

T-1970

STATEMENT OF KENNETH L. SMITH, ASSISTANT SECRETARY - INDIAN AFFAIRS,  
DEPARTMENT OF THE INTERIOR, BEFORE THE HEARING OF THE SELECT COMMITTEE ON  
INDIAN AFFAIRS, UNITED STATES SENATE, ON S. 2000, A BILL "TO ALLOW VARIABLE  
INTEREST RATES FOR INDIAN FUNDS HELD IN TRUST BY THE UNITED STATES."

FEBRUARY 3, 1984

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, THANK YOU FOR THE OPPORTUNITY  
TO PRESENT THE VIEWS OF THE DEPARTMENT OF THE INTERIOR ON S. 2000. A BILL  
INTRODUCED AT THE REQUEST OF THE ADMINISTRATION. THIS LEGISLATION WOULD  
ALLOW VARIABLE INTEREST RATES FOR INDIAN FUNDS HELD IN TRUST BY THE UNITED  
STATES. WE RECOMMEND THAT S. 2000 BE ENACTED.

S. 2000 WOULD AMEND THE ACT OF FEBRUARY 12, 1929 TO PROVIDE THAT INDIAN  
TRIBAL FUNDS HELD IN TRUST BY THE UNITED STATES SHALL EARN INTEREST AT A  
VARIABLE RATE RATHER THAN AT 4 PERCENT.

CURRENTLY, ALL INDIAN TRUST FUNDS OVER \$500 THAT ARE HELD BY THE UNITED  
STATES TREASURY BEAR SIMPLE INTEREST AT A RATE OF 4 PERCENT PER ANNUM.  
INTEREST RATES FOR MANY OTHER TRUST AND ESCROW ACCOUNTS HELD BY THE UNITED  
STATES, HOWEVER, ARE ADJUSTED SEMI-ANNUALLY TO REFLECT CHANGING INTEREST  
RATES. THE AVERAGE UNINVESTED TRUST FUNDS ARE ABOUT \$8 MILLION. AT 4  
PERCENT THESE FUNDS WILL EARN \$320,000. CURRENTLY THE SHORT TERM INTEREST  
RATE IS ABOUT 9 1/2 PERCENT. THE EARNINGS AT 9 1/2 PERCENT WOULD BE \$760,000.  
THUS, THE INCREASED EARNINGS TO THE INDIAN TRUST FUNDS WOULD BE \$440,000  
(\$760,000 @ 9 1/2 PERCENT MINUS \$320,000 @ 4 PERCENT).

THE 4 PERCENT INTEREST RATE FOR INDIAN TRUST FUNDS WAS MANDATED IN 1929, REFLECTING CREDIT CONDITIONS OF THAT ERA. IN ORDER FOR THE FEDERAL GOVERNMENT TO BETTER FULFILL ITS TRUST RESPONSIBILITY TO THE INDIAN PEOPLE AND TO MAKE THE RETURN ON ALL TRUST FUNDS MORE EQUITABLE IN TODAY'S ECONOMIC CLIMATE, INDIAN TRUST FUNDS SHOULD BE PROVIDED A MORE FLEXIBLE RATE OF INTEREST. S. 2000 WOULD ACCOMPLISH THIS BY PROVIDING FOR A VARIABLE RATE OF INTEREST ON INDIAN TRIBAL FUNDS HELD IN TRUST BY THE UNITED STATES.

THIS CONCLUDES MY PREPARED STATEMENT. I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

CC 2