OFFICE OF THE UNDER SECRETARY

TREASURY DEPARTMENT

WASHINGTON

C O P Y

March 11, 1942

PERSONAL AND CONFIDENTIAL

My dear Mr. Eccles:

I am enclosing herewith copies of two tables setting forth the features of two proposed new non-market securities which the Treasury has under consideration at the present time.

One of these issues, labeled on the tables "Proposed Short-term Security", is designed primarily to appeal to business funds temporarily thrown out of employment because of deferred maintenance, reduced inventories, and inability to reinvest depreciation or depletion reserves, or to make plant extensions, resulting from the diversion of all available national resources to the war effort. While designed especially for such funds, it is hoped that such a security would also be a suitable medium for the investment of idle State and municipal and, to some extent, personal balances in cases where the immediate availability of principal is a more important consideration than income. This proposed security is a modification of the one referred to in my letter of January 17, 1942.

The other issue, labeled on the tables "Proposed Long-term Security", is designed to appeal to funds where income, rather than immediate availability of principal, is the chief concern. It is hoped that such a security would prove especially attractive to trust funds and idle personal balances.

Both of the new securities would be placed upon continuous sale at the Treasury and the Federal Reserve Banks. Each of them would be available to all classes of purchasers other than banks receiving demand deposits. The short-term security would be available in unlimited amounts, but purchases of the long-term security would be limited to $1,000,000 by any purchaser in any one year. The primary purpose of this limitation is to reduce to a minimum any liquidation of outstanding securities incident to the offering of the new issues.

I should like to emphasize that no final decision has been made with respect to the question of the desirability of offering securities of the general description just discussed, and I would appreciate your comment on this broad question as well as on the more detailed one of the proposed descriptions and rates. I would appreciate it if I could have your comments by March 16th.

Very truly yours,

(signed) D. W. BELL

Under Secretary of the Treasury.

Honorable Marriner S. Eccles, Chairman,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Enclosures.

Table I

General Features of Proposed New Non-market Securities
Compared with Present Series E and G Savings Bonds

Feature	Proposed Short-term Security	Series E Savings Bonds	Series G Savings Bonds	Proposed Long-term Security
Maturity:	5 years	10 years	12 years	20 years
Issue price:	100	75	100	100
Issue date:	First of month for all sold during month.	First of month for all sold during month.	First of month for all sold during month.	First of month for all sold during month.
Callability:	None	None	None	None
Redeemability:	At any time after issue date on 30 days' notice, at 100 and accrued interest.	At any time 60 days after issue date without specified notice, at stated redemption values varying every 6 months, as shown on Table II. No accrued interest beyond last 6-month period.	On the first of any calendar month 6 months after issue date on 1 month's notice, at stated redemption values, varying every 6 months as shown on Table II. No accrued interest beyond last 6-month period.	On the first of any calendar month one year after issue date on 2 months' notice, at stated redemption values, varying every 6 months as shown on Table II. No accrued interest beyond last 6-month period.
Interest:	Payable semiannually by check at graduated rates, as shown on Table II.	No interest payable, except in the form of appreciation upon redemption. This appreciation is equivalent to 2.90 percent per annum if held to maturity and to lesser yields if redeemed at earlier dates, as shown on Table II.	Payable semiannually by check at a level rate of 2-1/2 percent per annum. Intermediate redemption values cut back below 100, as shown in Table II, in order to provide lower yields for bonds redeemed before maturity.	Payable semiannually by check at a level rate of 2-1/2 percent per annum. Intermediate redemption values cut back below 100, as shown in Table II, in order to provide lower yields for bonds redeemed before maturity.
Negotiability:	None	None	None	None
Eligibility as collateral:	None	None	None	None
Special provision in event of death of holder (or death terminating a trust):	None	None	Redeemable at 100.	Redeemable at 100.
Class of purchasers to whom available:	All except banks receiving demand deposits.	Natural persons only.	All except banks receiving demand deposits.	All except banks receiving demand deposits.
Limit on amount which may be purchased in one year:	None	$3,750 at issue price.	$50,000	$1,000,000
Minimum denomination:	$5,000	$18.75 issue price	$100	$1,000

Treasury Department, Division of Research and Statistics.

March 11, 1942.

STRICTLY CONFIDENTIAL

Table II

Interest Rates of Proposed New Non-Market Securities Compared
With Present Series E and G Savings Bonds

Period held (Years)	Proposed Short-Term Security			Series E Savings Bonds			Series G Savings Bonds			Proposed Long-Term Security			Period held (Years)
	Return during period	Redemption value end of period	Cumulative yield	Return during period	Redemption value end of period	Cumulative yield	Return during period	Redemption value end of period	Cumulative yield	Return during period	Redemption value end of period	Cumulative yield	
1/2	1/4	100.00	.25	(None)	75.00	0	2-1/2	98.80	.10	2-1/2	-	-	1/2
1	1/2	100.00	.37		75.50	.67	2-1/2	97.80	.30	2-1/2	97.80	.30	1
1-1/2	3/4	100.00	.50		76.00	.88	2-1/2	96.90	.44	2-1/2	96.90	.44	1-1/2
2	1	100.00	.62		76.50	.99	2-1/2	96.20	.61	2-1/2	96.20	.61	2
2-1/2	1-1/4	100.00	.75		77.00	1.06	2-1/2	95.60	.75	2-1/2	95.60	.75	2-1/2
3	1-1/2	100.00	.87		78.00	1.31	2-1/2	95.10	.88	2-1/2	95.10	.88	3
3-1/2	1-3/4	100.00	1.00		79.00	1.49	2-1/2	94.80	1.04	2-1/2	94.80	1.04	3-1/2
4	2	100.00	1.12		80.00	1.62	2-1/2	94.70	1.20	2-1/2	94.60	1.18	4
4-1/2	2-1/4	100.00	1.24		81.00	1.72	2-1/2	94.70	1.35	2-1/2	94.50	1.31	4-1/2
5	2-1/2	100.00	1.36		82.00	1.79	2-1/2	94.90	1.51	2-1/2	94.50	1.44	5
5-1/2					83.00	1.85	2-1/2	95.20	1.66	2-1/2	94.50	1.54	5-1/2
6					84.00	1.90	2-1/2	95.50	1.79	2-1/2	94.50	1.62	6
6-1/2					86.00	2.12	2-1/2	95.80	1.89	2-1/2	94.50	1.70	6-1/2
7					88.00	2.30	2-1/2	96.10	1.98	2-1/2	94.50	1.76	7
7-1/2					90.00	2.45	2-1/2	96.40	2.05	2-1/2	94.50	1.81	7-1/2
8					92.00	2.57	2-1/2	96.70	2.12	2-1/2	94.50	1.86	8
8-1/2					94.00	2.67	2-1/2	97.00	2.18	2-1/2	94.50	1.90	8-1/2
9					96.00	2.76	2-1/2	97.30	2.23	2-1/2	94.50	1.94	9
9-1/2					98.00	2.84	2-1/2	97.60	2.27	2-1/2	94.50	1.97	9-1/2
10					100.00	2.90	2-1/2	97.90	2.31	2-1/2	94.50	2.00	10
10-1/2							2-1/2	98.20	2.35	2-1/2	94.60	2.04	10-1/2
11							2-1/2	98.60	2.39	2-1/2	94.70	2.07	11
11-1/2							2-1/2	99.20	2.44	2-1/2	94.90	2.11	11-1/2
12							2-1/2	100.00	2.50	2-1/2	95.10	2.14	12
12-1/2										2-1/2	95.30	2.17	12-1/2
13										2-1/2	95.50	2.20	13
13-1/2										2-1/2	95.80	2.23	13-1/2
14										2-1/2	96.10	2.26	14
14-1/2										2-1/2	96.40	2.29	14-1/2
15										2-1/2	96.70	2.31	15
15-1/2										2-1/2	97.00	2.34	15-1/2
16										2-1/2	97.30	2.36	16
16-1/2										2-1/2	97.60	2.38	16-1/2
17										2-1/2	97.90	2.40	17
17-1/2										2-1/2	98.20	2.42	17-1/2
18										2-1/2	98.50	2.43	18
18-1/2										2-1/2	98.80	2.45	18-1/2
19										2-1/2	99.20	2.47	19
19-1/2										2-1/2	99.60	2.48	19-1/2
20										2-1/2	100.00	2.50	20

Treasury Department, Division of Research and Statistics.

March 11, 1942

March 30, 1942

Dear Dan:

In reply to your letter of March 11 I am, as you know, strongly in favor of the offering of both nonmarketable issues. The reasons for this position are that:

1. Nonmarketable securities would attract funds that would not be invested in marketable securities. Many investors are not interested in marketable securities because of the price risk involved.

2. Nonmarketable securities would be channeled directly to ultimate investors. They are the only really effective means of placing Government securities with investors other than commercial banks. They would avoid the padding of subscriptions and the free riding that are inherent in marketable issues. They would reduce the amount of support that it will be necessary to give to marketable issues. Nonmarketable issues in addition would permit the war requirements to be financed on a smaller amount of excess reserves and would make the use of those excess reserves more effective.

3. The success of nonmarketable issues would not depend on market conditions of a single day.

4. Investors could invest at par as their funds accumulate. They would not need to wait from one periodic issue to another and then run the chance that the Treasury would not offer the type of issue that they wanted. In addition they could purchase their full requirements at par instead of satisfying only part of their demands at the offering price and being forced to enter the market at a premium for the remainder. Under present conditions this is particularly true of some of the more permanent investors including insurance companies and trust accounts.

On the short issue it would seem preferable to substitute the scale of coupon rates proposed by the Federal Reserve. In the early period these rates are slightly above the Treasury rates. The higher level appears preferable, because it would offer some inducement for subscribers to invest. In the later period the rates are below the Treasury rates. Once the investment is made no special inducement is needed both because of the inertia of investors and because of the growing attractiveness of even a stationary rate as the period to maturity shortens. Regarding the notice required of the holder 60 days would appear to be preferable to 30 days in order to give the Treasury ample time to meet any possible large redemptions.

On the long issue the notice might be raised from 60 days to six months for the same reason. I would also suggest on the long issue that the maturity be shortened to 18 years. Although there is now a considerable subsidy in a maturity of even 20 years, present rates in the market appear to be only temporary and result in part from the Treasury's recent decision to issue certificates instead of long bonds in the April financing. As the amount of financing increases, there will be considerable weight on the market, and rates may be expected to advance slightly. If the maturity on the long issue is placed at 20 years, it may be necessary subsequently to reduce this period. It would seem much better to place the maturity initially at a point that could be maintained for the war period rather than in effect to raise the rate in the midst of the financing program. It does not appear necessary to adjust the yield on the long issue exactly to that on market issues because of the many differences between the two types. For the initial offering the limit of one million dollars that may be issued to any one subscriber in any one year seems necessary in order to protect the market. After some experience, however, it may be desirable to raise the limit or possibly to abandon the limit altogether. The exclusion of commercial banks from the issue initially may also be desirable, but again after some experience has been obtained commercial banks might be allowed to subscribe to perhaps 25 per cent of their savings deposits.

Sincerely yours,

M. S. Eccles,
Chairman.

Hon. Daniel W. Bell,
Undersecretary of the Treasury,
Washington, D. C.

LMP:lee