



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

Dear Marriner:

I am enclosing drafts of four letters which the Secretary proposes to send within the next few days to the Federal Reserve Banks, the commercial banks, the insurance companies, and to a list of large corporations. These letters cover policy matters relating to the Fourth War Loan that the Secretary wishes to bring to the attention of the institutions and corporations addressed. I should appreciate it if you could give me your reaction to these drafts at your earliest convenience.

Sincerely,

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

Enclosures

FOR DEFENSE



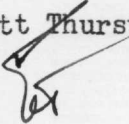
BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

December 27, 1943.

MEMORANDUM

The attached drafts of letters were discussed this morning at a meeting in Ronald Ransom's office, at which Mr. Tickton of the Treasury (who brought over the attached correspondence), Mr. McKee, Mr. Morrill, Mr. Piser and myself were present. One letter is to be sent to all banks, another to from 800 to 1000 large corporations, and another to insurance companies.

A number of suggestions were made for purposes of clarification, and Mr. Tickton said he would also clear them with Allan Sproul and Bob Rouse, at whose suggestion they were originally drafted. He will furnish us with copies of the final revisions when and if the Secretary, who is at his farm in New York, signs them.

Elliott Thurston.


Gentlemen:

On January 16, 1944, the Treasury will open the Fourth War Loan, the goal of which is \$14 billions. This war loan will afford many of the country's insurance companies an opportunity to invest some of the cash funds they have accumulated since the Third War Loan closed.

A number of insurance executives have told me that it would be helpful to their companies and avoid confusion if the Treasury made a definite statement of policy with respect to (a) the method it desired insurance companies to follow in placing their subscriptions to the various issues, and (b) the matter of allocations of credit for insurance company subscriptions.

With respect to the first point, it seems to me that no corporation should transfer funds from one bank to another exclusively for the purpose of entering subscriptions to Government securities because of the disturbing effect of such transfers upon the reserve positions of the nation's banking institutions. It is the Treasury's wish, therefore, that such transfers of funds during the Fourth War Loan be avoided. If you enter a subscription during the Fourth War Loan, I should appreciate it if you would make a point of entering it at the bank or banks in which you keep the funds to be used to pay for the securities subscribed for.

With respect to the matter of allocations of credit for subscriptions to local communities, please be advised that during the Fourth War Loan -- as during the previous war loan drives -- no allocation of insurance company subscriptions to an address other than that of the home office can be permitted. I recognize that there are some problems of business and customer relations in the various communities in which you do business which might make some allocations appear desirable.

Our discussions with insurance executives in various parts of the country, however, have led us to the conclusion that allowing allocations of insurance company subscriptions would create a host of new and difficult problems. We have decided, therefore, to leave the previous ruling unchanged and have included in the quotas assigned to the various States and counties an estimate of the amounts likely to be obtained from insurance companies whose home offices are located therein.

May I take this opportunity to express my deep appreciation of the great help your company and the other insurance companies of America have given the Treasury in connection with its war financing activities. Through the cooperation of your executives and employees you have helped us develop and extend our program of selling large volumes of securities to individual purchasers under the payroll savings plan and during the War Loan Drives.

Sincerely,

Secretary of the Treasury

SGT:rh
12/27/43

Gentlemen:

On January 18, 1944, the Treasury will open the Fourth War Loan, the goal of which is \$14 billions. This war loan will afford many of the country's large corporations an opportunity to invest some of the cash funds they have accumulated since the Third War Loan closed.

A number of corporation executives have told me that it would be helpful to all large corporations and avoid confusion if the Treasury made a definite statement of policy with respect to (a) the method it desired large corporations to follow in placing their subscriptions to the various issues, and (b) the procedure it desired them to follow with respect to allocations of credit to their various locations throughout the country.

With respect to the first point, it seems to me that no corporation should transfer funds from one bank to another exclusively for the purpose of entering subscriptions to Government securities because of the disturbing effect of such transfers upon the reserve positions of the nation's banking institutions. It is the Treasury's wish, therefore, that such transfers of funds during the Fourth War Loan be avoided. If you enter a subscription during the Fourth War Loan, I should appreciate it if you would make a point of entering it at the bank or banks in which you keep the funds to be used to pay for the securities subscribed for.

With respect to the matter of allocations of credit to local communities, I recognize the force of the many problems of business and customer relations in the various communities that make allocations desirable and necessary. In view of the amount of detailed work involved in making allocations, however, it is desirable to reduce the number to the fewest possible.

We are, however, desirous of meeting your wishes as to the distribution of credits for your subscription or portions thereof. We have arranged, therefore, with the Federal Reserve Banks for the establishment of a procedure which will permit allocations to be made effectively and systematically. A circular letter from the Federal Reserve Banks describing the procedure and providing forms for its operation should be in the hands of your bank shortly if it has not already arrived.

May I take this opportunity to express my deep appreciation for the great help your company and other corporations of America have given the Treasury in connection with its war financing activities. Through the cooperation of your executives and employees you have helped us develop and extend our program of selling large volumes of securities to individual purchasers under the payroll savings plan and during the War Loan Drives.

Sincerely,

Secretary of the Treasury

SGT:rh
12/27/43

Gentlemen:

On January 18, 1944, the Treasury will open the Fourth War Loan, the goal of which is \$14 billions. It is our aim in the coming campaign to increase the sale of Government securities to individuals, who are expected to account for \$5.5 billions of the total goal. In my statements concerning the Fourth War Loan, I have emphasized that the drive is to be limited to obtaining subscriptions from nonbank investors. The following statement was included in the first formal announcement of the Loan:

"In order to help in achieving its objective of selling as many securities as possible outside of the banking system, the Treasury requests the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities. The Treasury is in favor of the banks making loans to facilitate permanent investment in Government securities provided such loans are made in accord with the joint statement issued by the National and State Bank Supervisory Authorities on November 23, 1942."

During the three preceding war loan drives, an increasing volume of subscriptions appears to have been entered by subscribers who paid for the securities they purchased largely by borrowing funds from commercial banks. Many of these subscriptions were placed with the intention of repaying the borrowed funds out of future income, and of holding the securities purchased as investments. A substantial volume of such subscriptions, however, appears to have been predominantly speculative in character, or else to have been entered merely for the purpose of helping to achieve campaign quotas. The subscribers evidently intended to hold the securities only for short periods and expected to sell them in the market within a few weeks or months after the drive.

Such subscriptions do not contribute to the objective of financing the war as largely as possible outside the banking system, and thus limiting war-time growth in bank credit and the accompanying growth in the money supply in the form of bank deposits. On the contrary, they have involved an expansion of bank credit.

In view of these considerations, I want to request all banks to scrutinize carefully all requests that come to them for loans to finance subscriptions to securities offered in the Fourth War Loan. Loans to facilitate investment in Government securities, as distinguished from loans for speculative subscriptions, are a proper part of the financing mechanism, but to qualify for approval such loans should be in accord with the joint statement issued by the National and State Bank Supervisory Authorities in November 1942, which stated that loans should be "on a short term or amortization basis, fully repayable within periods not exceeding six months." Loans to finance subscriptions that do not meet the requirements of investment loans are not consistent with the Treasury's policy and program.

Another matter with respect to which I should also appreciate your further cooperation is that of the transfer of funds for the purchase of Government securities. We have written a letter to the larger corporations of the country about this matter and a copy is enclosed for your information.

May I take this opportunity to express my deep appreciation of the great help you and other bankers have given the Treasury in connection with its war financing operations, in promoting the sale of securities, in acting as sales agencies during drives, in the continuous sale of savings bonds, and in your subscriptions to those securities which banks have been eligible to purchase.

Sincerely,

Secretary of the Treasury

Dear Mr. Spraul:

I am enclosing herewith for your information copies of three letters which I am sending within the next few days to the banks, to the insurance companies, and to the large corporations of the country. These letters are for the purpose of advising banks of our policy with respect to speculative loans on Government securities during the drive; of advising banks, insurance companies, and large corporations of our policy with respect to the transfers of funds for the purchase of Government securities; of bringing to the attention of large corporations the new allocation procedure which has been worked out for the drive; and of advising insurance companies that no allocation of their subscriptions will be permitted.

I should like to set forth for you at this time a policy with respect to subscriptions to marketable securities offered in the drive by dealers and brokers. It is our aim in the coming campaign to increase the sale of Government securities to individuals and other nonbank investors. We wish to obtain the investment of funds and balances currently available or shortly to become available in such securities. We do not want a large volume of subscriptions entered by any group of investors for the purpose of disposing of the securities acquired to the market shortly after the drive closes.

We are including dealers and brokers in the Fourth War Loan drive only with the definite understanding that their subscriptions are to be carefully examined by the Federal Reserve Banks. I am leaving the details of this examination to you as we have done in the past. Brokers and dealers should, however, be requested to limit the amount of their

subscriptions in the Fourth War Loan drive to the amount of securities they will be able to retail to their customers *other than* for investment after the drive is closed. Generally speaking, the volume of such purchases should be small regardless of the size of the investment firm as most of their customers will have ample opportunity to subscribe during the drive. *bankers*

For your guidance in considering such subscriptions, I should like you to know that in breaking down our \$14 billions goal for the Fourth War Loan drive we have set aside \$300 millions as the estimated amount to be obtained from dealers and brokers. This amount has been distributed by States in the manner shown in the enclosed table. You should keep these figures in mind and dealers and brokers should be advised of the Treasury's position with respect to their subscriptions before the marketable securities become available. Brokers and dealers should, at the same time, be requested to discourage customer subscription for Government securities for the purpose of resale in the market. Such speculative subscriptions ordinarily involve bank loans and the Treasury wishes to discourage loans for other than investment purposes on securities offered in the drive. The Treasury also wishes to avoid unnecessary redistribution of securities in the Government security market following the close of the drive. Circulars should be distributed on this subject.

Sincerely,

Secretary of the Treasury

Mr. Allan Sproul
President
Federal Reserve Bank of New York
New York, New York

**Distribution of the Amounts Estimated to be Obtained from
Dealers and Brokers During the Fourth War Loan, by States**

(In millions of dollars)

State	Amount
California	25
Florida	1
Georgia	3
Illinois	4
Maryland	7
Massachusetts	6
Minnesota	1
North Dakota	3
New York	20
Ohio	26
Oregon	1
Pennsylvania	8
Tennessee	2
Texas	3
Washington	1
West Virginia	1
Total	<u>100</u>