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TREASURY DEPARTMENT

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
November 6, 1985

STATEMENT OF JOHN J. NIEHENKE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY (FEDERAL FINANCE)
BEFORE THE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
OF THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

Madame Chair and Members of the Subcommittee:

I welcome this opportunity to appear before you this morning to discuss the continuing efforts of the Treasury Department and of the Secretary of the Treasury to assure persons receiving benefits and other payments from the United States that their payments will be made and honored notwithstanding Congressional failure to agree on a debt limit increase. I must emphasize that we can continue to provide such assurances only through November 14, by which date Congress must act on the debt limit bill to avoid default.

On September 10, when I testified before the Senate Finance Committee urging that the debt limit bill, H.J. Res. 372, as passed by the House, be enacted prior to September 30, I stated that "without an increase in the debt limit by that date, investment of the Civil Service Retirement and Disability Fund in Treasury securities will have to be delayed to avoid exceeding the debt limit." I estimated that the cost of the delay to the Civil Service and two other funds would total approximately \$8 million per day.

As the Chair is aware, funds other than Civil Service have also been adversely affected, and, moreover, our ability to operate the finances of the United States on a routine and predictable basis has been sorely strained. It is the obligation of the Secretary of the Treasury to reconcile his responsibility not to issue debt in excess of the debt limit with his concurrent obligation to manage responsibly the finances of the United States, including in particular the timely payment of benefits for a number of programs for which he serves as fund manager. In balancing these responsibilities, the Secretary has made decisions based on four guidelines: (1) avoid an unprecedented default on obligations of the United States; (2) ensure that recipients of benefit payments receive their payments when expected; (3) minimize, to the extent possible, the costs to the various funds administered by Treasury of actions taken, and (4) stay within the debt limit.

I can report to you today that, in spite of numerous and complex problems, Treasury has, to date, managed to avoid a default, ensured that recipients of monthly payments have been paid on time, minimized the cost of actions necessary to make payments on time, and stayed within the debt limit. I must caution, however, that we are running out of time. Continued delay in passing a debt limit bill is unacceptable. I trust today's testimony, and testimony I will give tomorrow, will clarify what we have done and reassure you and the American public that our actions have not jeopardized the solvency of any

trust funds. But I must point out that only a prompt passage of a debt limit bill will relieve the unnecessary and unfortunate anxiety that recipients of payments from these funds are experiencing.

The Civil Service Retirement and Disability Fund is established by section 8348 of title 5, United States Code. The Secretary of the Treasury is directed to take certain actions with respect to the fund, including receiving monies and investing "such currently available portions of the Fund as are not immediately required for payments from the Fund." The investments are to be made in special obligations of the Treasury, at an interest rate set monthly on the basis of a statutory formula. Unlike other trust fund statutes, the Civil Service fund statute does not explicitly provide for redemption of Fund investments in order to pay benefits. However, the statute does appropriate monies in the Fund for payment of benefits and administrative expenses. Since benefits cannot be paid unless investments either mature or are redeemed, it is obvious that the Secretary's authority to invest also contemplates redemption.

The Civil Service fund has two major sources of income--periodic payments from agencies in respect of employee salaries and lump sum payments at the end of the fiscal year in respect of unfunded liabilities. When Treasury is unconstrained in its ability to issue new debt to the Fund, all this income is

immediately invested in Treasury securities. At the same time, both benefit payments and repayments of contributions to departing employees must be made from the Fund. The payments vary from month to month, but are generally on the order of \$2 billion per month. When payment checks or electronic funds transfers are presented to Treasury for payment, payment is made from the Treasury general cash account and investments of the Fund are redeemed to reimburse the Treasury. The vast bulk of these redemptions occur during the first ten days of each month. Throughout August and in September until September 30, the Fund was invested and redeemed as usual; there were no non-investments or early redemptions.

Because of the relatively small scale of the daily transfers, and the concurrent redemptions, we have until now been able fully to invest the daily transfers. However, as I warned in my September 10 testimony, the failure to enact an increased debt limit by September 30 has meant that a portion of the annual lump sum payment to the Civil Service fund has not been invested. Treasury transferred to the Fund approximately \$17 billion in respect of unfunded liabilities on September 30, on which date Treasury was already at the debt limit. Therefore, we could not invest the \$17 billion at that time. I want to emphasize that the transfer was made, it was only the investment that was delayed. Except for the interest loss discussed below, the principal amount of the fund is fully as large as it would have been had the increased debt limit been passed before September 30.

The Civil Service fund, unlike the Social Security Trust Funds, does not operate under an advance investment "normalized tax transfer" system. Therefore, as I stated in September and as Secretary Baker reiterated in an October 1 letter, when the Fund is uninvested, it loses interest. Because of this interest loss, as debt limit capacity became available during October (through redemptions to pay benefits), the Fund, along with other interest-losing funds, was partially invested. By the end of October, over \$12 billion of the \$17 billion transferred on September 30 (in addition to the daily transfers) had been invested. Moreover, because of the structure of the Fund's portfolio, redemptions to pay benefits during October were able to be made fully out of short-term and low-yield longer term obligations, avoiding the redemption of any higher-yielding long-term obligations. We estimate that the October interest loss to the Civil Service fund because of delayed investments and non-investment was approximately \$55 million.

In September and October, Treasury's cash balances were sufficient to permit the payment of benefits followed by redemption of obligations held by the Fund, as is normal Treasury operating practice. However, as of the close of business on October 31, Treasury's cash balance was only \$1.8 billion (compared to a normal cash balance on that date of between \$10 and \$20 billion and a minimum desirable level of \$5 billion). Treasury estimated that checks and electronic funds transfers presented for payment the next day would be in excess of \$10

billion, including approximately \$1.4 billion of Civil Service benefit payments and \$6.9 billion of Social Security benefit payments. November 1 revenues were estimated to be less than \$3 billion. A similar situation was projected for November 4.

In order to raise the necessary cash to make sure benefits could be paid, on October 29 and 30 Treasury auctioned obligations in the amount of \$13 billion to be issued on November 1, and on October 31, Treasury auctioned an additional \$4.75 billion in obligations to be issued on November 4. Although Treasury hoped that the new debt could be issued under an increased debt limit, an increase was not enacted. Therefore, Treasury proceeded to redeem fund obligations only in an amount equal to November benefit payments in order to be able to raise cash by issuing the new obligations while staying under the debt limit. Because cash flows are uncertain within a wide margin, Treasury needed to accelerate the redemptions. Thus, \$1.513 billion in securities were redeemed from the Fund on November 1, \$198 million was redeemed on November 4, and \$52 million is expected to be redeemed on November 8. Under normal circumstances, \$1.4 billion would have been redeemed on November 1, \$225 million on November 7 and \$151 million on November 8. We estimate that the interest loss to the Fund from the early redemption is approximately \$404,000.

I wish to assure you that the securities redeemed on November 1 and 4 were short-term securities. Therefore, the

redemption will have no adverse consequence for the Fund's portfolio. Finally, I wish to assure you that Treasury will of course comply with section 273 of H.J. Res. 372 if it is enacted into law. That section provides for issuance of securities and transfers of funds to relieve the Civil Service and other funds of losses since September 1 resulting from the debt limit impasse.

The debt limit impasse has put us all in the position of facing choices we would rather not face. The Secretary has recently been faced with choosing between defaulting on all United States obligations, including beneficiary payments, or advancing the redemption of trust fund obligations to pay those benefits. He chose the latter course to ensure that millions of Americans would continue to receive their benefits in a timely fashion.

That completes my formal statement. I will be happy to answer any questions you may have.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 2:00 P.M.
NOVEMBER 7, 1985

STATEMENT OF JOHN J. NIEHENKE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY (FEDERAL FINANCE)
BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY AND INCOME
MAINTENANCE PROGRAMS
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before you to explain what actions Treasury has taken during the current debt limit impasse that have affected the Social Security Trust Funds. In this testimony I will cover four points. First, explain how the Social Security Trust Funds operate with respect to the payment of benefits, transfer of credits and redemption of obligations by these Trust Funds when there are no debt limit restraints on investment by the Trust Funds. Second, explain what actions Treasury has taken with respect to these funds during this current debt limit impasse. Third, outline three types of potential costs to the Trust Funds arising from the actions Treasury has taken. Finally, outline the costs to the non-Social Security funds due to the failure of Congress to increase the debt limit.

I know this Committee recognizes the importance of managing the finances of the United States on a routine and responsible basis and assuring that those due payments from the United States receive those payments on an orderly basis.

Failure to increase the debt limit has strained our ability to meet these responsibilities. This strain results in uncertainty on the part of those due payments from the United States about when and whether they will receive those payments.

The Secretary of the Treasury must reconcile his responsibility not to issue debt in excess of the debt limit with his concurrent responsibility to manage responsibly the finances of the United States including timely payment of benefit payments for a number of programs for which he serves as fund manager. In balancing these responsibilities, the Secretary has made decisions based on four guidelines: (1) avoid an unprecedented default on obligations of the United States; (2) ensure that recipients of Social Security and other retirement programs receive their payments when expected; (3) minimize, to the extent possible, the costs to the various funds administered by Treasury of actions taken, and (4) stay within the debt limit.

I can report to you today that in spite of numerous and complex problems, Treasury has, to date, managed to avoid default, ensured that recipients of Social Security payments have been paid on time, minimized the cost to the Trust Funds of actions necessary to make payments on time, and stayed within the debt limit. I must caution, however, that we are running out of time. Continued delay in passing a debt limit

bill is unacceptable. I trust today's testimony will clarify what we have done and reassure you that our actions have not jeopardized any payments from the Social Security or other Trust Funds. But I must point out that the only long-term solution to relieve the anxiety that recipients of payments from the funds are experiencing is prompt passage of a debt limit bill.

I will now turn to the normal operation of the two Social Security Trust Funds -- Federal Old Age and Survivors Insurance Trust Fund (OASI) and Federal Disability Insurance Trust Fund (DI) (the Trust Funds). The Trust Funds receive transfers in the form of credits from the Treasury in amounts equal to taxes collected (primarily FICA withholding taxes) under applicable provisions of the Internal Revenue Code. Since May 1, 1983, the transfer has been made at the beginning of each month in an amount equal to the Secretary's estimate of tax receipts to be received by the Trust Funds that month. This procedure is referred to as the Normalized Tax Transfer ("NTT"). These transfers are invested in interest-bearing obligations maturing on the next June 30. These obligations are subject to the debt limit.

At the end of each month, Treasury mails checks and forwards electronic funds transfer tapes for benefits payable on the third day of the following month. When these transfers are made and checks are presented to the Treasury, payment is

made from the Treasury cash account and Trust Fund investments are then redeemed to reimburse the Treasury. Thus monthly redemption of obligations held by the Trust Funds is and has been an integral part of the Secretary's administration of the Trust Funds.

To properly account for benefits paid by electronic funds transfers obligations with a face value of approximately 50 percent of total benefit payments would be redeemed on the day electronic funds transfers and checks are payable. In accordance with the requirements of section 153 of the Social Security Amendments of 1983 (P.L. 98-21), obligations in a face amount equal to approximately 30 percent of the benefit payments would be redeemed on the fourth business day following the check issue date; the remaining 20 percent would be redeemed on the fifth business day following the issue date.

The normal redemption procedure is that the first obligations redeemed are those that mature the following June 30, lowest interest rate first. The redemption process includes the most recently invested NTT. If these obligations are insufficient to cover benefit payments, obligations maturing the next June 30 are redeemed, again lowest interest rate first, and so on. Therefore, in months when the NTT is less than benefits paid (which can happen even when there is an annual surplus), longer term obligations may be redeemed.

This happens several times each year, most recently in August, 1985. These redemptions are totally unrelated to the debt limit and take place due to normal fluctuations in monthly Trust Fund receipts.

Long-term investments are made each June 30. The proceeds of all maturing obligations are reinvested in obligations with maturities based on projected benefit payments. (All obligations mature on June 30, but they mature in different years.) The interest rate on each of these obligations, no matter what the maturity, is the statutory formula rate for the June during which they are issued. This rate may be higher or lower than the rates on the maturing obligations.

Now let me explain the actions Treasury has taken during the current debt limit impasse. On September 3, 1985 (the first working day of September), Treasury transferred the full September NTT to the Trust Funds as required by law. However, also on that date, the principal amount of outstanding obligations subject to the debt limit reached the statutory limit of \$1823.8 billion. Therefore, Treasury was unable to fully invest the NTT on September 3. However, as Trust Fund obligations were redeemed to reimburse Treasury for payment of Trust Fund benefits during September according to Treasury's normal operating practice, the uninvested balance in the Trust Funds was invested to the maximum extent possible.

On October 1, Treasury again transferred the full October NTT to the Trust Funds. However, because obligations outstanding subject to the statutory debt limit again equaled the limit, the NTT was not, and thereafter has not been invested.

I want to assure you that, in spite of inability to invest the NTT, Trust Fund total balances have remained essentially stable since July 31. The Trust Fund balances and investments for the period July 31 - October 31, 1985 are shown in the following table (in millions of dollars).

	July 31	August 31	September 30	October 31
Invested:				
Long-term	36244	34436	27535	22642
Short-term	<u>1563</u>	<u>2760</u>	<u>8875</u>	<u>321</u>
Total invested	<u>37807</u>	<u>37196</u>	<u>36410</u>	<u>22963</u>
Uninvested	453	160	3077	15877 est.
Grand Total	<u>38260</u>	<u>37356</u>	<u>39487</u>	<u>38840 est.</u>

Under normal circumstances, obligations with face amounts totaling almost \$15 billion would have been redeemed by the Trust Funds on November 1, 7 and 8. \$6.899 billion of obligations would have been redeemed on November 1, \$4.816 billion would have been redeemed on November 7 and \$3.21 billion would have been redeemed on November 8. That amount equals the amount of benefits that will be paid in November. No more than this \$15 billion of obligations will be redeemed from the Trust Funds; however instead of being redeemed on November 1, 7 and 8, they are being redeemed on November 1, 4

and 8. On November 1 obligations in an amount of \$9.613 billion were redeemed. On November 4 obligations in an amount of \$4.181 billion were redeemed. On November 8 obligations in an amount of \$1.131 billion will be redeemed. Let me stress that, while the timing of redemptions has been accelerated, since the same amount of obligations would have been redeemed in any event, Trust Fund obligations were only used for Trust Fund November payments.

This early redemption, also referred to as disinvestment, was necessary because unlike September and October, when Treasury's cash balances were sufficient to permit payment of benefits followed by redemption of obligations held by the Trust Funds, in November Treasury's cash balance was virtually depleted. As of the close of business on October 31, the Treasury's cash balance was only \$1.8 billion (compared to a normal cash balance on that date of between \$10 and \$20 billion and a desirable minimum level of \$5 billion). Treasury estimated that checks and electronic funds transfers that would be presented to the Treasury for payment the next day would be in excess of \$10 billion, including approximately \$6.9 billion of Trust Fund benefit payments. November 1 revenues were estimated to be less than \$3 billion. A similar situation was projected for November 4. Thus, unless Treasury took action, the United States would have defaulted. If the United States defaulted, recipients of Social Security payments would not have been paid.

In order to avoid default on November 1, on Tuesday and Wednesday, October 29 and 30, Treasury auctioned \$13 billion in new Treasury obligations, which were issued on November 1. The auction raised cash to enable Treasury to make benefit payments. An additional \$4.75 billion of Treasury securities was auctioned Thursday, October 31, for issuance on November 4, also to provide cash for benefit payments.

In order to minimize costs to the Trust Funds, Treasury altered its normal method of redeeming securities and, in November, redeemed securities on the basis of lowest interest rate first -- regardless of maturity. This Treasury action avoided the redemption of high coupon obligations held by the Trust Funds.

The failure to pass a debt limit and the actions taken by Treasury to ensure November benefit payments could result in three potential losses to the Trust Funds, (1) losses directly due to non-investment of the Normalized Tax Transfer; (2) losses resulting from acceleration of the November redemption, and (3) losses resulting from premature redemption of obligations maturing after June 30, 1986. Let me discuss each potential loss.

The NTT mechanism was part of the 1983 amendments to the Social Security Act. As explained above, under the NTT, anticipated receipts are invested on the first business day of

each month. By law, excess interest earned by the Trust Funds, however, must be repaid to the Treasury. This adjustment is accomplished at Trust Fund interest payment dates by reducing the interest otherwise due the Trust Funds on the Treasury obligations by the amount of excess interest earned by the Trust Funds because of the NTT. Due to this semi-annual interest netting mechanism, Treasury, at this time, can and will make the Trust Funds whole for loss of interest due to the inability to invest fully the Trust Funds.

A second loss is the loss that results from the accelerated redemption of Trust Fund obligations. Last week in testimony I testified this loss would be approximately \$10 million. I can now report that we have been able to determine that the loss is approximately \$9 million.

The third potential loss arises from the premature redemption of Trust Fund obligations with maturities after June 30, 1986. The economic effect on the Trust Funds of premature redemption of longer maturity obligations is uncertain and, moreover, different for each of the funds. For example, although the OASI obligations redeemed had interest rates slightly higher than the current statutory investment rate, obligations redeemed by DI in November carried interest rates lower than the current rate. Thus, if interest rates remain steady until June, 1986, although OASI would experience a loss from the redemptions, DI would have a gain. While we

cannot quantify what will happen as a result of these redemptions, we now know that in October, 1984 there was a loss when we also had to redeem long-term obligations. Furthermore, we know that, as the GAO reported to Congress in 1979, the Trust Funds experienced losses in 1978 due to a debt limit impasse that year.

Finally, let me briefly comment on losses experienced by other funds. Unlike the Social Security Trust Funds, other funds do not operate under an advance investment "normalized tax transfer" system. Therefore, as I stated in September and as Secretary Baker reiterated in an October 1 letter, when those funds are uninvested, they lose interest. Because of this interest loss, as debt limit capacity became available during October (through redemptions to pay benefits), those funds were partially invested. We estimate that the interest loss to those funds because of delayed investments and non-investment was approximately \$ 70 million through October 31.

Yesterday I testified that early redemption of securities held by the Civil Service Retirement Fund resulted in a one-time interest loss of approximately \$404,000. Similarly the Railroad Retirement Account lost approximately \$265,000.

These other funds may also suffer losses due to the redemption of obligations with interest rates above what they could be invested at today and maturities beyond June 30, 1986.

As with the Trust Funds it is not possible to calculate the effect of redemption of these obligations because it requires predictions of interest rates after June 30, 1986.

Section 273 of H.J. 372 as passed by the House on November 1, provides for issuance of securities and transfers of funds to relieve all funds of losses resulting from the debt limit impasse this year. As I testified yesterday, Treasury will of course comply with that provision, or similarly effective legislation, if enacted into law. This legislation, however, would not cure losses from previous years, a fact you may wish to take into consideration when you consider this legislation.

The debt limit impasse has put us all in the position of facing choices we would rather not face. The Secretary has recently been faced with choosing between defaulting on all United States obligations, including beneficiary payments, or advancing the redemption of trust fund obligations to pay those benefits. He chose the latter course to ensure that millions of Americans would continue to receive their benefits in a timely fashion.

Mr. Chairman, that concludes my prepared remarks.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

File

For Immediate Release
November 8, 1985

Contact: Charlie Powers
Phone: (202) 566-2041

TREASURY IMPLEMENTS BAN ON LOANS TO THE SOUTH AFRICAN GOVERNMENT

The Department of the Treasury announced the issuance today of regulations prohibiting financial institutions in the United States from making loans to the Government of South Africa. These regulations implement measures under the President's Executive Order Number 12532 of September 9, 1985, and become effective at 12:01 a.m. Eastern Standard Time, November 11, 1985. The regulations are issued as amendments to the South African Transactions Regulations, which were previously issued by the Treasury Department to implement the ban on importation of South African Krugerrands under Presidential Executive Order 12535 of October 1, 1985.

The prohibition on loans applies to banks, savings banks, trust companies, savings and loan associations, credit unions, securities brokers and dealers, investment companies, employee pension plans, and their holding companies and subsidiaries. These institutions may not make loans, directly or indirectly, to the South African Government or any entity controlled by that government. The term loan covers a variety of transfers or extensions of funds or credits, including furnishing trade credits to the South African Government, purchasing debt securities issued by the South African Government after November 11, 1985, and acquiring loans previously made to the South African Government by other persons.

Limited exceptions will be available to permit loans for educational, housing, or health facilities that would benefit all persons on a non-discriminatory basis, or loans which will improve the economic situation of South Africans disadvantaged by apartheid.

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DEPARTMENT OF THE TREASURY
Office of Foreign Assets Control
31 C.F.R. Part 545
South African Transactions Regulations

AGENCY: Office of Foreign Assets Control

ACTION: Final Rule

SUMMARY: The Office of Foreign Assets Control is amending the South African Transactions Regulations to prohibit financial institutions in the United States from making loans to the South African Government or its controlled entities, and for other purposes.

EFFECTIVE DATE: 12:01 a.m. Eastern Standard Time, November 11, 1985.

FOR FURTHER INFORMATION CONTACT: Marilyn L. Muench, Chief Counsel, Office of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220; 202/376-0408.

SUPPLEMENTARY INFORMATION: On September 9, 1985, the President issued Executive Order 12532, finding that the policies and actions of the Government of South Africa constitute an unusual and extraordinary threat to the foreign policy and economy of the United States and invoking the authority, inter alia, of the

International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.). Among other measures taken through the Executive Order, the President prohibited financial institutions in the United States from making or approving loans to the South African Government or its controlled entities, except in certain narrowly specified circumstances. The order delegated authority to implement the loan prohibitions to the Secretary of the Treasury. These amendments to the South African Transactions Regulations, including the definitions of certain terms used therein, have been adopted for the sole purpose of implementing the provisions of the Executive Order.

Since the regulations involve a foreign affairs function, the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rulemaking, opportunity for public participation, and delay in effective date, are inapplicable. Because no notice of proposed rulemaking is required for this rule, the Regulatory Flexibility Act, 5 U.S.C. 601 et seq., does not apply. Because the regulations are issued with respect to a foreign affairs function of the United States, they are not subject to Executive Order 12291 of February 17, 1981, dealing with Federal Regulations. The information collection requests contained in this document are being submitted to the Office of Management and Budget under the Paperwork

Reduction Act of 1980, 44 U.S.C. 3501 et seq. Notice of OMB action on these requests will be published in the Federal Register.

List of Subjects in 31 CFR Part 545

South Africa, Imports, Krugerrands, Loans, Penalties, Reporting and Recordkeeping Requirements.

PART 545 - AMENDED

31 CFR Chapter V, Part 545, is amended as set forth below:

1. The "Authority" citation for Part 545 is amended to read as follows:

Authority: 50 U.S.C. 1701 et seq.; E.O. 12532, 50 FR 36861, Sept. 9, 1985; E.O. 12535, 50 FR 40325, October 3, 1985.

2. The table of contents of Part 545 is amended by the addition of the following sections:

Subpart B -- Prohibitions.

Section 545.202 Prohibition on loans to the Government of South Africa.

Subpart C -- General Definitions

Section 545.303 Importation.

Section 545.304 Loan.

Section 545.305 Financial institution.

Section 545.306 The Government of South Africa; South African Government.

Section 545.307 Entities controlled by the South African Government.

Section 545.308 Person.

Section 545.309 Entity.

Section 545.310 Affiliate.

Subpart D -- Interpretations

Section 545.404 Rescheduling existing loans to the South African Government.

Section 545.405 Trade related credits.

Section 545.406 Loans through intermediaries.

Section 545.407 Substitution of the South African

Section 545.408 Government as obligor.
Approval of loans by foreign affiliates.

Section 545.409 Loan participations.

Section 545.410 South African law.

Subpart E -- Licenses, Authorizations and Statements of Licensing Policy

Section 545.503 Loans for educational, housing, or health facilities.

Section 545.504 Loans to benefit persons disadvantaged by the apartheid system.

Subpart I -- Miscellaneous

Section 545.901 Paperwork Reduction Act Notice.

3. New Section 545.202 is added to read as follows:

Section 545.202 Prohibition on loans to the Government of South Africa.

(a) Except as authorized under this part, no financial institution in the United States may make or approve any loan, directly or indirectly, to the Government of South Africa as defined in this part.

(b) The prohibition in paragraph (a) shall not apply to any loan which a financial institution in the United States is obligated to make under an agreement entered into before September 9, 1985.

4. Section 545.203 is amended to read as follows:

Section 545.203 Effective dates.

(a) The effective date of the prohibition in

section 545.201 shall be 12:01 a.m. Eastern Daylight Time, October 11, 1985.

(b) The effective date of the prohibition in section 545.202 shall be 12:01 a.m. Eastern Standard Time, November 11, 1985.

5. New Section 545.303 is added to read as follows:

Section 545.303 Importation.

The term "importation" means the bringing of any item within the jurisdictional limits of the United States with the intent to unlade it.

6. New Section 545.304 is added to read as follows:

Section 545.304 Loan.

The term "loan" means any transfer or extension of funds or credit on the basis of an obligation to repay, or any assumption or guarantee of the obligation of another to repay an extension of funds or credit. The term "loan" includes, but is not limited to: overdrafts; currency swaps; the purchase of debt securities issued by the South African Government after November 11, 1985; the purchase of a loan made by another person; the sale of financial assets subject to an agreement to repurchase; and a renewal or refinancing whereby funds or credits are transferred or extended to the South African Government. The term "loan" does not include reschedulings of existing loans

under section 545.404.

7. New Section 545.305 is added to read as follows:

Section 545.305 Financial institution.

The term "financial institution" means any entity engaged in the business of accepting deposits or making, transferring, holding, or brokering loans, including, but not limited to, banks, savings banks, trust companies, savings and loan associations, credit unions, securities brokers and dealers, investment companies, employee pension plans, holding companies of such institutions, and subsidiaries of any of the foregoing.

8. New Section 545.306 is added to read as follows:

Section 545.306 Government of South Africa; South African Government.

The terms "Government of South Africa" and "South African Government" include the national government of South Africa; the South African Reserve Bank; the government of any political subdivision of South Africa; the government of any territory under the dominion of South Africa; the government of any "homeland" established under the apartheid system, including Bophuthatswana, Ciskei, Transkei, and Venda; and any entity controlled by the South African Government, as defined in Section 545.307.

9. New Section 545.307 is added to read as follows:

Section 545.307 Entity controlled by the South African Government.

The term "entity controlled by the South African Government" includes any corporation, partnership, association or other entity in which the South African Government owns a majority or controlling interest, any entity managed or substantially funded by that government, and any entity which is otherwise controlled by that government.

10. New Section 545.308 is added to read as follows:

Section 545.308 Person.

The term "person" means an individual or an entity.

11. New Section 545.309 is added to read as follows:

Section 545.309 Entity.

The term "entity" means a corporation, partnership, association, or other organization.

12. New Section 545.310 is added to read as follows:

Section 545.310 Affiliate.

The term "affiliate" includes, but is not limited to, a branch or a subsidiary.

13. New Section 545.404 is added to read as

follows:

Section 545.404 Rescheduling existing loans to the South African Government.

Provided that no funds or credits are thereby transferred or extended to the Government of South Africa, section 545.202 does not prohibit a financial institution in the United States from rescheduling loans to the South African Government or otherwise extending the maturities of such loans, or from charging fees, or interest at commercially reasonable rates, in connection therewith.

14. New Section 545.405 is added to read as follows:

Section 545.405 Trade related credits.

(a) Section 545.202 prohibits financial institutions in the United States from opening, issuing, or confirming letters of credit or similar trade credits for which the Government of South Africa is the account party, except those which have been fully collateralized in such institution by the South African Government in advance of payment. Section 545.202 also prohibits financial institutions in the United States from creating or discounting acceptances or similar instruments to provide financing for the South African Government, except acceptances which have been fully funded in such institutions by the South African Government in advance of creation or

discounting.

(b) Section 545.202 does not prohibit financial institutions in the United States from opening, issuing, or confirming letters of credit or similar trade credits in favor of the South African Government respecting exports of the South African Government. Section 545.202 does not prohibit financial institutions in the United States from creating or discounting acceptances respecting exports of the South African Government.

15. New Section 545.406 is added to read as follows:

Section 545.406 Loans through intermediaries.

Section 545.202 prohibits a financial institution in the United States from making a loan to any person in the United States or a foreign country, where the institution has reason to believe that the loan is being obtained for or on behalf of the South African Government, and that the relevant funds or credit will be made available to the South African Government.

16. New Section 545.407 is added to read as follows:

Section 545.407 Substitution of the South African Government as obligor.

Section 545.202 does not prohibit a financial institution in the United States from complying with applicable laws, regulations or other directives of the

South African Government requiring or permitting the South African Government to become the primary or secondary obligor with respect to an outstanding loan, provided that no funds or credits are thereby transferred or extended to the South African Government.

17. New Section 545.408 is added to read as follows:

Section 545.408 Approval of loans by foreign affiliates.

Section 545.202 prohibits financial institutions in the United States from approving loans by their foreign affiliates to the South African Government.

18. New Section 545.409 is added to read as follows:

Section 545.409 Loan participations.

Section 545.202 prohibits a financial institution in the United States from purchasing, or otherwise acquiring a participation in, all or part of any loan made by any other person or persons to the South African Government, regardless of the date of the original loan, unless such financial institution is obligated to make the purchase under an agreement entered into before September 9, 1985, or such acquisition is incidental to the purchase or acquisition of an institution or all or substantially all of the assets of an institution that has made or

acquired participations in such loans.

19. New Section 545.410 is added to read as follows:

Section 545.410 South African law.

If, under applicable laws of South Africa, a financial institution in the United States cannot obtain enough information from a person in South Africa to enable it reasonably to conclude that a loan is not being obtained for or on behalf of the South African Government, Section 545.202 prohibits the loan.

20. New Section 545.503 is added to read as follows:

Section 545.503 Loans for educational, housing, or health facilities.

Specific licenses may be issued to financial institutions in the United States authorizing them to make loans to the South African Government, where the loans will be used to benefit all persons on a non-discriminatory basis, and where it is determined that the loans are for educational, housing, or health facilities.

21. New Section 545.504 is added to read as follows:

Section 545.504 Loans to benefit persons disadvantaged by the apartheid system.

Specific licenses may be issued to financial institutions in the United States authorizing them to make

loans to the South African Government, where it is determined that the loans will improve the welfare or expand the economic opportunities of persons in South Africa disadvantaged by the apartheid system. No such loan will be authorized to any apartheid enforcing entity.

22. New Section 545.901 is added to read as follows:

Part I Miscellaneous

Section 545.901 Paperwork Reduction Act Notice

[Reserved.]

Dated: _____

Dennis M. O'Connell
Director
Office of Foreign Assets Control

Approved: _____
David D. Queen
Acting Assistant Secretary
Enforcement & Operations

Filed: _____

Published: _____



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

Remarks By Secretary of Treasury
James A. Baker, III
at the Paper Check Conversion Announcement
November 8, 1985

Good morning. We have an important announcement to make today -- one affecting the 115 million Americans who receive U.S. government checks, and the millions more involved in the check-cashing process.

Within a month, our new paper check will come into widespread use. This multicolored check, introduced on a pilot basis earlier this year, replaces the old, green punched-card check used for the past 40 years.

The new checks will be phased in over several months. On December 3, the 20 million people who get Social Security benefits by mail will start receiving this new check. Next year's tax refunds will all be made on the new check. Most other payments, including Veterans' benefits and most Federal paychecks, will change over in April.

This conversion embodies the Administration's goals of modernizing government, cutting costs, and embracing public/private sector initiatives.

We're changing the check because the punched card technology is obsolete, and punched cards are no longer consistent with modern banking practices. Because of lower paper and storage costs, the new check will save taxpayers \$6 million annually.

We also wanted a more secure check -- one that is more difficult to alter or counterfeit.

This new check has more than a dozen security features, which will help put check counterfeiters and alterers out of business. These features include:

- o A pattern of "USA" in non-reproducible blue ink on the back of the check. The endorsement line section, which appears blank to the naked eye, becomes a series of "USA" when magnified. The hidden word "VOID" appears when the check is photocopied.
- o Safety paper used in the check will show an obvious chemical reaction upon any attempt at alteration or writing on the paper surface using ink eradicators, mechanical erasures, and so forth.
- o Stains will appear in the name of the payee or in the amount printed on the check if an attempt is made to alter the check in these areas.

We are making this announcement today because we want to notify Americans that a new check is coming soon. We don't want anybody to be confused by the change, or be skeptical about the check's authenticity.

So we have begun a public/private sector initiative to spread the word about the change. More than 200 organizations have agreed to help do this, including the American Association of Retired Persons, the American Bankers Association, the Food Marketing Institute, and veterans groups. We are grateful for their assistance.

And now, let me turn the podium over to Commissioner Douglas, who, along with Commissioner McSteen and Commissioner Egger, will brief you further on these new paper checks, and answer any questions you may have.

Thank you very much.



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

November 12, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,800 million, to be issued November 21, 1985. This offering will provide about \$525 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,274 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, November 18, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,400 million, representing an additional amount of bills dated February 21, 1985, and to mature February 20, 1986 (CUSIP No. 912794 JT 2), currently outstanding in the amount of \$15,794 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,400 million, to be dated November 21, 1985, and to mature May 22, 1986 (CUSIP No. 912794 KG 8).

The Treasury will postpone the auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of November 18, 1985.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing November 21, 1985. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$1,234 million as agents for foreign and international monetary authorities, and \$3,234 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 12, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$6,704 million of 13-week bills and for \$6,719 million of 26-week bills, both to be issued on November 14, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing February 13, 1986			:	maturing May 15, 1986		
	Discount Rate	Investment Rate 1/ Price		:	Discount Rate	Investment Rate 1/ Price	
Low	7.18% ^{a/}	7.41%	98.185	:	7.20%	7.58%	96.360
High	7.22%	7.46%	98.175	:	7.24%	7.62%	96.340
Average	7.21%	7.45%	98.177	:	7.23%	7.61%	96.345

a/ Excepting 2 tenders totaling \$940,000.

Tenders at the high discount rate for the 13-week bills were allotted 18%.
Tenders at the high discount rate for the 26-week bills were allotted 87%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>	:	<u>Received</u>	<u>Accepted</u>
Boston	\$ 44,090	\$ 44,090	:	\$ 66,965	\$ 41,315
New York	16,894,505	5,658,705	:	16,576,450	5,252,020
Philadelphia	29,485	29,485	:	19,160	19,160
Cleveland	63,115	63,115	:	89,240	85,990
Richmond	50,570	50,570	:	55,415	55,415
Atlanta	77,310	64,460	:	118,100	96,600
Chicago	1,441,925	234,905	:	1,513,975	452,645
St. Louis	48,450	28,450	:	64,640	33,990
Minneapolis	38,660	18,145	:	43,910	40,660
Kansas City	73,890	73,890	:	55,900	55,900
Dallas	40,440	36,340	:	33,875	28,875
San Francisco	891,240	56,240	:	891,240	195,240
Treasury	345,260	345,260	:	361,230	361,230
TOTALS	\$20,038,940	\$6,703,655	:	\$19,890,100	\$6,719,040
<u>Type</u>			:		
Competitive	\$17,218,630	\$3,883,345	:	\$16,995,845	\$3,824,785
Noncompetitive	1,147,295	1,147,295	:	972,455	972,455
Subtotal, Public	\$18,365,925	\$5,030,640	:	\$17,968,300	\$4,797,240
Federal Reserve	1,504,115	1,504,115	:	1,475,000	1,475,000
Foreign Official Institutions	168,900	168,900	:	446,800	446,800
TOTALS	\$20,038,940	\$6,703,655	:	\$19,890,100	\$6,719,040

1/ Equivalent coupon-issue yield.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

STATEMENT BY THE SECRETARY OF THE TREASURY
JAMES A. BAKER, III
BEFORE THE U.S. CONGRESSIONAL SUMMIT
ON EXCHANGE RATES AND THE DOLLAR
NOVEMBER 12, 1985

Thank you, Jack, for your kind words. I appreciate the invitation to address this distinguished group, as you evaluate the operation of the international monetary system and consider possible improvements in it.

The current international monetary system has provided a useful framework for responding to global economic shocks during the past decade. Without a flexible system, adjustment to the dramatic increases in oil prices and high inflation, as well as the subsequent global recession and debt crisis, would have been more difficult and probably more costly.

Nevertheless, the current system has not been as stable as we would have liked, and we should not be complacent about the problems which exist. The close interdependence of our economies has magnified the potential impact of policies in one country on the ability of other countries to pursue their own economic objectives. This interdependence, coupled with divergent

economic performance among the major industrial countries, has contributed to large exchange rate movements and to potentially destabilizing imbalances among our economies which have fostered strong protectionist pressures.

There is a clear need to improve the functioning and stability of the international monetary system, as an essential framework for international trade and economic growth. Improving the system is not an overnight task; it will take some time.

The Report of the Group of Ten issued this past June put forward a number of suggestions to accomplish this objective. Important among them were proposals to strengthen IMF surveillance as a means of encouraging the adoption and implementation of sound economic policies and a favorable convergence of economic performance among the major countries, without which no system can be stable.

Progress is being made in the direction of sound policies and better performance, but more needs to be done. The Group of Five's meeting at the Plaza Hotel in New York on September 22 recognized both of these facts. While noting that considerable progress had recently been made in improving underlying economic fundamentals, the G-5 Ministers and Governors also expressed specific individual policy intentions to further this process, hereby helping to promote stronger and more balanced growth in

our economies and to reduce external imbalances, including the high U.S. trade and current account deficits.

Further, as you know, the G-5 also agreed that the exchange markets did not accurately reflect recent changes in fundamental economic conditions. Therefore, for the first time the G-5 Ministers and Governors agreed that some orderly appreciation of the main non-dollar currencies against the dollar was desirable. They committed to cooperate more closely to encourage this when to do so would be helpful. This package of measures had an immediate and significant impact on exchange markets, reflecting the importance of the commitments made. This impact has continued. The G-5 announcement is not a one-shot effort, but one step in a continuing process of enhanced economic cooperation focusing on the underlying fundamentals.

Conclusion

The Plaza Hotel Accord is only seven weeks old. In addition, we will be preparing for a meeting of the IMF Interim Committee next spring where governments will be continuing their efforts to evaluate the system, and considering possible improvements in it.

For these reasons, this conference is clearly a timely one. It goes without saying that I think we must be ever vigilant in our efforts to improve the system when we can. I therefore look forward to hearing your views on how this can best be done.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 12, 1985

The Treasury Department announced that the amount of the weekly bills to be auctioned today is being reduced from \$14,400 million to \$13,400 million. The 13-week and the 26-week bills to be issued November 14 are each being offered in the amount of \$6,700 million.

This action is being taken to avoid exceeding the debt limit on Thursday, November 14.

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TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 2:00 PM
November 13, 1985

File

STATEMENT OF CHARLES O. SETHNESS
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE HOUSE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here to discuss the Administration's proposals with regard to the Farm Credit System. As you know, over the last several months, the Administration has been reviewing the structure of the Farm Credit System and the System's financial condition. It has become apparent that basic structural reforms are necessary to permit the Farm Credit System to utilize its own substantial resources effectively to solve the System's financial problems and to assure the viability of the System in the future.

The Farm Credit System Problem

The Farm Credit System, a privately-owned cooperative chartered by the Congress, will incur very large loan losses between now and the end of 1987. Systemwide losses are expected to amount to up to \$2.5 billion in the rest of 1985 and \$1-1/2 billion in each of 1986 and 1987 before the System will achieve a marginal profit in 1988. Interest income will offset only a small portion of these losses.

These expected losses should be assessed within the context of the Farm Credit System's capacity to absorb them. At the end of September, FCS capital totaled \$10.8 billion including \$5.5 billion of earned surplus and \$5.3 billion of borrower-owned

stock. The System also had loss reserves totaling \$1.6 billion. Under the current statutory structure, the System has had difficulty mobilizing these resources to deal with loan loss problems.

Moreover, there has been considerable uncertainty in the financial community regarding the extent of System loan losses and the System's ability to deploy its own considerable resources to cope with these losses. As a result, securities market investors have insisted on larger risk premiums (of as much as one percentage point) on Farm Credit securities, so that the Farm Credit System has had to pay relatively more to roll over its maturing debt. It is worth noting that the System's borrowing cost spread over Treasury securities has improved somewhat over the past week, and is currently only 30-to-50 basis points worse than other "agency" borrowers for longer maturity paper.

The Farm Credit System must be able to refinance its debt to remain a key source of credit for farmers. Since all of the institutions in the System draw on systemwide securities issuance to fund their lending activities, they are all dependent upon its financial health. There were \$68.3 billion of Farm Credit System notes and bonds outstanding on September 30.

The System problem has developed in part because the System's regulator, the Farm Credit Administration, has had neither the tools to intervene properly nor the distance from the System to develop and enforce an independent supervisory judgment.

The unfortunate result of these inter-related problems has been increased pressure on farm borrower stockholders in the System.

Because the System has had difficulty mobilizing its resources, farmers in particularly distressed areas have had to pay higher interest rates, worry about their stock investments in the System and undergo loan restructurings without access to the cushion of all of the cooperative System's collective surplus.

The Need for Reform

The Administration recognizes the vital role that the System plays for the Nation's farmers and is alert to the need to maintain the System as a privately-owned organization that is sensitive to market forces rather than to Government dictates. The Administration agrees with the desire of the System's borrowers to retain the cooperative nature of the System, including local management of the lending institutions.

We believe the Congressional preference for helping ailing financial institutions to help themselves is the appropriate approach to the problem. In this connection, direct Government support would increase the deficit and spur demands of others seeking "equal treatment."

So long as it can borrow at reasonable interest rates, the System's large earned surplus and loss reserves will assure that it can remain a viable lender -- even with estimated losses of \$5.5 billion for the rest of 1985 through 1987. Not only must the System have the will, it also must have the capability to tap its own considerable resources for the benefit of the whole System. That is what a cooperative is all about: All stand together.

The System needs two basic changes. First, it must have the capability to mobilize its earned surplus, under appropriate supervision, so as to deal effectively with bad loans and to provide assurance that borrower-owned stock is cushioned by System-wide resources. More orderly restructuring of loans, where prudent, would be possible and would alleviate pressure to liquidate associations. Second, the Farm Credit Administration must be reorganized and reformed so that it will operate as an independent regulator of the System.

The Administration's Proposal

The reform that the Administration is proposing will deal effectively with the System's problems over the longer term. They are (1) self-help changes that will enable the System to tap its own considerable resources, and (2) reform of the Farm Credit Administration into an independent supervisor. If Congress is willing to legislate both of these reforms, the Administration will further assess the need for Federal financial assistance. There is definitely no need for financial assistance now -- and it would be a mistake to grant it, given the need for prompt legislative action.

With regard to self-help, the Administration recommends establishing an entity that could mobilize all System units' earned surplus, purchase bad System loans at market value, restructure such loans and assess System institutions to cover the entity's debt service costs and any losses. The Farm Credit Administration, which would be reformed into a

financial institution regulator, would charter and supervise a Farm Credit Capital Corporation. The Chairman of the Farm Credit Administration would establish the initial capitalization from the System banks' and associations' earned surplus. The Capital Corporation would have the authority, subject to Farm Credit Administration supervision, to:

- Purchase assets at market value from troubled FCS institutions;
- Assume or issue FCS obligations, in accord with its joint and several liability with other FCS institutions, to finance assets being leased or restructured in an orderly fashion;
- Assess FCS banks and associations to cover its expenses;
- Administer capital assistance among FCS institutions.

The FCS Capital Corporation's authority would be limited to that of other FCS institutions, except as stated specifically to enable systemwide self-help.

Secondly, the Administration proposes substantial reform of the Farm Credit Administration and its regulatory authorities to make it broadly similar to Federal supervisors of depository institutions.

Under this approach the new Chairman of the Farm Credit Administration would be appointed by the President, subject to Senate confirmation, and the current Federal Farm Credit Board would serve as an advisory committee. The Farm Credit

Administration would have the power to establish capital requirements and safety and soundness regulations and to enforce supervisory directives. Annual, independent, outside audits in accordance with generally accepted accounting principles would be required. Moreover, legislation should provide for Farm Credit Administration authority over entry and exit of institutions in the System, including power over mergers, and should delete delegations of authority to the System and various powers that are inconsistent with the role of an effective supervisory agency.

Finally, the reform legislation should specify borrowers' rights pertaining to disclosure, access to documents, prompt review of credit decisions, and shareholders' actions against FCS officer-directors in accord with corporate law.

Farm Credit System Capacity to Handle Financial Problems

The System appears to have sufficient earned surplus and current earnings to enable it to absorb its projected losses without jeopardizing stock held by borrowers, despite a large volume of nonperforming loans held by System institutions. Despite this, the System has asked for very large cash infusions of taxpayers' funds (although the amount of their request seems to keep falling as scrutiny of their projections proceeds.)

The System's assessment of its ability to absorb losses is too conservative in several ways. First, the System's debt to capital ratio of approximately 8:1 compares favorably with other sponsored agencies; FNMA's leverage ratio, for example is 70:1. Second, the System has been reluctant to tap the earned surplus of System banks totaling \$3.6 billion and System associations

totaling \$1.9 billion. (There are also systemwide loss reserves of \$1.6 billion.) Third, System institutions, which fear the flight of good borrowers who can obtain credit elsewhere, believe competition will force them to compress the net interest margin on good loans -- but these spreads are already considerably below historical levels.

While the System's concerns regarding competition and borrower flight have some validity, such concerns are clearly not sufficient to warrant considering Federal assistance at this time. Many System competitors also face financial difficulties, and it is questionable whether a large number of System borrowers could repay their land loans (currently about \$48 billion of the System's portfolio) with credit from alternative sources in today's market environment.

Some system bankers have expressed a concern over having to increase their interest rates to farmers sharply if their earned surplus is shared with other units. We believe that this is not necessary as long as the System comes to understand that many units will have to show losses -- and should, given their asset quality problems -- and that they have full systemwide earned surplus available to absorb those losses. All they have to do for continuing good borrowers is maintain historical spread levels over borrowing costs that are still lower than many private corporations.

Retained earned surplus and loss reserves should enable the System to continue to operate as a viable lender, with the possibility of returning to breakeven or minimal profitability in 1988. The data in the table below combine estimates for

the System banks and associations and is based on Farm Credit Administration and System estimates for the 1985-87 period. (These estimates include further land value declines of 20% nationwide and up to 35% on the hardest hit areas.) It simply extrapolates to 1988. It indicates that there would be \$5.0 billion of capital in the System at the end of 1988, \$.7 billion of which would represent earned surplus. Implicit in these estimates is that the value of farmer-borrower stock in System institutions would be preserved, except for those borrowers who cannot keep their loans up. Also, FCS' assumptions about holding non-earning assets do not appear to envision a very aggressive foreclosure and disposal process.

Farm Credit System Financial Condition
(\$ Millions)

	<u>1984a</u>	<u>1985e</u>	<u>1986e</u>	<u>1987e</u>	<u>1988e</u>
Net income	373	(2,800)	(1,348)	(1,412)	small but positive
Surplus	6,200	3,400	2,100	700	700+
Total Capital	11,800	8,700	7,000	5,000	5,000+
Loan Loss Reserves	1,300	3,300	3,000*	2,300*	*
Capital as a % of Assets	13.5%	10.6%	9.2%	7.8%	7.8%+

* These estimates depend on the rate at which charge-offs are incurred to reflect foreclosures and restructurings. We used FCS's assumptions about holding non-earning assets, which do not envision an aggressive disposal process.

Summary

While the Farm Credit System is burdened by the weight of a heavy volume of nonperforming loans in institution portfolios, it has substantial financial resources to deal with the problems. The Administration is recommending legislative reforms that will facilitate the distribution of System resources to institutions that are most in need. We are also proposing a major restructuring of the regulation of the Farm Credit System to prevent problems from occurring in the future, so that the financial viability of the Farm Credit System will be assured.

We believe that the debt markets will remain open to FCS at reasonable cost as long as the restructuring and reform legislation allowing them to help themselves moves promptly. Trying to devise Federal financial assistance approaches at a time when they are not needed would undermine the effort to get FCS to pay its own bills and complicate the process of getting them what they really need.

Mr. Chairman, that completes my statement. I will be glad to answer any questions that you have.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

November 13, 1985

TREASURY TO AUCTION \$9,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction \$9,500 million of 2-year notes to refund \$8,321 million of 2-year notes maturing November 30, 1985, and to raise about \$1,175 million new cash. The \$8,321 million of maturing 2-year notes are those held by the public, including \$638 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The \$9,500 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average price of accepted competitive tenders.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold \$758 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders.

The Treasury will postpone the auction unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of November 20, 1985.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

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Attachment

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED DECEMBER 2, 1985

November 13, 1985

Amount Offered:

To the public \$9,500 million

Description of Security:

Term and type of security 2-year notes
Series and CUSIP designation AC-1987
(CUSIP No. 912827 SW 3)
Maturity Date November 30, 1987
Call date No provision
Interest Rate To be determined based on
the average of accepted bids
Investment yield To be determined at auction
Premium or discount To be determined after auction
Interest payment dates May 31 and November 30
Minimum denomination available .. \$5,000

Terms of Sale:

Method of sale Yield auction
Competitive tenders Must be expressed as an
annual yield, with two
decimals, e.g., 7.10%
Noncompetitive tenders Accepted in full at the aver-
age price up to \$1,000,000
Accrued interest payable
by investor None
Payment by non-
institutional investors Full payment to be
submitted with tender
Payment through Treasury Tax
and Loan (TT&L) Note Accounts ... Acceptable for TT&L Note
Option Depositaries
Deposit guarantee by
designated institutions Acceptable

Key Dates:

Receipt of tenders Wednesday, November 20, 1985,
prior to 1:00 p.m., EST
Settlement (final payment
due from institutions)
a) cash or Federal funds Monday, December 2, 1985
b) readily-collectible check .. Wednesday, November 27, 1985

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

Remarks of the Honorable David D. Queen
Acting Assistant Secretary (Enforcement and Operations)
U.S. Department of the Treasury
At the
Italian-American Working Group On
Organized Crime and Drug Trafficking
November 12, 1985

Treasury's Role in the Investigation of Money Laundering

It is a distinct pleasure to exchange views, once again, on a topic that is of vital importance to each of our countries. You will recall that money laundering investigations were a topic at the January meetings, at which time former Assistant Secretary Walker gave a detailed presentation on the U.S. Government's efforts in this field.

Today, I would like to give you a summary of our progress since then. Our investigations, carried out by our multi-agency task forces, have made significant advances against the financial base of criminal organizations. Through one of our initiatives, the Organized Crime Drug Enforcement Task Forces, we have opened over 1000 cases, even though these task forces have been fully operational for only 30 months. As you know, our Departments of Justice and Treasury combine their investigative expertise on these task forces, which have produced indictments of approximately 6500 individuals since their inception in 1983.

From a money laundering standpoint, what is important about the task forces is this: approximately two cases out of three have a financial component. An even larger percentage of the cases rely on Treasury's analytical capability, which stems from our regulatory work under the Bank Secrecy Act, for evidence or for investigative leads.

Without the benefit of the work done by the Financial Analysis Division, located at U.S. Customs headquarters, many of the cases would never have been made. Others would have suffered from evidentiary problems. Also, at least 18 major money laundering syndicates would still be in operation. Before they were destroyed as a result of financial investigations, these 18 organizations had laundered at least \$2.8 billion.

Assistant Secretary Walker mentioned our other task forces as well -- the Treasury Financial Task Forces located across the country. We now have approximately forty of these task forces, working hand-in-hand with those in the Organized Crime Drug Enforcement Task Force Program.

Despite our progress to date, we are under no illusions regarding the task ahead of us. We have indications that the problem of money laundering continues to grow despite our advances so far.

For example, huge currency surpluses continue to be reported to our Federal Reserve Banking System from the Florida region. This region, as you know, is the hub of the drug smuggling and trafficking industry in the United States.

Another indication of the pervasiveness of money laundering is that more \$100 bills are in circulation than any other denomination. Sixty billion dollars worth of these bills are in circulation today. The \$100 bill is not ordinarily considered to be a transactional form of currency.

There are several reasons, we believe, why money laundering continues to pose such an enormous problem for law enforcement:

- First, because all organized crime depends on money laundering, those who wash crime proceeds will resort to any conceivable scheme, limited only by the human imagination, to evade the probing eye of government.
- Second, it is an extremely lucrative business. It attracts a highly sophisticated class of criminal, one who appears as a legitimate businessman or other professional. As a result, ordinary citizens, such as unwary or untrained bank employees, can be deceived into thinking the money launderer is a law-abiding customer.
- Third, the freedom and complexity in our financial systems afford countless means of concealing illicit cash among legitimate financial activities.
- A fourth reason why money laundering is so intractable a problem is one that is all too familiar to both of our countries. It is the growing importance of offshore bank havens to international criminal enterprises.

Since we last met, the U.S. Treasury Department has taken several steps to bolster our attack on money laundering and the host of crimes that it supports.

First, you may recall that we mentioned our plans for a regulation that would authorize reporting of selected transactions between U.S. and foreign financial institutions, as a means of uncovering and tracking the offshore laundering of criminal proceeds. These regulations have now been promulgated in final form, and we are analyzing data with a view toward imposing new reporting obligations.

Second, we have placed increased emphasis on the compliance with our regulatory requirements by U.S. banks. We have brought a number of cases this year, and we have imposed substantial fines in instances where banks have failed to report.

Our efforts are paying off in an increased level of compliance. Over one million currency transaction reports will be filed this year. This represents a 40% increase over the number filed in 1984. However, we still have a long way to go, and we have set an ambitious goal: we want nothing less than to deny the money launderer his access to our financial system. To do so would strike at the lifeblood of organized crime.

As Steve Trott has discussed, another major element in our attack is new legislation. But even without new legislation, we believe we can improve our current program through additional regulatory changes.

One change we are considering would address the problem of money laundering through the use of cashiers checks. These checks are widely used in Central and South America, in the drug trade and in connection with money laundering schemes. To the extent that they are drawn on U.S. banks, we intend to reduce their attractiveness to the money launderer by requiring additional reporting or by posing certain restrictions regarding their purchase by non-bank customers.

The cashiers check problem is a part of a larger trend that has come to be described as "smurfing". This refers to any scheme to avoid our Bank Secrecy Act reporting requirements by splitting up transactions among different financial institutions. In the larger sense, the solution to this problem may require legislative as well as regulatory changes.

In general, our initiatives are based on the realization that money laundering is not one problem, but many problems, on both a national and an international scale. We recognize and appreciate the attention that law enforcement in your country is directing to the investigation of money laundering, and we welcome the opportunity to further our cooperation in this vital area.

Together, we have an unprecedented opportunity to expand our joint attack on financial crimes with international dimensions.

Let me conclude by thanking you for your kind attention. I look forward to hearing the views of General Lodi, and to our discussion of possible ways that we can further our joint progress.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release
Thursday, November 14, 1985

Contact: Art Siddon
566-5252

Charles O. Sethness
Appointed Assistant Secretary for Domestic Finance

Charles O. Sethness was appointed by President Reagan to be the Assistant Secretary for Domestic Finance at the Treasury Department. His nomination was confirmed by the United States Senate on October 29, 1985.

As Assistant Secretary for Domestic Finance, Mr. Sethness will have three main areas of responsibility. The first is the Office of Federal Finance, which includes management of the government debt, the Federal Financing Bank, and government credit programs. He is also responsible for the Office of Financial Institutions, which is involved in developing Administration policy on the rapidly changing financial services industry. His third area of responsibility is the Office of State and Local Finance, which includes monitoring the finances of State and local governments, and administration of the Revenue Sharing Program.

Prior to his appointment, Mr. Sethness spent four years as the Associate Dean for External Relations at the Harvard Business School. Prior to that he was a Managing Director of Morgan Stanley & Co., Incorporated.

Mr. Sethness is no stranger to the Washington political scene. Between 1973 and 1975 he served as the U.S. Executive Director on the board of the World Bank.

Mr. Sethness received his bachelors degree from Princeton University in 1963, and graduated from Harvard Business School with high distinction in 1966 as a Baker Scholar.

He is a native of Winnetka, Illinois, is married and has four children.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
November 14, 1985

Contact: Art Siddon
Phone: (202) 566-2041

Treasury Statement on Debt Limit Extension

Fall

The Congress has agreed to a temporary debt limit extension, which provides for an \$80 billion increase in the debt limit and has an expiration date of December 6. The White House has indicated the President will sign the bill. The bill also provides that "immediately" upon enactment the Secretary of the Treasury shall "restore to the Social Security Trust Funds, or any other trust funds established pursuant to Federal law, any securities disinvested since September 30, 1985."

The \$80 billion temporary increase amount was determined based on the following assumptions:

- The United States Government will meet all of its obligations, including all benefit payments due to be made at the beginning of December;
- All trust funds will be fully invested as if a debt limit had been passed, as requested by Treasury, by September 30;
- The Normalized Tax Transfer for the Social Security Trust Funds will be made and invested as usual on December 1; and
- A reasonable cash balance will remain on December 6.

As noted by Senator Packwood during Senate floor colloquy, even though this bill has an expiration date of December 6, Treasury will be able to avoid a default through midnight December 11. The reason for the difference between the expiration of the temporary debt limit and the default day is that Treasury will have sufficient cash on hand to meet its daily obligations through December 11; however, it needs to finance \$14.3 billion of maturing Treasury securities on December 12. Treasury cannot raise enough cash to meet this December 12 payment unless a new debt ceiling has been passed.

In addition, unless Treasury has additional debt authority beginning December 7, during the period December 7 through 11:

- New receipts for most trust funds cannot be invested. Because of the normalized tax transfer procedure, however, December receipts for the Social Security Trust Fund (Old Age and Disability) will have already been fully invested;

- Savings bonds cannot be sold; and
- Special Treasury securities issued for State and Local Governments ("SLGs") cannot be issued.

In order to avoid these adverse consequences, Congress should pass a long-term permanent increase in the debt limit prior to December 6.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 14, 1985

TREASURY ANNOUNCES FINANCINGS

Treasury announced today a total of \$61.0 billion of financing to include the following issues:

14-day cash management bills of \$18,000 million

69-day cash management bills of \$4,000 million

3-year notes of \$8,750 million

10-year notes of \$7,000 million

30-year bonds of \$6,750 million

52-week bills of \$9,000 million

5-year 2-month notes of \$7,500 million

Details of each issue are in separate announcements.

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TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 14, 1985

TREASURY NOVEMBER QUARTERLY FINANCING

The Treasury will raise about \$22,500 million of new cash by issuing \$8,750 million of 3-year notes, \$7,000 million of 10-year notes, and \$6,750 million of 30-year bonds.

The 10-year note and 30-year bond being offered today will be eligible for exchange in the STRIPS program and, accordingly, may be divided into their separate Interest and Principal Components and maintained on the book-entry records of the Federal Reserve Banks and Branches. Once a security is in the STRIPS form, the components may be maintained and transferred in multiples of \$1,000. Financial institutions should consult their local Federal Reserve Bank or Branch for procedures for requesting securities in STRIPS form.

The three issues totaling \$22,500 million are being offered to the public, and any amounts tendered by Federal Reserve Banks for their own accounts and as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

Details about each of the new securities are given in the attached "highlights" of the offering and in the official offering circulars. The circulars, which include the CUSIP numbers for components of securities with the STRIPS feature, can be obtained by contacting the nearest Federal Reserve Bank or Branch.

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 3-YEAR NOTES, 10-YEAR NOTES, AND 30-YEAR BONDS

November 14, 1985

Amount Offered to the Public.....	\$8,750 million	\$7,000 million	\$6,750 million
<u>Description of Security:</u>			
Term and type of security.....	3-year notes	10-year notes	30-year bonds
Series and CUSIP designation.....	Series U-1988 (CUSIP No. 912827 SX 1)	Series D-1995 (CUSIP No. 912827 SY 9)	Bonds of 2015 (CUSIP No. 912810 DT 2)
CUSIP Nos. for STRIPS Components..	Not applicable	Listed in Attachment A of offering circular	Listed in Attachment A of offering circular
Issue date.....	November 26, 1985	November 29, 1985 (to be dated November 15, 1985)	November 29, 1985 (to be dated November 15, 1985)
Maturity date.....	November 15, 1988	November 15, 1995	November 15, 2015
Interest rate.....	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield.....	To be determined at auction	To be determined at auction	To be determined at auction
Premium or discount.....	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates.....	May 15 and November 15	May 15 and November 15	May 15 and November 15
Minimum denomination available....	\$5,000	\$1,000	\$1,000
Amount Required for STRIPS.....	Not applicable	To be determined after auction	To be determined after auction
<u>Terms of Sale:</u>			
Method of sale.....	Yield auction	Yield auction	Yield auction
Competitive tenders.....	Must be expressed as an annual yield with two decimals, e.g., 7.10%	Must be expressed as an annual yield with two decimals, e.g., 7.10%	Must be expressed as an annual yield with two decimals, e.g., 7.10%
Noncompetitive tenders.....	Accepted in full at the aver- age price up to \$1,000,000	Accepted in full at the aver- age price up to \$1,000,000	Accepted in full at the aver- age price up to \$1,000,000
Accrued interest payable by investor.....	None	To be determined after auction	To be determined after auction
Payment through Treasury Tax and Loan (TT&L) Note Accounts....	Acceptable for TT&L Note Option Depositories	Acceptable for TT&L Note Option Depositories	Acceptable for TT&L Note Option Depositories
Payment by non-institutional investors.....	Full payment to be submitted with tender	Full payment to be submitted with tender	Full payment to be submitted with tender
Deposit guarantee by designated institutions.....	Acceptable	Acceptable	Acceptable
<u>Key Dates:</u>			
Receipt of tenders.....	Tuesday, November 19, 1985, prior to 1:00 p.m., EST	Thursday, November 21, 1985, prior to 1:00 p.m., EST	Friday, November 22, 1985, prior to 1:00 p.m., EST
<u>Settlement:</u>			
a) cash or Federal funds.....	Tuesday, November 26, 1985	Friday, November 29, 1985	Friday, November 29, 1985
b) readily-collectible check.....	Friday, November 22, 1985	Wednesday, November 27, 1985	Wednesday, November 27, 1985

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 14, 1985

TREASURY OFFERS \$22,000 MILLION OF CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$22,000 million, to be issued November 15, 1985, as follows:

14-day bills (to maturity date) for approximately \$18,000 million, representing an additional amount of bills dated November 29, 1984, and to mature November 29, 1985 (CUSIP No. 912794 HP 2), and

69-day bills (to maturity date) for approximately \$4,000 million, representing an additional amount of bills dated January 24, 1985, and to mature January 23, 1986 (CUSIP No. 912794 JP 0).

Competitive tenders will be received only at the Federal Reserve Bank of New York prior to 10:00 a.m., Eastern Standard time, Friday, November 15, 1985. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender for the respective issues must be for a minimum amount of \$10,000,000. Tenders over \$10,000,000 must be in multiples of \$1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, or at any Federal Reserve Bank or Branch other than the Federal Reserve Bank of New York.

The bills will be issued on a discount basis under competitive bidding, and at maturity their par amount will be payable without interest. The bills will be issued entirely in book-entry form in a minimum denomination of \$10,000 and in any higher \$5,000 multiple, on the records of the Federal Reserve Banks and Branches. Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 9:30 a.m., Eastern time, on the day of the auction. Such positions would include bills acquired through "when issued" trading, futures,

and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank of New York in cash or other immediately-available funds on Friday, November 15, 1985.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars may be obtained from any Federal Reserve Bank or Branch.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 14, 1985

TREASURY TO AUCTION \$7,500 MILLION OF 5-YEAR 2-MONTH NOTES

The Department of the Treasury will auction \$7,500 million of 5-year 2-month notes to raise new cash. Additional amounts of the notes may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

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Attachment

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 5-YEAR 2-MONTH NOTES
TO BE ISSUED DECEMBER 3, 1985

November 14, 1985

Amount Offered:

To the public \$7,500 million

Description of Security:

Term and type of security 5-year 2-month notes
Series and CUSIP designation H-1991
(CUSIP No. 912827 SZ 6)
Maturity Date February 15, 1991
Call date No provision
Interest Rate To be determined based on
the average of accepted bids
Investment yield To be determined at auction
Premium or discount To be determined after auction
Interest payment dates August 15 and February 15 (first
payment on August 15, 1986)
Minimum denomination available .. \$1,000

Terms of Sale:

Method of sale Yield auction
Competitive tenders Must be expressed as an
annual yield, with two
decimals, e.g., 7.10%
Noncompetitive tenders Accepted in full at the aver-
age price up to \$1,000,000
Accrued interest
payable by investor None
Payment by non-
institutional investors Full payment to be
submitted with tender
Payment through Treasury Tax
and Loan (TT&L) Note Accounts ... Acceptable for TT&L Note
Option Depositories
Deposit guarantee by
designated institutions Acceptable

Key Dates:

Receipt of tenders Wednesday, November 27, 1985,
prior to 1:00 p.m., EST
Settlement (final payment
due from institutions)
a) cash or Federal funds Tuesday, December 3, 1985
b) readily-collectible check .. Friday, November 29, 1985

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 14, 1985

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately \$9,000 million of 364-day Treasury bills to be dated November 29, 1985, and to mature November 28, 1986 (CUSIP No. 912794 KT 0). This issue will provide about \$475 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of \$8,535 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Tuesday, November 26, 1985.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. This series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing November 29, 1985. In addition to the maturing 52-week bills, there are \$14,272 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold \$2,470 million as agents for foreign and international monetary authorities, and \$5,005 million for their own account. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$60 million of the original 52-week issue. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-1.

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 15, 1985

RESULTS OF TREASURY'S AUCTION OF 14-DAY AND 69-DAY CASH MANAGEMENT BILLS

Tenders for \$18,006 million of 14-day Treasury bills and for \$4,009 million of 69-day Treasury bills, both to be issued on November 15, 1985, were accepted at the Federal Reserve Bank of New York today. Tenders received amounted to \$38,566 million for the 14-day bills, and \$13,883 million for the 69-day bills. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

14-day bills				:	69-day bills			
<u>maturing November 29, 1985</u>				:	<u>maturing January 23, 1986</u>			
	<u>Discount</u>	<u>Investment</u>		:	<u>Discount</u>	<u>Investment</u>		
	<u>Rate</u>	<u>Rate 1/</u>	<u>Price</u>	:	<u>Rate</u>	<u>Rate 1/</u>	<u>Price</u>	
Low	8.20%	8.34%	99.681	:	7.47%	7.69%	98.568	
High	8.34%	8.47%	99.676	:	7.50%	7.71%	98.563	

Tenders at the high discount rate for the 14-day bills were allotted 65%.

Tenders at the high discount rate for the 69-day bills were allotted 92%.

1/ Equivalent coupon-issue yield.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 15, 1985

AVERAGES OF ACCEPTED BIDS IN TREASURY'S AUCTION OF 14-DAY AND 69-DAY CASH MANAGEMENT BILLS

The averages of accepted competitive bids for the cash management bills auctioned earlier today were as follows:

14-day bills				:	69-day bills			
<u>maturing November 29, 1985</u>				:	<u>maturing January 23, 1986</u>			
	<u>Discount</u>	<u>Investment</u>		:	<u>Discount</u>	<u>Investment</u>		
	<u>Rate</u>	<u>Rate 1/</u>	<u>Price</u>	:	<u>Rate</u>	<u>Rate 1/</u>	<u>Price</u>	
Average	8.25%	8.40%	99.679	:	7.48%	7.70%	98.566	

1/ Equivalent coupon-issue yield.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 9:30 A.M.
November 14, 1985

STATEMENT OF GERALD MURPHY
ACTING FISCAL ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON COMMERCE, TRANSPORTATION AND TOURISM
OF THE HOUSE COMMITTEE ON ENERGY AND COMMERCE

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before you this morning to clarify the continuing efforts of the Treasury Department and of the Secretary of the Treasury to assure persons due payments from the United States that their payments will be made and honored notwithstanding the lack of Congressional action on a debt limit increase. I must emphasize that we provide such assurances only through today, when Congress must act on the debt limit bill to avoid default.

As the Committee is aware, the present debt limit precluded Treasury from following normal investment and disinvestment procedures for several Government accounts. Moreover, our ability to operate the finances of the United States on a routine and predictable basis has been sorely strained. It is the obligation of the Secretary of the Treasury to reconcile his responsibility not to issue debt in excess of the debt limit with his concurrent obligation to manage responsibly the finances of the United States, including in particular the timely payment of benefits for a number of programs for which he serves as fund manager. In balancing these responsibilities, the Secretary has made decisions based on four guidelines: (1) avoid an unprecedented default on obligations of the United States; (2) ensure that recipients of benefit payments receive their payments when expected; (3) minimize, to the extent possible, the cost of actions taken to the various funds administered by Treasury; and (4) stay within the debt limit.

I can report to you today that, in spite of numerous and complex problems, Treasury has, to date, managed to avoid a default, ensured that recipients of monthly payments have been paid on time, minimized the cost of actions necessary to make payments on time, and stayed within the debt limit. I must caution, however, that we are running out of time. Passing a debt limit bill today is essential. I trust today's testimony, and testimony Treasury has given in the last two weeks, will

clarify what we have done and reassure you and the American public that our actions have not jeopardized the solvency of any trust funds. I must repeat, however, that only immediate passage of a debt limit bill will relieve the unnecessary and unfortunate anxiety that recipients are experiencing.

Treasury carries three accounts for the Railroad Retirement Board--(i) the Railroad Retirement Benefits Account, which is by far the largest and includes almost all the system's surplus, (ii) the Social Security Equivalent Benefits Account, which is relatively small and operates largely on a cash flow basis, and (iii) the Railroad Retirement Supplemental Account, which is still smaller. Each month Treasury receives from the Railroad Retirement Board instructions about the investment and disinvestment of the accounts. Where the funds hold market-based securities, with respect to which there is a significant amount of investment management required by the Board, the Board's instructions as to investment amounts and timing are quite specific. Where special par value securities (described in section 15(e) of the Railroad Retirement Act) are involved, the Board usually just informs Treasury of the amount of maturing securities to be reinvested on the first of each month. The difference between the amount maturing and the amount required to pay benefits is the amount to be reinvested. The actions Treasury took in early November involved these special par value investments in the Railroad Retirement Account.

Notwithstanding the severe squeeze on both Treasury's cash flow and its ability to invest, until November 1, the three railroad retirement accounts were operated using totally standard procedures. There were no non-investments, early redemptions, or any other actions taken that would adversely affect those funds. During this period, in fact, Treasury continued to make redemptions several days after the issuance of benefit checks--to grant them float--according to standard Treasury operating practices for major retirement funds.

During September and October, Treasury's cash balances were such that, as is normally the case, benefits could be paid without first redeeming trust fund securities. However, on October 31, Treasury's closing cash balance was approximately \$1.8 billion, as compared to a normal cash balance for that day of approximately \$20 billion. On November 1, Treasury estimated that it would have to make approximately \$10 billion in payments, including approximately \$6.9 billion of Social Security benefit payments, approximately \$1.4 billion of Civil Service retirement payments and approximately \$320 million in Railroad Retirement benefit payments. Revenues for that day were estimated at approximately \$3 billion. A similar situation was projected for November 4.

Given this severe cash constraint, the only way that Treasury could assure that benefit payments would be made and honored at the beginning of November was to advance the normal

date on which trust fund securities were redeemed to pay benefits. In the case of Railroad Retirement, this advancing of the redemptions to November 1 and 4 (with a small redemption on November 8) instead of the usual November 1, 7 and 8 represented modification of the float benefit Treasury had unilaterally been providing to the Railroad Retirement Account. Modifying the redemption schedule set by Treasury reduced the amount of interest on the float the Railroad Retirement Account otherwise would have gained by approximately \$160,739.00. Treasury would be able to replace the interest loss if Congress passes a statutory provision similar to Section 273 of the Gramm-Rudman Amendment as it passed the House on November 1 which would make all funds whole.

The Committee is aware that errors were made in processing these unusual transactions on November 1. The Committee, I believe, is also aware that these errors were discovered and corrected. Essentially, the errors were that an excess \$321 million was redeemed on November 1, and \$124 million of the redemption on November 4 was not taken into account in a later redemption of the two smaller accounts, according to normal procedures. Although none of us like mistakes, in an office where six people are investing over 130 accounts involving over \$300 billion in an abnormal situation with directions mainly given over the telephone, errors can happen. Treasury has procedures, involving cross-confirmations with the program agencies, to identify any errors quickly and to correct them promptly.

When there are debt limit constraints, our ability to make corrections immediately is somewhat more difficult. Nevertheless, the error involving the excess \$321 million redemption on November 1 was corrected as of November 1; the error involving the \$124 million redemption on November 4 was corrected as of November 4. The account will suffer absolutely no loss of interest as a result.

The actions Treasury has taken are actions which enabled railroad retirees to receive their benefits this month. These actions could have been avoided had Congress responded prior to November 1 to Secretary Baker's October 22 letter in which he urged quick passage of a debt limit increase to avoid the need for such actions.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 18, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,409 million of 13-week bills and for \$7,443 million of 26-week bills, both to be issued on November 21, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing February 20, 1986			:	maturing May 22, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	7.23%	7.47%	98.172	:	7.25%	7.63%	96.335
High	7.24%	7.48%	98.170	:	7.26%	7.64%	96.330
Average	7.24%	7.48%	98.170	:	7.26%	7.64%	96.330

Tenders at the high discount rate for the 13-week bills were allotted 65%.
Tenders at the high discount rate for the 26-week bills were allotted 67%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	\$ 42,335	\$ 42,265	:	\$ 31,335	\$ 31,335
New York	22,564,275	6,568,315	:	22,614,500	6,358,605
Philadelphia	32,435	31,560	:	19,355	19,355
Cleveland	47,295	47,220	:	25,990	25,990
Richmond	80,405	43,395	:	82,495	39,685
Atlanta	57,975	47,200	:	55,565	28,275
Chicago	1,446,075	74,655	:	1,460,705	451,775
St. Louis	45,715	25,715	:	80,670	40,670
Minneapolis	36,360	11,360	:	41,890	15,875
Kansas City	63,070	57,920	:	39,185	37,785
Dallas	42,850	32,850	:	27,545	17,545
San Francisco	2,059,990	91,540	:	1,720,825	45,825
Treasury	334,820	334,820	:	330,050	330,050
TOTALS	\$26,853,600	\$7,408,815	:	\$26,530,110	\$7,442,770
Type			:		
Competitive	\$23,802,920	\$4,358,135	:	\$23,502,590	\$4,415,250
Noncompetitive	1,092,570	1,092,570	:	845,820	845,820
Subtotal, Public	\$24,895,490	\$5,450,705	:	\$24,348,410	\$5,261,070
Federal Reserve	1,649,310	1,649,310	:	1,650,000	1,650,000
Foreign Official Institutions	308,800	308,800	:	531,700	531,700
TOTALS	\$26,853,600	\$7,408,815	:	\$26,530,110	\$7,442,770

1/ Equivalent coupon-issue yield.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-204

STATEMENT OF THE HONORABLE
DAVID C. MULFORD
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL FINANCE, TRADE, AND MONETARY POLICY
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NOVEMBER 19, 1985

Mr. Chairman, Members of the Committee:

I welcome this opportunity to discuss efforts to improve the international monetary system, and to enhance exchange rate stability in particular.

The bills which you are considering generally reflect concern about the strong dollar. They propose changes in either U.S. foreign exchange market intervention operations or the international monetary system itself in order to bring about greater stability and a lower value for the dollar.

I recognize that the strong dollar has had an adverse impact on the competitive position of a number of U.S. industries. However, many of the proposed exchange rate remedies contained in these bills focus on the symptoms rather than the fundamental causes of recent problems. Such remedies are likely to be ineffective and potentially counterproductive, in the absence of measures to address the underlying economic fundamentals themselves. The Treasury Department opposes both bills. The provisions contained in them are unnecessary and would impose undesirable constraints on U.S. international monetary policy.

The current international monetary system has provided a useful framework for responding to global economic shocks during the past decade. Without a flexible system, adjustment to the substantial increases in oil prices and high inflation, as well as the subsequent global recession and debt crisis, would have been more difficult and probably more costly.

We believe that the basic elements of the current system, and the principles encompassed in the IMF Articles of Agreement, remain sound. Nevertheless, the current system has not been as stable as we would have liked, and we should not be complacent about the problems which exist.

The trade and capital market liberalization which has occurred during the past two decades has benefitted all of our nations and should not be reversed. As a result of these positive developments, however, our economies are also more open than ever before to external influences. Through their influence on both trade and capital flows, policies in one country can affect the ability of other governments to pursue their own domestic policy objectives.

This increased interdependence, coupled with divergent economic performance among the major industrial countries, has contributed to large exchange rate movements and to potentially destabilizing imbalances among our economies which have fostered protectionist pressures. Markets have also had to adjust recently to further capital market deregulation, with which they have had little experience. This factor has also introduced an element of uncertainty in exchange markets.

There is a clear need to improve the functioning and stability of the international monetary system, as an essential framework for international trade and economic growth. This doesn't mean capital controls, nor does it require the imposition of trade barriers to isolate our economies from the external world. Such measures are damaging to ourselves as well as to others and merely bring on retaliation in kind.

A more positive approach to greater stability is needed. I would like to outline our thoughts on this important issue by first addressing the underlying causes of the strong dollar and the lessons to be learned from recent exchange market developments. I will then discuss the implications of this experience for current efforts to improve the functioning of the international monetary system.

Causes of the Strong Dollar

Our analysis indicates that while there is a complex and multifaceted relationship between the strength of the dollar and the trade deficit, two fundamental factors stand out:

- strong economic performance in the U.S. relative to other major industrial countries; and
- the LDC debt situation.

A. Disparities in Economic Performance

The vigorous U.S. expansion, and our strong gains in employment since 1982, contrast with the relatively weak performance of our trading partners over the period of dollar appreciation, mid-1980 to end-February 1985.

For example, at the end of 1984 industrial production in the United States was 11 percent higher than it was 4 years earlier, despite a year long recession in 1982. In contrast, industrial production in Europe at the end of 1984 was essentially unchanged from its 1980 level. There have also been stark performance differences in a broader measure of output -- our real GNP in the fourth quarter of 1984 was 12 percent higher than during the recession's trough in 1982. Real GNP in the other major industrial countries rose only 7 percent over the same period and, in Europe alone, only 4 percent.

This was a reversal of historical trends. During the Sixties, the U.S. economy grew more slowly than the other major nations, with an average annual growth rate of about 4 percent, as compared to more than 6 percent for other industrial countries. During the Seventies, this growth gap narrowed to less than 1 percentage point, although the United States still grew more slowly. During 1982-84, however, our relative growth rates reversed: we grew at an average 5.3 percent, nearly double the average growth rate of other industrial nations.

U.S. inflation performance also improved markedly relative to Europe between 1980 and 1984. The U.S. inflation rate fell from more than 13 percent in 1980 to slightly more than 4 percent in 1984, an improvement of over 9 percentage points. Inflation in the four major European countries fell from an average of about 13 percent in 1980 to about 6 percent in 1984, an improvement of 7 percentage points.

Why has U.S. performance been so strong relative to Europe in particular? The answer is found in the economic policies pursued by the Administration and Congress over the past five years. Anti-inflation efforts, deregulation, tax reductions, and a shift both in attitude and behavior towards free markets stimulated investment and increased rates of return to entrepreneurship. The dynamic and flexible environment produced by these policies is reflected in the creation of over 8-1/2 million jobs during the current expansion.

By contrast, European growth and job creation have been hampered by policies that have limited their economies' ability to adapt to changing economic circumstances. For example, an array of hiring and firing regulations and generous unemployment benefits have raised the cost to firms of taking on new workers and reduced the desire of workers to seek new jobs. Europe lost over half a million jobs during 1982-84 -- at a time of positive growth.

These differences in economic performance have had a strong impact on the trade balance and the dollar over the past five years:

- Stronger U.S. growth relative to our major trading partners resulted in strong U.S. import growth and weak export growth. As a rule of thumb, each one percent of U.S. GNP growth raises our imports by \$10 billion; each one percent of growth by the other countries increases U.S. exports by \$5 billion.
- U.S. investors looked at our strong economic performance, our stable political environment and our high after-tax real rate of return on investment, in both absolute terms and relative to other countries, and decided to keep their money at home. Foreign investors found dollar assets attractive for similar reasons, and increased their investments in the U.S. Strong net capital inflows to the United States contributed to the appreciation of the dollar.

B. LDC Debt Situation

The LDC debt situation was also a major element in both the strong dollar and our trade deficit. In 1980, the non-OPEC LDCs accounted for nearly 30 percent of our exports. But as their external and domestic economic conditions deteriorated with the emergence of the international debt problem, their economic growth fell sharply. As a result, our exports to all non-OPEC LDCs in 1984 were about \$7 billion below the 1981 level.

These effects of the debt situation also contributed to the stronger dollar, through its impact on the U.S. capital account. Between 1982 and 1984, net U.S. commercial bank lending swung from an outflow of \$45 billion to an inflow of \$23 billion. This large swing reflected in part the preference of U.S. banks to lend domestically rather than to LDCs after the debt problem emerged late in 1982.

It is also likely that the sizable difference between recorded U.S. net capital inflows and our current account deficit primarily reflects unrecorded capital flows from the developing world to the U.S. -- the safe haven factor. Poor domestic economic performance and a general lack of confidence in economic policies encouraged domestic investors in LDCs to send their money abroad.

C. The Strong Dollar and the Trade Deficit

Up to this point, I have treated the trade deficit and the strong dollar as separate phenomena, both reflecting the common underlying factors of disparities in performance and the LDC debt situation. This is the basic fact which has guided our response to the problem posed by the strong dollar and the trade deficit.

However, I recognize that the strong dollar, in turn, has directly contributed in a substantial way to the deterioration in our trade balance by making our goods less price competitive abroad and foreign goods more price competitive here. We estimate that the appreciation of the dollar may have accounted for one third to one half of our trade balance deterioration.

The need to deal with the strong dollar has been recognized by the G-5 Governments, rather dramatically in fact by the September 22 meeting of the G-5 at the Plaza Hotel in New York. The question is: what is the most realistic and effective way to deal with the problem? One point of very wide, indeed almost universal agreement, is that the strong dollar can only be dealt with effectively by influencing or changing the economic fundamentals which underly its strength. This means we must concentrate our efforts on economic policies and performance if we are to alter in a fundamental sense exchange rate relationships in the world economy. In concrete terms, this means:

- (1) Looking to disparities in economic performance among the major industrial nations as the major cause of the strong appreciation of the dollar between 1980 and 1984;
- (2) Working with other major industrial countries to accomplish a greater convergence of favorable performance; and
- (3) Making the policy changes necessary to support this objective. In the U.S. case, this will require reducing the budget deficit, and creating an environment for the further lowering of interest rates.

As for intervention, it is widely recognized as a policy option with only limited use over the long run as a substitute for basic economic policies for influencing long-term exchange market trends.

Conclusions very similar to these were reached by the Finance Ministers and Central Bank Governors of the Group of Ten industrial countries, following their Deputies' review and report on the current international monetary system, which was released in June. The G-10 report emphasizes the importance of international cooperation, the adoption of sound domestic policies, and a convergence of economic performance as prerequisites for greater exchange rate stability.

The report took two years to produce and received the attention of several of the world's most experienced financial market people. The key issue discussed by the G-10 Deputies was the best means of encouraging sound policies among sovereign nations which result in convergence toward sustained non-inflationary growth. One approach outlined by one group of Deputies was a proposal for the adoption of target zones for

exchange rates, to be phased in progressively and to be used as a trigger for consultations on policies.

The great majority, however, felt that it would be extremely difficult to agree on a range of correct and desirable exchange rates to apply for some extended period of time. It was acknowledged that initially, such target zones would probably have to be so wide as to raise questions about their utility; and there would remain the difficult task, indeed the heart of the matter, namely allocating the burden of policy adjustment among the countries involved. Target zones could also impose additional constraints on domestic policies which could undermine other policy objectives. This was clearly the case under the old fixed exchange rate system and one of the reasons it broke down in 1971.

The probability is that a target zone system in which there was no clear agreement between countries to merge their domestic policy interests with their interests in the stability of the exchange rate system would be unsustainable. If there were a willingness now to submerge domestic policies to international consultations between countries, we would be able to make the present exchange rate system operate more effectively than it now does and probably would remove the pressures for major change. But, of course, there is not such a willingness now evident.

On intervention, the Deputies confirmed the long-standing position that intervention can be useful to counter disorderly market conditions and to reduce short-term volatility, but that it normally will be useful only when complementing and supporting other policies. Neither capital controls nor intervention, they concluded, could be relied upon to attain lasting stability of exchange rates.

The Deputies therefore focussed on other means of achieving this goal. There was a broad consensus that there should be close and continuing cooperation among countries to ensure that countries take account of the implications of their policies and performance on others. The Deputies also agreed that international surveillance should be strengthened to improve the sound policies and the convergence of favorable economic performance, and put forward a number of proposals to strengthen IMF surveillance. The IMF must be at the center of efforts to improve the international monetary system and we believe there is considerable potential for a strengthening of IMF surveillance in order to encourage sound policies in member countries. We will be pursuing the recommendations of the G-10 Deputies further within the IMF Executive Board in the months ahead.

The specific measures proposed by the G-10 report to accomplish these objectives are modest, but sound ones and represent a solid basis on which to build for the future as we continue our efforts to strengthen the system. However, as Secretary Baker indicated in Tokyo in June, this shouldn't be the end of the road.

Greater monetary stability can only be achieved if each nation develops the political will to tackle the difficult problems it faces -- and is supported both at home and by comparable actions by the other key nations.

The Group of Five's meeting in New York on September 22 reflects an important step toward putting into practice the G-10 recommendations for enhanced cooperation and compatible policies among the five major industrial nations whose policies have the greatest impact on exchange markets. This is the real message behind the New York Announcement, and one that it will be essential to maintain in the months ahead. In light of the major importance of this meeting, I would like to discuss it in some detail.

The G-5 Announcement

After the G-10 meeting in Tokyo, we became convinced that concrete measures were needed to follow up on the discussions in Tokyo. While the G-10 report would be referred to the IMF Interim Committee for broader review and discussion, earlier action was also needed to address underlying policies in order to help improve exchange market stability.

After considerable preparation, the Group of Five therefore met to discuss economic development and policies in their countries and their implications for economic performance and prospects. The G-5 recognized the serious dangers posed by rising protectionist pressures and focused discussion on factors contributing to large external imbalances. These include growth differentials, exchange rate movements, differing degrees of market openness and the LDC debt situation.

The G-5 Finance Ministers and Central Bank Governors noted that economic fundamentals in all of the countries are moving in the direction necessary to foster adjustment of external imbalances. For example,

- After very rapid growth last year, the U.S. economy slowed in the first half of 1985 and is now growing at a more moderate, sustainable rate;
- Growth in other major industrial countries is strengthening and is becoming more balanced between domestic and export-led components.

This improved performance is the result of policy changes already undertaken in a number of countries over the past year or two, a fact clearly highlighted in the G-5 announcement. The G-5 Governments also agreed to pursue additional policies to sustain and accelerate these favorable changes in the future. These policy intentions reflect widespread agreement that convergence of economic policies and performance is the best basis for stability in exchange rate relationships.

The Ministers and Governors were convinced that improvements in underlying economic fundamentals will help to promote stronger and more balanced growth in our economies, thereby strengthening the main non-dollar currencies and reducing external imbalances, including the high U.S. trade and current account deficits. They noted that exchange markets did not fully reflect these underlying improvements and agreed, for the first time, that some orderly appreciation of the main non-dollar currencies against the dollar was in fact desirable. They also committed to cooperate more closely to encourage this when to do so would be helpful.

The G-5 announcement and subsequent actions by the G-5 Governments have helped to improve market recognition of the recent and prospective changes in underlying policies and performance. Intervention has been useful in this process precisely because it has been supported by changes in underlying performance and policies, confirming our basic view that intervention alone cannot have lasting effects on exchange rates.

The exchange market impact of the G-5 announcement reflects the market's recognition that better convergence is taking place and that the policy intentions outlined in the announcement are significant and will continue this favorable pattern. Since September 22 the dollar has fallen, under generally orderly conditions, an additional 9 percent against the DM and French franc, over 16 percent against the yen and 5 percent against sterling. Over half of the dollar's rise against the DM between the end of 1980 and last February's peak has now been reversed, as has virtually all of the rise against the yen. The initial impact of the G-5 announcement therefore has continued and remains positive.

I believe that as time passes awareness of the relationship between economic fundamentals and exchange market behavior will establish itself more firmly. This should provide greater long-term stability in exchange markets, provided that major countries can continue to improve and strengthen the consultative process necessary in international economic matters.

Conclusion

In conclusion, there is a clear need to improve the international monetary system. This will not be an overnight task. It will take some time.

However, it is premature at this stage to decide whether an international monetary conference is needed. The IMF Interim Committee, which includes all IMF member countries, already has held preliminary discussions on the G-10 recommendations for improvements, as well as separate recommendations prepared by the Group of 24 developing nations. The IMF Executive Board will now review both reports in preparation for detailed consideration at the spring meeting of the IMF Interim Committee.

It is important that this process continue, and that progress in the monetary area not be held hostage to progress on the trade side. Indeed, a number of steps have already been taken toward improving monetary stability, while we are still some steps away from even beginning negotiations in a new trade round.

Secretary Baker indicated in April that the United States would be willing to consider the possible value of hosting a high-level meeting of the major industrial countries to follow up on the Group of Ten's proposals on improving the international monetary system. We remain prepared to do so if at some future date such a meeting appears to be useful.

The G-5 meeting in New York represents an important step in achieving a sound world economy and a more stable international monetary system. The policy intentions announced in New York must be actively implemented, and the consultation process continued. For our part, an effective U.S. contribution to sustaining progress toward greater convergence and stability will require Congressional support:

- to reduce the U.S. budget deficit;
- to pass meaningful tax reform; and
- to resist protectionism.

Exchange market stability can only be assured if we all do our part. The G-5 announcement must not be a one-shot effort, but a continuing process of enhanced economic cooperation focusing on the underlying fundamentals.



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

November 19, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,800 million, to be issued November 29, 1985. This offering will result in a paydown for the Treasury of about \$17,475 million, as the maturing bills total \$32,278 million (including the 14-day cash management bills issued November 15, 1985, in the amount of \$18,006 million). Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, November 25, 1985. The two series offered are as follows:

90-day bills (to maturity date) for approximately \$7,400 million, representing an additional amount of bills dated August 29, 1985, and to mature February 27, 1986 (CUSIP No. 912794 JU 9), currently outstanding in the amount of \$7,263 million, the additional and original bills to be freely interchangeable.

181-day bills for approximately \$7,400 million, to be dated November 29, 1985, and to mature May 29, 1986 (CUSIP No. 912794 KH 6).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing November 29, 1985. In addition to the maturing 13-week and 26-week bills, there are \$8,535 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$2,585 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold \$2,645 million as agents for foreign and international monetary authorities, and \$5,005 million for their own account. These amounts represent the combined holdings of such accounts for the three issues of maturing bills. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 19, 1985

RESULTS OF AUCTION OF 3-YEAR NOTES

The Department of the Treasury has accepted \$ 8,764 million of \$ 17,975 million of tenders received from the public for the 3-year notes, Series U-1988, auctioned today. The notes will be issued November 26, 1985, and mature November 15, 1988.

The interest rate on the notes will be 8-5/8%. The range of accepted competitive bids, and the corresponding prices at the 8-5/8% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	8.68%	99.859
High	8.75%	99.679
Average	8.74%	99.705

Tenders at the high yield were allotted 83%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 110,570	\$ 49,510
New York	15,266,695	7,465,740
Philadelphia	27,200	27,200
Cleveland	133,655	131,485
Richmond	56,220	50,370
Atlanta	97,495	92,495
Chicago	1,113,030	206,850
St. Louis	179,380	160,210
Minneapolis	47,895	47,725
Kansas City	111,615	111,585
Dallas	12,890	12,890
San Francisco	816,060	405,560
Treasury	2,790	2,780
Totals	<u>\$17,975,495</u>	<u>\$8,764,400</u>

The \$ 8,764 million of accepted tenders includes \$ 958 million of noncompetitive tenders and \$ 7,806 million of competitive tenders from the public.

In addition to the \$ 8,764 million of tenders accepted in the auction process, \$ 45 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$ 300 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 20, 1985

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted \$9,532 million of \$24,743 million of tenders received from the public for the 2-year notes, Series AC-1987, auctioned today. The notes will be issued December 2, 1985, and mature November 30, 1987.

The interest rate on the notes will be 8-1/2%. The range of accepted competitive bids, and the corresponding prices at the 8-1/2% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	8.57% ^{1/}	99.874
High	8.59%	99.838
Average	8.58%	99.856

Tenders at the high yield were allotted 71%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 71,875	\$ 55,875
New York	20,756,895	7,902,790
Philadelphia	44,580	44,580
Cleveland	446,425	237,925
Richmond	133,525	93,170
Atlanta	187,210	87,510
Chicago	1,639,905	305,445
St. Louis	183,490	163,145
Minneapolis	51,195	49,615
Kansas City	184,265	180,015
Dallas	33,575	30,575
San Francisco	1,003,365	374,205
Treasury	6,970	6,970
Totals	<u>\$24,743,275</u>	<u>\$9,531,820</u>

The \$9,532 million of accepted tenders includes \$1,279 million of noncompetitive tenders and \$8,253 million of competitive tenders from the public.

In addition to the \$9,532 million of tenders accepted in the auction process, \$295 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$758 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

^{1/} Excepting 1 tender of \$1,000,000.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

November 21, 1985

Biography of George Gould Under Secretary of the Treasury

George D. Gould was confirmed as Under Secretary of the Treasury for Finance, on November 14, 1985. He succeeds Norman B. Ture.

From 1976 until his appointment at Treasury, Mr. Gould was Chairman and Chief Executive Officer of Madison Resources, Inc. He was also a General Partner in the investment banking firm of Wertheim and Company since January 1985.

A 1951 graduate of Yale University, with a 1955 Master of Business Administration from Harvard, Mr. Gould has spent his career in various forms of finance. From 1951 to 1953, he worked in investment management for the firm of Brundage, Story and Rose. He held a similar position for the company of Jeremiah Milbank from 1955 to 1961.

Mr. Gould then joined the Donaldson, Lufkin, and Jenrette Securities Corporation in October 1961, rising to the position of Chairman from 1974 to 1976.

Mr. Gould has been active in many civic endeavors. He served as director and chairman of several government agencies in New York State, including the Municipal Assistance Corporation, the Housing Finance Agency, and most recently, the Dormitory Authority.

Mr. Gould is married, has one child, and resides in New York City. He was born May 22, 1927, in Boston, Massachusetts.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 a.m.
November 21, 1985

STATEMENT OF CHARLES O. SETHNESS
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE
SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT
OF THE HOUSE AGRICULTURE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you to discuss H.R. 3792, the "Farm Credit Act Amendments of 1985."

I want to open by expressing my high regard to the full Committee, this Subcommittee, and their staffs for their expeditious and substantial effort in drafting this bill. The legal and financial subjects are complex, the participants can be contentious, and time has been short. We all recognize that there is need for reform to enable the Farm Credit System (FCS) to take self-help actions to remain a viable lender for America's farmers and reassure concerned capital market investors. I compliment this Subcommittee on its effort to get the ball rolling.

The Administration's Position on Self-Help Powers for FCS
and the Reform of FCA

The Administration recognizes the vital role that the FCS plays for the country's farmers. It is alert to the need to maintain the System as a privately owned organization that

is sensitive to market forces. We are monitoring closely the sizable loan losses that the System expects to incur over the next few years.

We have urged the Congress to take two actions as quickly as possible to help the FCS solve its current problems and avoid future difficulties. First, the FCS needs legislative authority to mobilize fully its substantial earned surplus (\$5.5 billion as of September 30, 1985) to absorb operating losses and manage troubled loan assets. FCS must have an effective capability to pool and quickly allocate its considerable resources to cope with localized problems. All the System's resources should be available to cushion borrower stock and to permit the more orderly restructuring of loans.

Second, we need to transform the Farm Credit Administration (FCA) into an independent financial regulator that has the will and the tools to supervise the FCS effectively. FCA has had neither the full capability -- nor the proper separation -- to assess, cope with, and prevent the recurrence of FCS's financial problems before they expand.

H.R. 3792 seeks to address both these points. While we have not had time to subject the bill language to close scrutiny, I believe that H.R. 3792 incorporates most of the critical reforms. Naturally, we are reviewing the bill carefully and will report later on any technical suggestions we may have. I will note later in this testimony some important features of the bill that

the Subcommittee may wish to review. We are, of course, willing to assist the Subcommittee in making those adjustments that will enable the legislation to accomplish the results we all seek.

Unfortunately, H.R. 3792 also contains a financial "backstop" provision that the Administration believes is the wrong approach, at the wrong time, leading to a possible wrong result.

H.R. 3792's Financial Assistance Component

H.R. 3792 authorizes the Secretary of the Treasury, at his discretion, to purchase obligations of the FCS Capital Corporation. This provision is inappropriate on two counts.

First, the System does not now need the Government's financial support in any fashion. It has a capital base that would be the envy of other financial institutions. As of September 30, 1985, the FCS had earned surplus of \$5.5 billion, loan loss reserves of \$1.6 billion, and member stock totaling \$5.3 billion. Even accepting the FCS's and the FCA's estimated loan losses of between \$3 billion and \$5.5 billion for the remainder of 1985 through 1987, the System has the retained earnings and reserves to sustain its losses while maintaining a cushion for borrower stock. At a minimum, it is clear that the FCS does not have any immediate need for financial assistance.

Second, I am also concerned that the inclusion of financial assistance language would require the proper additional review by other committees. This review would certainly slow down the legislative process at a time when farmers, investors, and

the Government need prompt action. Furthermore, a bill that incorporates financial assistance will necessarily involve longer consideration by the Senate.

Specific Provisions of H.R. 3792

Based on a preliminary review, the Administration recommends nine adjustments in H. R. 3792. These changes should ensure that the FCA becomes an effective financial regulator and that the FCS operates an efficient, accountable lending business that serves America's farmers. We also have some more technical comments that we would be pleased to supply to your staff.

1. FCA's Power to Regulate the Transfer of Funds

We note that H.R. 3792's restatement of the FCA's powers adjusts the FCA's authority over the transfer of funds within the System. The redesignated section 5.17(a)(6) permits the FCA to establish standards for the transfer of funds. Current law authorizes the FCA "to regulate" such transfers, and the FCA has interpreted this authority to include the power to direct transfers of funds.

The Administration believes it is absolutely critical for the FCA to retain its present authority. Indeed, H.R. 3792 seems to presuppose this retention, because it makes the FCS Capital Corporation's assessment powers subject to the FCA's regulation. The change in language in the new section 5.17(a)(6) may have been the inadvertant result of joining this FCA power with another dealing with loan security requirements. We strongly urge the Committee to restate the exact language of current section 5.18(11).

2. FCA's Power to Require Surety Bonds

H.R. 3792 drops FCA's authority to require surety bonds (section 5.18(15) under current law). This provision ensures that FCS institutions are protected against losses caused by employees. We cannot understand why H.R. 3792 deletes this authority, which provides for a protection common to financial institutions. Indeed H.R. 3792's own language regarding the Capital Corporation (new section 4.28H(a)(3)) recognizes the importance of surety bonds. We recommend that current section 5.18(15) remain among the FCA's specified powers.

3. Establishing the Value of Assets Purchased by the Capital Corporation

The list of powers of the Capital Corporation includes the authority to purchase nonaccrual loans and acquired assets (new section 4.28(H)(a)(16)). The language stipulates that the purchases be at "current value," which is described as the "value disclosed in the most recent examination of such institution...by the Farm Credit Administration."

We urge the Committee to substitute the phrase "fair market value" for "current value" and to grant the FCA authority to regulate its determination. We fear that the phrase "current value" does not have a generally understood meaning. Moreover, it would be inappropriate to purchase assets at a value determined through an examination that might have taken place months before. We would expect that the Capital Corporation would seek a current appraisal before it purchased an asset.

Our proposed change is significant because it ensures that the Capital Corporation will expend other FCS institutions' surplus in an equitable manner. When the Capital Corporation buys an asset, it should receive the fair market value for which it has paid. The Capital Corporation would, of course, continue to have the authority to allocate funds to System institutions whose viability was threatened.

4. The Capital Corporation's Authority to Borrow

H.R. 3792 authorizes the new Capital Corporation to borrow money on its own and through System-wide bond issues (new sections 4.28H(a)(11),(12)). We strongly recommend that the Capital Corporation only be authorized to raise funds through System-wide debt issues (i.e., to delete section 4.28H(a)(11)). It is imperative that the Capital Corporation not be seen, both inside and outside FCS, as an entity separate from the other System institutions. Since the Capital Corporation will be purchasing bad loans from FCS institutions, they must share responsibility for its performance and obligations.

Furthermore, new section 4.28H(a)(12) may necessitate a technical change to ensure that the Capital Corporation remains jointly and severally liable with System banks. As drafted, the bill states that the Capital Corporation must satisfy the requirements of section 4.3 to be jointly and severally liable. The new section 4.3 establishes capital requirements. If the Capital Corporation did not meet these requirements, one might

assert it was no longer jointly and severally liable. It would be far preferable to add a "c" behind "section 4.3," thereby limiting the requirement to the collateral standards for banks participating in System-wide debt issues.

5. The Capital Corporation's Power to Issue Regulations

Sections 4.28(H)(a)(14)(A) and (B) authorize the Capital Corporation to issue regulations pertaining to FCS institutions' provision of assistance funds to the Capital Corporation. These sections appear to be directed at evaluating how much capital is available and enforcing compliance. We believe it is a serious mistake to mix again the regulator with the regulated by granting these powers to the Capital Corporation (including, it appears, the authority to issue enforcement directives). Nor are these powers necessary to achieve what appears to be the purpose of these provisions.

First, H.R. 3792 already contains a requirement (new section 4.1) that FCS institutions must pay assessments and contribute capital to the Capital Corporation. Second, in the event an FCS institution will not comply, we should leave the task of enforcement to FCA, the true regulator. Otherwise, we will in effect have two regulators, with one being an independent System corporation. Finally, to protect FCS institutions against assessments that may threaten their viability, one can either:

- (a) grant FCA the power to set the appropriate standards; or
- (b) note in new section 4.28H(a)(13) that the Capital Corporation's

power to require stock purchases and assessments must not imperil an institution's viability or preclude it from supplying credit on reasonable terms.

5. The "Escape Clause" from GAAP Reporting

We recommend that the Committee narrow the "escape clause" it has appended to the requirement that System institutions file annual financial reports in compliance with generally accepted accounting principles (GAAP). Everyone who has struggled to understand the FCS's current difficulties has bemoaned its accounting problems. The authorization to the FCA to make exceptions to the reporting requirement is probably based on a well-disposed intent to permit the FCA to require "more stringent" accounts, but the effect is to open an ill-defined loophole. Loopholes can become financial chasms when pressures build on a regulator.

This System is in dire need of uniform, consistent, accurate, and independently audited financial reports in a form understood by outside investors and analysts. That is what GAAP is all about. We should not lightly permit departures from it.

We suggest that the Committee substitute two narrowly drawn exceptions to the rule that all FCS institutions prepare independently audited financial reports according to GAAP. First, the FCA must have authority to establish temporary accounting rules to govern the reporting of new or unique circumstances not yet addressed by the Financial Accounting Standards Board (which establishes GAAP). Second, the FCA should

be able to permit consolidated financial reports of System institutions where it determines that presentation is sufficient.

7. Surplus Formulae

Current law contains numerous formulae that dictate how System institutions are supposed to build up earned surplus. These formulae are no longer necessary once the FCA has authority to set capital requirements, and they might pose obstacles to the System's ability to pool its surplus. We recommend that the Committee delete these formulae while maintaining the FCA's authority to regulate dividends.

8. Merger Powers

We recognize the sensitivity of the merger issue among the FCS institutions. But we believe that the present financial problems and high-cost inefficiencies within the System necessitate at least some modest merger powers.

First, we recommend a provision authorizing voluntary FCS mergers of like associations within a district if the merger is approved by either (a) two-thirds of the associations in a district (each approving association would require a majority vote of its shareholders), or (b) a three-fourths vote of all the association shareholders in the district. The FCA also would have to approve the merger. This change would make a district-wide association merger possible where the vast majority of associations or shareholders seek it. Under current law, one association can halt a merger sought by all others in its district.

Second, the FCA needs the limited authority to require a merger of two banks operating under the same title when one can no longer meet its obligations. Under present law, if a bank cannot meet its obligations, the FCA must declare the bank insolvent and liquidate it. Such a liquidation would be disruptive to the System, its borrowers, and the creditors of the liquidated bank. An FCA-directed merger in such a situation, after consultation with the district boards, would enable the FCA to manage an impending bank failure more effectively and less expensively.

9. New Enforcement Power Language

The Administration agrees wholeheartedly with the new enforcement powers that H.R. 3792 would grant the FCA. But the language employed would cause problems for the FCA in practice.

H.R. 3792's language appears to be a good faith attempt to clarify and streamline the statutes on which essentially all Federal banking and thrift regulators rely. That statutory language is highly technical and precise. The courts are familiar with it, having applied it in countless cases. By employing revised and edited language, H.R. 3792 would be interpreted as intending different enforcement treatment in numerous situations. Yet we would wish FCA to have the same effective enforcement powers now possessed by all other Federal financial institution regulators.

Therefore, we urge the Committee to employ the same basic enforcement language relied on by the other regulators.

Conclusion

The Administration recognizes the vital role that the Farm Credit System plays for the Nation's farmers. We understand the urgent need to maintain the System's vitality. To alleviate the FCS's current problems and establish a permanent solution, we strongly support those provisions of H.R. 3792 that would (1) enable the Farm Credit System to deploy its own substantial resources to solve its localized financial difficulties, and (2) reform and strengthen the Farm Credit Administration. We believe that the establishment and effective operation of the Farm Credit System Capital Corporation and the reinvigoration of the Farm Credit Administration as a strong regulator will achieve our common goals without the need for Federal financial assistance.

The President has decided that the Administration will further assess the FCS's need for Federal financial assistance, but only if the Congress is willing to legislate the restructuring and self-help changes we all want to achieve. The Administration is committed to a reassessment of the financial assistance question once the necessary reforms have been implemented.

It is crucial that legislation be enacted expeditiously to reform the FCA and to enable the FCS to muster its own considerable resources to help farmer borrowers. We will work with you to pass such legislation. However, we are

concerned that the inclusion of financial assistance provisions, which we cannot support, would make it virtually impossible to enact this legislation promptly. I look forward to working with you, your Subcommittee, and the full Committee to resolve these important issues.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 21, 1985

RESULTS OF AUCTION OF 10-YEAR NOTES

The Department of the Treasury has accepted \$7,005 million of \$15,998 million of tenders received from the public for the 10-year notes, Series D-1995, auctioned today. The notes will be issued November 29, 1985, and mature November 15, 1995.

The interest rate on the notes will be 9-1/2%. The range of accepted competitive bids, and the corresponding prices at the 9-1/2% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	9.52%	99.858
High	9.58%	99.478
Average	9.54%	99.731

Tenders at the high yield were allotted 80%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 7,785	\$ 7,785
New York	14,052,705	6,314,705
Philadelphia	8,950	8,950
Cleveland	107,234	107,234
Richmond	19,330	14,330
Atlanta	37,563	36,353
Chicago	804,047	218,647
St. Louis	142,695	140,695
Minneapolis	15,857	15,357
Kansas City	29,130	29,130
Dallas	9,163	9,163
San Francisco	761,795	100,795
Treasury	1,416	1,416
Totals	<u>\$15,997,670</u>	<u>\$7,004,560</u>

The \$7,005 million of accepted tenders includes \$615 million of noncompetitive tenders and \$6,390 million of competitive tenders from the public.

In addition to the \$7,005 million of tenders accepted in the auction process, \$105 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$184 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for Treasury bills issued on November 15, 1985, for securities that matured on that date.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 22, 1985

Accrued Interest on 10-Year Note

Accrued interest on 9-1/2% Treasury Notes of Series D-1995 auctioned November 21, 1985 should be applied as follows:

- 1) Amount of accrued interest to be paid by investors is \$3.67403 per \$1,000.
- 2) In the case of noncompetitive tenders of \$1,000, the net accrued interest (\$.98) resulting from applying the discount (\$2.69) does not have to be collected.
- 3) However, all bidders who submitted tenders larger than \$1,000 will be required to pay the difference between the accrued interest payable and the particular equivalent price resulting from the auction.
- 4) In addition, the minimum par amount for STRIPS is \$400,000.

FOR IMMEDIATE RELEASE

December 22, 1985

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of September 1985.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$153.5 billion on September 30, 1985, posting an increase of \$0.8 billion from the level on August 31, 1985. This net change was the result of increases in holdings of agency assets of \$0.6 billion and holdings of agency debt of \$0.8 billion. Holdings of agency-guaranteed debt declined by \$0.6 billion during the month. FFB made 316 disbursements during September.

Attached to this release are tables presenting FFB September loan activity, new FFB commitments entered during September and FFB holdings as of September 30, 1985.

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FEDERAL FINANCING BANK

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>ON-BUDGET AGENCY DEBT</u>					
<u>TENNESSEE VALLEY AUTHORITY</u>					
Advance #509	9/2	\$ 167,000,000.00	9/9/85	7.495%	
Advance #510	9/6	319,000,000.00	9/12/85	7.485%	
Advance #511	9/9	169,000,000.00	9/16/85	7.615%	
Advance #512	9/12	303,000,000.00	9/18/85	7.605%	
Advance #513	9/16	9,000,000.00	9/20/85	7.565%	
Advance #514	9/16	139,000,000.00	9/23/85	7.565%	
Advance #515	9/18	91,000,000.00	9/25/85	7.565%	
Advance #516	9/23	74,000,000.00	10/1/85	7.355%	
Advance #517	9/23	56,000,000.00	10/2/85	7.355%	
Advance #518	9/25	80,000,000.00	10/2/85	7.185%	
Advance #519	9/30	171,000,000.00	10/7/85	7.285%	
Advance #520	9/30	100,000,000.00	10/9/85	7.285%	
Power Bond Series 1985 E	9/18	200,000,000.00	9/30/15	10.705%	
<u>EXPORT-IMPORT BANK</u>					
Note #65	9/3	97,000,000.00	9/1/95	10.405%	10.273% qtr.
<u>NATIONAL CREDIT UNION ADMINISTRATION</u>					
<u>Central Liquidity Facility</u>					
+Note #352	9/3	900,000.00	10/3/85	7.495%	
+Note #353	9/3	5,000,000.00	12/2/85	7.525%	
+Note #354	9/9	1,760,000.00	12/9/85	7.645%	
+Note #355	9/9	9,900,000.00	12/9/85	7.645%	
+Note #356	9/16	20,350,000.00	12/16/85	7.575%	
Note #357	9/18	900,000.00	10/4/85	7.565%	
+Note #358	9/30	62,165,000.00	12/30/85	7.295%	
<u>OFF-BUDGET AGENCY DEBT</u>					
<u>UNITED STATES POSTAL SERVICE</u>					
	9/30	970,000,000.00	5/1/11	10.475%	
<u>AGENCY ASSETS</u>					
<u>FARMERS HOME ADMINISTRATION</u>					
<u>Certificates of Beneficial Ownership</u>					
	9/1	50,000,000.00	9/1/95	10.405%	10.676% ann.
	9/9	162,000,000.00	9/1/90	10.095%	10.350% ann.
	9/23	35,000,000.00	9/1/00	10.755%	11.044% ann.
	9/30	170,000,000.00	9/1/95	10.335%	10.602% ann.
	9/30	85,000,000.00	9/1/00	10.565%	10.844% ann.
	9/30	50,000,000.00	9/1/05	10.805%	11.097% ann.
<u>DEPARTMENT OF HEALTH & HUMAN SERVICES</u>					
<u>Health Maintenance Organization Notes</u>					
Block #34	9/30	1,646,971.47	7/1/04	10.472%	
<u>RURAL ELECTRIFICATION ADMINISTRATION</u>					
<u>Certificate of Beneficial Ownership</u>					
	9/30	187,600,000.00	9/30/15	10.625%	

+rollover

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
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GOVERNMENT - GUARANTEED LOANSDEPARTMENT OF DEFENSEForeign Military Sales

Greece 15	9/6	\$ 2,336,975.17	6/15/12	10.546%	
Turkey 17	9/6	1,352,136.00	11/30/13	10.595%	
Turkey 17	9/9	3,081,393.89	11/30/13	10.796%	
Liberia 10	9/9	141,154.30	5/15/95	10.615%	
Peru 10	9/9	136,465.81	4/10/96	10.545%	
Botswana 4	9/9	514,823.54	7/25/92	7.815%	
Ecuador 8	9/9	36,722.00	7/31/96	10.025%	
Egypt 7	9/9	20,158,999.24	7/31/14	10.950%	
Jordan 10	9/9	100,170.00	3/10/92	10.435%	
Jordan 11	9/9	3,791.70	11/15/92	9.555%	
Kenya 11	9/9	180,157.25	5/15/95	10.595%	
Morocco 13	9/9	673,706.00	5/31/96	10.265%	
Dominican Republic 8	9/10	100,059.07	4/30/96	9.865%	
Jordan 10	9/10	169,676.52	3/10/92	10.405%	
Jordan 11	9/10	144,430.48	11/15/92	9.515%	
Turkey 17	9/10	21,370.23	11/30/13	10.825%	
Bolivia 2	9/10	99,900.00	11/22/95	10.565%	
Greece 11	9/11	123,188.10	4/30/11	11.005%	
Turkey 13	9/18	18,906.80	3/24/12	10.845%	
Turkey 17	9/18	2,776,686.03	11/30/13	10.767%	
Greece 15	9/25	192,470.55	6/15/12	10.615%	
Thailand 12	9/25	2,863,994.32	3/20/96	9.969%	
Turkey 17	9/30	38,181,733.95	11/30/13	10.682%	

DEPARTMENT OF HOUSING & URBAN DEVELOPMENTCommunity Development

*Detroit, MI	9/3	20,968,660.83	9/1/96	10.376%	10.645% ann.
*Phoenix, AZ	9/3	3,300,000.00	9/1/91	9.715%	9.951% ann.
*Lawrence, MA	9/3	2,000,000.00	9/1/91	9.715%	9.951% ann.
Waukegan, IL	9/3	1,250,000.00	9/1/90	9.516%	9.742% ann.
*Detroit, MI	9/4	15,088,000.00	9/1/90	9.772%	10.011% ann.
Rochester, NY	9/5	225,000.00	8/31/04	10.476%	10.750% ann.
Albany, NY	9/13	100,000.00	7/1/03	10.767%	11.057% ann.
Albany, NY	9/13	94,926.00	7/1/03	10.767%	11.057% ann.
Omaha, NE	9/13	150,000.00	5/31/87	9.085%	9.291% ann.
Philadelphia, PA	9/13	533,700.00	10/1/03	10.769%	11.059% ann.
Springfield, MA	9/13	447,500.00	8/1/86	8.245%	8.393% ann.
Westland, MI	9/18	219,849.54	10/1/85	7.565%	
Rock Hill, SC	9/23	474,602.00	11/1/86	8.295%	8.467% ann.
Oakland, CA	9/26	150,000.00	9/1/03	10.513%	10.789% ann.

DEPARTMENT OF THE NAVYShip Lease Financing

Darnell	9/11	65,308,000.00	10/15/85	7.595%	
Fisher	9/12	117,268,592.12	10/15/85	7.605%	
Fisher Container	9/12	1,584,418.71	10/15/85	7.605%	
Bonnyman	9/26	124,086,023.84	10/15/85	7.215%	
Bonnyman Container	9/26	1,584,382.00	10/15/85	7.215%	

Defense Production Act

Gila River Indian Community	9/23	139,150.20	10/1/92	9.925%	9.805% qtr.
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Maturity extension

FEDERAL FINANCING BANK

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>OREGON VETERAN'S HOUSING</u>					
+Note #2	9/30	\$ 60,000,000.00	3/31/86	7.300%	
<u>RURAL ELECTRIFICATION ADMINISTRATION</u>					
*S. Mississippi Electric #171	9/3	1,639,000.00	9/3/87	9.105%	9.004% qtr.
*S. Mississippi Electric #171	9/3	1,800,000.00	9/3/87	9.105%	9.004% qtr.
*Saluda River Electric #186	9/3	3,610,000.00	12/31/15	10.669%	10.530% qtr.
*Allegheny Electric #93	9/3	2,805,000.00	9/30/87	9.103%	9.002% qtr.
*Oglethorpe Power #246	9/3	16,804,000.00	1/2/18	10.659%	10.521% qtr.
*Basin Electric #87	9/3	712,000.00	12/3/85	7.525%	7.496% qtr.
*Basin Electric #137	9/3	5,000,000.00	12/3/85	7.525%	7.496% qtr.
*Basin Electric #232	9/3	1,158,000.00	12/3/85	7.525%	7.496% qtr.
Saluda River Electric #186	9/3	948,000.00	12/31/19	10.652%	10.514% qtr.
KEPCO #282	9/3	620,000.00	12/31/15	10.664%	10.526% qtr.
*Saluda River Electric #186	9/3	5,637,000.00	1/2/18	10.659%	10.521% qtr.
United Power #159	9/4	958,000.00	12/31/19	10.630%	10.492% qtr.
United Power #212	9/4	117,000.00	12/31/19	10.630%	10.492% qtr.
New Hampshire Electric #270	9/5	544,000.00	1/2/18	10.573%	10.437% qtr.
*San Miguel Electric #110	9/6	5,600,000.00	12/31/12	10.689%	10.550% qtr.
Upper Missouri G&T #283	9/6	796,000.00	9/30/87	9.065%	8.965% qtr.
Central Iowa Power #295	9/9	1,940,000.00	9/30/87	9.305%	9.199% qtr.
*Cajun Electric #180	9/9	24,266,000.00	12/31/17	10.891%	10.747% qtr.
*Tex-La Electric #208	9/9	1,600,000.00	12/31/17	10.891%	10.747% qtr.
*Brazos Electric #108	9/9	1,100,000.00	12/31/15	10.896%	10.752% qtr.
*Big Rivers Electric #65	9/9	4,112,000.00	1/2/18	10.891%	10.747% qtr.
Tele. Ut. of E. Oregon #256	9/10	1,953,000.00	9/30/87	9.265%	9.160% qtr.
*Wolverine Power #101	9/10	520,000.00	9/30/87	9.254%	9.149% qtr.
*Wabash Valley Power #104	9/10	3,161,000.00	9/30/87	9.255%	9.150% qtr.
*Wolverine Power #182	9/10	2,170,000.00	9/9/88	9.655%	9.541% qtr.
*Wolverine Power #183	9/10	2,686,000.00	9/9/88	9.655%	9.541% qtr.
*Wolverine Power #234	9/12	9,664,000.00	9/14/87	9.265%	9.160% qtr.
*Wabash Valley Power #206	9/13	6,605,000.00	9/13/87	9.275%	9.170% qtr.
Deseret G&T #211	9/16	20,399,000.00	9/16/87	9.175%	9.072% qtr.
*Oglethorpe Power #66	9/16	3,880,000.00	9/16/87	9.175%	9.072% qtr.
*Oglethorpe Power #66	9/16	3,044,217.00	9/16/87	9.175%	9.072% qtr.
*Oglethorpe Power #74	9/16	25,429,000.00	9/16/87	9.175%	9.072% qtr.
*Oglethorpe Power #150	9/16	26,772,000.00	9/16/87	9.175%	9.072% qtr.
*Dairyland Power #161	9/16	3,768,000.00	9/16/87	9.175%	9.072% qtr.
*Dairyland Power #173	9/16	462,000.00	9/16/87	9.175%	9.072% qtr.
*Central Electric #131	9/16	265,000.00	9/16/87	9.175%	9.072% qtr.
*Wolverine Power #100	9/16	58,736,000.00	9/30/87	9.164%	9.061% qtr.
*Wolverine Power #101	9/16	75,063,000.00	9/30/87	9.164%	9.061% qtr.
*East Kentucky Power #73	9/16	4,700,000.00	12/31/15	10.794%	10.657% qtr.
*East Kentucky Power #188	9/16	7,023,000.00	12/31/15	10.804%	10.662% qtr.
*N.E. Missouri Electric #217	9/16	438,000.00	1/2/18	10.795%	10.653% qtr.
Wolverine Power #234	9/16	1,343,000.00	9/30/87	9.175%	9.072% qtr.
United Power #67	9/17	700,000.00	12/31/13	10.775%	10.634% qtr.
United Power #86	9/17	375,000.00	12/31/13	10.775%	10.634% qtr.
United Power #129	9/17	1,050,000.00	12/31/13	10.775%	10.634% qtr.
Western Illinois Power #182	9/17	2,681,000.00	12/31/15	10.767%	10.626% qtr.
Old Dominion Electric #267	9/19	730,000.00	12/31/13	10.793%	10.651% qtr.
Deseret G&T #170	9/19	154,000.00	12/31/19	10.841%	10.698% qtr.
Oglethorpe Power #246	9/19	57,524,000.00	9/21/87	9.195%	9.092% qtr.
*Big Rivers Electric #58	9/20	3,827,000.00	12/31/12	10.850%	10.707% qtr.
*Big Rivers Electric #65	9/20	12,000.00	12/31/12	10.850%	10.707% qtr.
*Big Rivers Electric #91	9/20	1,829,000.00	12/31/12	10.850%	10.707% qtr.
San Miguel Electric #110	9/23	8,000,000.00	12/31/12	10.788%	10.646% qtr.
Corn Belt Power #292	9/23	337,000.00	9/30/87	9.145%	9.043% qtr.
*Big Rivers Electric #143	9/23	336,000.00	12/31/17	10.765%	10.624% qtr.
*Big Rivers Electric #179	9/23	6,435,000.00	12/31/17	10.765%	10.624% qtr.
*Basin Electric #137	9/23	25,000,000.00	12/3/85	7.355%	7.346% qtr.

+rollover

*maturity extension

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)</u>					
*Colorado Ute Electric	9/24	\$ 2,868,000.00	9/24/87	9.015%	8.916% qtr.
*Upper Missouri G&T #172	9/25	233,000.00	9/25/87	8.945%	8.847% qtr.
*South Mississippi Electric #3	9/26	5,000.00	9/30/87	8.810%	8.715% qtr.
*South Mississippi Electric #90	9/26	495,000.00	9/30/87	8.812%	8.717% qtr.
North Carolina Electric #268	9/27	20,249,000.00	12/31/17	10.654%	10.516% qtr.
*East Kentucky Power #140	9/27	800,000.00	12/31/17	10.659%	10.521% qtr.
*East Kentucky Power #188	9/27	2,000,000.00	12/31/17	10.659%	10.521% qtr.
*Brazos Electric #108	9/30	1,210,000.00	12/31/15	10.663%	10.525% qtr.
*Brazos Electric #144	9/30	3,613,000.00	12/31/15	10.663%	10.525% qtr.
*Deseret G&T #211	9/30	15,787,000.00	12/31/85	7.295%	
*Deseret G&T #211	9/30	14,879,000.00	12/31/85	7.295%	
*Deseret G&T #211	9/30	28,700,000.00	12/31/85	7.295%	
*Basin Electric #88	9/30	105,000.00	12/3/85	7.285%	
*Basin Electric #137	9/30	40,000,000.00	12/3/85	7.285%	
*Basin Electric #137	9/30	25,000,000.00	12/3/85	7.285%	
*Basin Electric #232	9/30	2,058,000.00	12/3/85	7.285%	
*Wabash Valley Power #104	9/30	5,634,000.00	9/30/87	8.865%	8.769% qtr.
*Wabash Valley Power #206	9/30	11,392,000.00	9/30/87	8.865%	8.769% qtr.
*Allegheny Electric #93	9/30	4,584,000.00	9/30/87	8.845%	8.749% qtr.
*Allegheny Electric #93	9/30	5,000,000.00	9/30/87	8.845%	8.749% qtr.
*Southern Illinois Power #38	9/30	1,500,000.00	9/30/87	8.852%	8.756% qtr.
*Corn Belt Power #166	9/30	660,000.00	9/30/87	8.865%	8.769% qtr.
*North Carolina Electric #185	9/30	10,824,000.00	9/30/87	8.865%	8.769% qtr.
*North Carolina Electric #185	9/30	19,610,000.00	9/30/87	8.865%	8.769% qtr.
*North Carolina Electric #185	9/30	10,371,000.00	9/30/87	8.865%	8.769% qtr.
*North Carolina Electric #185	9/30	17,248,000.00	9/30/87	8.865%	8.769% qtr.
*North Carolina Electric #185	9/30	34,471,000.00	9/30/87	8.865%	8.769% qtr.
*Wolverine Power #182	9/30	4,003,000.00	9/30/88	9.245%	9.141% qtr.
*Wolverine Power #183	9/30	4,905,000.00	9/30/88	9.245%	9.141% qtr.
*Wolverine Power #234	9/30	16,704,000.00	9/30/87	8.865%	8.769% qtr.
*Cajun Electric #147	9/30	10,000,000.00	12/31/15	10.663%	10.525% qtr.
*Cajun Electric #180	9/30	30,000,000.00	12/31/15	10.663%	10.525% qtr.
*Big Rivers Electric #91	9/30	415,000.00	12/31/15	10.663%	10.525% qtr.
*Big Rivers Electric #136	9/30	580,000.00	12/31/15	10.663%	10.525% qtr.
*Big Rivers Electric #143	9/30	43,000.00	12/31/15	10.663%	10.525% qtr.
*Big Rivers Electric #179	9/30	5,376,000.00	12/31/15	10.663%	10.525% qtr.
*Big Rivers Electric #179	9/30	12,436,000.00	12/31/17	10.660%	10.522% qtr.
*Saluda Rivers Electric #186	9/30	7,000,000.00	12/31/15	10.663%	10.525% qtr.
*Saluda Rivers Electric #186	9/30	11,150,000.00	12/31/17	10.660%	10.522% qtr.
*Vermont Electric #259	9/30	1,336,000.00	12/31/17	10.660%	10.522% qtr.
*Tex-La Electric #208	9/30	3,100,000.00	12/31/17	10.660%	10.522% qtr.
*Cooperative Power #70	9/30	12,300,000.00	9/30/87	8.865%	8.769% qtr.
*Oglethorpe Power #246	9/30	36,701,000.00	12/31/17	10.660%	10.522% qtr.
*S. Mississippi Electric #171	9/30	7,881,000.00	10/1/87	8.875%	8.779% qtr.
Basin Electric #232	9/30	24,711,000.00	12/3/85	7.285%	
Basin Electric #272	9/30	587,000.00	9/30/87	8.846%	8.750% qtr.
Kamo Electric #266	9/30	3,497,000.00	9/30/87	8.851%	8.755% qtr.
Colorado Ute Electric #276	9/30	1,032,000.00	9/30/87	8.864%	8.768% qtr.
Wolverine Power #274	9/30	2,536,000.00	9/30/87	8.855%	8.759% qtr.
Kansas Electric #282	9/30	5,754,000.00	12/31/15	10.658%	10.520% qtr.
Western Illinois Power #160	9/30	455,000.00	12/31/19	10.657%	10.519% qtr.
Western Illinois Power #294	9/30	25,350,000.00	12/31/17	10.653%	10.515% qtr.
New Hampshire Electric #270	9/30	2,893,000.00	12/31/17	10.660%	10.522% qtr.
Saluda River Electric #271	9/30	11,962,000.00	12/31/17	10.654%	10.516% qtr.
Brazos Electric #230	9/30	1,015,000.00	12/31/19	10.657%	10.519% qtr.
Tex-La Electric #208	9/30	3,628,000.00	12/31/19	10.657%	10.519% qtr.
Soyland Power #293	9/30	32,809,000.00	1/2/18	10.653%	10.515% qtr.
Cont. Tele. of Arkansas #264	9/30	2,248,000.00	12/31/19	10.657%	10.519% qtr.
Cont. Tele. of Arkansas #265	9/30	4,574,000.00	12/31/19	10.657%	10.519% qtr.
*Central Electric #128	9/30	2,440,000.00	9/30/87	8.865%	8.769% qtr.
*Sunflower Electric #174	9/30	2,200,000.00	9/30/87	8.865%	8.769% qtr.
*Kansas Electric #216	9/30	640,000.00	12/31/17	10.660%	10.522% qtr.

*maturity extension

FEDERAL FINANCING BANK

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST	INTEREST
				RATE (semi- annual)	RATE (other than semi-annual)
<u>RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)</u>					
*Kansas Electric #216	9/30	\$ 800,000.00	12/31/17	10.660%	10.522% qtr.
*Kansas Electric #216	9/30	585,000.00	12/31/17	10.660%	10.522% qtr.
*Kansas Electric #216	9/30	665,000.00	12/31/17	10.560%	10.522% qtr.
*Kansas Electric #216	9/30	5,300,000.00	12/31/17	10.660%	10.522% qtr.
*Seminole Electric #141	9/30	2,037,000.00	9/30/87	8.865%	8.769% qtr.
<u>SMALL BUSINESS ADMINISTRATION</u>					
<u>State & Local Development Company Debentures</u>					
Hamilton County Dev. Co., Inc.	9/4	32,000.00	9/1/00	10.396%	
Bus. Dev. Corp. of Nebraska	9/4	48,000.00	9/1/00	10.396%	
Indiana Statewide CDC	9/4	52,000.00	9/1/00	10.396%	
Northeast Louisiana Ind., Inc.	9/4	53,000.00	9/1/00	10.396%	
Dev. Corp. of Middle Georgia	9/4	56,000.00	9/1/00	10.396%	
Region E Development Corp.	9/4	77,000.00	9/1/00	10.396%	
St. Louis Local Dev. Co.	9/4	101,000.00	9/1/00	10.396%	
Greater Salt Lake Bus. Dis.	9/4	101,000.00	9/1/00	10.396%	
Beaumont Ec. Dev. Foundation	9/4	102,000.00	9/1/00	10.396%	
Downstate Development Corp.	9/4	116,000.00	9/1/00	10.396%	
Mahoning Valley Ec. Dev. Corp.	9/4	116,000.00	9/1/00	10.396%	
Indiana Statewide CDC	9/4	120,000.00	9/1/00	10.396%	
St. Louis County LDC	9/4	210,000.00	9/1/00	10.396%	
Central California CDC	9/4	263,000.00	9/1/00	10.396%	
CDC Business Dev. Corp.	9/4	500,000.00	9/1/00	10.396%	
Nine County Development, Inc.	9/4	12,000.00	9/1/05	10.586%	
Nine County Development, Inc.	9/4	34,000.00	9/1/05	10.586%	
Nine County Development, Inc.	9/4	36,000.00	9/1/05	10.586%	
Nine County Development, Inc.	9/4	51,000.00	9/1/05	10.586%	
Asheville-Buncombe Dev. Corp.	9/4	55,000.00	9/1/05	10.586%	
Montgomery County B.D.C.	9/4	57,000.00	9/1/05	10.586%	
Old Colorado City Dev. Co.	9/4	68,000.00	9/1/05	10.586%	
Oakland County LDC	9/4	73,000.00	9/1/05	10.586%	
CDC of Warren County, Inc.	9/4	83,000.00	9/1/05	10.586%	
Indiana Statewide CDC	9/4	84,000.00	9/1/05	10.586%	
Clay County Dev. Corp.	9/4	89,000.00	9/1/05	10.586%	
Mid-Atlantic CDC	9/4	91,000.00	9/1/05	10.586%	
Florida 1st Cap. Finance Corp.	9/4	92,000.00	9/1/05	10.586%	
Jacksonville LDC, Inc.	9/4	93,000.00	9/1/05	10.586%	
Greater Salt Lake Bus. Dis.	9/4	95,000.00	9/1/05	10.586%	
Coastal Area Dis Dev Auth, Inc	9/4	95,000.00	9/1/05	10.586%	
CDC of Mississippi, Inc.	9/4	102,000.00	9/1/05	10.586%	
Corp. for E.D. in Des Moines	9/4	103,000.00	9/1/05	10.586%	
Centralina Dev. Corp., Inc.	9/4	105,000.00	9/1/05	10.586%	
E.D.C. of Shasta County	9/4	109,000.00	9/1/05	10.586%	
Cincinnati L.D.C.	9/4	114,000.00	9/1/05	10.586%	
The Southern Dev. Council, Inc.	9/4	118,000.00	9/1/05	10.586%	
Cascades W. Fin. Services, Inc.	9/4	146,000.00	9/1/05	10.586%	
Syracuse Ec. Dev. Corp.	9/4	151,000.00	9/1/05	10.586%	
Florida 1st Cap. Finance Corp.	9/4	162,000.00	9/1/05	10.586%	
Mid City Pioneer Corp.	9/4	168,000.00	9/1/05	10.586%	
San Diego County LDC	9/4	189,000.00	9/1/05	10.586%	
Toledo Ec. Planning Coun., Inc.	9/4	210,000.00	9/1/05	10.586%	
Western Mass. S.B.A., Inc.	9/4	210,000.00	9/1/05	10.586%	
Chester County S.B.A. Corp.	9/4	231,000.00	9/1/05	10.586%	
St. Louis County L.D.C.	9/4	231,000.00	9/1/05	10.586%	
Hamilton County Dev. Co., Inc.	9/4	239,000.00	9/1/05	10.586%	
Long Island Dev. Corp.	9/4	250,000.00	9/1/05	10.586%	
Massachusetts C.D.C.	9/4	252,000.00	9/1/05	10.586%	
Pioneer Country Dev., Inc.	9/4	253,000.00	9/1/05	10.586%	
Forward Development Corp.	9/4	260,000.00	9/1/05	10.586%	
Virginia Ec. Dev. Corp.	9/4	302,000.00	9/1/05	10.586%	
Iowa Business Growth Co.	9/4	305,000.00	9/1/05	10.586%	
San Diego County L.D.C.	9/4	372,000.00	9/1/05	10.586%	
Housatonic Indus. Dev. Corp.	9/4	378,000.00	9/1/05	10.586%	

*maturity extension

FEDERAL FINANCING BANK

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE	
				(semi- annual)	(other than semi-annual)
<u>State & Local Development Company Debentures (Cont'd)</u>					
Bay Colony Dev. Corp.	9/4	\$ 397,000.00	9/1/05	10.586%	
E.D.C. of Shasta County	9/4	420,000.00	9/1/05	10.586%	
E.D.F. of Sacramento, Inc.	9/4	441,000.00	9/1/05	10.586%	
Eastern Maine Dev. District	9/4	441,000.00	9/1/05	10.586%	
Bay Colony Dev. Corp.	9/4	493,000.00	9/1/05	10.586%	
Massachusetts C.D.C.	9/4	500,000.00	9/1/05	10.586%	
Iowa Bus. Growth Co.	9/4	500,000.00	9/1/05	10.586%	
Columbus Countywide Dev. Corp.	9/4	56,000.00	9/1/10	10.676%	
United Communities C.D.C.	9/4	73,000.00	9/1/10	10.676%	
Treasure Valley C.D.C.	9/4	78,000.00	9/1/10	10.676%	
Columbus Countywide Dev. Corp.	9/4	79,000.00	9/1/10	10.676%	
Area Investment & Dev. Corp.	9/4	84,000.00	9/1/10	10.676%	
Texas C.D.C., Inc.	9/4	98,000.00	9/1/10	10.676%	
Columbus Countywide Dev. Corp.	9/4	100,000.00	9/1/10	10.676%	
Columbus Countywide Dev. Corp.	9/4	102,000.00	9/1/10	10.676%	
N.W. Piedmont Dev. Corp., Inc.	9/4	105,000.00	9/1/10	10.676%	
San Diego County L.D.C.	9/4	110,000.00	9/1/10	10.676%	
Community Ec. Dev. Co.	9/4	133,000.00	9/1/10	10.676%	
Columbus Countywide Dev. Corp.	9/4	135,000.00	9/1/10	10.676%	
Bay Area Employment Dev. Co.	9/4	146,000.00	9/1/10	10.676%	
North Shore Bus. Finance Corp.	9/4	154,000.00	9/1/10	10.676%	
Area Investment & Dev. Corp.	9/4	159,000.00	9/1/10	10.676%	
San Diego County L.D.C.	9/4	166,000.00	9/1/10	10.676%	
Bay Colony Dev. Corp.	9/4	168,000.00	9/1/10	10.676%	
San Diego County L.D.C.	9/4	173,000.00	9/1/10	10.676%	
Mentor Econ. Assistance Corp.	9/4	195,000.00	9/1/10	10.676%	
Nevada State Dev. Corp.	9/4	210,000.00	9/1/10	10.676%	
Opportunities Minnesota, Inc.	9/4	210,000.00	9/1/10	10.676%	
Bay Area Business Dev. Co.	9/4	218,000.00	9/1/10	10.676%	
Quaker State C.D.C., Inc.	9/4	239,000.00	9/1/10	10.676%	
Granite State Ec. Dev. Corp.	9/4	241,000.00	9/1/10	10.676%	
Arizona Enterprise Dev. Corp.	9/4	280,000.00	9/1/10	10.676%	
Bay Area Employment Dev. Co.	9/4	319,000.00	9/1/10	10.676%	
Rural Missouri, Inc.	9/4	348,000.00	9/1/10	10.676%	
Greater Hartford B.D.C., Inc.	9/4	383,000.00	9/1/10	10.676%	
Denver Urban Ec. Dev. Corp.	9/4	464,000.00	9/1/10	10.676%	
Bay Area Business Dev. Co.	9/4	500,000.00	9/1/10	10.676%	
Massachusetts C.D.C.	9/4	500,000.00	9/1/10	10.676%	
<u>Small Business Investment Company Debentures</u>					
Advent IV Capital Corporation	9/17	3,000,000.00	9/1/88	9.505%	
Market Capital Corporation	9/17	250,000.00	9/1/88	9.505%	
Advent IV Capital Corporation	9/17	3,000,000.00	9/1/90	9.945%	
Maine Capital Corporation	9/17	500,000.00	9/1/90	9.945%	
Round Table Capital Corp.	9/17	500,000.00	9/1/90	9.945%	
Albuquerque Sm. Bus. Inv. Co.	9/17	250,000.00	9/1/92	10.365%	
Maine Capital Corporation	9/17	500,000.00	9/1/92	10.365%	
Tappan Zee Capital Corp.	9/17	300,000.00	9/1/92	10.365%	
Americap Corporation	9/17	600,000.00	9/1/95	10.495%	
Business Achievement Corp.	9/17	120,000.00	9/1/95	10.495%	
Capital Corp. of Wyoming, Inc.	9/17	300,000.00	9/1/95	10.495%	
Capital Impact Corporation	9/17	4,000,000.00	9/1/95	10.495%	
Capital Marketing Corporation	9/17	3,500,000.00	9/1/95	10.495%	
Capital Marketing Corporation	9/17	4,020,000.00	9/1/95	10.495%	
Edwards Capital Corporation	9/17	500,000.00	9/1/95	10.495%	
Equity Capital Corporation	9/17	300,000.00	9/1/95	10.495%	
Ferranti High Technology, Inc.	9/17	1,000,000.00	9/1/95	10.495%	
James River Capital Associates	9/17	750,000.00	9/1/95	10.495%	
Market Capital Corporation	9/17	200,000.00	9/1/95	10.495%	
Metropolitan Capital Corp.	9/17	500,000.00	9/1/95	10.495%	
North Star Ventures, Inc.	9/17	500,000.00	9/1/95	10.495%	
Questech Capital Corporation	9/17	2,000,000.00	9/1/95	10.495%	
Unicorn Ventures, II, L.P.	9/17	2,000,000.00	9/1/95	10.495%	
Walnut Capital Corporation	9/17	4,000,000.00	9/1/95	10.495%	
White River Capital Corp.	9/17	500,000.00	9/1/95	10.495%	

FEDERAL FINANCING BANK

SEPTEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST	INTEREST
				RATE (semi- annual)	RATE (other than semi-annual)
<u>TENNESSEE VALLEY AUTHORITY</u>					
<u>Seven States Energy Corporation</u>					
*Note A-85-12	9/30	\$ 594,232,232.86	12/31/85	7.295%	

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FEDERAL FINANCING BANK
SEPTEMBER 1985 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Oakland, CA	HUD	\$ 810,000.00	9/1/86	9/1/03
Rock Hill, SC	HUD	1,578,000.00	11/1/86	11/1/86
Saginaw, MI	HUD	2,000,000.00	10/1/86	10/1/86
Wilmington Trust Co. (Darnell)	Navy	75,000,000.00	12/11/90	7/15/05
Wilmington Trust Co. (Fisher)	Navy	225,000,000.00	12/12/90	7/15/10
Wilmington Trust Co. (Fisher Container)	Navy	3,000,000.00	12/12/90	7/15/10
Wilmington Trust Co. (Bonnyman)	Navy	225,000,000.00	12/26/90	7/15/10
Wilmington Trust Co. (Bonnyman Container)	Navy	3,000,000.00	12/26/90	7/15/10
Kansas Electric	REA	10,000,000.00	12/31/92	12/31/19

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	September 30, 1985	August 31, 1985	Net Change 9/1/85-9/30/85	Net Change--FY 1985 10/1/84-9/30/85
<u>On-Budget Agency Debt</u>				
Tennessee Valley Authority	\$ 14,381.0	\$ 14,275.0r	\$ 106.0	\$ 946.0
Export-Import Bank	15,409.0	15,728.8	-319.7	-280.8
NCUA-Central Liquidity Facility	222.2	225.8	-3.7	-46.7
<u>Off-Budget Agency Debt</u>				
U.S. Postal Service	1,690.0	720.0	970.0	603.0
U.S. Railway Association	73.8	73.8	-0-	22.5†
<u>Agency Assets</u>				
Farmers Home Administration	64,169.0	63,779.0	390.0	4,658.0
DHHS-Health Maintenance Org.	109.3	109.0	0.3	-6.8
DHHS-Medical Facilities	122.8	126.1	-3.3	-9.1
Overseas Private Investment Corp.	6.1	6.1	-0-	-4.8
Rural Electrification Admin.-CBO	3,724.3	3,536.7	187.6	187.6
Small Business Administration	32.9	33.4r	-0.5	-7.2
<u>Government-Guaranteed Lending</u>				
DOD-Foreign Military Sales	18,088.5	18,093.5r	-4.9	977.6
DEI.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DOE-Geothermal Loan Guarantees	-0-	-0-	-0-	-6.2
DOE-Non-Nuclear Act (Great Plains)	-0-	1,138.0	-1,138.0	-1,290.0
DHUD-Community Dev. Block Grant	289.4	290.1r	-0.7	81.1
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,146.2	2,146.2	-0-	-32.3
General Services Administration	408.4	408.4r	-0-	-5.0
DOI-Guam Power Authority	35.1	35.6	-0.4	-0.9
DOI-Virgin Islands	28.2	28.2	-0-	-0.5
NASA-Space Communications Co.	887.6	887.6	-0-	-67.0
DON-Ship Lease Financing	1,313.1	1,003.2	309.8	1,313.1
DON-Defense Production Act	5.8	5.7	0.1	2.7
Oregon Veteran's Housing	60.0	60.0	-0-	60.0
Rural Electrification Admin.	21,675.5	21,459.2r	216.3	1,088.4
SBA-Small Business Investment Cos.	1,023.9	1,009.4r	14.5	163.6
SBA-State/Local Development Cos.	595.7	585.3r	10.4	241.1
TVA-Seven States Energy Corp.	1,651.4	1,628.4	23.0	95.9
DOT-Section 511	153.6	153.6	-0-	-6.0
DOT-WMATA	177.0	177.0	-0-	-0-
TOTALS*	\$ 153,513.3	\$ 152,756.4	\$ 756.8	\$ 8,677.1

*figures may not total due to rounding
reflects adjustment for capitalized interest
r=revised

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release
Friday, November 25, 1985

Contact: Art Siddon
566-5252

NIEHENKE RESIGNS AS DEPUTY ASSISTANT SECRETARY FOR FEDERAL FINANCE

The Department of the Treasury announced today that John J. Niehenke has resigned as Deputy Assistant Secretary for Federal Finance effective November 26.

Mr. Niehenke, who joined Treasury in June 1984, has been responsible for formulating the U.S. government's debt management and financing policies, and for analyzing the impact of different financing options on U.S. money and capital markets. Specifically, he managed the Department's program to design and implement the STRIPS program, which facilitates trading the component parts of Treasury securities. From March 1985 to October 1985, Mr. Niehenke was the Acting Assistant Secretary for Domestic Finance. Secretary James A. Baker III, noted that Mr. Niehenke has done an excellent job with Treasury debt management during an important period.

Before joining the Treasury Department, Mr. Niehenke, 40, was a Senior Vice President of Girard Bank, Philadelphia, now a subsidiary of Mellon National Corporation. During his 14 years at Girard, Mr. Niehenke had responsibilities involving investment portfolio and liability management. He also managed the bank's national lending group which coordinated lending in large corporate markets.

From 1976 to 1978, Mr. Niehenke was Special Assistant to the Secretary for Debt Management at the Treasury where he was awarded the Exceptional Service Award and Meritorious Service Award, the Department's two highest honors.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 22, 1985

RESULTS OF AUCTION OF 30-YEAR BONDS

The Department of the Treasury has accepted \$6,761 million of \$14,856 million of tenders received from the public for the 30-year Bonds auctioned today. The bonds will be issued November 29, 1985, and mature November 15, 2015.

The interest rate on the bonds will be 9-7/8%.^{1/} The range of accepted competitive bids, and the corresponding prices at the 9-7/8% interest rate are as follows:

	<u>Yield</u>	<u>Price</u> ^{2/}
Low	9.88%	99.936
High	9.95%	99.271
Average	9.93%	99.460

Tenders at the high yield were allotted 22%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 35,362	\$ 802
New York	13,331,904	6,366,884
Philadelphia	910	910
Cleveland	30,669	669
Richmond	13,286	6,286
Atlanta	13,526	9,186
Chicago	858,651	262,151
St. Louis	40,871	39,871
Minneapolis	2,253	2,253
Kansas City	5,871	5,871
Dallas	705	705
San Francisco	521,224	64,664
Treasury	374	374
Totals	<u>\$14,855,606</u>	<u>\$6,760,626</u>

The \$6,761 million of accepted tenders includes \$340 million of noncompetitive tenders and \$6,421 million of competitive tenders from the public.

In addition to the \$6,761 million of tenders accepted in the auction process, \$131 million of tenders was accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for Treasury bills issued on November 15, 1985, for securities that matured on that date.

^{1/} The minimum par amount required for STRIPS is \$1,600,000. Larger amounts must be in multiples of that amount.

^{2/} In addition to the auction price, accrued interest of \$3.81906 per \$1,000 for November 15, 1985, to November 29, 1985, must be paid.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 25, 1985

CONTACT: Art Siddon

566-5252

TREASURY DEPARTMENT ASSESSES PENALTY AGAINST SEATTLE FIRST NATIONAL BANK UNDER BANK SECRECY ACT

The Department of the Treasury announced today that Seattle First National Bank of Seattle, Washington, has agreed to a settlement that requires the bank to pay a civil penalty of \$697,000 for failure to report 2788 currency transactions between 1980 and 1985 as required by the Bank Secrecy Act. These violations were discovered following a compliance examination by the Comptroller of the Currency.

The decision was announced by David D. Queen, Acting Assistant Secretary for Enforcement and Operations. Queen said that the penalty represented a complete settlement of Seattle First's civil liability on these 2788 violations. Queen added that Seattle First cooperated with Treasury in developing the scope of its liability after the compliance problems were discovered.

The Department of the Treasury has no evidence that Seattle First knowingly engaged in money laundering in connection with these 2788 reporting violations. Seattle First has instituted measures to ensure full compliance with reporting requirements in the future.

Queen said, "We view Bank Secrecy Act reporting failures, for whatever reason, as extremely serious. Failures to file timely currency reports deprive Treasury of potentially useful law enforcement information."

This year, more than 60 financial institutions have disclosed reporting violations to Treasury. Most of these institutions have come forward voluntarily, a few, such as Seattle First, have done so after non-compliance was discovered by bank regulators. Since June, penalties ranging from \$210,000 to \$2.25 million have been assessed against six other banks. The civil liability of the other financial institutions is under review.



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 25, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,404 million of 13-week bills and for \$7,413 million of 26-week bills, both to be issued on November 29, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing February 27, 1986			:	maturing May 29, 1986		
	Discount Rate	Investment Rate 1/ Price		:	Discount Rate	Investment Rate 1/ Price	
Low	7.12%	7.35%	98.220	:	7.24% ^{a/}	7.62%	96.360
High	7.17%	7.40%	98.208	:	7.27%	7.65%	96.345
Average	7.15%	7.38%	98.213	:	7.26%	7.64%	96.350

^{a/} Excepting 2 tenders totaling \$2,505,000.

Tenders at the high discount rate for the 13-week bills were allotted 89%.
Tenders at the high discount rate for the 26-week bills were allotted 16%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	\$ 41,855	\$ 41,855	:	\$ 31,910	\$ 31,910
New York	17,145,570	6,207,970	:	17,699,740	6,111,670
Philadelphia	22,200	22,200	:	21,340	21,340
Cleveland	54,740	54,740	:	32,730	32,730
Richmond	86,310	75,760	:	68,425	68,425
Atlanta	78,110	74,800	:	49,750	47,910
Chicago	1,471,545	356,575	:	1,692,135	553,255
St. Louis	45,745	25,745	:	53,000	33,000
Minneapolis	10,010	10,010	:	14,175	14,175
Kansas City	38,410	38,410	:	39,225	39,225
Dallas	44,180	39,180	:	30,965	25,965
San Francisco	1,670,125	160,125	:	1,567,395	173,395
Treasury	296,650	296,650	:	259,535	259,535
TOTALS	\$21,005,450	\$7,404,020	:	\$21,560,325	\$7,412,535
Type					
Competitive	\$18,050,735	\$4,449,305	:	\$18,006,710	\$3,858,920
Noncompetitive	1,009,030	1,009,030	:	813,615	813,615
Subtotal, Public	\$19,059,765	\$5,458,335	:	\$18,820,325	\$4,672,535
Federal Reserve	1,655,485	1,655,485	:	1,550,000	1,550,000
Foreign Official Institutions	290,200	290,200	:	1,190,000	1,190,000
TOTALS	\$21,005,450	\$7,404,020	:	\$21,560,325	\$7,412,535

^{1/} Equivalent coupon-issue yield.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

November 26, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$15,200 million, to be issued December 5, 1985. This offering will provide about \$950 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,256 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, December 2, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,600 million, representing an additional amount of bills dated September 5, 1985, and to mature March 6, 1986 (CUSIP No. 912794 JV 7), currently outstanding in the amount of \$7,261 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,600 million, to be dated December 5, 1985, and to mature June 5, 1986 (CUSIP No. 912794 KJ 2).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing December 5, 1985. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$936 million as agents for foreign and international monetary authorities, and \$3,466 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 26, 1985

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for \$9,005 million of 52-week bills to be issued November 29, 1985, and to mature November 28, 1986, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment Rate</u> (Equivalent Coupon-Issue Yield)	<u>Price</u>
Low -	7.32%	7.86%	92.599
High -	7.34%	7.88%	92.578
Average -	7.33%	7.87%	92.589

Tenders at the high discount rate were allotted 83%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 46,705	\$ 27,685
New York	19,888,020	7,809,210
Philadelphia	8,845	8,845
Cleveland	91,170	86,920
Richmond	36,810	26,130
Atlanta	93,170	44,220
Chicago	1,517,300	329,390
St. Louis	91,525	57,995
Minneapolis	11,150	11,150
Kansas City	26,075	26,015
Dallas	17,895	12,045
San Francisco	1,347,815	497,935
Treasury	67,750	67,750
TOTALS	\$23,244,230	\$9,005,290

<u>Type</u>		
Competitive	\$20,968,285	\$6,729,345
Noncompetitive	415,945	415,945
Subtotal, Public	\$21,384,230	\$7,145,290
Federal Reserve	1,800,000	1,800,000
Foreign Official Institutions	60,000	60,000
TOTALS	\$23,244,230	\$9,005,290

An additional \$40,000 thousand of the bills will be issued to foreign official institutions for new cash.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

November 27, 1985

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES MARKET BORROWING REQUIREMENTS

The Treasury Department announced today its estimates of Treasury borrowing needs for the current quarter and January-March 1986. This announcement was delayed from the usual late October announcement date because of the delay in Congressional action on the debt limit.

Treasury net borrowing in the form of marketable bills, notes and bonds is estimated to total \$61.3 billion in the October-December 1985 quarter, assuming a cash balance of \$15.0 billion on December 31. Of this amount, \$55.9 billion has been issued or announced to date, including the weekly bill auctions announced yesterday. The remaining \$5.4 billion could be raised by additions to regular weekly and monthly bills and to the 2-year and 4-year notes settling December 31. The regular weekly bill auctions on December 9 will not be held unless there is assurance of Congressional action on the debt limit.

In the January-March 1986 quarter, Treasury market borrowing is estimated to be in a range of \$60 to \$65 billion, assuming a \$10 billion cash balance on March 31.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release
Friday, November 29, 1985

Contact: Art Siddon
566-5252

TREASURY DEPARTMENT ASSESSES PENALTY AGAINST NATIONAL BANK OF DETROIT UNDER BANK SECRECY ACT

The Department of the Treasury announced today that National Bank of Detroit has agreed to a settlement that requires the bank to pay a civil penalty of \$168,000 for failure to report 764 currency transactions between 1980 and 1985 as required by the Bank Secrecy Act.

David D. Queen, Acting Assistant Secretary for Enforcement and Operations, who announced the penalty, said the penalty represented a complete settlement of National Bank of Detroit's civil liability. Queen said National Bank of Detroit promptly and on its own initiative brought this matter to the attention of the Department of the Treasury, cooperated fully with Treasury, and conducted an extensive internal investigation of its Bank Secrecy Act compliance. National Bank of Detroit has instituted measures to ensure full compliance with reporting requirements in the future.

The Department of the Treasury has no evidence that National Bank of Detroit knowingly engaged in money laundering or criminal behavior in connection with these reporting violations.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

November 27, 1985

RESULTS OF AUCTION OF 5-YEAR 2-MONTH NOTES

The Department of the Treasury has accepted \$7,519 million of \$25,110 million of tenders received from the public for the 5-year 2-month notes, Series H-1991, auctioned today. The notes will be issued December 3, 1985, and mature February 15, 1991.

The interest rate on the notes will be 9-1/8%. The range of accepted competitive bids, and the corresponding prices at the 9-1/8% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	9.12%	99.942
High	9.13%	99.901
Average	9.13%	99.901

Tenders at the high yield were allotted 60%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 61,113	\$ 22,113
New York	22,444,767	6,695,427
Philadelphia	32,730	31,086
Cleveland	64,835	51,195
Richmond	44,228	30,228
Atlanta	49,514	46,704
Chicago	1,158,132	231,082
St. Louis	151,180	134,180
Minneapolis	26,433	24,433
Kansas City	69,552	67,352
Dallas	18,100	13,100
San Francisco	986,503	169,803
Treasury	2,768	2,768
Totals	<u>\$25,109,855</u>	<u>\$7,519,471</u>

The \$7,519 million of accepted tenders includes \$820 million of noncompetitive tenders and \$6,699 million of competitive tenders from the public.

In addition to the \$7,519 million of tenders accepted in the auction process, \$130 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
November 29, 1985

Contact: Art Siddon
Phone: (202) 566-5252

U.S. Treasury Department Statement

The Treasury Department reaffirmed today the critical role of the multilateral institutions in the "Program for Sustained Growth", Secretary James A. Baker III's initiative to strengthen the international debt strategy. As part of this initiative, the International Monetary Fund (IMF) is expected to continue to play a central role in efforts to deal with international debt problems, in conjunction with an enhanced role for the multilateral development banks.

While every country would not necessarily have to have a formal IMF program, it is expected that debtor countries would develop their short and long term economic policies for growth in cooperation with the IMF and the multilateral development banks.

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TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 2, 1985

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,612 million of 13-week bills and for \$7,606 million of 26-week bills, both to be issued on December 5, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing March 6, 1986			:	maturing June 5, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	7.16%	7.39%	98.190	:	7.24%	7.62%	96.340
High	7.20%	7.44%	98.180	:	7.27%	7.65%	96.325
Average	7.19%	7.42%	98.183	:	7.26%	7.64%	96.330

Tenders at the high discount rate for the 13-week bills were allotted 74%.
Tenders at the high discount rate for the 26-week bills were allotted 93%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	\$ 45,400	\$ 45,400	:	\$ 33,465	\$ 33,465
New York	15,037,605	6,524,885	:	16,876,115	6,582,595
Philadelphia	19,325	19,325	:	18,440	18,440
Cleveland	47,695	47,695	:	31,180	31,180
Richmond	45,810	45,810	:	43,690	43,690
Atlanta	46,975	46,975	:	46,305	45,535
Chicago	1,555,000	212,000	:	1,503,310	256,710
St. Louis	87,780	47,780	:	90,705	50,705
Minneapolis	11,150	11,150	:	11,875	11,875
Kansas City	60,660	59,925	:	48,905	48,905
Dallas	41,545	41,545	:	33,150	27,800
San Francisco	1,428,580	189,580	:	1,691,670	134,670
Treasury	319,440	319,440	:	320,160	320,160
TOTALS	\$18,746,965	\$7,611,510	:	\$20,748,970	\$7,605,730
<u>Type</u>					
Competitive	\$15,648,555	\$4,513,100	:	\$17,798,110	\$4,654,870
Noncompetitive	1,065,110	1,065,110	:	841,060	841,060
Subtotal, Public	\$16,713,665	\$5,578,210	:	\$18,639,170	\$5,495,930
Federal Reserve	1,775,900	1,775,900	:	1,700,000	1,700,000
Foreign Official Institutions	257,400	257,400	:	409,800	409,800
TOTALS	\$18,746,965	\$7,611,510	:	\$20,748,970	\$7,605,730

1/ Equivalent coupon-issue yield.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
December 2, 1985

CONTACT: Art Siddon
(202) 566-5252

TREASURY PUBLISHES PROPOSED REGULATIONS FOR BOOK-ENTRY ACCOUNTS

The Department of the Treasury today published proposed regulations for Treasury securities to be held in its new Treasury Direct Access Book-Entry System (referred to in the regulations as T-DAB) that is currently under development. The proposed regulations will be open for public comment for 45 days.

The new system governed by these regulations is to be known as the TREASURY DIRECT system and is scheduled to be implemented in July 1986. As of the implementation date, investors will be able to obtain new issues of Treasury bonds and notes in book-entry form only, but will have the option of holding their securities through the new TREASURY DIRECT system or through the existing commercial book-entry system. Treasury bills, which are already offered exclusively in book-entry form, will be available through the new system in 1987.

The proposed regulations provide investors with a variety of registration options, essentially similar to those provided today for registered definitive (paper) securities. The new rules also provide for a number of substantive improvements. In addition to the change to an exclusively book-entry environment, payments of interest and principal will be made through the use of an electronic funds transfer system. Investors will also have the use of a single master account for holding all their investments in Treasury bills, notes, and bonds.

Implementing the new system will complete the Department's goal of issuing all marketable securities exclusively in book-entry form. After implementation of the TREASURY DIRECT system, no new issues of bonds and notes will be available in definitive form.

The proposed regulations published today address only those securities to be held in the TREASURY DIRECT system. However, the Department noted that revised regulations governing the commercial part of the book-entry system will also be published in proposed form, for public comment, in the near future.

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TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
EXPECTED AT 10:00 A.M.
DECEMBER 3, 1985

STATEMENT OF THE HONORABLE DAVID C. MULFORD
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE
AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

Thank you, Mr. Chairman. I am pleased to appear before this Subcommittee to testify on H.R. 3667, the Competitive Tied Aid Credit Fund Act. H.R. 3667, as unanimously reported by the Subcommittee, contains the essential elements of the War Chest proposal made by the President as part of the trade package announced in September. It is a key element of our attack on foreign unfair trade practices. I am here today to respond to questions from a number of members as to why the Administration's War Chest proposal requires new budgetary authority rather than funding from Eximbank's capital and reserves.

The Administration is seeking a new appropriation for the War Chest for the following reasons:

- (1) New funding will substantially increase the effectiveness of an offensive, targeted War Chest and underscore the importance which Congress and the President attach to negotiating the elimination of tied aid credit abuses.
- (2) New funding is required to maintain the integrity of Eximbank's financial position and to ensure that the Bank's ability to support U.S. exports under normal export credit terms is not impaired.
- (3) The approach embodied in H.R. 3667, if supported by an appropriation of new money, is a cost-effective means to end tied aid credit abuses, thus expanding U.S. export opportunities and preserving U.S. jobs in the export sector.

Increasing Negotiating Leverage

The War Chest will be targeted at those sectors and markets of particular importance to countries impeding negotiations. Since the proposed program is aggressive and preemptive and not available to all exporters, it is fundamentally different from normal Eximbank activities. By placing the War Chest in Treasury, which is the lead agency in negotiations, we would not alter the basic approach of Eximbank, which is to offer competitive financing for exports in a nondiscriminatory manner.

Creation and funding of a new program in Treasury is imperative if we are to have credibility in the negotiations with our trading partners. If a War Chest were to be enacted but not funded, the Europeans, especially the French, would likely view the legislation as an empty threat.

Maintaining the Financial Integrity of Eximbank

Since the Administration proposal was transmitted to Congress, members of this Subcommittee and of the full Banking Committee have continually stressed the need to maintain the integrity of Eximbank's financial position and to ensure that the War Chest proposal would not compromise Eximbank's normal export credit activity. A tied aid credit program is very expensive, given the high level of subsidization required. The most honest and straightforward way to fund this program is to appropriate money for it. Substantial use of Eximbank's reserves for this purpose would accelerate depletion of Eximbank's already dwindling capital and reserves.

If the tied aid credit program were to be in Eximbank, it would significantly decrease the Bank's net income over the next twenty years, thus further depleting its capital and reserves. Our proposal would support up to \$1.0 billion in U.S. tied aid credits over the next two years. If \$1.0 billion of tied aid credits were supported through soft loans in Eximbank during the next two years, we estimate that the cost to Eximbank would amount to \$600-900 million in nominal terms, depending on the grant element, and this cost would be borne over the next thirty years.

Due mainly to heavy subsidies in previous lending activities, Eximbank's capital and reserves are already being depleted at a rate of \$300-400 million per year, even without new tied aid credits. We should not exacerbate this problem by adding yet another burden on the Bank's dwindling capital and reserves. If we wish to subsidize our exports for the purpose we propose, we should be willing to appropriate the money for it now.

If Eximbank is directed to create the tied aid credit program, it is likely that this program would be funded within Eximbank's existing lending authority, thus reducing the authority available for normal export financing by at least \$300 million. However, if Treasury were to receive a new \$300 million appropriation for the tied aid credit program, that would not affect Eximbank's current lending authority.

Actual total budgetary outlays in FY 86 and FY 87, as contrasted with budget authority, under a fund appropriated to Treasury would not differ significantly from outlays in a program using Eximbank's capital and reserves. Budgetary outlays under either approach would be small during FY 86 and FY 87, due to the long disbursement periods inherent in project financing.

Expanding U.S. Trade Opportunities

The War Chest proposal embodied in H.R. 3667 is a well-focused, cost-effective way to attack the predatory and unfair trade practice of tied aid credits. By taking aggressive and timely action to end this practice, we will help all U.S. exporters, and not just the relatively few that might benefit from defensive use of tied aid credits for an extended period of time.

An end to the predatory misuse of tied aid credits will greatly increase U.S. export opportunities. Many opportunities now denied our exporters by the proliferation of tied aid practices will become available, thereby preserving U.S. jobs in the export sector. Most importantly, we will have leveled the playing field at a fraction of the cost to U.S. taxpayers that would have been incurred under defensive proposals to match and thus perpetuate the distorting practice of tied aid credits for commercial purposes.

The legislation before you this week provides a practical and realistic approach to give American business an opportunity to compete fairly in the world marketplace. We urge early approval of the Competitive Tied Aid Fund Act for a grant program in Treasury, if we are serious about negotiating the elimination of this unfair trade practice.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

December 3, 1985

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$15,200 million, to be issued December 12, 1985. This offering will provide about \$925 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,268 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, December 9, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,600 million, representing an additional amount of bills dated September 12, 1985, and to mature March 13, 1986 (CUSIP No. 912794 JW 5), currently outstanding in the amount of \$7,238 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately \$7,600 million, representing an additional amount of bills dated June 13, 1985, and to mature June 12, 1986 (CUSIP No. 912794 KK 9), currently outstanding in the amount of \$8,533 million, the additional and original bills to be freely interchangeable.

The Treasury will postpone the auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of December 9, 1985.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing December 12, 1985. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$1,085 million as agents for foreign and international monetary authorities, and \$3,753 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

Remarks by
Secretary of the Treasury
James A. Baker, III
Upon Reception of the Tax Foundation's Public Service Award
New York, New York
December 4, 1985

I am delighted to be here tonight with so many distinguished friends from both the business and academic communities. I am also honored, and grateful, to receive your Public Service Award.

This award is especially meaningful since this group has been noted for its own "distinguished public service" for nearly half a century.

The Tax Foundation has provided straightforward analysis and thorough research during a period of great historical change and intellectual ferment. Your combination of scholarly and practical perspectives has been invaluable to generations of practitioners in the fields of taxation and public policy.

When the Tax Foundation was established in 1937, our federal income tax system was vastly different. Our tax laws were not yet even codified. Only about 5 percent of the people had to worry about what was in those laws. And only those making over five million a year in Depression era dollars complained about the top rate of 79 percent.

Now, it's more fair. Everybody has something to worry about!

I'm sure this audience has been following, with a particularly keen eye, the newspaper accounts of tax reform. At times, it might seem as though a Committee of Seurats is creating a pointilist painting, albeit with a few erasures and smears. If the observer isn't careful, he won't see the evolving portrait for all the dots, i.e., losing sight of the forest for the trees -- as we say in Texas!

That's simply how the legislative process addresses a large and complex tax system. We have over 500 legislators considering an unspeakably complicated code that is many hundreds of pages long. So every voice that wants to be heard should be heard.

But the harsh glare of the spotlight darkens and obscures the background. Our eye, caught by the individual tax issue under the spotlight, loses sight of the powerful motivations behind tax reform.

Tonight, I want to step back for a moment, look beyond the daily headlines, and describe what I believe those fundamental values are, and what they mean for Americans and their government.

America's tax policies have always reflected the important political values of the day. Taxation represents government power -- the power of other people -- over our personal property. More than that, taxation involves public powers over how we lead our private lives, and exercise our economic, social, and cultural choices.

The United States was born out of a revolution against the taxing authority of the British. Before long, the power to tax became a central issue of the balance between state and national authority. In *McCullough v. Maryland*, Chief Justice Marshall stated the issue plainly: "The power to tax involves the power to destroy."

Throughout the 19th century, the epic political struggle over the tariff reflected the nation's sectional strife. The tariff battles pitted the northeast, whose manufacturing elements sought import protection, against the agrarians of the south and west.

During the late 1800's, the public grew concerned about land shortages: they worried that our frontiers were closing, and that urban landowners, through no labor of their own, were becoming rich because of the burgeoning population of cities. Again, a major social and economic issue became a tax issue when Henry George proposed a "single tax" on landowners.

At about the same time, the Populist Movement led to a revival of the income tax, first enacted out of the need to finance the Civil War. After the Supreme Court found these direct taxes unconstitutional, the Progressive Movement picked up the banner, passing the 16th Amendment in 1913.

As the claims of government expanded rapidly during world wars and a depression, tax rates soared. We even tried "excess profits" taxes to address the public's concern about fortunes won from war production and the government's concern about raising money.

As time went on, the personal exemption dropped sharply. Loopholes proliferated. Inflation shoved taxpayers into brackets of previously unimagined heights.

As the income tax became more complex, less fair, and more of a burden, the calls for reform became inevitable.

In his noted 1938 book, Professor Henry Simons articulated the theory that a broad-based tax system, with few deductions, was the fairest one. His work has guided many tax reform efforts since then.

Twenty-five years later, Stanley Surrey of the Treasury Department led us to recognize that tax breaks were another form of expenditure. Moreover, he argued, they were particularly pernicious forms because of their hidden nature and their effect of undermining the public's trust in the tax system.

Yet tax reform has assumed a greater vitality in recent years. Something is going on that is much bigger than professors' pleas to reform the tax code.

Look for a moment at the proponents of tax reform in recent years. They include President Reagan, a conservative Republican President who associates himself with President Kennedy.

Both Ralph Nader and the Chairman of General Motors agree on the need for broad-based tax reform. And so do leaders on both sides of the political aisle on Capitol Hill, including neo-conservatives and neo-liberals.

What underlies their common interest in tax reform? And why has it appeared now?

Let me offer a hypothesis. I submit that these opinion leaders are not drawn together by common acceptance of some underlying economic theory. To the contrary, the 60's, 70's, and 80's have left both opinion leaders and the public skeptical of all-encompassing theoretical constructs.

Instead, I believe the reform movement is powered by an emotional engine, which is fueled by some very common sense notions and experiences.

I'd label this political force "market-oriented" populism. The movement is populist because it is anti-elitist, opposed to excessive concentrations of power, supportive of basic fairness, and drawn toward simple, straightforward solutions.

But the movement is market-oriented, unlike some earlier populist causes. I believe the appeal of markets is a corollary of the populists' distaste for concentrated power -- for today power is concentrated in government elites. Moreover, people are coming to feel that fairness and opportunity may be more easily found in impartial and efficient markets than in bureaucracies, regulations, and the like.

Basically, there is a new confidence in the individual. The struggle is now against the biggest monopoly of all -- the federal government!

In recent decades, we have watched vast government endeavors collapse under the weight of their own ambition. Left behind has been a morass of sluggish growth, overregulation, heavy taxes, and unrestrained interest rates and inflation.

The public is wary of attempts to manage society. It is dismayed by the irrational results of "rational" policies. It is disenchanted by the well-intentioned failures of the "best and the brightest."

This sentiment helped bring two outsiders, Jimmy Carter and Ronald Reagan, to the Presidency. It fueled the tax revolts in California and other states. It won 49 states for President Reagan last year!

By any reckoning, there has been renewed public faith in the free market. It takes confidence to start a new business -- and over 600,000 of them were begun last year. It takes confidence to create a new job -- and over 8 million jobs have been created since the recovery began. It takes confidence to try a new idea, and America's high tech enclaves are the envy of the world.

It is natural that this market-oriented populism would eventually focus its attention on our tax policies. Taxation and government power are synonymous. And the public has expressed strong dissatisfaction about both.

One survey recently found that 4 of 5 taxpayers believe that the present system benefits the rich and is unfair to the ordinary working man or woman. The majority believed that the tax system is too complicated and that cheating on taxes is rampant.

The values of market-oriented populism are clearly driving much of the discontent with the tax code.

There is distrust of the code's social engineering. Not only may these tax expenditures cause problems, but they require higher rates for the majority.

There is suspicion that others benefit from the code's complexity, to the detriment of most taxpayers.

There is confusion and fear about non-compliance with a system that has swollen beyond the understanding of all but those who spend their careers studying it.

There is bewilderment with a code that communicates incentives through tax breaks rather than through a lower tax rate on earnings.

There is cynicism about a tax code that seems to place tax shelters above productivity and growth.

This taxpayer resentment does not reflect well on the American government. It's a wedge between our government and the people it should be serving.

Nevertheless, these emotions also present an opportunity to achieve something considered difficult in the United States: large-scale, non-incremental change.

It took broad-based movements concerned about values to make other sweeping changes in government policy. Witness the civil rights cause of the 1960's, the environmental movement in the late 1960's and 1970's, and the President's economic program in 1981.

I believe these emotions, rooted in a mood of market-oriented populism, are what has focused attention on tax reform now, despite the attacks of every individual interest that fears giving up its tax break to achieve a greater goal.

The President's tax reform proposal addresses the public's frustration with the income tax. Its goals are fairness, economic growth and simplicity.

These goals are consistent with the President's overall economic policy. They reflect the modern populist ideal of limited government power. To achieve these goals tax reform should as much as possible embody the following fundamentals:

First, we must lower personal rates. Lower rates are fairer, will stimulate work and innovation, and will discourage tax shelters.

Second, we must broaden the tax base through the reduction of preferences and shelters. (We cannot lower rates without a broader base.) Moreover, the reduction of preferences will lead to greater fairness for people with similar incomes. It should also give us a simpler system.

Third, we must not place the tax burden on low-income people. No family at or below the poverty level should have to carry the load of federal income tax.

Fourth, we seek equitable treatment of different businesses, with incentives for the growth of all businesses.

Fifth, we want to achieve lower corporate rates in a manner consistent with an overall interest in capital formation and growth.

Sixth, the reform must be revenue neutral. It cannot be a stalking horse for a tax increase if it is to keep the faith with the American people. (Nor should it increase the deficit.)

Yesterday, the House Ways and Means Committee reported out -- by a margin of 28 to 8 -- a tax reform bill, having previously voted down a Ways & Means Republican alternative. Both are flawed in several respects, but they represent an important start toward meaningful tax reform. They can be improved in the Senate. With this in mind, the President told the GOP leadership yesterday that he wants the tax reform process to continue.

(And the President reaffirmed that in a public statement today which called for a positive vote in the House of Representatives as a first step.)

Of course, that process will continue to move in fits and starts. That's the nature of our representative system. Good reporters will focus our attention on each detail. It will appear at times as if only the tax experts and the lobbyists care about tax reform. Discouragement and frustration will be close companions of those who seek true reform.

But there is a force for major change here. Significant tax reform can happen.

The opportunity awaits. We must pursue it with tenacity. We owe America no less than our best efforts in this historic task.

Thank you.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY
December 4, 1985

STATEMENT OF THE HONORABLE
DAVID C. MULFORD
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
DECEMBER 4, 1985

I am pleased to have the opportunity to appear before you this morning to discuss S. 812, the Financial Export Control Act. I will respond to your request for Treasury's views on the administrative aspects of this proposal, and also discuss the wider policy implications of this legislation. As you know the President held a joint meeting yesterday of the National Security Council and Economic Policy Council and after hearing views of the Cabinet decided to oppose this legislation.

S. 812 would amend the Export Administration Act (EAA) to give the President discretionary authority to use in non-emergency circumstances. If enacted, the President could prohibit, curtail, monitor, or otherwise regulate the export or transfer of money or other financial assets, the making of a loan or any type of credit, or an extension of credit, including supplying of funds through underwriting and distribution of securities, assisting in making a direct placement, or participation in the offering of securities to the government of any "controlled country."

The list of "controlled countries" currently consists of Communist countries, excluding Yugoslavia, but including China. Under the EAA "controlled countries" could include any other country that the President might add (or remove) from the list, taking into account criteria set forth in the Act and other factors the President considers appropriate.

The Administration opposes such broad discretionary authority for use in non-emergency circumstances. We do not believe that controls on international capital movements should be exercised except in the case of an international emergency that affects the national security of the United States or threatens the economic stability of the United States or the world. The existing International Emergency Economic Powers Act (IEEPA) provides adequate authority to deal with such emergencies.

We understand that the purpose of S. 812 is to limit or reduce Bloc purchases of sensitive goods and technology. Although the President has decided to oppose S. 812, I want to assure you that the Administration is in sympathy with your desire to control such trade. We believe, however, that there are better ways than capital controls.

Direct controls on U.S. exports of sensitive goods and technology are already in place and can be more efficiently regulated under the existing EAA. To that end we should enforce our existing export controls effectively to reduce the flow of technology and strategic exports. The optimal approach is to tighten multilateral enforcement of rules of the Coordinating Committee for Multilateral Export Controls (COCOM).

As regards capital controls, the Administration believes that the approach of S. 812 would not work and would hurt U.S. interests.

I will try to explain why.

It has been U.S. policy to encourage mutually beneficial non-strategic trade with the Eastern Bloc. If we were to attempt to make financing impossible for trade in general, we would clearly be altering in a major way U.S. policy towards the Eastern Bloc.

Because money is fungible and is used to finance most trade, capital controls are clearly too blunt a tool to achieve the specific purpose. In any case they would not be effective in denying hard currency to Bloc nations.

Attempts to regulate broad capital flows historically have been ineffective. Capital controls are totally ineffective when they are unsupported by those in the market, again, because money is fungible and tends to find ways to move freely.

It is even more difficult to impose unilateral constraints on the aggregate flow of credit to a particular country. U.S. controls in this case would be unilateral because there is no consensus for coordinated controls on loans to "controlled countries." In fact, our European allies place a high priority on maintaining normal trade and financial relations with the Eastern Bloc as a means of fostering detente. Accordingly, they strongly reject proposals to restrict trade or financial flows as "economic warfare," as we have learned in the recent past. To pursue controls against the clear policies of our allies would be counter productive.

Unilateral controls by the U.S. would also invite retaliation from our allies, who would strongly resent any attempt to enforce such controls on the foreign branches of U.S. banks. Unless specifically limited to banking offices located in the

United States, legislation imposing or authorizing financial controls raises such problems with respect to their extra-territorial reach.

Controls would also invite retaliation from Bloc countries which probably would direct their hard currency to the export sales of our competitors. Our trade flows in general would certainly be adversely affected, and we would be at a disadvantage in financing whatever export business remained for our producers. We would no doubt lose sales of grain and other commodities, which would penalize U.S. farmers. In general our economic growth and employment would be reduced.

Capital controls would always damage U.S. capital markets; the impact is even worse in non-emergency circumstances. Controls, even in critical emergencies, seriously damage foreign perceptions of the United States as a nation of free markets. Part of the dynamism of our own economy is reflected in its ability to attract foreign capital which seeks safety in an often uncertain world.

Unnecessary controls would be viewed by foreign interests as politically capricious. They would weaken the perceptions that the United States is a good place to invest, therefore undermining our ability to attract foreign investment. Controls also would weaken our ability to persuade other nations to remove barriers they impose to the free flow of capital.

I would now like to comment on what is perhaps the most serious weakness of the controls proposed in this legislation -- the fact that they would be totally ineffective. I have already mentioned that our allies would not support such controls. Therefore we must look to our own market share to determine the potential effect that controls imposed unilaterally by the United States would have.

In this case the U.S. banks have a very small share of the total market. Measured in terms of total "exposure" to Bloc nations, U.S. banks' share is between 6% and 7%. Exposure takes into account commitments to lend as well as outstanding claims and incorporates only assets for which banks are at risk. U.S. banks' exposure, which declined to \$2.6 billion in June, compares to the exposure of non-U.S. banks of roughly \$40 billion.

At times the syndications led by U.S. banks are reported as lending by U.S. banks, when in fact the end participation of U.S. banks as lenders has been very small. While there has been a modest resumption of lending by U.S. banks to some Bloc nations, on balance outstanding loans of U.S. banks have continued to decline.

It is worth noting that net lending (new loans less repayments) in the first half of this year was by non-U.S. banks.

Net lending to the Bloc was on the order of \$3 billion, and all was provided by non-U.S. banks. The outstanding claims of non-U.S. banks increased to a level of \$49.3 billion. (The claims of non-U.S. banks are larger than their exposure, because their exposure excludes, but total claims include, loans guaranteed by other institutions, particularly official export credit agencies.)

In the same period, the claims of U.S. banks on Eastern Bloc countries fell overall by \$156 million to a level of \$2.3 billion. The decline indicated that Bloc repayments in that period still exceeded the amount of any new U.S. bank loans.

If we imposed controls or advised our banks to refrain from lending or managing financing for the Bloc, other countries would be more than willing to see their banks assume our banks' market share.

You asked about administrative aspects of the bill. Should the bill be enacted, Treasury's Office of Foreign Assets Control (OFAC) would be responsible for administration of any controls imposed. OFAC presently administers economic sanctions measures, authorized by the Trading With the Enemy Act and the IEEPA, against South Africa, Nicaragua, Cuba, Viet Nam, North Korea and Cambodia. Exactly what might be needed in terms of additional personnel would obviously depend on the contours of any specific controls imposed and cannot be predicted on the basis of the language of the bill itself.

Conclusion

The Presidential meeting in Geneva was an initial step toward more stable and constructive East-West relations. One element of such a relationship must be mutually beneficial non-strategic trade. Although the authority contained in S. 812 is discretionary, it would have a chilling effect on the President's efforts to encourage mutually beneficial nonstrategic trade, but without producing any concomitant benefits to our efforts to control the flow of strategic technology to Soviet Bloc countries. The message this legislation would send runs directly counter to the message from Geneva and would create confusion among our allies concerning our policy towards the Soviet Union.

The Administration strongly opposes new authority to monitor and impose controls against the Bloc, and possibly other countries, because in our view such action would not achieve the strategic results intended. However, it would damage U.S. financial and economic interests as well as relations with our allies, who will resist attempts to persuade them to cooperate. It would be a perverse effect if in an attempt to injure the Bloc we instead weakened the Western Alliance.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 4, 1985

Dear Mr. Chairman:

The Banking Committee meets again today to consider H.R. 3667, the Competitive Tied Aid Fund Act. This legislation contains the essential elements of the tied aid War Chest proposal made by the President in September and introduced as the St Germain-Wylie bill (H.R. 3515). That measure was cosponsored by 35 Members of the Banking Committee and represented a true bipartisan base of support for this vital legislation.

This proposal is a well-focused, cost-effective means to provide the United States with the necessary leverage to press other governments to negotiate an end to tied aid credit abuses. An end to tied aid credit abuses will greatly increase U.S. export opportunities, thereby preserving and creating American jobs in the export sector. If the Congress were to fail to authorize and fund an offensive tied aid credit program in the Department of the Treasury, our ability to negotiate the elimination of these abuses would be severely impaired.

I know that many Members have raised questions about the \$300 million price tag for implementing this program. At a time when we are confronting our serious budget deficits, such concerns cannot be very far from any of our minds. However, we must also consider the cost of doing nothing. The costs involved in lost opportunities for U.S. exporters and the related erosion of American jobs, or the costs of engaging in a protracted practice of matching mixed credit offers, are much greater over the course of time than this program.

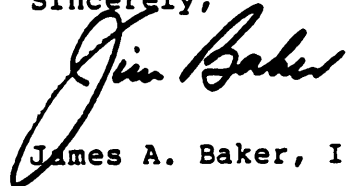
The Administration strongly supports and encourages the early passage of this authorization bill, as well as the necessary appropriation of \$300 million in FY 1986. As we have already stated for the record, we intend to seek a special, specific appropriation for this request. If budgetary reduction requirements are enacted by the Congress requiring offsets for such a request for new funding, I am prepared to work with the Committee at that time to ensure that the required offsets do not impair the existing housing and multilateral development banks (MDB) programs under the jurisdiction of the Committee.

Furthermore, since it is important that countries engaged in the predatory use of tied aid credits know how seriously we view eliminating this practice, we must clearly indicate that the War Chest proposal is not being funded at the expense of existing export credit programs. Therefore, it is not my intention to impair Eximbank's activities through an offset of its lending authority.

We fully intend to satisfy the concerns of the Appropriations Committee as we aggressively seek funding for this program. However, I must stress the urgency with which we view the necessary first step of gaining enactment of the pending authorization legislation before the end of this year. Those countries engaged in this insidious practice must know of our resolve to negotiate its end.

Passage of H.R. 3667 will send a strong signal that the United States is serious in its resolve to provide a level playing field for all exporters, and I hope that the Banking Committee will give the measure its strong endorsement today.

Sincerely,

A handwritten signature in cursive script that reads "Jim Baker". The signature is written in black ink and is positioned above the typed name.

James A. Baker, III

The Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance
and Urban Affairs
United States House of Representatives
Washington, D.C. 20515

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE
December 5, 1985

Contact: Art Siddon
Phone: (202) 566-2041

Treasury Statement on Debt Limit Extension

On November 14, 1985, Treasury stated that, although it would have enough cash to meet government obligations through December 11, if Congress did not pass a debt limit extension by December 6 it would be forced to take the following actions effective December 7:

- Not invest new receipts for trust funds (other than the Social Security Old Age and Disability Trust Funds that were fully invested on December 1);
- Suspend all Savings Bonds sales; and
- Suspend sales of special Treasury securities issued to State and Local Governments ("SLGs").

Today, Secretary James A. Baker, III sent the following telegram to the governors of all 50 states.

Unless Congress acts before midnight, December 6, to increase the debt limit, the Treasury Department will be forced to suspend the sale of State and Local Government Series securities effective December 7. Almost fifty entities in twenty-two states have requested issuances totaling over \$1 billion for December 9 through 11. State and local government entities in your jurisdiction that have made previous application for SLG issues will be notified of the suspension by a Federal Reserve Bank or Branch.

In addition, Secretary Baker directed that all Savings Bonds sales are to stop effective December 7. Treasury will announce when Savings Bonds issuances may be resumed.

TREASURY NEWS



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December 5, 1985

Jill E. Kent
Appointed Deputy Assistant Secretary

Jill E. Kent has recently been appointed Deputy Assistant Secretary for Departmental Finance and Planning, responsible for the formulation and execution of the Department's budget and long-range planning.

From 1980 until her appointment at Treasury, Mrs. Kent worked at the Office of Management and Budget. She held the position of Chief of the Treasury and General Services Branch since June 1984.

Mrs. Kent has spent her career in various positions with the Federal Government spanning nearly 15 years, including 2½ years with the Department of the Treasury as a Staff Attorney.

Mrs. Kent received her B.A. in 1970 from the University of Michigan; and J.D. in 1975 and L.L.M. (Taxation) in 1979, both from George Washington University.

Mrs. Kent is married and resides in Washington, D.C.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Washington, D.C. 20220

FOR IMMEDIATE RELEASE
December 5, 1985

CONTACT: Art Siddon
566-2041

DIDC LIFTS MINIMUM DENOMINATION REQUIREMENTS

In accordance with the deregulation schedule established by the Depository Institutions Deregulation Committee (DIDC) at its meeting of September 30, 1983, the current \$1,000 minimum denomination requirement on the money market deposit account (MMDA), the Super-NOW account, and the seven to 31 day ceiling-free time deposit will be eliminated in its entirety effective January 1, 1986. Individual depository institutions will thereafter have complete discretion in determining minimum denomination requirements and interest rate structures on these accounts.

By way of clarification, removal on January 1, 1986 of the minimum denomination requirement on the MMDA does not affect other characteristics of this account. These characteristics, including transactions limitations, availability to all depositors and exemption from transaction account reserves, will remain in effect. At the close of March 31, 1986, the DIDC will cease to exist and the ability of depository institutions to continue to offer MMDAs will depend on the surviving statutory and regulatory authorities. Moreover, the flexibility of depository institutions to offer such accounts may be limited by the treatment of such an account under the Federal Reserve Board's Regulation D (Reserve Requirements of Depository Institutions).

Also, the January 1, 1986 elimination of the minimum balance requirement on the Super-NOW account will effectively remove the major difference between the regular NOW account and the Super-NOW account, and institutions will be able to pay interest on all NOW accounts at any rate agreed to by the depositor. However, the statutory eligibility requirements, which restrict NOW accounts to individuals, nonprofit organizations, and governmental units, will remain in effect (even after the termination of the DIDC at the close of March 31, 1986).

Effective at the close of March 31, 1986, the interest rate ceiling on passbook savings (and ATS) accounts will be eliminated, and the DIDC's deregulatory mandate will be fulfilled. However, the removal of DIDC regulatory limitations on the payment of interest on time and savings deposits does not remove the statutory prohibition on the payment of interest on demand deposits.

B-397

In addition, at the close of March 31, 1986, the authorities transferred to the DIDC by the Depository Institutions Deregulation Act will cease to be effective, and the DIDC itself will cease to exist. Thus, effective at the close of March 31, 1986, current DIDC regulations regarding such items as early withdrawal penalties, premiums, and finders' fees will no longer be in force. However, the independent regulatory agencies, pursuant to their own statutory authorities and for their own supervisory purposes, may elect to retain some or all of these regulations, as currently written or subject to revision. Depository institutions would be subject only to those regulations imposed by the appropriate regulator.

Finally, with the expiration of the DIDC on March 31, 1986, the current DIDC service to depository institutions of promulgating the 2-1/2 year Treasury yield curve rate will also cease.

[For further information contact Mark G. Bender, Executive Secretary, Depository Institutions Deregulation Committee, (202) 566-4211.]



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