

EXCERPT FROM REMARKS BY HON. FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS, AT THE GRADUATE SCHOOL OF BANKING, UNIVERSITY OF WISCONSIN, MADISON, WIS., AUGUST 27, 1968

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FINANCING NEW NEEDS

But, if life is easier now and prospects are for lesser problems in Treasury and agency finance throughout fiscal 1969, there are some major financing problems that lie ahead of us. I have referred to the problems of the urban areas; obviously, we must find ways to meet them and to meet them in sound financial style.

In a talk I gave in St. Louis in November, 1965, I discussed in some detail problems of coordinating the financing of the multiplicity of Federal agencies dealing directly with the market, each with its own scheduling problems and each with fairly specific financing objectives or requirements. I also discussed the growth and diversity of the underlying Federal credit assistance activities which gave rise to these agencies. I suggested that we give pretty free rein to the imagination in considering alternative approaches to improve the coordination of the financing of these activities and, thus, to minimize the financing costs and the impact on financial markets.

In October, 1966, in New York, Under Secretary Barr also spoke of the problem of coordinating the financing of the myriad Federal credit program agencies. He suggested that perhaps the next step in this area might be the establishment of a new central Federal lending corporation, which would obtain funds for programs economically and efficiently by issuing its own obligations in the private market.

On July 2, 1968, Vice President Humphrey suggested the establishment of a National Urban Development Bank to help solve the central problems of financing the needs of American cities. This would be essentially a program for Federal underwriting of loans. The Bank would be financed initially by an appropriation of Federal funds and then through subscription of private funds. It would issue its own obligations in the market and would make loan funds available through affiliated regional banks at varying interest rates to help finance publicly-sponsored projects, especially, but not exclusively, in the inner cities. Federal appropriations would be provided to cover the differential between the interest rate paid in the market by the Bank and the subsidized rate to the borrowers.

I believe that such an approach offers a basic solution to the long-standing problem of providing effective Federal financial aid to State and local public bodies. The interest on obligations issued in the market by the Bank would be subject to Federal income taxation without involving the direct taxation by the Federal Government of obligations issued by States and localities themselves. This is the way we conduct our present programs of direct loans—since these programs are, in effect, financed in the market with taxable Treasury bonds—except that direct Federal loans require immediate Federal budget outlays.

The proposed new Urban Bank may require initial Federal contribution but would then require budget outlays only as necessary for interest subsidy payments over the term of the Bank's borrowings. Since the Bank would not require actual Federal stock ownership, it would not be included in the Federal budget.

This broad-purpose Urban Bank would go a long way in meeting the financing needs of the cities. It also would help avoid further proliferation of Federal lending agencies and would have the advantages of size and flexibility in its marketing operations which would assure orderly financing at the lowest possible borrowing rates.

The Urban Bank proposal may also suggest the proper future Federal role in the necessary Federal-State-local partnership to meet the growing credit demands for public facilities. I believe that the Federal role should be primarily that of guarantor. There is no reason why the Federal Government, itself, should be getting ever deeper into the essentially administrative chores of loan origination and servicing which can be performed just as well or better by existing private financial institutions or by new non-Federal institutions such as the proposed Urban Bank. Nor is it necessary or practical for the Federal Government itself to build up a large portfolio of loans. The essential Federal con-