

**The original documents are located in Box 9, folder “Federal Deposits, Non-Interest-Bearing - H.R. 1016” of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.**

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THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM FOR: WARREN RUSTAND  
THROUGH: MAX FRIEDERSDORF  
FROM: VERN LOEN *VL*  
SUBJECT: Reps. John F. Seiberling (D-Ohio) and  
Ronald M. Mottl (D-Ohio)

Mr. Seiberling is the chief sponsor and Mr. Mottl one of the co-sponsors of H.R. 1016, a bill having to do with non-interest-bearing federal deposits. They wish to meet with the President in order to enlist his support for this measure. This request is the brainchild of Mr. Mottl's Administrative Assistant, who heard Don Rumsfeld's comments on the Agronsky show about how accessible is the President to Members of Congress.

In view of the Administration's opposition to H.R. 1016, which has not even undergone a subcommittee hearing as yet, it would seem inadvisable to arrange a meeting at the Presidential level. The attached letters from Treasury give further background on this matter.

I recommend that we give the usual turndown letter and make reference to the fact that the Administration has submitted draft legislation of its own in this area. Then, if necessary, we can set up a meeting for them with Treasury Department officials who will present the Administration's position in their testimony before House Banking and Currency Committee.



*Reading before OMB  
for Clearance before going  
to Committee -*

*OMB Letter*

Dear Mr. Chairman:

Reference is made to your request for the views of this Department on H. R. 1016, "To amend the Federal Deposit Insurance Act to terminate the insurance of any bank which fails to pay a certain rate of interest on all tax and loan accounts;" and H. R. 3035, "To require the payment of interest on certain funds of the United States held on deposit in commercial banks, to provide for reimbursement of commercial banks for services performed for the United States, and for other purposes."

Both bills would require banks to pay interest to the Treasury Department on deposits of Federal funds. The bills would also authorize the Secretary of the Treasury to compensate banks for services they perform for the Department.

On May 21, 1973 the Secretary of the Treasury submitted to the Congress draft legislation "To authorize the Treasury to invest for cash management purposes." In the House, this proposal has been referred to the Committee on Ways and Means. The Treasury-proposed legislation was carefully drafted to provide the flexibility to maximize the yield on Treasury investments with a minimal disruption of the money markets. It can be implemented to provide a continued incentive for depositaries to be a part of the collection system by accepting tax deposits.

Therefore, the Department would urge prompt, favorable consideration by the Congress of the Treasury proposed legislation in lieu of consideration of H. R. 1016, H. R. 3035, or other bills with a similar purpose.

The Department has been advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

General Counsel

The Honorable  
Henry S. Reuss, Chairman  
Committee on Banking, Currency  
and Housing  
House of Representatives  
Washington, D. C. 20515  
General Counsel:WEMcVetta:12 5-29-75



MAY 21 1975

*Treasury's letter of  
transmittal for  
Proposed legislation on  
management of cash balances*

Dear Mr. Speaker:

On July 1, 1974, I sent to you a report of a study on Treasury tax and loan accounts which the Treasury had just completed.

That report concluded that the implicit costs to the Treasury of tax and loan accounts had risen substantially beyond the value to the Treasury of the services that had been inherently or traditionally associated with such accounts. The report recommended that for reasons of monetary management, the tax and loan account system be retained, but that means be developed for (1) employing a portion of the funds in ways that would provide adequate returns to the Treasury, and (2) compensating banks for a limited number of services performed from fees paid by appropriations.

The Treasury has no present authority to invest temporarily surplus cash except in time deposits, and the 30-day minimum maturity for such deposits makes that course of very limited value. In recent months, the Treasury has explored various alternative ways of recouping earnings on its balances through procedures potentially available under statutory authorities of the Federal Reserve System. This has not been productive. It appears essential, therefore, that additional legislative authority be obtained to make possible the most efficient employment of temporarily surplus Treasury cash in interest-bearing assets. The enclosed draft bill is intended to accomplish that objective, and I would urge its enactment.

If the Congress enacts authority to invest Treasury cash as provided for in the draft bill, the implementation of that authority must achieve a proper balance between maximizing yield on investments and minimizing disruptions of the money markets. The implementation must also be done in a way that provides an incentive for depositories to continue being a part of the collection system. It must not motivate them to decline to accept tax deposits from their customers on the grounds that their investable funds would be reduced simply by being a part of the tax and loan system. Under present conditions, it is contemplated that these objectives will best be accomplished by lending to each





depository maintaining a tax and loan account any balance in excess of operating needs. These loans would be secured by a pledge of collateral and would bear interest at rates related to the Treasury's short-term borrowing costs. In this way, the Treasury would not actually be entering the market and the impact on money market rates would be virtually eliminated.

The foregoing plan of investment may not at all times or for the full amount of investable funds be the best way of accomplishing the stated goals. It is desirable, therefore, to provide for other investment authority; i.e., in Treasury and agency securities as stipulated in the draft bill.

As indicated above, the investment of Treasury cash in earning assets will involve providing additional compensation to banks and other agents for certain services performed. In the Treasury's area of responsibility, these services involve the handling of the tax and loan account, acceptance of Federal tax deposits for credit to such accounts, and the issuance and redemption of savings bonds. For handling the tax and loan accounts and related tax deposits, banks will be compensated through the earnings value of the account itself or by means of a credit against interest on loans. Compensation for handling the issuance and redemption of savings bonds will be accomplished by the payment of fees from appropriated funds, and budget requests from the Treasury's Bureau of the Public Debt will, therefore, include additional amounts to cover the payment of fees to issuing agents and to increase the level of fees paid to redemption agents.

It is respectfully requested that you lay the proposed bill before the House of Representatives. An identical bill has been transmitted to the President of the Senate.

The Department was advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this proposed legislation to the Congress.

Sincerely yours,

(Signed) William E. Simon

William E. Simon

The Honorable  
Carl Albert  
Speaker of the House  
of Representatives  
Washington, D. C. 20515

Enclosure

Fin. Ass't Sec'y:SCox  
General Counsel:WHL:McVetta:pd 2/28/75



September 6, 1973

*file w/ my memo  
to Rustand +  
his response*

Dear Mr. Mottl:

This is in response to your request for a meeting with the President to discuss your bill, H.R. 1016, which amends the Federal Deposit Insurance Act to terminate the insurance of any bank which fails to pay the Federal funds rate of interest on all tax and loan accounts.

The Scheduling Office has reviewed the President's schedule and I have been advised that there does not appear to be an opportunity in the foreseeable future to schedule this meeting. Because of your desire to outline your views on the bill, I have contacted the appropriate officials at the Department of the Treasury, and asked that you be contacted.

In closing, I would like to note that the Secretary of the Treasury transmitted on May 21 to the Speaker and the President of the Senate draft legislation "to authorize the Department to invest for cash management purposes." It is my understanding that this proposal has been referred to the Committee on Ways and Means.

With best regards,

Sincerely,

Max L. Friedersdorf  
Assistant to the President

The Honorable Ronald M. Mottl  
House of Representatives  
Washington, D. C. 20515

bcc: to Hal Eberle, Department of the Treasury for  
further handling  
bcc: Vern Loen - FYI

MLF:VO:jlc



September 8, 1975

Dear Mr. Seiberling:

This is in response to your request for a meeting with the President to discuss your bill, H.R. 1016, which amends the Federal Deposit Insurance Act to terminate the insurance of any bank which fails to pay the Federal funds rate of interest on all tax and loan accounts.

The Scheduling Office has reviewed the President's schedule and I have been advised that there does not appear to be an opportunity in the foreseeable future to schedule this meeting. Because of your desire to outline your views on the bill, I have contacted the appropriate officials at the Department of the Treasury, and asked that you be contacted.

In closing, I would like to note that the Secretary of the Treasury transmitted on May 11 to the Speaker and the President of the Senate draft legislation "to authorize the Department to invest for cash management purposes." It is my understanding that this proposal has been referred to the Committee on Ways and Means.

With best regards,

Sincerely,

Max L. Friedlandorf  
Assistant to the President

The Honorable John F. Seiberling  
House of Representatives  
Washington, D. C. 20315

cc: to Hal Eberle, Department of the Treasury for  
further handling.

bb: Vern Loen - FYI

MLF-VO:jlc

