

STRICTLY CONFIDENTIAL

April 1, 1944

Chairman Eccles

Continuation of buying rate on

L. M. Piser

90-day bills

You asked me yesterday for my opinion on continuing the buying rate of  $\frac{3}{8}$  of one per cent on bills that mature in 90 days or less instead of establishing a buying rate of  $\frac{5}{8}$  of one per cent on all bills. It seems to me that such a proposal would not be satisfactory from the point of view of the Treasury in that they would have no assurance that tenders for five- or six-month bills would be received at  $\frac{5}{8}$  of one per cent. It might be necessary for the System to support the market actively at this rate in order to assure the Treasury of adequate tenders. A more important disadvantage, however, would be that, if holders of bills purchased them at  $\frac{5}{8}$  of one per cent, they would be able to sell them to the System at  $\frac{3}{8}$  of one per cent as soon as the bills had 90 days to run and would thereby make a profit of  $\frac{2}{32}$  on their holdings. There would be an incentive, therefore, to play the pattern of rates by repeating this process every two months.

