



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 17, 2013

The Honorable John A. Boehner
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

As provided by Public Law 113-3, the statutory debt limit was suspended by Congress through May 18, 2013. Because Congress has not yet acted to approve normal borrowing authority after May 18, the Treasury Department will begin implementing the standard set of extraordinary measures that enable us, on a temporary basis, to protect the full faith and credit of the United States by continuing to pay the nation's bills. These measures are the same ones that have been used in previous debt limit impasses, and are described in detail in an appendix to this letter.

The effective duration of the extraordinary measures is subject to considerable uncertainty due to a variety of factors, including the unpredictability of tax receipts, changes in expenditure flows under the sequester, and the normal challenges of forecasting the payments and receipts of the U.S. government months into the future. An additional source of uncertainty has been the amount and timing of certain payments to the Treasury by Fannie Mae and Freddie Mac in light of their improving financial conditions. In the case of Fannie Mae, we learned last week that Treasury will receive a payment of approximately \$60 billion on June 28, 2013.

Given the uncertainty described above, at this time, Treasury is not able to provide a specific estimate of how long the extraordinary measures will last. However, in view of the forthcoming Fannie Mae payment and the trend in other payment flows, it is now clear that the measures will not be exhausted until after Labor Day. Nevertheless, Congress should act sooner rather than later to protect America's good credit and avoid the potentially catastrophic consequences of failing to act until it is too late.

It is important to note that increasing the debt limit does not increase spending or authorize new spending; rather, it simply permits the United States to continue to honor pre-existing commitments to our citizens, businesses, and investors here and around the world. These commitments were already approved by Congress, and honoring them is not optional. The global economic leadership position enjoyed by the United States rests on the confidence of Americans and people around the world that we are a nation that keeps its promises and pays all of its bills, in full and on time. Breaching that trust would do irreparable harm to the economy and the American public.

In this context, I want to reiterate the Administration's view, expressed in a Statement of Administration Position on May 7, 2013, regarding the so-called prioritization bill passed by the House of Representatives last week. This legislation is unwise, unworkable, unacceptably risky, and would harm the full faith and credit of the nation. The President has indicated he would veto the legislation if it were to reach his desk.

Protecting the full faith and credit of the United States is the responsibility of Congress because only Congress can extend the nation's borrowing authority. No Congress in our history has failed to meet that responsibility. It must be understood that the creditworthiness of the United States is an essential underpinning of our strength as a nation; it is not a bargaining chip to be used for partisan political ends. I want to reemphasize what the President has said repeatedly regarding any threats to cause default in order to extract policy concessions from the Administration: We will not negotiate over the debt limit. The creditworthiness of the United States is non-negotiable. The question of whether the country must pay obligations it has already incurred is not open to debate. Congress has no choice but to protect our creditworthiness and our economy.

The President has proposed detailed plans for reducing our fiscal deficits, and he stands ready to continue working with Congress toward this objective. However, those negotiations are separate from any debate over the debt limit. Therefore, I respectfully urge Congress to meet its responsibility to the nation by extending normal borrowing authority well before any risk of default becomes imminent. In order to avoid a repeat of the damaging brinksmanship that occurred in 2011, Congress should remove the threat of default by taking this action as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacob J. Lew", with a stylized, cursive script.

Jacob J. Lew

Identical letter sent to:

The Honorable Nancy Pelosi, House Democratic Leader
The Honorable Harry Reid, Senate Majority Leader
The Honorable Mitch McConnell, Senate Republican Leader

cc: The Honorable Dave Camp, Chairman, House Committee on Ways and Means
The Honorable Sander M. Levin, Ranking Member, House Committee on Ways and Means
The Honorable Max Baucus, Chairman, Senate Committee on Finance
The Honorable Orrin Hatch, Ranking Member, Senate Committee on Finance
All other Members of the 113th Congress

Enclosure

APPENDIX

Description of the Extraordinary Measures

Secretaries of the Treasury in both Republican and Democratic administrations have used their authority to take certain extraordinary measures in order to prevent the United States from defaulting on its obligations as Congress deliberated on increasing the statutory debt limit. Four of these extraordinary measures are available at this time. The other measures that have been taken in the past are either unavailable or of limited use.

The extraordinary measures currently available are: (1) suspending sales of State and Local Government Series Treasury securities; (2) redeeming existing, and suspending new, investments of the Civil Service Retirement and Disability Fund and the Postal Service Retirees Health Benefit Fund; (3) suspending reinvestment of the Government Securities Investment Fund; and (4) suspending reinvestment of the Exchange Stabilization Fund. These measures are described in more detail below.

These extraordinary measures, all of which have been employed during previous debt limit impasses, have the effect of creating or conserving headroom beneath the debt limit. These measures are limited and therefore can postpone only briefly the need for an increase in the statutory debt limit. On average, the public debt of the United States is increasing by approximately \$100 billion per month (although there are significant variations from month to month). In total, the extraordinary measures currently available free up approximately \$260 billion in headroom under the limit, as described below.

1. State and Local Government Securities

The Treasury Department has authority to suspend its issuance of State and Local Government Series Treasury securities (SLGS). This however, is a limited measure that does not create headroom under the debt limit.

SLGS are special purpose Treasury securities issued to state and local government entities. In ordinary times, the Treasury Department issues SLGS to state and local governments to assist these governments in complying with Federal tax laws when they have cash proceeds to invest from their issuance of tax exempt bonds. When Treasury issues these securities, they count against the debt limit. There is no statutory or other requirement for the Treasury Department to issue SLGS; they are issued in order to assist state and local governments, and Treasury may suspend SLGS sales as the debt subject to limit approaches the debt limit.

This action does not free up headroom under the debt limit. Rather, it conserves headroom (*i.e.*, it eliminates increases in debt that would count against the debt limit if issued). Approximately \$4 to \$17 billion in SLGS is issued per month, although this amount is subject to substantial variation from month to month. Some state and local governments issuing certain types of new debt after the SLGS sales are suspended will have to invest the proceeds in alternative assets in order to remain in compliance with tax law.

2. Declaring a “Debt Issuance Suspension Period”

Once the debt limit has been reached, Treasury has authority to take actions regarding investments under the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBFB).

a. Declaring a “Debt Issuance Suspension Period”

The CSRDF provides defined benefits to retired and disabled Federal employees covered by the Civil Service Retirement System. The fund is invested in special-issue Treasury securities, which count against the debt limit. Congress has given Treasury statutory authority to take certain actions in the event of a debt limit impasse. Specifically, the statute authorizes the Secretary of the Treasury to determine that Treasury will be unable to fully invest the CSRDF and that a “debt issuance suspension period” exists. Once the Secretary has done so, Treasury can (1) suspend new investment, and (2) redeem certain existing investments in the CSRDF.

The Secretary of the Treasury does not have unlimited discretion to declare a debt issuance suspension period. Under the statute that governs the CSRDF, the term “debt issuance suspension period” means a period of time that the Treasury Secretary determines that Treasury securities cannot be issued without exceeding the debt limit. The determination of the length of the period must be based on the facts as they exist at the time.¹

Declaring a debt issuance suspension period is a limited measure that relates only to the CSRDF; it has no impact on any other investments or any other portion of the debt. Moreover, it only provides limited additional time. Each month that a debt issuance suspension period lasts frees up approximately \$6.4 billion in headroom. Thus, a three-month debt issuance suspension period, for example, would free up approximately \$19 billion in headroom.²

During a debt issuance suspension period, civil service benefit payments would continue to be made as long as the United States has not yet exhausted the extraordinary measures. Once the extraordinary measures have been exhausted, however, the U.S. government will be limited in its ability to make payments across the government. After the debt limit impasse has ended, the

¹ This determination does not preclude the Secretary from making a new determination at a later time with respect to the period of time that securities cannot be issued without exceeding the debt limit, including as the result of any consideration of changed circumstances.

² The statute governing the CSRDF gives Treasury authority to redeem existing Treasury securities held by the CSRDF in an amount up to the amount of civil service benefit payments authorized to be made from the CSRDF during the debt issuance suspension period. 5 U.S.C. § 8348(k). Treasury makes approximately \$6.4 billion in civil service benefit payments from the CSRDF each month. Therefore, declaring a three-month debt issuance suspension period would allow Treasury to redeem approximately \$19 billion of the Treasury securities held by the CSRDF, freeing up approximately \$19 billion in headroom. The statute also authorizes Treasury to suspend new investments by the CSRDF. The CSRDF receives approximately \$2 billion in new employer and employee contributions each month. Therefore, each month approximately \$2 billion in headroom that would otherwise be used is conserved.

statute provides that the CSRDF is to be made whole.³ Therefore employees and retirees are unaffected by these actions.

b. One-time measure available in June.

The same statute that authorizes Treasury to redeem existing investments during a debt issuance suspension period also authorizes Treasury to suspend new investments by the CSRDF. On June 30, approximately \$58 billion in CSRDF investments mature. In addition, an interest payment of approximately \$16 billion is scheduled to be made to the fund on that date.⁴ Ordinarily the proceeds of the maturing investments would be reinvested and the interest payment would be invested. But with the investment suspension authority available, Treasury may suspend these investments. Suspending these investments would free up approximately \$74 billion in headroom. In addition, the Postal Accountability and Enhancement Act of 2006 provides that investments in the PSRHBFB shall be made in the same manner as investments for the CSRDF. Investing the PSRHBFB in the same manner as the CSRDF would free up approximately \$5 billion in headroom.⁵ It should be understood that this suspension of reinvestment that frees up headroom is a one-time measure: it is only available at the end of June.

3. G Fund

Once the debt limit has been reached, Treasury may also suspend the daily reinvestment of the Treasury securities held by the Government Securities Investment Fund (G Fund) of the Federal Employees' Retirement System Thrift Savings Plan.

The G Fund is a money market defined-contribution retirement fund for Federal employees. The fund is invested in special-issue Treasury securities, which count against the debt limit. The entire balance matures daily and is ordinarily reinvested. Congress has granted Treasury the statutory authority to suspend reinvestment of all or part of the balance of the G Fund when the Secretary determines that the fund cannot be fully invested without exceeding the debt limit.⁶

³ After the debt limit impasse has ended, Treasury is required to put the CSRDF investment portfolio into the position it would have been in if the impasse had not occurred, and to restore lost interest on the next regularly scheduled interest payment date on the Treasury securities held by the CSRDF.

⁴ Because June 30, 2013, is a Sunday, these interest payments and maturities will be effected on the last working day in June prior to the payment date, in accordance with longstanding practice.

⁵ On June 30, approximately \$4 billion in PSRHBFB investments mature, and an interest payment of approximately \$1 billion is due. Because June 30, 2013, is a Sunday, these interest payments and maturities will be effected on the last working day in June prior to the payment date, in accordance with longstanding practice. Ordinarily the proceeds of the maturing investments would be reinvested and the interest payment would be invested. But with the investment suspension authority available, Treasury may suspend these investments. Treasury is not scheduled to make any payments from the PSRHBFB in the near future. Therefore, declaring a debt issuance suspension period would not allow Treasury to redeem Treasury securities held by the PSRHBFB.

⁶ 5 U.S.C. § 8438(g).

Using this measure immediately frees up headroom under the debt limit. Because the G Fund balance is approximately \$160 billion, using this measure can immediately create up to approximately \$160 billion in headroom.

During the period of the investment suspension, payments from the G Fund continue to be made as long as the United States has not yet exhausted the extraordinary measures. Once the extraordinary measures have been exhausted, however, the U.S. government will be limited in its ability to make payments across the government. After the debt limit impasse has ended, the G Fund is made whole.⁷ Therefore participants in the Thrift Savings Plan who contribute to the G Fund are unaffected by the actions described above.

4. Exchange Stabilization Fund

Treasury may also suspend the daily reinvestment of Treasury securities held by the Exchange Stabilization Fund (ESF).

The ESF has a number of uses, including purchasing or selling foreign currencies. A portion of the ESF is held in U.S. dollars, and the dollar-balance of the ESF is invested in special-issue Treasury securities, which count against the debt limit. The entire dollar-balance matures daily. There is no requirement that the Treasury Department invest the ESF, so Treasury may suspend the investment of the dollar-balance of the ESF during a debt limit impasse.

Suspending the daily reinvestment of the dollar-balance of the ESF immediately frees up headroom under the debt limit. Because the dollar-balance of the ESF is approximately \$23 billion, this would create up to approximately \$23 billion in headroom.

After a debt limit impasse, the interest lost by the ESF is not restored: there is no existing authority to reimburse the ESF for lost interest during the period that the dollar-balance is not invested.

* * *

As described above, these four extraordinary measures can free up approximately \$260 billion in headroom.

Other Measures Used in the Past Are No Longer Available or of Limited Use

The other measures that have been used in past debt limit impasses in order to postpone the date by which the debt limit needed to be increased are either not available or of limited use.

First, although in the past Treasury Secretaries have suspended the issuance of U.S. savings bonds to the public, doing so now would be of little benefit. Suspending the issuance of U.S. savings bonds would not free up any headroom under the debt limit. As is the case with

⁷ Treasury is required to restore lost interest on the next business day.

suspending sales of SLGS, suspending the sales of savings bonds would only eliminate increases in debt that would count against the debt limit if the securities were issued. Moreover, suspending such sales conserves very little headroom.⁸ Second, measures relating to the Federal Financing Bank (FFB) are of limited use.⁹ Third, a measure previously used, involving the calling in of cash that Treasury kept on deposit at banks, is no longer available: Treasury no longer keeps these balances.¹⁰ Finally, Congress has in the past provided one-time tools in the midst of a debt limit impasse;¹¹ those authorities expired over 17 years ago.

Asset Sales

Although the U.S. government owns other assets, such as gold, there are prudential or legal limitations on its ability to sell these assets. Selling the Nation's gold to meet payment obligations would undercut confidence in the United States both here and abroad, and would be extremely destabilizing to the world financial system. With respect to financial assets acquired as part of the response to the financial crisis in 2008 and 2009, Treasury has already sold most of these assets and is conducting an orderly wind-down of the remaining investments. A fire sale of these assets, however, would be disruptive and would harm taxpayer interests. Similar considerations argue against fire sales of other public assets. And, in any event, asset sales would not generate sufficient revenue to make an appreciable difference in when the debt limit must be raised. Finally, for both legal and practical reasons, sale of the government's portfolio of student loans is not feasible. For these reasons, Secretaries of the Treasury of both parties have concluded that asset sales are not a prudent or viable alternative to increasing the debt limit.

⁸ Sales of savings bonds increase the amount of debt by less than \$100 million per month on average.

⁹ In the past, Treasury was able to free up headroom under the debt limit by entering into multi-step exchange transactions with FFB and the CSRDF, swapping obligations that do not count against the debt limit for an equal amount of Treasury securities held by the CSRDF that do count against the debt limit. In each case, FFB used the Treasury securities that it received from the CSRDF to pay down its borrowings from Treasury. Treasury extinguished the Treasury securities received from the FFB to create headroom. The potential to use such an exchange transaction is of limited use at this time because FFB has a limited amount of obligations available to exchange.

¹⁰ In the past, Treasury had an ability to increase its cash balance without increasing debt by calling in the non-interest-bearing balances that Treasury formerly kept on deposit at banks to compensate them for fiscal services they provided to Treasury. That option is no longer available because Treasury discontinued keeping those "compensating balances" after Congress appropriated funding to Treasury in 2004 to pay directly for fiscal services.

¹¹ Specifically, in 1996, in order to enable Treasury to pay the March 1996 Social Security benefits, Congress passed legislation that permitted Treasury to issue a limited amount of Treasury securities that were temporarily excluded from being counted against the debt limit. In addition, Congress passed legislation that temporarily excluded from being counted against the debt limit the new Treasury securities that Treasury issued to federal trust funds in March 1996 to invest new trust fund receipts and to reinvest the proceeds of maturing trust fund investments. Those exclusions from the debt limit expired on March 30, 1996.