Federal Home Loan Mortgage Corp., as they are privately owned agencies and require flexibility in their own borrowing operations.

National Association of Housing and Redevelopment Officials, Robert W. Maffin, Executive Director (written statement).—Objects to inclusion of federally guaranteed obligations under control of the Federal Financing Bank. Suggests that the use of the Bank for local housing and renewal agency obligations could be made possible without requiring that all of these obligations must be approved in advance.

Shipbuilders Council of America, Edwin M. Hood, President (written statement).—Opposes S. 3001 in its present form. Expresses concern that section 16 of the bill would negate the provision of title XI of the Merchant Marine Act of 1936, as amended by the Merchant Marine Act of 1970, authorizing $3 billion in Federal mortgage insurance guarantees for merchant shipbuilding.

Believes that section 16 could result in a reduction of the available loan guarantees according to varying budget decisions. Recommends deletion of section 16.

Endorses the Senate's version of section 7 to exempt Federal loan guarantees from approval authority by the Secretary of the Treasury, as this would duplicate administration of the loan guarantees by the Commerce Department.

Association of Primary Dealers in U.S. Government Securities, Carl J. Kreitler, President (written statement).—Approves the proposal to establish a Federal Financing Bank.

O