July 27, 1943

Chairman Eccles

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Attached is a draft of a suggested circular to be sent by the Federal Reserve Banks to all banks in each district designed (1) to induce banks to invest their temporarily idle funds in Treasury bills and (2) to reduce the amount of speculative purchases of new securities in the drive.

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Draft of suggested circular to be sent by the Federal Reserve Banks to all banks in each district.

During the Third War Loan drive in September, banks having war loan accounts will find that a substantial amount of their individual deposits will be transferred to war loan accounts. As a result, the required reserves of these banks will decline sharply and their excess reserves consequently will increase sharply. The attention of the banks is called to the fact that this increase in free funds will be only temporary, since it will be absorbed shortly as the Treasury spends the funds and they are transferred from war loan accounts to accounts on which reserves are required.

In these circumstances, banks are urged to invest their temporarily idle funds in Treasury bills, which are the best medium for adjusting for changes of this nature. Banks that have sold bills to the Reserve Banks under option can invest their funds by repurchasing these bills. Other purchases of bills can be made by bidding for new issues and by purchasing bills in the market.

Also in connection with the drive, it is desirable to reduce as much as possible the amount of speculative purchases of new securities. In order to accomplish this purpose, it is suggested that banks make loans on Government securities for the purpose only of enabling investors to purchase the securities out of funds that they expect to receive over the next few months. These loans should be made on an amortized basis and should be repayable within six months. Any other loans on Government securities, particularly where the bank believes that they may be speculative in character, should be covered by substantial margins.