(The following material was subsequently submitted by the Treasury Department in response to Chairman Patman's suggestion:)

The enclosed copy of the draft Urban Development Bank Act of 1969 and the letter transmitting the proposed bill to the Speaker of the House are provided in further response to the question raised by Chairman Patman. Enclosed also are excerpts from three addresses by Under Secretary Deming and an address by Assistant Secretary Surrey bearing on the Urban Development Bank proposal. As stated in the letter transmitting the Urban Development Bank proposal to the Congress, the funds appropriated for payments to the Bank to reduce the Bank's lending rate would not involve a net cost to the Federal budget. Added tax revenues stemming from the fact that the Bank would issue taxable securities would offset the cost of the payments made to the Bank.

Also, as stated in the transmittal letter, the tax exempt market would continue to be available to State and local governments as a source of financing after the Urban Development Bank is established. Indeed, by tapping a broader segment of the capital market for loan funds to finance the public facilities needs of State and local governments, the Bank, by its operations, will reduce the growing pressure on the tax exempt market, and therefore indirectly help those governmental bodies which continue to utilize tax exempt securities to finance their capital needs.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE SECRETARY,
January 17, 1969.

HON. JOHN W. MCCORMACK,
Speaker of the House of Representatives, Washington, D.C.

DEAR MR. SPEAKER: Enclosed are five copies of a proposed bill "To establish an 'Urban Development Bank' to assist in broadening the sources and decreasing the cost of capital funds for State and local governments." Also enclosed are five copies of a section-by-section summary of the bill.

This proposed legislation would implement recommendations made by the President in the State of the Union and Budget messages. Enactment of the legislation will help the Nation, through a partnership of Federal, State and local governments, working with private enterprise, to move forward to meet the massive needs of our cities and their people.

It is now clear that we are undergoing a tremendous expansion in borrowing by State and local governments for capital expenditures. It is estimated that in the next ten years State and local governments may need to borrow over $200 billion to finance essential public facilities the communities of the Nation must have to provide a suitable living environment for their citizens.

A consensus of concern has arisen over the capacity of the capital markets, as now structured, to cope with the essential credit needs of State and local governments. Even at present levels of borrowing, the municipal bond market is strained from time to time and is not efficient and effective:

interest rates are inordinately high on State and municipal obligations;

maturities are unrealistically short for many development projects;

the range of investors is narrow, primarily commercial banks, and the market is particularly inadequate in times of credit stringency;

the rating system denies many communities the financing they need for essential facilities on reasonable terms; and

smaller communities whose issues are in small amounts or are not familiar to investors find no market.

These defects in the existing market can be expected to be magnified by many times in future years as State and municipal government credit needs increase and indeed may render the adequate financing of State and local public facilities impossible. We believe it should be a prime national concern to assure the continued availability of private financing for State and local capital needs. This proposed legislation is designed to expand the capital market available to States and localities by providing an additional financial mechanism which will help them to secure, on resonable terms, the financing they need to enable them to construct essential public facilities. It would establish a federally chartered bank—an Urban Development Bank—to finance the capital cost of State and local government public works and community facilities.

The activities of the Bank would be directed by a 17-member Board of Directors, the Chairman of which would be the president of the Bank. This official