

# FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, November 24, 1942

## IMPORTANT

### PAYMENT FOR GOVERNMENT SECURITIES BY CREDIT TO A WAR LOAN DEPOSIT ACCOUNT

To Incorporated Banks and Trust Companies  
in the Eleventh Federal Reserve District:

In view of the Treasury's present and prospective large requirements in connection with the financing of the war effort, and the increasingly important part which banks are being called upon to take in such financing, it would appear desirable for all incorporated banks and trust companies to apply for designation as War Loan depositories, in order that they may make payment through a "War Loan Deposit Account" for Government obligations allotted to them or to their customers. Payment by credit to a special account designated "War Loan Deposit Account" makes it unnecessary for a bank to provide immediately available funds at the time subscriptions are allotted, as the proceeds of subscriptions can be retained on deposit at the banks until called for by the Treasury.

This manner of payment has distinct advantages to a bank and its community, the importance of which will become more apparent as the size of Treasury offerings of securities is increased and the cash resources of banks are decreased through purchases of Government securities. If Government securities are paid for in cash at the time allotments are made, a bank may have to make payment for its own allotment simultaneously with withdrawals of cash by depositors who pay directly for the securities allotted to them, thereby causing a drain upon the bank's cash resources. Such a drain could be minimized if payments should be made by credit to a War Loan Deposit Account, since the proceeds received by the Government from security sales would remain in the bank as a Government deposit until the funds are needed by the Treasury to meet expenditures. Since the Treasury sells a large amount of securities that must be paid for on specific dates, and then disburses the proceeds over a period of several weeks, withdrawals from a War Loan Deposit Account are usually made gradually, enabling a bank to make provision for payments prior to the time that withdrawals are effected. Moreover, Government disbursements in the community may actually return funds to the bank in the form of customer deposits before the original Government deposit is withdrawn in its entirety. Thus, the use of a War Loan Deposit Account in paying for allotments of Government securities prevents an immediate drain upon a bank's cash resources, permits the retention of proceeds of Government security sales in the community for a considerable period, assures an orderly withdrawal of such funds, and enables the bank to use more effectively its cash resources.

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On August 11, 1942, banks were advised that consideration would be given to the qualification of depositories in any amount which in the opinion of the Federal Reserve Bank may be justified to meet the depository's requirements, provided that all deposits in War Loan accounts in excess of 100 per cent of the combined capital and surplus of the depository bank were collaterally secured by the pledge of United States Government securities. Such requirement has now been withdrawn by the Treasury, and, accordingly, deposits in War Loan accounts may now be secured entirely by any of the types of collateral provided by the existing terms of Treasury Department Circular No. 92.

The following information will be helpful to incorporated banks and trust companies which have not qualified as War Loan depositories:

Designation as a War Loan depository will be made for a definite amount, pursuant to the bank's application, and the authorizing resolution of its board of directors. The designation constitutes a maximum amount which a bank may have in its War Loan Deposit Account at any one time, but collateral is required to be pledged only in an amount sufficient to cover the actual balance in the account.

When a bank has been designated as a War Loan depository and has qualified by pledging collateral, it may pay by credit for Government securities allotted, and also may pay by credit for Series E, F, and G War Savings Bonds and Tax Savings Notes which it may sell.

The War Loan Deposit Account of a depository bank originates exclusively from credit entries on its own books in payment of Government obligations. No deposit is made in a War Loan account from funds originating otherwise. Payments made by credit must be credited by the depository bank to an account on its books, entitled "Federal Reserve Bank of Dallas, Fiscal Agent of the United States, War Loan Deposit Account." Each payment is required to be evidenced by a certificate of credit on a form which will be provided. Collateral to support the aggregate balance in the account must be under pledge with this bank on the date of each certificate of credit.

War Loan deposits earn no interest and are payable on demand, without notice, although banks are usually notified in advance of withdrawals in the form of a request by this bank for the remittance of a definite amount. Each withdrawal by the Treasury is based on its current need for funds, and each depository bank is asked to remit a specified percentage of its War Loan Deposit Account. When a remittance has been made a proportionate amount of collateral may be withdrawn at the option of the depository bank.

Any incorporated bank or trust company which has already qualified as a War Loan depository and desires to increase its maximum designation, or which has not been designated and desires to qualify as a War Loan depository, should make application to the Federal Reserve Bank of Dallas for appropriate forms. **Prompt action is necessary in order that the applying banks may be prepared for the forthcoming Treasury financing.**

Further details as to the operation of the account and a copy of Treasury Department Circular No. 92 will be furnished upon request.

Yours very truly,

R. R. GILBERT

President