THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

March 30, 1942

Dear Marriner:

I thought you might like to have copies of the wires from the Federal Reserve Banks and the summary of their comments on the questions put to them in my telegram of March 23.

Sincerely,

Dan

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

see memo 3/31/42

SUMMARY

Question 1: Feeling unanimous that present basis of allotment on Nation-wide subscriptions, as at present, should be continued. I am impressed by the statements of Philadelphia and St. Louis regarding the psychological effect of the quota system. From the hundreds of letters I have read from the banks on tax notes and savings bonds I have gained the distinct impression that they are proud of the service they are rendering, that they have served freely and wholeheartedly, and I believe a quota system would, at least in the minds of some, suggest coercion.

Question 2: Except for Cleveland, all think no preferred allotment should be given to investors other than commercial banks, for their own account.

Question 3: Six FRBs emphatically favored preferred allotments up to varying maximum amounts, three partially favored it and three were opposed.

Question 4: Opinion almost unanimous in favor of retention of present classification of subscribers and basis of subscriptions as outlined in press statement of December 3, 1941.

Question 5: Very general feeling that two or three days advance notice should be given of terms of offering;that books should remain open at least two days and that corporations should be given special notice.

March 28, 1942.

TO: MR. BELL
FROM: MRS. POTTS

DIGEST OF REPLIES FROM FEDERAL RESERVE BANKS TO UNDER SECRETARY'S TELEGRAM OF MARCH 23, 1942

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1. Should the total amount of each issue be allotted on the basis of total Nation-wide subscriptions as at present, or should the total amount of each issue be apportioned in advance of offering between the Federal Reserve Districts and allotments made separately in each District? If the latter method is used, what should be the basis of the apportionment between Districts? Should the amount to be apportioned to each District be publicly announced at the time of offering?

Boston: Allotment on basis total Nation-wide subscriptions most satisfactory.

New York: Would be desirable to allot issue on basis of Nation-wide subscriptions as at present. Feels it would be difficult to provide equitable basis of allotment by Districts and to achieve public understanding of such allotment; also, questions benefit of such procedure. Certificates are primarily a money market obligation which appeals to larger banks and corporations and attempt to divert their distribution on geographical lines would only hinder, not prevent, their ultimate lodgement in these hands.

Neither the market nor NY Fed can suggest equitable basis of allotment to achieve greater distribution to non-bank holders.

Both market and NY Fed believe if there is allotment by Districts it should be announced publicly so that subscribers may have some gauge of their possible allotments.

Philadelphia: Does not consider it advisable to apportion each issue among the Federal Reserve Districts and make allotments separately in each District. Reasons: Apportionment may suggest immediate or ultimate coercion or enforced subscriptions; might conflict with various tax collection dates in some of the regions; might unduly affect the reserve position of some areas; the procedure would be confusing, particularly as it is a method which has not been used for some time and might lead to assumption that hereafter all Treasury issues would be allotted by Districts.

Cleveland: Majority of banks contacted by Cleveland FRB believe allotment should continue on basis of Nation-wide subscriptions. One bank, however, believed banks should be advised to subscribe for say 10% or 20% of their capital and surplus; with expectation of receiving fairly full allotment. Another bank believed total of each issue should be apportioned in advance between Federal Reserve Districts, with announcement of amount to be apportioned each District to be made at time of offering.

Richmond: Favors allotment on basis of total Nation-wide subscriptions.

Question 1 - continued

Atlanta: Favors allotment on basis of Nation-wide subscriptions; if apportionment is made, the amount apportioned to each District should be publicly announced at time of offering.

Chicago: Favors allotment on basis of total Nation-wide subscriptions as at present. If apportionment is made, the yardstick to be used should be capital and surplus of the member banks of each District and if Treasury should decide to use as yardstick excess reserves of each District in relation to total reserves, the average excess reserves over a three-month period should be used due to fact that April 1st tax situation in Illinois substantially reduces excess reserves in Chicago District.

St. Louis: Does not recommend at this time an apportionment of each issue between Federal Reserve Districts and separate District allotments. Expresses same feeling as does Philadelphia - that an apportionment at this time has semblance of coercion and would have bad psychological effect on market. If apportionment was adopted, suggest basis should be the percentage which each District holds of total deposits of individuals, partnerships and corporations, plus excess reserves of member banks. Believes amount apportioned to each District should be publicly announced at time of offering.

Minneapolis: Favors allotment on Nation-wide subscription basis if fixed amounts are set for the total issue. Feels it would be impossible to arrive at an equitable apportionment between Districts due to seasonal factors and tremendous distortion of money market due to the movement of funds at income tax time. Feels that under Nation-wide allotment plan distribution levels off naturally since securities automatically flow to the points where they are desired. Offering could be made at a lower rate under Nation-wide plan since it would not be necessary to fix a rate that would assure absorption of securities in high rate Districts.

Kansas City: Favors allotment on Nation-wide subscription basis as at present.

Dallas: Favors allotment on Nation-wide subscription basis as at present. If Treasury decides issues should be apportioned in advance by Districts, believes apportionment should be made on basis of ratio of bank deposits of each District to total bank deposits of Nation. Amount apportioned to various Districts should not be publicly announced at time of offering.

San Francisco: Feels nothing constructive would be gained by fixing District quotas, since there is no dependable measure for determining investment desires in advance of issue or amount of funds actually available for investment within a District. While in some instances District banks collectively show considerable excess reserves, there is wide disparity in relative ownership thereof.

2. Should the Treasury give preferred allotment to subscriptions from investors other than commercial banks for their own account?

Boston:	No. Favors uniform percentage allotment all classes of subscribers.
New York:	Feels issue will distribute itself and interference at source with distribution is more likely to lead to speculative subscriptions than the reverse. Feels that this is not the time nor occasion for Treasury to abandon equality of treatment on allotments.
Philadelphia:	Feels there are substantial advantages in keeping issue open to all and that preferred allotment to non-bank investors would be unnecessary, particularly in absence of experience with proposed certificates in present market.
Cleveland:	Majority of banks contacted felt preferred allotments to investors other than commercial banks would be advantageous, one suggesting that up to say $50,000 would prove extremely attractive to corporations. One bank suggested it would be helpful if banks could be urged to sell certificates over the counter to investors, whether subscriptions were placed on day of issue or not, and work up a market of par bid and par asked all the time between banks.
Richmond:	Does not favor giving preferred allotment to subscriptions from investors other than commercial banks for their own account.
Atlanta:	Does not think anything would be gained by making distinction between commercial banks and other investors for their own account, since proposed issues of certificates will not be particularly attractive to investors other than large commercial banks on account of short maturities and low interest rate.
Chicago:	Does not think Treasury should give preferred allotment to subscriptions from investors other than commercial banks for their own account.
St. Louis:	Thinks no preferred allotment should be given to investors other than commercial banks for their own account.
Minneapolis:	Sees no advantage to preferred allotment to non-bank investors. Distribution between types of investors will automatically be controlled by type of security and rate. This short term Treasury issue will serve useful purpose in bank portfolios where there is tendency at present to sacrifice liquidity for yield in their Government bond holdings.
Kansas City:	Thinks Treasury should not give preferred allotment to subscriptions from investors other than commercial banks for their own account.
Dallas:	Considers it unnecessary for Treasury to give preferred allotment to subscriptions for certificates received from investors other than commercial banks, especially since they will probably not be very attractive to investors other than banks. On intermediate and long-term securities thinks Treasury should give preferred allotment to subscriptions from non-bank investors.
San Francisco:	Does not think Treasury should give preferred allotment to other than commercial banks as purpose would be circumvented by individuals and corporations free-riding for commercial banks.

3. Should the Treasury give preferred allotment on all subscriptions up to a maximum amount and, if so, what should this maximum be?

Boston: No. Preferred allotment over $1,000 not favored owing to past experience with padding.

New York: Favors preferred allotments on subscriptions up to $25,000 to meet possible demands of smaller banks, corporations, and trust funds. Market opinion divided, one source suggesting no preferred allotment and another substantial preferred allotment.

Philadelphia: Feels if Treasury should give preferred allotment on all subscriptions, it might do so in one of two ways: (a) set a limit of $50,000 or $100,000 to investors, or (b) reduce present basis of allotment to banks from 50 percent to 25 percent of capital and surplus. Such reduction might not be desirable in event non-bank investors failed to absorb their proportionate share of issue. For that reason initial issue of small size, say between $600M and $800M, could be floated to find pattern or acquire experience in marketing certificates, after which a combination of maxima might be worked out for subsequent issues.

Cleveland: Five banks contacted believe no preferred allotments should be made on subscriptions up to a given maximum, three others believe there should be preference up to a maximum amount, with $250,000, $100,000 and "a substantial figure" suggested.

Richmond: Does not think much would be gained by preferred allotment on all subscriptions up to a maximum amount for issues of type under consideration.

Atlanta: Would like to see preferred allotment on all subscriptions up to $25,000.

Chicago: Opinion of their directors and majority of bankers contacted was that subscriptions up to maximum amount of $5,000 be allotted.

St. Louis: Would give preferred allotment up to maximum of $10,000 if suitable safeguards could be devised to prevent padding. Think this would enable smaller country banks to obtain larger allotment.

Minneapolis: Opinion divided but majority thought present maximum of $5,000 satisfactory. It was stated that small fellow needs short-term investments and this amount would permit him to cover his short-term requirements without encouraging him to purchase for speculative profit.

Kansas City: Feels Treasury should give preferred allotment on all subscriptions up to maximum of $10,000.

Dallas: Believes it would be helpful if Treasury would offer preferred allotment on all certificate subscriptions up to $10,000 to encourage medium-size and smaller banks to subscribe and thus broaden distribution.

San Francisco: Believes preferred allotments according to size of subscriptions undesirable. However, recommends $10,000 as lowest denomination of certificate to accommodate small banks and business institutions.

4. Should there be any change in the four classes of subscribers or basis of subscriptions set out in press statement of December 3, 1941?

Boston: Basis subscriptions outlined statement Dec. 3 favorably accepted in Boston District.

New York: Says market does not recommend any change in four classes of subscribers. Believes these are become established, are considered as fair as possible in field where complete equity is not attainable, and variations now would be confusing. FRB suggests that corporations organized for profit might be allowed to subscribe up to amount equal to half net worth or 100 percent of cash deposits, whichever is greater, just as individuals have been permitted to do.

Philadelphia: Says consensus is that there should be no change in four classes of subscribers or basis of subscriptions as set out in Dec. 3 statement.

Cleveland: Majority of banks contacted satisfied with basis set out in statement.

Richmond: Suggests that no change be made at this time in classes of subscribers or in basis of subscriptions as set out in statement.

Atlanta: Knows of no reason why there should be any changes in four classes of subscribers or basis of subscriptions.

Chicago: Opinion is that there should be no change in four classes of subscribers or basis of subscriptions, except that banks should be permitted to subscribe up to 100 percent of capital and surplus.

St. Louis: Suggests only one change in basis of subscriptions set out in Dec. 3 statement and this change to apply only to this proposed or similar issues: that banks and trust companies for their own account be permitted to subscribe not to exceed 100% of capital and surplus.

Minneapolis: Says all classes of subscribers appear satisfied with present arrangement.

Kansas City: Believes following changes should be made: (a) Permit insurance companies to subscribe on basis of 10 percent of total resources or 100 percent of net worth, whichever is higher. Present basis penalizes many small insurance companies KC District, although larger companies have benefited. (b) Allow trust accounts to subscribe for 10 percent of total resources or 100 percent of cash deposited with subscription, whichever is higher. Many small trusts are now being penalized by 10 percent limitation.

Dallas: Suggests there be no change in classes of subscribers or basis.

San Francisco: No change recommended in four classes prescribed Dec. 3 statement.

5. Have you any other suggestions for getting wide publicity and distribution of these securities?

Boston: Says announcements already made have aroused wide interest.

New York: Combination market and FRB suggestions are that Treasury announce terms of offering 2 or 3 days in advance of issue or keep books open 2 days; that FRBs be requested to include Treasury press statement in its circular (Mr. Miller called me this morning to emphasize this - he thinks it very important); that FRBs be requested to send offering circulars to corporations as well as to banks and other financial institutions (in his conversation with me this morning, Mr. Miller thought it worthwhile to pass on a thought of his - he wonders if all the FRBs have good and active lists of corporations. NY is now working on their lists so they will be prepared to mail to corporations, newspapers etc. on short notice. Their lists include over 500 large corporations and 145 daily newspapers, that is newspapers outside of New York City).

Philadelphia: Says views regarding publicity and distribution are about evenly divided. One school of thought favors general type of publicity through forceful and appealing statement to financial institutions and press, since most potential subscribers are accustomed to this procedure. On the other hand, opinion is that it might be well to circularize well-selected broup of business enterprises on ground it would be more direct approach, though there is risk in this method in that there would be probable omission of number of those concerns that are in funds and might want to invest. Also, cost of mailing might be a difficulty, although of minor importance if objective could not be attained in any other way. Suggestion advanced that it might be desirable to give general publicity three days or so in advance of issue. FRB feels this has merit, as it would enable investors, particularly business concerns and country banks to reach decisions.

Cleveland: In Cleveland and Pittsburgh banks contacted had no suggestions, but it was suggested by Cincinnati that announcement of issues should be made 3 or 4 days, possibly a week, before date set for accepting subscriptions; also, by continuous publicity, newspaper and otherwise, market for certificates should be broadened and banks should undertake to sell certificates to their customers, thus absorbing idle funds.

Richmond: Says it has been suggested to them that more corporations would buy certificates if given direct advance notice of offering and allowed more time between opening and closing of books.

Atlanta: Feels some form of preliminary announcement should be made to press and otherwise, prior to offering date, to give corporations sufficient time to have their investment committees reach decision.

Chicago: No suggestions for publicity other than a preliminary notice a few days before issue is announced as to maturity and rate.

Question 5 - continued

St. Louis:	In order to obtain wider distribution suggests offering stay open two days instead of one, pointing out that this would enable offering literature to reach all banks of western and southern districts, which in some cases do not receive data first day. Suggests if this is done that announcement be made that reason for leaving books open extra day is to give investors more time to study new type of security, counteracting possible public interpretation that leaving books open longer means Treasury is concerned over success of offering.
Minneapolis:	Publicity of the certificates should be specialized and directed specifically to banks, trust officers and treasurers of large concerns. Suggests credit departments of larger banks could furnish suitable lists, which could then be circularized directly by FRBs.
Kansas City:	Believes if at all feasible statement indicating probable amount, maturity and rate should be issued several days in advance of offering.
Dallas:	Unless necessary, believes it would be advisable to keep books open for at least two days. Also, thinks it would be helpful if notice in regard to first certificate offering were mailed to bank and other investors about two days in advance of regular announcement.
San Francisco:	Recommends at least three days advance notice of terms to afford FRBs and commercial banks to circularize likely investors.