TT&L
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U.S. CENTRAL
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CF 9/28/99

September 28, 1999

Ms. Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Financial Management Service, Room 420
401 14th Street, SW
Washington , DC 20227

Re: RIN 1510-AA79 Payment of Federal Taxes
and the Treasury Tax and Loan Program,

Dear Ms. Johnson:

U.S. Central Credit Union ("U.S. Central") appreciates the opportunity to respond to the Department of the Treasury Financial Management Service Notice of Proposed Rulemaking on modifications to regulations governing the Treasury Tax and Loan (TT&L) program. 64 Fed. Reg. 41748 (July 30 1999). We are concerned that if the proposed modification is implemented the number of financial institutions willing to participate in the investment component of the TT&L program will be substantially reduced and the effectiveness of the program will be jeopardized.

Under the current TT&L program, a financial institution specifies a level at which it is willing to participate if the Treasury needs a place to invest excess balances for a short-term. The institution must be willing and able to accept amounts up to the specified level with minimum advance notice, if any. Similarly, such funds may also be withdrawn without advance notice. These features create cash and collateral management risks for any participating financial institution.

By benchmarking the TT&L rate to the Federal funds rate, a participating financial institution is provided with some certainty as to the cost of such funds. This degree of certainty is buttressed by the spread between the TT&L rate and the Federal funds rate. This spread enables financial institutions, such as U.S. Central, that are typically net sellers of Federal funds, to accept the reinvestment risk attendant to assisting the Treasury in providing a collateralized repository for short-term investments.

The Federal funds market is a broadly based homogenous market. It is not susceptible to the manipulative and idiosyncratic factors inherent in the overnight repurchase agreement market. These factors include the availability of collateral due to Federal Reserve Open Market activity and the comparative sophistication of non-financial institution purchasers of overnight repurchase agreements as well as their investment policy constraints on such purchases. These factors tend to subject overnight repurchase agreement rates to fluctuations that are deal specific between the Primary Dealer and its individual customer rather than market driven as is the case with Federal funds.

We are also concerned that those financial institutions that participate in the TT&L program and who must accept same day deposits may be adversely affected by basing the TT&L rate on the overnight repurchase agreement rate. This concern is particularly exacerbated when the institution is usually a net seller of Federal funds.

Most overnight repurchase activity is essentially completed early in the day. Therefore, the applicable interest rate is determined on transactions occurring in a short early-morning time frame. Federal funds transaction activity is completed substantially later in the day. Accordingly, unless the institution needs the funds from TT&L for its own account at the Federal Reserve Bank, it may have a substantial market risk in being able to place the funds at a rate equal to or greater than the rate it is required to pay.

In view of these factors, we are concerned that the proposed selection of the overnight repurchase agreement interest rate for the TT&L program will cause financial institutions to withdraw from the program. U.S. Central has not made a final decision as to whether the proposed change will impair our willingness to leverage our capital to participate in the TT&L program. However, it is likely that implementation of the proposed changes will necessitate our withdrawal from the TT&L program.

The Notice of Proposed Rulemaking also requested comment on the interest of TT&L participants in obtaining note balances for a guaranteed term. Our interest in obtaining such balance depends on the interest rate required to obtain them and the basis for determining such rate. At such time as such a proposal is made, we will consider it.

Sincerely,

François G. Henriquez, II
Sr. Vice President and
General Counsel