

VIA E-Mail

September 28, 1999

CJA
9/28/99
TT&L
047

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

RE: Proposed Rule on the Payment of Federal Taxes and the
Treasury Tax and Loan Program

Dear Ms. Johnson:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the rule proposed by Department of the Treasury (Treasury) that would change regulation governing the Treasury Tax and Loan (TT&L) program and specifically change the interest rate Treasury charges on TT&L note balances. These balances include funds loaned through the direct investment and special direct investment programs. CUNA represents more than 90 percent of our nation's 11,000 state and federal credit unions and solicits their opinions on proposed regulations.

This rule was published in the *Federal Register* on July 30, 1999, and the revised regulation would change the interest rate Treasury charges on TT&L note balances to an overnight repurchase agreement rate. The TT&L program has two separate components: a depository component through which the Treasury collects Federal tax deposits and payments from business taxpayers for employee withholding and other types of taxes, and an investment component through which the Treasury invests short-term operating balances not needed for immediate cash outlays.

Treasury proposes that the Federal Reserve Bank of New York (FRBNY) compile and publish a volume-weighted average overnight repurchase agreement rate. Treasury proposes that the FRBNY compile this rate from data it would obtain from its domestic open market counter parties (the primary dealers) regarding the volume-weighted average overnight rate the primary dealers paid to finance general collateral securities. In addition, Treasury proposes that the Federal Reserve Board of Governors publish an overnight repurchase agreement rate on a basis similar to that used to publish the Federal funds rate.

CUNA has no objections to the proposed rule because there would be little change in the actual interest rate under the TT&L program. Under the current rule, the TT&L interest

rate is the Federal funds rate minus 25 basis points. According to Treasury, this rate was originally set to approximate the overnight repurchase agreement rate, when the overnight repurchase agreement market was new and a published rate was not available. Now that the Treasury can request that the Federal Reserve publish an overnight repurchase agreement rate the change in the interest formula appears reasonable.

Sincerely,

A handwritten signature in cursive script that reads "Michelle Q. Profit".

Michelle Q. Profit