TO:

CHAIRMAN ECCLES

Report of the Special Bankers Committee.

DWB

Prsv
7/20/43

Office of the Under Secretary

MEMORANDUM

For The

SECRETARY OF THE TREASURY

By The

SPECIAL COMMITTEE ON TREASURY WAR BORROWING

Of The

AMERICAN BANKERS ASSOCIATION

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As requested by you we have reviewed the memorandum submitted by the Federal Reserve Board, and in this connection discussed the matter with Mr. Eccles and also with Mr. Bell, Mr. Haas and their associates in the Treasury Department. The Federal Reserve and the Treasury both agreed that the general present pattern of rates on government securities should be maintained within limits that, while permitting some market fluctuations, will not vary up or down to a degree that will shake the confidence of the public in the general stability of the rate structure. With this we fully agree.

## Federal Reserve Memorandum

At the present time the supply of short-term Government securities running up to 10 years which are particularly suitable for bank investment is not, except in the case of 90-day bills, equal to the demand. The supply of 90-day bills at the present rate of 3/8 of 1%, even with the agreement of the Federal Reserve banks to purchase them at this rate, has reached the saturation point. At the present time it is obvious that any increase in the amount of bills outstanding will find their way into the Federal Reserve banks. This lack of short-term investments, other than 90-day bills, suitable for bank's investment, has caused many banks to buy long-term government securities which were designed primarily for other investors and has put an undesirable pressure on the whole rate structure, tending to dislocate it and to lower the rate on long-term government securities to a point where investors other than banks will not buy them.

The Federal Reserve suggests that no more bills or year certificates be issued, but that instead 9 months bills or certificates, bearing 3/4% interest, be issued into which the present outstanding bills and 1-year certificates would be refunded as they mature and that the Federal Reserve banks would agree to purchase such 9-month bills or certificates at 3/4 of 1%.

While the proposal of the Federal Reserve System would tend to alleviate the present pressure for short-term securities available for bank investment, we believe that the same result might be obtained by not enlarging the amount of 90-day bills outstanding until the market has clearly demonstrated its ability to absorb them, and increasing the supply of 1-year 7/8 certificates, and supplying more 1 1/2% notes having a maturity of 5 years or less and of 2% bonds having a maturity of 10 years or less when the next offers designed primarily for banks are made by the Treasury. We believe it better to try this program to see if it would not remedy the situation rather than at this time adopt the Federal Reserve Board's suggestion.

If this does not remedy the situation, then some plan slong the lines of the Federal Reserve should be given serious consideration. The objectives of the Federal Reserve and the Treasury are so nearly identical that close cooperation between the two in adopting a common objective and making effective a program should bring success.

In regard to the specific questions which are contained in the memorandum submitted by the Under Secretary and on which we were requested to give our recommendations, they are made in the general light of the foregoing conclusion.

THIRD WAR LOAN

1. What securities should be in the basket for each class of investor?

We recommend for the basket the following:

7/8% 1 year Certificates of Indebtedness

2% Bond due 10 years callable 8 years

2 1/2% Bond due Dec. 15, 1969 callable Dec. 15, 1964

E, F, and G Savings Bonds

Present Series C Tax Savings Notes

We recommend the inclusion of 7/8 one year certificates because we believe that without them, it would be difficult and probably impossible to get corporate subscriptions to the amount estimated.

Simultaneously with the announcement of the basket we think that a statement should be made that the 7/8% Certificates of Indebtedness and the 2% Bonds will be offered to banks only not earlier than October 15 nor later than November 1 in a minimum amount of 2 1/2 billions, this amount to be increased as may be needed, of which a substantial amount will be of the 2% bonds. We believe such an announcement would tend to reduce the pressure from banks seeking to invest excess reserves during and immediately after the period of the drive.

2. Should the timing of the corporation part of the drive be separated from the individual part?

Answering question two we think that the corporation part of the drive should not be separate from the individual part.

3. Should banks be offered the marketable securities issued in the drive after the close of the drive?

The third question has been answered in connection with question one.

4. Should a partial payment system be established for the 2-1/2's; for large denomination E bonds?

Answering the fourth question there should be no partial payment plan for the 2 1/2's particularly if G's are offered and we see no practical way to provide for partial payment of E bonds on account of administrative expense, shortage of manpower and difficulty of policing.

5. Should the Treasury and the Federal Reserve publicly encourage the withdrawals of bank deposits for the purchase of war bonds during the drive?

Answering number five we recommend that that question be left to the State Chairmen and their committees acting in collaboration with the banks and because of the varied conditions that prevail throughout the country. This is particularly important in states where there are Mutual Savings Banks.

## INTERIM FINANCING

Should a limitation on bank and other subscriptions be established on the August 1 issue; should subscriptions of $100,000 be allotted in full with 100 percent down payment required; should this offering be open only to banks?

We recommend that 3 billion of new 7/8% 1-year Certificates of Indebtedness be issued to take up the certificates maturing August 1, 1943 and to provide one and one-half billion new money. We suggest that holders of maturing certificates be permitted to exchange them for the new ones.

Answering your question, we suggest that bank subscriptions be limited to 100% of capital funds or 5% of deposits, whichever is higher, as shown by the last published figures, except that bank subscriptions up to $100,000 be alloted in full. As to subscribers other than banks, we think subscriptions of $100,000 should be allotted in full and down payment of 100% be required and that above $100,000 10% be required. Subscriptions should not be limited to banks.

QUOTAS

No. 1 - Over-all quotas.

There should be an overall quota. We haven't sufficient information to advise as to the amount, but it should not be set higher than you can reasonably expect to attain. It appears to us that the amount of 7 billions for individuals is too high.

No. 2 - Should over-all quota be broken down by States and other political sub-divisions?

We think state quotas should be fixed and that any further breakdown should be left to the State Chairmen and their committees.

No. 3 - Should any quota or quotas be broken down by types of securities?

No. We think impractical.

No. 4 - Should the total be broken down by classes of investors?

We think should be done for benefit of State Chairmen but not made public.

No. 5 - What quota or quotas should be made public?

Total quota should be announced and any other publicity on quotas should be left to the State Chairmen.

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