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VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia 24061

Department of Finance, Insurance and Business Law

April 4, 1983

The Honorable George Bush
Vice President of the United States
Old Executive Office Building
Washington, D.C. 20501

Dear Vice President Bush:

Professor G. Rodney Thompson and I have recently completed several studies on the Securities and Exchange Commission's Rule 415. This rule allows a company to register all the securities that it plans to issue over the next two years and then sell some or all of the securities whenever it chooses. Given that you have a Task Group on the Regulation of Financial Services, we would like to share our results with you. The results which I discuss and the papers which I have enclosed were presented to Lee Spencer and his staff in the Division of Corporate Finance at the Securities and Exchange Commission on March 25, 1983.

Using a sample of 193 debt issues rated by Moody's Investor Service sold between July 1982 and March 1983 our results indicate the following: (1) Industrial firms (average issue size of 93 million dollars) that sold their debt under Rule 415 paid, on average, 35 basis points less in offering yield than firms that did not sell under Rule 415. The annual savings in interest cost are, on average, about 328,000 dollars. Industrial firms that sold their debt under Rule 415 paid, on average, about $1.78 less spread per bond than firms that did not sell their debt under Rule 415. On an average issue this is a savings of about 157,000 dollars. (2) Utilities firms (average issue size of 78 million dollars) that sold their debt under Rule 415 paid, on average, 46 basis points less than utilities that did not use shelf registration. The annual savings in interest cost are, on average, about 355,000 dollars. Utilities paid the same spread on shelf or non-shelf issues. (3) Non-bank financial firms (average issue size of 75 million dollars) that sold their debt under Rule 415 paid, on average, 43 basis points less in offering yield than non-bank financial firms that did not sell their debt by Rule 415. The annual savings in cost are, on average, about 322,000 dollars. Again, non-bank financial firms paid, on average, the same spread for shelf or non-shelf issues.

Our evidence indicates that issuers who sell their securities under Rule 415 obtain significant cost savings in offering yields. This rule significantly lowers the borrowing cost on new debt issues for companies eligible to use the procedure. We feel that Rule 415 has stimulated increased competition in the investment banking industry and that this rule should be permanently adopted by the SEC.

Given my interest in financial markets and institutions, I would like to receive, if possible, any preliminary reports of your Task Group on the Regulation of Financial Services. In addition, I would like to receive the final report of that group.

As an aside, I lived in Lubbock, Texas for about 8 years and was there when your son ran against Kent Hance. I was disappointed that Kent won, but I understand that Midland and Lubbock will now be in different Congressional Districts. I hope your son continues with his political career; I saw a debate between Kent and George, Jr. in Lubbock and was very impressed by his performance. In addition, I saw your presentation at Texas Tech University when you were campaigning for the Republican nomination for President. I hope you continue striving for Presidency. I have no doubt that you would perform very well in that office.

If you have any questions about our studies, or suggestions for further research in the area of financial regulations, please call me at 703-961-5092.

Thank you for your help.

Yours very truly,

Wayne Marr
Assistant Professor of Finance

WM/dmf

Enclosures