FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, September 8, 1943

To All Banking Institutions in the Eleventh Federal Reserve District:

During the Third War Loan Drive, banks which have qualified as War Loan depositaries and which pay by credit to their War Loan accounts for Government securities purchased by their customers, will find that their individual deposits will decline substantially and that their War Loan deposits will rise by a corresponding amount. Since banks do not have to maintain reserves against War Loan accounts, their required reserves will decline and their excess reserves will increase accordingly. In this connection, it should be borne in mind that this increase in excess reserves will be only temporary because, as the Treasury subsequently withdraws funds from the War Loan accounts and disburses them, they will return to the banks as customer deposits, which will immediately become subject to reserve requirements. Hence, the required reserves of banks will tend to rise again simultaneously with the increase in customer deposits.

In these circumstances, banks are urged to invest their temporarily idle funds in Treasury bills, which are the best medium for adjusting reserve positions to take care of changes of this nature. Banks which have sold Treasury bills to the Federal Reserve Bank under repurchase option can invest their idle funds by repurchasing these bills. Banks can also add to their holdings of Treasury bills by bidding for new issues which are offered each week and by purchasing bills in the open market. Subsequently, when excess reserves decline, either because of Treasury withdrawals from War Loan accounts or an increase in required reserves brought about by an expansion in customer deposits, banks can adjust their reserve positions by selling bills to the Federal Reserve Bank.

In following this policy, banks will not impair their ability to subscribe for the new security issues which the Treasury has indicated will be offered to them shortly after the close of the drive. Purchases of the new issues will not affect the required reserves or excess reserves of a bank which has qualified as a War Loan depositary if it pays for its purchases of these securities by credit to its War Loan account, until the Treasury begins to make withdrawals from the account.

In connection with the drive, it is realized that many banks will offer to make loans on Government securities where the loans are to be repaid in full out of anticipated income within a reasonable period. Such a practice is entirely appropriate, as it would make possible sales during the drive to investors who might not otherwise be in position to purchase securities. On the other hand, in accordance with the objectives of the drive, which include the raising of funds in a manner that will be the least inflationary, it is desirable to hold to a minimum the amount of new securities purchased for speculative purposes. In order to minimize speculative purchases, banks generally will doubtless wish to scrutinize carefully applications for loans on Government securities where there is evidence that they may be speculative in character and to take such steps as they may deem advisable to discourage such transactions. The discouragement of speculative purchases of Government securities will be in the interest of both the public and the banks.

Yours very truly,

R. R. GILBERT

President