BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R&S 100-188
March 4, 1941

Board of Governors — Memorandum from

L. M. Piser — Secretary Morgenthau

STRICTLY CONFIDENTIAL

Chairman Eccles received the attached memorandum from Secretary Morgenthau when he was at the Treasury yesterday, March 3. He has asked me to have copies made and distributed to each Board Member for his information.

(Copy of telegram which went to Presidents
of Federal Reserve Banks on
Defense Savings Bonds)

Room 278

Under Secretary

Exp. Loans

February 28, 1941

To Presidents, Federal Reserve Banks.

Boston, Mass.	Chicago, Ill.
New York, N. Y.	St. Louis, Mo.
Philadelphia, Pa.	Minneapolis, Minn.
Cleveland, Ohio.	Kansas City, Mo.
Richmond, Va.	Dallas, Texas.
Atlanta, Ga.	San Francisco, Calif.

Am mailing you tonight memorandum on proposed savings bond program of the Treasury. Would appreciate it if you and your staff would carefully study this program on Monday and Tuesday and let me have your criticisms and suggestions late Tuesday evening by wire.

(Initialed) D. W. B.

BELL

(Copy of letter which went to Presidents
of Federal Reserve Banks on
Defense Savings Bonds.)

February 28, 1941

Dear Mr. Young:

By direction of the Secretary I am transmitting herewith a copy of a memorandum covering a proposed savings bond program which the Treasury now has under consideration. I would appreciate it if you and your staff would carefully review this proposed program and let me have your criticisms and suggestions by wire Tuesday evening so that we can have them here for study early Wednesday morning. If it would be helpful to you, you are free to call in any outside people you may deem advisable for consultation.

Very truly yours,

(Signed) D. W. Bell

Under Secretary of the Treasury

Mr. R. A. Young,
President,
Federal Reserve Bank,
Boston, Massachusetts.

DWB:NLE

Proposed Savings Bond Program

Three series of United States savings bonds are under consideration for use in connection with the forthcoming savings bond program. Each of these is designed to tap a different sector of investment demand, and it is proposed that all three be offered simultaneously. The first is a modification of the present form of savings bond, and is intended primarily for small investors. The other two are designed primarily for large individual investors and for limited purchase by institutions other than commercial banks.

The three proposed types are described in more detail in the remainder of this memorandum.

I. Savings Bond Offered Primarly for Small Investors

It is proposed that the present type of savings bond be retained, with one relatively minor modification. The modification relates to the yield allowed on the bonds if redeemed prior to maturity. The yield if held to final maturity would continue to be 2.90 per cent. It is proposed, however, that the yields allowed in the event of intermediate redemption should be reduced substantially. The proposed reductions are shown in Table I, which compares the intermediate yields allowed under the present plan with those proposed for the new series. The primary purpose of this modification is to build up the yield during the remainder of the ten-year period if held to maturity as rapidly as possible. It is this yield (which is shown in the last column of the table) which determines the decision of a holder of the bonds whether to redeem them or hold them to final maturity. It is felt that this yield should be built up as rapidly as possible, thus providing a substantial inducement to holders of the bonds to retain them to final maturity.

It is proposed that the limit on the maximum amount of the bonds of this type which may be purchased by any one individual in any one year be fixed at $5,000 maturity value, as compared with $10,000 for the present type of savings bond. Sales would continue to be restricted to natural persons.

II. Savings Bonds Designed Primarily for Larger Investors

It is proposed that two types of savings bonds be offered primarily for larger investors. These bonds would be eligible for purchase by any class of investor except commercial banks, and could be purchased up to a total amount of $50,000 original issue price by any investor in any one year. This limit could be taken in either type of bond or divided between the two in any way desired by the investor, and would be in addition to the $5,000 maturity value permitted to be purchased of the bond described in the first section of this memorandum.

One of the proposed new series would be an appreciation-type security similar to the existing savings bonds, while the other would provide a current income. Both securities would yield a return of approximately 2 1/4 per cent if held to final maturity. Their yield for the period held if redeemed prior to maturity would also be approximately the same. The two securities are compared in this respect, and their intermediate redemption values are shown in Table II. Both types would be redeemable only on semiannual dates and on thirty days' written notice, such notice to be irrevocable when once given.

The appreciation-type security would be the same as the existing series of savings bonds, except that it would have an issue price of 80, rather than 75, thereby reducing the yield to maturity from 2.90 per cent to 2.24 per cent. The intermediate redemption values would also be reduced more sharply than is proposed in the case of the bond described in the first section of the memorandum. These values would still be generous, however, as compared with open market yields for corresponding periods.

The income-type of security presents a somewhat more difficult technical problem. It would bear a current return at a level rate of 2 1/4 per cent per annum, payable semiannually throughout the period. In order to compensate for the high current return in early years, it has been considered necessary to reduce the intermediate redemption values below the original sales price by an amount sufficient to cut intermediate yields to the same level as those on the appreciation-type security. The reduced intermediate redemption values thus arrived at would reach a minimum of $94.80 per $100 of original issue price after the bond has been held 4 1/2 years.

This scale of intermediate redemption values is that which would be available to the original purchaser should he desire to redeem the security prior to maturity. It is proposed, however, that in the event of the death of the original purchaser during the ten-year period, his successor in interest should have the right for a reasonable period after the death of the original purchaser to obtain the full purchase price of the bond, rather than the reduced intermediate redemption value named in the instrument. This provision is proposed primarily in order to make the securities attractive to life tenant and remainderman trusts.

Table I
United States Savings Bonds
Comparison of Present Plan with Plan for Reduced Intermediate Yields

Number of semiannual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields
0	$75.00	$75.00	.00%	.00%	2.90%	2.90%
1	75.00	75.00	.00	.00	3.05	3.05
2	76.00	75.50	1.33	.67	3.07	3.15
3	77.00	76.00	1.76	.88	3.10	3.25
4	78.00	76.50	1.97	.99	3.13	3.38
5	79.00	77.00	2.09	1.06	3.17	3.52
6	80.00	78.00	2.16	1.31	3.21	3.58
7	81.00	79.00	2.21	1.49	3.27	3.66
8	82.00	80.00	2.24	1.62	3.34	3.75
9	83.00	81.00	2.26	1.72	3.42	3.87
10	84.00	82.00	2.28	1.79	3.52	4.01
11	85.00	83.00	2.29	1.85	3.64	4.18
12	86.00	84.00	2.29	1.90	3.81	4.41
13	87.00	85.00	2.30	1.93	4.02	4.70
14	88.00	86.00	2.30	1.96	4.31	5.09
15	90.00	87.50	2.45	2.07	4.26	5.41
16	92.00	89.00	2.57	2.15	4.21	5.91
17	94.00	91.00	2.67	2.29	4.17	6.39
18	96.00	93.00	2.76	2.40	4.12	7.39
19	98.00	95.00	2.84	2.50	4.08	10.53
20	100.00	100.00	2.90	2.90	-	-

Treasury Department, Division of Research and Statistics

Yields are nominal annual rates compounded semiannually.

Table II
Comparison of Proposed Appreciation and Income Plans for New Series of United States Savings Bonds Yielding 2 1/4 Per Cent if Held to Final Maturity

Number of semiannual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Appreciation plan	Income plan	Appreciation plan	Income plan	Appreciation plan	Income plan
0	$80.00	$100.00	.00%	.00%	2.24%	2.25%
1	80.00	98.90	.00	.05	2.36	2.38
2	80.20	98.00	.25	.25	2.47	2.50
3	80.40	97.20	.33	.39	2.58	2.62
4	80.80	96.50	.50	.51	2.68	2.74
5	81.20	95.90	.60	.62	2.80	2.86
6	81.80	95.50	.74	.76	2.89	2.97
7	82.40	95.10	.85	.87	3.00	3.09
8	83.20	94.90	.98	1.00	3.09	3.19
9	84.20	94.80	1.14	1.12	3.15	3.29
10	85.20	94.80	1.26	1.24	3.23	3.39
11	86.20	94.90	1.36	1.35	3.33	3.48
12	87.20	95.00	1.44	1.45	3.45	3.60
13	88.40	95.20	1.54	1.55	3.55	3.73
14	89.80	95.60	1.66	1.65	3.62	3.82
15	91.20	96.00	1.75	1.75	3.72	3.95
16	92.60	96.60	1.84	1.85	3.88	4.04
17	94.20	97.20	1.93	1.95	4.02	4.20
18	96.00	98.00	2.04	2.05	4.12	4.31
19	97.80	98.90	2.13	2.15	4.50	4.50
20	100.00	100.00	2.24	2.25	-	-

Treasury Department, Division of Research and Statistics

Yields are nominal annual rates compounded semiannually.