

**COIN AND CURRENCY ISSUES FACING
CONGRESS: CAN WE STILL AFFORD MONEY?**

HEARING
BEFORE THE
SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE, AND TECHNOLOGY
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS
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COIN AND CURRENCY ISSUES FACING CONGRESS: CAN WE STILL AFFORD MONEY?

Wednesday, July 19, 2006

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 2128, Rayburn House Office Building, Hon. Deborah Pryce [chairwoman of the subcommittee] presiding.

Present: Representatives Pryce, Lucas, Neugebauer, Maloney, Sherman, and Kelly.

Chairwoman PRYCE. Good afternoon. I am very pleased to welcome all of you here today to this hearing on coin and currency issues. I want to thank Representatives Lucas and Castle for their support of this hearing and leadership on the issue, and as always, my friend, Mrs. Maloney, the co-chair of this subcommittee—the ranking member of this subcommittee, and we act like co-chairs.

The collection of coins in our country can be a charitable act and an education piece all at once. Legislation like my own commemorative coin to honor the passage of the Civil Rights Act of 1964 or Chairwoman Kelly's coin commemorating the sacrifices disabled veterans have made for our country can be used in remembrance, and in passing on the history of our country from generation to generation.

Additionally, we have seen an overwhelming use and appreciation for the States quarters program. The Mint and Federal Reserve have done a good job of getting word out about the quarters, and I hope they will do the same with the newly-enacted Presidential \$1 coin.

Unfortunately, with all the successes we have seen with these programs, we are continuing to learn that our coins are costing more to make than they are worth. While our Mint works to produce new, less-costly coins, our Bureau of Engraving and Printing has put its concentration on protecting our paper currency from counterfeiting.

We welcome the new director of the BEP, Mr. Felix, here today, and look forward to hearing from him and the other witnesses on steps our Government, and the governments of other countries, are taking to address similar problems with the cost of coins and counterfeiting.

Finally, this hearing will also serve in part as a legislative hearing on Representative Lucas's bill, H.R. 5077, the Numismatic Rarities Certainty Coin Act of 2006.

We would like to thank our witnesses for being here today and look forward to hearing your testimony.

Ms. Maloney?

Mrs. MALONEY. I would like very much to thank Chairwoman Deborah Pryce, and I welcome the witnesses to this hearing, which serves as the regular oversight hearing that this subcommittee holds each year to examine the operations of the Mint and the Bureau of Engraving and Printing. It is also an opportunity to address issues relating to coins and currency, and recently passed or pending legislation in those areas.

Today we have several such issues: the implementation of the Presidential Dollar Coin Act, a bill on which I was the lead Democrat with Congressman Castle; the rising cost of manufacturing the penny and the nickel; a bill introduced by Mr. Lucas to resolve ownership of mint rarities; and a bill introduced by Mr. Colby to eliminate both the penny and the dollar bill.

The Presidential dollar coin bill that Mr. Castle and I initiated was bipartisan legislation intending to be a win/win for the taxpayers and the economy. The House passed this bill by an overwhelming bipartisan majority, and the Senate did the same with the same version.

The Presidential dollar coin will begin in January of 2007 with the issuance of the George Washington dollar, and continue at the rate of four Presidents a year, until all Presidents who have completed their term in office have been honored, including President Bush, and at least one successor.

Through discussions with Representative Pomeroy, Indian tribal chiefs, and women's groups, the provisions of the bill relating to the Sacagawea dollar coin were clarified and strengthened to make clear that Sacagawea will continue to be honored on the dollar throughout the program and after the program is complete.

This law was modeled on, and builds on, the remarkably successful program of our 50 State quarter bill. Like the State quarters, the Presidential dollar coin is expected to revive interest in the dollar coin, educate the public about our presidents, and make money for the taxpayers.

After 5 years, at the halfway point, the 50 State quarter point had made \$4 billion, primarily from collectors—including my two daughters—taking the coins out of circulation so that the Federal Reserve then buys more from the Mint.

We have similar expectations for the effect of the individuals collecting the Presidential dollar coins. In addition, we expect this bill will revive interest in and encourage use of the dollar coin. To some extent, however, this depends on the Mint and the Federal Reserve taking a strong advocacy position in the implementation of this program. And I will be asking those witnesses today what they are going to do in this regard.

On the Lucas bill, I see no reason to reward collectors who happen to have acquired coins illegally taken from the Mint. If we want to resolve these ownership issues through legislation, which I am not sure is a good idea when the courts are perfectly well suit-

ed for this task, we need to do a much more careful job of it. I would also like to ask for permission to put into the record the comments of David Ganz, a coin expert who has substantial, detailed information on this bill.

While I understand Mr. Colby's desire to find new ways to reduce Government waste and make our currency more profitable, I cannot support eliminating the penny at this time. First, I am not persuaded that we would save money. Although the penny does cost more than what it costs to make the penny, the nickel also costs more than a nickel to make. According to the Mint, the penny costs 1.4 cents and the nickel 6.4 cents. In other words, we lose more per unit on the nickel than on the penny. While we are not making more nickels than pennies, if we drop the penny, we would need to make more nickels. So it is not clear that the Mint would come out ahead financially.

Also, a study by a former Federal Reserve economist shows that rounding hurts lower income people the most. And this effect would be especially strong if only cash transactions are rounded, since lower income people are most prone to be unbanked and to rely more on cash.

That said, I will be asking the Mint and the Federal Reserve for their views on these issues, and I hope to learn what they are planning to do to reduce Government spending on currency. I look forward to the hearing, and I thank the chairwoman for calling this hearing. Thank you.

Chairwoman PRYCE. Thank you.

Representative Lucas?

Mr. LUCAS. Thank you, Madam Chairwoman. I would like to thank you and the ranking member for holding this hearing today. It is extremely appropriate that we have this opportunity to discuss these issues of numismatic importance.

And I would like to thank our witnesses for coming today. I look forward to a complete and thorough discussion by both panels of the numismatic and currency issues of the past and of today, and how these issues affect the numismatic as a whole.

I have filed H.R. 5077, the Numismatic Rarities Certainty Act, as an effort on my part to address some of our uncertainties in present law and perhaps an opportunity to enhance the numismatic experience for everyone, and clearly provide some guidance to the United States Government on how to handle some very important issues.

The bill sets a date, December 31, 1932, before which any coin manufactured by the Mint but never properly issued will no longer be declared Government property. It would be safe for coin collectors to buy, to own, and to sell. Coins that were manufactured after that date would still be considered Government property unless the current possessor could demonstrate legal ownership.

The Mint would be required to preserve any coins that came into the Mint's possession under the provisions of the bill, not destroy them, as has been the case sometimes in the past. If a sufficient amount of a certain coin has been preserved under the bill, the excess would be legally sold at Government auction to coin collectors, with the proceeds going to the Smithsonian for the preservation and display of the national coin collection. Once these pieces have

been deemed excess and sold by the Government at auction, they would then be legally ownable forever.

With my bill, I intend to provide certainty to coin collectors who currently have coins that may have originally been mysteriously manufactured or released from the U.S. Mint, but which have been publicly sold at auction several times since then without the Mint ever attempting to confiscate them.

Additionally, the Mint has gone after, as is famously discussed by many, any 1933 Double Eagle that has been found, but has ignored other coins, such as the 1913 Liberty head nickels. The bill also directs the Secretary of the Treasury to conduct an inventory of all coins, medals, or numismatic items that are in the possession of the United States Government and report back to Congress the inventory before January 31, 2007, and every 5 years thereafter.

Again, I would like to thank our witnesses for agreeing to appear today. I look forward to hearing from the Mint about their thoughts on my proposed legislation. As for the Smithsonian, I would like to thank them for their efforts in preserving the national coin collection, the largest numismatic collection in the world.

And I am very curious about what plans the Smithsonian has for the national collection if my legislation were to pass and a funding stream could be created. It is a tragedy that due to limited resources, the collection is not currently in permanent display.

Finally, I look forward to hearing from the numismatic experts assembled for the second panel. This should be a fascinating hearing.

Thank you, Madam Chairwoman.

Chairwoman PRYCE. Mrs. Kelly, do you have a statement?

Mrs. KELLY. Thank you, Madam Chairwoman. I appreciate you holding this hearing.

As a representative of the Nation's newest Mint at West Point, I am keenly interested in ensuring that our circulating coinage meets today's needs while numismatic products remain the most commercially appealing in the world. This committee, with your support, passed the Presidential Dollar Coin Act that authorized the production of the new \$50 gold Buffalo coins at West Point. These .999 pure gold coins celebrate the numismatic heritage of the famous Buffalo nickel while meeting the world's needs for pure gold bullion coins for savings and investment.

I am also thankful for your comments in support of H.R. 1951, which would pay homage to our Nation's disabled veterans in two very important ways. First, it would mint a coin depicting a veteran disabled for life while defending his or her country. Second, the proceeds from the sale of the coin will go toward helping to plan, design, and construct a memorial for disabled veterans here in Washington, D.C.

This is a long-overdue tribute. There are over three million living disabled veterans in the United States, and the sacrifices that they have made to protect our freedom can never be repaid. They should be remembered and they should be honored. And this is a tribute that is a very timely one because there are over 16,000 U.S. soldiers who have been wounded fighting the current global war on terror.

Congress approved this national memorial to be built in October of 2000 with the passage of Public Law 106-348. The law created the American Veterans Disabled for Life Memorial Foundation to see to the construction of the memorial. The foundation's work is important, but it is not yet complete. They have raised quite a bit of money for it, but this will help. The coin will help. And when they are finished, they will have created a memorial that is long overdue to pay tribute to the Nation's veterans who have returned from the battlefield bearing the scars of war.

H.R. 1951 currently has over 180 co-sponsors. I urge all of the members who are present here who have not co-sponsored this to do so soon so we can allow this legislation to move forward.

I thank you again, Madam Chairwoman. I look forward to a very interesting hearing today, and I look forward to hearing from our witnesses. Thank you.

Chairwoman PRYCE. Thank you all.

I will now introduce our panel and ask that, without objection, your written statements will be made a part of the record. Each of you will be recognized in the order of introduction for a 5-minute summary of your testimony.

We have with us today David Lebryk, the Deputy Director of the United States Mint. He is responsible for the day-to-day operations of the world's largest manufacturer of coins, medals, and coin products, with operations in San Francisco, Denver, Philadelphia, West Point, Fort Knox, and the District of Columbia. Welcome.

And Larry Felix, the Director of the Bureau of Engraving and Printing. As Director, Mr. Felix is responsible for the overall operations of the Bureau in the production of U.S. currency and other Government securities documents. Welcome.

Also, Scott Johnson, the Deputy Special Agent in Charge, Criminal Investigative Division, U.S. Secret Service. His areas of responsibility include supervision of all domestic and foreign Secret Service criminal investigations, as well as liaison with other Government agencies and local law enforcement with the Secret Service. Thank you.

And Louise Roseman, the Director of the Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System, which oversees the Federal Reserve Bank's provision of financial services to depository institutions, fiscal agency services to the Treasury, and other Government agencies in significant support functions. Welcome.

And last, but not least, Brent Glass, the Director of the National Museum of American History, Smithsonian Institute. From 1987 to 2002, he served as the executive director of the Pennsylvania Historical and Museum Commission, the largest public history program in the Nation. He has served on the U.S. National Historical Publications and Records Commission and on the council of the American Association for State and Local History.

Welcome to all of you. Once again, you can summarize your statements, and you will all be given 5 minutes. And Mr. Lebryk, we will begin with you. Thank you all.

**STATEMENT OF DAVID A. LEBRYK, ACTING DIRECTOR, U.S.
MINT**

Mr. LEBRYK. Chairwoman Pryce, Representative Maloney, and members of the subcommittee, the United States Mint welcomes this opportunity to report to you today. I am pleased to say the United States Mint has never been busier, with 35 new coins at some stage of design and production, and manufacturing an average of 70 million coins per day. Thank you for keeping us busy.

In the past year, we have launched many popular coin programs and coins that you have authorized—five State quarters, the final two nickels in the Westward Journey Nickel Series, the John Marshall and Benjamin Franklin commemorative coins, the sold-out Marine Corps commemorative coins, and the American Legacy set.

Most recently we have introduced the 24-karat American Buffalo Gold Proof Coin and Bullion. We are particularly proud of this program, executed and introduced to the public in less than 6 months from the enactment of the bill. The men and women of the United States Mint at West Point have done a fabulous job in executing this program, and I brought samples, not to keep, but if you would like to take a look at the proof and the bullion, you are welcome to take a look at them as we are going through our testimony.

As of this morning, we have sold over 320,000 ounces of 24-karat gold, generating more than \$200 million in revenue. That is a remarkable introduction, and remarkably successful in such a short period of time, since June 22nd.

Despite rising base metal prices, the United States Mint has increased total revenue and cut costs and made its products more accessible to Americans. In Fiscal Year 2005, the United States Mint transferred \$775 million to the Treasury General Fund, an increase of \$110 million from the previous year. Despite the increased spike in prices, we expect to transfer close to \$800 million to the Treasury General Fund this year.

We have done that with a focus on efficiency and cost reduction throughout the United States Mint. In the last 2 years, for example, we have increased our manufacturing efficiency by 26 percent and we have cut our General and Administrative expenses by 13 percent. In response to lower production of circulating coins, we have had staffing levels go from a peak of 2,800 FTE's in 2000, to 1,933 FTE's as of this morning.

We have improved by between 21 and 141 days the time it takes to introduce our products to market. In the last 6 years, we have been among the top agencies in customer service and customer satisfaction. The United States Mint has received 12 clean audits, and we reduced our lost time accidents from 5 in the year 2000 to .8 as of this morning. In 2005, our Philadelphia facility won an award for safety, the top award OSHA gives. And we recently received a White House Closing the Circle Award for environmental management.

Last month we launched the 38th quarter in the 50 State Quarters Program. More than 140 million Americans are now collecting these coins, and we are now down to the last twelve States. There are only 29 months remaining.

The United States Mint is also energetically implementing the Presidential \$1 Coin Act of 2005, and we have had to move quickly.

Within 4 short weeks of the President signing the bill in late December of 2005, we presented design concepts for the Presidential \$1 coins and a 24-karat bullion coin to our advisory committees. These coins and productions have proceeded on schedule.

On June 22nd, a month ago, as I mentioned, we issued and minted the Nation's first 24-karat American Buffalo Gold Coin. The research and development work is completed, and the manufacturing processes and equipment for edge lettering are being finalized. The anti-tarnishing process for the new coins is also finalized.

Together with the Federal Reserve, we hosted a well-attended and well-received dollar coin users group forum on June 8th to discuss, among other things, how to maximize circulation and the acceptance of the Presidential dollar. Additional forums and outreach will occur over the course of the fall. We are also implementing a demand/acceptance study to see if we can gauge what the demand for the new coins will be, and this fall we will launch a public awareness and public education campaign to make sure that Americans are aware of the new coin.

We expect to successfully introduce the George Washington \$1 coin on or about President's Day of February 19, 2007, to honor our Nation's Presidents. We thank the sponsors and the Congress for the opportunity to implement this legislation. We look forward to, and are committed to, a successful program.

I now turn to H.R. 5077, the "Numismatic Rarities Certainty Act of 2006." The most significant provision of this bill would similarly terminate the public ownership of any coin, medal, or numismatic item made prior to 1933 if such item is not then in the possession of the Government.

The production and security of America's money and property are essential to the Treasury Department's mission. We recognize the concerns of the numismatic community, but they are not unique.

While the United States Mint appreciates the efforts of Congressman Lucas to lend certainty to numismatic rarities, we are particularly concerned that this bill could transfer title to rare antiquities and other "national treasures" currently owned by the public, from the Government to the person who happens to possess it—regardless of whether he knew it was public property, knew it might be illegal to own, or worse, played a role in its illegal production or distribution.

The Department of the Treasury can either support a small fraction of the numismatic community—a community, I might add, that is a vital stakeholder to the United States Mint—or protect the Government's broader national interest in protecting public property as trustee of the citizenry. The Administration respectfully supports the latter position.

In conclusion, we are proud of the work of the men and women of the United States Mint who strive to be good stewards of the taxpayer's money and to fulfill our mission of producing coins and protecting the Nation's assets. The question posed by today's hearing is, "Can we still afford money?" We at the United States Mint are determined to prove that the answer is "yes" to that question.

I thank you and welcome the opportunity for questions.

[The prepared statement of Mr. Lebryk can be found on page 86 of the appendix.]

Chairwoman PRYCE. Well, thank you for being with us today. And I am sorry if some of us were just a bit distracted while we looked at that beautiful coin that you sent up here. It is very, very lovely.

Larry Felix will be next. Mr. Felix. Welcome.

STATEMENT OF LARRY R. FELIX, DIRECTOR, BUREAU OF ENGRAVING AND PRINTING, U.S. DEPARTMENT OF THE TREASURY

Mr. FELIX. Thank you, Chairwoman Pryce, Congresswoman Maloney, and members of the subcommittee. Thank you for holding this hearing and inviting me to testify. I appreciate the opportunity to report on the initiatives of the Bureau of Engraving and Printing.

The BEP is the security printer of the United States. While our primary product is Federal Reserve notes, we also produce other security documents on behalf of Federal agencies. The BEP uses state-of-the-art equipment in combination with exceptional technical competence of the workforce, to efficiently produce billions of Federal Reserve notes each year.

The goal of staying ahead of technological threats to our currency rather than simply responding to existing threats requires the Government to plan ahead and regularly develop new designs for currency. This means that the new currency must be in development several years before the counterfeiting threat is projected to materialize.

In the mid-1990's, the Bureau introduced the first redesign of U.S. currency in 65 years. The design changes were needed to combat the emergence of a new breed of counterfeiters who were beginning to employ computers and scanners, color copiers, and other emerging technologies to replicate notes. All of the notes, all of the denominations, with the exception of the \$1 and \$2, were redesigned. This design of currency was effective in combating counterfeiting that existed then by making it more difficult to produce a high quality counterfeit note.

Nevertheless, due to the increased availability of sophisticated digital equipment, the Advanced Counterfeit Deterrence Committee concluded that further actions were needed to stay ahead of emerging counterfeit threats. Consequently, U.S. currency was further enhanced with the introduction of the current design series, commonly referred to as the 2004 series, which features background colors and improved security features.

The redesigned \$20, \$50, and \$10 notes were introduced into circulation. Recently, the Treasury Department, the BEP, and the Federal Reserve announced that the \$5 note is expected in 2008, with the new \$100 note to follow. The Government has no plans to redesign the \$1 and \$2 notes.

The redesigned 2004 notes contain an array of counterfeit deterrent security features, some of which are visible and easily recognizable to the American public, and some of which are machine-readable only. The signature feature of this redesigned note is, in fact, an anti-digital counterfeiting system that was developed under the auspices of the Central Bank Counterfeit Deterrence

Group in cooperation with major digital printer and software manufacturers.

The United States' effort on this initiative is led by the Federal Reserve. The anti-digital system, which is being used in a number of countries, relies on a hidden marker embedded in the note design that can be read or detected by new technology digital printers and software.

This new systemic design feature heralds a vibrant and growing partnership between the public and private sector to protect the Nation's currency, and is intended to thwart increasing counterfeiting of currency using digital reprographic technology. This is a significant investment in the future of currency and will greatly assist in preventing counterfeiting as the anti-digital technology becomes much more dominant in the marketplace.

In addition to the security features mentioned above, plans for the redesigned \$100 note include the addition of new overt features intended to deter increasingly sophisticated counterfeiting activities directed at the \$100 note.

In cooperation with the Federal Reserve, the BEP administers a public education program to support the introduction of new currency designs. The goal of this program is to build an adequate threshold of awareness to ensure seamless transitions as the new currency designs are introduced into the public.

The BEP is progressing with its solicitation to acquire public education services over the next 5-year period. Most of the duties associated with that contract will entail providing educational support for the introduction of the \$5 note in the spring of 2008, and the redesigned \$100 note in Fiscal Year 2009.

Public education outreach to support the \$100 effort is especially vital given that the value of \$100 notes comprise roughly 72 percent of the estimated \$762 billion of outstanding United States currency, of which, by the way, an estimated two-thirds of which are held outside our borders.

There are a number of initiatives that the BEP is in the process of implementing to continue to enhance efficiency and effectiveness of the organization, such as the introduction of the new 50-subject printing production process, and enhancing our employee development to be able to achieve those production capabilities.

While my tenure at the BEP is only a few months old, I am eager to push the BEP to securely produce products of the highest quality in the most cost-effective manner possible.

This concludes my opening remarks, Madam Chairwoman, and I would be happy to respond to any questions you or the subcommittee members may wish to ask.

Thank you.

[The prepared statement of Mr. Felix can be found on page 72 of the appendix.]

Chairwoman PRYCE. Thank you very much, Mr. Felix.

Mr. Johnson.

STATEMENT OF SCOTT JOHNSON, DEPUTY SPECIAL AGENT IN CHARGE, CRIMINAL INVESTIGATIVE DIVISION, U.S. SECRET SERVICE

Mr. JOHNSON. Good afternoon, Chairwoman Price. I would like to thank you as well as the distinguished Ranking Member, Mrs. Maloney, and the other members of the subcommittee for providing an opportunity to discuss currency issues and the trends in counterfeiting, as well as the introduction of new Federal Reserve notes.

The United States Secret Service was established in 1965 to protect our financial infrastructure through the investigation of counterfeiting U.S. currency. Our mission to protect our payment systems and financial infrastructure continues as we mark 141 years of service to this country.

Though our agency was transferred to the Department of Homeland Security in 2003, we continue to maintain our historic ties in a robust partnership with the Department of the Treasury in the safeguarding of our currency and other payment systems.

The Secret Service strongly believes that the economic security is a central element of homeland security. Therefore, the safeguarding of our financial infrastructure and monetary framework continues to be a paramount objective of our worldwide investigative efforts.

We continue to see the expanded international use of the U.S. dollar as the world's currency of choice. Of the approximately \$762 billion of U.S. currency in circulation, as much as two-thirds of that amount circulates outside of our borders, making the U.S. dollar a truly global currency. In addition to the dollarized economies, those nations that have adopted the U.S. dollar as their own currency, businesses and individual interests worldwide depend upon the integrity and the stability of the U.S. dollar.

Recent trends in the counterfeiting of U.S. currency indicate a growing globalization in production and distribution of counterfeit notes. Because not all nations report U.S. counterfeit currency activity, it is difficult to provide precise figures detailing how much counterfeit U.S. currency is passed on a global scale each year.

However, being the U.S. depository for the counterfeit currency, the Secret Service received approximately \$56 million in counterfeit that was passed successfully to the U.S. public in Fiscal Year 2005. Approximately \$52.6 million in counterfeit U.S. currency was seized last year by the United States Secret Service and other authorities worldwide. Of this amount, approximately \$14.7 million was seized in the United States. The remaining notes were seized overseas, with over \$14.4 million seized in Colombia alone.

It is also interesting to see the different methods utilized by counterfeiters both within the United States and outside of our borders. Currently, more than 44 percent of all counterfeit currency passed domestically was printed outside of the United States using traditional offset printing techniques, predominately offset printing. Virtually every note that was produced overseas and passed in the United States was produced by offset printing. In contrast, 46 percent of the counterfeit currency passed domestically last year was produced within the United States by individuals using digital technology such as computers, scanners, printers, and multi-function devices.

Today, Colombia is the second largest source of counterfeit U.S. currency in the world, accounting for approximately 14 percent, or \$8 million of the \$56 million in counterfeit dollars passed in the United States. A trend has emerged that indicates counterfeiting activity may increase in Latin America as Colombian organized crime and others take advantage of counterfeiting opportunities associated with the widespread use of the U.S. dollar in Latin America.

Counterfeit printing plant suppressions and seizures in Colombia show that a number of Colombian counterfeiters are producing lower denomination counterfeit U.S. currency for distribution in fully dollarized countries.

As a result of our collaborative efforts with the Colombian national police, there has been a 56 percent reduction in Colombian-produced counterfeit currency passed in the United States since 2001. The collaboration with the Colombian Government has been a success story, and the Secret Service is eager to work with Congress to obtain the authority to continue these efforts in Colombia and other troubled regions.

As new technologies continue to emerge, the challenges facing law enforcement are significant as large quantities of counterfeit currency and other obligations can be reproduced quickly and efficiently.

Domestically, the Secret Service is attacking counterfeit production and circulation from several fronts. First, with our partners in the Department of the Treasury and the Federal Reserve, we are continuing with the redesign of our currency. We have an active role in the research, design, and introduction of our new currency, and the Secret Service is continually evaluating the methods currently employed by counterfeiters and studying the cutting edge anti-counterfeiting technology to enhance future redesigns of U.S. currency.

The Secret Service is also continuing our public education and training efforts both domestically and abroad. Secret Service personnel conduct training seminars on topics such as financial crimes and computer forensics in an effort to assist our domestic and foreign counterparts in their local law enforcement communities and augment the Secret Service mission.

Chairwoman Pryce, this concludes my prepared remarks. I would be pleased to answer any questions that you or the members of the subcommittee may have.

[The prepared statement of Mr. Johnson can be found on page 80 of the appendix.]

Chairwoman PRYCE. Thank you very much, Mr. Johnson.

Ms. Roseman?

STATEMENT OF LOUISE L. ROSEMAN, DIRECTOR, DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Ms. ROSEMAN. Thank you. Madam Chairwoman, and members of the subcommittee, thank you for inviting me to discuss Federal Reserve activities related to currency and coin. My written testimony provides an update on the new currency designs and currency counterfeiting generally, in addition to some specific coin issues. In

the time I have before you today, I would like to focus my comments on our planning for the Presidential dollar coin program.

The Presidential Dollar Coin Act of 2005 establishes a program under which the U.S. Mint will issue four new Presidential dollar coin designs and a Sacagawea coin each year starting in 2007. In February, Federal Reserve and Mint staff began meeting regularly to establish plans for effectively distributing the new coins. And last month, as Dave mentioned, we hosted the first dollar coin users group forum. We will continue to consult with a wide range of coin users to gather ideas, advice, and information to gauge demand and anticipate circulation obstacles.

It is unclear at this point whether the Presidential dollar coin program will have a substantial effect on the use of dollar coins in everyday transactions. The last redesign of the dollar coin did not lead to a sustained increase in demand. Net payments of dollar coins into circulation did rise sharply in 2000, but once the public satisfied its initial interest in collecting Sacagaweas, demand has returned to historic levels.

The Sacagawea has not been successful in substantially increasing ongoing demand because it appears that some of the largest obstacles to dollar coin circulation don't relate to the design. Vending machine operators, transit authorities, and other organizations that accept payment at automated equipment have indicated that dollar coins are less costly than dollar notes for them.

Other sectors of the retail industry, however, have indicated that their costs for using dollar coins would be much higher than those associated with dollar bills. In addition, dollar coins do not have widespread consumer acceptance. Consumers seem to prefer to carry dollar bills rather than weigh down their pockets with dollar coins.

A 2002 GAO study concluded that the continuing circulation of the dollar bill is the biggest barrier to the widespread use of the dollar coin. So should the Government eliminate the dollar bill so the public has no choice but to use the dollar coin? We believe, at this stage, that market forces, rather than Government action, should determine the relative use of the dollar bill and dollar coin in our economy, particularly given that there is no compelling evidence that societal costs will decrease as a result of a shift to a greater use of dollar coins.

The Reserve Banks and the Mint currently hold large inventories of dollar coins, enough to meet current demand for the next three-and-a-half years. If this new program does not spark broad use of dollar coins for everyday transactions, we expect Federal Reserve inventories will further increase with the issuance of each new Presidential dollar coin design.

The Presidential Dollar Coin Act requires the Treasury to mint and issue Sacagawea coins each year in quantities equal to no less than one-third of the total Presidential dollar coins issued. Given our already ample inventories, which may increase further under this program, the Reserve Banks may not need to order more Sacagaweas from the Mint for a number of years.

If the Presidential dollar coin program does not substantially increase demand for dollar coins in everyday transactions, the requirement that the Mint must nonetheless produce Sacagaweas

would result in a cost to the taxpayers without any offsetting benefits. In those circumstances, we would strongly recommend that Congress reassess this one-third requirement.

We are working with the Mint on how best to address the demand for the Presidential dollar coin for ordinary commerce as well as from casual collectors, while effectively managing Reserve Bank inventories. For example, we are exploring options for providing dollar coins to depository institutions in increments that are smaller than our current standard of 2,000, and are planning to conduct a pilot program in conjunction with the Mint to assess the benefits of packaging dollar coins in smaller rolls.

In addition, for about the first month after each new Presidential dollar coin design is issued, the Reserve Banks will suspend their normal practice of first paying previously circulated coins to depository institutions and instead will pay out only the new design.

In conclusion, the Federal Reserve will continue to work with the Mint to successfully implement the Presidential dollar coin program. More broadly, we will continue our focus on meeting the public's demand for currency and coin in an effective and efficient manner.

I appreciate the opportunity to discuss these issues with you, and would be happy to answer your questions.

[The prepared statement of Ms. Roseman can be found on page 100 of the appendix.]

Chairwoman PRYCE. Thank you very much, Ms. Roseman.
And Dr. Glass.

STATEMENT OF BRENT D. GLASS, DIRECTOR, NATIONAL MUSEUM OF AMERICAN HISTORY, SMITHSONIAN INSTITUTION

Mr. GLASS. Thank you. Good afternoon, and thank you, Chairwoman Pryce, Ranking Member Maloney, and other members of the subcommittee, for inviting me to testify before you here today.

As you know, the legislation offered by Congressman Frank Lucas, H.R. 5077, the Numismatic Rarities Certainty Act of 2006, would require that the proceeds from a Government coin auction be deposited in an endowment fund for the National Numismatic Collection at the Smithsonian. The purpose of my testimony today is to tell you about this collection, and how these proceeds would be used if we were to receive them.

The National Numismatic Collection is one of the largest numismatic collections in the world, and is the largest in North America. Located in the National Museum of American History, the collection includes approximately 1.6 million objects, more than 450,000 coins, medals, and decorations, and 1.1 million pieces of paper in the collection highlight the numismatic history of the world.

Also, the collection contains many great rarities, from the earliest coins created 2,700 years ago up to the latest innovations in electronic monetary exchange, as well as fascinating objects such as beads, wampum, and other commodities once used as money.

The collection's emphasis is the development of money and medals in the United States. The core of the United States collection came to the Smithsonian during the 1920's from the United States Mint, and includes many exceptional rarities. Later transfer to the

museum from the U.S. Mint included two examples of the world's most valuable coin, the 1933 Double Eagle.

It is also important to note at this time that the museum is going through a major transformation. We are about to undergo a renovation. Beginning in September, the museum will close for approximately 2 years. That will allow us to make some important architectural changes and to replace critical infrastructure in the museum, as well as develop a new gallery for the Star Spangled Banner, the flag that inspired our National Anthem.

In August 2004, initial preparations for this renovation required us to close the History of Money and Medals exhibition, which had been home to a small portion of the coin and currency collection for over 40 years. However, this closing of the gallery, the coin and currency gallery, actually created more opportunities for us to display and to use the collection in new ways that we think are more meaningful and engaging to our visitors.

For example, several of the coins that had formerly been in the Hall of Money and Medals, as well as some that had not been on view for years, are now in a new exhibition called *Legendary Coins and Currency*, which is on display through March 2007 in the Smithsonian Castle. This exhibit contains 56 objects, including coins, bills, medals, and captivating oddities, while a companion Web site allows the museum to reach audiences far beyond those who come to Washington, D.C. With the help of private funding from the numismatic community, we are initiating a new traveling exhibition program beginning this August, when a selection of objects under the title *Frontier Gold* will be on view at the American Numismatic Association's convention in Denver. Other displays will travel in 2007 to numismatic conferences in Orlando, St. Louis, and Baltimore, so that more Americans, especially young audiences, can learn about these coins and currency and their history.

To facilitate the traveling exhibitions, as well as other plans for the numismatic collection, we would like to establish a National Numismatic Collection Endowment to provide a dedicated funding source for the preservation, continued security, and display of these national treasures. The size of this endowment is proposed at \$10 million. Importantly, any funds directed to the Smithsonian as a result of the legislation offered by Mr. Lucas would be made part of this endowment, and hopefully would help us reach and even surpass this fundraising goal.

Funding from an endowment would allow us to hire additional curatorial and administrative staff to oversee the collection, present rotating exhibitions at the museum, and to collaborate with others, such as the U.S. Mint and the American Numismatic Association, to develop additional exhibitions that could travel.

The funds in the endowment would allow us to pursue opportunities to secure new objects for the collection. In addition, we would hope to increase outreach to individuals in communities outside of Washington, D.C., by enhancing our existing Web site with virtual exhibitions and a searchable database. Educational outreach and public programs, including school curricula, symposiums, guest speakers, and visiting scholars, would be possible with an endowment.

We at the Smithsonian know that American history cannot be told without understanding the history of America's coins and currency. In order to understand the American dream and American identity, one has to know about American money and economics. That is why it is very important to us to protect and share the National Numismatic Collection with the American public, a task that would be greatly supported by the funds generated by this legislation.

Thank you, and I will be happy to answer questions.

[The prepared statement of Mr. Glass can be found on page 78 of the appendix.]

Chairwoman PRYCE. Thank you very much to our whole panel for their excellent testimony this morning.

Let me begin the questioning with Mr. Johnson. We are all impressed with the anti-counterfeiting efforts of the Secret Service, and this committee in the past has given the Secret Service extra tools with which to do that job. And we are wondering, is there anything else we can do to give you additional tools to be helpful? Is there any new technology on the horizon? Are there new developments that we should be aware of, or make ourselves become aware of, as time goes on to be helpful to you?

Mr. JOHNSON. Chairwoman Pryce, we are working with the Administration at this point in time to enhance our counterfeiting laws. If you could support those, and the committee could support those, the Secret Service would really appreciate that.

Chairwoman PRYCE. All right. Thank you.

Ms. Roseman, I was interested to hear your testimony about the Sacagawea coin and the mandate that a third of the new Presidential coins be Sacagawea.

And when should that reevaluation happen?

Ms. ROSEMAN. Well, we have been concerned for some time that this may require the Mint to produce coins for which there is no public demand. So it may be useful to start the evaluation now.

But I think fairly early next year, we may start getting more information with respect to the demand after we have gone through a cycle of at least one or two coins to better gauge both what depository institution ordering practices are going to be—whether they are going to group their orders for dollar coins that they may need during just the 1-month introductory periods we have for each design, and maybe our orders will go down significantly during the other 2 months before the next design goes out.

So I think we may have some fairly early indications in the first half of next year of what the situation is going to be like.

Chairwoman PRYCE. And what happens traditionally if there is a glut, if there is no adjustment made? Is there a history that tells us how to handle this?

Ms. ROSEMAN. I will defer to Dave on this. I am not aware of previous legislation that required the Mint to mint circulating coins in particular quantities. So I don't know if there has been a precedent for this or not.

Chairwoman PRYCE. Well, there being no precedent, what would you imagine would happen?

Ms. ROSEMAN. My best guess is that the Presidential dollar coins will largely meet the public's demand for dollar coins during the

course of the program. We already have substantial numbers of Sacagawea coins that are already minted. And I suspect that there probably isn't additional demand, at least in the next several years, to warrant minting additional Sacagawea, at least in any material quantity.

Chairwoman PRYCE. But if the law is not changed, you would be required to do that, and they would just sit there? Or what would happen?

Ms. ROSEMAN. I think that is what would happen. The Mint would mint them and they would just sit there because there wouldn't be a demand to have them issued.

Chairwoman PRYCE. All right. That is very interesting. Well, if you have data that would be useful to this committee, please provide it any time that it is available.

Ms. ROSEMAN. We will do so.

Chairwoman PRYCE. Mrs. Maloney?

Mrs. MALONEY. Thank you, Chairwoman Pryce.

Mr. Lebryk, I would like to ask you about a letter that the Mint, or you, sent to Chairman Oxley earlier this year. And you estimated the Mint would lose about \$12 million on the nickel and \$20 million on the penny.

And my question is, do you have the ability to calculate how much the Mint would lose if we were to eliminate the penny and make more nickels?

Mr. LEBRYK. We can do that calculation and get back to you on what it would do. There would be—as you mentioned in your opening statement, there would be a demand dynamic that would occur, that you would move from pennies to nickels as the lowest denomination, and that in turn would—you know, if you are losing money on the production of that coin, it would then have an impact along the way.

You know, with respect to the penny and the nickel, what I would say is that metal prices have been rising significantly over the course of the last 3 or 4 years. And in some ways, we have not had this debate or this discussion any earlier because the United States Mint has become so much more efficient in its production; we have been able to offset those metal price increases through increased efficiencies.

What we have seen recently, though, particularly in the case of the nickel, is that nickel prices are just spiking significantly, and that is why you are now seeing the nickel as costing more to produce than face value as well.

Mrs. MALONEY. So could you go back and get back to the committee an analysis on whether or not the Mint would make money as a result of eliminating the penny, but with the price of nickel going up, in fact it might cost you more money because then you would have to mint more nickels? Could you look at that and get back to us?

Mr. LEBRYK. We sure can. I think in your—in the letter that I sent on May 1st, it was \$20 million as it related to the penny because of penny production levels. Seven or 8 billion pennies are made a year. By contrast, there are only a billion or so nickels produced every year. So the loss that we incur on the nickel is only \$12 million relative to the penny losses.

Mrs. MALONEY. But if you minted more nickels, you might, in effect, lose more money. Correct?

Mr. LEBRYK. Correct.

Mrs. MALONEY. So could you give us a little look at that? Because we are all concerned about the Treasury and the deficit, the growing deficit, that we have in the country.

I would like to ask you a little bit about the new dollar coin. And I am very excited about it. I am a former teacher, and I see it as a way that we can involve young people in learning more about their Presidents, their First Ladies, the history of this country—not just well-known Presidents, but lesser-known Presidents, as well.

And I would like to know if you have any ideas of coming forward with educational materials. I can tell you that in my district, some of our teachers came forward with very creative teaching tools with the quarter program, learning about the States and the important parts about the States. It was tremendously successful on all levels. And I would like to know if you have any ideas of partnering with educational tools or ways that we can develop an interest educationally with our young people.

I would also like to ask you about how you are going to market the new dollar coin. Obviously, with support for it and packaging and distributing it to various places, you would increase the use of it. I want to specifically mention the success that you had with the quarter coin in partnering with large retail establishments, such as Costco and Wal-Mart and dime stores, so that they had them, and it helped generate the use for it.

So I am interested in what you are going to do to promote the dollar coin. There was one study that I read from the Department of Defense, and that was on the dollar coin. And they said—it was a GAO study that they did on the use of the dollar coin earlier in the 2000 introduction. And they literally criticized the Mint for having it in 2,000-coin bags, and they said that this was just—the volume was too large for their commissaries, and they would prefer to have a—they would have used it more in the commissary if it was fewer dollars in the bag.

So I just would like to hear your comments on how you hope to work to bring this new dollar coin, which I am very excited about, into the public in a way that is successful.

Mr. LEBRYK. Well, I think that the drafters and the sponsors of this bill did a wonderful job of addressing many of the fundamental underlying issues. As you look through some of the barriers that we face introducing a coin, the circulating design, your mentioning about the educational value, our ability to promote and to educate the American public and school children about our great leaders in our Nation's history.

Unlike the golden dollar, that provision, I think, is going to sustain interest in the program beyond an introductory period because you are going to have the opportunity to learn more about succeeding Presidents as we go through the list.

The second piece I would mention is the anti-tarnishing provision in the bill, making sure that the coin retains its luster over a longer period of time. We have had success with that, and we are expected that as we are moving forward introducing the bill, that that will be fully in place and will be successful.

Another is the packaging requirement found within the bill, which says, during the introductory period we need to have special packaging—that people should be able to get the coins in unmixed rolls, or unmixed quantities, during an introductory period, as the legislation says.

As Louise was mentioning earlier, we are now in the process of assessing what is that right size? We had a dollar coin users forum recently, on June 8th, in which a lot of opinions were expressed about what is the right size. We need to do a little bit more research and figure out exactly what is the optimal way to deliver those coins.

We will do that at the United States Mint and wrap them in a more limited quantity than in the 2,000 range that you have identified.

Mrs. MALONEY. Madam Chairwoman, may I respond briefly to his comment?

On the size of the dollar coin, the first Sacagawea, it was too close to the quarter. Everybody did not like it because when they put it in their pocket, they mixed it up with their quarters. And so I think you really have to pay close attention to the size.

I thank you for your work. I think you do an incredible job. And we are very proud of the work that you do for our country. Thank you.

Chairwoman PRYCE. Thank you.

Mr. Lucas.

Mr. LUCAS. Thank you, Madam Chairwoman. And a few of the things we have discussed, I suspect perhaps with the next panel of sage old numismatists, we gain some insights. But it is worth probably noting from a historical perspective, we had a half-cent until 1857. We shrank the penny one time—sorry, the one-cent piece—in 1857. We did away with a smaller five-cent piece that was a half-dime. We have made changes before, so whatever is appropriate.

Ms. Roseman, at the present level, on the Sacagawea, what is the monthly draw-down rate? How many are leaving the Federal Reserve banks, on average?

Ms. ROSEMAN. Our net payments of dollar coins are about \$5 million a month.

Mr. LUCAS. \$5 million a month. And off the top of your head, what is the draw-out or the payments on the one-cent pieces?

Ms. ROSEMAN. I think—

Mr. LUCAS. Dollars or pieces, either one.

Ms. ROSEMAN. I think that last year we may have had net payments of about eight billion pennies.

Mr. LUCAS. Okay. So on the dollar coins, if they are minted at a rate that they are used approximately by the public, then there is about a demand for, say, 60 million a year, taking that 5 million and multiplying it by 12?

Ms. ROSEMAN. Yes, the current demand has been 60 million a year, which is about what it was in the late 1990's before the Sacagawea coin came out, when we were using the Susan B. Anthonys.

Mr. LUCAS. Okay. Director LeBryk, for a moment to touch on your testimony on 5077, and I say this respectfully, but I appre-

ciate the comments about the Mint's opposition to the bill and issues about Government property that has been loaned or things that are stolen. I would say, in all fairness, my lawyers disagree with your lawyers. And in the legislative process of drafting and crafting, we can work those kind of things out.

Did I understand you to say, in fact or in effect, that the Mint reserves the right to be able to seize anything at any time that may have come from the Mint pre-1932, post-1932, if they define it as not having properly left?

Mr. LEBRYK. I would characterize that as "recover" because in that instance, if it has not been legally issued by the United States Mint, it remains United States Mint/Government property.

Mr. LUCAS. So the Mint reserves the right to recover anything that they define as not having properly left? Anything?

Mr. LEBRYK. I would mention that the enforcement arm of this is not the United States Mint or the Treasury Department, but is the Secret Service and the Department of Justice.

Mr. LUCAS. But I would assume that the Secret Service, being the law enforcement arm, responds to requests from the Mint. And it would be subject to—fascinating. Anything. Fascinating.

Let's touch for a moment on the inventory issue. You run a very modern and efficient industrial facility generating—creating many billions of dollars in coins. In the bill, there is a section which in your testimony, in essence, it appears to refer to as a duplicative process that talks about the inventory issues.

Tell me about what kind of an inventory system the Mint maintains now. You are an industrial plant. You have valuable metals. You have dies. You have all sorts of artwork. You have got a variety of things, as well as finished product. Tell me about the inventory system that you currently use as part of your management program.

Mr. LEBRYK. As a modern manufacturing facility, our objective is just-in-time inventory, that is, that we want to retain as little inventory as we possibly can on our books. So we work closely with the Federal Reserve to make sure that as coin demand orders come in, we fill them quickly and responsibly, and do not retain much inventory at all of existing product.

Mr. LUCAS. Well, in the popular media I have read accounts about inquiries from different individuals and media outlets about things. And I think they use the Freedom of Information Act, the FOIA stuff.

Tell me about how the Mint responds to FOIA requests. Say someone writes you a letter and asks, "Mr. Director, do you have any coins from pre-2005 still in your vaults or in your holdings?" That would come as a FOIA request.

Mr. LEBRYK. Yes.

Mr. LUCAS. Is it the policy of the Mint to respond to those things and give that kind of information out?

Mr. LEBRYK. That is correct. There is a body of regulation and procedure which we follow when a FOIA request comes in to be responsive to those requests. And there are exemptions, and there are situations in which we can decide whether we withhold information based on a certain standard, or whether we can provide that information.

Mr. LUCAS. So from a perspective of an inventory like this, not only just the coins that commonly go into circulation, not only the coins that wind up, thanks to legislative action by Congress, for a particular purpose issued for a limited period of time that wind up in your inventory, but you also have, I would assume, dies and artwork from the past that were used to create present and past pieces. You have a variety of test strikes, those kind of things.

Is there a master list of that kind of information?

Mr. LEBRYK. We keep an inventory of what—of our existing property consistent with generally accepted accounting principles, and that is property that is in the control of the United States Government. We take that responsibility very seriously.

At the same time, we keep a working inventory of dies and the like. In fact, with respect to the 24-karat program, one of the reasons why it was so important to have those historical documents in hand is that as the legislation asked us to produce the 1913 James Earl Frazier type 1 variety of the Buffalo coin, we were able to go back to the original galvanos, digitally scan those into our system, and it saved us a lot of time and effort from having to recover that information from an alternative means.

So when we have property—when we have possession of equipment, we take an assessment about whether that property is still of value to us or may be of value to us at some time in the future.

Mr. LUCAS. So if I write you a specific letter, as is customary in these hearings for a period after which with additional questions, and I were to address the question something to the effect of, please provide me with a list of all non-current dies that you may hold in your inventory, would it be possible for you to respond to me with an accounting like that?

Mr. LEBRYK. In the same way that we account for our property—if you asked me how many machines we had, how many Schuler presses we had, how many dies that we had and the like, we have the obligation to protect that property.

Mr. LUCAS. Of course.

Mr. LEBRYK. How easy it would be for us to come up with a quick inventory for you, I just don't know.

Mr. LUCAS. Fascinating. Because after—Madam Chairwoman, could I indulge you for an additional period of time?

Chairwoman PRYCE. Let's indulge for 2 more minutes. Do we have consent to do that?

Mr. LUCAS. Or after my colleague has—our colleague has had an opportunity to ask his questions, come back again?

Chairwoman PRYCE. Certainly. That is fine with me.

Let's go to Mr. Neugebauer, who has been very patient. Then we will go to Mr. Sherman, who is just getting his breath.

Mr. NEUGEBAUER. Thank you, Madam Chairwoman.

First, to Mr. Felix, I have had an opportunity to go over to the engraving operation that you have here. And I guess it is probably one of the few Government agencies that makes money faster than they can spend it.

[Laughter]

Mr. NEUGEBAUER. I want to go to Mr. Lebryk. I want to make sure I am clear about this. Now, I am a customer, and I buy the gold eagles. I like the gold eagles. And I may buy—I am certainly

interested in the Buffalo coin. I want to make sure, when I buy that coin from the Mint, are you telling me that, in fact, that still belongs to the people of the United States of America?

Mr. LEBRYK. No. We—by the way, I am a customer as well, so when I purchase a coin, I also purchase it directly from the Mint. When we lawfully issue a coin and sell it, and you purchase it with legal tender, it is now your coin.

The issue, I think, that is being discussed here is if we have never lawfully issued a coin, at which point it should remain in the possession of the United States Government and the American people?

Mr. NEUGEBAUER. How do you not lawfully issue a coin?

Mr. LEBRYK. Through theft. In the case of the 1933 Double Eagle, there was a theft that occurred. President Franklin Delano Roosevelt said it was illegal to hold those coins at that time. And subsequent courts determined that it was Government property and remained Government property.

Mr. NEUGEBAUER. By the way, I do want to complement the Mint because they are very user-friendly, and I have found it to be a pleasure to do business with you.

So when I have been with a good friend from Oklahoma and talk about his bill of arbitrarily setting—1933, I believe, is the date—does that mean coins that were in circulation? Like I used to collect pennies, for example. And so if I had a penny collection, are we saying that from 1933 on, the American people share ownership of that coin set with me? Is that what we are saying?

Mr. LEBRYK. If we lawfully issued any of those coins, then they are the possession of the person who holds them. The issue here is whether something is unlawfully being held, as is the case if someone stole your automobile. You would expect to be able to recover that automobile free of legal action.

Mr. NEUGEBAUER. Okay. So for all the people out there listening, if you have been collecting coins and you are going to collect some of the Presidential coins, they are going to be your coins and we don't have to worry about the Federal Government—

Mr. LEBRYK. That is correct.

Mr. NEUGEBAUER. I am glad we—

Mr. LUCAS. Would the gentleman yield for one moment?

Mr. NEUGEBAUER. Yes.

Mr. LUCAS. But if you paid several million dollars for a 1913 Liberty Head nickel, you might think about it.

Mr. NEUGEBAUER. Well, I am a collector, but not that kind of collector.

[Laughter]

Mr. NEUGEBAUER. I wouldn't mind someone showing me the money, so to speak.

But I want to go to Ms. Roseman. This penny/nickel issue, with the debit cards and ATM's and credit cards and—you know, I go—well, sometimes I write one check a month, and I carry money around that is getting old because I am using credit cards just for about everything, or debit cards. Is that reducing the demand for coinage that the Federal Reserve needs? Or if you were to start graphing that, can you shed some light on that?

Ms. ROSEMAN. You know, it is interesting. You are right. There has been a very high growth in the number of electronic payments in this country, particularly over the last 10 years.

Back in the mid-1990's, Americans wrote about 50 billion checks a year. Now it is roughly 30 billion a year. It is still a large number, but declining due to the increasing use of electronic payments.

We suspect that this trend is also making some inroads, and may continue to make some inroads, in the domestic use of cash. The card companies are now focusing on signing up merchants that primarily accept cash, such as fast food chains.

I don't think people will stop using coins and cash altogether by any means, but there may be some either lessened growth rate or maybe a slight decline in the usage as these instruments continue to expand into different kinds of retailers who don't have them today, and consumers get more and more comfortable making transactions by card or other electronic means rather than by cash.

Mr. NEUGEBAUER. Mr. Lebryk, just one short question. As I remember, there was a penny that was not copper. It was in the 1940's or 1950's or something?

Mr. LEBRYK. Yes.

Mr. NEUGEBAUER. Yes. And have we explored, you know, alternatives of making—I mean, you know, a lot of people don't even know a nickel maybe is made out of nickel or—I mean, obviously I think a lot of people know that a penny is copper. But, I mean, I know in other countries that I have been in, they are using—

Mr. SHERMAN. If the gentleman will yield, I believe a penny is not made out of copper. It is chiefly zinc.

Mr. NEUGEBAUER. Maybe so. So you see there what I am saying?

Mr. SHERMAN. Ninety-seven and a half percent zinc and—

Mr. NEUGEBAUER. I rest my case. I made my own case, and thanks to the gentleman for helping me. But, I mean, have we explored different other metals to—

Mr. LEBRYK. We have. And about two-and-a-half years ago, we undertook an extensive review of alternative metals that we might use, and we have a variety of criteria on which we assessed the different metals that might be alternatives.

I would mention that we at the United States Mint are a supplier, a manufacturer of coins. There are a lot of considerations that are beyond our control that would have to—that the Congress would need to take into account to determine whether they wanted us to change the composition of those coins.

The Constitution, Article I, Section 8, grants the power to make money or coin money to the—and determine the standards and weights to Congress. And so if we were going to change the composition of our coins or change the denominations or do something with our coins, it would be an act of Congress which we would require to do that.

So with that said, we have done our research on this issue. We have tried to figure out what is viable. But we have not taken into account the broader range of issues, that is, how they will be—how they will work through commerce, the impact on the American public, and the like.

As a result, I think, in its wisdom, the U.S. House of Representatives has asked the GAO to look at these sets of issues and report

back, I believe, by March 7th of next year, of looking at the research that we have done and looking at the broader range of issues.

My view is that this is the appropriate next step—to look at this very analytically and thoroughly to determine what is the best thing for the American people so that the Congress has the best available information to it as it makes that decision, if it makes that decision.

Chairwoman PRYCE. The gentleman's time is expired.

And Mr. Sherman, thank you for your patience.

Mr. SHERMAN. Thank you. I misspent my youth dedicated to the proposition that collecting stamps was the superior approach.

[Laughter]

Mr. SHERMAN. And I am confident that no matter what we in Congress do, that whether you are minting dollar coins or pennies, that there will be plenty of interesting things for numismatists—I hope I have that right—to collect.

The big controversies that I was aware of is whether we should abolish the penny and whether we should abolish the paper dollar so as to popularize the dollar coin. And I want to get to those in a second. But I was intrigued by David's comment that perhaps, even with the existing coinage that we have, we might want to use other metals.

Could we save much money by shifting to another metal for any of the coins that we are issuing now?

Mr. LEBRYK. Well, as we have seen, it depends on which denomination I think you are talking about. You know, we have seen just a huge spike in the price of our underlying metals, whether it be zinc, copper, or nickel that is the major components that go into our coins.

I would mention that other nations have faced this same set of issues and are facing this same set of issues. Most countries right now, their lowest denominations are being produced for more than face value because of the rising worldwide metal prices.

Other countries, when they face this issue, have really addressed it in one of three ways. They have either accepted the fact that they are going to have a coin that costs more than face value because they believe the benefits—or perhaps the public believes that is appropriate. The second option would be to change the alloy and try to find a less expensive metal to use to coin. And the third is to eliminate the denomination.

Mr. SHERMAN. Yes. Getting back to the cheaper alloy, because I want to talk mostly about eliminating denominations, but what metals would be cheaper for which of the coins we issue now that would still be a coin that would have a good lifetime to it and perhaps the same weight that we are used to?

Mr. LEBRYK. One of the things I would mention about zinc, zinc is the—as you rightfully mention, it is 97-1/2 percent zinc and 2-1/2 percent copper. Zinc is one of the lowest cost metals available. Other countries have—

Mr. SHERMAN. Could we make our nickels or quarters or dollar coins out of zinc? And how much money would we save if we did? Putting aside the public acceptance issues.

Mr. LEBRYK. Yes. That is technologically feasible to do that.

Mr. SHERMAN. How much—would we save a million or would we save a hundred million a year in your operations?

Mr. LEBRYK. Congresswoman Maloney had an interesting question about substitution effect. And the amount of money that would be saved is something that we can look at more closely, but it would be in the tens of millions range, annually.

Mr. SHERMAN. Okay. Now, one of the chief arguments against abolishing the penny is then how do you buy something for a particular price, if it sells for 49 cents? Before I came to Congress, I headed the largest sales tax agency in the country, and so I am well aware that every time you buy something, the amount you owe the merchandise has to be rounded.

In other words, if you buy something in a State with a 5 percent sales tax for 49 cents, you don't owe the merchant 49 cents. You owe them 49 cents plus 2.4 cents tax. They round to the nearest penny, and the consumer benefits because the 2.4 cents of tax is rounded down to 2 cents. If, on the other hand, you buy two of those items, then you owe 4.9 cents in tax. And you round up, and you end up paying a nickel in tax.

I don't know of a single merchant, or even a single consumer, that has ever sought to buy items in such a way so that the tax is rounded down or up to the nearest penny. And even if you were going to round things to the nearest nickel, I can't imagine a merchant saying, well, we will sell apples for so many cents, and people will tend to buy so many. And then they will owe us so much sales tax, and it will come to 2.8 percent sales tax, and they will have to give us a nickel.

So it would—I think we need to somehow explain to the American people that all transactions are rounded. When I was a kid, we rounded to the nearest penny. And that penny that they rounded to when I was a kid is worth more than today's nickel.

The other thing is whether to have a dollar—whether to abolish a paper dollar and popularize the dollar coin. I will point out, when I was a kid, we had a very, very popular dollar coin. We called it a quarter. It was worth more than a dollar now. On a good day, you could buy a gallon of gas, not for a piece of paper money, but for something that was commonly in your pocket.

So since the right time in the good old days is always our own youth, I think that I should have a coin capable of carrying more value than today's quarter, perhaps as much as today's dollar.

I know we hear often from the transportation agencies, and the vending machine operators, that they would like people to carry that dollar coin. What improvements are being made in the ability for vending machines to read dollars, not be ripped off by counterfeiters? Do vending machines still need the dollar coin to work effectively, or has technology overridden that demand for a dollar coin to be popular?

Mr. LEBRYK. Would you like me to try to address that?

Mr. SHERMAN. Yes.

Mr. LEBRYK. I, by the way, make the same point to Larry all the time about the utility of the dollar coin, having more utility all the time than the dollar bill. As you can imagine, he does appreciate me telling him that.

I would just mention that it is the policy of the Treasury that we will have both a dollar coin and a dollar bill in circulation. So at least at this point, it is not a consideration that we would eliminate one or the other unless Congress asks.

Mr. SHERMAN. But if you don't eliminate the dollar bill, the dollar coin is just an oddity. The Post Office in this building gave me dollar coins as change, and I have no idea how or when I am going to spend them. But I know I am going to have to explain to the person who takes them what they are.

Mr. LEBRYK. I believe that once the dollar coin implementation occurs, that you will have a much better chance of using those coins more widely. And that really is the issue right now, is that there is really a chicken-and-egg problem right now, which is that the coins are not available because there is not a demand, and that there is not a demand because they are not available.

And I think that as we move forward with the implementation and our objective is to make them more readily available—

Mr. SHERMAN. Are they distinguishable sufficiently from a quarter? And I assume you have thought of putting a hole in them so that they would be distinguished from a quarter. Is there resistance to using them because—I know you have the serrated versus the non-serrated edges. And they are a goldish, copperish color rather than a quarter. They still—I could still confuse them for a quarter. Is that a problem that you are running into, and have you fully dismissed the idea of putting a hole in the coin?

Mr. LEBRYK. We will faithfully execute the legislation as it is written right now, which is it does require that we continue to use the same material and the same characteristics as the existing golden dollar for the new Presidential dollar.

I do want to get back to your question, though, about vending machines. And yes—

Mr. SHERMAN. Wait. Going back to this question, do you face difficulty in popular acceptance because people feel that the dollar coin is too much like a quarter, too easy to confuse?

Mr. LEBRYK. We have not seen that as a barrier with the golden dollar. It was more of a barrier with the Susan B. Anthony because of the color. And with the anti-tarnishing provision that is in this bill, we believe that there will continue to remain a luster to the coin that will readily distinguish it from the quarter.

But getting back to your question on the vending machine, yes. The vending machine industry is very interested in us introducing this bill because they would in fact—and the transit authorities because it is less expensive, as Louise mentioned, for them to use coins in transactions.

I would mention, though, something that is on the horizon that came out on the dollar coin users forum is that most of the transition authorities right now, most of the areas that have historically been the purview of coins, are increasingly becoming more receptive to electronic transactions—they are becoming the preferred way for those authorities to operate.

So even today, on the way here, on the street corner in Washington, D.C., there is a new Connector bus that is available to people to move them from Capitol Hill to Georgetown. On the street corner, you can buy a token for the bus with a credit or debit card

right now. You can pay parking tickets with credit or debit cards in many places. You can go to laundromats and use credit cards and debit cards. There are fewer pay phones now, and even toll booths now accept electronic means of payment. In the dollar coin user forum, it was interesting to hear the transit authorities say that they are charging a premium for cash transactions over credit card transactions.

Mr. LUCAS. [presiding] The gentleman's time has expired.

The Chair now turns to the gentlelady from New York.

Mrs. KELLY. Thank you, Mr. Chairman.

Mr. Lebryk, in 2002, the \$20 Double Eagle auctioned off by Sotheby's was described by the Mint as the only—the Mint described it as the only 1933 Double Eagle that would ever be authorized for private ownership.

I wonder if you could explain to the committee how ten 1933 Double Eagles recently that were recovered by the Secret Service—and they were stolen, apparently, from the Government—why allowing them to be sold would encourage theft from the U.S. taxpayer.

Mr. LEBRYK. When we reached a settlement regarding the Double Eagle you mentioned, the one that was auctioned, we very specifically in the agreement stated that the settlement shall not be deemed to have any precedential significance or effect, legal or otherwise, on any other coin in the United States, including any other 1933 Double Eagle that may exist. We were not aware of any additional Double Eagles that existed at that time.

As a matter of policy, we stated at the same time that we would not—we did not intend to monetize, issue, or auction any additional coins that would be—that might be recovered. My view is that when the United States Government makes a statement, it is important for us to uphold our word. And so as we looked at recovering the 10 Double Eagles that came to our attention last year, we should remain true to our word.

And I think that these coins are the property of the American people. And as a result, the appropriate disposition of those coins is with the American people.

Mrs. KELLY. By that you mean in your Treasury?

Mr. LEBRYK. We believe that there are opportunities to display these coins and make them available to the American public so they, too, can—

Mrs. KELLY. When you say, “making them available,” are you talking about sale?

Mr. LEBRYK. No. We do not intend to sell, auction, or monetize the coins.

Mrs. KELLY. So your statement that it was—the 1933 coin that Sotheby's sold was the only one that would ever be authorized for private ownership—

Mr. LEBRYK. Correct.

Mrs. KELLY.—you still hold by that?

Mr. LEBRYK. Correct.

Mrs. KELLY. Okay. Just checking.

I wanted to ask you, we talked—I talked and you talked about the Buffalo gold coin. And I wonder what you see for the long-term

potential for the U.S. Mint at West Point. It is a wonderful Mint, and it has just such dedicated workers.

Mr. LEBRYK. They are among the finest public servants in Government. And that is one of my favorite visits. I know it is one of your favorite visits, too, to visit that facility to see the strength and the dedication of the workers within that facility.

The 24-karat bullion program is a wonderful thing for the United States Mint. It is wonderful for the United States Mint, but I think that it is probably more important to say it is a good thing for the American public. We produce bullion coins for those people who choose to hold gold or precious metals.

We don't make a recommendation whether they should or they shouldn't. But if they choose to hold it, we want to make sure that we produce a beautiful product that has the guarantee of the United States Government behind it.

It is a tribute, once again, to the men and women of the United States Mint at West Point that they were able to execute that program in less than 6 months. That is something we have never done in the recent history of the United States Mint. And that is a wonderful reflection on the dedication and quality of the people at the United States Mint at West Point.

I should also mention there were others who were involved in that, but they were the ones who really had to bring the product to market.

Mrs. KELLY. Thank you. Thanks for your kind words on that.

I want to ask Agent Johnson, I have been concerned about the problem of North Korea counterfeiting U.S. currency. I don't think it has gotten anywhere near the amount of attention, and as we are able—as we dry up legitimate sources of money transfer, these counterfeit areas where we—like in North Korea, become extremely much more important.

I want to know what progress you have made in the counterfeiting agenda with regard to the Financial Action Task Force. And are you getting where you need to get with regard to North Korea's counterfeiting?

Mr. JOHNSON. Ms. Kelly, we found our first Supernote in 1989, and hundreds of personnel from the Secret Service have worked this investigation for 16 years. We have determined that the Supernote is being produced in North Korea.

We do have a—our agency was founded in 1865. We have an outstanding relationship with the Department of the Treasury. We have special agents assigned over there who work with Treasury. And we have worked with the task force in the past.

Mrs. KELLY. Are you getting where you need to go with regard to North Korea?

Mr. JOHNSON. We are getting to where we need to go with North Korea. It is a quality versus quantity issue. There is \$762 billion of U.S. currency in circulation, and less than 1/10th of 1 percent is counterfeit. In the history of the Supernote, we have only seen a little less than \$50 million.

Mrs. KELLY. Okay. Secretary Levey had testified to this committee about the Banco Delta Asia and its role as a launderer of these Supernotes. It is a Chinese-controlled bank in Macau. And when—additionally, they have apparently found North Korean

ships carrying Supernotes. They have made a lot of repeated calls to the Chinese naval ports.

Given that, would you say it is fair to say that Communist China has actually been an accomplice with North Korea on these Supernotes?

Mr. JOHNSON. I would not like to answer that. But I will tell you this, that if any Supernotes appear worldwide, we have field offices all over the world. We will investigate it.

Mrs. KELLY. That is very comforting to know. Thank you.

I yield back.

Mr. LUCAS. [presiding] The Chair thanks the gentlelady from New York, and would note that our chairwoman, who is also chairwoman of the majority conference, has been called away, and she has asked me to sit in for her, which means that we are going to have another round. For some reason, I thought there would be a great deal of humor seen in that response.

[Laughter]

Mr. LUCAS. Ms. Roseman, to touch for a moment on another denomination we have not discussed, do you know off the top of your head what the draw-down rate or purchase rate or transfer rate is on half-dollars out of the Reserve system to the Banks?

Ms. ROSEMAN. More half-dollars are deposited into the Federal Reserve than we pay out. In 2005, our net receipts were 17 million half-dollars.

Mr. LUCAS. So then perhaps, when we talk about the one cent pieces and the dollar coins, we need to talk about the viability of the 50-cent piece also. My observation, not yours.

Mr. Lebryk, back for a moment to the Congresswoman from New York's comments. So did I understand you to say that, in effect, contrary to the expectations of an auction house, in fact the Mint did not obligate itself to not—or did not give up the ability at some point in the future to transact other 33's if they would become publicly known?

Mr. LEBRYK. I will be very clear and say it was not our intent to sell or auction or issue off any other 1933 Double Eagles if they were recovered.

Mr. LUCAS. There again, another example of your lawyers and somebody's lawyers having a different perspective. Okay. All right.

Along those lines, can you tell me what kind of standard has been developed—and I touch back for a moment about the Mint reserving the right to recover any coin, apparently, since 1973 that the Mint felt that was improperly issued. Have there been standards formulated for this kind of an issue? Is this a fly-by-the-seat-of-your-britches sort of a deal? And I hope you say no.

Mr. LEBRYK. No, it is not. In fact, there have been Supreme Court decisions on this that are very important about the Government's ability to dispose of Government property. There is a famous case where a Civil War ship was sunk that was a Confederate ship.

The Secretary of the Navy determined that he was going to relinquish possession of that ship. The 4th Circuit Court of Appeals determined that the Secretary of the Navy did not have the authority, that once it was Government property, it was always Government property, and reversed that decision.

And so unless there is specific authority, Government property will always remain the property of the United States Government.

Mr. LUCAS. Specific authority meaning an Act of Congress?

Mr. LEBRYK. Correct.

Mr. LUCAS. So the same body that created your institution can direct and guide it?

Mr. LEBRYK. Correct.

Mr. LUCAS. Thank you. That is very insightful. Very insightful.

I guess at this moment, I would turn to my colleagues. Would the gentleman from Texas have any additional questions?

Mr. NEUGEBAUER. No. Just that I was disappointed that we were just looking at the sample and not getting samples.

[Laughter]

Mr. LUCAS. Speaking of looking at it, before we release the panel, Mr. Glass, could you touch for just a moment—with 900,000 pieces, as you said two-and-a-half-thousand-plus years, a couple things come to mind from people out there. And a tremendous amount of information has come across my trail since filing this bill from every perspective, every group, every interest, and every seemingly potential numismatic item that has come along in the last 200 years.

One of the questions put to me about the bill is the nature of the pieces in your collection. Has the Smithsonian ever, as apparently was the custom when the Mint had the collection prior to 1920, ever traded pieces, sold pieces, that sort of thing, out of the National Collection?

Mr. GLASS. I don't believe we have ever sold pieces from the National Collection. I think we lend items to other museums, with the proper security, and to other associations, with the proper security. And we would continue to do that.

We had an exhibit at the International Monetary Fund Center of our collection, and we would continue to lend out pieces. In Houston, the Museum of Natural History had a wonderful exhibition on gold, and we had one of the Double Eagles on display there, one of the two that we have.

So we would lend out—we do lend out our collection under the proper circumstances and security and conditions. But we have not sold any.

Mr. LUCAS. Mr. Lebryk, just a couple of questions, and then I will be done, and I appreciate the patience of the entire panel.

Those 10 Double Eagles are, according to popular press accounts, locked up at Fort Knox?

Mr. LEBRYK. That is correct. That is part of the inventory that we have of valuable items.

Mr. LUCAS. And I wait for a more extended inventory soon.

Also in the popular press, occasionally it is discussed the 99 fine gold Sacagaweas. Where are they kept, if there is such a thing, the dollar coins?

Mr. LEBRYK. We do have some rare Sacagaweas. I don't know about 99 fine, but we did have some Sacagaweas that were aboard a spacecraft, a Space Shuttle. They also are at Fort Knox right now.

Mr. LUCAS. Okay. How many of those were there?

Mr. LEBRYK. Someone who was at the Mint before me? I have been at the Mint since 2003, so I don't know the exact number. But I can certainly get that for you.

Mr. LUCAS. Are those kind of things classified as trial strikes, or how do we—where in the authority do we do that sort of stuff?

Mr. LEBRYK. I am not sure. Again, that predates me, and I don't know the origin of those coins. I believe there are a dozen, but I can check on that for you.

Mr. LUCAS. Now, I know from my reading in the popular media, and a number of what I consider to be fairly scholarly journals, it appears that a variety of these interesting pieces in the last 2 centuries have involved people who either had access to the Mint or access to the people who were within the Mint. And I have complete and total confidence in your staff and all the things that have gone on.

I suppose, probably, that might reflect some of the efforts in the past, like melting the previous 33's or other coins down through the years that have been dispatched to the here ever after. But from an outsider's perspective, it appears that none of these or many of these interesting things would not have occurred had there been clandestine effort on somebody's behalf.

I would hope—and I will conclude my observation question with that—I would hope that in the effort of the institution, that it would acknowledge that this is just the things that have happened in the past, and that good, bad, or indifferent on how these items were created, we have an obligation to preserve our heritage.

Mr. LEBRYK. I would agree, and—

Mr. LUCAS. That is a part of it.

Mr. LEBRYK. I would agree. I would tell you that I think that many in the numismatic community would tell you that we have perhaps gotten too good at reducing error coins and allowing coins to be removed from the United States Mint. We have undertaken a serious effort in the 1990's, so you see very few. And the numismatic community sometimes jokingly says we have become too good at it.

But I would also agree with you. Our coins represent our Nation's history. They reflect important people, places, and events. And it is important that we preserve that heritage because they say a lot about our culture. As Brent will tell you, there are coins that go back thousands of years that are of great interest to people. And they say a lot about those societies, as our coins today say a lot about our society.

Mr. LUCAS. Mr. Director, take very good care of those unusual pieces. I suspect, whether it is through the appropriations amendment process or a free-standing bill or an amendment on another bill, if consensus can be achieved here, we may help provide you with some guidance and refinement from a statute perspective.

And with that, the committee wishes to thank the panel for their important observations. And Mr. Felix, you are a very lucky man today. I ask the next panel to come forward.

And while the second panel is coming forward, the Chair would like to note that we are scheduled some time very soon, perhaps in the next few minutes, perhaps in the next 10 minutes—the nature of Congress—to have a series of votes. And when we break for

that, we will return probably 35 minutes later and complete the second panel's testimony. But for now, I would like to call the second panel forward and give them the opportunity to offer their oral testimony. And while you are stepping up, ladies and gentlemen, we have Q. David Bowers, who is the numismatic director of American Numismatic Rarities, LLC, and the numismatic director of the Whitman Publishing Company, LLC, a leading publisher of reference books on rare coins.

We also have Christopher Cipoletti, who is executive director of the American Numismatic Association. The ANA is the world's largest collector organization.

Beth Deisher, editor of *Coin World*, the largest and most widely circulated news weekly serving collectors of coins, medals, and paper money.

And rounding out our witness list today, Fred Weinberg, who serves as the vice chairman of the Industry Council for Tangible Assets. He is past president of the Professional Numismatics Guild, and a life member of the American Numismatic Association.

The Chair wishes to thank this esteemed and knowledgeable panel for coming forward, and I hope that you have survived observing the last round of discussions, and will be able to provide us with your insights.

And with that, Mr. Bowers, whenever you are ready.

**STATEMENT OF Q. DAVID BOWERS, NUMISMATIC DIRECTOR,
AMERICAN NUMISMATIC RARITIES, LLC**

Mr. BOWERS. Thank you, Representative Lucas. I admire you for your numismatic expertise and your insights. I am going to depart from my prepared remarks for two reasons. First of all, you all have them and you can read them—well, three reasons. Second, the Mint staff largely left. And the third reason is time. I would like to give others time to speak. If you are going to vote, you are going to run out of time.

Several observations. One great observation here is a lack of knowledge and communications between the collector community and the Government. And I am going to point out some examples that were brought out in testimony today.

We had the Mint Director saying never before in history—the acting Mint director—has a coin been brought to market within 6 months. I would like to point out that the Act of February 21, 1857, caused the small cent to be coined, and on March 25, 1857, the first ones reached circulation in quantity. I think that is about two-and-a-half or 3 months. Many, many other instances could be mentioned.

We have—as far as who owns what in the Confederate States of America, in 1919, the United States Government took the legal position, correctly, perhaps, that it was heir to the property of the Confederate States of America, all the assets. It seized from collectors Confederate paper money, saying, “We are the legal heir.” That didn't get too far. But someone had to hire a lawyer and get their paper money back. We have what I call a great lack of definition of what is legal and what is not.

There has been no recent court case, by the way, despite some testimony today, saying that the 1933 Double Eagle is illegal. No

court action whatsoever that I am aware of, and I am a student of it. There have been some agreements and compromises, but I am not aware of any court action unless I missed something. Okay?

We have the Mint Act of 1965, which is legislation that says, without equivocation, that any coin struck by the United States Mint prior to 1965 for any reason, patterns or anything else, is legal tender and legal to hold. That is completely ignored in all arguments.

And the upshot of this is, I believe, that what is really needed is a liaison between the—or among the fine Congress, and I have studied Congress legislation back to day one, the numismatic community, and the Mint and Treasury officials.

The Mint and Treasury officials, for this testimony, have about seven or eight errors. Another thing is the statement made by the Mint that never before this current legislation has anyone ever required that unnecessary coins be made. Well, we have the Bland-Allison Act of February 28, 1878, which mandated that hundreds of millions of unnecessary silver dollars be made.

And these things are sort of like numismatics 101. It is not rocket science, and I am not Albert Einstein. But I think that our distinguished chair, Representative Pryce, and Mrs. Maloney, whose daughters are collectors, would benefit very greatly by, before having a presentation such as this, running some testimony by the numismatic community and saying, “Hey, what do you think of this? Is this right?” Because all of these factual errors have come out in Government testimony, not because of intent, but because of lack of knowledge.

Second point, guarding my time here and respecting others, we have the Bureau of the Mint turning in \$7- or \$800 million worth of profits to the Treasury Department in a nice flow in the taxpayer’s direction. We have Dr. Brent Glass, struggling to try to raise \$10 million over a period of years to help out the Smithsonian exhibit at the same time the Mint desires, as was said today, to get its Presidential dollars circulating, maybe to get rid of some of those Sacagaweas, State quarters.

The Mint has advertising budgets. They spend money on advertising. But they do not look at their own doorstep, within a short walk away, the Smithsonian. The Smithsonian is advertising the history and appeal of money. Maybe 1/10th of 1 percent of the numismatic profits could go to the National Coin Collection. Dr. Glass said that they would send exhibits on the road, and they would have seminars. This is something that is probably less than the cost of a television campaign, but much more productive.

And the last statement I want to make is in regards to Mint records and access.

We have a situation, and brought up by Representative Lucas, and I am—as a researcher, I am very aware of this. If the Mint Director happens to be friendly, Donna Pope, for example, and I am a qualified researcher with some academic—or some experiential success, I would say, I would like to do some research in the archives.

She would say, “Be my guest. Go to Philadelphia. Take a camera person with you, wherever you want to,” knowing that what I was doing or what Coin World is doing is not antagonizing the Mint.

We are not snooping on its personnel. We are trying to educate people about coins.

The last Administration, that of Mrs. Holsman Fore, if I wanted to look at something, the answer is, "Well, we are too busy. No, you can't do it. You are going to be able to do it some time." And I have done absolutely no research at the Mint for about 5 years because I am not allowed in.

And there is something wrong with this. There should be a person at the Mint, a civil service position, who is a liaison with the numismatic community and also could be a liaison with the distinguished Members of Congress, just transmitting education rather than preventing it.

I think we are working at cross-purposes. We have Representative Lucas saying we should do one thing, saying that his lawyers are different than yours. I think a lot of this is unnecessary. I think we are all working in the same direction to promote coin collecting, to promote the legacy of the United States, and to increase numismatics.

And I can't think of anything that the people at this side of the table want to do today that is in opposition to what Congress wants, or what the American people want, or even, for that matter, what the Mint wants. I think it is strictly a matter of communication.

So I appreciate the opportunity to be here and would stay on for questioning afterwards, and I actually commend Representative Lucas for inviting numismatists here to what is obviously mainly a yearly financial hearing. I think this is a very nice opportunity. Thank you.

[The prepared statement of Mr. Bowers can be found on page 48 of the appendix.]

Mr. LUCAS. Thank you, Mr. Bowers.

Ms. Deisher.

STATEMENT OF BETH DEISHER, EDITOR, COIN WORLD MAGAZINE

Ms. DEISHER. Representative Lucas, and other members of the subcommittee, I would like to thank you for inviting me to testify today.

I have chosen to focus my prepared testimony on H.R. 5077. Virtually everyone in the coin collecting community welcomes the certainty that H.R. 5077 would bestow upon certain coins, medals, and numismatic items made by, or in, the facilities of the United States Government prior to January 1, 1933. It would clarify the right to own and trade these historic U.S. numismatic items, many with origins that cannot be proven or documented today.

I would like to offer three points regarding this section of the proposed legislation.

Number one, there needs to be a legal definition of "issued." We have found this term to be used and applied in very different ways.

Number two, there needs to be a timeframe or a statute of limitations on items which have entered the collector marketplace, are known to Government officials, but for which no action has been taken by the Government to recover them. It should allow the Gov-

ernment to prosecute those proven to be involved in illegal acts, but it should not punish the numismatic item itself.

And number three, this legislation should address burden of proof. The burden of proof that a coin or medal or numismatic item has been stolen or illegally removed from a Government facility should rest on the shoulders of the Government prior to the item being seized, or as we heard in testimony today, recovered.

All sections of this proposed legislation are important. But I would like to draw particular attention to Section C, which would require an inventory of all coins, medals, or other numismatic items in the possession of the United States Government regardless of when such items were made or struck. An inventory and public accounting of the Government's holdings is critically important for the U.S. Mint's customers, the sector of the public who purchase numismatic collectibles, so that they may have full faith in the products that the Mint manufactures, and certainty regarding the quantities available to the marketplace. This is because the number of available coins to collect is one of the primary determinants of value.

The Mint currently, in its annual report, lists only the number of coins shipped to the Federal Reserve Bank, and the number of coins sold, in the case of numismatic and bullion coins. The Mint should be required to report in a permanent form the number of coins it strikes by date and Mint facility, whether for circulation, commemorative, bullion, or other numismatic products. It should be required to report annually the number of coins melted, defaced, or otherwise destroyed, and the numbers of these items being held in inventory.

An inventory of U.S. Mint holdings is essential. Without it, uncertainty and speculation will continue to eat away at the integrity of the U.S. Mint's products, particularly the numismatic offerings. Rather than an inventory mandated every 5 years beginning January 1, 2007, as proposed, an annual product inventory concurrent with the end of the Mint's fiscal year on September 30th would seem more logical and efficient.

During the last decade, the U.S. Mint has spent hundreds of millions of dollars to computerize its operations and accounting abilities. Surely that system should be capable of identifying products in inventory on a date certain, and mint officials should be able to report that information in a timely manner and in a permanent document such as the annual Mint report.

The inventory envisioned in H.R. 5077 also includes a listing of historic artifacts and experimental items. This kind of material, in all likelihood, is not part of the Mint's production and numismatic marketing computer systems. Identification in inventory of such items may take more than 1 year. Two-year inventory intervals would seem logical for this kind of material, beginning September 30, 2008.

It is imperative that numismatic artifacts being held at various U.S. Mint facilities be identified and inventoried, and that such information be disseminated in a timely and permanent format. In my written testimony, I have cited examples of experimental pieces, plasters, galvanos, ledgers, and other artifacts within the

confines of the U.S. Mint facilities that, without a formal inventory, are in danger of being lost to history.

Also, the U.S. Mint has struck commemorative silver coins since 1982, commemorative gold coins since 1984, and precious metals bullion coins since 1986. Yet there exists no independent public verification of the content of these coins. Congress should immediately reinstitute the US Assay Commission, with authorization to randomly test the weight and fineness of coins produced by the U.S. Mint in order to ensure that they conform to their respective legal standards. Each of these areas I have cited cry out for certainty and accountability. H.R. 5077 provides a vehicle that brings these issues to you for discussion and action. We trust that you will act wisely, decisively, and promptly.

I thank you for the opportunity to testify, and I would be happy to answer any questions.

[The prepared statement of Ms. Deisher can be found on page 56 of the appendix.]

Mr. LUCAS. Thank you for your insights.

Mr. Cipoletti?

**STATEMENT OF CHRISTOPHER CIPOLETTI, EXECUTIVE
DIRECTOR, AMERICAN NUMISMATIC ASSOCIATION**

Mr. CIPOLETTI. Thank you, Mr. Chairman. I am Chris Cipoletti, executive director of the American Numismatic Association. The American Numismatic Association is a federally chartered non-profit corporation founded in 1981 and chartered by Congress in 1912. Our mission is to encourage and educate people to study and collect money and related items by promoting, preserving, and protecting the interests of those who desire to discover and explore the world of money. The American Numismatic Association appreciates the opportunity to present testimony here today.

Money, in its many forms, reflects culture, art, science, and history. In the United States, our money is a source of documenting historic events, it reflects our values and our culture, and it presents artistic renderings of who we are and what is important to us as a Nation. Numismatists from around the world have a strong interest in American money. The production of money, with designs reflecting our history and culture, is as important to the numismatic community today as it always has been.

In the last several years, the diminishing exposure to numismatics, particularly through circulating coins and paper money, has changed, with renewed excitement in the money produced by the United States. Much of the resurgence in numismatics at the basic level can be attributed to the introduction of the 50 State Quarters Program by the United States Mint, which has created an interest in collecting that has not been seen for decades.

The changing face of money through designs and colorization of paper money produced by the Bureau of Engraving and Printing has furthered the interest created by the 50 State Quarters Program as people of all ages are now looking at and looking for the new look of money and numismatic materials being produced under the auspices of the Department of Treasury. With the new efforts from the United States Mint and Bureau of Engraving and Print-

ing, an educational introduction to culture, art, and history is being presented in every transaction involving United States currency.

Money is an educational tool that allows us to learn about the struggles in which the country has been engaged. It teaches us about significant events that have influenced the development of a nation. And it allows us to hold and own a tangible asset that has value beyond the denomination of the coin or the note. For money to be the educational tool that it has the potential to be, it must be accessible for viewing, research, and study.

The American Numismatic Association is supportive of H.R. 5077, introduced by Representative Lucas to address numismatic issues. Others have, and will, comment on the specific language of the legislation. And while the American Numismatic Association is not specifically commenting on the language of the proposed legislation today, the Association supports the intent of the legislation in creating certainty for the collecting community about numismatic materials.

Currently, there are rare numismatic items that are privately owned by individuals who spent hundreds of thousands or millions of dollars to legitimately purchase the materials. Yet ownership is potentially called into question because the numismatic material was not formally released by the Department of the Treasury.

H.R. 5077 addresses this issue for pre-1933 issued numismatic material, assuring numismatists that they have legitimate ownership, and that their ownership cannot be challenged, particularly when new Administrations in the Treasury take office and may have an agenda to address items which the Treasury believes were not rightfully released from the Treasury.

The American Numismatic Association also supports the efforts of H.R. 5077 to provide funding for the National Numismatic Collection maintained by the Smithsonian Institution. This numismatic treasure is an educational resource that cannot be replaced or surpassed. Since the National Numismatic Collection was dismantled in the summer of 2004, the country and visitors from around the world have been deprived of the educational treasure this collection offers.

The National Numismatic Collection can, and should, be used to teach people of all ages. From the history of money to its current day uses, money serves as an irreplaceable educational asset. Money can be used in practically any educational discipline, but to be effectively used, people must have access to the tangible objects. This requires that an historical collection be maintained and available for display and collection. The efforts of H.R. 5077 to accomplish this for the National Numismatic Collection must be applauded.

Money is not, and will not, become obsolete. Rather, it will change form over time as society and culture changes. Making sure that the culture, art, and history of money is collected, preserved, and maintained for future generations is an important and necessary action.

The American Numismatic Association applauds the Department of the Treasury's foresight in changing and allowing changed designs on our money to pique interest in numismatics, to create a network of people who are interested in preserving our culture and

our heritage through money. The American Numismatic Association also encourages the continued development of new and changing designs on American money. This will continue to keep people interested and involved in money as an educational tool and a collectible item of significant value.

I appreciate the opportunity to provide testimony here today, and will be happy to answer any questions.

[The prepared statement of Mr. Cipoletti can be found on page 52 of the appendix.]

Mr. LUCAS. Mr. Weinberg?

STATEMENT OF FRED WEINBERG, VICE CHAIRMAN, INDUSTRY COUNCIL FOR TANGIBLE ASSETS

Mr. WEINBERG. Congressman Lucas, and members of the subcommittee, my name is Fred Weinberg, and I currently serve as the vice chairman of the Industry Council for Tangible Assets, or ICTA, which is the national trade association for rare coin, precious metals, and collectible currency dealers. Within the United States alone, it is estimated that retail sales of rare coins total about \$10 billion annually, as of the end of 2005.

I am also a past president of the Profession Numismatists Guild, and I have been a member of the American Numismatic Association for more than 38 years. I have been a full-time numismatist for 35 years, and a collector for over 40 years. And I specialize in mint error coins, currency, and the minting process.

I appreciate you inviting the Industry Council for Tangible Assets to testify before you today. In mid-April of this year, Representative Lucas requested that ICTA gather input from the numismatic community for his bill, H.R. 5077, which he introduced in April of 2006.

Consequently, I and a number of other leaders of the numismatic community, met with ICTA staff to collect our ideas on the bill as introduced and to decide what, if any, amendments or changes we would recommend to Congressman Lucas. This group then met with Mr. Lucas and his staff via conference the following month, and subsequently provided him with some suggestions designed to fulfill his purpose in introducing H.R. 5077.

H.R. 5077 will establish a clear definition regarding the legal private ownership of certain coins, medals, and other numismatic items produced by the U.S. Mint. Such clarity will accomplish several goals that we feel will benefit both the U.S. Treasury and the numismatic community, which include the fact that the numismatic community and relevant Government agencies will have certainty as to which products may be legally owned and traded.

H.R. 5077 will also provide for the preservation of historically important numismatic items, and create specific policy for the disposal of trial pieces, patterns, and other items so that they will not be lost for posterity at the discretion of changing administrations of the U.S. Mint or Treasury.

It will also provide funding for the National Numismatic Collection at the Smithsonian Institution. This is especially important since the National Numismatic Collection at the Smithsonian was closed last year. H.R. 5077 will provide for the preservation of our coinage, which is part of our Nation's cultural heritage.

Numismatic industry experts agree that the provision in the bill that would officially declare all coins, medals, and owner numismatic items produced before December 31, 1932, as legal to own and trade is acceptable, and very desirable, from our point of view.

From our experience, the items of most concern to the U.S. Treasury have been a very small number of test or trial pieces, such as the solid gold 24-karat Sacagawea dollars and the 1933 Double Eagle gold coins mentioned earlier. We understand many of the Treasury's and the Mint's concerns, and we wish to help resolve any of the issues that might impede passage of H.R. 5077.

Over time, proving whether an item left the Mint legally or illegally becomes very difficult. We would suggest that if an item in question comes to the attention, possession, or recovery of the Mint after a time frame of 50 or 75 years, it is legal to transact unless there is clear documentation that the item's return to the Mint was a requirement at the time of issue or within a reasonable time of its original distribution.

For future issues, clear documentation could be something as simple as including in any cover letter or memo that accompanies the product, including some wording indicating that the Mint requires the item or items to be returned to the Mint if they are shown to a committee such as this.

Should the Government seize numismatic items, it is our position that the Government should be required to show that these numismatic items were removed illegally from the U.S. Mint's facility.

There are certain specific areas of concern to the numismatic community that the current language of H.R. 5077 does not address. For your examination, I have brought with me some samples of the following products and items which are currently not specifically addressed in this legislation, and which we are concerned about. They include error coins, patterns, numismatic items such as cancelled dies, punched planchet strips, and items that may be legally provided by the Mint to legislators such as yourself or outsourcing companies that provide items to the Mint but whose legal status may be unclear if they have entered the marketplace.

We urge Congress to establish that all mint error coins, made in the normal course of production, are legal to own and trade if they left the Mint legally. The Mint can be very proud that new production technology has resulted in far fewer striking errors, and technological advances in security and minting procedures at the Mint's facilities all across the country make items less likely to be able to be removed illegally.

Indeed, my colleagues and I in the industry agree that in the last 5 years alone, due to the implementation of new minting presses and technology, the incidence of error coins alone has decreased by approximately 97 percent, and the Mint is to be commended for that. In addition, in the past, once these products have entered the marketplace, it is not always possible to determine if they entered commerce legally. We assume that die varieties should not be any problem for the Mint.

To the best of our knowledge, none of the items listed above has been particularly problematic for the U.S. Treasury or for the Mint. However, we do believe that their status should be formally addressed in H.R. 5077.

On behalf of ICTA, PNG, and the numismatic community, I wish to thank you for this opportunity to present our comments. I welcome your questions. And we encourage any member of this subcommittee or their staff to contact us for assistance and any additional information and background we may be able to provide. We look forward to continuing to work with Congressman Lucas and this subcommittee as you consider H.R. 5077. Thank you.

[The prepared statement of Mr. Weinberg can be found on page 109 of the appendix.]

Mr. LUCAS. Thank you, Mr. Weinberg.

And a couple of housekeeping notes. I would first like to ask unanimous consent that a letter in the form of some written testimony from Mr. Harvey Stack of New York City be included in the official record.

Unanimous consent. So ordered.

And we are now in a series of four votes on the Floor of the United States House. This is a very distinguished panel. You have come a long way, a number of you have. I would like to ask your indulgence to recess until the final vote, which is probably 40 minutes away, return at that point, and continue our discussion.

With that, the committee will stand in recess until 5 minutes after the final vote in this series.

[Recess]

Mr. LUCAS. [presiding] The subcommittee is reconvened. I appreciate the indulgence of the witnesses. In this body, our most important act is voting on behalf of our constituents. We just had a series of four votes, and in an hour will have another vote. Certainly I wanted to give the witnesses an opportunity to expand a little bit more under the circumstances.

And with that, could I turn to you first, Mr. Bowers. Part of the topic that we discussed today was the Nation's coinage in its present form. And from a little historic perspective, when we talk about the future of the one-cent piece, the future of the dollar coin—and we faced these challenges in the past—the end of the old half-cent in 1957. I have read accounts in publications by yourself and others about literally barrels of the old large cents being turned in for the new small cents. This is not a new experience, is it?

Mr. BOWERS. No. The coinage spectrum has changed. It has evolved continuously. There was a time when we had gold coins. We no longer have them. The silver coins. These were foundational changes far exceeding nickels and cents. And we abolished silver coins. And somehow, the American economy survived and prospered.

The numismatic community watches all this happen. If you make a two-cent piece tomorrow, we will collect it. But the historical record shows that the citizens will adapt to just about anything.

The American West prior to the 20th century in California, Nevada, and Wyoming, didn't use nickels or one-cent pieces even though they were made. Their economies started at mainly a dime, and they didn't even have small change.

But whatever is available, I think, will be used, and the public will get used to it. But there will be a resistance to change. Sort of like Y2K—the world was going to fall apart, but somehow it

didn't. And if the one-cent piece, the dearly cherished one-cent piece, which I like its history, if it were to pass, soon whatever the lowest denomination would be would take its place and it would be forgotten, maybe and fondly remembered, and probably quickly collected. I could see them going out of circulation very fast.

Mr. LUCAS. While we are visiting with you, Mr. Bowers, would you touch for a moment on the comments by the Mint Director that in effect said that the Mint reserved the right to, as they use the phrase, "recover" any and all numismatic items which in effect, it appeared, they determined did not meet their standard of having been issued or delivered or brought forth or whatever?

Mr. BOWERS. Well, the record—

Mr. LUCAS. That is a pretty profound statement, isn't it, really? The potential consequences?

Mr. BOWERS. The record shows that in the 19th century and also at times since then, the Mint people themselves kept samples, and sold coins. There are approximately 1,700 different varieties of patterns—a few more than that, 1,800—of pattern coins from 1792 onward, of which there is no official record of being distributed, less than 5 percent of them were ever documented.

There are tens of thousands of coins with no documentation whatsoever that are now avidly collected. And the Mint could take the position that, "Well, we have no record these were ever issued; we want them back." And this puts a sword over the head of everybody who has such a thing and feels that they could be held legitimately.

And as the Mint administrations change—I will give another example. Around 1960, I had a plastic one-cent piece that was made in 1942 by a private company as a proposal for a cent. The Secret Service came and seized this from me. And this was 1960, 46 years ago. And I said, "Well, I believe it is legally held." And they said, "Well, we will let you know."

They could do this by fiat because no individual collector can say, "Well, I am going to challenge the Secret Service and the Treasury Department. No one has enough money to do this. So I believe that H.R. 5077, by defining what can be held and what cannot be, removes uncertainty because there are so many undocumented things, and different ways of interpretation.

Another way of interpretation in the past has been the statutes. You could point to legislation, well, the statute clearly says that a quarter dollar has to be made in "XYZ" metal and a certain diameter. Well, obviously a mint error, if you have a quarter that is struck on a one-cent planchet, violates Federal law. Yet—so the Mint could say—a new director, for example, say, oh, this violates the coinage statute. It could not have been legally issued. It was issued by mistake. We want it back. Or it was illegally issued.

This House bill gives some assurance to American citizens who collect coins without any fraudulent intent, and just want to own things, and have some security in the value of their assets without fear of Government intervention.

Mr. LUCAS. Mr. Weinberg, along that line, again, part of this process is establishing an official record of our proceedings. And as I think the panel has observed, Congress, like the general public, is always in need of a little education. That is an important thing.

Could you give some examples of the kind of items that we are talking about here and the dollar amounts of some of these items that have traded publicly that fall within this broad range of what we heard earlier from the previous panel?

Mr. WEINBERG. Well, when you talk about mint errors, there are coins that were struck off center that are only worth \$5 apiece, but there are hundreds of thousands of them that have been released from the Mint over the last even 50 years. The Mint accepts the fact that these errors were part of the production process and got out legally. They don't question that.

But back in the 1960's, an off-metal coin, a coin like Mr. Bowers mentioned, a half-dollar struck on a penny or a nickel that was struck on a dime, could be considered, and was threatened by the Treasury Department to be, confiscated, even though there's very few, if any, actual records of seizure back in the 1960's. It was, as Mr. Bowers says, held over the head of every collector that these things weren't possibly legally issued.

Some error coins are worth a few dollars. Some error coins are worth \$50,000. There are certain gold error coins that might be worth \$150,000, but those are 100 years old. So we are looking for some type of consistency for whether it is pattern coins that were issued by the Mint but never acknowledged, or error coins, 97 percent of which were probably issued as part of the normal production process, some of which might have been taken from the Mint 50 years ago, but they become fungible. You can't tell a double-struck penny that was taken from the Mint and a double-struck penny that was not taken from the Mint.

And so the Mint should be required to show that they either know an employee was stealing these coins, and they know who they sold them to and they can recover them, or the Mint should say, these are coins that were issued in error—and again, the Mint does a great job. As my testimony says, the Mint makes—at the height, 5 years ago, the Mint made 26 or 27 billion coins. And if you take a defect rate of .000000001, that is still a decent amount of coins, but that is a better—a lower defective rate of probably any manufacturing process of almost anything in the world except maybe computer chips.

Mr. LUCAS. Fair enough. And I address this question to the entire panel. The portion of the bill that strikes toward the goal of a systematic inventory, trying to give the Mint maximum flexibility, requesting only, as the bill is now drafted, an every 5 year revision of that inventory, does it strike anyone, any of you members of the panel, as unreasonable that a public institution, using public resources, and generating public profit, would seem to have difficulty in providing what any good, from my perspective, private enterprise business would have on the books on a day-to-day basis? Mr. Bowers?

Mr. BOWERS. I can address that with personal experience. I wrote a book, the Encyclopedia of Silver Dollars—the official title was Silver Dollars and Trade Dollars of the United States: A Complete Encyclopedia—in 1993. At that time, I talked with Donna Pope, the Mint Director, and I said, the record shows that Susan B. Anthony dollars were made in large quantities in the year 1980, but yet they don't seem to turn up. Where are they?

So she said she would check around. And the Mint didn't know where they were. And she was very cooperative, but the Mint had no idea where they were. She said, you might check with the Federal Reserve system. I made some calls, and they said, well, we think we might have 250,000 of these in Denver, but we are not sure. And there was no way I could get any further information.

Right to this day, I believe the numismatic community doesn't know if all the 1980 dated Anthony dollars were distributed, if they were, how they were, or where they are stored. And I think, as the Mint accumulates things, we now know that the Mint gives information, like we have sold—this is just a hypothetical example—we have sold 38,000 of this commemorative coin. That is what they have sold. But that does not necessarily equal to what they have struck. They strike extras for possible loss. If they sold 38,000, did they make 42,000, 38,004, or what? The numismatic community would like to know that.

Also, for accounting purposes, if they sold 38,000 and they made 43,000, there are 5,000 available somewhere. What is the disposition of those? Can somebody with an inside track get them at face value? What if they have a numismatic premium?

I think the H.R. bill does address that because if these are disclosed and we find 250,000 1980 Susan Anthony dollars that are worth hundreds of thousands of dollars in the aggregate or millions of dollars, we recognize this and make a sale that would benefit the Smithsonian.

Right now, there is no accounting that I am aware of. And I try to be a fairly careful student of numismatics. It is just like a black hole when you ask for answers.

Mr. LUCAS. If I could, Mr. Bowers, at various times the topic has come up, in particular, those 1933 Double Eagles. And I know that there is potential litigation out there, and we are not concerned necessarily with that here. And I know that is not an issue of the bill.

But in the way the Mint keeps their records and the records that you have been able to examine down through the years, is it possible that old customs from days gone by where collectors were allowed to swap for certain coins at the beginning of a new run year, were allowed to purchase certain pieces—is it possible that some of these “rarities” fall in that category?

Mr. BOWERS. Well, my theory on the 1933 Double Eagle, and I would require 2 hours to expound on it—

Mr. LUCAS. Of course.

Mr. BOWERS.—but in brief, in 1933 the Secretary of the Treasury was William H. Woodin, who was a numismatist, a student of gold coins, and at the time Double Eagles weren't widely collected.

If I went to William H. Woodin in March 1933 and said, “Mr. Woodin, I would like to have one of your new 1933 Double Eagles,” I am sure, based on Mint tradition, that he would say, “Well, you go down to the cashier of the Mint and you just give him another Double Eagle and he will give you one.” Things were very casual. When the 1933 Double Eagle was investigated in 1944, there was not a single administration person from 1933 still in service that they could interview. A case in point, a little closer in time, in 1936, there was a certain commemorative half-dollar made among

over a dozen different designs. John Sinnock, the engraver, sent one of these pieces. He pickled it in acid to create a matte proof, and he sent it to the designer of this coin with a little letter like, "I thought you would like to have one of the first strikings, and I actually prepared it with a special surface, the only one made. Here it is."

Okay. Well, this coin came into my possession and is now owned by a collector overseas. But the Treasury Department could rightfully say, "Well, we have no record that the engraver was allowed to do that," and so on, and confiscate the coin. Whereas I think the circumstances I just mentioned show that it wasn't stolen from the Mint. According to practice at the time, it was given as a token of appreciation to the designer.

The proposed House rule will protect coins from what I would call capricious seizure by people who are not aware of the facts, or in other instances the facts aren't known so they assume that the coin is guilty until proven innocent, whereas the average citizen of the United States doesn't have the legal wherewithal to challenge the Treasury Department and prove something isn't guilty.

Mr. LUCAS. A question from a slightly different angle, just drawing upon your numismatic knowledge. After the great gold recall that was ongoing for—well, basically, I guess, until in essence the legal ownership of gold was restored, initially all those coins were returned to the United States Government through, I assume, the Federal Reserve system.

At what point was the decision made to melt all of those down into 90 percent bars?

Mr. BOWERS. Most of the coins were melted in 1937. So the coins were retained at the Mints in different vaults, at the Philadelphia Mint, mainly, and then in 1937 they were melted.

In 1937, there were a number of people in the Treasury Department in Philadelphia that went into these vaults, substituted other Double Eagles for them for \$20 gold pieces—dated, for example, 1932 in particular, 1931—and took them to New York City coin dealers—for example, Abe Kosoff, and I interviewed these people. We had a steady stream of Mint people coming from Philadelphia with these rare Double Eagles that they were finding in the melt quantity. They substituted coins from pocket change.

And I said—I have said this in print in my *Coin World* column and elsewhere—that these people are sort of like Robin Hood or somebody. I mean, we have to be thankful that these coins would have been reduced to bullion and lost forever. The Treasury Department didn't lose one penny because they got another Double Eagle to melt, and because of this, we have the vast majority of Double Eagles dated 1931, 1932, and also 1933.

And talking about the 1933, Mr. Israel Switt was interviewed at great length in 1944 by the Treasury Service. No charges were ever filed against him. He was not convicted of anything. And now we have it as gospel that he stole them from the Mint. Well, that is highly unlikely. What probably happened is someone from the Mint came to him and said, would you like to get these that I just rescued from oblivion? Or maybe he got them some other ways.

But in hindsight, when we don't know what happened in 1937 or 1933, all sorts of very strong facts—and the word "facts" is in

quotation marks—are saying, this is the true story of the so-and-so. And I will go beyond the Double Eagle because it is controversial.

But take all the patterns. They were not released legally. In 1909 and 1910, the Treasury Department sought to seize pattern coins from a Philadelphia dealer named John Haseltine, seized them and said, “These weren’t officially released. We want them.” And he went to court and got them back.

But what the H.R.—what the resolution is trying to do is to prevent capricious seizures, not well-studied things where someone was—some coin was stolen from the Mint by armed robbery or something. Nothing that was documented, but things that fall into the great never-never land where they exist but are not documented. And the people who own them should be protected from a force that they cannot combat, and that would be the Treasury saying they are illegal.

Mr. LUCAS. From your research, who actually gave the order for the mass melting of those coins in the vaults? Did that ever come to the top?

Mr. BOWERS. I would have to research that. But that would be—it would have been—Franklin Roosevelt was President, and it would have probably been a Treasury edict. I don’t think it would have been subject to—

Mr. LUCAS. Bless whoever in Treasury decided to wipe out that part of our heritage.

Mr. BOWERS. Right. Well, they probably said—and I don’t like to deal in supposition—that we have been storing these, and we can’t count them. And Fort Knox was a new facility. We can melt them down into bars, which are easier to count and store them in Fort Knox. And then we know easier how much gold we have rather than these cloth bags in various vaults in the Philadelphia Mint.

Probably it was not necessarily a bad decision if you remember that in 1937, these weren’t widely collected. I mean, it wasn’t a good numismatic decision, but it wasn’t a capricious decision. It was what they thought best at the time, and I have no quarrel with it.

It is just that the pieces that got out of the Mint for one reason or another and were saved numismatically but not documented, to say that they were stolen from the Mint has several interpretations.

Is a coin stolen if you are at a—if the Treasury Department tomorrow says, all Sacagawea dollars must be returned to the local bank. We are calling them in. Someone goes to their bank counter and said, well, instead of turning that one in, sir, I would like to buy it for a dollar bill, and gives the bank a dollar. Is that an illegal action? I would probably say no.

Mr. LUCAS. Good point.

Mr. Cipoletti, as executive director of the largest coin collecting association in the country, could you expand on your written and oral testimony about the nature of how the ANA views the handling of our National Collection, and where as a group they believe we should go?

Mr. CIPOLETTI. Certainly. One of the primary functions of the ANA is to provide educational resources in numismatics to not only

the membership but to the general public. And certainly the National Numismatic Collection housed at the Smithsonian Institution is one of, if not the, very best resource that exists around the world for study and research on numismatic material.

And it is imperative that material be accessible, not only to researchers who know how to get in behind the scenes but to the general public, to understand and learn about numismatics, to learn how money throughout the ages, whether it is U.S. money, whether it is ancient or foreign money, has really influenced and developed and is reflective of who we are as a people, what our culture is about, what our history is about, where we have been geographically—everything that money really speaks to.

And so we at the American Numismatic Association actually have had dialogue with the Smithsonian about what we can do to benefit and support the Smithsonian in any efforts to bring the National Numismatic Collection back out of mothballs and into the public's eye.

Mr. LUCAS. Gentlemen, any final thoughts or observations you would care to share with the committee for the record?

Mr. BOWERS. I would like to reemphasize that the numismatic community is trying to ride the same horse team as the Mint and Congress. The numismatic community is a resource that we—speaking for everybody at the table, I am sure—we want to work with the Treasury Department, work with the Mint, and help you with your programs.

We have no adversarial interest whatsoever. We are just trying—we appreciate money. As Christopher Cipoletti said, it is history. It is heritage. We appreciate the current Mint. Often, when Mint Directors retire—Jay Johnson, who was here at the testimony today—if they were an Agricultural Department official, they would be forgotten. A Mint Director can go to a coin convention 10 years later, 20 years later, and be feted and honored.

We like the Treasury Department. We like Mint officials. We like Congress. And I believe we just need to work closely together. And we invite you to tap us, free of charge, if we can help in any way.

Mr. LUCAS. Thank you, Mr. Bowers.

Mr. Cipoletti?

Mr. CIPOLETTI. Yes. I would echo what Mr. Bowers said. The American Numismatic Association certainly has developed a very good and strong working relationship with the United States Mint, and with the Bureau of Engraving and Printing, and it is our hope to continue to further that relationship.

But we certainly don't find the position that is taken by the Mint on H.R. 5077 to be well thought out or supported, especially given the interests of the collecting community and the fact that it is the numismatic community that is truly supporting the Mint in many respects and providing a substantial amount of money to the Treasury of the United States.

Mr. LUCAS. Thank you.

Mr. Weinberg?

Mr. WEINBERG. I would just like to say that the Industry Council for Tangible Assets is offering you and your committee any help, background, and suggestions to make your bill easier to pass, and

any amendments or changes. We are here to help you with any information that we can provide that would support your bill.

Mr. LUCAS. The Chair wishes to thank the panel for their input and their observations. And yes, this will be a process that we will continue to move forward.

With that, the Chair also would like to note that some members may have additional questions for the panel which they may wish to submit in writing. And without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

And with that, this hearing is adjourned.

[Whereupon, at 5:22 p.m., the subcommittee was adjourned.]

A P P E N D I X

July 19, 2006



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Q. David Bowers

About myself:

Born in 1938, I became interested in numismatics as a young teenager in 1952. In 1953, in high school, I began buying, selling, and trading coins, an activity which I have followed ever since. From 1956 to 1960 I attended the Pennsylvania State University and took a B.A. Degree in Finance. In 1976 the College of Business Administration gave me its Alumni Achievement Award.

In numismatics I have served as the president of the Professional Numismatists Guild (1981-1983), this being the world's leading organization of rare coin professionals. I am a recipient of the Founder's Award, the highest honor given by that organization.

After serving as governor and vice-president of the American Numismatic Association, the world's largest collectors' organization, I was president 1983 to 1985. I have received every significant honor given by that organization including its highest, the Farran Zerbe Award, as well as Numismatist of the Year.

I have testified before Congress at the request of the Treasury Department and the United States Mint circa 1982 when Senator Alan Cranston (California) and Occidental Petroleum Company were seeking to obtain an exclusive contract to market commemorative coins for the 1984 Olympic Games held in Los Angeles. The Mint resisted this and I was among those that testified on their behalf. Also I have testified in court at the request of the Federal Trade Commission in numismatic matters, I have assisted the Secret Service and Treasury Department in matters involving coins, and have been involved in many other activities which I consider beneficial to the numismatic hobby.

From 1964 to date I have written over 50 books, nearly all of them on numismatics. In the aggregate they have received more "Book of the Year" and other honors given by the Numismatic Literary Guild than those of any other author. At present I am an equity partner and Numismatic Director of American Numismatic Rarities LLC, Wolfeboro, New Hampshire, per this letterhead. I am also Numismatic Director of Whitman Publishing LLC, the leading publisher of reference books on rare coins, including *A Guide Book of United States Coins*.

I appreciate the opportunity given to me by Representative Frank Lucas to appear before the Committee on Financial Services.

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Comments by Q. David Bowers

Thank you for the invitation to appear before the Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology. The thrust of my remarks will focus upon the objectives of the Treasury Department and United States Mint as well as the community of numismatists and casual coin collectors, the last variously estimated by Mint directors to be over one hundred million people.

H.R. 5077, The Numismatic Rarities Certainty Act, provides protection to those owning United States Mint products whose origin is not completely documented. This field includes many thousands of coins, including patterns that have been produced over the years, most particularly in the 19th century, but without any documentation remaining. At one time it was the practice of Mint officials (beginning in spring 1859 under Director James Ross Snowden and ending under the administration of Daniel Fox in 1885) to have restrikes, rarities, and other fancy pieces made, for their private sale to dealers. Today these are widely collected. However, there is no record of them having been legally released. Similarly, in modern times there have been Mint errors, off-metal pieces, and other oddities that have found their way out of the Mint, sometimes produced in a regular manner, but not caught as errors before they were released into the Federal Reserve System. In still other instances there have been test pieces, patterns, and the like retained by engravers, Mint officials, and others, with no documentation available, and with different presumptions being made. H.R. 5077 wisely provides protection for the owners of numismatic items that are not documented, providing there is no specific incontrovertible evidence that they have been stolen. Such coins will be presumed to be legally held unless specifically documented otherwise. This will remove the uncertainty that something *might have been* illegally removed and will give assurance to the holders of such pieces.

I suggest that there be a moving date for the age of such pieces, such as "dated more than twenty-five years ago," or similar. In this way H.R. 5077 will remain useful for a long period of time. Otherwise, long from now, a date such as 1932 will seem unusual. If there are certain specifically documented coins that are now being contested and for which the inclusion of these under the umbrella of H.R. 5077 would be specifically controversial, these items could be excluded, their status to be adjudicated elsewhere.

The Mint, the Smithsonian, and 100,000,000+ Collectors

H.R. 5077 specifically mentions the National Coin Collection held at the Smithsonian Institution. In recent times this has suffered from lack of proper funding, not making it possible to maintain modern exhibits, install up to date facilities, and the like. In the same era the United States Mint has turned in a brilliant performance in producing collectible coins, ranging from Proof sets to commemorative coins to the widely popular State Quarters Program. These activities have brought hundreds of millions of dollars each year *into* the Treasury Department, in the form of seignorage (profit on the face value of the coins as opposed to the minting cost) as well as premiums charged for special striking. As such, the Mint is one of relatively few government activities in which funds flow the other way, enhancing the funds of the Treasury, rather than depleting them.

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At the same time, the Mint often conducts its activities in directions diverging from the interests of the numismatic community, or is not as responsive as it could be to the interests of collectors. Meanwhile, collectors look to the Mint as the source for new products and are heartened when Mint officials set up displays at conventions (which they often do), and welcome its various programs. Much space is given in numismatic publications, including in *Coin World* (of which Editor Beth Deisher is testifying here today), concerning new designs, history, and the like. It is seen in the broad view that the source of profits brought into the United States Mint is from collectors who save its products, ranging from State Quarters at face value to special coins and sets, as noted. It is also seen that the collecting community focuses on these, cherishes their history, and is eager to have more.

Accordingly, both the Mint and the collecting community would seem to have the same thrust. Ideally, both should work in harness, pulling in the same direction. Among the focal points the National Coin Collection at the Smithsonian Institution is a unique treasure, containing specimens that in many instances are rare and in some instances one of a kind. The curatorial staff comprises some of the most talented individuals in numismatics. The Smithsonian has what it needs—coins, tokens, medals, and paper money that are incomparable, plus appropriate staff, as noted. What it does not have is appropriate funding. Because of this the nation is faced with having these treasures hidden from public appreciation, which the community of over one hundred million coin collectors could rightly view as being the numismatic equivalent of not being allowed to examine the Declaration of Independence or the Star Spangled Banner. I suggest that provision be made for part of the profits of the United States Mint to be given to the National Numismatic Collection in the Smithsonian, cast not as a charity or a donation, but as an intelligent business concept reinforcing the programs already in place at the Mint. The more people that are aware of the National Numismatic Collection, the more that enjoy its displays, the more that are subject to various outreaches given by it, the greater the interest will be in current Mint products. In view of the relatively small amount of money involved annually to maintain the National Numismatic Collection exhibition in a first class manner, this would seem to be one of the wisest investments that the Treasury Department and the Mint could possibly make.

Moreover, in today's era of patriotism, the exhibits of the National Coin Collection are already of a patriotic nature, delineating the rise of the United States of America from the Colonial Era, through the paper money issues of the Continental Congress during the Revolutionary War, down to the present time, with the motto "Liberty" appearing on nearly all issues, and with patriotic emblems on most as well. Moreover, current and past commemoratives and regular issue coins, including the forthcoming Presidential and First Lady coins, showcase American history, related to patriotism. This element is another asset of the equation.

Mint Records and Access

During the course of my career I have had occasion to do extensive research at the Mint. Much of this has been used in articles (I am the most widely read columnist in *Coin World*, I have been advised, and also the longest running columnist in numismatic history—the column having started in 1961), books, presentations, and more. All of this has helped with showcasing Mint history, educating the public, and enlightening collectors. However, the access to Mint records has varied quite widely, depending on the mindset of the politically appointed director currently in office. Let me give two examples:

Director Donna Pope, in office from July 1981 to January 1991, worked closely with the numismatic community, was always ready for interviews, and to the extent she had information available, would give details as to coin designs, problems and pleasures in distribution, and more—very open communication. When I sought to learn certain things about pattern coins, she gave me permission to visit the Philadelphia Mint and view certain archives, including models of pattern coins made in recent years, not numismatically documented in many instances.

In contrast, under the more recent administration of Director Henrietta Holsman-Fore, a fine lady who attended a number of numismatic events, I was not able to achieve any entry for research at all. Since then, the situation has been the same, including for a previously unknown archive of Mint documents stored not in the National Archives, where they were supposed to have gone, but in the Mint offices in Washington, where apparently they were sent some years ago and then forgotten.

Research cooperation with qualified scholars is truly a minor point in comparison to the items mentioned earlier, but it is an aspect that could be set up on a routine basis if better communication channels were put in place. How to do this? A step in that direction would be to make the Director of the Mint a Civil Service position, not subject to political appointment. Under the present system, actually in effect since the foundation of the Mint in 1792, the President of the United States has appointed someone who in most instances has been dedicated to the political party in power. In most instances the named individual has had no knowledge of coinage, the monetary system, numismatics, or even the manufacturing process (remembering that the various Mints are in essence coin factories). Some while in office have learned well and have acquitted themselves admirably, others have not. A career official would be able to work more closely and continually with the fine Mint staff, to develop long term relationships with the numismatic community, and to benefit from experience as the Mint went through different programs. This would be in contrast to complete changes each time a new director was put in place. Such a hope is probably beyond the aspect of the discussions here today, but I mention it as an ideal situation.

More realistic would be for the Mint to put in place a Civil Service position on its staff, either adding to the responsibilities of a current Mint career employee, or creating a new one, with the specific assignment of working closely with the numismatic community. At present, the availability of information concerning coin designs, mintages, distributions, items in storage, and the like—of very great interest to the collector community—is often distributed erratically, sometimes erroneously, and sometimes not at all. There is little if any of this information that is truly confidential in the context of national security or financial security. Indeed, the dissemination of such information on a timely basis benefits the numismatic programs and consequently the profits of the Mint.

Summary

In summary, I endorse H.R. 5077 and commend Congressman Frank Lucas for introducing and shepherding it. I believe that its provisions, subject to appropriate modifications, are very beneficial to the overall structure of the Treasury Department and the United States Mint, as well as to its continuing profits, which have been considerable. I view the Smithsonian Institution as a unique national treasure, already in place, but simply needing nurturing from the Treasury Department and the Mint. I know that the numismatic community stands ready to support such action in any way possible.

In the overall equation we have the best of both worlds: The Treasury Department and the Mint are producing products that American citizens and others enjoy collecting, in quantity, and bringing hundreds of millions of dollars of profit each year to the Mint. By definition, collectors enjoy Mint products, are very loyal, and are supportive of what the Mint does. The two need to come closer together, a logical combination, to make even better what is currently in place. The Smithsonian Institution should be an integral part of the program.

Respectfully submitted,

Q. David Bowers



AMERICAN NUMISMATIC ASSOCIATION

818 North Cascade Avenue
Colorado Springs, Colorado 80903
Phone: (719) 632-2646 Facsimile: (719) 643-4085
www.money.org
cipoletti@money.org

UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY
POLICY, TRADE, AND TECHNOLOGY

Hearing: Wednesday, July 19, 2006
Coin and Currency Issues Facing Congress: Can We Still Afford Money?

Madame Chairperson and members of the Subcommittee, I am Christopher Cipoletti, Executive Director of the American Numismatic Association. I have held this position since January 1, 2003. I have been affiliated with the American Numismatic Association since 1997 serving initially as legal counsel on specific matters and then as general counsel to the Association. I am a life member of the American Numismatic Association. In my capacity as Executive Director of the Association, I also am actively involved with other numismatic organizations working with them to promote collecting and advance numismatic education.

The American Numismatic Association is a federally chartered nonprofit corporation founded in 1891 and chartered by Congress in 1912 (with its charter renewed in perpetuity in 1961). The American Numismatic Association does not receive any federal moneys for its operation and has not received any federal grants for its programs. The mission of the Association is to encourage and educate people to study and collect money and related items by promoting, preserving and protecting the interests of those who desire to discover and explore the world of money. The American Numismatic Association fulfills this mission through its educational programming, numismatic museum, numismatic library, a monthly publication *Numismatist*, major conventions held around the country, consumer awareness and protection activities, among other things. The Association is a membership organization with almost 32,000 members from around the country and the world who have an interest in money and money related items. The American Numismatic Association appreciates the invitation and opportunity to present testimony before the Subcommittee.

Money in its many forms reflects culture, art, science and history. In the United States, our money is a source of documenting historical events, it reflects our values and our culture, and it presents artistic renderings of who we are and what

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is important to us as a nation. Numismatists, people interested in collecting coins, paper money, medals and tokens, from around the world have a strong interest in American numismatics. The production of money, with designs reflecting our history and culture, is as important to the numismatic community today as it has always been. Until the recent design changes in American money, the exposure to numismatics as a hobby and as an educational tool was waning.

However, in the last several years, the diminishing exposure to numismatics, particularly through circulating coins and paper money, has turned with renewed excitement in the money produced by the United States. Much of the resurgence in numismatics at the basic level can be attributed to the introduction of the 50 State Quarters Program by the United States Mint which has created an interest in collecting that has not been seen for decades. The changing face of money through redesigns and colorization of paper money produced by the Bureau of Engraving and printing, has furthered the interest created by the 50 State Quarters Program as people of all ages are now looking at and looking for the new look of money and numismatic materials being produced under the auspices of the Department of the Treasury. For more than 40 years, the design of money in the United States was stagnant. With the new efforts from the United States Mint and the Bureau of Engraving and Printing, an educational introduction to culture, art and history is being presented in every transaction involving United States currency.

Money is an educational tool that allows us to learn about the struggles in which the country has been engaged; it teaches us about significant events that have influenced the development of a nation; and it allows us to hold and own a tangible asset that has value beyond the denomination of the coin or note. For money to be the educational tool that it has the potential to be, it must be accessible for viewing, research and study. And the development process from design to production of the ultimate designs of United States currency must be available to our entire population serving as an important educational tool.

In order for the excitement and enthusiasm of collecting to be advanced, the American Numismatic Association believes that the United States Mint and the Bureau of Engraving and Printing need to work closely with the collecting community and the general public to determine what designs and what denominations will produce desired results. And they must work to assure that collecting and the education that can be experienced through money is available to people at all levels from those with a passing interest to those with the most serious knowledge and experience with numismatics.

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For those who are actively interested in numismatics, rare and interesting material is very desirable. Finding a unique coin or piece of paper money in change that is given piques peoples' interests. It gets people who have an interest in history, culture, art, geography, science and many other disciplines to start thinking about money in a manner that is beyond serving as merely a tool for the purchase of goods or services. With this interest piqued, people begin studying money and its historical significance; they often become serious collectors who are preserving a piece of American culture. Once seriously involved in numismatics, collectors spend billions of dollars annually on numismatic material. But collectors must know that what they are purchasing is authentic and must know that it is legal to own.

The American Numismatic Association is supportive of HR 5077 introduced by Representative Lucas to address numismatic issues. Others have and will comment on the specific language of the legislation. While the American Numismatic Association is not commenting on the specific language of the proposed legislation today, the Association supports the intent of the legislation in creating certainty for the collecting community about numismatic materials. Currently, there are rare numismatic items that are privately owned by individuals who spent hundreds of thousands or millions of dollars to legitimately purchase the materials. Yet ownership is potentially called into question because the numismatic material was not formally released by the Department of the Treasury. The current owners had no role in any claim that the material was wrongfully taken from the Treasury but based upon current law, a significant numismatic investment may be at risk. HR 5077 addresses this issue for pre-1933 issued numismatic material assuring numismatists that they have legitimate ownership and that their ownership cannot be challenged, particularly when new administrations in the Treasury take office and may have an agenda to address items which the Treasury believes were not rightfully released from the Treasury.

The American Numismatic Association also supports the efforts of HR 5077 to provide for funding of the National Numismatic Collection maintained by the Smithsonian Institution. This numismatic treasure is an educational resource that cannot be replaced or surpassed. Since the National Numismatic Collection was dismantled in the summer of 2004, the country and visitors from around the world have been deprived of the educational treasure this collection offers. As noted earlier, numismatic material is a rich source of education in culture, art, science and history. The National Numismatic Collection can and should be used to teach people of all ages. From the history of money to its current day uses, from the minting process to its distribution stream, from the design to determinations about size and metallic content, money serves as an irreplaceable educational asset. Money can be used in practically any educational discipline; but to be effectively used, people must have access to the tangible objects. This requires

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that an historical collection be maintained and available for display and exhibition. The efforts of HR 5077 to accomplish this for the National Numismatic Collection must be applauded.

Money is not and will not become obsolete. Rather, it will change form over time as society and culture changes. When we look at the development of money, we have observed many changes throughout history, but the base concept of money, an exchange of items of value in a transaction, remains the underlying concept. And that concept of money continues to provide us with a reflection of who we are as a nation, what we have accomplished, what we hold out hope for and what we see as our future. Making sure that the culture, art and history of money is collected, preserved and maintained for future generations is an important and necessary action.

The American Numismatic Association applauds the Department of Treasury's foresight in changing and allowing changed designs on our money to pique interests in numismatics, to create a network of people who are interested in preserving our culture and our heritage through money. The American Numismatic Association encourages the continued development of new and changing designs on American money. This will continue to keep people interested in money as an educational tool and a collectible item of significant value. The Association encourages the Treasury to be open minded about HR 5077 and the benefits that it could bring to the collecting community, including the fair and equitable access to legitimately purchase and own numismatic rarities that will preserve our history and be available for research and study for many future generations.

The American Numismatic Association wishes to thank the Subcommittee and particularly Representative Lucas for the opportunity to provide this testimony. The Association stands ready to assist in any way that it can to promote, protect and preserve the interests of all people who have a desire to discover and explore the world of money. We are encouraged that the Subcommittee has taken testimony on this issue and we look forward to being able to work with you to develop legislation that promotes numismatics.

Testimony of Beth Deisher, Editor, *Coin World*
before the HOUSE FINANCIAL SERVICES
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY

HEARING July 19, 2006, entitled:
Coin and Currency Issues Facing Congress: Can We Still Afford Money?

Madam Chairman, my name is Beth Deisher. I am editor of *Coin World*, the largest and most widely circulated news weekly serving collectors of coins, medals, paper money and any objects once used as money. I am also founding editor of two new magazines, *Coin Values* and *Paper Money Values*. Amos Hobby Publishing, with headquarters in Sidney, Ohio, publishes all of these magazines.

I would like to thank you and the Subcommittee for inviting me to testify today.

While I will willingly respond to any questions you may ask about coin and currency issues, I have chosen to focus my prepared testimony on H.R. 5077, the proposed "Numismatic Rarities Certainty Act of 2006."

In general H.R. 5077 seeks to clarify the legality of owning certain coins and numismatic items; would establish guidelines for the preservation, public display and disposition of certain of these items; and would require an inventory of all coins, medals, or other numismatic items in the possession of the United States government, regardless of when such items were struck or made.

Virtually all in the coin collecting community welcome the certainty that H.R. 5077 would bestow upon certain coins, medals and numismatic items made by or in the facilities of the United States government prior to January 1, 1933. It would clarify the right to own and trade these historic U.S. numismatic items, many with origins that cannot be proven or documented today. For example, 15 specimens of the Draped Bust silver dollar bearing the date 1804 are known. All are known to have been struck in 1834 or later, but the pedigrees of only four can be traced with certainty. Two were authorized, struck and placed into coin sets that were presented as diplomatic gifts to foreign heads of state. Also, one from that striking and a later piece were set aside for the Mint's collection and were transferred to the Smithsonian Institution, where they reside today in the National Numismatic Collection. The remaining 11 are survivors that various Mint officials sold or selectively traded to collectors and coin dealers over a period of some 30 years in the mid-19th century. Because of their extreme rarity all 15 are accorded special status in today's numismatic community. There are thousands of lesser-known but highly desirable and historic patterns, coins, re-strikes and medals that would be taken out from under the cloud of uncertainty with the passage of H.R. 5077.

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H.R. 5077 arbitrarily draws a line in the sand with regard to any coin, medal or numismatic item manufactured by an agency of the U.S. government “after December 31, 1932” that “was never issued by the United States Government; and comes into the possession of the United States Government.”

A very high-profile rarity – the 1933 Saint-Gaudens double eagle – which was manufactured in the early spring of 1933 stands at the cusp of this timeline of demarcation. It is not my intent to comment specifically about that particular coin, but I believe it is important to point out at least three salient points regarding this section of the proposed legislation:

1. There needs to be a legal definition of “issued.” We have found this term to be used and applied in different ways. Various government officials have used it to mean “struck” or “manufactured.” Others interpret it to mean when the coin or item is “monetized” and shipped to a customer: the Federal Reserve Bank in the case of circulating coins; the buyer or recipient, in the case of numismatic items sold or distributed directly to the public by the U.S. Mint.
2. There needs to be a timeframe or statute of limitations on items which have entered the collector marketplace, are known to government officials, but for which no action has been taken by the government to recover them.

Examples:

Treasury officials consider certain of the 2000 Sacagawea mules to be stolen property. (See Exhibit A)

The 1974 Lincoln cent struck on aluminum planchets (See Exhibit B)

The 1974 Lincoln cent struck on bronze-clad steel planchets (See Exhibit C)

Again, these situations demand certainty. One hundred (100) years appears to be a logical such timeframe because it would preclude any who may have been involved in questionable activity from directly profiting. Thus, if after 100 years from the time of manufacture, the government has taken no action to recover a numismatic item deemed illegal for a citizen to hold, the item could be held and freely traded. This would allow the government to prosecute those proven to be involved in illegal acts, but would not punish the numismatic item itself for existing. This would allow the public to learn about the particulars of its manufacture and its role in numismatic history.

3. This legislation should address burden of proof. The burden of proof that a coin, medal or numismatic item has been stolen or illegally removed from a government facility should rest on the shoulders of the government prior to the item being seized. Some numismatic collectibles have in the past been subject to seizure or threat of seizure, when in fact they entered the channels of commerce under ordinary and legal circumstances, with the owner having to bear the burden of proof.

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All sections of this proposed legislation are important, but I would like to draw your attention to Section C, which would require an inventory of all coins, medals, or other numismatic items in the possession of the United States government, regardless of when such items were struck or made.

An inventory and public accounting of the government's holdings in coins, medals, and other numismatic items is important to you as members of Congress because you are essentially the board of directors of the two money manufacturing branches of government – the U.S. Mint and the Bureau of Engraving and Printing. The need for transparency is equally important for their shareholders – U.S. taxpayers. However, it is critically important for their customers – the sector of the public that purchases numismatic collectibles – to have full faith in the products they manufacture and certainty in quantities because the number available to collect is one of the primary determinants of value in numismatic collectibles.

If the U.S. Mint operated in the private sector, it would no doubt qualify as a Fortune 500 company. As currently constituted, it is a government owned and operated monopoly. Since its creation in 1792, the Mint's director – the presidentially appointed chief executive officer – has been mandated to report to Congress annually through the Secretary of the Treasury regarding the operations of the Mint.

From 1793 to 1980 that mandate was interpreted to require a comprehensive public accounting of the operations and inventory of each facility operated by the U.S. Mint. For example, today it is possible to open the 1906 report and find listed precisely how many coins were made at each facility during the fiscal year, the amount of metal used in making them, the number issued for commerce, the number melted and re-coined, the number held in inventory, and the number of dies used to make each denomination. Even the floor sweeps are accounted for!

Under the guise of reducing government costs, the Mint Director's Report was greatly reduced in page count in 1981, but it still provides essential information such as the number of coins produced (by denomination) at each facility, the number of coins shipped to the Federal Reserve Banks, and the number held in inventory. A similar accounting is also made of the medals produced and sold.

With the resumption of commemorative coins in 1982, the Mint reported the number of coins produced, number held in inventory, and the number sold. When melted, the denominations and numbers of coins were promptly reported. For example, the 1985 annual report reveals that 889,588.33 ounces of Olympic dollar coins made of .900 fine silver were melted with a market value of \$1,150,237.71. The 1986 annual report states that 923,254.18 ounces of .900 fine silver Statue of Liberty dollars coins were melted with a market value of \$1,823,673.95. This is important information to the collector market. By using the pertinent annual reports, it is possible to compute precisely the number of coins available to the collector market, providing some certainty that none remain in vaults to one day change the number available to collectors.

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If the U.S. Mint has melted any commemorative coins since 1986, it has not reported the fact. Nor has it reported how many of each denomination, design, and finish it has produced. For some unexplained reason, it apparently switched in 1987 and began reporting only the number of commemorative coins it has sold for each program. Collectors have no information with regard to how many coins were actually produced and how many may be being held in vaults at Mint facilities. A similar situation exists for the silver, gold, and platinum bullion coins produced for the American Eagle program and American Buffalo 24-karat bullion coins. The U.S. Mint reports only the number sold. We are aware that sales of bullion coins dated the previous year sometimes continue to be sold into the new calendar year. Yet, the Mint has never reported actual production of bullion coins and whether it retains production from previous years within its vaults.

Also, the U.S. Mint has produced commemorative silver coins since 1982, commemorative gold coins since 1984, and precious metals bullion coins since 1986, yet there exists no independent, public verification of the content of these coins. Only Mint employees assay and confirm the purity and amount of precious metals in U.S. coins. Congress should immediately reinstitute the U.S. Assay Commission with authorization to test the weight and fineness of the coins produced by the U.S. Mint in order to assure that they conform to their respective legal standards.

Through 1993, the U.S. Mint published within the annual Mint Director's report the actual production of circulating coins by denomination, the number of each denomination in inventory and the number shipped to the Federal Reserve Banks. However, with the advent of the corporate style financial report in Fiscal Year 1994, the precise mintage and inventory information vanished. Such information for 1994, 1995, and 1996 is reported, rounded to millions in graphs. After protests from the numismatic community – particularly publishers – precise mintage figures for circulating coins returned in the 1997, 1998, and 1999 reports. However, graphs reporting mintages in millions returned in 2000. Again, after protests were registered, mintages for circulation coins briefly returned in the annual reports issued in 2001 and 2002. However, reports published in 2003 and 2004 reverted to imprecise graphs reporting mintages by the millions, with no information about coins held in inventory. Numismatic product information continues to be reported by sales, providing no information about the actual number produced or whether any coins or packaging options are being held in inventory.

An inventory of U.S. Mint holdings is essential. With out such an inventory, uncertainty and speculation will continue to eat away at the integrity of the U.S. Mint's products, particularly its numismatic offerings. Rather than an inventory mandated every five years beginning, January 1, 2007, as proposed in H.R. 5077, an annual product inventory concurrent with end of the Mint's Fiscal Year on September 30 would seem more logical and efficient. During the last decade the U.S. Mint has spent hundreds of millions of dollars to computerize its operations and accounting abilities. Surely, that system should be capable of identifying products in inventory on a date certain and Mint officials should be able to report that information in a timely manner and in a permanent document, such as the annual report.

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The inventory envisioned in H.R. 5077 also includes an inventory of historic artifacts and experimental items. This kind of material, in all likelihood, is not part of the Mint's production and numismatic marketing computer systems. Identification and inventory of such items may take more than the time allotted in the proposed legislation. Two-year inventory intervals would seem logical for this kind of material, beginning September 30, 2008.

Historically, it is imperative that numismatic artifacts held at the various U.S. Mint facilities be identified and inventoried and that such information be disseminated in a timely and permanent format.

Permit me to explain why such an inventory is important. Back in 1994, when an experimental 1974 Lincoln cent struck on a bronze-clad steel planchet surfaced, *Coin World* contacted U.S. Mint officials, in part to help verify whether the item could be genuine. Bear in mind, a 1973 Treasury publication stated that such a coin was never produced, yet our source claimed that it was produced and that a quarter million or more of them were destroyed by Mint officials more than 20 years earlier, but that a few pieces escaped destruction. It took Mint officials more than two months to state that the previously unknown experimental pieces had indeed been produced. With that revelation also came the news that the U.S. Mint had retained two of the experimental 1974 Lincoln cents struck on bronze-clad steel planchets in its specimen files. (See Exhibits D 1 and D 2). This was historical information and historic artifacts that well could have been lost to numismatic history had not an example surfaced in the collector arena.

More recent examples point to the necessity of identifying and preserving numismatic artifacts in the possession of the U.S. Mint and of making them accessible to numismatic researchers and writers. During the American Numismatic Association World's Fair of Money staged in San Francisco in July 2005, the U.S. Mint showcased a collection of unique historical artifacts, many on public display for the first time. The artifacts included original photographs that chronicle a portion of the Mint's 214-year history, including the aftermath of the devastating 1906 San Francisco Earthquake and pictures of the original transfer of gold bars to the Fort Knox Bullion Depository in Kentucky. In addition, it included original, hardbound annual reports from the late 19th and early 20th centuries and original ledgers, die books and other United States Mint documents. These artifacts were reportedly found in various rooms and files at various Mint facilities. Several numismatic researchers have requested the opportunity to examine and photograph these artifacts, but all have been denied. Mint officials claim they are in the process of preparing them for posting online at its web site. Questions abound as to why these artifacts have not been transferred to the National Archives or the Smithsonian's National Numismatic Collection, for proper care and preservation and access by the public.

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A similar situation exists with regard to historic plasters and galvanos believed to be in storage at the Philadelphia Mint. When Chief Sculptor Engraver Elizabeth Jones arrived at the Philadelphia Mint in 1981, she found an estimated 250 to 300 such pieces – many dating from the 19th and early 20th centuries – piled haphazardly in storage rooms. Recognizing the artistic worth and historic value of the artifacts, she requested funds and had shelving built on which to safely store them. She and Sculptor Engraver Michael Iacocca identified and created an inventory of the items. Researchers within the last two years have requested to view these historic plasters and galvanos. However, their requests have been denied and the whereabouts of these artifacts is unclear.

Each of the areas I have cited cry out for certainty and accountability. It is the responsibility of Congress to provide guidance and direction so that the American public can have confidence in and respect for the products the government's factories manufacture and sell. It is also important that our nation's numismatic artifacts and history be documented and preserved so that future generations can understand and appreciate their heritage. H.R. 5077 provides a vehicle that brings these issues to you for discussion and action. We trust that you will act wisely, decisively and promptly.

Again, thank you for the opportunity to discuss these import concerns. If you have questions, I shall be happy to answer them.

EXHIBIT A*COIN WORLD* 06/05/06, Pg. C1 (Archive reprint)**Mule confiscation not
on Treasury's agenda***Mint reserves right to claim errors***By Paul Gilkes***COIN WORLD Staff*

U.S. Mint officials reserve the right to seek confiscation of any of the double-denomination quarter dollar/dollar mule error coins they consider to be stolen property, but no one within the Treasury Department has shown a willingness to take that step.

The mule error coins feature an undated (2000) State quarter dollar obverse, with P Mint mark, showing George Washington, matched with the Sacagawea dollar Eagle reverse, struck on a manganese-brass clad dollar planchet. Ten examples are publicly known since the first surfaced in Mountain View, Ark., in the late spring of 2000. Numismatic experts determined that the 10 coins were struck using three separate pairs of dies, indicating production was executed on three separate presses.

New Mexico collector Tommy Bolack has been patiently waiting for the government officials to decide whether they plan to seek forfeiture of any of the known errors. Bolack is particularly interested in the government's position since he owns eight of the 10 known mules and has spent hundreds of thousands of dollars acquiring the pieces in market transactions. Bolack said he is willing to legally defend his rights to keep possession of the coins if forfeiture is pursued.

The U.S. Secret Service assumed control from the Treasury Department's Office of Inspector General over a more than two-year-old investigation. The investigation's goal was to determine which of the known mules escaped the Mint through other than legitimate distribution channels and whether they should be confiscated. The Secret Service's investigation into the matter ended March 2005 following the sentencing of one of two former Philadelphia Mint coinage press operators in connection with the theft and subsequent sale of some of the mules.

The Mint does not have the legal authority to confiscate any of the coins. The Mint would have to seek forfeiture through the Department of Justice, with the Secret Service responsible for recovering the coins should the courts rule in the Mint's favor.

Coin World on May 15 asked the Mint's chief counsel, Daniel P. Shaver, whether the Mint plans to confiscate any of the 10 known mule error coins. Shaver forwarded the question to the Mint's Office of Public Affairs, which subsequently issued a "no comment" to the inquiry.

In an Oct. 25, 2003, *Coin World* article, Shaver was quoted as saying, "Only the secretary of the Treasury has the authority to issue coins. Unissued coins, including coins not properly issued pursuant to the secretary's authority, remain the public property of the government of the United States. Accordingly, the United States Mint's title and right to possession of such public property survives, notwithstanding larceny or other acts amounting to unlawful conversion."

In the March 10, 2005, sentencing memorandum submitted by Assistant U.S. Attorney Anita Eve for former Philadelphia Mint coinage press operator James Watkins, the following language was included: "As the court is aware, the error coins remain property of the United States government. The United States Mint is in a position to reclaim their property from the coin collectors who have purchased the coins stolen from the Mint by the defendant, but has no current intentions to seek the coins. Instead, the Mint seeks to punish the defendant and to deter theft by current and future Mint employees and other government employees."

Eve told *Coin World* May 19 that the language included in the Watkins sentencing memorandum came from Shaver. She said on several occasions, she had spoken with various Treasury and Mint officials, including Shaver, about the prospects of pursuing forfeiture, but received no definitive answers. Eve said she wouldn't pursue such action unless requested to do so, and so far, that request has not come.

Two of the 10 known examples are exempt from possible forfeiture, Eve said, because investigators already have determined they were released through normal circulation channels.

Eve identified one of the two coins as the discovery coin, found by collector Frank Wallis in late May 2000, in a roll of Uncirculated Sacagawea dollars from the First National Bank & Trust in Mountain Home, Ark. The coin is graded Mint State 66 by Professional Coin Grading Service.

The second exempt example is the piece Greg Senske, Cape Girardeau, Mo., found in September 2001. The coin, fifth among those found, was received in change from a cashier at the cafeteria in the plant where Senske worked. It had been in a 25-coin roll of Sacagawea dollars wrapped in a U.S. Mint designated paper wrapper. The coin is graded MS-67 by Numismatic Guaranty Corp. and is still in Senske's collection.

One of the mules targeted for possible confiscation was specifically named in Jackson's indictment. Delaware Valley Rare Coin in Broomall, Pa., sold it on eBay for \$41,395 in July 2000 on behalf of a collector client who purchased the mule error from someone else, according to DVRC's Frank Greenberg.

Watkins had been indicted on three counts of conversion of government property and one count of witness tampering, while fellow coin press operator Raymond Jackson was indicted on one count of converting government property to his own use and one count of witness tampering.

Jackson was sentenced Feb. 12, 2003, to five years probation and ordered to make \$5,000 in restitution, the amount of money he was accused of receiving in payment from a collector for one of the mule errors. Jackson pleaded guilty Sept. 25, 2002, to the one count of converting government property to his own use. The witness tampering charge was dropped.

Watkins – who faced up to 40 years in prison and a \$1 million fine if convicted on all counts – had failed to appear for his July 11, 2002, arraignment. He had been indicted on the four federal charges on June 16, 2002.

Watkins remained a fugitive for more than two years until Philadelphia police arrested him in September 2004 in connection with a drug investigation. A records search turned up the federal fugitive warrant. Watkins pleaded guilty to all charges on Oct. 26, 2004. Although prosecutors sought a prison term of 15 to 21 months, Watkins was sentenced March 10, 2005, to six months house arrest, five years probation and fined \$9,250.

Coin World sources indicated that Watkins and Jackson's case was an isolated situation and not part of any larger conspiracy. Watkins reportedly told authorities that only 25 percent of the error coins that actually make it out of the Mint through legitimate or other means are accidentally made, according to sources.

According to Watkins' sentencing memorandum, in the late winter or early spring of 2000, Watkins approached an unidentified individual and asked him if he wanted to make some money by selling one of the mule error coins. The unidentified man took the error coin from Watkins and sold it for \$250, with Watkins receiving \$200, and \$50 going to the unidentified man who sold it.

In April or May 2000, Watkins took two more of the double-denomination quarter dollar/dollar mules to sell at Gold World in Philadelphia. The store's owner, initially not realizing the value of the coins, bought them for \$500 each, reselling one for \$3,500 and the other, after doing some research, for \$40,000.

In June 2000, Watkins asked a woman – identified only by initials in court documents – to accompany him to a coin dealer so that he could sell a coin at Republic Precious Metals in Abington, Pa. Watkins negotiated with the store owner and ultimately sold the coin for \$8,000. The store owner subsequently resold the coin for \$31,000, according to court documents.

Following the sale to the dealer, Treasury agents contacted the woman who accompanied Watkins to the dealer. In conversations with her taped by authorities, Watkins denied taking the coin from the Mint and instead claimed he had acquired it from a friend.

Watkins, according to court documents, told the woman to lie to Treasury investigators about the source of the coin.

Until Mint officials confirmed that the Philadelphia Mint had struck the quarter dollar/dollar mules, such U.S. coin errors were thought impossible due to safeguards believed in place. However, several unique cent/dime mules have been authenticated since the existence of the quarter dollar/dollar mules were announced. A numismatic mule is one in which designs not intended to be used together are mated to create an unintended issue. Coin, note and medallic mules are known.

EXHIBIT B

COIN WORLD 09/26/94, Pg. 01 (Archive reprint)

**1974 bronze-clad steel cents
subject to federal confiscation**

Mint issues formal ruling

By William T. Gibbs
COIN WORLD Staff

Experimental 1974 Lincoln cents struck on bronze-clad steel planchets have the same legal status as the more famous 1974 aluminum cents, the Mint stated Sept. 9: Both are illegal to own and are subject to confiscation.

Coin World requested a formal statement about the legal status of the bronze-clad steel cents in mid-August, following several conversations with a Mint public affairs officer during which the officer stated the pieces would be considered collectible like any other item that fell into collector hands.

The public affairs officer's statement was at odds with past Mint policy on the experimental 1974 Lincoln cents struck on aluminum planchets, struck at the same time and for the same purposes as the experimental bronze-clad steel cents. The aluminum pieces have always been considered government property and remain subject to confiscation.

The Mint public affairs officer stated at least twice during the week of Aug. 15 that bronze-clad steel cents would be considered collectible, the second time after what *Coin World* was led to believe was further research by the Mint staff. *Coin World* asked the officer at that time for a formal opinion, not only on the bronze-clad steel cents, but whether the statement represented a policy shift that would also apply to the aluminum cents.

However, the August statement was not a formal declaration, nor did it represent a policy shift, Mint officials now say.

In a Sept. 9 letter, Mint chief counsel Kenneth B. Gubin states: "The Mint's policy regarding the 1973-dated [sic] aluminum one-cent pieces remains unchanged; since these pieces were experimental and never issued by the Mint, any still outstanding are considered property of the U.S. Government and may not be circulated, sold or held in collections. If they were to appear in the hands of the public, they are, and will continue to be, subject to confiscation by the U.S. Secret Service as no individual may acquire valid title to them. This policy also applies to other similar experimental pieces, including the experimental 1974 bronze-clad steel Lincoln cents."

Mint officials confirmed the existence of the experimental bronze-clad steel cents Aug. 15. The pieces were unknown to the numismatic community until one was sent to *Coin World* in June by an individual who requested anonymity. *Coin World* staff examining the piece believed it to be genuine. Treasury records available to *Coin World* then stated that while bronze-clad steel pieces had been produced, they bore "nonsense" designs.

Coin World contacted Mint officials about the bronze-clad steel pieces in June. It took several months before the Mint confirmed that the pieces were struck using Lincoln cent dies.

The individual sending the experimental piece to *Coin World* reported having five of the bronze-clad steel pieces, obtained in 1974 in a Pennsylvania steel mill. The pieces reportedly had been transported to the mill by Mint officials to be destroyed through melting. Several pieces escaped destruction when a bag of the experimental pieces broke open and were not melted.

The missing aluminum cents were given to members of Congress and their staffs during hearings in 1973. Mint officials sought authority to strike cents in aluminum because of rising copper prices. That authority was not granted. Copper prices dropped and Mint officials asked for the experimental aluminum pieces back. From 12-14 were not immediately returned, and some are extant today. One is in the National Numismatic Collection of the Smithsonian Institution.

The bronze-clad steel cents are not the only experimental pieces to surface recently. The Sept. 21-22 Stack's auction was to offer three experimental 1942 Lincoln cents struck on non-standard planchets. Gubin told *Coin World* those pieces would also fall under the same policy as the 1974 experimental pieces.

Two experimental piece planchets were sold in July by Heritage in its American Numismatic Association convention auction, including one intended for the aluminum cent. The other dates from 1977-78 and was produced for experimental small dollar coins; it is composed of magnimat.

Both planchets sold in a single lot. Gubin said it would be more difficult to determine whether those planchets would be subject to the Mint's policy.

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EXHIBIT C 1

COIN WORLD 09/05/94, Pg. 01 (Archive reprint)

**Mint confirms existence of 1974
bronze-clad steel Lincoln cents**

Retains two in Mint files

By William T. Gibbs
COIN WORLD Staff

The United States Mint retains two experimental 1974 Lincoln cents struck on bronze-clad steel planchets in its specimen files, a Mint spokesman said Aug. 15.

The admission confirms a July 4 *Coin World* article announcing the discovery of the previously unknown experimental pieces. The existence of the experimental bronze-clad steel pieces was unknown until June when a collector contacted *Coin World* with a first-person account of the destruction of a quarter-million or more of the pieces in a steel mill furnace, and the accidental survival of a handful of pieces now in private hands.

The 1974-dated experimental pieces are survivors of 1973 testing that also resulted in the famous 1974 aluminum cent.

It took Mint officials two months to confirm that the Mint did in fact strike experimental 1974 Lincoln cents on bronze-clad steel planchets using regular dies. Mint spokesman Michael White said no records survive of the coin's production or destruction.

However, the anonymous collector who says he holds five of the pieces says he witnessed the destruction of a quarter million or more bronze-clad steel cents in 1974 at a Pennsylvania steel mill (see *Coin World*, July 4, Page 1). Several other burnt pieces may also survive in private hands, according to the collector.

A 1973 Department of the Treasury study discusses the testing of the bronze-clad steel composition, but indicates that none were struck with regular cent dies. "Nonsense" dies were reportedly used, according to the 1973 Treasury report now known to be incorrect.

An examination of one piece by *Coin World* staff indicated that the cent was struck by regular Lincoln cent dies dated 1974. The coin, with its steel core, is attracted to a magnet.

The bronze-clad steel pieces are unlisted in any work discussing pattern issues, including the just published *United States Patterns and Related Issues* by Andrew W. Pollock III. The new book was published almost at the same time as the bronze-clad steel cents surfaced.

Both the 1974 bronze-clad steel cents and the well-known 1974 aluminum cents were struck in 1973 as Mint officials experimented with alternatives to the 95 percent copper, 5 percent zinc cent then in production. Rising copper prices threatened to make the cent's intrinsic value higher than its face value. Copper prices dropped, however, and the composition remained unchanged until 1982.

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EXHIBIT C 2

COIN WORLD 07/04/94, Pg. 01 (Archive reprint)

1974 Lincoln cent experimental piece, bronze-clad steel, surfaces
Similar to aluminum cent

By William T. Gibbs
COIN WORLD Staff

An experimental 1974 Lincoln cent struck on a bronze-clad steel planchet – a piece a 1973 Treasury publication says was never produced, has surfaced – and with a source who claims a quarter million or more of them were destroyed by Mint officials 20 years ago.

Coin World has examined a 1974 Lincoln cent struck on a bronze-clad steel planchet that appears to be a genuine U.S. Mint experimental piece. It matches the description of planchets produced and tested in 1973, and mentioned in various Department of Treasury reports discussing alternative cent compositions.

This is the first indication that specimens of experimental 1974 Lincoln cents struck on other than aluminum planchets survived. Previously, it was thought that only specimens of the more famous 1974 aluminum experimental pieces had escaped destruction.

The piece examined by *Coin World* is something of a mystery. According to a 1973 study published by the Department of Treasury, only aluminum experimental cents were struck between 1974 Lincoln cent dies, with all other experimental pieces struck using "nonsense dies" designed to simulate the cent designs in relief and location of letters and images.

The piece examined by *Coin World*, which appears genuine, would seem to dispute this statement.

The experimental piece is from a source who claims to possess five of the pieces. The source wishes to remain anonymous.

The experimental piece was presumably struck in 1973 as Mint officials sought a replacement for the standard cent composition of 95 percent copper, 5 percent zinc. Rising copper prices were approaching levels that made it too expensive to produce the 1-cent coin with a high copper content.

The Mint ran short production runs of experimental pieces in several compositions. The compositions tested included the aluminum experimental cent, of which 1,579,324 pieces were struck using standard 1974-dated cent dies. Also produced, according to Treasury documents, using nonsense dies, were a 70 percent copper, 30 percent zinc alloy; and a bronze-clad steel composition, with two outer layers of 90 percent copper and 10 percent zinc bonded to low-grade steel.

According to the December 1973 *Alternative Materials for One-Cent Coinage*: "The nonsense dies were designed to simulate the actual penny dies with regard to relief and location of images and lettering. In this way, coining characteristics of the alloys could be compared relative to one another without creating a large number of potentially valuable numismatic oddities. . . . Finally, 1974 cent dies were used to strike a carefully controlled number of aluminum alloy coins."

The 1974 Lincoln cent struck on a bronze-clad steel planchet examined by *Coin World* weighs 2.77 grams and has a specific gravity of 7.9142.

At first glance, the coin appears to be a normal 1974 Lincoln cent. In fact, the obverse and reverse are indistinguishable from a standard Lincoln cent in color and texture, even under high magnification.

However, when one examines the edge, it becomes immediately apparent that the piece is not a normal Lincoln cent. The steel core is visible along the edge as a grayish band between layers of bronze.

Most spectacularly, the coin is attracted to a magnet because of its steel core. The standard copper-zinc cent is not.

Annual Mint Reports for 1973-75 show that no foreign coins were struck by the U.S. Mint those years on bronze-clad steel planchets, virtually eliminating the possibility that the piece was struck on a foreign coin planchet.

The source providing the piece to *Coin World* related the story of how Mint officials took the experimental pieces to the Alan Wood Steel Co. in Pennsylvania 20 years ago. According to the source, at least 40 bags of the experimental pieces – 200,000 pieces or more – were destroyed.

But not all of the pieces were destroyed, according to the source.

At least nine and as many as a dozen 1974 Lincoln cent experimental pieces struck on bronze-clad steel planchets reportedly survived the furnace.

According to the source, the bags of experimental cents were shoved down a chute from the third floor to a basic oxygen furnace on the second floor. The source said the cents were under heavy guard by five Mint guards.

As the bags were being placed onto a lift to be transported to the chute, one bag fell to the floor and burst open, scattering the experimental pieces across the floor. The Mint guards made the employees move away from the spilled cents as they swept them up for melting.

According to the source, as the cents from the burst bag poured down the chute, a gust of wind blowing through the plant picked up 10-12 pieces and blew them onto the floor of the furnace, which had not yet gone into operation. The five pieces possessed by the source came from those dozen or so survivors. Another three pieces may exist in burnt condition.

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EXHIBIT D

COIN WORLD 10/17/05 Pg. 02 (Archive reprint)

Aluminum 1¢ ‘changes’ grade

PCGS grades cent MS-62; formerly ICG AU-58

By Paul Gilkes

COIN WORLD Staff

The only known privately owned example of a 1974 Lincoln cent experimentally struck in aluminum has been regraded four points higher than the grade previously assigned by another firm, and is now called Mint State rather than About Uncirculated.

After less than two months of being encapsulated in an Independent Coin Grading Company slab as authentic and grading About Uncirculated 58, Professional Coin Grading Service graders have also certified it as genuine but assigned it a grade of Mint State 62.

The aluminum cent reportedly had been retrieved by a U.S. Capitol police officer after being dropped by a member of the U.S. House of Representatives following a hearing concerning changing the composition of the cent because of rising copper prices. Mint officials had distributed examples of the 1974-dated experimental strikes during hearings into the proposed alloy change; members of Congress and some staff reportedly received the test strikes.

However, despite this public distribution, Mint officials assert that the pieces cannot be held privately, and say any extant pieces are subject to confiscation.

PCGS President David Hall confirmed Sept. 26 to *Coin World* that graders at the grading service in Newport Beach, Calif., had examined the aluminum cent, determined it to be genuine, then graded it MS-62 before encapsulating it and returning it to its owner. Hall told *Coin World* that after the piece was authenticated, graders examined the coin's condition and considered it Uncirculated, with no signs of circulation marks.

That puts PCGS graders at odds with graders at ICG, based in Englewood, Colo., who graded the same 1974 Lincoln aluminum cent at AU-58. Keith Love, ICG founder and president, told *Coin World* Sept. 29, "The ICG graders were unanimous in calling the coin AU-58."

Unlike the ICG grading insert that identified the aluminum cent as the "Toven Specimen," named after the individual who reportedly recovered it in the District of Columbia, the PCGS grading insert is absent such attribution. While the aluminum cent has its own PCGS registration number, Hall said there are no immediate plans to publish the piece in the PCGS Population Report of certified coins and patterns.

The Toven piece is the first example in private possession to be publicly acknowledged. Anyone who possesses one of these pieces faces its possible confiscation.

The Mint for more than 30 years has considered all 1974 Lincoln aluminum cents subject to seizure, but the bureau has no enforcement powers, so the matter will be left up to the U.S. Secret Service to pursue, if the agency so desires. *Coin World* learned the issue has been under investigation by the Secret Service's Criminal Division since mid-July, but no decision has been reached as to what course of action might be taken, if anything.

"The position of the United States Mint regarding aluminum one-cent pieces, bearing the year 1974, has been consistent for the nearly three decades since the agency minted them," the Mint's chief counsel, Daniel P. Shaver, told *Coin World* soon after ICG's July 1 announcement. "The United States Mint produced these pieces solely as experimental prototypes. None of these prototype coins was ever issued by the secretary of the Treasury or otherwise lawfully released for private ownership. Accordingly, the United States Mint regards all of these pieces as property belonging to the United States and, as such, no one may lawfully circulate, sell, buy, or own them." Moreover, because the United States Mint produced these pieces pursuant to its mission of performing a constitutional power reserved to the federal government, no party may acquire any right or title to one of these pieces, regardless of how the party obtained it. It is therefore the United States Mint's position that any person who possesses one of these aluminum pieces is obligated to return it to the ... Mint."

Although examples of the 1974 Lincoln aluminum cent are considered by U.S. Mint officials as illegal to own, federal authorities, including at the Mint, have been in no great hurry to seek confiscation of the Toven piece. At least one legal specialist representing the collecting community disagrees with the Mint's position on private ownership.

Armen Vartian, PCGS's legal counsel and author of the monthly *Coin World* column, "Collectibles and Law," believes the Toven example is legal to own if the provenance is what the owner claims it is.

According to published reports as well as the owner of the cent, on-duty U.S. Capitol Police Officer Albert Toven saw a U.S. Representative drop the cent in the basement of the Rayburn Office Building in late 1973. Picking it up, he ran after the representative to return what he thought was a dime, but was reportedly told by the member of Congress to keep it. Toven later realized it was not a dime, but an aluminum cent. Toven kept the piece, frequently re-telling the story of how he came to own it and showing it at every opportunity until it became part of his family's history, according to ICG officials. Officer Toven is now deceased.

Relatives of the late police officer have declined to discuss the aluminum cent since ICG made its July 1 announcement.

The story behind the Mint's striking of the 1974 Lincoln aluminum cent is well documented. In the early 1970s, copper prices steadily rose on the international market. By the summer of 1973, the value of the copper content in the cent and the coin's manufacturing costs nearly exceeded the denomination's face value. As a result, the Mint began looking for alternative metals.

After testing seven different alloys of aluminum and other compositions, including bronze-clad steel, Mint officials in December 1973 requested Congress approve legislation that would give the secretary of the Treasury authority to adopt an aluminum alloy for the cent.

The proposed legislation was referred to the House Banking and Currency Committee and the Senate Banking, Housing and Urban Affairs Committee. Meanwhile, the Mint had already begun striking the 1974-dated aluminum coins, using regular production Lincoln cent dies.

Mint records indicate that 1,571,167 of the aluminum cents were struck over the course of two production runs. In order to show congressional leaders what the coins would look and feel like, 14 of the trial pieces were given to the committee members and their staff members - nine to House committee members and staff, and five to Senate committee members and staff. Other pieces were also distributed to Mint and Treasury officials.

With the fall of copper prices in 1974 and opposition from members of the vending machine industry, who contended the aluminum cents would not work in vending machines, the proposal never got out of committee. Mint officials, lacking any authority to change the cent's composition, decided to melt the million and a half pieces that had been struck.

In preparation for the destruction of the coins, Mint officials asked congressional members and staff to return the pieces that had been distributed. Some of the distributed pieces were returned to the Mint, but not all. Several pieces were claimed as lost. One staff member gave the piece in his possession to the National Numismatic Collection at the Museum of American History at the Smithsonian Institution in Washington, D.C., where it remains.

Several examples of the experimental 1974 Lincoln bronze-clad steel cents have also been reported. A *Coin World* staff member has examined one of those pieces in the publication's offices.

The bronze-clad steel example, struck during the same round of experimentation that resulted in the aluminum cent, is also considered illegal to own.

Images courtesy of Independent Coin Grading Company.

PCGS GRADERS CONSIDER this 1974 Lincoln aluminum cent to grade MS-62, which puts them at odds with ICG graders, who graded the same piece earlier calling it AU-58.

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EXHIBIT E*COIN WORLD* 08/22/05, Pg. C1 (Archive reprint)**Mint officials to expand
archives history online***Will post more production information***By Paul Gilkes**
COIN WORLD Staff

The United States Mint is planning to put more of its production history online at the Mint's Web site at www.usmint.gov.

During the American Numismatic Association World's Fair of Money July 27 to 31 in San Francisco, the Mint's booth showcased an exhibit from the Office of the Historian featuring a collection of unique historical artifacts, many of them on public display for the first time.

Original photographs that chronicle a portion of the agency's 213-year history, including the aftermath of the devastating 1906 San Francisco earthquake along with pictures of the original transfer of gold bars to the Fort Knox Bullion Depository in Kentucky were among the memorabilia displayed. Original, hard-bound annual reports from the late 19th and early 20th century are included in the display, as well as original ledgers, die books and other United States Mint documents offering a fascinating glimpse into the operation of America's coin maker.

The displayed items were exhibited in conjunction with the Historian Corner demonstration of the Web site the Mint hopes to have up and running in the near future.

Additionally, the Mint exhibited:

- U.S. Mint daily coinage ledgers from the Philadelphia, Denver and San Francisco production facilities from 1925 to 1935

- A New Orleans Mint ledger for 1838 to 1893

- Philadelphia Mint foreign coinage die ledgers

- Photographs of various Mint facilities (ranging from the 1930s through 1970s)

- A Jefferson galvano

- Annual Reports for 1879, 1906, 1938 and 1975

- The book Instructions and Laws Governing Assay Offices

- Assay Office letters from 1930 through 1936

Visitors to the U.S. Mint's booth were also able to view a video of Virtual Tour II - Numismatics.

Following the launch of last year's Virtual Tour, which detailed the systematic circulating coin production process, the sequel - Virtual Tour II - allows viewers to see numismatic production processes. Virtual Tour II made its debut on the United States Mint Web site in late July

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**TESTIMONY OF LARRY R. FELIX, DIRECTOR
BUREAU OF ENGRAVING AND PRINTING
UNITED STATES DEPARTMENT OF THE TREASURY**

BEFORE THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND
TECHNOLOGY

To be submitted for the record

July 19, 2006

Chairman Pryce, Representative Maloney and members of the subcommittee:
Thank you for holding this hearing and inviting me to testify. I appreciate the
opportunity to report on the initiatives of the Bureau of Engraving and Printing
(BEP).

MISSION OVERVIEW OF THE BEP

The BEP is the security printer for the United States. While our primary product
is Federal Reserve notes, we also produce other security documents on behalf of
Federal agencies. The BEP uses state-of-the-art equipment, in combination with
the exceptional technical competence of our workforce, to efficiently produce
billions of Federal Reserve notes each year.

The BEP's operations are financed through an industrial revolving fund; so, we
do not receive annual appropriations from the Congress. Instead, the BEP is

reimbursed directly by our customers for the products that we produce. By far, our largest client is the Federal Reserve. At the end of 2005, BEP ended the production of postage stamps. The BEP had produced U.S. postage stamps on behalf of the Postal Service since 1894.

The BEP operates from two locations: the Washington, DC Facility at 14th and "C" Streets, S.W. and the Western Currency Facility, situated in Fort Worth, Texas. The Western Currency Facility prints approximately fifty-five percent of the Bureau's annual currency output.

U.S. CURRENCY ANTI-COUNTERFEITING PROGRAM

The goal of staying ahead of technological threats to our currency, rather than simply responding to an existing threat, requires the U.S. government to plan ahead and regularly develop new designs for currency. This means that new currency must be in development several years before the counterfeiting threat is projected to materialize.

In the mid-1990s the Bureau introduced the first major redesign of U.S. currency in 65 years. The design changes were needed to combat the emergence of a new breed of counterfeiters who were beginning to employ computers, scanners, color copiers and other emerging technologies to replicate notes. All notes, \$100, \$50, \$20, \$10 and \$5, with the exception of the \$1 and \$2 denominations,

were redesigned by the turn of the century. This design of currency was effective in combating counterfeiting threats that existed then by making it more difficult to produce a high quality counterfeit note.

Nonetheless, due to the increased availability of sophisticated digital equipment, the Advanced Counterfeit Deterrence (ACD) Steering Committee, comprised of representatives from the Department of the Treasury, Federal Reserve, U.S. Secret Service and BEP concluded that further actions were necessary to stay ahead of emerging counterfeiting threats. Consequently, U.S. currency was further enhanced with the introduction of the current design series (Series 2004) that features background colors and improved security features. Redesigned \$20, \$50 and \$10 notes were introduced into circulation in 2003, 2004 and 2006, respectively. Recently, the BEP and Federal Reserve announced that a redesigned \$5 note is expected in 2008, with a new \$100 note to follow. The government has no plans to redesign the \$1 and \$2 denominations.

The redesigned Series 2004 notes contain an array of counterfeit deterrent security features, some of which are visible and easily recognizable to the public (subtle background colors, symbols of freedom, a watermark, security thread and color shifting ink) and some of which are covert or machine readable only. The "signature" feature of the redesigned notes is an anti-digital counterfeiting system that was developed under the auspices of the Central Bank Counterfeit Deterrence Group in cooperation with major digital printer and software

manufacturers. The U.S. effort on this initiative was led by the Federal Reserve. The anti-digital system, which is being used in a number of countries, relies on a hidden "marker" embedded in the note's design that can be read or detected by new technology digital printers and software. This new systemic design feature heralds a vibrant and growing partnership between the public and private sector to protect the Nation's currency, and is intended to thwart increased counterfeiting of currency using digital reprographic technology. This is a significant investment in the future of currency and will greatly assist in preventing counterfeiting as the anti-digital technology becomes dominant in the marketplace.

In addition to the security features mentioned above, plans for the redesign of the \$100 note include major changes reflecting the addition of new overt features intended to deter increasingly sophisticated counterfeiting activities directed at the \$100 note.

PUBLIC EDUCATION PROGRAM

In cooperation with the Federal Reserve, BEP administers a public education program to support the introduction of new currency designs. The goal of this program is to build an adequate threshold of awareness to ensure seamless, "business as usual" transitions as new currency designs are introduced to the public.

As I stated earlier, on June 29 the BEP issued a joint press release with the Federal Reserve and Secret Service announcing plans to redesign the \$5 note as part of ongoing security enhancements to U.S. currency. Following the announcement, outreach was conducted among our contacts in the transit, financial, vending, retail and gaming industries, as well as manufacturers of cash-handling equipment, to provide ample time to these stakeholders to prepare for the introduction of the new note.

The BEP is progressing with its solicitation to acquire public education services over the next five-year period. Technical proposals have been received and are under review. We expect to award a contract this fall. Most of the duties associated with this contract will entail providing educational support for the introduction of the new \$5 note in the spring of 2008 and a redesigned \$100 note in fiscal year 2009.

Public education outreach to support the new \$100 note will be especially vital given that the value of one-hundred dollar notes comprise roughly 72% of the estimated \$762 billion of outstanding U.S. currency, an estimated two-thirds of which is held outside the borders of the United States.

EFFICIENCY AND EFFECTIVENESS INITIATIVES

There are a number of initiatives that the BEP is in the process of implementing to enhance the efficiency and effectiveness of the organization, such as the introduction of a new 50-subject printing production process, enhanced employee development programs, and implementation of functional re-alignment to promote synergy and streamline the organization. While my tenure as BEP Director is only a few months old, I am eager to push the BEP to securely produce products of the highest quality in the most cost effective manner possible.

CONCLUSION

This concludes my opening remarks, Madam Chairman, and I will be happy to respond to any question you or other members of the Subcommittee may wish to ask. Thank you.

**House Financial Services Committee
Subcommittee on Domestic and International Monetary Policy, Trade and
Technology
Hearing on Coin and Currency Issues
Wednesday, July 19, 2006; 2:00 p.m.**

**Testimony of Dr. Brent D. Glass, Director of the Smithsonian Institution's
National Museum of American History, Kenneth E. Behring Center**

Good afternoon and thank you to Chairman Pryce, Ranking Member Maloney, and all the Members of the Subcommittee for inviting me to testify before you here today. My name is Brent Glass and I am the Director of the Smithsonian Institution's National Museum of American History. As you know, the legislation offered by Congressman Frank Lucas — H.R. 5077, the Numismatic Rarities Certainty Act of 2006— would require that the proceeds from a government coin auction be deposited in an endowment fund for the National Numismatic Collection at the Smithsonian Institution. The purpose of my testimony today is to tell you about this collection, and how these proceeds would be used if we were to receive them.

The National Numismatic Collection is one of the largest numismatic collections in the world and the largest in North America. Located in the National Museum of American History, the collection includes approximately 1.6 million objects. There are more than 450,000 coins, medals, and decorations and 1.1 million pieces of paper money in the collection, highlighting the entire numismatic history of the world. The collection also contains many great rarities in coins and currency, from the earliest coins created 2,700 years ago up to the latest innovations in electronic monetary exchange, as well as fascinating objects such as beads, wampum, dentalia, and other commodities once used as money.

The collection emphasizes the development of money and medals in the United States. The core of the U.S. collection, more than 18,000 items, came to the Smithsonian during the 1920's from the United States Mint and includes many exceptional rarities such as the Brasher half doubloon and the 1849 double eagle (both unique specimens): two 1877 fifty dollar patterns; a 1913 Liberty head nickel, one of five known; all three varieties of the 1804 dollar; and *two* examples of the world's most valuable coin, the 1933 Double Eagle.

It is also important to note that the National Museum of American History is about to experience major changes as part of a renovation to the building. In September, the Museum will close for a two-year renovation that will renew the center core of the Museum, as well as allow some much needed updates to the building's infrastructure and critical systems. In August 2004, the initial preparations for this renovation required us to close the "The History of Money and Medals" exhibition which had been home to a portion of the numismatics collection for 40 years. However, the closure of this exhibition actually created more opportunities for us to display and use the collection in new and exciting ways that we think are more meaningful and engaging to our visitors.

For example, several of the coins in the former Hall, as well as a few others which had not been on public display for years, are now contained in our “Legendary Coins & Currency” exhibition on display through March 2007 in the Smithsonian Castle on the National Mall. This exhibit contains 56 objects including coins, bills, medals and captivating oddities. A companion Web site, americanhistory.si.edu/coins, allows the museum to reach audiences beyond those who come to Washington.

With the help of initial private funding from the numismatic community, we are initiating a new traveling exhibition program beginning this August, when a small selection of objects, under the title of “Frontier Gold,” will be on view at the American Numismatic Association’s World Fair of Money convention in Denver. Other displays will travel to conventions in Orlando, Fla. in Jan. 2007, to St. Louis, Mo. in April 2007 and Baltimore, Md. in August 2007 so that more Americans, especially the young audiences, can learn about these important objects and the history they represent.

To facilitate the traveling exhibits — as well as many of the other plans for the Numismatics Collection which I will share with you in a moment — we would like to establish a National Numismatic Collection Endowment which would provide a dedicated funding source for the preservation, continued security and display of these national treasures for years to come. The total size of this endowment is proposed at \$10 million. Importantly, any funds directed to the Smithsonian as a result of the legislation offered by Mr. Lucas would be made part of this endowment and hopefully would help us reach and even surpass this fundraising goal.

Funding from the Endowment will allow us to hire additional dedicated curatorial and administrative staff to oversee the collection, create rotating temporary exhibitions of the collection right here in the National Museum of American History, collaborate with other venues (such as the International Monetary Fund Center, the American Numismatics Association, and the U.S. Mint) to develop temporary exhibits, and organize a national tour of small displays. The funds also will allow us to pursue new collecting opportunities to secure new objects that address gaps in the collection. In addition, we plan to increase our outreach to individuals in communities outside Washington, D.C., by enhancing the collection’s existing Web site with virtual exhibitions and a searchable image database. Educational outreach and public programs, including school curricula, guest speakers and visiting scholars, also would be made possible by the endowment, as would the establishment of a travel fund to allow staff to attend conventions and coin shows to continue building relationships with the numismatic community.

We at the Smithsonian know that the history of America cannot be told without considering America’s coins and currency. In order to understand the American Dream and American identity, one has to know about American money and economics. That is why it is so important to us to protect and share the National Numismatic Collection with the American public, a task that would be greatly supported by the funds generated by this legislation.

Thank you for your time and I would be happy to answer any questions you may have.

STATEMENT OF MR. SCOTT JOHNSON

**Deputy Special Agent In Charge
Criminal Investigative Division
United States Secret Service**

**Before the Subcommittee on Domestic and International Monetary Policy, Trade
and Technology**

Committee on Financial Services

U.S. House of Representatives

July 19, 2006

Good afternoon, Chairman Pryce. I would like to thank you, as well as the distinguished Ranking Member, Ms. Maloney, and the other members of the subcommittee for providing an opportunity to discuss currency issues and trends in counterfeiting, as well as the introduction of new Federal Reserve Notes.

The United States Secret Service was established in 1865 to protect our fledgling financial infrastructure through the investigation of the counterfeiting of U.S. currency. At the time, a strong investigative agency was needed to combat the escalating problem of counterfeiting, as it was estimated that between one-third to one-half of all currency in circulation in post-Civil War America was counterfeit. Our mission to protect our payment systems and financial infrastructure continues as we mark 141 years of service to this country.

As you are aware, the Secret Service officially became a part of the Department of Homeland Security in March of 2003. Though our agency is no longer a component of the Department of the Treasury, we continue to maintain our historic ties and a robust partnership in the safeguarding of our currency and other payment systems. The Secret Service strongly believes that economic security is a central element of homeland security; therefore, the safeguarding of our financial infrastructure and monetary framework continues to be a paramount objective of our worldwide investigative efforts.

Trends In Counterfeiting

We continue to see the expanded, international use of the U.S. dollar as the world's currency of choice. Of the approximately \$762 billion dollars of genuine U.S. currency in circulation, roughly two-thirds of that amount circulates outside of our borders, making the U.S. dollar a truly global currency. In addition to "dollarized" economies – those nations that have adopted the U.S. dollar as their own currency – businesses and individual interests worldwide depend upon the integrity and stability of the U.S. dollar. This is why counterfeiting activity has such a profound effect on not only our economy,

but the economies of other countries as well. As we are all aware, counterfeiting reduces consumer confidence in our currency and has the potential to affect the perception, and thereby the strength, of the dollar and all dependent economies.

Because of the dollar's stability and value, as well as its widespread use overseas, it continues to be a target for transnational counterfeit activity. The counterfeiting of U.S. currency also continues to be associated with organized crime and drug trafficking. Recent trends in the counterfeiting of U.S. currency indicate a growing globalization in production and distribution of counterfeit notes. Because not all nations report U.S. counterfeit currency activity, it is difficult to provide precise figures detailing how much counterfeit U.S. currency is passed on a global scale each year. However, being the U.S. depository for counterfeit currency, the Secret Service received approximately \$56 million in counterfeit that was passed to the U.S. public in FY 2005.

Approximately \$52.6 million in counterfeit U.S. currency was seized last year by the Secret Service and other authorities worldwide. Of this amount, approximately \$14.7 million was seized in the United States. The remaining notes were seized overseas, with over \$14.4 million seized in Colombia alone.

It is also interesting to see the different methods utilized by counterfeiters both within the United States and outside of our borders. Last year, more than 44% of all counterfeit currency passed domestically was printed outside of the U.S. using traditional printing techniques, predominantly offset lithography. Virtually every note that was produced overseas and passed in the U.S. was produced by offset printing. In contrast, 46% of the counterfeit currency passed domestically last year was produced within the U.S. by individuals using digital technology such as computers, scanners, printers and multi-function devices.

In recent years, the Secret Service has enhanced its international anti-counterfeiting efforts. Today, our agency maintains 20 foreign offices and continues to target strategic locations throughout the world where significant counterfeiting activity is detected through joint task forces with our foreign law enforcement partners. Our investigative history has proven that the effective suppression of counterfeiting operations requires a close partnership between our foreign field offices and their local law enforcement counterparts, as well as an immediate response by the law enforcement community in order to develop investigative leads generated when a new counterfeit note is detected or an arrest is made. The Secret Service has long believed that the strategic placement of personnel promotes more aggressive law enforcement operations because agents are able to respond in a timely and consistent manner. Also, the ongoing presence of our agents in foreign field offices allows the Secret Service to build the same trusted partnerships with our foreign law enforcement counterparts as we have successfully built with our local police partners in the United States.

Today, Colombia is the second largest source of counterfeit U.S. currency in the world (after digitally-produced notes), accounting for approximately 14%, or \$8 million, of the \$56 million in counterfeit dollars passed in the United States last year. Colombian

counterfeiting operations tend to employ many of the same distribution networks and methods as those used in the trafficking of narcotics. A trend has emerged that indicates counterfeiting activity may increase in Latin America as Colombian organized crime and others take advantage of the counterfeiting opportunities associated with dollarization. Counterfeit printing plant suppressions and seizures in Colombia show that a number of Colombian counterfeiters are producing lower denomination counterfeit notes for distribution in fully dollarized countries.

In May of 2001, the Secret Service entered into a historic agreement with the government of Colombia to combat organized financial crime. This agreement included the establishment of a vetted anti-counterfeiting force (VACF) using agents from the Departamento Administrativo de Seguridad (DAS) and the Departamento de Investigaciones Judiciales de Inteligencia (DIJIN) of the Colombian National Police.

These VACF units work in conjunction with Secret Service agents from our Bogotá Resident Office in the identification and suppression of counterfeiting operations in Colombia. As of July 1, 2006, the cooperative effort between the Secret Service and Colombian law enforcement has resulted in the seizure of \$180 million in counterfeit U.S. currency, the suppression of 63 manufacturing operations, 360 counterfeit-related arrests, as well as the seizure of miscellaneous contraband (narcotics, explosives and firearms, and counterfeit U.S. visas).

An important aspect of this collaboration has been the enhancement of Colombian laws relating to counterfeit U.S. currency. A new Colombian counterfeiting statute mandates that anyone possessing over \$10,000 in counterfeit U.S. currency serve a minimum of three (3) years and a maximum of eight (8) years in prison, with no possibility of probation.

As a result of these efforts, there has been a 56% reduction in Colombian-produced counterfeit currency passed in the United States, from approximately \$19.5 million passed domestically in FY2001 to approximately \$8.6 million domestically passed in FY2005. This collaboration with the Colombian government has been a success story, and the Secret Service is eager to work with this subcommittee and the Congress to obtain the authority to continue these efforts both in Colombia and other troubled regions.

The “Supernote” – Quality vs. Quantity

The economic and social conditions that fostered significant counterfeiting of U.S. currency in Colombia are not restricted to South America. One family of counterfeit notes that has garnered significant recent media attention due to its very high quality as well as its origin is the “Supernote.”

The Supernote was first detected in 1989. Its primary significance is that it is of such high quality that it often goes undetected until it reaches a Federal Reserve Bank. Since its first appearance, the investigation into its origin and distribution has been one of our most significant strategic cases with national security implications. This investigation

thus far has resulted in more than 170 domestic and foreign arrests and involved more than 130 countries.

The Supernote primarily circulates outside of the United States. Supernote refers to a family of different versions of \$100 and \$50 denomination counterfeit notes. The note is printed using the same intaglio and typographic printing methods as those employed by the U.S. Bureau of Engraving and Printing in the production of genuine U.S. currency. It is also printed on reverse engineered paper similar in composition to that used in the printing of genuine U.S. currency, to include security features such as red and blue security fibers, a security thread, and a security watermark.

This family of counterfeit can be described as evolutionary. These notes continually evolve, and over time, we have discovered better and more deceptive versions of the Supernote. These new versions show corrections or improvements in the flaws that are used by banking and law enforcement to detect them.

Based upon the Secret Service's investigative efforts, the Department of Justice has publicly identified a clear connection between these highly deceptive counterfeit notes and the Democratic People's Republic of Korea (DPRK). Without question, the Supernote continues to be produced and distributed from sources operating out of North Korea.

The first Supernote was detected by a Central Bank cash handler in the Philippines more than 16 years ago. Since then, the Secret Service has verified approximately \$50 million of the Supernote globally, which equates to seizures of approximately \$2.8 million annually. This amount is comparatively low in contrast to other known counterfeits. During the same time span as that of the Supernote investigation, our investigation into Colombian-produced counterfeit yielded seizures in excess of \$380 million. The amount seized is also low when compared to the large volume of genuine U.S. currency in circulation worldwide.

This leads us to the true concern regarding this family of notes. The disturbingly high quality of these notes, and not the quantity circulated, is the primary cause of concern for the Secret Service. As we just illustrated with the statistics provided above, the Supernote may not appear to bear a significant impact on the U.S. economy, based upon the comparatively low volume of notes passed. However, the injection of the Supernote into a micro economy can have a significant impact, not only due to the monetary losses sustained as a result of the Supernote passes but also because of the loss of integrity of the U.S. dollar. An example of this effect was seen in Taiwan in 2004 and in Peru in 2005. Many financial institutions and merchants in both of these countries refused to accept any \$100 notes after banks discovered small caches of Supernotes.

The Secret Service has developed and employed a three-pronged strategy to address the distribution of this counterfeit note. The first part of this strategy focuses on containment based upon an aggressive investigative response to all appearances of this counterfeit. Secret Service agents posted around the world work closely with foreign counterparts to

identify and arrest distributors of this counterfeit as rapidly as possible. Coordination of large scale investigations internationally can be very difficult, particularly when cooperation efforts and laws regarding currency counterfeiting differ from country to country.

The second part of our strategy focuses on disruption. With the support of the international law enforcement community through their representation at Interpol, this strategy seeks to deny the supplies and equipment required to manufacture high quality counterfeit.

The third part of our strategy focuses on education. The Secret Service provides global, detailed training seminars to financial institutions and law enforcement on the detection of counterfeit currency. These seminars are designed to equip cash handlers with the information necessary to detect these counterfeits. In the past year, the Secret Service has provided 138 training seminars in 23 countries, training approximately 7,800 financial institution and law enforcement personnel in support of our education strategy.

New Federal Reserve Notes

As new technologies continue to emerge, the challenges facing law enforcement are significant. The rapid and continual advancement of reprographic technology has enabled an expanding criminal element to conduct a variety of crimes. These advancements mean counterfeit currency and other obligations can be reproduced quickly and efficiently. Today's criminals need relatively little knowledge or specialized training to print counterfeit currency or other financial obligations. Utilizing equipment ranging from inexpensive, multifunction devices such as scanners, computers and printers, to large commercial presses, a counterfeiter or criminal organization can flood a region with counterfeit currency.

Domestically, the Secret Service is attacking counterfeit production and circulation from several fronts. First, with our partners in the Department of the Treasury and the Federal Reserve, we are continuing with the redesign of our currency. As a member of the Advanced Counterfeit Deterrence Steering Committee (ACD) and the Interagency Currency Design Committee (ICD), we have an active role in the research, design, and introduction of the new currency. The Secret Service is continually evaluating the methods currently employed by the counterfeiters and studying cutting-edge anti-counterfeiting technologies to enhance future redesigns of U.S. currency.

The Secret Service is also continuing our public education and training efforts in our strategy to suppress the manufacturing, distribution and sale of counterfeit U.S. currency, both domestically and abroad. Secret Service personnel conduct training seminars on topics such as financial crimes and computer forensics in an effort to augment the Secret Service's mission.

In 2006, the Bureau of Engraving and Printing (BEP) introduced the newly-designed \$10 FRN. As the subcommittee is aware, the BEP has recently announced plans to introduce the new design for the \$5 FRN, and a design change for the \$100 will follow.

Chairman Pryce, this concludes my prepared remarks. I would be pleased to answer any questions that you or members of the subcommittee may have.

TESTIMONY OF DAVID A. LEBRYK, ACTING DIRECTOR
UNITED STATES MINT

BEFORE THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON DOMESTIC
AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY

General Coin Issues and
H.R. 5077, "Numismatic Rarities Certainty Act of 2006"
JULY 19, 2006

Chairman Pryce, Representative Maloney, members of the subcommittee, the United States Mint welcomes this opportunity to report to you today. I am pleased to say that the United States Mint has never been busier, with 35 new coins at some stage of design and production, in addition to the manufacture of circulating coins for commerce at an average rate of 70 million per day. In the past year, we have launched many popular coins and coin products authorized by Congress, including five state quarters in the 50 State Quarters[®] series, the final two nickels in the Westward Journey Nickel Series, the John Marshall and Ben Franklin commemorative coins, the sold-out Marine Corps commemorative coin and American Legacy coin set and, most recently, the 24-Karat American Buffalo Gold Proof Coin and Bullion program. While we are pleased with the success of all of these programs, we are particularly proud of the success of the 24-karat program, which we were able to execute and offer to the public less than six months from the date of enactment of Public Law 109-145.

Despite significant challenges presented by rising base metal prices and increasing use of electronic transactions, the United States Mint has increased total revenue, cut costs, increased funds returned to the Treasury and made its products accessible to more and more Americans. Moreover, in Fiscal Year 2005, the United States Mint transferred

\$775 million to the Treasury General Fund, an increase of \$110 million over Fiscal Year 2004.

Total revenue increased by 7.3% to \$1,771.0 million as both circulating and numismatic (non bullion) lines of business realized revenue increases. Circulating revenue from coins shipped to the Federal Reserve Bank (FRB) increased 15 percent to \$1,114.8 million in Fiscal Year 2005. Demand for circulating quarters increased 18 percent to \$663.9 million, and demand for the circulating Sacagawea dollar coin increased by 120 percent to \$70.1 million. Numismatic program profits increased 78 percent from \$44.1 million in Fiscal Year 2004 to \$78.7 million in Fiscal Year 2005.

The United States Mint has reduced costs by producing coins more efficiently. We have embraced a lean manufacturing approach that has resulted in significant improvements in our manufacturing processes and overall efficiency. We are also working to extend die life, standardize equipment and improve automation. We have introduced new technologies to improve our design capabilities. The old coin design method--a drawing by hand turned into a clay model followed by a plaster model to be traced and cut into steel--is being replaced with a digital design process--a computer drawing scanned into an engraving machine.

Despite average metal price increases from Fiscal Year 2004--nickel by 13%, copper by 30%, and zinc by 25%--the unit cost of four out of six circulating coin denominations actually decreased in Fiscal Year 2005. But, as I stated in my letter to the Committee on

Financial Services on May 1, 2006, base metal prices have recently climbed dramatically. In Fiscal Year 2005, the United States Mint produced one-cent coins at a unit cost of \$0.0097 and produced five-cent coins at a unit cost of \$0.0484. These unit costs are the sum of four elements: metal, fabrication, labor/overhead and transportation. A variety of factors determines annual coin production costs, including quality and valuation of inventory, production volume, and metal costs. Therefore, current costs do not necessarily predict annual year-end results. At this point in time, the year-to-date cost of producing a penny and a nickel, using our existing metal inventory, is above face value (1.12 cents and 5.11 cents respectively). However, producing pennies and nickels using metal purchased at recent prevailing prices and assuming all other factors are unchanged, would result in a unit cost for the penny of approximately 1.4 cents and a unit cost for the nickel of approximately 7.0 cents. We look forward to working with Congress on this important issue.

Conversion costs refer to the costs of converting metal into coins. The ability to keep conversion costs down is critical to our success because of the rising cost of metal and fabrication—costs we cannot control. We have reduced our conversion cost per 1,000 coin equivalents by 26 percent over the past two years—from \$9.96 in Fiscal Year 2003, to \$7.93 in Fiscal Year 2004, and to \$7.42 in Fiscal Year 2005. We expect further gains in efficiency in Fiscal 2006 and beyond.

During the past three years we have also significantly reduced General and Administrative (G&A) costs. From Fiscal Year 2002 to 2005, we reduced G&A

expenses by 13 percent. This was accomplished by workforce streamlining and improved business processes, including time to market. In other words, we have speeded up the process of moving coins from legislation or authorization to sale and delivery to our customers. By improving time to market, we can offer our customers more products throughout the year and spend less time and money on pre-sales activities. Our focus on production planning and reducing time to market allowed us to release our 2005 annual products 21 to 141 days earlier than they were in 2004.

While improving our business and manufacturing efficiencies, we have maintained the integrity of our financial management systems. We have had 12 consecutive clean opinions. An internal audit required by OMB Circular A-123 and a recently completed independent annual audit of the United States Mint found no material weakness.

The United States Mint has vastly improved its safety record in the last three years and continues to emphasize safety. We reduced our Lost Time Accident (LTA) Rate from 5.0 per 200,000 hours worked in Fiscal Year 2000 to .8 at present. From Fiscal Year 2004 to Fiscal Year 2005 alone, we decreased LTAs by 31 percent. The Philadelphia facility received the Voluntary Protection Programs' STAR status from the Occupational Health and Safety Administration in 2005, its top award. This came only three years after the facility had been shut down for six weeks over safety concerns.

The United States Mint has also improved its environmental management. In May, we received the 2006 White House *Closing the Circle Award* for excellent environmental

management systems. The award recognizes Federal agencies and employees for outstanding achievement in environmental stewardship.

The United States Mint is engaged in workforce streamlining to meet its human resource needs. The current number of employees is 1944, down from more than 2800 in Fiscal Year 2000. We have transferred a number of HR functions to the Bureau of Public Debt's Administrative Resource Center (ARC), a center of excellence under the Administration's line of business initiative. ARC will also take over some functions under the Office of the Chief Financial Officer such as components of procurement, accounting and finance.

The United States Mint consistently ranks at the highest levels in customer satisfaction among government agencies and scores higher than private industry benchmarks for customer satisfaction. From 1999 through 2005, we have ranked at the top among federal agencies measured in the American Customer Satisfaction Survey. We monitor customer satisfaction internally in three ways: quality, as measured by the number of returns; efficiency, measured by orders fulfilled in seven days or less; and quarterly customer surveys.

The United States Mint's high level of performance continues in the current fiscal year. Despite rising metal prices since 2004, and significant price increases in Fiscal Year 2005, we currently project a transfer of approximately \$800 million to the Treasury General Fund in Fiscal Year 2006.

Last month we launched the 38th quarter in the most popular coin program in the history of the United States, the 50 State Quarters® program. More than 140 million state quarters collectors are counting down the remaining 12 states, as this wonderfully successful coin program comes to an end.

Currently, the United States Mint is energetically implementing the requirements of the Presidential \$1 Coin Act of 2005. In accordance with Public Law 109-145, we minted and issued the Nation's first 24-Karat American Buffalo Gold Coin within six months of the law's enactment. The initial success of the 24-Karat program is significant. In the first three weeks of the program, we sold nearly a quarter of a million ounces of 24-karat gold totaling more than \$150 million in revenue.

The other important elements of the Presidential \$1 Coin Program are proceeding on schedule, with Presidential coin designs completed and approved and the required hubs, plates and dies now in production. Designs for the First Spouse gold coins and bronze medals are in development. For the first time we will employ edge lettering on a circulating coin, allowing the date, mint mark and inscriptions "In God We Trust" and "E Pluribus Unum" to be incused into the edge.

Together with the Federal Reserve System, the United States Mint hosted a well-attended and well-received coin-users group forum on June 8th to discuss how to maximize circulation and acceptance of \$1 coins. Attending were representatives from depository institutions, armored car operators, food and beverage services, vending and coin

manufacturers, vending machine owners and operators, car washes and laundries, transit and parking authorities, coin dealers and collectors, and federal entities. We will continue to work closely with the Federal Reserve System and financial institutions, retailers, vendors, federal agencies and other coin users cited in the legislation in the coming months to increase circulation and acceptance of dollar coins. In coordination with the Federal Reserve System, we are devising a plan to place pre-orders from banks beginning in November.

In August, we will hold a Presidential \$1 Coin outreach forum with coin collectors at the American Numismatics Association's conference. We are organizing a forum with retailers, and working with the Federal Reserve Board to participate in upcoming Cash Advisory Committee meetings with large-scale depository institutions. We are also exploring regional opportunities with smaller depository institutions to facilitate participation by large retail chains and armored car operators.

Customer surveys conducted early this year along with a demand and acceptance study will help us gauge potential demand for the Presidential \$1 Coins and First Spouse coins and medals, and provide insights into appropriate production levels and distribution strategies. By early September, we will have enlisted the help of an experienced public relations firm to assist us in launching a public information and awareness campaign to ensure that the public, and consumers in particular, know of the availability of the coins. We expect to conduct this campaign consistent with the Sense of Congress that the coins "should not be introduced with an overly expensive taxpayer-funded public relations

campaign.” Through the fall and winter, we will create strong public awareness and build anticipation for the inauguration of the Presidential \$1 Coin Program and the launch of the first Presidential \$1 coin honoring George Washington on President’s Day, February 19, 2007.

We look forward and are committed to a successful program.

H.R. 5077 Numismatic Rarities Certainty Act of 2006. We turn from general information on recent United States Mint performance to the specific matter of H.R. 5077, a bill which, if passed and approved, would become the “Numismatic Rarities Certainty Act of 2006.” This bill contains several key provisions, including the creation of an inventory of coins, medals and numismatic items in the Government’s possession; an authorization to destroy certain coins, medals and numismatic items; and a requirement to transfer the proceeds from the sale of excess coins, medals and numismatic items to the Smithsonian Institution. The most significant provision, however, would summarily terminate the public’s ownership of any coin, medal or numismatic item made prior to January 1, 1933, if such item is not then in the possession of the United States Government as of the date of enactment.

The United States Mint’s mission is to fulfill our congressionally mandated role as the Nation’s coiner of money and, as we have done since 1792, we will continue to mint and issue coins, medals and numismatic items as authorized by legislation. In the broader context, the production, integrity, use, and security of our money is central to the

Treasury Department's mission and responsibilities. The United States Mint, in particular, has been vigilant in its efforts to ensure the security of its production facilities and the integrity of its operations. In recent years these efforts have included working with the Department of Justice and Federal law enforcement agencies, including the Secret Service and the Treasury Inspector General, to investigate instances of counterfeiting and allegations of internal theft and unauthorized production of numismatic rarities within our mints.

We are very proud of the successful efforts of our United States Mint Police in preventing and deterring such behavior. It was not long ago—in the late 1990's—that some of your colleagues had questioned whether the United States Mint was taking sufficient measures to protect the property in its custody and whether it was making the necessary efforts to prevent the production and removal of unauthorized pieces at its facilities. Our efforts over the last decade in particular have virtually put a stop to these incidents and we are particularly proud of that. Indeed, because of the numismatic community's attraction to so-called error coins, many hobbyists have commented that we have become too good at preventing them. I punctuate these efforts because they represent an abiding respect for the Congress's historic and unwavering commitment to the American people that the United States Mint—as well as any Federal agency—must vigilantly protect the public's property.

As you know, the Constitution grants the power to coin money to the Congress. By statute, Congress specifies the coins, medals, and numismatic items that the Secretary of

the Treasury is authorized to mint, strike, and prepare. Likewise, by statute, Congress specifies which coins, medals and numismatic items the Secretary is authorized to issue. Accordingly, the precursor to a coin, medal or numismatic item remains the property of the United States Government and the American people until the Secretary has minted, struck, or prepared it in accordance with law, and the Secretary has issued it in accordance with law. A coin, medal or numismatic item for which there was no authority to mint, strike, prepare, or issue—yet leaves the United States Mint through illegal or inappropriate channels—is a chattel that retains its status as public property belonging to the United States.

The United States Mint recognizes that over its long history, a handful of examples of so-called “mystery coins” have surfaced within the numismatic collecting community. Each of these examples has its own history and its own degree of legitimacy. Some of these examples, such as the 1943 copper Lincoln cents that may have been struck on copper planchets that remained in the press hopper from the 1942 production, may be the result of innocent mistakes. Although these coins are understandably numismatic rarities, they may very well have been legally struck and properly issued. Other examples are most certainly not as innocent, such as the 1933 \$20 gold double eagles, which the Secret Service and Federal courts determined were removed illegally from the Philadelphia Mint because there was no lawful authority to issue them.

Every so often, the United States Mint is asked to articulate its position on the legality of one or more of these examples. When there is a clear record that a coin was properly

struck and issued, we acknowledge its legitimacy. When the record is not as clear, we are understandably reluctant to provide assurances that may not withstand the scrutiny of subsequently discovered evidence.

We recognize and appreciate the concerns of the numismatic community regarding the desire for clear title to items claimed to be coins, medals and other numismatic items sold on the secondary market. But clearly, the numismatic community is not unique in this respect. Antique collectors certainly have similar concerns when they encounter potentially protected antiquities, art collectors face these concerns when they consider paintings that may have been commissioned by the Works Progress Administration, treasure hunters must deal with these concerns when they find the remains of sunken U.S. Navy shipwrecks, and even philatelists must be watchful of these concerns when they consider the purchase of error stamps. In all these cases, when the property in question might be public property belonging to the United States, these concerns have always given way to the more important principle that we are a nation of laws and, therefore, no Government official—even one who appears to be acting under color of official authority—can dispose of public property unless he or she actually has the lawful power to do so and does so strictly in accordance with the explicit terms of that power. Our courts have repeatedly upheld the principle that, unless lawfully disposed of, title to public property belonging to the United States remains permanently and indefeasibly in the citizens of the United States.

That is why, while the United States Mint appreciates the efforts of Congressman Lucas to lend certainty to the status of such numismatic rarities, we are particularly concerned that this proposed bill could have the effect of transferring title to rare antiquities, and other “national treasures” currently owned by the public, from the Government to the person who happens to possess it—and this transfer of title would occur regardless of whether a person unwittingly paid value to acquire the item, acquired it with knowledge or belief that it might be public property and was not legal to own, or worse, played a role in its illegal production or distribution.

If this bill goes forward, we see numerous unintended consequences as well. For instance, the bill would strip the public’s ownership of a coin, medal, or numismatic item given to the Government as a gift or bequeathal because it would exempt only those items that the Government reacquires “through value given in a sale or exchange.” Additionally, the bill would convert title to any coin, medal or numismatic item that the Government incidentally has on loan to a museum or any other party; this is because the bill categorically and summarily passes title to such items to the party who then happens to possess them.

But there is an even more glaring oversight in the bill’s draftsmanship: In the unlikely event that a thief could walk into a federal facility today and steal a numismatic rarity minted prior to 1933 from the National Numismatic Collection, this bill, if approved as drafted, would strip the public of its ownership of that coin, medal, or numismatic item and vest title to it in the thief. We are confident that the sponsors of the bill could not

have desired such an outcome, nor the unintended consequences evident in numerous other provisions of the bill.

In any event, the United States Mint respectfully submits that the status quo in this area of the law is preferable and that the proposed bill attempts to fix a problem that does not exist. The ostensible claim is that the uncertain status of these items is untenable. Yet, with the one exception of the 1933 Double Eagles, there has been no legal claim or litigation pertaining to any such coin, medal, or numismatic item in decades. Indeed, until earlier this year, we cannot recall of any person, since Louis Eliasberg dutifully returned a 1933 Double Eagle to the Director of the United States Mint on September 4, 1952, who has come forward with such an item, occasioned by a request or claim to quiet title.

Additionally, the bill's inventory, sale, and public auction mandates generally duplicate a satisfactory legal and procedural framework for the sale of numismatic items through the United States Mint, and the transfer or disposal of excess and surplus public property through the General Services Administration. This framework is functional and extremely fair; moreover, it already calls for agency officials to exercise sound judgment in determining whether such an item should be retained and preserved by the Government for historical, educational, or cultural purposes, or should be made available for private ownership through public sale or auction.

In conclusion, this bill puts the Department of the Treasury in an interesting position because it must choose to either support a small faction of the numismatic hobby that the United States Mint nonetheless regards as one of its vital stakeholders, or support the broader Government interest in protecting the public's property as trustee of the citizenry. With due deference to some in the hobby who would like to enjoy the windfall of knowing that they own, free and clear, national treasures that might belong to the public, we respectfully must support the latter position and inform you that the Administration opposes this legislation.

In conclusion, we are proud of the work of the men and women of the United States Mint, who strive to be good stewards of the taxpayer's money and fulfill our mission of producing coins and protecting America's assets.

The question posed by this hearing is "can we afford to make money?" We at the United States Mint are determined to prove the answer is "yes."

Ms. Chairman, thank you again for inviting me this morning. I would be happy to take any questions.

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Statement of

Louise L. Roseman

Director, Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System

before the

Subcommittee on Domestic and International Monetary Policy, Trade and Technology

of the

Committee on Financial Services

House of Representatives

July 19, 2006

Thank you for inviting me to discuss Federal Reserve activities related to currency and coin. I plan to touch briefly on new currency designs and currency counterfeiting trends, and then discuss in more depth the lessons that we have learned from earlier coin programs and how we may apply them in managing the new Presidential \$1 Coin Program.

Federal Reserve's Role in Currency and Coin Distribution

First, it may be helpful to describe briefly the Federal Reserve's role in currency and coin distribution. One of our key responsibilities is to ensure that enough currency and coin is available to meet the public's needs. In that role, the twelve regional Federal Reserve Banks provide wholesale currency and coin services to more than 9,500 of the nearly 18,000 banks, savings and loans, and credit unions in the United States. The depository institutions that choose not to receive cash services directly from the Reserve Banks obtain them through correspondent banks. The depository institutions, in turn, provide cash services to the general public.

Each year, the Federal Reserve Board determines the need for new currency, which it purchases from the Department of the Treasury's Bureau of Engraving and Printing (BEP) at approximately the cost of production. Our budget for the purchase of new currency for calendar-year 2006 is \$494.4 million. The Reserve Banks issue Federal Reserve notes at face value, and these notes are recorded as liabilities on the Reserve Banks' balance sheets. The Reserve Banks, as required by law, pledge collateral (principally U.S. Treasury securities) equal to the value of currency in circulation, which was approximately \$762 billion as of May 31, 2006. In 2005, we returned \$21.5 billion to the Treasury, primarily from earnings on securities purchased in the process of putting notes into circulation.

The Federal Reserve also provides coins to the nation's depository institutions, but its role is somewhat different than that for currency. The United States Mint issues circulating coins

that the Reserve Banks purchase at face value and record as assets on their balance sheets.¹

Reserve Banks distribute coins to the banking industry through two channels. First, the Reserve Banks directly accept some coin deposits and pay out some coin orders. Second, the Reserve Banks work with armored carriers, which operate coin terminals to hold, process, and distribute coin on behalf of the Federal Reserve. The 155 coin terminals store about 65 percent of the Federal Reserve's coin inventory and are a key focus of daily distributional activity. The value of U.S. coins in circulation as of May 31, 2006, was approximately \$37 billion, or about 5 percent of total currency and coin in circulation.

New Currency Design

Although the Secretary of the Treasury, and not the Federal Reserve, has authority to approve new currency designs, the Federal Reserve works collaboratively with the Treasury, the BEP, and the Secret Service to analyze and recommend counterfeit deterrence strategies to maintain the integrity of, and confidence in, U.S. currency worldwide. The latest series of U.S. currency began with the Treasury Secretary's approval of designs for Series-2004 \$50, \$20, and \$10 denominations that include new and enhanced security features that the public can use to protect itself from accepting counterfeit notes. Reserve Banks began issuing the newly designed \$20 notes to depository institutions in October 2003, the \$50 notes in September 2004, and the \$10 notes in March of this year. In June, the Treasury, the Federal Reserve, and the Secret Service announced the redesign of the \$5 note, which the Reserve Banks expect to begin issuing in the first quarter of 2008. The Board is currently working with the Treasury, the BEP, and the Secret Service on a new-generation \$100 note design that will include at least one additional security feature for the public to use.

¹ Coins are non-interest-earning assets on the Reserve Banks' books.

The value of personal computer-generated counterfeit currency passed into circulation has increased from less than one percent of total counterfeits passed domestically in 1995 to more than 50 percent in 2005. Because personal computer technology is generally the same throughout the world, the Federal Reserve works with the central banks of the G-10 countries and 16 other central banks in the Central Bank Counterfeit Deterrence Group (CBCDG), to develop and deploy a security feature designed to prevent personal computer software and printers from copying currency. The firms that make this software and equipment have been strong supporters of the CBCDG's efforts to prevent the use of their products in counterfeiting currency. The Federal Reserve will continue to support this collaborative work for current and future series of Federal Reserve notes. As more manufacturers' devices include the CBCDG counterfeit deterrence system, the Federal Reserve expects to see increasing effectiveness in deterring the digital counterfeiting of U.S. currency.

Overall, counterfeiting of U.S. currency remains at relatively low levels--due primarily to the combination of improvements in the notes' security features, aggressive law enforcement, and effective education that informs the public about how to verify its currency. Statistics continue to indicate that the value of counterfeit U.S. currency that has been passed into circulation worldwide is less than one-hundredth of one percent of genuine U.S. currency in circulation.

Presidential \$1 Coin Program

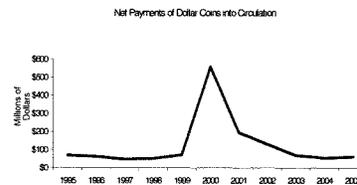
The Presidential \$1 Coin Act of 2005 establishes a program under which the Treasury will issue four new Presidential \$1 coin designs per year starting in 2007. In February, Federal Reserve and Mint staff began meeting regularly to establish plans for distributing the Presidential \$1 coins effectively. In addition, to help plan for the introduction of these new dollar coins and to gauge demand for, and anticipate obstacles to, their efficient circulation, we are consulting

with a wide range of coin users to gather ideas, advice, and information. On June 8, the Mint and the Federal Reserve jointly hosted the first \$1 Coin Users Group Forum, where we obtained input from representatives of banking, armored carrier, transit, automated merchandising, and numismatic organizations, as well as from other federal agencies. We are organizing additional meetings to identify and attempt to address potential barriers to circulation.

Since the beginning of the commemorative circulating coin programs seven years ago, the Federal Reserve has supported the Congress and the Mint in issuing new coin designs by distributing about 1.3 billion Sacagawea dollars, 28 billion state quarters, and 3 billion commemorative nickels. Our experiences with the Sacagawea Dollar, Fifty State Quarters, and Westward Journey Nickels programs provide the following insights that should be valuable in our management of the new Presidential \$1 Coin Program.

1. The last redesign of the dollar coin did not lead to a sustained increase in demand for the coin. Net payments of dollar coins into circulation rose to \$558 million in 2000 due to efforts to stimulate demand during the introductory period of the Sacagawea dollars.² Once the public satisfied its initial interest in collecting Sacagawea coins, demand for dollar coins returned to historical levels. In 2005, net payments of

dollar coins by the Reserve Banks totaled approximately \$61 million, which is about the same level of net payments experienced in the five years prior to the introduction of the Sacagawea



dollar. It is unclear at this point whether the Presidential \$1 Coin Program will have a substantial effect on the use of dollar coins in everyday transactions. The Sacagawea dollar has not been successful in substantially stimulating demand because it appears that some of the largest

² Net payments to circulation is defined as gross payments to circulation less gross receipts from circulation.

obstacles to dollar coin circulation do not relate to the design of the coin. Retailers are the primary mechanism for distributing coins to consumers, who receive them as change, so broad retailer acceptance is critical to widespread transactional use. While organizations that accept payment at vending machines or other automated equipment have indicated that dollar coins are a less-costly alternative than dollar notes for them, other sectors of the retail industry have indicated that their costs for using dollar coins are much higher than those associated with dollar bills. In addition, dollar coins do not have widespread consumer acceptance. Consumers seem to prefer to carry dollar bills, rather than weigh down their pockets with dollar coins.

A 2002 GAO study concluded that public resistance to using the dollar coin is the most substantial barrier to its widespread use in everyday transactions.³ The GAO stated that “until individuals can see that the coin is widely used by others and that the government intends to replace the dollar bill with the dollar coin, they will be unlikely to use the coin in everyday transactions.” So, should the government eliminate the dollar bill so that the public has no choice but to use the dollar coin? We believe, at this stage, that market forces, rather than government action, should determine the relative use of the dollar bill and dollar coin in our economy, particularly given that there is no compelling evidence that societal costs will decrease as a result of a shift to greater use of dollar coins.

2. The Reserve Banks have modified their distribution strategy to meet the needs of individuals who collect commemorative circulating coins. As a general rule, demand for coin for transactional purposes can be met by any of the circulating designs for that coin.⁴ For

³ *New Dollar Coin: Marketing Campaign Raised Public Awareness but not Widespread Use* (GAO-02-896), September 2002.

⁴ Some persons have stated that they would prefer not to receive the Susan B. Anthony dollar coin because it could be easily confused with the quarter. The Reserve Banks' largest cash customers have reported, however, no preference among their customers for one design of dollar coins over another.

example, a retailer that orders nickels or quarters from its bank typically does not care what design(s) it receives. Demand for a commemorative circulating coin by collectors, however, is design-specific. To meet collector demand for commemorative circulating coins, during an initial introductory period the Reserve Banks have suspended their normal practice of first paying out previously circulated coins to depository institutions and instead pay out only the new design. This introductory period ranged from about four weeks for the Fifty State Quarters and Westward Journey Nickels Programs to two years for Sacagawea dollars. Following these initial introductory periods, the Reserve Banks fulfill orders for coin from their inventories, irrespective of coin design. For the Presidential \$1 Coin Program, we are currently contemplating a thirty-day introductory period during which only the new coin design would be issued. A final decision regarding the length of the introductory period will be made later this year and may be adjusted over time in light of our experience.

3. The Federal Reserve and the Mint currently hold large inventories of dollar coins. On June 30, 2006, Reserve Banks held more than \$94 million in dollar coins, or enough inventory to meet current transactional demand for more than eighteen months. In addition, the Mint holds inventory of about 115 million Sacagawea dollars. Together, these inventories of dollar coins would meet current demand for the next three-and-a-half years. If this program does not spark broad use of dollar coins for everyday transactions, we expect Reserve Bank inventories will further increase with the issuance of each Presidential \$1 Coin design.

The Presidential \$1 Coin Act requires the Treasury Secretary annually to mint and issue Sacagawea dollar coins in quantities equal to no less than one-third of the total Presidential \$1 coins issued.⁵ As I noted earlier, it is far from certain that the Presidential \$1 Coin Program will stimulate increased demand for Sacagawea dollar coins in particular or dollar coins more

⁵ 31 USC 5112(n)(1)(B)(ii)

generally as a broad-based medium of exchange. Given that we have an ample supply of dollar coins to meet current market demand and that the Presidential \$1 Coin Program may increase supplies further, the Reserve Banks may not need to order more Sacagawea dollars from the Mint for a number of years. If the Presidential \$1 Coin Program does not stimulate substantial transactional demand for dollar coins, the requirement that the Mint nonetheless produce Sacagawea dollars would result in costs to the taxpayer without any offsetting benefits. In those circumstances, we would strongly recommend that Congress reassess the one-third requirement.

4. The need to distribute multiple coin designs poses continuing inventory challenges that must be managed carefully. In recent years, the Mint and the Reserve Banks have improved their forecasting of coin demand, and Reserve Banks have managed coin inventories from a national perspective to improve efficiency. These efforts have allowed the Reserve Banks, for example, to lower their orders from the Mint for each new quarter design from a peak of 1.6 billion for the Virginia quarter in 2000 to roughly 500 million for recently introduced state quarter designs.

Nonetheless, Reserve Bank coin inventory management remains a challenge. At their 2003 peak, Reserve Bank quarter inventories reached \$749 million, equal to about twelve months of net payments. Through reduced orders of new state quarters and careful inventory management, the current stock of quarters has been reduced to about \$383 million, still above our target range of \$182 million to \$325 million.⁶

⁶ Reserve Banks develop upper and lower bound targets reflecting the seasonal fluctuation of demand. The Federal Reserve and the Mint applied lessons learned from the Sacagawea Dollar and State Quarter programs to manage the distribution of the new Westward Journey Nickels designs. A number of factors seem to have influenced a more orderly rollout of the new nickels. Modest initial publicity about the new design tempered public demand, and perhaps most importantly, there were only two design changes each year. The Reserve Banks have been able to keep their inventories of nickels at relatively constant levels throughout the Westward Journey Nickels program. On June 30, 2006, Reserve Banks held approximately \$31 million in nickels, slightly less than the average monthly inventory in 2003, prior to the start of the program.

In forecasting demand for Presidential \$1 coins, we are working with the Mint to align both demand for ordinary commerce and from casual collectors with our goal of effectively managing Reserve Bank inventories. To do so, we are exploring options for providing the dollar coins to depository institutions in increments smaller than our standard of 2,000 and are planning to conduct a pilot program to assess the benefits of packaging the dollar coins in smaller rolls.

Conclusion

The Federal Reserve will continue to work to meet demand for currency and coin efficiently and effectively. I appreciate the opportunity to discuss these issues with you and would be happy to answer your questions.



Industry Council for Tangible Assets (ICTA), Inc.
PO Box 1365, Severna Park, MD 21146
PH: 410-626-7005 FAX: 410-626-7005
www.ictaonline.org
Eloise.Ullman@ictaonline.org

UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY

Hearing: Wednesday, July 19, 2006

Coin and Currency Issues Facing Congress: Can We Still Afford Money?

Mr. Chairman and members of the Subcommittee, my name is Fred Weinberg. I currently serve as Vice Chairman of the Industry Council for Tangible Assets (ICTA), the national trade association for rare coin, precious metals, and collectible currency dealers. Within the United States alone, it is estimated that retail rare coin sales totaled about \$10 billion annually, as of the end of 2005.

I am also a past president of the Professional Numismatists Guild (PNG) and have been a member of the American Numismatic Association for more than 38 years. I have been a full-time numismatist for the past 35 years and specialize in mint error coins, currency, and the minting process. A coin collector since age 12, I am currently the owner of Fred Weinberg & Company in Encino, CA. My company offers numismatic coin and trading expertise in the areas of US rare gold and silver coinage, and we buy and sell major mint error coinage of all types. In the numismatic community, my firm is recognized as an active force in the wholesale market, trading with dealers, banks, and investors nationally and internationally. I appreciate your inviting the Industry Council for Tangible Assets to testify before you today.

In mid-April, 2006, Representative Frank Lucas requested that ICTA gather input from the numismatic community for his bill, HR 5077, "The Numismatic Rarities Certainty Act of 2006," which he introduced on April 4, 2006. Consequently, I and a number of other leaders of the numismatic community met with ICTA staff to collect our ideas on the bill as introduced and to decide what, if any, amendments we would recommend to Congressman Lucas. This group then met with Mr. Lucas and his staff via conference call and subsequently provided Mr. Lucas with some suggestions designed to fulfill his purpose for introducing HR 5077. Most of these recommendations are included in this testimony.

HR 5077 will establish a clear definition regarding the legal private ownership of certain coins, medals and other numismatic items produced by the US Mint. Such clarity will

accomplish several goals that benefit both the US Treasury and the numismatic community, which include:

1. The numismatic community and relevant government agencies will have certainty as to which products may be legally owned and traded;
2. The US Treasury may save considerable financial, personnel, and other resources by avoiding extensive research and sometimes litigation in situations where a coin, medal or other numismatic item's presence in the marketplace is not clearly the direct result of recent, proven illegal actions;
3. Law enforcement resources will be freed to focus on more urgent matters since there will no longer be a need to pursue these essentially victimless situations; and
4. The American taxpayers' funds will no longer be spent on such technical matters from which there is no threat to the integrity of the US Mint, US Treasury, or the US money supply.

HR 5077 will also:

1. Provide for preservation of historically important numismatic items and create specific policy for the disposition of patterns, trial pieces, and other items, so they will not be lost for posterity at the discretion of an ever-changing administration of the US Mint and/or Treasury; and
2. Provide funding for the National Numismatic Collection at the Smithsonian Institution. This is an especially important provision since the historic National Numismatic Collection at the Smithsonian was closed last year. HR 5077 will provide for the preservation of our coinage which is part of our nation's cultural heritage.

Industry experts agree that the provision in HR 5077 that would officially declare all coins, medals, and other numismatic items produced before December 31, 1932, as legal to own and trade is acceptable and desirable.

From our experience, the items of most concern to the US Treasury have been a very small number of test or trial pieces, the 24K gold Sacajawea dollars, and the 1933 \$20 St. Gaudens gold coins. We understand many of Treasury's concerns and wish to help resolve any issues that might impede the passage of HR 5077.

Over time, proving whether an item left the Mint legally or illegally becomes increasingly difficult. We would suggest that if an item in question comes to the attention or possession of the Mint after 50, or even 75, years of the striking ("creation", "date," or some other determination of timeline origin) of the item, it is legal to transact unless there is clear documentation (a simple burden of proof that will rest with the Mint) that the item's return to the Mint was a requirement at the time of or within a reasonable time of its original distribution or release (for example, the 1964D Peace Dollar) or that the creation of the item was done without legal authority (such as the 24K Sacajawea Dollar). For future issues, "clear documentation" could be something as

simple as including in any cover letter or memo that accompanies the product to include some wording indicating that the Mint requires the item or items to be returned to the Mint. For example, this would make the 1974 Lincoln cents legal to own but still leave the 1933 St. Gaudens \$20 gold coins subject to dispute and/or litigation. The 50- or 75-year standard is a realistic time frame that would prevent those who might seek to benefit from such illegal activity from being able to do so in their lifetime.

Should the government seize numismatic items, it is our position that the government should be required to show that these numismatic items were removed illegally from any of the US Mint's facilities.

There are certain specific areas of concern to the numismatic community that the current language of HR 5077 does not address. For your examination, I have with me some examples of the following products, which currently are not specifically addressed in this legislation:

1. Errors;
2. Patterns and similar trial pieces;
3. Other numismatic items such as cancelled dies, punched planchet strips, etc.; and
4. Items that may be legally provided by the Mint to legislators or outsourcing companies but whose legal status may be unclear if they have entered the marketplace.

We urge Congress to establish that all mint errors are legal to own and trade. New production technology has resulted in far fewer striking errors, and technological advances in security at the Mints' facilities make any items less likely to be taken illegally. Indeed, my colleagues and I agree that in the last five years, since the implementation of new minting presses and technology, the incidence of error coinage has decreased by approximately 97%. In addition, once these products have entered the marketplace, it is almost impossible to determine if they entered commerce legally or not. Die varieties should not present any problem for the Mint.

To the best of our knowledge, none of the items listed above has been particularly problematic for the US Treasury or for the US Mint; however we believe their status should be formally addressed in HR 5077.

On behalf of ICTA and the numismatic community, I wish to thank you for this opportunity to present our comments. We encourage any member of this Subcommittee or their staff to contact us for assistance and any additional information we may be able to provide. We look forward to continuing to work with Congressman Lucas and this Subcommittee as you consider HR 5077.

Fred Weinberg & Co.



Member: Professional Numismatists Guild; Professional Coin Grading Service; Industry Council for Tangible Assets.

COMPANY BACKGROUND

Fred Weinberg is the President of Pacific Rim Numismatics (DBA Fred Weinberg & Co.) with offices in Encino, California (Los Angeles). The firm offers numismatic coin and trading expertise in the areas of United States Rare Gold & Silver coinage, as well as specializing in buying & selling Major Mint Error coinage of all types. The company is an active force in the wholesale market, trading with dealers, banks and investors internationally.

Most United States coinage is offered with 3rd party certified grading, guaranteed by the Professional Coin Grading Service (PCGS) or Numismatic Guaranty Corporation of America (NGC). He is one of the original 31 firms selected as an authorized PCGS dealer in 1986.

Fred Weinberg is a highly respected numismatist, with 35 years of full time experience in the rare coin marketplace. He has provided his numismatic expertise to the Federal Deposit Insurance Corporation (FDIC), Federal Trade Commission (FTC), many U.S. and European banks, and insurance companies. He also been called on by the U.S. Secret Service for his help in determining the authenticity of Gold Coins, and has made hundreds of trips to Europe in his career, purchasing over \$500 million in U.S. gold coins from European banks, dealers, & estates alone. He has also worked on cases for the Los Angeles District Attorney's Office, and many other law enforcement agencies throughout the country.

Additionally, in 1973 he was the only professional coin dealer selected by the U.S. General Services Administration (GSA) to examine and identify the many varieties represented among the 2.5 million Carson City silver dollars held at the U.S. Bullion Depository, at West Point, New York. He has also made special "floor tours" of the Philadelphia & West Point Mints to study the on-going changes in the Minting Process.

He is a contributor to the "Red Book" (Guide Book of United States Coins), and has been featured on CNN, Discovery Channel, NPR Radio, and many TV news programs in cities across the United States. In addition to being co-author of "The Error Coin Encyclopedia", he has also contributed to numerous numismatic books, rare coin articles, including research on the Minting Process and Major Mint Error coins.

His interest in Mint Error coins and currency goes back to the early 1960's. He has a reputation worldwide for being a strong buyer of Major Error coins, and maintains an inventory of almost 100,000 pieces. Mr. Weinberg is an in-demand speaker on the topic of Numismatic Errors, the Minting Process, and the Coin Industry. He is the authenticator for Major Mint Error Coins for the Professional Coin Grading Service (PCGS) Mint Error encapsulation program.

An avid coin collector since the age of 12, he understands the interest of both collector and investor. His professional associations include the American Numismatic Association (ANA) (38 years), the Professional Numismatist Guild (PNG) (31 years), The Industry Council for Tangible Assets (ICTA) (21 years), and The Numismatic Literary Guild. He is a past President of the Professional Numismatist Guild (1999-2001).

16311 Ventura Blvd., Suite 1298 • Encino, CA 91436
 (818) 986-3733 • (800) 338-6533 • FAX (818) 986-2153
 Email: Fred@FredWeinberg.com • www.FredWeinberg.com

**TESTIMONY****REGARDING****HOUSE BILL H.R. 5077****NUMISMATIC CERTAINTY ACT OF 2006**

My name is Harvey G. Stack and the senior member of the firm of Stack's 123 west 57th street in New York, NY. I serve as the chief manager of its business affairs. I have been active both as an appraiser and a cataloguer of coins and have decades of experience full time since 1947 in the exacting task of preparing each of Stack's auction sale catalogue for release.

I have been an American Numismatist Association (ANA) member for a half century, and was a contributor to the building of its Colorado Springs headquarters, which houses the Stack's Gallery, endowed by my family and bearing its name. I was directly involved with the first ANA Grading Guide and have received the Association's





Medal of Merit. I have served as a constructive critic of the policies of ANA administrations when I feel such criticism was necessary. I have always aimed at the improvement, growth and development of the association and the hobby.

In 1967, I represented the industry before the Treasury Department and was instrumental in bringing repeal of the onerous and long-standing gold coin import regulations that had unfairly impacted on coin collectors. In 1973 I was the sole industry representative to appear before Congress advocating passage of the Hobby Protection Act.

I was appointed in 1976 by President Jimmy Carter to the U.S. Assay Commission which checked the integrity of the nation's coinage for nearly two centuries. My son Lawrence R. Stack and I have donated significant numismatic material to the National Numismatic Collection of the Smithsonian Institution, the American Numismatic Society and the ANA. I am enrolled as a lifetime member of the prestigious Smithsonian Society.

I served as a president of the Professional Numismatic Guild (PNG) in 1990-91, after serving on its board for more than 10 years. During this tenure as president I effectively defended PNG and the industry from proposed Federal Trade Commission regulations which I felt were inappropriate for responsible professional numismatists. I was honored by my peers with the coveted PNG Founders' award in 1993 and again in 1998 for an unprecedented second time.



I am a fellow of the American Numismatic Society (ANS) and an active member of the international Association of professional Numismatists (IPAN) and Royal Numismatic Society, as well as numerous Numismatic clubs and Societies.

I have served as an expert witness for the U.S. Treasury Department, the Federal Bureau of Investigation, Secret Service, a number of world banks, the New York City Police Department, Britain's Scotland Yard and other law enforcement agencies around the world.

In 1995 I appeared before the House Banking Committee regarding the minting by the U.S. Mint of Commemorative items and protested the profits made by the mint. During my testimony I suggested the issuance of a commemorative quarter for each state in the union. The idea was accepted by the committee and the U.S. mint began the issuance of these commemorative quarters in 1999. I am duly proud to have suggested the issuance of this coinage and let the beginner collector acquire these coins at face value.

In the summer of 1997 I received a singular honor from the American Numismatic Association. I was named the 1997 ANA Numismatist of the Year in recognition of fifty years of service to the coin collecting hobby.

I wish to express my sincere endorsement of Representative Frank Lucas HR 5077 which deals with the Numismatic Certainty Act.



For years collectors have always expressed their uncertainty if all U.S. mint products, whether they be coins, medals, patterns, and dies and could be legally held.

My belief is that if it is a mint product it should be allowed to be collected. From the earliest days of our mint, as patterns or samples were designed and shown to the appropriate committee for comments and approval. Virtually all of these patterns were retained by the committee members as they were sent to them initially by the officials of the U.S. mint who did not ask them to be returned. Through the centuries many found their way into collector's hands.

There are numerous examples of coins being struck as "samples" before the final coin design is approved and adjusted.

For a quick example, in 1864 the motto "In God We Trust" was approved in the design of U.S. Coinage. It first appeared on our standard Two Cent (2¢) piece in 1864. However this wording was used on patterns dated from 1866 when this wording appeared in our regular coinage, Therefore examples stating motto ideas such as "God Our Trust" or "In God me Trust" appeared, finally used as "In God We Trust". These patterns were given and sometimes sold by the U.S. mint to acquaint the public with new designs and ideas.

The mint issued in 1834 (and later dates) a Silver Dollar dated 1804. They were first given to government officials such the King of Sian and other leaders to help open up trade in the Far Eastern world. They were issued by Presidential authority together



with the Treasurer of the United States as well as those involved with the Department of State.

The coins were originally issued by the mint and they are collector's items. The Smithsonian has several examples and a few advanced collections also have specimens.

In 1912 it was decided by Congress to change the design of our Five Cent (5¢) piece. The designs of the earlier coin had Liberty head in 1883 on regular coinage, through patterns were struck dated 1882 to consider this design change. When designs were being considered for 1913 of the American Indian and Buffalo design, it took time to be approved. The mint in its usual workings started work on the old design in 1912 and dated it 1913, just in case the new design of its Indian Head was not approved Hence samples were made of the Liberty Head 5¢ dated 1913.

Both these examples are mentioned as they show what the Mint did and how they were distributed. Collectors cherish owning these rare examples. For reason best known to them the Treasury Department gave indications from time to time of these not being legally held, yet the Mint struck them and distributed them in various ways. No confiscation action ever went forward beyond opinion.

It was always my belief that some enterprising collector or researcher felt he should "flex his muscles" and bring these items to Mint officials. Sometimes I believe some of these actions were stimulated by jealousy. It is a pity that so much time and



effort was expended on these mint products. They should be allowed to be cherished, held and studied by collectors.

I was active when one of the first examples of the 1804 Dollar was seized in 1947. I believed then as I do today the government did not act correctly. Yet no one at the time had the courage and money to fight the Treasury.

I believe that there are so many circumstances about the origin and legality of the 1933 Double Eagle that each challenge should be left to the one challenged to pursue this matter in our courts.

On behalf of the Smithsonian Collectors I must remind all that it is the largest and most important collection in the world of monetary items. The collections start from the Romans, Byzantines, through the early Eastern world, on to the Dark Ages and the Renaissance to the present day. All metals such as gold, silver, copper and mixed metals, as well as currency are continued in this vast holding.

The study of monetary history must be served, for through the examination and study of monetary units, the use rise and fall of empires and, the trade of the world, for example when a currency gets debased, and the art depreciated, it showed the signs of failure of the country. The great work of the best artist of the periods they were made, as well as the portraits of many of the leaders can only be found on the coinage.

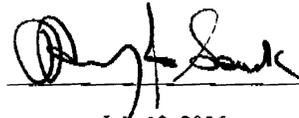
Stack's

Yes, I believe the Smithsonian collection should be removed from its present "Moth Ball" state and returned to its honorable place in the National Collection, for all to see and learn from.

I therefore appeal to the Congress to pass this bill, HR. 5077, and provide the funds to the National Numismatic Collection to be returned to full public display and provide the monetary examples for all to admire.

Respectfully submitted by:

Harvey G. Stack



July 19, 2006

DAVID L. GANZ*
 JERRIETTA R. HOLLINGER**
 ✦
 JEREMY A. WELFER***

OF COUNSEL
 TERRY NOEL TOWE
 JOSEPH A. BONDANZA, JR. (1919-1984)

*ADMITTED N.Y., N.J., & D.C.
 **ADMITTED N.Y. & MD.
 ***ADMITTED N.Y. & N.J.

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1394 THIRD AVENUE
 NEW YORK, N.Y. 10021
 TELEPHONE
 (212) 517-5500

July 16, 2006

FAX (212) 772-2720 OR
 (212) 772-2216
 CABLES, GANZLAW NEWYORK
 REPLY TO NEW JERSEY OFFICE ()
 GANZ & SIVIN, L.L.P.
 5 RYDER ROAD (BOX 536)
 FAIR LAWN, N.J. 07410
 TELEPHONE (201) 703-0300
 FAX (201) 703-0337
 EMAIL: DAVIDLGANZ@AOL.COM
 WWW.GANZHOLLINGER.COM

Hon. Deborah Pryce
 Chair,
 Subcommittee on Domestic and International
 Monetary Policy, Trade, and Technology,
 House Committee on Financial Services
 2129 Rayburn House Office Bldg.
 Washington, D.C. 20515

Hon. Carolyn Maloney
 Ranking member
 Subcommittee on Domestic and International
 Monetary Policy, Trade, and Technology,
 House Committee on Financial Services
 B301C Rayburn House Office Bldg.
 Washington, D.C. 20515

Dear Chairwoman Pryce and Mrs. Maloney:

Kindly consider the following comments on H.R. 5077 on which your subcommittee is holding hearings on July 19, 2006, entitled "Coin and Currency Issues Facing Congress: Can We Still Afford Money?"

I limit my comments to the Bill based on some 30 years of practicing law in the field and significant scholarship on the legal issues associated therewith (see listing of publications as attachment "A"), which, with the Chair's permission, will be included in the Record.

I first testified before a House Financial Services Committee (then the old Banking Committee) in March, 1974, when I commented on the proposal by the Mint to replace the copper cent with an aluminum counterpart. I opposed that legislation on the ground that the testing was flawed and biased; yesterday, on July 19, Mr. Kolbe announced a Bill that would look at the issue again without specifying alternative metals, which I support and mention because the testing of metals as part of that project is a perfect segue into discussing Mr. Lucas' Bill, H.R. 5077.

H.R. 5077 (109th Cong., 2nd sess.) was introduced by Rep. Lucas to "amend title 31, United States Code, to provide a clear line of demarcation with regard to private ownership of any coin, medal, or numismatic item made or issued by the United States Government before January 1, 1933, that is not in the possession of the United States Government."

It would also "establish certain guidelines and requirements with respect to the inventory, preservation, public display, and disposition of certain United States coins, medals, and numismatic items that were struck or made after December 31, 1932..."

Rep. Lucas said he "introduced the legislation to provide legal certainty for coin collectors who own certain coinage minted before 1933." He added that he believes that "The Mint has the authority to seize coins created during this period if it believes they are unauthorized coins, even if the owners obtained them legally."

Section by section analysis.

(a) Coins, Medals, and Numismatic Items Made Before 1933- Any coin, medal, or numismatic item made or issued by the United States Government before January 1, 1933, that, as of the date of the enactment of the Numismatic Rarities Certainty Act of 2006, is not in the possession of the United States Government shall not be considered to be property of the United States, unless the coin, medal, or numismatic item is reacquired by the United States Government for value given in a sale or exchange.

This is the "possession is 9/10ths of the law" argument and changes existing law. It is also slightly problematical. For example, if a 1913 Liberty nickel were provably stolen from the Philadelphia Mint in 1920, or 1913, the law today is that (subject to certain defenses), the U.S. has

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the right (years later) to seek its return in a replevin action. This is the theory used for years on the 1933 \$20 gold piece, *see, e.g., Stack v Strang*, 112 NYS2d 197 (Sp. Term, NY CO. Sup. Ct. 1952) and 94 FSupp 54 (SDNY), *rev'd. and remanded*, 191 F2d 106 (2d Cir. 1951); *US v Barnard*, 72 F.Supp. 531 (WD Tenn. 1947).

This is entirely problematic: imagine this scenario. There is a robbery, tomorrow, at the Smithsonian and an 1804 dollar is stolen together with a 1913 Liberty nickel, a 1907 ultra high relief and a 1974 aluminum cent. H.R. 5077 then passes. The four coins mentioned are no longer in the possession of the United States; the first three coins would appear not to be in the possession of the United States and, thus, freely disposable, though clearly recognizably stolen in a different way than intended. Because of its date, the 1974 coin is seizeable. I doubt seriously that the sponsor intends this result.

(1) IN GENERAL- In the case of any coin, medal, or numismatic item that--

(A) was struck or made by the United States Government after December 31, 1932.

(B) was never issued by the United States Government; and

(C) comes into the possession of the United States Government,

the coin, medal, or numismatic item shall be transferred to the Secretary of the Treasury, if not already in the Secretary's possession, and the Secretary shall take the appropriate action required with respect to such coin, medal, or numismatic item under paragraph (2).

This section purports to apply to coins, medals or numismatic items (not further defined except reference to 31 U.S.C. §5134(a)(3), below, which includes dies, test pieces, and other products relating to such items) produced in 1933 and later. Under 31 U.S.C. §5111, in subsection (a)(3), the words "numismatic items" are used as well as throughout the revised title 31 to apply to medals, proof coins, uncirculated coins, numismatic accessories, and other numismatic items to eliminate unnecessary words and for consistency. Legislative commentary.

The phrase "issue coins" is derived from 31 U.S.C. §5111(a)(1) under which "(a) The Secretary of the Treasury--(1) shall mint and issue coins described in section 5112 of this title in amounts the Secretary decides are necessary to meet the needs of the United States;"

The provisions of 31 U.S.C. § 5112(i)(4)(C) provide that the Treasury secretary "may continue to mint and issue coins in accordance with the specifications contained in paragraphs (7), (8), (9), and (10) of subsection (a) and paragraph (1)(A) of this subsection at the same time the Secretary in minting and issuing other bullion and proof gold coins under this subsection in accordance with such program procedures and coin specifications, designs, varieties, quantities, denominations, and inscriptions as the Secretary, in the Secretary's discretion, may prescribe from time to time."

The phrase "The Secretary may issue coins minted under this Act beginning January 1, 2007, except that the Secretary may initiate sales of such coins, without issuance, ..." appears in Pub. L. 109-146, 119 stat. 267 (12/22/05) for Little Rock Central High School Desegregation golden anniversary.

In *Design Pak, Inc. v. Secretary of Treasury*, 801 F.2d 525 (1st Circuit 1985), the Court gave some definition of "issue coins" in the context of the Statue of Liberty Commemorative Coin Program. "That Act directed the Secretary of the Treasury to issue and market a limited number of commemorative coins, proceeds of which would aid the Ellis Island restoration effort. The program operated under a strict time frame, designed to coincide with the centennial events of 1986: the Secretary could issue coins as of October 1, 1985, but could not mint coins after December 31, 1986. The Secretary was directed to "take all actions necessary to ensure that the issuance of the coins authorized by this title shall result in no net cost to the United States Government." *Id.*, at 526.

It is thus apparent that the meaning of "issue coins" is more than mere manufacture which is a component) but less than outright sale.

The clear problematic element is whether and when the Mint "issues" a post-1932 coin or numismatic item such as, e.g., webbing (punched out metal scrap); a double-struck or triple-struck coin or similar; a die-engraved error (such as the 1955 doubled die cent), a punch error such as the

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1983 "no s" proof dime, or any of the myriad of other error coins that (under current law) lawfully, if unintentionally left the Mint and were subsequently put into numismatic Commerce. I agree with Fred Weinberg, who is representing ICTA today, of the problematic elements of this but believe them curable.

(A) DETERMINATION OF AVAILABLE ITEMS- Upon taking possession of any coin, medal, or numismatic item under paragraph (1), the Secretary of the Treasury shall make a determination of the number and condition of the coins, medals, or numismatic items of the same denomination, quality, type, and year of production as the coin, medal, or numismatic item referred to in such paragraph, taking into account the most recent inventory conducted in accordance with subsection (c)

Self-explanatory, except as to the diligence with which, and when, such "taking possession" will occur.

(B) HISTORIC PRESERVATION AND PUBLIC DISPLAY- The Secretary shall ensure that an appropriate number of any coin, medal, or numismatic item of the same denomination, quality, type, and year of production that are or come into the Secretary's possession--
(i) are retained for historical purposes; and
(ii) are made available for public viewing at such times and places as the Secretary, in the sole discretion of the Secretary, determines to be appropriate.

Also self-explanatory except as to how "appropriate number" would be determined.

(C) SALE OF EXCESS AT PUBLIC AUCTION-

(i) IN GENERAL- If the Secretary determines that the number of any coins, medals, or numismatic items of the same denomination, quality, type, and year of production that are in the Secretary's possession exceeds the number that are appropriate for historic preservation and public display under subparagraph (B), the Secretary may dispose of such excess, or such portion of the excess as the Secretary determines to be appropriate, at public auction.

Public auction probably does not mean What we think it does and will most likely be more like the GSA auction of Carson City dollars than a Stack's or Heritage sale. This should be clarified to provide for cataloguing, photographing, encapsulating, and so forth to assure a good historical record, since there is no assurance that quantities would be handled any differently than the GSA silver dollar auction sale.

Proceeds and rules of construction. These are not really industry or hobby issues.

(D) STANDARDS- In making any determination with regard to any public auction of coins, medals, or numismatic items under subparagraph (C)(i), the following standards shall be taken into account by the Secretary:
(i) Maximum return to the Government.
(ii) Interest of the numismatic community in the sale and in the items to be offered for sale.
(iii) Interest of the general public in the items to be offered for sale.

In my opinion, this needs a lot of work and should parallel a major numismatic sale within the numismatic community not a typical government surplus sale. The GSA sale of Carson City silver dollars, authorized by the One Bank Holding Company Act of 1970, was disastrous to the coin market and did not maximize government revenues. This should be managed by private sale that is government countenanced, like the 1933 \$230 gold coin auction of several years ago.

(E) DESTRUCTION OF UNSOLD EXCESS- Any coins, medals, or numismatic items that--
(i) were determined by the Secretary, under subparagraph (C)(i) to be in excess of the number of such coins, medals, or numismatic items that are appropriate for historic preservation and public display under subparagraph (B); and
(ii) remain unsold following an auction under such subparagraph, or were withheld from such auction by the Secretary in accordance with subparagraph (C)(i), may be treated as obsolete and disposed of in the manner provided in section 5120.

Here's What happens to unsold items:

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31 U.S.C. § 5120(a)(1): The Secretary of the Treasury shall melt obsolete and worn United States coins withdrawn from circulation. The Secretary may use the metal from melting the coins for reminting or may sell the metal. The Secretary shall account for the following in the coinage metal fund under section 5111(b) of this title:

- (A) obsolete and worn coins and the metal from melting the coins.
- (B) proceeds from the sale of the metal.
- (C) losses incurred in the sale of the metal.
- (D) losses incurred because of the difference between the face value of the coins melted and the coins minted from the metal.

(2) The Secretary shall reimburse the coinage metal fund for losses under paragraph (1)(C) and (D) of this subsection out of amounts in the coinage profit fund under section 5111(b) of this title.

This is not numismatically smart, fails to maximize revenue and should be made numismatically smart.

(c) Inventory-

(1) IN GENERAL- By January 1, 2007, and every 5 years thereafter, the Secretary of the Treasury shall conduct and compile an inventory of all coins, medals, or numismatic items that are in the possession of the United States Government or that are on loan to, or were at any time presented to or retained by, any person or entity (other than in accordance with a specific requirement of an Act of Congress) regardless of when such coin, medal, or numismatic item was struck or made.

(2) REPORT ON INVENTORY- The Secretary of the Treasury shall submit the inventory together with a report containing any findings, recommendations, or conclusions of the Secretary with respect to the inventory to the President and the Congress before January 31, 2007, and every 5 years thereafter.

TO me, this sounds very time consuming and expensive. The "regardless of when such coin, medal, or numismatic item was struck or made" would appear to include the Smithsonian National Collection, and an inventory of 1.9 million items, alone, might be problematic. So, too, the 1973-4-5 Aluminum cents, and others. If the intent is to inventory the Smithsonian, it is commendable. If not, it is a significant unfunded mandate.

(d) Definition- For purposes of this section, the term 'numismatic item' has the same meaning as in section 5134(a)(3) (which includes dies, test pieces, and other products relating to such items).

(See above)

(b) Clerical Amendment- The table of sections for chapter 51, United States Code, is amended by inserting after the item relating to section 5122 the following new item:

'5123. Inventory and disposition of certain United States coins, medals, and numismatic items.'

I have written about some of these issues extensively, especially in "Toward a Revision of the Minting & Coinage Laws of the United States", originally published in volume 26 of the CLEVELAND STATE LAW REVIEW, starting at page 175 (1977). In that article of 30 years ago, I argued for a bright line of December 31, 1932 to specifically take into account a coin that was then a 45 year old mystery. A more mature, reflective view, today, is that it is foolish to lock in history and not take into account the future.

The line of demarcation drawn is not a floating one of, say, 50 years that will change with time, but rather a fixed point after which all coins produced by the Mint will be subject to seizure--even if they lawfully, if by error, left the Mint or were lawfully, if erroneously, placed into circulation.

There are solid reasons why private ownership of patterns, experimental pieces, trial strikes,

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and mint errors as well as other products ought to have assurance against governmental seizure; the 1933 double eagle of King Farouk, not to mention the 10 double eagles who trace their provenance to Israel Switt, deserve a celebration, not a requiem. So do hundreds of other coins.

Consider the 1974 aluminum cent (struck in 1973) and its 1975 counterpart (struck in 1975 from leftover stock). Add to that aluminum coin blanks. I have some personal experience with one of them, the aluminum blank planchet that I donated to the Smithsonian Institution coin department many years ago.

That blank planchet, and presumably all of the 1974 aluminum cents, were all produced in conjunction with a proposal that circulated in 1973 to change the composition of the cent from its then-copper composition to aluminum.

The coins were struck in late 1973 and word of their existence became known during the last weeks of 1973; the Numismatic News of January 1, 1974 had a front page news story, which I wrote, with a photograph that was supplied, about the item. (A week later, I was off to start law school in New York).

This is not one of the 1975-dated pattern pieces. It was not intended as a legal tender, and could not be a legal tender, inasmuch as its date of production was other than that inscribed on its obverse. Numismatists would characterize this particular coin as a pattern or trial strike, similar in some respect to the 1759 pattern pieces bearing the Martha Washington portrait that the Mint produced in connection with the 1965 design change for the Coinage Act of 1965. (Those are subject, evidently, to the proposals of H.R. 5077 as well).

Dies with images of Martha Washington and Mount Vernon were first used circa 1965 to strike a group of experimental pieces testing a variety of metal alloys. Until 2000, the only examples known were four sets of Martha Washington "Dimes", Quarter Dollars", and "Half Dollars" embedded in Lucite and given to Congress, the Mint Director and the Smithsonian Institution. A fourth set was mutilated for metallurgical testing.

Beginning in 2000, examples of the Martha Washington "Cent", "Dime", "Quarter Dollar" and "Golden Dollar" began appearing on the market. In April, 2000, Coin World reported the discovery of a Martha Washington Dime: "The Martha Washington/Mount Vernon dies were most recently used during metallurgical die trial testing for the Sacagawea dollar".

Around July 2000, a poorly struck, slightly off-center, uniface Martha Washington "Cent" appeared on the market. In February 2002, nice examples of the Martha Washington "Cent" and "Quarter Dollar" appeared on the marketplace.

Both of the recently discovered Martha Washington "Cents" were struck on copper-coated zinc planchets of the type used on Lincoln Cents beginning in 1982, that is, from existing Mint stock not contemporaneously.

The U.S. Mint conducted metallurgical tests in 1999 on the golden colored manganese-clad planchets which would later be used for the Sacagawea Dollar. In another newspaper article in July, 2001, James Halsey, President of IDX Inc. said his firm was one of the firms that was evidently contracted with by the U.S. Mint to test prototypes.

Mr. Halsey revealed that "numerous samples in different alloys bearing the Martha Washington obverse and Mt. Vernon reverse dies - special designs used for experimental coinage were shipped to IDX Inc. for testing..."

Two other firms under contract by the U.S. Mint include Olin Brass and PMX Industries. Both of these companies supply the U.S. Mint with the manganese-clad strips from which the Sacagawea Dollars are struck. A Martha Washington test piece was struck in 1999/2000 on a zinc copper planchet of 2.5 grams.

Then there's the Martha Washington die trial experimental test strike. The Martha Washington/Mount Vernon dies were used to strike this trial piece on a 2.5 gram zinc-copper cent planchet. It was struck 10% off-center with a uniface reverse. This die trial piece was discovered by a Brinks employee in a bag of 1999 cents. The trial was offered on Ebay and later as lot 1972 in Ira & Larry Goldberg's October 2000 sale and lot 996 in Bowers and Merena's January 2003 sale.

It is unclear whether this piece was struck from dime or cent dies. An example struck on a cent planchet has been discovered by Michael Byers. An example of the 1965 Martha Washington half dollar, J2134/P2083 has been discovered struck on a copper-nickel clad

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quarter planchet. The only other examples of this rare pattern, 6 pieces struck in silver-clad, are embedded in 2 blocks of Lucite and reside in the Smithsonian.

The Martha Washington pattern sold in Heritage March 2003 sale for \$29,900, was struck from heavily clashed dies.

Notwithstanding the presumption of H.R. 5077, it may not be able to diminish a property right without just compensation. That is, if the government declares it may be forfeited, and it was lawfully acquired, the government may have to pay for it anyway. Then there is the issue of government coins or patterns given away by government officials.

Here is my view of some general rules and guidelines, some of it derived from historic precedents within, and without the Mint. The focus is on the narrow legal question of whether or not government property may be disposed of by gift.

Consider the 1879 flowing haired Stella or \$4 gold piece that was given to Congressmen who paid the nominal gold value for the coin. The coins were worth more, even then. There were complaints of favoritism back then, too.

The September, 1880 issue of "Numisma" asked "as any honest Numismatist not the same right than a concubine, two happens to have an influential friend"? Much more currently, those collectors seeking the first of the state quarters, with the Delaware design, had only to visit the U.S. Mint booth at the Florida United Numismatists convention in Orlando.

The Mint was giving them away in 1999, when Philip Diehl was director. The practice continued with the New York State quarter in 2001 with Jay Johnson in charge. In either event, government property with a nominal face value was given away by the government, without charge or expectation that it would be returned.

In modern times for pattern pieces, since say 1916, there are many other examples of the Mint giving product away or allowing it to be removed from the Mint and enter into Commerce.

The bronze, zinc-coated steel, manganese, aluminum and white metal cent patters of 1942 are one example. These were produced by the Mint and given to Durez Plastics and Chemicals, and others, to test. There was no return requirement. An aluminum Kennedy half dollar (Pollack 2080) was purchased by John Ford from a "small mail auction", and Ford claims that it "was originally found in an ash tray in the bar of the Mayflower Hotel, Washington, D.C."

The bicentennial coins produced in 1975-6 were first coined in August, 1974. Pollack reports that a reeded edge quarter, half and dollar without mintmarks (Pollack 2085-2087) were presented to President Ford and also to his appointments secretary.

There is, then, ample precedent.

The 1933 \$20 story is equally relevant. More than 400,000 of the 1933 \$20 gold pieces were produced by the Mint in 1933, evidently after the Roosevelt inauguration on March 4th, but before one of the critical aspects of controlling the Depression, and the American economy went into effect -- seizure of gold to increase the nation's bullion reserve. The confiscation order took place about a month after FDR took the oath of office.

The Mint always claimed that none of the coins was ever placed into circulation, and in the 1940's, vigorously sought to go after the 1933 \$20 whenever the coin went public. L.G. Barnard had one seized in the mid 1940's; James A. Stack (no relation to the auctioneer) had one seized in the early 1950's.

Both cases were litigated unsuccessfully, the *Barnard* case in Tennessee, the *Stack* case in the same U.S. District Court in New York where the government sued Stephen Fenton and coin dealer Jay Parrino several years ago after a sting operation brought criminal charges (later dismissed), seizure of the coin, and a halt to a \$1.5 million private sale.

In all, the Mint seized at least nine specimens of the 1933 \$20 before the recent Switt seizure -- making the only "legal" one in the government's view the specimen held in the Smithsonian Institution national coin collection in Washington, where it is on display.

The Farouk specimen is the other, legalized after a Court battle and a multi-million dollar compromise. Historically, the Mint claimed that none of the 1933 double eagles coins was ever placed into circulation, and that none had been authorized for release from the Mint, but the most recent double eagle coin case proved just the opposite.

It showed a pattern of bureaucratic deceit that spanned over five generations and of conduct

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that was contemptuous of the legal system, not to mention the collecting public. The government's philosophy has generally been to give patterns, experimental issues and trial strikes, and errors, a wide berth, except when the headlines run badly or there is cause for embarrassment.

The result: the is government guilty of laches, or lulling someone into a disadvantageous position by virtue of the passage of time, inaction, or even affirmative action.

Patterns and experimental issues, and trial strikes have a long history in organized numismatics. Throughout the long history of patterns, trial strikes, and experimental issues there is strong evidence that coin collector interest in this fascinating field was tolerated, if not encouraged by Mint officials .

In 1866, for example, the first rules were adopted by the Mint to deal comprehensively with pattern issues. Entitled "Rules for the United States Mint at Philadelphia (effective July 1, 1866)", the rules provided that no coins nor patterns were to be struck after the year of their date; that all were to be issued in their "proper metal ";and that patterns or experimental pieces were to be obtainable "within the year of [their] date but not after" with standing orders for the same acceptable at a price of three dollars in currency for all but precious metal patterns.

These were valued at the cost of the bullion contained in the coins plus a three dollar charge. Interestingly, early Treasury Rules expressly permitted the Director of the Mint to send patterns to numismatic societies incorporated in the United States, requiring payment only for the cost of precious metal .Most important in this early set of rules was that "profits . . . are not to be the perquisite of any person holding a place in the mint, " a statement probably necessary in the light of past practices at Philadelphia.

How do I know all this? The counsel to the Mint told me. Back in 1976, while working on a law review article on the subject, Miklos ("Mike") Lonkay, Counsel to the Mint, offered invaluable assistance in locating these early, obscure rules, copies of which are found in Treasury archives in a file pertaining to pattern seizures.

(They were all collected and found in a file entitled *United States v. Haseltine* (preliminary proceedings in Federal District Court for the Eastern District of Pennsylvania, 1910) (pleadings and documents on file at the U.S. Dept. of the Treas., Washington, D.C. (1910 file 1)).

The Coinage Act of 1873 engineered by John Knox and Dr. Henry R. Linderman, was designed to codify existing law, as well as to pave new paths in the field. Dr. Linderman served as first Director of the Bureau of the Mint. During his five year tenure, the coinage act he helped create was first tested and tried.

In May, 1874 Linderman promulgated "Regulations for the Striking and Sale of Medals and the Furnishing of Proof Coins and Specimen Pieces at the Mint Under the Coinage Act of 1873" governing the striking and sale of certain specimen pieces. In pertinent part they provided that the superintendent of the Philadelphia Mint "shall have general supervision of the manufacture of medals and the striking of proof and pattern pieces ."

In amplification of the rules of 1866, the 1874 regulations required that the hubs of pattern dies be destroyed at the end of each year. The 1874 regulations expressly permitted the sale of proof and pattern coins at prices established by the Superintendent of the Mint with the approval of the Director .

With particularity, the regulations provided further that "[n]o coins or patterns shall be struck after the year of their date, or in any other metal or alloy than that in which the coin is issued or intended to be issued," and that "[w]hen a pattern piece is adopted and used in the regular coinage in the same year, it will then be issued as a proof at a price near its current value ."

These provisions were further amplified by an 1881 regulation which provided that pattern pieces could be struck and sold subject to the earlier regulations when authorized by the Director of the Mint, at a price fixed by the Superintendent and approved by the Director as long as the coins or pattern pieces were struck within the year of their date in the appropriate metal or alloy, and as long as the dies for production were defaced at the end of the calendar year.

By the regulations of January 17, 1887 the Director made a substantive change by requiring that no pattern pieces could be coined nor dies executed in denominations other than those used for general circulation during the year. The practice of permitting the Superintendent of the Philadelphia Mint to furnish patterns to incorporated numismatic societies was continued, with the usual provision

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Chairwoman Price & Mrs. Maloney

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requiring payment in bullion cost only for precious metal.

There are a ton of other examples of government involvement in the issuance of patterns and experimental pieces, but it all but expired into the middle part of the second decade of the 20th century -- but not before the 1913 Liberty nickel was produced.

As this committee goes forth with hearings on H.R. 5077, some competing interests, and compelling issues will need to be decided. Here are some general suggestions for proposals to alter the text of the Bill and to make a good law.

- Instead of December 31, 1932, set the line of demarcation as a floating period. 50 or 75 years is as good a bright line as any. If a numismatic item is in private hands that long, it deserves to be liberated without excessive cost, expense or bother. 1933 may not sound like a crazy dividing point; in 50 years, i.e., in 2056, it will seem idiotic, and deal with an antiquarian time. Set whatever specific exceptions are appropriate. (If the Mint cannot accept that a 1933 \$20 gold piece that is still around is legal to own, or a 1974 aluminum cent is illegal, then specify it, and let it be litigated as to whether or not private ownership is proper).
- The burden of proving something that something long in Commerce like a 1913 Liberty nickel lawfully left the Mint is all but impossible. The initial test ought to be whether the current owner acquired it lawfully on full notice to the world -- like the public auction in 1967 when Aubrey Bebee bought his nickel for \$46,500 -- or if it was nefariously acquired.
- There should be no automatic assumption that coins or other items produced after 1933 or any other year are government property.
- For the government to prevail in a civil seizure, it should nonetheless be held to a standard that they must affirmatively show, beyond reasonable doubt, that the item was stolen from the United States (the government, the Mint, the Treasury).
- All mint errors not actually stolen or illegally removed from the Mint should be presumptively found to be legal.

Thank you for your consideration. I would be happy to answer any questions that the Committee might have on this or any other matter.

Respectfully,

David L. Ganz

DLG:kag
enclosures
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Louise Roseman subsequently submitted the following in response to questions submitted by Chairman Deborah Pryce in connection with the July 19, 2006, hearing before the House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology:

Question: In addition to providing for the production of the presidential coins, the Presidential \$1 Coin Act requires federal agencies, certain recipients of federal funds (such as mass transit authorities and toll road operators), and all businesses on federal properties to remove barriers to the use of one-dollar coins. In implementing this aspect of the Act, the Mint and the Fed will need to coordinate closely with agencies that are not familiar with coin and currency implementation. In particular, the Department of Defense, U.S. Postal Service, Department of Transportation, and the General Services Administration will need to take significant actions to remove barriers to the use of one-dollar coins within their areas of responsibility.

What is the Fed doing to provide early leadership to other agencies that have significant roles in the promotion of circulation of \$1 coins? How will the Fed ensure the enthusiastic participation of other agencies in the Act's implementation, which is integral to achieving Congress's goal of promoting widespread use of dollar coins?

Answer: The Federal Reserve is coordinating implementation of the Act's requirements at premises owned by the Reserve Banks and the Board of Governors, in an effort to ensure that any business operations conducted there will be fully capable of accepting and dispensing \$1 coins and will display signage noting such capability. Additionally, the Federal Reserve worked with the Mint to ensure that we invited other agencies that have significant roles in the promotion of circulation of \$1 coins, including the Department of Defense (DoD), the U.S. Postal Service (USPS), the Department of Transportation (DoT), and the General Services Administration, to our joint Coin Users Group Forum in June. Representatives from DoD, USPS, and DoT were able to attend. At the forum, we discussed the requirements of the legislation as it relates to federal agencies and ways in which we could improve the circulation of \$1 coins. The Mint and the Board will continue to work with federal agencies to raise their awareness of the Act's requirements.

Louise Roseman subsequently submitted the following in response to questions submitted by Congressman Michael Castle in connection with the July 19, 2006, hearing before the House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology:

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Question: Has the Fed committed to maintaining a continuing supply of rolled \$1 coins and smaller-sized bags of coins? If not, will you do so today, as part of your plans to comply with Congress's direction that all Federal agencies work diligently to remove barriers to circulation?

Answer: The Federal Reserve will continue distributing \$1 coins to depository institutions in sufficient supply to meet the demand for these coins. For the Presidential \$1 Coin Program, we are currently contemplating a thirty-day introductory period during which only new \$1 coins would be issued. The Mint would provide the new \$1 coins in rolled form to the Reserve Banks, which would distribute them to depository institutions. Following the introductory period, Reserve Banks would resume their normal practice of paying out bags of previously circulated \$1 coins to depository institutions. Typically, depository institutions that require rolled coin contract with armored carriers for this service. We are also exploring options for supplying \$1 coins to depository institutions in smaller increments, although based on discussions to date with banking industry representatives, there does not appear to be strong demand by the banks for smaller-sized bags. The Federal Reserve will continue to work to identify and attempt to address barriers to circulation of \$1 coins.

JULY 19, 2006

QUESTION FOR THE RECORD FROM REPRESENTATIVE DEBORAH PRYCE
TO ACTING DIRECTOR LEBRYK AND LOUISE ROSEMAN, DIRECTOR, BOARD
OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Question:

“In addition to providing for the production of the presidential coins, the Presidential \$1 Coin Act requires federal agencies, certain recipients of federal funds (such as mass transit authorities and toll road operators), and all businesses on federal property to remove barriers to the use of one-dollar coins. In implementing this aspect of the Act, the Mint and the Fed will need to coordinate closely with agencies that are not familiar with coin and currency implementation. In particular, the Department of Defense, U.S. Postal Service, Department of Transportation, and the General Services Administration will need to take significant actions to remove barriers to the use of one-dollar coins with their areas of responsibility.

What are the Mint and the Fed doing to provide early leadership to other agencies that have significant roles in the promotion and circulation of \$1 coins? How will the Mint and the Fed ensure the enthusiastic participation of other agencies in the Act’s implementation, which is integral to achieving Congress’s goal of promoting widespread use of the dollar coins?”

Answer:

On June 8, 2006, officials from both the United States Mint and the Board of Governors of the Federal Reserve System held a coin users group forum and invited a representative group of Federal agencies to the session. Attending were the United States Postal Service, Department of Veterans Affairs, Defense Commissary Agency and the Department of Education. This forum provided the United States Mint and the Federal Reserve System the opportunity not only to inform agencies about the new law, but also to receive invaluable feedback and insight from them on the actions and practices that may offer the most promising results in eliminating barriers to the robust circulation of the \$1 coin.

The United States Mint is also leading the interagency effort to remove barriers to circulation. As you know, section 104 of the Act was codified at 31 U.S.C. § 5112(p). Paragraph (1) of subsection (p) requires all agencies and instrumentalities of the United States, the United States Postal Service, and all nonappropriated fund instrumentalities established under title 10, United States Code to take measures to ensure they are capable of accepting and dispensing \$1 coins in their coin and currency operations and to display signs denoting this capability. To ensure widespread awareness of this provision, the United States Mint is sending a letter to the heads of Federal entities affected by this

provision, apprising them of their obligations under the new law, and offering them assistance as needed.

The United States Mint also has drafted, and has requested the Treasury Department representative to the Civilian Agency Acquisition Council (CAAC) to introduce to the CAAC, an amendment to the Federal Acquisition Regulation (FAR) to reach those organizations listed in 31 U.S.C. § 5112(p)(1) as “entities that operate any business, including vending machines, on any premises owned by the United States or under the control of any agency or instrumentality of the United States, including the legislative and judicial branches of the Federal Government.” This amendment to the FAR would require Government service contracts involving coin and currency transactions that occur on premises owned or under the control of the Federal Government to include a clause that requires the contractor to comply with the requirements of 31 U.S.C. § 5112(p)(1).

Finally, we are engaging a public relations firm that will assist us in reaching out to numerous entities, including Federal agencies, to increase awareness and usage. This effort is being done consistent with the legislative mandate to “not conduct an overly expensive public relations campaign.”

JULY 19, 2006

QUESTION FOR THE RECORD FROM REPRESENTATIVE MICHAEL CASTLE
TO ACTING DIRECTOR LEBRYK**Question 1:**

What are the Mint and the Fed doing to provide early leadership to other agencies that have significant roles in the promotion and circulation of \$1 coins? How will the Mint and the Fed ensure the enthusiastic participation of other agencies in the Act's implementation, which is integral to achieving Congress's goal of promoting widespread use of the dollar coins?"

Answer:

On June 8, 2006, officials from both the United States Mint and the Board of Governors of the Federal Reserve System held a coin users group forum and invited a representative group of Federal agencies to the session. Attending were the United States Postal Service, Department of Veterans Affairs, Defense Commissary Agency and the Department of Education. This forum provided the United States Mint and the Federal Reserve System the opportunity not only to inform agencies about the new law, but also to receive invaluable feedback and insight from them on the actions and practices that may offer the most promising results in eliminating barriers to the robust circulation of the \$1 coin.

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Finally, we are engaging a public relations firm that will assist us in reaching out to numerous entities, including Federal agencies, to increase awareness and usage. This effort is being done consistent with the legislative mandate to “not conduct an overly expensive public relations campaign.”

Question 2:

“Have the Mint and the Fed committed to maintaining a continuing supply of rolled \$1 coins and smaller sized bags of coins? If not, will you do so today, as part of your plans to comply with Congress’s direction that all Federal agencies work diligently to remove barriers to circulation?”

Answer:

The United States Mint has made significant progress in planning and preparing for the roll-out of the Presidential \$1 coins, as well as addressing the barriers to circulation of dollar coins. Based on the United States Mint’s progress to date, it will commence production of Presidential \$1 coins on schedule and will have the capacity to mint and issue these coins in quantities sufficient to meet public demand.

To ensure a successful rollout of the dollar coin, the United States Mint is working closely with the Federal Reserve on a number of initiatives. To accurately gauge demand and ensure that the United States Mint produces an adequate supply of coin, the United States Mint, in coordination with the Federal Reserve, is in the final stages of completing a demand and acceptance study with respect to Presidential \$1 coins. The study includes research and analysis, as well as a detailed report indicating the potential demand levels for circulating and numismatic Presidential \$1 coins to ensure that United States Mint officials can make informed decisions regarding production volumes. A secondary objective of the study is to examine barriers to public acceptance of, and increased demand for, these coins and to provide recommendations on reducing or eliminating these barriers.

In addition, the Federal Reserve Cash Product Office will survey the top depository institutions in each major market in terms of coin usage. The United States Mint will pre-position dollar coins at Federal Reserve locations and financial institutions across the country in advance of the release date to allow commercial banks the opportunity to have coin available for customers on the release date. The United States Mint will also wrap unmixed newly issued \$1 coins prior to shipping to ensure that they are distributed to financial institutions as quickly as possible in a form suitable for commerce.

Lastly, the United States Mint will continue to work closely with the Federal Reserve in developing a communication plan that will ensure consistent communication throughout

the coin supply chain. This plan will be presented to the Cash Advisory Council, which consists of the Federal Reserve's largest cash and coin customers, at its fall meeting.

The United States Mint is currently planning to provide Presidential \$1 coins in boxes of rolled coin. New Presidential \$1 coins will be available to financial institutions in this form.

Question 3:

"On that same subject, I understand that the Mint is considering making the coins available in half-rolls. The purpose of the Act was to use the collectibility of the Presidential Dollars to get the coin into circulation, not to create a collectible. If you get a \$20 roll of dollars at a bank you might save some and spend the rest. If you get a \$5 roll or a \$10 roll, you probably won't even open it and thus won't spend the extras into circulation. Therefore, please tell me if you have discarded this idea?"

Answer:

The standard size rolls used in commerce is \$25. At the coin users group forum in June 2006, hosted by the United States Mint and the Board of Governors of the Federal Reserve System, interest was expressed for a \$10 roll. The United States Mint and Federal Reserve are currently exploring the feasibility and interest in providing the smaller roll.

Question 4:

"For the 2000 rollout of the Sacagawea \$1 coin, the Mint had a relatively large budget to publicize the new coin. Today the situation is different. The Act specifies that the Director of the Mint shall ensure an adequate amount of news coverage, and other means of increasing public awareness, of the inauguration of the presidential \$1 coin." What will the Mint do to fulfill this requirement? How do you plan to use resources, such as private sector partnerships, to ensure that the presidential coins receive the same kind of attention as was received in the 2000 rollout.?"

Answer:

We followed up the first coin users group forum on June 8, 2006, with a similar event at the American Numismatic Association convention in August, and we are also reaching out to retail organizations, education associations, and other key stakeholder groups to assist. We are in the planning stages for a forum specifically targeted to retail organizations some time in October or November.

In preparation for the expected surge in interest and high demand for the \$1 coin, it is critical that we capitalize on some of our proven channels of communication. For example, the methods we have used to generate publicity and awareness for the 50 State

Quarters Program and the Westward Journey Nickel Series have been extremely successful. Coin launches, coin exchanges, and public awareness generated as a result of our earned media opportunities is extremely high.

The new law requires the United States Mint to work closely with consumer groups, media outlets, and schools to foster coverage, increase public awareness, and ensure that consumers know about the availability of the coin. Naturally, the United States Mint must expend some funds to cover the costs necessary to fulfill these mandates. Every effort will be made to leverage earned media and free advertising opportunities, low or no-cost public relations initiatives, and other creative publicity and promotional methods. We intend to explore all avenues for earned media opportunities and will not purchase television advertising at this time. We intend to leverage existing advertising contracts to promote all of our numismatic products, including \$1 coin products, at no additional costs.

To assist in this effort, the United States Mint is seeking the services of a firm to assist in developing and implementing a nationwide, integrated education and outreach campaign to help build awareness of the new Presidential \$1 coins as they are introduced to the public. This campaign will be a sustained, multi-year public information program and is expected to stimulate acceptance and robust circulation of the Presidential \$1 coin. This campaign will rely heavily on free media and be consistent with the legislative mandate that these coins “should not be introduced with an overly expensive taxpayer-funded public relations campaign.”

Question 5:

“The presidential \$1 coins have an educational value of highlighting the contributions of famous Presidents, as well as some of our lesser known presidents. What is the Mint doing to partner with educational organizations and institutions to support lesson guides and other educational programs tied to the introduction of each presidential coin?”

Answer:

The United States Mint maintains a comprehensive and far-reaching education program targeting teachers, parents and students. The Mint Education Initiative (MEI) offers materials based on current and historic coins. As part of the MEI, the 50 State Quarters[®] Program and Westward Journey Nickel Series[™], the United States Mint creates lesson plans and other classroom resources. For the Presidential \$1 Coin Program, the United States Mint will create several new lesson plans focusing on the U.S. Constitution, the Office of the President and other aspects of American history and our system of government. The plans will be grade-specific while meeting National standards. Additional classroom resources will be identified for educators to use in supplementing the lesson plans with information specific to each President, making them applicable to each coin release.

Since the United States Mint first offered the 50 State Quarters Lesson Plans online, the plans have been downloaded almost three million times, and the number of visitors to our site has increased by 181%. Interest in the program and the corresponding educational materials keeps growing: 2005 lesson plan downloads increased 67% over the previous year. We hope to achieve the same level of success with the new Presidential \$1 Coin Program lesson plans and supplemental materials.

Our primary communication channel is the award-winning kids' site, United States Mint H.I.P. Pocket Change™ and our online community for educators called the Teachers' Network (almost 5,000 members). The United States Mint also intends to build upon well-established relationships with the education community as we move forward communicating the availability of these lesson plans, the supplemental resources and the educational value of the program as a whole. Identified organizations include the Jump\$tart Coalition, the National Council for the Social Studies, the National Education Association, the National Association of Elementary School Principals and the American Federation of Teachers. We will also continue our efforts through our local community outreach, tours of United States Mint facilities for school groups, and collaboration with and attendance at important education conferences hosted by education organizations.

JULY 19, 2006

QUESTION FOR THE RECORD FROM REPRESENTATIVE FRANK LUCAS
TO ACTING DIRECTOR LEBRYK

Question:

“How many rare Sacagawea’s are held at Ft. Knox?”

Answer:

The United States Mint has twelve (12) 22-karat gold Sacagawea coins at our facility in Fort Knox.

JULY 19, 2006

QUESTION FOR THE RECORD FROM
 REPRESENTATIVE CAROLYN B. MALONEY
 TO ACTING DIRECTOR LEBRYK

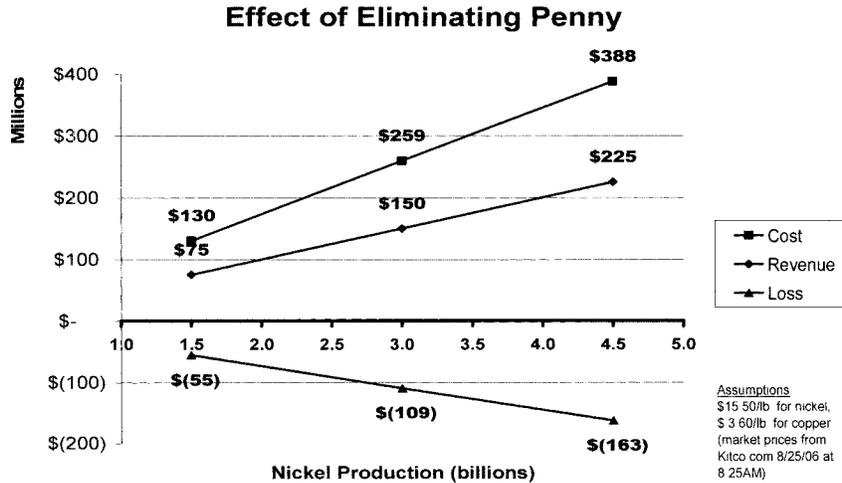
Question:

“Do you have the ability to calculate how much the Mint would lose if we were to eliminate the penny and make more nickels?”

Answer:

Because of the complexity and cost, the United States Mint does not have the ability to model the potential substitution effect that may occur if the penny were eliminated. However, we can provide estimates of potential costs based on various scenarios.

The below graph shows the impact of increased demand for the nickel on revenue, cost, and loss under various scenarios. These estimates are based on current market prices for the base metals of nickel and copper, the per unit cost to produce the nickel would be \$.0851. Over a normal year of production (1.5 billion nickels), this level of cost would generate a loss of approximately \$52.6 million. If demand for the nickels were to increase to three billion nickels, the amount of loss would grow to approximately \$109.3 million. The resulting impact in this scenario is increased loss of \$56.7 million.



In addition, the fixed costs associated with production of the penny would have to be absorbed by the remaining denominations of circulating coins. The total amount of fixed costs to be absorbed would be approximately \$10.1 million over a fiscal year of production. The nickels portion of that cost would be approximately \$2.5 million, or a per unit cost of \$.0017. This assumes production levels for the nickel remain at the current level.

As demand for the nickel increases, the corresponding loss incurred by the United States Mint increases. The amount of loss is directly related to the cost of metals required to produce the nickel plus a slight cost increase because of the absorbing of fixed costs previously covered by the penny.

The above computations assume that the material, transportation and variable costs related to the production of the penny would be eliminated, the amount of fixed versus variable overhead is an estimate based upon experience, and the equipment currently used in production of the penny would continue to be utilized by the United States Mint.

