

FEDERAL RESERVE BANK OF DALLAS

FISCAL AGENT OF THE UNITED STATES

Dallas, Texas, November 14, 1944

SIXTH WAR LOAN SPECULATIVE SUBSCRIPTIONS ABUSE OF WAR LOAN DEPOSIT PRIVILEGE

**To All Banking Institutions in the
Eleventh Federal Reserve District:**

The Secretary of the Treasury has requested that all banks in the nation cooperate to the fullest extent in eliminating excessive and speculative subscriptions to Government securities during the Sixth War Loan Drive, which begins November 20. The objective of the drive is not only to raise funds for the prosecution of the war but also to raise the funds in such a way as to minimize the danger of inflation. This means that the largest possible volume of new Government securities must be sold to nonbank investors who can be expected to carry the securities to maturity unless forced by unforeseen circumstances to dispose of them. Banks can contribute significantly to the success of the drive by cooperating wholeheartedly with their local war finance committees and by declining to lend funds to facilitate excessive and speculative subscriptions to the marketable issues which are about to be offered.

To eliminate excessive and speculative subscriptions, each bank is requested to examine each subscription for a marketable issue presented to it to determine whether the amount of the subscription appears to be in excess of the ability of the subscriber to pay for the securities. If a subscription appears to be either excessive or speculative, or for the purpose of acquiring securities to be resold shortly after the drive, the bank is requested to forward a statement of the circumstances and all available information to this bank or the appropriate branch, which in its capacity as fiscal agent of the United States will review the case and advise the bank whether to accept or reject the subscription as submitted. This procedure, of course, may not eliminate all such subscriptions; but, if conscientiously applied, it should substantially accomplish that objective.

The Treasury also calls attention to another undesirable development in connection with war loan deposit accounts. It has been reported to the Treasury that some banks have encouraged their customers to sell a part or all of their present Government security holdings, with the understanding that the sellers will use the proceeds to purchase through these banks approximately the same amount of the new securities offered during the drive. In some cases, the holders of outstanding securities have suggested such transactions to their banks. The Treasury regards a transaction of this sort as improper, inasmuch as it amounts virtually to a purchase of the privilege of creating a war loan deposit balance. It is obvious, of course, that such operations represent window-dressing and that they serve to defeat the objective of placing the largest possible volume of Government securities in the hands of bona fide nonbank investors.

Specifically, the banks are requested—

- (1) To concentrate their efforts in selling the maximum amount of securities during the drive to investors who can pay for the securities out of cash on hand or anticipated future income;*
- (2) Not to make loans to facilitate either excessive or speculative purchases of Government securities, or purchases made for the purpose of acquiring securities to be resold shortly after the drive;
- (3) Not to make loans for the purpose of acquiring, indirectly, for their own account securities offered in the drive to nonbank investors;
- (4) Not to solicit sales of outstanding Government securities, either directly from their customers or through the Government securities market, with the understanding that the sellers will use the proceeds to pay for subscriptions entered through those banks during the drive.

The twelve Federal Reserve banks hope to obtain maximum support from the commercial banking system for the policies of the Treasury with respect to speculative and excessive subscriptions and the use of war loan deposit accounts, thus providing uniform treatment for all subscribers throughout the country. The banks of the Eleventh Federal Reserve District have done a magnificent job in past drives. Their continued cooperation will go far toward assuring that the Sixth War Loan will achieve its real objective.

Sincerely yours,

R. R. GILBERT

President

*The Treasury has stated that it favors bank loans to facilitate permanent investment in Government securities provided such loans are made in accordance with the joint statement issued by the national and State supervisory authorities on November 23, 1942. This statement reads in part as follows:

“ . . . Subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowings from banks. Such loans will not be subject to criticism but should be on a short-term or amortization basis fully repayable within periods not exceeding six months.”