

would be appointed by the President of the United States by and with the advice and consent of the Senate. The other 16 members of the Board of Directors would consist of not more than three Federal officials or employees appointed by the President of the United States; three representatives of local or State governments appointed by the President of the United States; and ten directors elected by three distinct groups of stockholders in the bank. Of these ten elected directors, four would be elected by State stockholders, four by local governments, and two by private corporations and individuals who subscribe to stock in the Bank.

An initial Board of Directors, to serve at least one year, would be appointed by the President of the United States, by and with the advice and consent of the Senate. Members of this initial Board of Directors would represent Federal, State, local and private interests.

The Bank would secure funds necessary to finance its lending activities by selling its obligations in the private capital markets. To help protect holders of the Bank's obligations against possible losses of principal and interest and to assure the Bank adequate access to the capital market at reasonable interest rates, the Bank would also be authorized to borrow from the Treasury. This is the highly successful approach initially used to insure investor confidence in the Federal National Mortgage Association.

Interest on obligations sold by the Bank to finance its lending activities would be fully taxable. To enable the Bank to lend to State and local governmental bodies at favorable interest rates, however Federal payments would be made to the Bank to cover the difference between the Bank's borrowing cost and the amount of interest it receives on its loans.

The amount of those payments and the volume of Bank lending would be controlled by the Congress. The funds appropriated for payments to the Bank to reduce the Bank's lending rate, however, 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.

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.

The Bank would serve as an instrument to advance the welfare of our Nation's citizens while permitting each State and local government to pursue its developmental policies in the manner it deems best suited to the needs of its citizens. We believe this proposal exemplifies creative federalism at its best. The mechanism it creates to meet a national problem enlists the financial support and participation of all levels of government—Federal, State and local—as well as the private sector in a joint enterprises to enable communities to provide needed public facilities.

In summary, we believe creation of the Bank will further three broad purposes—

First, and foremost, it will make possible a greater allocation of capital to the development of needed public facilities.

Second, it will help to stimulate the construction of public facilities which will contribute to economy, efficiency and the comprehensively planned development of the area in which the facility is to be located.

Finally, it should help prevent disruption of the capital markets likely to result from the efforts of State and local governments to borrow funds to finance the large increase in public facilities expenditures which will take place in the next decade.

The financial problems of our State and local communities are both urgent and growing. The early establishment of an Urban Development Bank is both feasible and desirable. We recommend early action by the Congress.

The Bureau of the Budget advised on January 16, 1969 that there is no objection to the submission of this draft legislation to the Congress and that its enactment would be in accord with the program of the President.

Sincerely yours,

JOSEPH W. BARR,
Secretary of the Treasury.

ROBERT C. WOOD,
Secretary of Housing and Urban Development.