

November 17, 2015

Proposed NEC Letter on Federal Reserve Dividend Payment Reduction Language

Dear NEC Financial Services Committee Member –

NEC staff have recently discussed the Federal Reserve dividend payment cut issue with several Council members, weighing whether or not the Council should issue a letter in support of a key provision that was included in the bill as an amendment related to paying for the transit spending. Specifically, a Senate draft bill earlier this year floated the idea of reducing from 6 percent to 1.5 percent the dividend payments Federal Reserve member banks receive each year on Federal Reserve stocks. Member banks are required to purchase stock in regional Federal Reserve banks to be members of the system. Concern was raised very quickly over this offset when it was first proposed earlier this year, including from Fed Chair Janet Yellen, and House FSC Chairman Hensarling has already asked the Government Accountability Office (GAO) to study it. While the Senate-passed bill contained language that uses the cut as an offset for transportation spending, the House passed an amendment to its version of the bill that stripped the provision and actually replaced it with even more funding to pay for the Highway Trust Fund spending than would have been raised by the dividend payments cut by utilizing the Federal Reserve's "surplus" account. The House and Senate are now working "in conference" to iron out differences between the two versions of the bill.

As such, the Council would like to send the letter below to House and Senate conferees on the highway bill urging them to retain the House amendment that nixes the Fed dividend payment reduction offset. **Please let me know if you have any major concerns with the content of this letter, or any suggestions to improve the letter, by 12pm on Thursday, November 19th.** And, as always, please let me know if you have any questions.

Thank you.

Best,

Chris

TEXT OF PROPOSED LETTER TO HIGHWAY BILL CONFEREES

Dear Conferee:

On behalf of The New England Council – the nation’s oldest regional business organization – I write to you regarding the importance of retaining the Neugebauer-Huizenga amendment to H.R. 22, the DRIVE Act, in the final version of the transportation authorization bill upon which you ultimately agree.

The New England Council is a non-partisan alliance of businesses, academic and health institutions, and public and private organizations throughout New England formed to promote economic growth and a high quality of life in the New England region. The Council’s mission is to identify and support federal public policies and articulate the voice of its membership regionally and nationally on important issues facing New England. The Council has called for a long-term reauthorization of our nation’s surface transportation programs, and we are pleased to see the Congress make tremendous progress in working toward that goal with both the House and the Senate passing versions of a six-year authorization.

That said, it is critical that any offsets contained in the legislation to pay for renewing these programs not have a detrimental impact on our nation’s economic growth. As such, the Council supports retaining the language contained in the floor amendment offered by Representatives Randy Neugebauer (R-TX) and Bill Huizenga (R-MI) to H.R. 22 – and approved by the House in a strongly bipartisan 354-72 vote on November 5th – which removes the threat of a cut to the dividend paid to Federal Reserve member banks nationwide on Federal Reserve stock. It is important to note that these member banks are required to purchase stock in regional Federal Reserve banks as a condition of their membership, and this stock is unlike other traditional bank assets, as banks are not allowed to sell, transfer, or use it as collateral.

House Financial Services Committee Chairman Jeb Hensarling (R-TX) has requested a report from the Government Accountability Office (GAO) on the potential ramifications of making such a change, and just last month a bipartisan group of 150 members of the House of Representatives wrote to Congressional leadership saying that “[u]ntil GAO completes its work and the congressional committees of jurisdiction have an opportunity to review the significant public policy questions at issue, we believe that changes to the Federal Reserve dividend rate are

premature.” The letter went on to assert that “any potential modifications to the current stockownership structure of the Federal Reserve Banks should be thoroughly studied and analyzed to help ensure that Congress understands the policy implications of any changes.”

We agree with efforts to study the effect of such a change before moving forward on any related measure. As such, the Council would respectfully request the conferees retain the Neugebauer-Huizenga language in the final bill on which you are working. Not only does the amendment avoid the change to Fed dividend payments, it also identifies an adequate mechanism of utilizing the Federal Reserve’s “surplus” account to fully replace it as an offset to help pay for the Highway Trust Fund’s extension.

Thank you for your consideration of this request.

Sincerely,