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AUTHORIZING THE SALE, EXCHANGE, OR OTHER DISPOSITION OF CERTAIN SECURITIES HELD BY THE SECRETARY OF THE TREASURY

JANUARY 16, 1942.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 3330]

The Committee on Finance, to whom was referred the bill (H. R. 3330) to authorize the sale, exchange, or other disposition of certain securities held by the Secretary of the Treasury, having considered the same, report favorably thereon and recommend that the bill do pass.

H. R. 3330 authorizes the Secretary of the Treasury to make such arrangements by the acceptance of other obligations, or otherwise, so as to facilitate the collection of amounts due to the United States on certain obligations of various cities and counties as will be in the best interest of the United States and consistent with the financial ability of the debtors. The obligations in question represent a balance of about $2,000,000 remaining uncollected from original advances of about $20,000,000 made by the Reconstruction Finance Corporation under a 1932 statute. The evidences of indebtedness were transferred to the Treasury by a 1938 act.

The proposed legislation, although not sponsored by the Treasury Department, has the approval of that Department as indicated by the following letter from the Acting Secretary of the Treasury to the chairman of the House Ways and Means Committee, which is appended hereto and made a part of this report. The letter fully explains the purpose of the bill. H. R. 3330 was reported by the Committee on Ways and Means and passed the House without amendment so that the Treasury Department letter to the chairman of the Committee on Ways and Means is equally applicable to the bill as reported without amendment by your committee.

MAY 8, 1941.

Hon. ROBERT L. DOUGHTON,
Chairman, Committee on Ways and Means,
House of Representatives.

MY DEAR MR. CHAIRMAN: Further reference is made to your letter of February 14, 1941, requesting a statement of this Department's views on the merits of H. R. 3330, a bill to authorize the sale, exchange, or other disposition of certain securities held by the Secretary of the Treasury.

The bill provides that with respect to any bonds, notes, or other securities of counties and municipalities acquired by the Reconstruction Finance Corporation under the provisions of the Emergency Relief and Construction Act of 1932, approved July 21, 1932 (47 Stat. 709), and transferred to the Secretary of the Treasury under the provisions of section 1 of the act of February 24, 1938 (52 Stat. 79; U. S. C., Supp. V, title 15 sec. 611a), and any bonds, notes, or other securities acquired under the provisions of this act, the Secretary of the Treasury is hereby authorized to sell, exchange, or otherwise dispose of, any such bonds, notes, or other securities, or to enter into arrangements for the extension of the maturity thereof, in such manner, in such amounts, at such prices, for cash, securities, or other property, or any combination thereof, and upon such terms and conditions as he may deem advisable and in the public interest.

Under section 1 (e) of the Emergency Relief and Construction Act of 1932, the Reconstruction Finance Corporation advanced $19,959,481, total principal amount, to political subdivisions in the United States and Puerto Rico. There was repaid to the Corporation $10,303,958, principal, together with interest in excess of $2,000,000. The Corporation also received $6,854,900 on account of the sale of principal amounts of such obligations leaving an unliquidated balance in the aggregate amount of $2,800,623.

Under the provisions of section 1 of the act of February 24, 1938, there were transferred to the Treasury by the Reconstruction Finance Corporation the following evidences of indebtedness for moneys advanced by the Corporation under section 1 (e) of the Emergency Relief and Construction Act of 1932:

City of Flint, Mich	$74, 000
City of Detroit, Mich	1, 800, 000
City of Muskegon Heights, Mich	20, 000
City of Cleveland, Ohio	327, 000
City of Cuyahoga Falls, Ohio	4, 000
City of Warren, Ohio	57, 000
County of Cuyahoga, Ohio	202, 000
City of Niles, Ohio	4, 000
County of Burke, N. Dak	2, 400
City of Minot, N. Dak	6, 223
County of Ward, N. Dak	40, 000
County of Nassau N. Y	120, 000
Territory of Puerto Rico	144, 000
Total	2, 800, 623

Under the terms of the statute the Secretary of the Treasury canceled obligations of the Corporation in a corresponding amount and the net effect of the transaction was the payment from the general fund of the Treasury of the amount represented by the securities transferred to the Treasury.

The act of February 24, 1938, provides that any evidences of indebtedness with respect to funds disbursed by the Reconstruction Finance Corporation for which its obligations were canceled be transferred to the Secretary of the Treasury and any sums at any time received by any agency of the United States, including the Reconstruction Finance Corporation, representing repayments or recoveries of funds disbursed out of amounts made available by the Reconstruction Finance Corporation for which its notes were canceled, shall forthwith be covered into the general fund of the Treasury. Subsequent to the transfer of these obligations the city of Flint, Mich., the city of Cleveland, Ohio, the city of Cuyahoga Falls, Ohio, the county of Cuyahoga, Ohio, the city of Niles, Ohio, the county of Burke, N. Dak., and the city of Minot, N. Dak., repaid the Treasury in full. The county of Nassau, N. Y., is meeting its obligations when due. As to the obligations of the Territory of Puerto Rico, the Treasury under date of July 25, 1940, received advice to the effect that the government of Puerto Rico recognizes the debt and that the necessary funds to repay the obligations will be appropriated by the Legislature of Puerto Rico in the next budgetary act in May 1941. All other obligations listed above are past due either as to principal or interest. The aggregate principal amount of such past-due obligations at present is $2,061,000.

The apparent intent of Congress as expressed in the act of February 24, 1938, together with the fact that a large percentage of the obligations in question have been repaid, has made it necessary for the Treasury to demand payment of all of the past-due obligations. Due primarily, however, to the fact that, under the existing provisions of law the Secretary of the Treasury has no authority to exchange any of the securities held for other securities of the political subdivisions involved, it has been impossible to date to effect satisfactory arrangements for the liquidation of certain of these past-due obligations. If, on the other hand, the Treasury had authority in these cases to effect exchanges for other current or marketable securities, including refunding obligations, the communities concerned would be in a position to refund the obligations with due regard to the present budgetary and financial status, would be relieved of the stigma of being in default, technical or otherwise, and the Treasury would, in due course, recover the full amount of the advances with interest.

An outstanding example of what may clearly be termed a technical default is found in the case of the city of Detroit. Under the provisions of the Emergency Relief and Construction Act of 1932 the Reconstruction Finance Corporation loaned the city of Detroit $1,800,000 and acquired an interim receipt in that amount of emergency bonds of the said city dated September 23, 1932, due September 23, 1935, bearing interest at the rate of 3 percent per annum. No payments have been made by the city of Detroit on the bonds represented by this receipt although such bonds were eligible for refunding under a refunding arrangement made by the city in 1934 with its majority bondholders. The record indicates that the Reconstruction Finance Corporation had indicated its intention to accept the refunding bonds but the exchange had not been consummated prior to the transfer of the interim receipt to the Treasury in 1938. Subsequent to such transfer it has been held by legal counsel that the Treasury has no authority under existing law to effect the exchange although the city of Detroit has indicated that it is prepared to issue in exchange therefor refunding bonds dated September 23, 1933, maturing September 23, 1963, with interest at the rate of 3 percent per annum payable March 23 and September 23, and to pay the interest which has accrued on the principal amount of the indebtedness up to the last regular interest payment date. Such exchange, which would be authorized by the proposed legislation, would be in the interest of both the city of Detroit and the Treasury. It may be added that due to the present satisfactory condition of the finances of the city of Detroit, its bonds, generally speaking, are being sold in the market at a premium.

Practically all of the holders of Detroit bonds accepted refunding obligations in 1934 and if the Treasury should insist upon full payment of its obligations it would, in effect, give the United States a preferred creditor status. Furthermore, if all bondholders had insisted upon similar rights it would have been impossible for the city of Detroit to rehabilitate its finances in an orderly way subsequent to the financial reverses encountered during the depression period. In the case of the other communities listed, the obligations of which are past due, it appears that it will be necessary to spread the repayments over varying periods of time and the proposed legislation will permit the Treasury to regularize its procedure and effect arrangements which will not be unduly burdensome to the taxpayers of the communities involved.

The Treasury therefore interposes no objection to the proposed legislation.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

JOHN L. SULLIVAN,
Acting Secretary of the Treasury.

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